



\$6,980,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
INTERAGENCY COUNCIL POOLED LOAN PROGRAM REVENUE BONDS,
SERIES 2010B

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 2010B (the “Series 2010B 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 2010B Bonds are payable solely from and secured by a pledge of (i) certain payments to be made under a Loan Agreement, dated as of March 31, 2010 between the Authority and SCO Family of Services, a member of the Inter-Agency Council of Mental Retardation and Developmental Disabilities Agencies, Incorporated and a New York State not-for-profit corporation (the “Series 2010B Participant”) and (ii) 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 2010B Bonds by the Series 2010B Resolution Authorizing Up To \$45,000,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2010B, adopted March 31, 2010 as amended and supplemented on May 12, 2010 (the “Series 2010B Resolution” and together with the Resolution, the “Resolutions”), including a Debt Service Reserve Fund.

The Loan Agreement is a general obligation of the Series 2010B Participant to pay, in addition to certain fees and expenses, amounts sufficient to pay, when due, the principal, Sinking Fund Installments and Redemption Price of and interest on the Series 2010B Bonds and to maintain the Debt Service Reserve Fund Requirement. The Series 2010B Participant’s obligations under the Loan Agreement will be secured by a security interest in certain revenues of the Series 2010B Participant granted to the Authority and pledged and assigned to the Trustee.

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

The Series 2010B 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 2010B Bonds. Purchases of beneficial ownership interests in the Series 2010B Bonds may be made only through the DTC book-entry system. Beneficial Owners (as defined herein) of the Series 2010B Bonds will not receive certificates representing their interests in the Series 2010B Bonds. See “PART 3 - THE SERIES 2010B BONDS – Book-Entry Only System” herein.

Redemption and Purchase in Lieu of Redemption: The Series 2010B 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 Series 2010B 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 Series 2010B Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax. In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the Series 2010B 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.

Risks, Investor Suitability Standards and Transfer: Investment in the Series 2010B Bonds involves a certain degree of risk, and information with respect to the Series 2010B Bonds should be carefully reviewed. See “PART 11 - BONDHOLDERS’ RISKS.” The Series 2010B Bonds are being offered, and may only be transferred, solely to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act of 1933, as amended. Only potential investors who are qualified institutional buyers will be permitted to purchase the Series 2010B Bonds. The initial purchasers of the Series 2010B Bonds will be required to execute an investor letter in the form attached hereto as Appendix H.

The Series 2010B 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 2010B Participant by Lombardi, Walsh, Wakeman, Harrison, Amodeo & Davenport, PC, Albany, New York and for the Placement Agents by McCarter & English, LLP, New York, New York and Newark, New Jersey. The Authority expects to deliver the Series 2010B Bonds in definitive form in New York, New York on or about August 17, 2010.

\$6,980,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
INTERAGENCY COUNCIL POOLED LOAN PROGRAM REVENUE BONDS,
SERIES 2010B

\$6,980,000 7.00%⁽¹⁾ Term Bond due July 1, 2035 Priced at Par CUSIP⁽²⁾ 649905 X76

(1) Represents the base rate on the Series 2010B Bonds of 6.875% (the "Base Rate") plus an additional .125% (the "Add-On Rate") in effect from the date of issuance of the Series 2010B Bonds to and including the Subordination Date (as defined herein). After the Subordination Date, if any, the Series 2010B Bonds will bear interest at the Base Rate. See "PART 3 - THE SERIES 2010B BONDS - Description of the Series 2010B Bonds." See also, "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010B BONDS - Security for the Series 2010B Bonds - The Mortgage - Reversionary Interest of the Downing Street Facility; Effect of Subordination on Mortgage and Series 2010B Bonds."

(2) 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 2010B Bonds. Neither the Authority nor the Placement Agents is responsible for the selection of uses of the CUSIP numbers, and no representation is made as to their correctness on the Series 2010B Bonds or as indicated above. CUSIP numbers are subject to being changed after the issuance of the Series 2010B Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Series 2010B 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 2010B Bonds.

No dealer, broker, salesman or other person has been authorized by the Authority, the Series 2010B Participant or the Placement Agents to give any information or to make any representations with respect to the Series 2010B Bonds, other than the information and representations contained in this Private Placement Memorandum. If given or made, any such information or representation must not be relied upon as having been authorized by the Authority, the Series 2010B Participant or the Placement Agents.

This Private Placement Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2010B 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 Private Placement Memorandum has been supplied by the Series 2010B Participant, the Inter-Agency Council of Mental Retardation and Developmental Disabilities Agencies, Incorporated (the "Program Facilitator") and other sources that the Authority believes are reliable. The Authority does not guarantee the accuracy or completeness of such information and such information is not to be construed as a representation of the Authority.

The Series 2010B Participant has reviewed the portions of this Private Placement Memorandum describing it, its Series 2010B Facilities, its Mortgage, "PART 4 - THE SERIES 2010B PARTICIPANT," "PART 5 - SOURCES OF SERIES 2010B 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 2010B Bonds that the Series 2010B 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 2010B Participant makes no representations as to the accuracy or completeness of any other information included in this Private Placement Memorandum.

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

References in this Private Placement Memorandum to the Act, the Resolution, the Series 2010B Resolution, and the Loan Agreement do not purport to be complete. Refer to the Act, the Resolution, the Series 2010B Resolution, and the Loan Agreement for full and complete details of their provisions. Copies of the Resolution, the Series 2010B Resolution, and the Loan Agreement are on file with the Authority and the Trustee.

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

Under no circumstances shall the delivery of this Private Placement Memorandum or any sale made after its delivery create any implication that the affairs of the Authority or the Series 2010B Participant have remained unchanged after the date of this Private Placement Memorandum.

Investment in the Series 2010B Bonds involves a certain degree of risk, and information with respect to the Series 2010B Bonds should be carefully reviewed. In making an investment decision, investors in the Series 2010B Bonds must rely on their own independent investigations of the legal and financial aspects of the Series 2010B Bonds and the operations of the Series 2010B Participant to

determine if an investment in the Series 2010B Bonds is consistent with their investment objectives and to assess the creditworthiness, financial condition of the Series 2010B Participant, status of compliance with State, county and city imposed standards of operations of the Series 2010B Participant in order to continue to receive payments of funds from such governmental entities, and the ability of the State, county and city to continue sufficient appropriations to fund the Series 2010B Participant's operations, including the merits and risks involved with the foregoing. The Placement Agents, the Program Facilitator and the Series 2010B Participant will be available to respond to inquiries and provide additional information to potential investors upon request to the Placement Agents. See "PART 11 - BONDHOLDERS' RISKS."

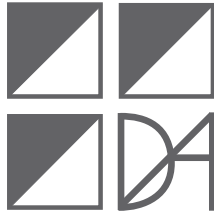
The Series 2010B Bonds are being offered, and may only be transferred, solely to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act of 1933, as amended. Only potential investors who are qualified institutional buyers will be permitted to purchase the Series 2010B Bonds. The initial purchasers of the Series 2010B Bonds will be required to execute an investor letter in the form attached hereto as Appendix H. Each transferee of a Series 2010B Bond, by its acceptance of such Series 2010B Bond, will be deemed to have represented, acknowledged and agreed to certain terms and conditions. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010B BONDS - Investor Suitability Standards and Transfer Restrictions."

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

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DORMITORY AUTHORITY - STATE OF NEW YORK
PAUL T. WILLIAMS, JR. - PRESIDENT

515 BROADWAY, ALBANY, N.Y. 12207
ALFONSO L. CARNEY, JR. - CHAIR

PRIVATE PLACEMENT MEMORANDUM
relating to
\$6,980,000
INTERAGENCY COUNCIL POOLED LOAN PROGRAM REVENUE BONDS,
SERIES 2010B

PART 1 - INTRODUCTION

Purpose of Private Placement Memorandum

The purpose of this Private Placement Memorandum, 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”), and SCO Family of Services (the “Series 2010B Participant”) in connection with the offering by the Authority of the \$6,980,000 aggregate principal amount of InterAgency Council Pooled Loan Program Revenue Bonds, Series 2010B (the “Series 2010B Bonds”).

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

Purpose of the Issue

The Series 2010B Bonds are being issued for the purpose of (i) financing, refinancing or reimbursing a portion of the costs of the acquisition and renovation of one school for special needs students and one administrative facility for the provision of services to people with developmental disabilities or other special needs (collectively, the “Series 2010B Facilities”) of the Series 2010B Participant and the acquisition of equipment and other personal property with respect to such Series 2010B Facilities (the “Series 2010B Project”), (ii) making a deposit to the Debt Service Reserve Fund in an amount equal to the Series 2010B Debt Service Reserve Fund Requirement and (iii) paying certain costs of issuance of the Series 2010B Bonds. The Loan Agreement requires the Series 2010B Participant to pay amounts sufficient to provide for the payment of the principal, Sinking Fund Installments and Redemption Price, if any, of, and interest on, the Series 2010B Bonds as the same become due. See “PART 6 - ESTIMATED SOURCES AND USES OF FUNDS.” For a description of the Series 2010B Facilities being financed or refinanced with proceeds of the Series 2010B Bonds, see “PART 4 - THE SERIES 2010B PARTICIPANT” and “Appendix A - Description of Series 2010B Participant.”

Authorization of Issuance

The Act authorizes the Authority, among other things, to issue its bonds for the purpose of financing or refinancing the costs of the acquisition, construction, reconstruction, renovation, development, improvement, expansion and equipping of certain educational, administrative, day program and residential facilities of the not-for-profit members (each a “Participant”) of the Inter-Agency Council of Mental Retardation and Developmental Disabilities Agencies, Incorporated, which members include the Series 2010B Participant.

The Series 2010B Bonds will be issued pursuant to the Act, the Resolution and the Series 2010B 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 2010B 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 2010B BONDS.”

Prior to the issuance of the Series 2010B Bonds, the Authority issued \$29,670,000 aggregate principal amount of its InterAgency Council Pooled Loan Program Revenue Bonds, Series 2010A (the “Series 2010A Bonds,” and together with the Series 2010B Bonds, the “Series 2010 Bonds”), for the purpose of making, among other loans, an additional, separate loan to the Series 2010B Participant in an amount of \$1,635,000 to finance or refinance certain facilities which are not a part of the Series 2010B Facilities. See “The Series 2010B Participant” below. In accordance with the Resolution, each Series of the Series 2010 Bonds will be separately secured. A detailed description of the Series 2010A Bonds and the security pledged therefor is set forth in the offering document prepared in connection therewith.

The Authority

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

The Program Facilitator

The Inter-Agency Council of Mental Retardation and Developmental Disabilities Agencies, Incorporated (the “Program Facilitator”) will act as the facilitator for the InterAgency Council Pooled Loan Program. The Program Facilitator is a not-for-profit trade organization voluntarily supported by one hundred twenty not-for-profit service provider agencies that conduct business primarily in the City of New York metropolitan area, but also throughout the State, including the Series 2010B Participant.

The Series 2010B Participant

The Series 2010B Participant 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 2010B PARTICIPANT,” “PART 5 - SOURCES OF SERIES 2010B PARTICIPANT FUNDING,” “Appendix A

- Description of Series 2010B Participant,” “Appendix B - Audited Financial Statements of Series 2010B Participant,” and “Appendix C - Unaudited Financial Information of Series 2010B Participant.”

Upon delivery of the Series 2010B Bonds, the Series 2010B Participant will receive a loan from the Authority from the proceeds thereof in an amount equal to the aggregate principal amount of the Series 2010B Bonds. In addition to the loan to be made to the Series 2010B Participant by the Authority from proceeds of the Series 2010B Bonds, it is expected that the Series 2010B Participant will receive a loan from the Authority from the proceeds of the Series 2010A Bonds. The Series 2010B Bonds will be separately secured from the Series 2010A Bonds.

The Series 2010B Bonds

The Series 2010B Bonds are dated their date of delivery and will mature on July 1, 2035. The Series 2010B Bonds will bear interest from their dated date (payable January 1, 2011, and on each July 1 and January 1 thereafter) at the rates set forth on the inside front cover page of this Private Placement Memorandum and further described in “PART 3 - THE SERIES 2010B BONDS - Description of the Series 2010B Bonds.”

Payment of the Series 2010B Bonds

The Series 2010B Bonds are special obligations of the Authority payable from the Revenues, which consist of certain payments required to be made by the Series 2010B Participant pursuant to the Loan Agreement on account of the principal, Sinking Fund Installments and Redemption Price, if any, of and interest due on the Outstanding Series 2010B Bonds. The Revenues are pledged and assigned to the Trustee. The obligation of the Series 2010B Participant to make payments under the Loan Agreement constitutes a general obligation of the Series 2010B Participant.

Security for the Series 2010B Bonds

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

The Series 2010B 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 the Series 2010B Participant to the Authority pursuant to the Loan Agreement. Pledged Revenues are all Public Funds payable to the Series 2010B Participant with respect to its Series 2010B Facilities, which means amounts payable by the New York State Office of Children and Family Services, the New York City Administration for Children’s Services and the New York State Education Department. See “PART 5 - SOURCES OF SERIES 2010B PARTICIPANT FUNDING.” The Pledged Revenues will be paid to the Series 2010B Participant and may be disposed of by the Series 2010B Participant for any of its corporate purposes. The Series 2010B Participant has previously pledged its Public Funds (a portion of which consists of the Pledged Revenues) to the Authority or an industrial development agency as security for its obligations in connection with bonds previously issued by the Authority or such industrial development agency and therefore the pledge of the Pledged Revenues securing the Series 2010B Bonds is subject, and subordinate, to such Prior Pledges in all respects.

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

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

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

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

A failure by the Series 2010B Participant to timely pay its obligations under the Loan Agreement might result in an event of default under the Resolutions if either (a) the Series 2010B Participant's loan is accelerated in accordance with the provisions of the 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 2010B Bonds when due. In either event, the Resolution provides that an event of default will have occurred. The funds available for the payment of the Series 2010B Bonds are limited by the Resolution to only those Revenues payable by or on behalf of the Series 2010B Participant pursuant to the Loan Agreement, funds on deposit with the Trustee and amounts recovered upon the realization on any collateral granted to the Authority as security for the Series 2010B Participant's obligations under the Loan Agreement and pledged to the payment of the Series 2010B Bonds. After the application of all such amounts to the payment of the Series 2010B Bonds following the acceleration or extraordinary mandatory redemption thereof in accordance with the Resolutions, the Series 2010B Bonds will be deemed paid and discharged and the event of default cured, whether or not payment in full of all of the principal of and interest on the Series 2010B Bonds has been made to the Holders thereof. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010B BONDS - Events of Default - Limitations on Payment After Certain Defaults" and "Appendix F - Summary of Certain Provisions of the Resolutions." See also, "PART 3 - THE SERIES 2010B BONDS - Redemption Provisions - Extraordinary Mandatory Redemption."

The Mortgage

The Series 2010B Participant's obligations under the Loan Agreement will be additionally secured by (a) a mortgage (the "Mortgage") from the Series 2010B Participant to the Authority, granting a subordinate mortgage lien on the Series 2010B Facilities and a first priority mortgage lien on seven additional properties owned by the Series 2010B Participant (the "Additional Properties"), and (b) subordinate and first priority security interests, in the fixtures, furniture and equipment located in or used in connection with the Series 2010B Facilities and the Additional Properties, respectively, in each case subject only to Permitted Encumbrances. The Mortgage does not presently provide any security for the

Series 2010B Bonds. However, under certain circumstances described herein, the Mortgage may be assigned to the Trustee. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010B BONDS - Security for the Series 2010B Bonds - The Mortgage.”

The Authority and the Trustee will enter into an Intercreditor Agreement with the creditors holding the prior mortgage lien(s) on the Series 2010B Facility located at 101 Downing Street, Sea Cliff, New York (the “Downing Street Facility”), and the prior security interest(s) in the fixtures, furniture and equipment located therein or used in connection therewith. The Authority and the Trustee will also enter into an Intercreditor Agreement with the creditor holding the prior mortgage lien(s) on the Series 2010B Facility located at 89-30 161st Street, Jamaica, New York (the “161st Street Facility”), and the prior security interest(s) in the fixtures, furniture and equipment located therein or used in connection therewith. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010B BONDS - Security for the Series 2010B Bonds - The Mortgage” and “PART 11 - BONDHOLDERS’ RISKS - Mortgage - Intercreditor Agreement and Rights of Senior Creditors.”

The Downing Street Facility is subject to a right of reverter by the seller of the property as described in “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010B BONDS - Security for the Series 2010B Bonds - The Mortgage - Reversionary Interest of the Downing Street Facility; Effect of Subordination on Mortgage and Series 2010B Bonds.” The Series 2010B Participant has requested that the seller enter into a subordination agreement in order to subordinate its right of reverter to the lien granted by the Mortgage on the Downing Street Facility. If and when the right of reverter is so subordinated, the Mortgage will be amended to release the mortgage lien on the Additional Properties and the security interest in the fixtures, furniture and equipment located in or used in connection with the Additional Properties. Such subordination will also affect the interest rate borne by the Series 2010B Bonds as described in “PART 3 - THE SERIES 2010B BONDS - Description of the Series 2010B Bonds.”

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

Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2010B 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 2010B Resolution and the Loan Agreement, copies of which are on file with the Authority and the Trustee. See also “Appendix E - Summary of Certain Provisions of the Loan Agreement” 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 2010B Bonds

The Series 2010B Bonds are special obligations of the Authority. The principal, Sinking Fund Installments, and Redemption Price, if any, of and interest on the Series 2010B Bonds are payable solely from the Revenues. The Revenues consist of the payments required to be made by the Series 2010B Participant under the Loan Agreement on account of (i) the principal, Sinking Fund Installments, and Redemption Price of and interest due on the Series 2010B Bonds, and (ii) the Series 2010B 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 2010B Bonds.

The Loan Agreement is a general obligation of the Series 2010B Participant, pursuant to which the Series 2010B Participant will be required to make payments in amounts sufficient to satisfy the principal, Sinking Fund Installments, and Redemption Price of and interest due on the Series 2010B Bonds. Payments under the Loan Agreement are to be made monthly on the 10th day of each month.

Each payment is to be equal to one-sixth of the interest coming due on the next succeeding interest payment date and one-twelfth of the principal and Sinking Fund Installments coming due on the next succeeding July 1. See “PART 3 – THE SERIES 2010B BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2010B Bonds.” The Loan Agreement also obligates the Series 2010B Participant to pay, at least 45 days prior to a redemption date of Series 2010B Bonds called for redemption, the amount, if any, required to pay the Redemption Price of such Series 2010B Bonds. See “PART 3 – THE SERIES 2010B BONDS – Redemption Provisions.”

Security for the Series 2010B Bonds

General

The Series 2010B 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 2010B Bonds will also be secured by the proceeds from the sale of the Series 2010B Bonds (until disbursed as provided in the Resolutions) and all funds and accounts authorized by the Resolution and established by the Series 2010B Resolution (with the exception of the Arbitrage Rebate Fund), including the Series 2010B Debt Service Reserve Fund.

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

Pledged Revenues

Pursuant to the Act and the Loan Agreement, the Series 2010B Participant has pledged and assigned to the Authority its Pledged Revenues in an amount sufficient to satisfy its payment obligations under the Loan Agreement. With respect to the Series 2010B Participant, the Pledged Revenues consist of all Public Funds attributable to the Series 2010B Facilities. “Public Funds” means all moneys appropriated, apportioned or otherwise payable to the Series 2010B 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 the State Office of Children and Family Services, the New York City Administration for Children’s Services and the New York State Education Department. See “PART 5 - SOURCES OF SERIES 2010B PARTICIPANT FUNDING.”

The Series 2010B Participant’s Pledged Revenues are subject to Prior Pledges. See “Appendix A - Description of the Series 2010B Participant.”

There can be no assurance that the amount of the Series 2010B Participant’s Pledged Revenues will be sufficient to satisfy its payment obligations with respect to the Series 2010B Bonds. In the event that amounts received upon the realization upon the Pledged Revenues are insufficient to pay all of the principal of and interest on the Series 2010B Bonds when due, such amounts received will be applied pro rata to the Series 2010B Bonds.

The ability of the Series 2010B Participant to satisfy its payment obligations under the Loan Agreement with respect to the Series 2010B Bonds and the Authority’s ability to realize upon its security interests in the Pledged Revenues are largely dependent upon the continued operation by the Series 2010B Participant of its Series 2010B 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 2010B Participant and its ability to continue to generate sufficient revenues to support all of its facilities,

including the Series 2010B Facilities, (ii) the continued compliance by the Series 2010B Participant with State and local operational standards with respect to the Series 2010B Facilities, and (iii) the continued commitment of public funds to support the programs and facilities operated by the Series 2010B Participant. For a more detailed discussion of risk factors affecting the ability of the Series 2010B Participant to pay amounts owed under the Loan Agreement and the Pledged Revenues, as well as other risk factors affecting payment on the Series 2010B Bonds, see “PART 11 - BONDHOLDERS’ RISKS” herein. See also, “PART 5 - SOURCES OF SERIES 2010B PARTICIPANT FUNDING.”

Debt Service Reserve Fund

The Resolution authorizes, and the Series 2010B Resolution establishes, the Series 2010B Debt Service Reserve Fund, which is required to be maintained in an amount equal to the least of (i) the greatest amount required in the then current or any future calendar year to pay the sum of interest on Outstanding Series 2010B Bonds payable during such calendar year, and the principal and Sinking Fund Installments of such Outstanding Series 2010B Bonds payable on July 1 of such calendar year, (ii) an amount equal to ten percent (10%) of the net proceeds of the sale of the Series 2010B Bonds, and (iii) 125% of the average of the principal, whether at maturity or on mandatory redemption, and interest becoming due in any one calendar year on the Outstanding Series 2010B Bonds (the “Series 2010B Debt Service Reserve Fund Requirement”).

Proceeds of the Series 2010B Bonds will be deposited in the Series 2010B Debt Service Reserve Fund in an amount equal to the Series 2010B Debt Service Reserve Fund Requirement. If, on the fourth Business Day preceding an interest payment date for the Series 2010B Bonds, the amount on deposit in the Debt Service Fund is less than the amount necessary to pay the principal or Sinking Fund Installments of and interest on the Outstanding Series 2010B Bonds payable on such interest payment date, the Trustee is required to transfer moneys from the Series 2010B Debt Service Reserve Fund to the Debt Service Fund in an amount sufficient to provide for such payment. The Loan Agreement requires the Series 2010B Participant to restore in full any amount withdrawn from the Series 2010B Debt Service Reserve Fund within five (5) days after receiving notice of a withdrawal. The Loan Agreement also requires the Series 2010B Participant to restore in full the Series 2010B Debt Service Reserve Fund Requirement within five (5) days after receiving notice of a deficiency in the Series 2010B Debt Service Reserve Fund resulting from a devaluation of the investments held therein. Moneys in the Series 2010B 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 2010B 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 2010B Debt Service Reserve Fund Requirement. See “Appendix F - Summary of Certain Provisions of the Resolutions.”

Mortgage

General

The Series 2010B Participant’s obligations to the Authority under the Loan Agreement will be additionally secured by the Mortgage, which grants a subordinate mortgage lien on the Series 2010B Facilities (comprised of the Downing Street Facility and the 161st Street Facility) and a first mortgage lien on the Additional Properties, and by subordinate and first priority security interests in the fixtures, furniture and equipment located in or used in connection with the Series 2010B Facilities and the Additional Properties, respectively, in each case subject only to Permitted Encumbrances. The Authority may, but has no present intention to, assign all or a portion of the Mortgage or such security interest to the Trustee. Upon (a) a withdrawal from the Series 2010B Debt Service Reserve Fund, which has not been

restored by the Series 2010B 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 the Loan Agreement and the acceleration of the loan thereunder, the Authority is required to assign the Mortgage and the related security interest in the fixtures, furnishings and equipment to the Trustee for the benefit of the Holders of the Outstanding Series 2010B Bonds. Unless the Mortgage is assigned to the Trustee, the Mortgage and the security interest in the related fixtures, furnishings and equipment or any proceeds therefrom will not be pledged to the Holders of the Series 2010B Bonds.

The Series 2010B Participant may incur debt secured on parity with or subordinate to the lien of the 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 an assignment of the Mortgage to the Trustee, the Loan Agreement provides that, except in the case of the release of the Additional Properties which shall occur without the consent of the Holders of the Series 2010B Bonds upon receipt of the subordination agreement, the Authority, with the consent of a majority of the Holders of the Series 2010B Bonds, but without the consent of the Trustee, may consent to the amendment, modification, termination, subordination or satisfaction of the 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 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 Series 2010B Participant may remove furniture, fixtures or equipment from the Mortgaged Property provided that the Series 2010B 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 the Mortgage are subject to Permitted Encumbrances.

The Intercreditor Agreements

The Series 2010B Facilities are subject to prior senior mortgage liens. The Authority and the Trustee will enter into an Intercreditor Agreement (the “Downing Intercreditor Agreement”) with the creditors holding the prior mortgage lien(s) on the Downing Street Facility, and the prior security interest(s) in the fixtures, furniture and equipment located therein or used in connection therewith (the “Downing Senior Creditors”). The Authority and the Trustee will also enter into an Intercreditor Agreement (the “161st Street Intercreditor Agreement” and together with the Downing Intercreditor Agreement, the “Intercreditor Agreement”) with the creditor holding the prior mortgage lien(s) on the 161st Street Facility and the prior security interest(s) in the fixtures, furniture and equipment located therein or used in connection therewith (the “161st Street Senior Creditor” and together with the Downing Senior Creditors, the “Senior Creditors”). See “PART 11- BONDHOLDERS’ RISKS” and “Appendix A – Description of Series 2010B Participant” for a description of the respective rights of the intercreditor secured parties as well as other factors affecting the lien of and security interest in the Mortgaged Property.

Reversionary Interest of Downing Street Facility; Effect of Subordination on Mortgage and Series 2010B Bonds

The Series 2010B Participant acquired title to the Downing Street Facility from The Roman Catholic Diocese of Brooklyn, New York (the “Seller”) for \$1.00 on September 11, 1989. The deed pursuant to which the Series 2010B Participant acquired title to the Downing Street Facility contained a right of reverter by the Seller in the event that the Series 2010B Participant, its successors and assigns fail to utilize the Downing Street Facility for the operation of a child caring institution and ancillary administration offices upon the premises. The Series 2010B Participant has requested the Seller to enter

into a subordination agreement in order to subordinate its right of reverter to the lien granted by the Mortgage on the Downing Street Facility.

If and when the right of reverter is subordinated to the lien of the Mortgage on the Downing Street Facility (referred to herein as the “Subordination”), the Mortgage will be amended, without the consent of the Holders of the Series 2010B Bonds or the Trustee, to release the mortgage lien on the Additional Properties and the security interest in the fixtures, furniture and equipment located therein or used in connection therewith. In addition, after the effective date of the Subordination, the interest rate borne by the Series 2010B Bonds will be the Base Rate (as defined herein) only as described in “PART 3 - THE SERIES 2010B BONDS - Description of the Series 2010B Bonds” below. There is no guarantee that the Series 2010B Participant will be able to obtain such subordination agreement from the Seller or that the Series 2010B Participant’s title to the Downing Street Facility will not continue to be subject to the right of reverter, in which case the Additional Properties will not be released from the lien of the Mortgage (except as otherwise provided under the terms of the Loan Agreement) and the Series 2010B Bonds will continue to bear interest at the Base Rate plus the Add-On Rate (as defined herein).

Events of Default

Events of Default

The Resolutions provide that events of default thereunder constitute events of default with respect to the Series 2010B 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 2010B Bonds;

(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 Series 2010B 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 2010B 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 2010B Bonds); or

(iv) an event of default under the Loan Agreement shall have occurred and is continuing and, as a result thereof, all sums payable by the Series 2010B Participant under the Loan Agreement shall have been declared to be immediately due and payable, which declaration shall not have been annulled.

The Series 2010B 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 2010B Bonds, an event of default by the Series 2010B Participant under a loan agreement entered into in connection with the issuance of another Series of Bonds will result in an event of default under the Loan Agreement. Prior to the issuance of the Series 2010B Bonds, the Authority has issued the Series 2010A Bonds for the purpose of making, among other loans, an additional, separate loan to the Series 2010B Participant in the amount of \$1,635,000 to finance or refinance certain facilities which are not a part of the Series 2010B Facilities.

Acceleration; Control of Proceedings

The Resolution provides that if an event of default (other than an event of default described in clause (i) under the first paragraph of the subheading “Events of Default” above resulting from the Series 2010B Participant’s failure to timely pay the Series 2010B 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 2010B Bonds, by a notice in writing to the Authority, declare the principal of and interest on all of the Outstanding Series 2010B 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 2010B 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 the Series 2010B Participant to timely pay the Series 2010B Bonds pursuant to the 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 Outstanding Series 2010B Bonds, declare the principal of and interest on the Outstanding Series 2010B 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 Series 2010B 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 2010B Bonds or, in the case of a default described in clause (ii) in the first paragraph under the subheading “Events of Default” above, the Holders of not less than a majority in principal amount of the Outstanding Series 2010B 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 2010B 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 2010B 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 2010B Bonds.

Limitation on Payments After Certain Defaults

If, following the exercise of all remedies available to the Trustee under the Resolutions upon an event of default described in clause (i) above under the subheading “Events of Default” resulting from a failure of the Series 2010B Participant to timely pay amounts with respect to the Series 2010B Bonds pursuant to the Loan Agreement, or a default described in clause (iv) above under the subheading “Events of Default” and the realization on all security and collateral available for the payment of the Outstanding Series 2010B Bonds, moneys are available to pay only a portion of the principal and interest due on the

Series 2010B Bonds upon the extraordinary mandatory redemption or acceleration thereof, then after application by the Trustee of all available moneys to the partial payment of the Series 2010B Bonds in accordance with the Resolution, (i) the remaining Series 2010B 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 the Series 2010B Bonds shall be deemed to have been discharged and satisfied, and (iii) the Holders of the Series 2010B Bonds shall no longer be entitled to the benefits of the Resolutions by virtue of their ownership of the Series 2010B Bonds.

Payments made to Holders of the Series 2010B Bonds of less than all of the principal of and interest on the Outstanding Series 2010B Bonds following an acceleration or extraordinary mandatory redemption of the Series 2010B 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 2010B Bonds under the Resolutions.

General

The Series 2010B 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.”

Investor Suitability Standards and Transfer Restrictions

Investment in the Series 2010B Bonds poses a certain degree of risk. The Series 2010B Bonds may not be a suitable investment for certain purchasers and each purchaser should make its own judgment as to suitability. The Series 2010B Bonds may only be purchased by, and transferred to, a “qualified institution buyer” within the meaning of Rule 144A under the Securities Act of 1933, as amended. An executed Investor Letter, in the form set forth in Appendix H, must be provided in connection with an investment in the Series 2010B Bonds by the initial investors or their authorized representative prior to such investment. By acceptance of the Series 2010B Bonds, any transferee of a Series 2010B Bond shall be deemed to have represented, acknowledged and agreed that such transferee (1) is a “qualified institutional buyer,” (2) has been furnished with a copy of this Private Placement Memorandum relating to the Series 2010B Bonds, and understands the risks of, and other considerations relating to, the purchase of the Series 2010B Bonds, (3) has been provided an opportunity to ask questions of, and has received answers from, representatives of the Authority and the Series 2010B Participant regarding the terms and conditions of the purchase of the Series 2010B Bonds, and has obtained all information and documentation concerning the Series 2010B Bonds, the Series 2010B Participant and the Project requested by it to verify the accuracy of all information furnished to it or otherwise deemed by it to be relevant in connection with its purchase of the Series 2010B Bonds, (4) has made its own independent evaluation of the financial position and business condition of the Series 2010B Participant and the likelihood of the payment of the Series 2010B Bonds, has not relied upon the Authority in this regard, and the Authority has made no representation or warranty as to the creditworthiness or financial condition of the Series 2010B Participant or as to the accuracy or completeness of any information provided with respect to the Series 2010B Participant or the Project, (5) has such knowledge and experience in financial affairs that it is capable of evaluating the merits and risks of purchasing the Series 2010B Bonds and its financial situation is such that it can afford to bear the economic risk of holding the Series 2010B Bonds for an indefinite period of time, and it can afford to suffer the complete loss of its investment in the Series 2010B Bonds, (6) is acquiring the Series 2010B Bonds for its own account for investment purposes and has no present intention to, directly or indirectly, transfer, offer, sell, pledge, hypothecate or otherwise dispose of all or any part of the Series 2010B Bonds (or solicit any offers to buy, purchase or otherwise acquire or take a pledge of all or any part of the Series 2010B Bonds), but reserves the right to dispose of any or all of the Series 2010B Bonds if in the future such purchaser or transferee deems it advisable to do

so and provided that any such disposition will be made only to “qualified institutional buyers” in accordance with the restrictions on transfer set forth herein, (7) understands the Series 2010B Bonds are not registered under the Securities Act and that such registration is not legally required as of their dated date, and the Series 2010B Bonds are not being registered or otherwise qualified for sale under the “blue sky” laws and regulations of any state, will not be listed in any stock or other securities exchange, will not carry a rating from any rating service, and are delivered in a form which may not be readily marketable, (8) has not offered, offered to sell, offered for sale or sold any of the Series 2010B Bonds by means of any form of general solicitation or general advertising, and it is not an underwriter of the Series 2010B Bonds within the meaning of Section 2(11) of the Securities Act, (9) will give each subsequent purchaser or transferee to whom it sells or transfers any Series 2010B Bonds notice of the restrictions on transfer set forth herein, and (10) that the Authority and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and that if any of such acknowledgements, representations or agreements deemed to have been made by its purchase of the Series 2010B Bonds are no longer accurate, it shall promptly notify the Authority.

PART 3 - THE SERIES 2010B BONDS

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

General

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

The Series 2010B Bonds will be dated their date of delivery and will mature on July 1, 2035. The Series 2010B Bonds will bear interest from their dated date (payable on January 1, 2011 and on each July 1 and January 1 thereafter) at a base rate of 6.875% (the “Base Rate”) per annum, plus for the period commencing on the date of issuance of the Series 2010B Bonds to an including the date upon which the Trustee has been notified in writing by the Authority that the right of reverter to which the Downing Street Facility is subject has been subordinated to the lien of the Mortgage on the Downing Street Facility (the “Subordination Date”), an additional .125% (the “Add-On Rate”) per annum (for an effective interest

rate during such period of 7.00%). After the Subordination Date, if any, the Series 2010B Bonds will bear interest only at the Base Rate.

The Series 2010B Bonds will be issuable in fully registered book-entry-only form, without coupons, in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. The Series 2010B Bonds may be exchanged for other Series 2010B Bonds 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 Series 2010B Bonds are subject to redemption, on or after July 1, 2020, as a whole or in part at any time at the option of the Authority, at a Redemption Price equal to one hundred percent (100%) of the principal amount of the Series 2010B Bonds to be redeemed, plus accrued interest to the redemption date.

Extraordinary Mandatory Redemption

The Series 2010B Bonds are 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 Series 2010B Participant as security for the loan upon an acceleration of the loan under the Loan Agreement. The Series 2010B Bonds to be so redeemed shall be redeemed at a redemption price equal to (a) the principal amount of the Outstanding Series 2010B Bonds to be redeemed on the redemption date, times the lesser of (i) 100% or (ii) the quotient, expressed as a percentage, obtained by dividing (A) the amount of funds available to the Trustee to pay the principal of and interest on the Series 2010B Bonds on the redemption date less the amount of accrued interest to be paid on the Series 2010B Bonds on such date, by (B) the principal amount of the Series 2010B Bonds to be redeemed, plus (b) accrued interest to the redemption date.

Special Redemption

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

Mandatory Sinking Fund Redemption

The Series 2010B Bonds 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 Series 2010B Bonds specified for each such year below:

Series 2010B Bonds
Maturing July 1, 2035

<u>Year</u>	<u>Sinking Fund Installment</u>	<u>Year</u>	<u>Sinking Fund Installment</u>
2011	\$120,000	2024	\$285,000
2012	125,000	2025	305,000
2013	135,000	2026	280,000
2014	140,000	2027	300,000
2015	155,000	2028	320,000
2016	165,000	2029	345,000
2017	175,000	2030	370,000
2018	190,000	2031	395,000
2019	200,000	2032	425,000
2020	210,000	2033	455,000
2021	230,000	2034	485,000
2022	245,000	2035 [†]	655,000
2023	270,000		

†Final maturity.

The Series 2010B Participant may elect to have the Series 2010B 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 2010B Bonds of the same 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 2010B Bonds of the maturity so purchased will be reduced for such year.

Selection of Series 2010B Bonds to be Redeemed

In the case of redemptions of Series 2010B Bonds described above under the heading “Optional Redemption,” the Authority will select the maturities of the Series 2010B Bonds to be redeemed. In the case of redemption of Series 2010B Bonds described above under the heading “Special Redemption,” Series 2010B Bonds will be redeemed to the extent practicable pro rata among maturities of the Series 2010B Bonds, but only in integral multiples of \$5,000 within each maturity. If less than all of the Series 2010B Bonds of a maturity are to be redeemed (pursuant to an optional, special, extraordinary mandatory or mandatory sinking fund redemption), the Series 2010B 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 2010B 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 2010B 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 2010B 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 2010B Bond to be redeemed to receive notice of redemption thereof will not affect the validity of the proceedings for the redemption of such Series 2010B 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 2010B Bonds.

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

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

Purchase in Lieu of Optional Redemption

The Series 2010B Bonds are also subject to purchase prior to maturity, at the election of the Authority, on or after July 1, 2020, in any order, in whole or in part at any time, at the price of one hundred percent (100%) of the principal amount of the Series 2010B Bonds to be purchased (the “Purchase Price”), plus accrued interest to the date set for purchase (the “Purchase Date”) set forth in the notice of purchase to the registered owners of the Series 2010B Bonds to be so purchased.

Notice of Purchase and its Effect

Notice of the purchase of Series 2010B Bonds will be given by the Authority in the name of the Series 2010B Participant to the registered owners of the Series 2010B 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 Series 2010B Bonds to be purchased are required to be tendered on the Purchase Date to the Trustee. Series 2010B 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 Series 2010B 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 Series 2010B 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 Series 2010B Bonds to be purchased on the Purchase Date. If sufficient money is available on the Purchase Date to pay the Purchase Price of the Series 2010B Bonds to be purchased, the former registered owners of such Series 2010B 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 Series 2010B 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 Series 2010B Bonds in accordance with their respective terms.

In the event not all of the Outstanding Series 2010B Bonds of maturity are to be purchased, the Series 2010B Bonds of such maturity to be purchased will be selected by lot in the same manner as Series 2010B 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 2010B Bonds. The Series 2010B 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 2010B Bond certificate will be issued for each maturity of the Series 2010B Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of Series 2010B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010B Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2010B 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 2010B 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 2010B Bonds, except in the event that use of the book-entry system for the Series 2010B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2010B 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 2010B 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 2010B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010B 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 2010B 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 2010B 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 2010B 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 2010B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct or Indirect Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

For every transfer and exchange of beneficial ownership of the Series 2010B 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 2010B 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 2010B 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 2010B Bonds may thereafter be exchanged for an equal aggregate principal amount of Series 2010B Bonds in any other authorized denominations and of the same 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 Placement Agents 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 2010B Bonds

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

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Total Debt Service

SERIES 2010B BONDS

FY Ending	Principal & Sinking Fund Installments	Interest ⁽¹⁾	Total
6/30/2011	\$120,000	\$426,167.78	\$546,167.78
6/30/2012	125,000	480,200.00	605,200.00
6/30/2013	135,000	471,450.00	606,450.00
6/30/2014	140,000	462,000.00	602,000.00
6/30/2015	155,000	452,200.00	607,200.00
6/30/2016	165,000	441,350.00	606,350.00
6/30/2017	175,000	429,800.00	604,800.00
6/30/2018	190,000	417,550.00	607,550.00
6/30/2019	200,000	404,250.00	604,250.00
6/30/2020	210,000	390,250.00	600,250.00
6/30/2021	230,000	375,550.00	605,550.00
6/30/2022	245,000	359,450.00	604,450.00
6/30/2023	270,000	342,300.00	612,300.00
6/30/2024	285,000	323,400.00	608,400.00
6/30/2025	305,000	303,450.00	608,450.00
6/30/2026	280,000	282,100.00	562,100.00
6/30/2027	300,000	262,500.00	562,500.00
6/30/2028	320,000	241,500.00	561,500.00
6/30/2029	345,000	219,100.00	564,100.00
6/30/2030	370,000	194,950.00	564,950.00
6/30/2031	395,000	169,050.00	564,050.00
6/30/2032	425,000	141,400.00	566,400.00
6/30/2033	455,000	111,650.00	566,650.00
6/30/2034	485,000	79,800.00	564,800.00
6/30/2035	655,000	45,850.00	700,850.00

⁽¹⁾ Assumes that the interest rate on the Series 2010B Bonds is the Base Rate plus the Add-On Rate.

PART 4 - THE SERIES 2010B PARTICIPANT

General

A description of the Series 2010B Participant, its operations and the Series 2010B Facilities it will finance or refinance with the proceeds of the Series 2010B Bonds are set forth in Appendix A hereto. The Series 2010B Participant's funding sources for the Series 2010B Facilities are the New York State Office of Children and Family Services ("OCFS"), the New York City Administration for Children's Services ("ACS") and the New York State Education Department ("Education Department"). See "PART 5 - SOURCES OF SERIES 2010B PARTICIPANT FUNDING." Copies of the most recent audited financial statements for the Series 2010B Participant are set forth in Appendix B hereto and copies of recent unaudited financial information for the Series 2010B Participant are set forth in Appendix C. Prospective purchasers of the Series 2010B Bonds should carefully review Appendix A, Appendix B and Appendix C.

The Series 2010B Participant is a not-for-profit corporation, organized and existing under the laws of the State. The Series 2010B Participant has received a Section 501(c)(3) designation from the Internal Revenue Service and as such qualifies for exemption from certain federal income taxes. Typically, management of the Series 2010B 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 2010B Participant's charitable purposes. When revenues are not sufficient to cover expenses, the Series 2010B 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 the Series 2010B Participant typically serve without remuneration, though expenses associated with attendance at board meetings or other official board functions may be reimbursed.

The Series 2010B Participant owns and/or leases and operates one or more facilities, including the Series 2010B Facilities as described in Appendix A, in the State of New York, to provide services to individuals who are developmentally disabled or have other special needs. The Series 2010B Participant has represented that it has the appropriate licenses and authority to provide its services under State statutes. The Series 2010B Participant currently has 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 2010B Participant 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 the Series 2010B Participant. A careful review should be made of Appendix A, Appendix B and Appendix C to this Private Placement Memorandum to determine the creditworthiness of the Series 2010B Participant.* See "PART 5 - SOURCES OF SERIES 2010B PARTICIPANT FUNDING" herein.

The Series 2010B Participant has engaged the Program Facilitator to act as the facilitator for the InterAgency Council Pooled Loan Program. For its services, the Series 2010B Participant will pay the Program Facilitator a fee of .25% of the principal amount of the Series 2010B Bonds at closing and an annual fee of .125% of all outstanding Series 2010B Bonds. The Series 2010B Participant is a member of the Program Facilitator.

PART 5 - SOURCES OF SERIES 2010B PARTICIPANT FUNDING

The Series 2010B Participant's funding sources for its 2009 Fiscal Year were: OCFS (approximately 44%), ACS (approximately 24%), the State of New York Office of Mental Retardation and Developmental Disabilities ("OMRDD") (approximately 12.5%), the State of New York Office of Mental Health ("OMH") (approximately 9.5%), the Education Department (approximately 5%), and miscellaneous other sources (approximately 5%). The current methodologies used by these agencies in determining the amounts to be paid to the Series 2010B Participant for provision of services is set forth below.

New York State Office of Children and Family Services

OCFS was created in 1998 as a component of the New York State Department of Social Services. It is the New York State government entity responsible for improving the integration of services for New York's children, youth, families and vulnerable populations. OCFS is responsible for programs and services involving foster care, adoption and adoption assistance, child protective services, preventative services for children and families, services for pregnant adolescents and protective programs for vulnerable adults. The agency provides for (i) the oversight and monitoring of regulated child care, (ii) all elements of the State's juvenile justice program, and (iii) administering and managing residential facilities, community based group homes, day-placement centers and reception center programs for juvenile delinquents and juvenile offenders placed in the custody of the OCFS Commissioner.

OCFS operates thirty residential facilities, two reception centers, six community residential homes and one day-placement center. OCFS works closely with municipalities such as local social services districts and county youth development services and programs so that such programs are available at the local level. Sources of funding for these program include the federal government, state government and the local social services districts. Federal and state entitlement funds flow from OCFS to ACS (described below) and other local social service agencies, which disburse the funds through contracts to local providers.

OCFS administered funds derived from State, federal and local sources in excess of \$3.9 billion in the 2009-2010 fiscal year.

The Series 2010B Facility located at 89-30 161st Street, Jamaica, New York receives funding from OCFS.

New York City Administration for Children's Services

ACS is the local government entity responsible for foster care, preventative and protective services, and the overall welfare of children. The foster care program is an entitlement program required of local social services districts by the New York State constitution and by state law. In New York State it is generally provided by local social services districts (e.g., ACS) through the purchase of services from not-for-profit child care agencies. Children may receive foster care from birth to age twenty-one years. Sources of funding include the federal government, state government and the local social services districts. Federal and state entitlement funds flow from OCFS to ACS, which disburses the funds to the child care agencies through contracts. Annual appropriations are made by New York City (the "City") to ACS in an amount sufficient to meet the legal requirements of foster care legislation.

Reimbursement rates to the agencies are determined prospectively by regulation and are based on past operational costs, adjusted to reflect inflation and regional differences between the agency and other similar providers in the state. Costs are broken into three categories: direct care, administrative and facilities. The reimbursement rates for each category is set at the lower of its own historical cost, plus

inflation, or the standard determined by OCFS for similar agencies in the region. Agencies may request an adjustment through an appeal process in order to increase its payments. OCFS provides facility-based funding through the reimbursement of operating expenses, as determined by the costs of depreciation and interest incurred in connection with a borrowing of such costs.

Contract agencies also receive Medicaid reimbursement for medical and clinical services provided to its foster care children. These per diem reimbursement rates are also determined prospectively by regulation and are based on historical operational costs.

OCFS sets congregate care facility program rates for foster care programs based on the capacity, location and type of program facility. These rates are administered, and paid, by the local departments of social services, including ACS. In May, 2010, ACS, as part of an administrative budgetary decision to cut residential foster care programs by 25%, announced that it would not be renewing the contracts for several SCO ACS-funded residential facilities effective March 2011. In SCO's experience, this type of budget cut is unprecedented. SCO is permitted to terminate the leases on its leased facilities in the event of a loss of applicable governmental funding. Accordingly, SCO and ACS are currently discussing the relocation of several children currently residing at these SCO-leased facilities, to certain SCO-owned facilities, so as to support the debt service on those owned facilities. SCO is also in discussion with other government agencies regarding the use of the facilities that will not be re-funded for use as group homes for other populations.

The Series 2010B Facility located at 89-30 161st Street, Jamaica, New York receives funding from ACS.

New York State Education Department

Children are entitled to special educational school services under the State Education Law Section 4410 and Chapter 853 of the Laws of 1976, as amended. The government policy for the provision of services to eligible children has shifted from providing services only in segregated special education settings (i.e., where only children with disabilities attend) to providing the educational services in a full range of more integrated settings (i.e., children with disabilities and typically developing children), including day care, Head Start, and other forms of integrated settings. Therefore the school services provider which can offer the broadest choices of service models receives the most service referrals.

The Education Department operates together with, and under the auspices of, the State Board of Regents (the "Board"). The Education Department governs education from pre-kindergarten to graduate school. The Education Department sets educational policy, standards and rules and ensures that the educational institutions the Education Department oversees carry them out. The Board and the Education Department also oversee 38 licensed professions, provide vocational and educational services to people with disabilities, guide local government records programs, and operate the State Archives, Library and Museum.

The following is a list of State appropriations to the Education Department by State Fiscal Year (Source: the Education Department):

State Fiscal Year	State Operations	Aid to Localities	Capital Projects	Total State Appropriations
2004-05	\$426,138,200	\$22,385,187,000	\$90,300,000	\$22,901,625,200
2005-06	480,813,500	24,134,108,600	19,000,000	24,633,922,100
2006-07	522,649,900	27,493,220,200	33,200,000	28,049,070,100
2007-08	557,810,500	29,293,611,600	78,900,000	29,930,322,100
2008-09	571,265,900	31,309,289,000	56,640,000	31,937,194,900
2009-10	565,384,000	29,373,996,000	20,800,000	29,960,180,000

Education Department reimbursements to The City of New York and municipalities within the State of New York for both school age and preschool students with disabilities are funded through the Aid to Localities appropriations.

The Nature of the Approval Process for Licensing or Authorizing Providers

The following describes the approval process for private schools for reimbursement with public funds but no representation can be made that such processes will be followed. Upon submission of an application, schools receive conditional approval for a period of one year, or the time required for completing the approval process. This conditional approval is granted after the following steps have been taken:

1. Submission of program information forms including the documentation of regional need and sufficient evidence to establish that the proposed program will serve only those students who, because of the nature and severity of their disability, would require such a program;
2. Submission of a budget and financial statement information, including evidence that the school has enough capital or other financial resources, other than State or local sources of revenue, to be able to operate for at least a year;
3. A fire safety check by the New York State Division of Fire Prevention and Control for in-state private schools, and a State or local fire safety check for out-of-state schools; and
4. For schools operating as corporate entities, evidence of the following:
 - (a) for in-state not-for-profit schools, a charter or application for a charter from the Board, incorporating a school authorized to provide special education services;
 - (b) for in-state for-profit schools, approval by the Commissioner of the Education Department of the school's incorporation as a school for the provision of special education; or
 - (c) for out-of-state schools, a license or charter from the education agency of the State in which the school is located; and
 - (d) at least one onsite program review visit by program staff of the Education Department.

Final approval of schools which have had conditional approval:

1. Will be based on at least two site visits by program staff of the Education Department during the year of conditional approval; and
2. Will take effect as of the date a final approval letter is issued by the Commissioner, or his designee.

The Method and Frequency of the Education Department's Reimbursement to School Districts

Frequency of payments for a given school year:

Programs for School Age Children with Disabilities:

1. Section 4402 of the State Education Law (853 placements) – private excess cost aid is paid at least four times per year (December, March, June and August) based on school district claims
2. Incarcerated Youth – three times per year (March, June and November)
3. Chapter 47,66,721 School Year – four times per year (January, May, July and November)
4. Chapter 47,66,721 July/August – three times per year (May, August and November)
5. July/August 4408 – three times per year (March, June and October)
6. Homeless – two times per year (June and November)

Programs for Preschool Children with Disabilities:

Six times per year on alternating months beginning in March.

All payments are based on the System to Account for Children (“STAC,” used to allocate special aid to school districts, state agencies and counties for educating children who are disabled) approvals and verification of the approval document by means of a list of eligible students called the Automated Verification List (the “AVL”), which is created from the records kept by the Education Department, and verified by school districts and counties, for the purposes of providing State aid to school districts (in the case of programs for school age children) and counties (in the case of programs for preschool children). **Payments are all subject to the availability of State and federal appropriations.**

The Series 2010B Facility located at 101 Downing Street, Sea Cliff, New York receives funding from the Education Department through the school districts whose students are served at such Series 2010B Facility. Tuition payments to the private schools, such as those operated by the Series 2010B Participant, are usually made by the school districts on a monthly basis pursuant to a contract with the provider.

New York State Office of Mental Retardation and Developmental Disabilities

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

appropriations of funds for new community service development (including residential, day services and support services). These funds are distributed through a Request for Proposal (“RFP”) process, and are targeted to the locally identified priority services and populations. Awards are based upon an agency’s demonstrated ability to identify and serve the various priority populations.

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

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

In connection with the foregoing, OMRDD is responsible for, among other things, the regulation and licensing of certain of the Series 2010B Participant’s facilities, but not the Series 2010B Facilities. Such regulation and licensing includes, among other things, participation in the determination as to the need for the facility, review of plans and specifications for construction/rehabilitation of the facility, the right to conduct inspections and program audits, and the establishment of a reimbursement rate for an individual’s care.

Population

Consistent with its comprehensive Five Year Plan and the ongoing New York State CARES initiative, OMRDD services a diverse population of individuals with developmental disabilities including persons with mental retardation, cerebral palsy, autism, epilepsy and learning disabilities. OMRDD’s programs are characterized by two related service systems: a State-operated institutional system and a community-based system with programs run by both the State and voluntary not-for-profit agencies.

The State-operated institutional system provides residential care and habilitative services to consumers at nine developmental centers and related special population units located throughout the State. The 2009-2010 New York State Budget included funding to allow this system to serve 1,500 individuals in specialized service units during the 2009-2010 fiscal year. Twelve State-operated developmental centers were formally closed between 1987 and 1998; the proposed New York State Executive Budget for 2010-2011 includes plans to close the remainder of the developmental center units over the next few years.

The proposed New York State Executive Budget for 2010-2011 provides an overall spending increase of 6.2%, and 8.1% increase in Aid to Localities. In addition the proposed budget includes a 3.06% trend to Medicaid programs retroactive to April 1, 2009, and a 2.08% trend to Medicaid programs

effective April 1, 2010; a \$7.9 million increase in family support services, and funding for an additional 530 New York State CARES beds, 1,640 day service opportunities, 133 new beds for people living in nursing homes, 44 new beds for children currently living in out-of-state residential schools, and 180 beds for people currently living in State-operated institutions.

Population Statistics

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

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

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

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

<u>Year</u>	<u>Aid to Localities</u>	<u>State Operations</u>	<u>Total Operations</u>
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

None of the Series 2010B Facilities receive substantial funding from OMRDD although the Series 2010B Participant does receive funding from OMRDD through the Aid to Localities appropriations.

New York State Office of Mental Health

The State's public mental health system is primarily a community-based system of care which serves approximately 650,000 adults, children and adolescents each year. Like most State public mental health systems, it has evolved over the past several decades from a system which relied on State hospitals to deliver virtually all care for individuals with serious mental illness, to one in which most services are delivered in the community. As documented in the Office of Mental Health Progress Report, 86 percent of those receiving mental health care use locally-operated mental health services, while the remaining 14 percent use State-operated services.

The majority of these individuals receive services because they are diagnosed with a mental disorder that has led to serious impairment in their day-to-day functioning. This combination - a mental disorder and serious impairment in functioning - is referred to as severe mental illness.

The Office of Mental Health (“OMH”) has a dual role in the State. As the lead governmental agency responsible for statewide oversight of all public mental health services, it oversees and regulates more than 2,500 mental health programs which are operated by local governments and nonprofit agencies. In addition, OMH is also a provider of inpatient and outpatient services, operating 17 adult psychiatric centers, six children’s facilities, four forensic facilities and two research institutes. All OMH facilities are accredited by the Joint Commission on Accreditation of Healthcare Organizations and by the federal Centers for Medicare and Medicaid Services.

New York State has transitioned to a substantial expansion of community-based services, including housing, case management and other supports, which have made the decrease in inpatient census possible. The existing community-based residential system currently supports almost 28,500 operating beds and another 1,000 beds per year are planned over the next five years.

The 2010-11 Executive Budget includes ongoing support for 3,380 Adult inpatient beds, 538 Children & Youth inpatient beds, 715 Forensic inpatient beds and a projected Sex Offender Management and Treatment Act (“SOMTA”) census of 230. In comparison, in 2007-08 OMH supported 4,030 Adult inpatient beds, 526 Children & Youth inpatient beds, 695 Forensic inpatient beds, and a SOMTA census of 123 individuals.

Nonlicensed programs include supported housing programs, single room occupancy housing with on-site mental health support services, various levels of case management, social clubs, self-help groups, homeless outreach services, educational, vocational and rehabilitation programs, and a range of other support and advocacy services.

OMH categorizes mental health programs into four groups: emergency, inpatient, outpatient and community support programs.

The objectives of emergency programs are rapid psychiatric and/or medical stabilization, and ensuring the safety of individuals who present a risk to themselves or others. These programs include a range of crisis counseling and residential services, as well as comprehensive psychiatric emergency programs. Approximately 15 percent of all public mental health system program enrollments are in emergency programs.

The objectives of inpatient programs are acute stabilization and intensive treatment and rehabilitation, with 24-hour care in a controlled environment. They are utilized only when the required services and supports cannot be delivered in a community setting. Approximately 13 percent of all public mental health system program enrollments are in inpatient programs.

The objectives of outpatient programs are symptom reduction, treatment and rehabilitation in an ambulatory setting, including clinics, partial hospital, continuing day treatment and intensive psychiatric rehabilitation programs. Approximately 52 percent of all public mental health system program enrollments are in outpatient programs.

The objectives of community support programs are to help adults live as independently as possible in the community, and to help children with serious emotional disturbance remain with their families. These programs provide case management, vocational, self-help and support services. Approximately 99 percent of all public mental health system program enrollments are in community support programs.

The New York State Community Mental Health Reinvestment Act creates incentives to reduce unneeded Adult State Psychiatric Center inpatient capacity and to reinvest the savings in the development of new community-based services. In Fiscal Year 1994-95 through Fiscal Year 2009-10 the reinvestment spending increased from nearly \$50 million to approximately \$220 million.

None of the Series 2010B Facilities receive substantial funding from OMH.

PART 6 - ESTIMATED SOURCES AND USES OF FUNDS

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

<u>Sources of Funds</u>	
Principal amount of Series 2010B Bonds	\$6,980,000
Total Sources of Funds	<u>\$6,980,000</u>
<u>Uses of Funds</u>	
Deposit into Series 2010B Debt Service Reserve Fund	\$ 698,000
Deposit into Series 2010B Project Loan Fund	6,142,400
Series 2010B Costs of Issuance ⁽¹⁾	<u>139,600</u>
Total Uses of Funds	<u>\$6,980,000</u>

⁽¹⁾ Includes a portion of the Placement Agents’ fee.

PART 7 - THE AUTHORITY

Background, Purposes and Powers

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

On September 1, 1995, the Authority through State legislation (the “Consolidation Act”) succeeded to the powers, duties and functions of the New York State Medical Care Facilities Finance Agency (the “Agency”) and the Facilities Development Corporation (the “Corporation”), each of which will continue its corporate existence in and through the Authority. Under the Consolidation Act, the Authority has also acquired by operation of law all assets and property, and has assumed all the liabilities and obligations, of the Agency and the Corporation, including, without limitation, the obligation of the Agency to make payments on its outstanding bonds, and notes or other obligations. Under the Consolidation Act, as

successor to the powers, duties and functions of the Agency, the Authority is authorized to issue and sell negotiable bonds and notes to finance and refinance mental health services facilities for use directly by the New York State Department of Mental Hygiene and by certain voluntary agencies. As such successor to the Agency, the Authority has acquired additional authorization to issue bonds and notes to provide certain types of financing for certain facilities for the Department of Health, not-for-profit corporations providing hospital, medical and residential health care facilities and services, county and municipal hospitals and nursing homes, not-for-profit and limited profit nursing home companies, qualified health maintenance organizations and health facilities for municipalities constituting social services districts. As successor to the Corporation, the Authority is authorized, among other things, to assume exclusive possession, jurisdiction, control and supervision over all State mental hygiene facilities and to make them available to the Department of Mental Hygiene, to provide for construction and modernization of municipal hospitals, to provide health facilities for municipalities, to provide health facilities for voluntary non-profit corporations, to make its services available to the State Department of Correctional Services, to make its services available to municipalities to provide for the design and construction of local correctional facilities, to provide services for the design and construction of municipal buildings, and to make loans to certain voluntary agencies with respect to mental hygiene facilities owned or leased by such agencies.

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

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

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

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

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

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

Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
State University of New York				
Dormitory Facilities.....	\$ 2,350,316,000	\$ 1,043,710,000	\$ 0	\$ 1,043,710,000
State University of New York Educational and Athletic Facilities.....	13,243,272,999	5,624,057,245	0	5,624,057,245
Upstate Community Colleges of the State University of New York.....	1,590,645,000	662,375,000	0	662,375,000
Senior Colleges of the City University of New York.....	10,262,671,762	3,346,519,213	0	3,346,519,213
Community Colleges of the City University of New York.....	2,444,968,350	542,365,787	0	542,365,787
BOCES and School Districts.....	2,436,626,208	1,845,580,000	0	1,845,580,000
Judicial Facilities.....	2,161,277,717	724,132,717	0	724,132,717
New York State Departments of Health and Education and Other.....	6,138,795,000	4,230,220,000	0	4,230,220,000
Mental Health Services Facilities.....	8,032,895,000	3,881,765,000	0	3,881,765,000
New York State Taxable Pension Bonds.....	773,475,000	0	0	0
Municipal Health Facilities Improvement Program.....	985,555,000	760,915,000	0	760,915,000
Totals Public Programs.....	\$ 50,420,498,036	\$ 22,661,639,962	\$ 0	\$ 22,661,639,962
Non-Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
Independent Colleges, Universities and Other Institutions.....	\$ 18,886,575,260	\$ 9,853,091,435	\$ 35,975,000	\$ 9,889,066,435
Voluntary Non-Profit Hospitals.....	14,092,059,309	8,070,515,000	0	8,070,515,000
Facilities for the Aged.....	1,996,020,000	887,495,000	0	887,495,000
Supplemental Higher Education Loan Financing Program.....	95,000,000	0	0	0
Totals Non-Public Programs.....	\$ 35,069,654,569	\$ 18,811,101,435	\$ 35,975,000	\$ 18,847,076,435
Grand Totals Bonds and Notes.....	\$ 85,490,152,605	\$ 41,472,741,397	\$ 35,975,000	\$ 41,508,716,397

Outstanding Indebtedness of the Agency Assumed by the Authority

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

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

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

Governance

The Authority carries out its programs through an eleven-member board, a full-time staff of approximately 660 persons, independent bond counsel and other outside advisors. Board members include the Commissioner of Education of the State, the Commissioner of Health of the State, the State Comptroller or one member appointed by him or her who serves until his or her successor is appointed, the Director of the Budget of the State, one member appointed by the Temporary President of the State Senate, one member appointed by the Speaker of the State Assembly and five members appointed by the Governor, with the advice and consent of the Senate, for terms of three years. The Commissioner of Education of the State, the Commissioner of Health of the State and the Director of the Budget of the State each may appoint a representative to attend and vote at Authority meetings. The members of the Authority serve without compensation, but are entitled to reimbursement of expenses incurred in the performance of their duties.

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

The current members of the Authority are as follows:

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

Alfonso L. Carney, Jr. was appointed as a Member of the Authority by the Governor on May 20, 2009. Mr. Carney is a principal of Rockwood Partners, LLC, which provides medical and legal consulting services in New York City. Consulting for the firm in 2005, he served as Acting Chief Operating Officer and Corporate Secretary for the Goldman Sachs Foundation in New York where, working with the President of the Foundation, he directed overall staff management of the foundation, and provided strategic oversight of the administration, communications and legal affairs teams, and developed selected foundation program initiatives. Prior to this, Mr. Carney held several positions with Altria Corporate Services, Inc., most recently as Vice President and Associate General Counsel for Corporate and Government Affairs. Prior to that, Mr. Carney served as Assistant Secretary of Philip Morris Companies Inc. and Corporate Secretary of Philip Morris Management Corp. For eight years, Mr. Carney was Senior International Counsel first for General Foods Corporation and later for Kraft Foods, Inc. and previously served as Trade Regulation Counsel, Assistant Litigation Counsel and Federal Government Relations Counsel for General Foods, where he began his legal career in 1975 as a Division Attorney. Mr. Carney is a trustee of Trinity College, the University of Virginia Law School Foundation, the Riverdale Country School and the Virginia Museum of Fine Arts in Richmond. In addition, he is a trustee of the Burke Rehabilitation Hospital in White Plains. Mr. Carney holds a Bachelors degree in Philosophy from Trinity College and a Juris Doctor degree from the University of Virginia School of Law. His current term expires on March 31, 2013.

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

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

and was a Pulitzer Prize juror in 1978, 1979, 2001 and 2002. He holds a Bachelor's degree from Vanderbilt University, and Master's degrees in Journalism and Business Administration from the Columbia University Graduate School of Journalism and Business. Mr. Johnson was awarded an Honorary Doctor of Science degree from Clarkson University. Mr. Johnson's term expires on March 31, 2013.

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

Jacques Jiha was appointed as a Member of the Authority by the Governor on December 15, 2008. Mr. Jiha is the Executive Vice President / Chief Operating Officer & Chief Financial Officer of Black Enterprise, a multi-media company with properties in print, digital media, television, events and the internet. He is a member of the Investment Advisory Committee of the New York Common Retirement Fund. Previously, Mr. Jiha served as Deputy Comptroller for Pension Investment and Public Finance in the Office of the New York State Comptroller. As the state's chief investment officer, he managed assets valued at \$120 billion and was also in charge of all activities related to the issuance of New York State general obligation bonds, bond anticipation notes, tax and revenue anticipation notes, and certificates of participation. Mr. Jiha was the Co-Executive Director of the New York State Local Government Assistance Corporation (LGAC) in charge of the sale of refunding bonds, the ratification of swap agreements, and the selection of financial advisors and underwriters. Prior thereto, Mr. Jiha was Nassau County Deputy Comptroller for Audits and Finances. He also worked for the New York City Office of the Comptroller in increasingly responsible positions: first as Chief Economist and later as Deputy Comptroller for Budget. Earlier, Mr. Jiha served as Executive Director of the New York State Legislative Tax Study Commission and as Principal Economist for the New York State Assembly Committee on Ways and Means. He holds a Ph.D. and a Master's degree in Economics from the New School University and a Bachelor's degree in Economics from Fordham University. His current term expires on March 31, 2011.

CHARLES G. MOERDLER, ESQ., New York.

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

ANTHONY B. MARTINO, CPA, Buffalo.

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

SANDRA M. SHAPARD, Delmar.

Ms. Shapard was appointed as a Member of the Authority by the State Comptroller on January 21, 2003. Ms. Shapard served as Deputy Comptroller for the Office of the State Comptroller from January, 1995 until her retirement in 2001, during which time she headed the Office of Fiscal Research and Policy Analysis and twice served as Acting First Deputy Comptroller. Previously, Ms. Shapard held the positions of Deputy Director and First Deputy Director for the New York State Division of Budget, from 1991 to 1994, and Deputy Assistant Commissioner for Transit for the State Department of Transportation, from 1988 to 1991. She began her career in New York State government with the Assembly in 1975 where, over a thirteen year period, she held the positions of Staff Director of the Office of Counsel to the Majority, Special Assistant to the Speaker, and Deputy Director of Budget Studies for the Committee on Ways and Means. Ms. Shapard also served as Assistant to the County Executive in Dutchess County. A graduate of Mississippi University for Women, Ms. Shapard received a Masters of Public Administration from Harvard University, John F. Kennedy School of Government, where she has served as visiting lecturer, and has completed graduate work at Vanderbilt University.

GERARD ROMSKI, Esq., Mount Kisco.

Mr. Romski was appointed as a Member of the Authority by the Temporary President of the State Senate on June 8, 2009. He is Counsel and Project Executive for “Arverne By The Sea,” where he is responsible for advancing and overseeing all facets of “Arverne by the Sea,” one of New York City’s largest mixed-use developments located in Queens, NY. Mr. Romski is also of counsel to the New York City law firm of Bauman, Katz and Grill LLP. He formerly was a partner in the law firm of Ross & Cohen, LLP (now merged with Duane Morris, LLP) for twelve years, handling all aspects of real estate and construction law for various clients. He previously served as Assistant Division Chief for the New York City Law Department’s Real Estate Litigation Division where he managed all aspects of litigation arising from real property owned by The City of New York. Mr. Romski is a member of the Urban Land Institute, Council of Development Finance Agencies, the New York State Bar Association, American Bar Association and New York City Bar Association. He previously served as a member of the New York City Congestion Mitigation Commission and the Board of Directors for the Bronx Red Cross. Mr. Romski holds a Bachelor of Arts degree from the New York Institute of Technology and a Juris Doctor degree from Brooklyn Law School.

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

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

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

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

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

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

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

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

The principal staff of the Authority is as follows:

PAUL T. WILLIAMS, JR. is the President and chief executive officer of the Authority. Mr. Williams is responsible for the overall management of the Authority's administration and operations. He most recently served as Senior Counsel in the law firm of Nixon Peabody LLP. Prior to working at Nixon

Peabody, Mr. Williams helped to establish a boutique Wall Street investment banking company. Prior thereto, Mr. Williams was a partner in, and then of counsel to, the law firm of Bryan Cave LLP. He was a founding partner in the law firm of Wood, Williams, Rafalsky & Harris, which included a practice in public finance and served there from 1984-1998. Mr. Williams began his career as an associate at the law firm of Walker & Bailey in 1977 and thereafter served as a counsel to the New York State Assembly. Mr. Williams is licensed to practice law in the State of New York and holds professional licenses in the securities industry. He holds a Bachelor's degree from Yale University and a Juris Doctor degree from Columbia University School of Law.

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

PORTIA LEE is the Managing Director of Public Finance and Portfolio Monitoring. She is responsible for supervising and directing Authority bond issuance in the capital markets, through financial feasibility analysis and financing structure determination for Authority clients; as well as implementing and overseeing financing programs, including interest rate exchange and similar agreements; overseeing the Authority's compliance with continuing disclosure requirements and monitoring the financial condition of existing Authority clients. Ms. Lee previously served as Senior Investment Officer at the New York State Comptroller's Office where she was responsible for assisting in the administration of the long-term fixed income portfolio of the New York State Common Retirement Fund, as well as the short-term portfolio, and the Securities Lending Program. From 1995 to 2005, Ms. Lee worked at Moody's Investors Service where she most recently served as Vice President and Senior Credit Officer in the Public Finance Housing Group. In addition, Ms. Lee has extensive public service experience working for over 10 years in various positions in the Governor's Office, NYS Department of Social Services, as well as the New York State Assembly. She holds a Bachelor's degree from the State University of New York at Albany.

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

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

STEPHEN D. CURRO, P.E. is the Managing Director of Construction. In that capacity, he is responsible for the Authority's construction groups, including design, project management, purchasing, contract administration, interior design, and engineering and other technology services. Mr. Curro joined the Authority in 2001 as Director of Technical Services, and most recently served as Director of Construction Support Services. He is a registered Professional Engineer in New York and Rhode Island and has worked in the construction industry for over 20 years as a consulting structural engineer and a technology solutions provider. Mr. Curro is also an Adjunct Professor at Hudson Valley Community College and Bryant & Stratton College. He holds a Bachelor of Science in Civil Engineering from the University of Rhode Island, a Master of Engineering in Structural Engineering from Rensselaer Polytechnic Institute and a Master of Business Administration from Rensselaer Polytechnic Institute's Lally School of Management.

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

Claims and Litigation

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

Other Matters

New York State Public Authorities Control Board

The New York State Public Authorities Control Board (the "PACB") has authority to approve the financing and construction of any new or reactivated projects proposed by the Authority and certain other public authorities of the State. The PACB approves the proposed new projects only upon its determination that there are commitments of funds sufficient to finance the acquisition and construction of the projects. The Authority has obtained the approval of the PACB for the issuance of the Series 2010B Bonds.

Legislation

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

Environmental Quality Review

The Authority complies with the New York State Environmental Quality Review Act and with the New York State Historic Preservation Act of 1980, and the respective regulations promulgated thereunder respecting the Series 2010B Project to the extent such acts and regulations are applicable.

Independent Auditors

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

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

Under New York State law, the Series 2010B 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 2010B 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 2010B Bonds are negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution, the Series 2010B Resolution and in the Series 2010B Bonds.

PART 10 - TAX MATTERS

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 Series 2010B Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the Series 2010B Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, the Series 2010B Participant, and the Program Facilitator, and Bond Counsel has assumed compliance by Authority, the Series 2010B Participant and the Program Facilitator, with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2010B 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 2010B Participant regarding, among other matters, the current qualifications of the Series 2010B Participant as an organization described in Section 501(c)(3) of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Series 2010B 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 2010B 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 Series 2010B Bonds, or under state and local tax law on the Series 2010B 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 2010B 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 Series 2010B Bonds in order that interest on the Series 2010B 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 Series 2010B 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 Series 2010B 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, the Series 2010B Participant, and the Program Facilitator have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2010B 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 Series 2010B Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2010B 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 Series 2010B Bonds.

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

Prospective owners of the Series 2010B 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 Series 2010B 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.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2010B Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2010B 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 Series 2010B 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 Series 2010B Bonds under Federal or state law and could affect the market price or marketability of the Series 2010B Bonds.

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

Set forth below are certain risk factors, among others, that could adversely affect the Series 2010B Participant's operation and revenues and expenses of its Series 2010B Facilities to an extent which

cannot be determined at this time. Such risk factors should be considered before any investment in the Series 2010B Bonds is made. These risk factors should not be considered definitive or exhaustive.

Special, Limited Obligations of Authority

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

Reliance on Credit of the Series 2010B Participant

The Series 2010B Bonds are being issued without credit enhancement in the form of a letter of credit, bond insurance or any other form. The Holders of the Series 2010B Bonds must therefore rely exclusively upon the credit of the Series 2010B Participant for the repayment of the Series 2010B Bonds (and not the credit of the Authority, the Trustee, the Placement Agents, the State or any other municipality of the State) for all payments due to them under the Series 2010B Bonds. See “PART 1 - Security for the Series 2010B Bonds,” “PART 2 - SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010B BONDS - Security for the Series 2010B Bonds” and “PART 5 - SOURCES OF SERIES 2010B PARTICIPANT FUNDING.”

Revenues of Series 2010B Participant

Future revenues of the Series 2010B 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 2010B Bonds depends upon the receipt by the Trustee of the Loan Repayments under the Loan Agreement. A number of risks that could affect the Series 2010B Participant’s 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 2010B Participant; (ii) the State, various county and city departments, and applicable school districts to make timely payments to the Series 2010B Participant of appropriated amounts caused by revenue short falls or other State and local fiscal considerations; (iii) the Series 2010B Participant to fulfill its obligations which entitle it to receive payments; (iv) the Series 2010B Participant to receive the appropriate certifications from the required licensing or certifying entity(ies) to provide services as required; and/or (v) the Series 2010B Participant to obtain the renewal of its contracts. In addition, the Series 2010B Participant’s license and/or certification may be revoked for failure to comply with standards of operation applicable to the Series 2010B Participant. The Loan Repayment obligation of the Series 2010B Participant may be accelerated in the event of the Series 2010B Participant’s default. In the event the Series 2010B Participant’s Loan Repayment obligation is accelerated due to a default, the Series 2010B Bonds may likewise be accelerated. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010B BONDS - Events of Default.”

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 the Series 2010B Participant, the Series 2010B Participant and the Authority shall enter into separate loan agreements. The Series 2010B Bonds are separately secured from all other Series of Bonds and the Holders of any Series of Bonds other than the Series 2010B Bonds are not entitled to the rights, benefits and security conferred upon the Holders of the Series 2010B 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 2010B Bonds, an event

of default by the Series 2010B Participant under a loan agreement entered into in connection with the issuance of another Series of Bonds will result in an “Event of Default” under the Loan Agreement. See “PART 1 - INTRODUCTION - Authorization of Issuance” and “- Security for the Series 2010B Bonds” and “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010B BONDS.”

Enforceability of Remedies; Effect of Bankruptcy of the Series 2010B Participant

The Series 2010B Bonds are payable from the sources and are secured as described in this Private Placement Memorandum. The practical realization of value from the collateral for the Series 2010B Bonds described herein upon any default will depend upon the exercise of various remedies specified by the Resolutions, the Loan Agreement and the Mortgage. 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 Agreement and the Mortgage 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 2010B 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 2010B Bonds are subject to various provisions of Title 11 of the United States Code (the “Bankruptcy Code”). If the Series 2010B 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 the Series 2010B Participant and its property, including the commencement of foreclosure proceedings under the Mortgage, if applicable. The Series 2010B Participant would not be permitted or required to make payments of principal or interest under the 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 Trustee from applying amounts on deposit in the accounts established with respect to the Series 2010B 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, the Series 2010B Bonds. Moreover, any motion for an order canceling the automatic stay and permitting such 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 the Series 2010B Participant, which could affect the likelihood or timing of obtaining such relief. In addition, if the Mortgage 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 the Series 2010B Participant’s total Loan Repayment obligation at the time of a bankruptcy proceeding, the security interest of the Trustee in such property is subject to the claims of creditors that the mortgaged indebtedness in excess of the fair market value of the Mortgaged Property is unsecured and, therefore, to the extent of such excess is not entitled to a secured priority position in the administration of the bankruptcy estate.

The Series 2010B 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 the Series 2010B 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.

Mortgage

Mortgage Not Currently Security for Series 2010B Bonds

The Mortgage does not presently provide any security for the Series 2010B Bonds. However, under certain circumstances described herein, the Mortgage may be assigned to the Trustee. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010B BONDS - Security for the Series 2010B Bonds - Mortgage - General.”

Pledge of Property Under Mortgage

The security interest in the Mortgaged Property granted under the 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 the Series 2010B 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 Loan Agreement or the Mortgage, 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 the Loan Agreement, and one of the options under the Resolution, is to institute proceedings to enforce the lien on and sell the Series 2010B Participant’s Mortgaged Property in the event of a default under the Loan Agreement, the Mortgage or the Resolutions. However, due to the limited uses for which the Series 2010B Participant’s Mortgaged Property may be utilized, none of the Authority, the Program Facilitator, the Trustee, the Series 2010B Participant, or the Placement Agents makes any assurances or representations that a sale of the Series 2010B 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 established under the Resolution, would be sufficient to pay in full the principal of, or interest on, the Series 2010B Bonds.

In exercising the rights of foreclosure under the 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 the 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 2010B Bonds that would otherwise have been available absent the existence of such hazardous materials.

Another option under the Loan Agreement is to institute proceedings to enforce the lien on and sell the Series 2010B Participant's Equipment (as defined in the Mortgage) in the event of a default under the Loan Agreement, the Mortgage or the Resolutions. However, due to the limited uses for which the Series 2010B Participant's Equipment may be utilized, none of the Authority, the Program Facilitator, the Trustee, the Series 2010B Participant, or the Placement Agents makes any assurances or representations that the Authority or the Trustee will be able to sell the Series 2010B 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 established under the Resolution, would be sufficient to pay in full the principal of, or interest on, the Series 2010B Bonds.

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 2010B Participant. Such approval was not sought in connection with the execution, delivery and performance by the Series 2010B Participant of the Mortgage or the pledges of assets and revenues that are contemplated by the Resolution and the Loan Agreement. It is the opinion of counsel to the Series 2010B Participant 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.

Reversionary Interest of the 101 Downing Street Facility

The deed pursuant to which the Series 2010B Participant acquired title to the Downing Street Facility contained a right of reverter by the Seller. The Series 2010B Participant has requested the Seller to enter into a subordination agreement in order to subordinate its right of reverter to the lien granted by the Mortgage on the Downing Street Facility. If and when the Subordination occurs, the Mortgage will be amended, without the consent of the Holders of the Series 2010B Bonds or the Trustee, to release the mortgage lien on the Additional Properties and the security interest in the fixtures, furniture and equipment located therein or used in connection therewith. In addition, after the effective date of the Subordination, the interest rate borne by the Series 2010B Bonds will be the Base Rate only as described in "PART 3 - THE SERIES 2010B BONDS - Description of the Series 2010B Bonds.". There is no guarantee that the Series 2010B Participant will be able to obtain the Subordination from the Seller or that the Series 2010B Participant's title to the Downing Street Facility will not continue to be subject to the right of reverter, in which case the Additional Properties will not be released from the lien of the Mortgage (except as otherwise provided under the terms of the Loan Agreement) and the Series 2010B Bonds will continue to bear interest at the Base Rate plus the Add-On Rate. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010B BONDS - Security for the Series 2010B Bonds - Mortgage - Reversionary Interest of Downing Street Facility; Effect of Subordination on Mortgage and Series 2010B Bonds."

Release of Series 2010B Facilities from Lien of Mortgage

The Loan Agreement, the Mortgage and the Resolution provide the Series 2010B Participant the ability to prepay a portion of the loan attributable to a Series 2010B Facility and, upon the redemption or defeasance of the related Series 2010B Bonds to have such Series 2010B Facility released from the lien of the Mortgage. There is no assurance that the security, if any, provided by the remaining Series 2010B

Facilities or other properties, if any, subject to the lien of the Mortgage will be sufficient to pay the then outstanding principal and interest (or other amounts due) with respect to the Series 2010B Bonds.

In addition to the provisions of the Mortgage described above, the Mortgage provides that upon the receipt by the Authority and the Trustee of the Subordination described above in connection with the Downing Street Facility, the Mortgage will be amended, without the consent of the Holders of the Series 2010B Bonds or the Trustee, to release (i) the mortgage lien on the Additional Properties and (ii) the security interest in the fixtures, furniture and equipment located therein or used in connection therewith. See “- Reversionary Interest of the 101 Downing Street Facility” above.

Intercreditor Agreement and Rights of Senior Creditors

The Authority and the Trustee will enter into the Intercreditor Agreement with the Senior Creditors. The outstanding aggregate principal amount of the loans made to the Series 2010B Participant by the Senior Creditors is \$17,200,000. The principal amount of the loans of the Series 2010B Participant currently outstanding to the Downing Senior Creditors is \$17,220,000, of which \$3,068,795 is secured by the Senior Mortgages. The principal amount of the loans of the Series 2010B Participant currently outstanding to the 161st Street Senior Creditor is \$10,305,000, the entire principal amount of which is secured by the Senior Mortgages. Pursuant to an Intercreditor Agreement, (i) any applicable Senior Creditor may, without the consent of the Authority or the Trustee, commence an action or proceeding to foreclose, and foreclose, its mortgage on the applicable Series 2010B Facility whenever, and to the extent, such Senior Creditor is permitted to do so under the terms of its applicable mortgage, loan agreement and resolution and (ii) the Authority and the Trustee, if the Mortgage is assigned to the Trustee by the Authority as described above, may, without the consent of the applicable Senior Creditors, commence an action or proceeding to foreclose, and foreclose, the Mortgage whenever, and to the extent, the Authority or the Trustee, as applicable, is permitted to do so under the terms of the Mortgage, the Loan Agreement and the Resolution provided that the Authority or the Trustee, as applicable, gives to the applicable Senior Creditors no less than sixty (60) days prior notice of its intention to comment such action or proceeding. The failure of the Authority or the Trustee, as applicable, to give such notice shall nullify and invalidate any notice or declaration of default under the Loan Agreement, the Resolution or the Mortgage and shall be grounds for the dismissal of any proceedings initiated against the Series 2010B Participant or the Mortgaged Property by the Authority or the Trustee, as applicable.

Any cash proceeds realized by any of the parties to an Intercreditor Agreement as a consequence of the sale of, collection out of, or other realization upon all or any part of the Mortgaged Property shall be held for the benefit of all of the parties thereto in the priority set forth below and, as soon as reasonably practicable, shall be applied, first, to the reasonable costs and expenses incurred in connection with the collection thereof, second, to reimburse any protective advances made under the applicable Senior Mortgages, and third, (i) to payment to the applicable Senior Creditors, pro rata, based on, but not in excess of, the indebtedness under the loan agreements secured by the applicable Senior Mortgages allocable to the principal of or interest on such indebtedness then unpaid, then, (ii) to payment to the Authority and the applicable Senior Creditors, pro rata, based on, but not in excess of, the unpaid fees and expenses of the Authority and such Senior Creditors then unpaid, and then, (iii) to payment to the Authority and the applicable Senior Creditors, pro rata, based on, but not in excess of, the Allocable Loan Portion (as defined in the applicable Intercreditor Agreement) then due and owing under the loan agreements and the resolutions then unpaid, and fourth, (i) to payment to the Authority and the Trustee, pro rata, based on, but not in excess of, the indebtedness under the Loan Agreement secured by the Mortgage allocable to the principal of or interest on such indebtedness then unpaid, then, (ii) to payment to the Authority and the Trustee, pro rata, based on, but not in excess of, the unpaid fees and expenses of the Authority and the Trustee then unpaid, and then, (iii) to payment to the Authority and the Trustee, pro rata, based on, but not in excess of all other amounts then due and owing under the Loan Agreement and the Resolution then unpaid, and fifth, to the payment of any other liens on the Mortgaged Property in the

order prescribed by applicable law. Any surplus of cash proceeds remaining after payment in full of all of the Series 2010B Participant's obligations as set forth above shall be paid over to the Series 2010B Participant or to whomever may be lawfully entitled to receive such surplus.

In view of the foregoing, investors should rely on their own examination of the creditworthiness and financial condition of the Series 2010B Participant 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 Mortgage, in the event that the Mortgage is assigned to the Trustee by the Authority.

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

The Series 2010B Bonds are payable from operating revenues of the Series 2010B Participant, 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 2010B Participant. 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 2010B Participant, 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 2010B Participant to generate sufficient revenues from other sources (or have access to sufficient fund balances) to make the scheduled Loan Repayments that are to be used by the Trustee to repay the Series 2010B Bonds, will materially adversely affect the Series 2010B Participant's ability to make its Loan Repayments and, consequently, the repayment of the Series 2010B Bonds.

Federal Medicaid Reform

Various funds of the Series 2010B Participant are received from Medicaid. Future Medicaid reform may materially adversely affects funds received by the Series 2010B Participant.

Additional Indebtedness

Under the Loan Agreement, the Series 2010B Participant has the ability to incur additional debt. An event of default by the Series 2010B Participant under a loan agreement entered into in connection with the issuance of another Series of Bonds will result in an "Event of Default" under the Loan Agreement. See "Appendix E - Summary of Certain Provisions of the Loan Agreement."

Grant of Additional Security Interests

The Series 2010B Participant may grant security interests in its Accounts Receivable, and the proceeds thereof, in favor of banks or other financial institutions in order to secure a line of credit for working capital purposes, whether by entering into a new credit facility or amending, modifying or extending an existing credit facility. The incurrence of such indebtedness and the granting of such security interests could materially adversely affect the financial position of the Series 2010B Participant and its ability to satisfy its Loan Repayment obligations.

The Series 2010B Participant may also grant a subordinate mortgage as security for bonds issued by the Authority after the date of issuance of the Series 2010B Bonds, in an amount up to the amount approved by OMRDD pursuant to the PPA process, for the purpose of financing the cost of renovating, constructing, equipping or completing a Series 2010B Facility, and any loan agreement, or amendment to the Loan Agreement, between the Series 2010B Participant and the Authority, in each case in connection with such financing.

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

As an entity qualified under Section 501(c)(3) of the Code, the Series 2010B Participant is subject to various requirements affecting its operation. The failure of the Series 2010B Participant to maintain its tax-exempt status may affect the Series 2010B Participant's ability to receive funds from State and federal sources, which could adversely affect its ability to pay its principal Loan Repayments under the Loan Agreement. Further, a loss of the Series 2010B Participant's status as a Section 501(c)(3) organization, failure of the Series 2010B Participant to comply with certain legal requirements of the Code, or adoption of amendments to the Code applicable to the Series 2010B Participant that restrict the use of tax-exempt bonds for facilities, such as one or more of the its Series 2010B Facilities, could cause interest on the Series 2010B 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 Series 2010B Bonds. The opinion of Bond Counsel and the description of the tax law contained in this Private Placement Memorandum are based on statutes, judicial decisions, regulations, rulings, and other official interpretations of law in existence on the date the Series 2010B 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 Series 2010B Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the Series 2010B Bonds. See "PART 10 - TAX MATTERS" above. The Series 2010B Bonds are not subject to redemption, nor will the interest rate on the Series 2010B Bonds be changed, if interest on the Series 2010B 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 Series 2010B Bonds.

Investor Suitability Standards and Transfer Restrictions

The Series 2010B Bonds may be purchased only by a "qualified institution buyer" within the meaning of Rule 144A under the Securities Act of 1933, as amended. An executed Investor Letter, in the form set forth in Appendix H, must be provided in connection with the initial investment in the Series 2010B Bonds. Each transferee of a Series 2010B Bond, by its acceptance of such Series 2010B Bond,

will be deemed to have represented, acknowledged and agreed to certain terms and conditions. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2010B BONDS - Investor Suitability Standards and Transfer Restrictions.”

Each Owner is informed that the Series 2010B Bonds may be transferred only to such “qualified institutional buyers.”

PART 12 - STATE NOT LIABLE ON THE SERIES 2010B 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 2010B 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 2010B 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 2010B 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 2010B Participant by Lombardi, Walsh, Wakeman, Harrison, Amodeo & Davenport, PC, Albany, New York and for the Placement Agents 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 2010B Bonds or questioning or affecting the validity of the Series 2010B Bonds or the proceedings and authority under which they are to be issued.

See “Appendix A - Description of Series 2010B Participant” for a description of any litigation which has a material adverse affect on the Series 2010B Participant.

PART 15 - CONTINUING DISCLOSURE

In order to provide for continuing disclosure similar to that required under Rule 15c2-12 promulgated by the Securities and Exchange Commission (“Rule 15c2-12”), the Series 2010B Participant has undertaken in a written agreement (the “Continuing Disclosure Agreement”) for the benefit of the Holders of the Series 2010B 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 2010B Participant ending June 30,

2010 for filing by DAC with the Municipal Securities Rulemaking Board (the “MSRB”) and its Electronic Municipal Market Access System for municipal securities disclosure on an annual basis, operating data and financial information of the type hereinafter described which is included in this Private Placement Memorandum (the “Annual Information”), together with the Series 2010B 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 2010B Participant, DAC has undertaken in the Continuing Disclosure Agreement, on behalf of and as agent for the Series 2010B 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 2010B Participant, with the MSRB.

The Series 2010B Participant also will undertake in the Continuing Disclosure Agreement to provide to the Authority, the Trustee and DAC, in a timely manner, the notices required to be provided by Rule 15c2-12 and described below (the “Notices”). In addition, the Authority and the Trustee will undertake to provide such notices to DAC, should they have actual knowledge of the occurrence of a Notice Event (as hereinafter defined). Upon receipt of Notices from the Series 2010B Participant, the Trustee or the Authority, DAC will file the Notices with the MSRB in a timely manner. With respect to the Series 2010B Bonds, DAC has only the duties specifically set forth in the Continuing Disclosure Agreement. DAC’s obligation to deliver the information at the times and with the contents described in the Continuing Disclosure Agreement is limited to the extent it has been provided such information pursuant to the Continuing Disclosure Agreement. DAC has no duty with respect to the content of any disclosure or Notices made pursuant to the terms of the Continuing Disclosure Agreement 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 the Series 2010B Participant, the Trustee or the Authority and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Series 2010B Participant, the Trustee, the Owners of the Series 2010B Bonds or any other party. DAC has no responsibility for the Authority, the Series 2010B Participant or the Trustee’s failure to provide to DAC a Notice required by the Continuing Disclosure Agreement or duty to determine the materiality thereof. DAC shall have no duty to determine or liability for failing to determine whether the Series 2010B Participant, the Trustee or the Authority has complied with the Continuing Disclosure Agreement and DAC may conclusively rely upon certifications of the Series 2010B Participant, the Trustee and the Authority with respect to their respective obligations under the Continuing Disclosure Agreement. 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 Private Placement Memorandum in “Appendix A - Description of Series 2010B Participant.”

The Notices include notice of any of the following events with respect to the Series 2010B Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Series 2010B Bonds; (7) modifications to rights of the Owners of the Series 2010B Bonds; (8) bond calls; (9)

defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2010B Bonds; and (11) rating changes on the Series 2010B Bonds. In addition, DAC will undertake to provide to the MSRB, in a timely manner, notice of any failure by the Series 2010B Participant to provide the Annual Information and annual financial statements by the date required in the Series 2010B Participant's undertaking described above.

The sole and exclusive remedy for breach or default under the Continuing Disclosure Agreement is an action to compel specific performance of the undertakings of the Series 2010B Participant and/or the Authority or the Trustee, and no person, including any Holder of the Series 2010B Bonds, may recover monetary damages thereunder under any circumstances. The Authority or the Series 2010B Participant may be compelled to comply with their respective obligations under the Continuing Disclosure Agreement (i) in the case of enforcement of their obligations to provide information required thereunder, by any Holder of Outstanding Series 2010B Bonds or by the Trustee on behalf of the Owners of Outstanding Series 2010B 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 2010B 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 2010B Bonds. A breach or default under the 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 Agreement, 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. The Continuing Disclosure Agreement, however, may under certain circumstances be amended or modified without the consent of Owners of the Series 2010B Bonds. Copies of the Continuing Disclosure Agreement when executed by the parties thereto upon the delivery of the Series 2010B Bonds will be on file at the principal office of the Authority.

The Series 2010B Participant is in compliance with all of its continuing disclosure undertakings made pursuant to Rule 15c2-12.

PART 16 - PLACEMENT OF SERIES 2010B BONDS

The Series 2010B Bonds are being placed by Municipal Capital Markets Group, Inc., as representative of the placement agents (collectively, the "Placement Agents"). The Placement Agents have agreed, subject to certain conditions, to place the Series 2010B Bonds from the Authority for a fee of \$298,046 and to make a private placement of the Series 2010B Bonds to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act of 1933, as amended, at a price not in excess of the price set forth on the inside front cover page of this Private Placement Memorandum. The Placement Agents will be obligated to place all Series 2010B Bonds if any Series 2010B Bonds are placed. The Series 2010B Bonds may be offered and sold to certain dealers (including dealers depositing such Series 2010B Bonds into investment trusts) at prices lower than such price, and such prices may be changed, from time to time, by the Placement Agents.

The Series 2010B Participant has agreed to indemnify the Placement Agents and the Authority with respect to certain liabilities, including certain liabilities under the Federal securities laws.

PART 17 - INDEPENDENT PUBLIC ACCOUNTANTS

The Series 2010B Participant has provided its financial statements as of and for the years ended June 30, 2009, June 30, 2008 and June 30, 2007. These financial statements, included in Appendix B to this Private Placement Memorandum, 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 Private Placement Memorandum, none of the auditors performed any procedures relating to any of the information contained in this Private Placement Memorandum.

PART 18 - MISCELLANEOUS

Reference in this Private Placement Memorandum to the Act, the Resolutions, the Loan Agreement and the Mortgage do not purport to be complete. Refer to the Act, the Resolutions, the Loan Agreement and the Mortgage for full and complete details of their provisions. Copies of the Resolutions, the Loan Agreement and the Mortgage are on file with the Authority and the Trustee.

The agreements of the Authority with Holders of the Series 2010B Bonds are fully set forth in the Resolutions. Neither any advertisement of the Series 2010B Bonds nor this Private Placement Memorandum is to be construed as a contract with purchasers of the Series 2010B Bonds.

Any statements made in this Private Placement Memorandum 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 2010B Participant contained in this Private Placement Memorandum and information concerning the Series 2010B Facilities contained herein has, in each case, been furnished by the Series 2010B Participant. 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 2010B Participant," "Appendix B - Audited Financial Statements of Series 2010B Participant" and "Appendix C - Unaudited Financial Information of Series 2010B Participant" were supplied by the Series 2010B Participant.

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

The Series 2010B Participant has reviewed the parts of this Private Placement Memorandum describing the Series 2010B Participant, its Series 2010B Facilities, its Mortgage, 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 2010B Bonds that the Series 2010B Participant certify as of the dates of sale and delivery of the Series 2010B 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.

The Series 2010B 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 the Series 2010B Participant.

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The execution and delivery of this Private Placement Memorandum by an Authorized Officer have been duly authorized by the Authority.

**DORMITORY AUTHORITY OF
THE STATE OF NEW YORK**

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

APPENDIX A

DESCRIPTION OF PARTICIPANT

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SCO FAMILY OF SERVICES

General Operations. SCO Family of Services (“SCO”) was founded in 1947 although it traces its history back to 1895. As one of New York’s largest social service agencies, SCO has played a vital role for the people of New York City and Long Island. SCO works with New York’s most vulnerable who are striving to overcome the devastating impact of developmental and mental challenges, poverty, neglect or abuse. With a comprehensive array of services, SCO gives individuals and families the support and tools needed for a healthy, stable and successful future, building stronger communities throughout the area. SCO is a not-for-profit organization, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable New York State Law.

SCO’s funding sources for its 2009 Fiscal Year were: the New York State Office of Children and Family Services (“OCFS”) (approximately 44%), the New York City Administration for Children’s Services (“ACS”) (approximately 24%), the State of New York Office of Mental Retardation and Developmental Disabilities (“OMRDD”) (approximately 12.5%), the State of New York Office of Mental Health (“OMH”) (approximately 9.5%), the New York State Education Department (“SED”) (approximately 5%), and miscellaneous other sources (approximately 5%).

Description of Facilities and Financing Plan. The Authority will lend SCO approximately \$6,980,000 from the proceeds of the Authority’s InterAgency Council Pooled Loan Program, Series 2010B (the “Series 2010B Bonds”) (“SCO’s Allocable Portion”). Such amount will be used to refinance debt incurred to acquire and renovate two properties at the following school and administrative facilities (the “Facilities”) for developmentally disabled adults:

- 101 Downing Street, Sea Cliff, New York - approximately \$5,731,000 for the construction of a 4,500 square foot three-floor building to be used as a school for special needs students.
- 89-30 161st Street, Jamaica, New York - approximately \$377,845 for the renovation of a 33,250 square foot, four-floor building to be used for administrative purposes.

The remaining Series 2010B Bond proceeds to be loaned to SCO in the amount of approximately \$871,155 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facility located at 101 Downing Street, Sea Cliff, New York is SED. The governmental funding sources for the Facility located at 89-30 161st Street, Jamaica, New York are OCFS, ACS and Medicaid. SCO has received a Certificate of Occupancy for each of the Facilities.

SCO owns the Facilities. SCO will grant a second lien priority mortgage to the Authority on the properties located at 101 Downing Street, Sea Cliff, New York and 89-30 161st Street, Jamaica, New York. SCO will also grant a first lien priority mortgage to the Authority on the properties located at 443 39th Street, Brooklyn, New York, 10 Lake Street, East Massapequa, New York, 38-55 12th Street, Long Island, City, New York, 339 49th Street, Brooklyn, New York, 223-07 107th Avenue, Jamaica, New York, 123-21 Montauk Street, Springfield Gardens, New York and 1258 Park Place, Brooklyn, New York until such time as the Authority and the Trustee receive an executed copy of the subordination agreement in connection with the 101 Downing Street, Sea Cliff, New York facility. SCO will also grant the Authority a lien on the Public Funds attributable to the Facilities. SCO has two loans from the Authority outstanding as of March 31, 2010 in the aggregate principal amount of \$17,220,000, which are secured by a Prior Pledge of SCO’s Public Funds.

In addition to receiving a loan from the proceeds of the Series 2010B Bonds, SCO has received a loan in the amount of \$1,635,000 from the proceeds of the Authority's InterAgency Council Pooled Loan Program, Series 2010A (the "Series 2010A Bonds"), which were issued on June 30, 2010 and were used to refinance debt incurred to acquire and renovate two residential facilities for developmentally disabled adults.

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

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

Debt Service Coverage.

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

	2009	2009
	Actual	Pro Forma⁽¹⁾
Net Income (after adj.)	1,030,712	1,030,712
Depreciation	2,769,972	2,769,972
Interest Expense	2,305,902	2,305,902
PPA Reimbursement	0	157,678
Cash Flow for Debt Service	6,106,586	6,264,264
Maximum Annual Debt Service	4,497,798	5,419,341
Debt Service Coverage	1.36	1.16

⁽¹⁾ Assumes that the interest rate on the Series 2010B Bonds is the Base Rate plus the Add-On Rate.

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

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

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

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

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

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Management's Discussion of Results of Operations.

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

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

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

(4) Income or Loss from Sources Other than Continuing Operations: Income from contributions, fund raising, membership dues, and interest for fiscal years 2008 and 2009 were \$1,131,303 and \$1,245,612, respectively. See APPENDIX C for interim unaudited financial information through March 31, 2010.

(5) Causes for Changes in Financial Statements: Changes in the number of persons served in a particular program normally affect the revenue of such program. In the fiscal year ending June 30, 2009, SCO had decrease of \$1,842,694 in its net assets due to an unrealized loss on investments in the amount of \$3,615,434.

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

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

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

Contingencies; Pending or Potential Litigation. In the opinion of Management, there is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body pending or threatened to challenge the authority or ability of SCO to continue to operate its facilities or to challenge title to its properties or which would otherwise limit, restrain or enjoin the ability of SCO to carry out the transactions contemplated in the Loan Agreement and the Mortgage or seeking damages in excess of applicable insurance coverage.

Management.

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

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

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

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APPENDIX B

SCO FAMILY OF SERVICES

AUDITED FINANCIAL STATEMENTS

FISCAL YEARS 2009, 2008 AND 2007

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SCO FAMILY OF SERVICES

AUDITED FINANCIAL STATEMENTS
AND
OTHER INFORMATION

Years Ended June 30, 2009 and 2008

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SCO FAMILY OF SERVICES

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FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
SCO Family of Services

We have audited the accompanying statements of financial position of SCO Family of Services as of June 30, 2009 and 2008, and the related statements of unrestricted activities, temporarily restricted activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of SCO Family of Services management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCO Family of Services as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

UHY LLP

New York, New York
November 30, 2009

SCO FAMILY OF SERVICES
STATEMENTS OF FINANCIAL POSITION

	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,841,051	\$ 1,905,174
Investments in marketable securities (Note 2)	18,038,246	23,473,268
Program receivables (Note 4)	48,305,471	45,113,542
Prepaid expenses, pledges and other current assets	2,335,233	1,517,677
Custodial accounts	<u>344,084</u>	<u>310,290</u>
Total current assets	74,864,085	72,319,951
PROPERTY AND EQUIPMENT, Net (Note 5)	38,270,152	39,963,686
INVESTMENTS IN MARKETABLE SECURITIES HELD FOR RESTRICTED PURPOSES (Note 2)	3,112,322	3,285,483
OTHER ASSETS (Note 6)	<u>1,939,470</u>	<u>2,025,049</u>
	<u>\$ 118,186,029</u>	<u>\$ 117,594,169</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit (Note 7)	\$ 16,474,304	\$ 16,500,000
Current portion of long-term debt (Note 8)	2,191,896	2,233,391
Accounts payable and accrued expenses	11,270,646	7,138,297
Accrued payroll and compensated absence liability	12,049,021	12,274,253
Accrued interest payable	455,129	479,183
Accrued foster care payments	1,128,822	1,062,158
Estimated liabilities due funding agencies (Note 9)	2,354,656	1,059,544
Custodial accounts	<u>344,084</u>	<u>310,290</u>
Total current liabilities	46,268,558	41,057,116
LONG-TERM DEBT (Note 8)	24,532,599	26,647,540
DEFERRED REVENUE (Note 1)	<u>4,162,495</u>	<u>4,824,442</u>
	<u>74,963,652</u>	<u>72,529,098</u>
COMMITMENTS AND CONTINGENCIES (Notes 8, 11 and 12)		
NET ASSETS		
Unrestricted - board designated:		
Collateral (Note 2)	3,112,322	3,285,483
Other purposes	12,328,498	15,221,252
Unrestricted - undesignated	<u>17,493,905</u>	<u>16,443,100</u>
Total unrestricted net assets	32,934,725	34,949,835
Temporarily restricted (Note 10)	<u>10,287,652</u>	<u>10,115,236</u>
	<u>43,222,377</u>	<u>45,065,071</u>
	<u>\$ 118,186,029</u>	<u>\$ 117,594,169</u>

See notes to financial statements.

SCO FAMILY OF SERVICES
STATEMENTS OF UNRESTRICTED ACTIVITIES

	<u>Years Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
PROGRAM REVENUE AND SUPPORT		
Direct program revenues		
Contract programs	\$ 65,819,385	\$ 61,212,199
Contract programs - foundation grants	3,872,843	3,494,905
Foster boarding homes	39,682,404	36,427,658
Group homes	17,634,360	17,640,272
Medicaid programs	13,197,300	12,268,780
Residential treatment centers	12,802,614	13,467,742
Residential treatment facilities	10,829,878	10,842,557
Individual residential alternative	10,368,939	8,420,561
Schools	8,728,945	8,734,656
Intermediate care facilities	7,009,515	6,492,896
Shelter programs	2,225,706	1,939,148
	<u>192,171,889</u>	<u>180,941,374</u>
Prior years' cost reimbursement adjustments	(165,306)	(586,570)
Contributions and other income	1,253,395	2,318,488
Net assets released from restrictions	3,212,345	2,629,604
Total program revenue and support	<u>196,472,323</u>	<u>185,302,896</u>
PROGRAM EXPENSES AND OTHER EXPENSES		
Direct program expenses		
Contract programs	67,504,701	63,287,313
Foster boarding homes	37,844,561	34,120,795
Group homes	16,788,134	16,536,531
Residential treatment centers	12,711,492	12,730,617
Medicaid reimbursed services	12,477,752	11,287,819
Residential treatment facilities	10,288,402	10,161,867
Individual residential alternative	9,479,812	7,915,221
Schools	8,539,334	8,151,785
Intermediate care facilities	6,455,302	6,367,339
Shelters	2,083,285	1,889,552
	<u>184,172,775</u>	<u>172,448,839</u>
Management and general	10,812,144	11,596,381
Fund raising	456,692	433,504
Total program expenses and other expenses	<u>195,441,611</u>	<u>184,478,724</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>1,030,712</u>	<u>824,172</u>
INVESTMENT INCOME (LOSS)		
Interest and dividend income	569,612	720,053
Realized and unrealized losses on marketable securities	(3,615,434)	(1,907,238)
Total investment loss	<u>(3,045,822)</u>	<u>(1,187,185)</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>\$ (2,015,110)</u>	<u>\$ (363,013)</u>

See notes to financial statements.

SCO FAMILY OF SERVICES
STATEMENTS OF TEMPORARILY RESTRICTED ACTIVITIES AND CHANGES IN NET ASSETS

	Years Ended June 30,					
	2009		2008			
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
NET ASSETS, Beginning	\$ 34,949,835	\$ 10,115,236	\$ 45,065,071	\$ 35,312,848	\$ 9,396,082	\$ 44,708,930
Program revenue and support	192,006,583	-	192,006,583	180,354,804	-	180,354,804
Net assets released from restrictions	3,212,345	(3,212,345)	-	2,629,604	(2,629,604)	-
Contributions	1,253,395	3,384,761	4,638,156	2,318,488	3,348,758	5,667,246
Investment loss	(3,045,822)	-	(3,045,822)	(1,187,185)	-	(1,187,185)
Total	193,426,501	172,416	193,598,917	184,115,711	719,154	184,834,865
EXPENSES	195,441,611	-	195,441,611	184,478,724	-	184,478,724
CHANGE IN NET ASSETS	(2,015,110)	172,416	(1,842,694)	(363,013)	719,154	356,141
NET ASSETS, Ending	\$ 32,934,725	\$ 10,287,652	\$ 43,222,377	\$ 34,949,835	\$ 10,115,236	\$ 45,065,071

See notes to financial statements.

SCO FAMILY OF SERVICES
STATEMENTS OF CASH FLOWS

	<u>Years Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (1,842,694)	\$ 356,141
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,769,972	2,536,395
Amortization of deferred financing costs	154,582	154,578
Unrealized depreciation of marketable securities	3,546,480	1,851,909
Realized loss on sale of marketable securities	68,954	55,329
Gain on disposal of fixed assets	(13,512)	-
Change in operating assets and liabilities:		
Program receivables	(3,191,929)	(11,185,102)
Prepaid expenses, pledges and other current assets	(817,556)	1,896,377
Other assets	(69,003)	115,165
Accounts payable and accrued expenses	4,132,349	1,674,362
Accrued payroll and compensated absences	(225,232)	1,584,807
Accrued foster parent payroll	66,664	(53,098)
Accrued interest payable	(24,054)	(25,785)
Estimated liabilities due to funding agencies	1,295,112	(402,595)
Deferred revenue	(661,947)	446,113
Net cash provided by (used in) operating activities	<u>5,188,186</u>	<u>(995,404)</u>
INVESTING ACTIVITIES		
Purchases of marketable securities	(1,095,182)	(2,404,199)
Proceeds from sales of marketable securities	3,087,931	1,720,567
Proceeds from disposal of property and equipment	18,929	-
Purchases of property and equipment	(1,081,855)	(8,077,689)
Net cash provided by (used in) investing activities	<u>929,823</u>	<u>(8,761,321)</u>
FINANCING ACTIVITIES		
Payments of long-term liabilities	(2,156,436)	(9,031,303)
Proceeds from long-term debt	-	712,410
Line of credit (repayment) proceeds, net	(25,696)	16,500,000
Net cash (used in) provided by financing activities	<u>(2,182,132)</u>	<u>8,181,107</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,935,877	(1,575,618)
CASH AND CASH EQUIVALENTS, Beginning	<u>1,905,174</u>	<u>3,480,792</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 5,841,051</u>	<u>\$ 1,905,174</u>
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 1,821,435</u>	<u>\$ 1,578,145</u>

See notes to financial statements.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SCO Family of Services (the "Corporation") is a not-for-profit corporation as described under Section 501(c)(3), and qualified as a tax-exempt organization under Section 501(a) of the Internal Revenue Code. Accordingly, the Corporation is not subject to Federal income taxes. It provides human care services to children, young adults and families in metropolitan New York. Each year, its programs reach more than 30,000 New Yorkers in need. Its core service areas include preventive services, foster care and adoption, youth development services, homelessness services, schools, school-based programs, mental health programs and services and homes for people with developmental disabilities.

Basis of Presentation

The financial statements of SCO Family of Services have been prepared on the accrual basis of accounting. Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant estimates by management are used in the computation of program receivables, and the estimated liabilities due to funding agencies.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less. The Corporation maintains cash balances in two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to current limits.

In October 2008, the limit on federal deposit insurance coverage increased from \$100,000 to \$250,000 per depositor until December 31, 2013. These financial institutions also participate in the Federal Deposit Insurance Corporation's ("FDIC") Transaction Account Guarantee Program. Under that program, through June 30, 2010, all noninterest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules.

At June 30, 2009, the Corporation's cash and cash equivalents balance was fully insured. The Corporation has not experienced any losses with respect to its cash and cash equivalents balances.

Investments in Marketable Securities

Investments in marketable securities are stated at fair value with changes in the fair value of investments recorded in the statement of activities. Realized gain (loss) on the sale of investment securities is the difference between sale proceeds and the specifically identified carrying value of the security sold.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Fair Value Measurements

On July 1, 2008, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, for financial assets. SFAS No. 157 provides a framework for measuring fair value under generally accepted accounting principles. SFAS No. 157 also provides guidance regarding a fair value hierarchy, which prioritizes information used to measure fair value and the effects of fair value measurements on earnings and provides for enhanced disclosures determined by the level within the hierarchy of information used in the valuation.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Corporation. Unobservable inputs are inputs that reflect on the Corporation's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. Examples of the assets carried at Level 1 fair value generally are equity securities listed in active markets and investments in publicly traded mutual funds with quoted market prices.

Level 2 – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the asset/liability's anticipated life.

Level 3 – Inputs are unobservable and cannot be corroborated by observable market data. Inputs generally reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the inputs of the model.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Corporation in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Deferred Financing Costs

Deferred financing costs, presented in "Other assets", are comprised of expenses incurred to obtain construction loans, and legal, professional and commitment fees paid in connection with the closing of long-term debt financings. These costs are amortized over the term of the related loans.

Custodial Accounts

Custodial accounts primarily represent Supplemental Social Security funds plus accrued interest on those funds which are held by SCO Family of Services on behalf of certain children in its care.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization, or at the fair market value of the donated assets at the date a gift is received. Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the respective assets, which range from 3 to 40 years. Items of property and equipment, where title is held by the granting agency, are expended when purchased.

Net Assets

Revenue and support are classified based on the existence or absence of restrictions imposed by the donor or granting governmental agency. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets: Net assets that are either not subject to restrictions imposed by the donor or grantor, or net assets that have been reclassified from temporarily restricted net assets because the basis for any restrictions has expired.

Board Designated Reserves: Unrestricted net assets whose use has been reserved by board action for certain specified purposes, designated by a revocable resolution of the Board of Directors.

Temporarily Restricted Net Assets: Net assets, subject to stipulations imposed by the donor or granting agency that have not been satisfied. When a stipulated time restriction ends or if a purpose restriction is met, generally by expenditures of funds, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Program Expenses and Revenue

Expenses are recorded in the period in which they are incurred. Program income is recorded as revenue as services are provided and costs incurred (contract revenue). Certain program revenues are recorded based on the number of care days rendered and expected reimbursement rates (rate based program).

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Program Expenses and Revenue (Continued)

However, reimbursement rates are subject to change and retroactive adjustment subsequent to the fiscal year end, on the basis of audit by the governmental agencies responsible for such funding. Provisions for unfavorable settlements are accrued as estimated liabilities due funding agencies, in the period in which the related services are rendered. Revenues resulting from rate appeals are recorded in the period such appeals are determined to be collectible. Any subsequent adjustments thereto are included in revenue reimbursement adjustments in the year of such revision, audit or settlement.

Receipts under certain government-funded fee-for-services contract programs, which have not been spent, and are therefore available for application to future years' renewal contracts are classified as deferred revenue.

Contributions, Pledges and Grants

Unconditional promises to give (pledges) that are expected to be collected within one year are recorded at estimated net realizable value in the year the promise is made. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. As of June 30, 2009 and 2008 there were no discounted pledges recorded. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Long-Lived Assets

In accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, management reviews long-lived assets for impairment when circumstances indicate that the carrying amount of an asset may not be recoverable based on the undiscounted cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the undiscounted cash flows, quoted market values or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. There were no impairment losses recognized for the years ended June 30, 2009 and 2008.

Subsequent Events

In May 2009, FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events* ("SFAS No. 165"). SFAS No. 165 establishes the accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009. Subsequent events have been evaluated through November 30, 2009, the date the financial statements were available for issuance.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 2 - INVESTMENTS IN MARKETABLE SECURITIES

At June 30, investments in marketable securities were as follows:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Equity securities	\$ 11,627,839	\$ 9,776,408	\$ 10,359,474	\$ 12,214,825
United States government obligations	<u>8,012,963</u>	<u>8,261,838</u>	<u>11,169,851</u>	<u>11,258,443</u>
Totals	<u>\$ 19,640,802</u>	<u>\$ 18,038,246</u>	<u>\$ 21,529,325</u>	<u>\$ 23,473,268</u>

Investments in debt and equity securities are carried at fair value based on quoted prices in active markets. In addition, SCO Family of Services maintains debt service reserves for long-term mortgage financings. At June 30, 2009 and 2008 marketable securities held for debt service reserves consisted as follows:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
United States government obligations	\$ 177,658	\$ 182,923	\$ 149,047	\$ 154,290
Cash and cash equivalents	<u>2,929,399</u>	<u>2,929,399</u>	<u>3,131,193</u>	<u>3,131,193</u>
Totals	<u>\$ 3,107,057</u>	<u>\$ 3,112,322</u>	<u>\$ 3,280,240</u>	<u>\$ 3,285,483</u>

The following schedule summarizes the investment return in the statement of activities:

	2009	2008
Interest and dividend income	\$ 569,612	\$ 720,053
Net realized and unrealized gains (losses)	<u>(3,615,434)</u>	<u>(1,907,238)</u>
Total	<u>\$ (3,045,822)</u>	<u>\$ (1,187,185)</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2009 and 2008.

Cash equivalents: Valued at the closing price reported on the active market on which the individual securities are traded.

Equity and equity type investments: Common stocks, corporate bonds and U.S. government securities are valued at the closing price reported on the active market on which the individual securities are traded.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

The following table presents the fair value hierarchy for the Corporation's financial assets and liabilities measured at fair value on a recurring basis:

	Assets at Fair Value as of June 30, 2009			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 8,770,450	\$ -	\$ -	\$ 8,770,450
Equity securities	9,776,408	-	-	9,776,408
United States government obligations	8,444,761	-	-	8,444,761
	<u>\$ 26,991,619</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,991,619</u>

NOTE 4 - PROGRAM RECEIVABLES

At June 30, 2009 and 2008, the Corporation's program receivables were comprised of the following:

	June 30,	
	2009	2008
Rate-Based Programs:		
City of New York Agency for Children's Services	\$ 9,507,478	\$ 8,350,722
Medicaid	4,140,788	2,738,761
New York State Office of Mental Health	3,641,871	3,200,023
New York State Office of Mental Retardation and Developmental Disabilities	5,456,627	4,681,242
New York City Department of Homeless Services County and other	2,501,058	4,527,404
	<u>17,120,573</u>	<u>16,490,647</u>
	42,368,395	39,988,799
Contract Programs	<u>8,459,042</u>	<u>7,221,446</u>
	50,827,437	47,210,245
Less - Estimated allowances for doubtful accounts	<u>(2,521,966)</u>	<u>(2,096,703)</u>
Totals	<u>\$ 48,305,471</u>	<u>\$ 45,113,542</u>

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30,	
	<u>2009</u>	<u>2008</u>
Land	\$ 2,175,113	\$ 2,175,113
Building and improvements	59,007,079	58,117,709
Furniture and equipment	8,089,302	7,901,617
Leasehold improvements	<u>3,025,778</u>	<u>3,026,395</u>
	72,297,272	71,220,834
Less accumulated depreciation and amortization	<u>34,027,120</u>	<u>31,257,148</u>
Totals	<u>\$ 38,270,152</u>	<u>\$ 39,963,686</u>

At June 30, 2009 and 2008, there were approximately \$10,578,089 and \$10,127,545, respectively, of fully depreciated assets included in gross property, plant and equipment, still in use by SCO Family of Services.

Depreciation and amortization expense of property and equipment for the years ended June 30, 2009 and 2008 were \$2,769,972 and \$2,536,395, respectively.

NOTE 6 - OTHER ASSETS

Other assets consisted of the following:

	June 30,	
	<u>2009</u>	<u>2008</u>
Deferred financing costs, net of accumulated amortization of \$2,058,142 in 2009 and \$1,903,560 in 2008	\$ 1,629,225	\$ 1,783,807
Other	<u>310,245</u>	<u>241,242</u>
Totals	<u>\$ 1,939,470</u>	<u>\$ 2,025,049</u>

Amortization expense was \$154,582 and \$154,578 for the years ended June 30, 2009 and 2008, respectively.

NOTE 7 - LINE OF CREDIT

At June 30, 2009 and 2008, the Corporation had two lines of credit with a commercial bank. One line had an outstanding balance of \$5,500,000 at June 30, 2009 and 2008 and is secured by the Corporation's receivables. The other line had an outstanding balance of \$10,974,304 and \$11,000,000 at June 30, 2009 and 2008, respectively, under which borrowings are based on the market value of underlying investments, (95% of United States government obligations and 75% of equity securities) pledged as collateral. Interest, which is payable on demand, ranged from 1% to 6.50% per annum and was based on prime and LIBOR rates.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 8 - LONG TERM DEBT

The Corporation was indebted under long-term obligations as follows:

	June 30,	
	<u>2009</u>	<u>2008</u>
Loans payable to the New York State Rehabilitation Association, Inc. through 2024 payable monthly plus accrued interest at rates ranging from 4% to 5% for Series A and through 2015 at 6.75% for Series B. (a)	\$ 10,223,924	\$ 10,900,392
Medical Care Facilities Finance Agency mortgages payable through 2019 at rates ranging from 6.12% to 7.58% (b)	6,547,029	7,074,242
Other loans payable, (c)	1,245,370	1,565,702
Loans payable to the New York State Rehabilitation Association, Inc. through 2023 payable monthly plus accrued interest at rates ranging from 3% to 5.125% for Series A and through 2013 at 5.38% for Series B. (d)	7,150,701	7,745,037
Loan payable to the New York State Rehabilitation Association, Inc. through 2031 payable monthly plus accrued interest at a rate of 5.047% (e).	<u>1,557,471</u>	<u>1,595,558</u>
Totals	26,724,495	28,880,931
Less current portion	<u>2,191,896</u>	<u>2,233,391</u>
Long-term debt	<u>\$ 24,532,599</u>	<u>\$ 26,647,540</u>

Total interest expense amounted to \$2,305,902 and \$2,041,590 for the years ended June 30, 2009 and 2008, respectively.

(a) In January 2001, the Dormitory Authority of the State of New York (the "Authority") sold its Insured Revenue Bonds issued under the New York State Rehabilitation Association Pooled Loan Program No. 1, consisting of two issues, Series 2001A (non-taxable) and Series 2001B (federally taxable). Several not-for-profit corporations, including SCO Family of Services, who are members of the New York State Rehabilitation Association, Inc., (the "Association"), which is an organization exempt under Section 501(c)(6) of the Internal Revenue Code, received varying portions of the bond issue proceeds.

The Corporation's participation in the bond proceeds, totaling \$16,060,000 (including \$460,000 of the Series 2001B issue) is defined in a Loan Agreement with the Association dated June 2000. In exchange, the Corporation has granted a security interest in certain pledged revenues equivalent to annual debt service requirements and has assigned them ratably and equally to the Association, which is responsible for protecting the Authority's interest therein. This debt is net of discount in the amount of \$336,075 and \$359,608, respectively as of June 30, 2009 and 2008.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 8 - LONG TERM DEBT (Continued)

- (b) Since fiscal 1993, the Corporation has been obligated under three mortgage agreements payable over a 25-year period, with the New York State Medical Care Facilities Finance Agency ("MCFFA") for acquisition of three Intermediate Care Facilities ("ICFs") located at Kew Gardens, Jamaica and Richmond Hill, New York. In fiscal 1994, a similar arrangement with MCFFA was negotiated for a residential treatment facility located in Jamaica, New York. The Corporation's reimbursement rates with the applicable state funding agency were adjusted to include debt service through the Facilities Development Corporation as trustee for MCFFA. Pursuant to the mortgage agreements, MCFFA financed the acquisition and renovation of these buildings through the issuance of its General and Series Bonds, which are secured by the mortgages with the Corporation. Under the mortgage agreements, title to the buildings rests with SCO Family of Services.
- (c) Other mortgages and loans payable with interest rates ranging from 7.95% to 10.5% per annum were largely refinanced in fiscal 2001 with the proceeds from the Association loan. The remaining loans include a \$132,266 balance on a financing of a sewer connection, payable monthly with interest at 5.5% ending in fiscal 2020 and three commercial loans for \$120,210, \$130,182 and \$637,210 payable to a bank on demand with interest at 6% for the first two loans and 6.37% for the third. During 2005 SCO Family of Services assumed a \$414,000 Dormitory Authority Bond with interest at 9.48% due to the purchase of a building with a pre-existing mortgage with a balance of \$225,500 at June 30, 2009.
- (d) In August 2003, the Dormitory Authority of the State of New York (the "Authority") sold its Insured Revenue Bonds issued under the New York State Rehabilitation Association Pooled Loan Program No. 2, consisting of two issues, Series 2003A (non-taxable) and Series 2003B (federally taxable). Several not-for-profit corporations, including SCO Family of Services, who are members of the New York State Rehabilitation Association, Inc., (the "Association"), which is an organization exempt under Section 501(c)(6) of the Internal Revenue Code, received varying portions of the bond issue proceeds.

The Corporation's participation in the bond proceeds, totaling \$10,355,000 (including \$355,000 of the Series 2003B issue) is defined in a Loan Agreement with the Association dated June 2003. In exchange, the Corporation has granted a security interest in certain pledged revenues equivalent to annual debt service requirements and has assigned them ratably and equally to the Association, which is responsible for protecting the Authority's interest therein.

The Series 2003A Bonds were issued to refinance a line of credit and to finance real property acquisitions. These debts are net of discounts of \$289,299 and \$309,963, respectively as of June 30, 2009 and 2008.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 8 - LONG TERM DEBT (Continued)

(e) In June 2007, the Corporation entered into two agreements with the Dormitory Authority of the State of New York (the "Authority") to borrow \$1,554,500 for the purpose of refinancing the acquisition and construction of two facilities. The two loans in the amount of \$1,135,400 and \$419,000 are in the form of non-recourse mortgages secured by the real properties. The Authority has been granted a security interest in certain pledged revenues equivalent to annual debt service requirements.

The Funds for the mortgage were obtained by the Authority through the issuance of the Series 2007 Bonds. These debts are net of discounts and premiums of \$71,125 and \$74,287, respectively as of June 30, 2009 and 2008 and are recorded as part of the loans.

Scheduled debt service on long-term debt subsequent to June 30, 2009 is as follows:

Years Ending June 30,	Amount
2010	\$ 2,191,896
2011	2,108,512
2012	2,198,582
2013	2,286,442
2014	2,327,829
Thereafter	15,611,234
	<u>\$ 26,724,495</u>

NOTE 9 - ESTIMATED RECEIVABLES/LIABILITIES DUE FROM/TO FUNDING AGENCIES

Receivables

At June 30, 2009 the Corporation estimates approximately \$4,009,000 in receivables from a governmental agency that is pending rate appeals. It is at least reasonably possible that once there is an appeal verdict this receivable may be significantly reduced.

Liabilities

The Corporation has recorded estimated liabilities of \$2,354,656 and \$1,059,544 for 2009 and 2008, respectively, for future settlements with funding agencies, generally related to the Corporation's underspending of past years' contracts.

Audits have been completed by the Agency for Children Services ("ACS") through fiscal 2003. It is management's opinion that retroactive adjustments, if any, for years subsequent to fiscal 2003 will not have a material adverse impact on the financial position or net assets of SCO Family of Services.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Changes in temporarily restricted net assets for the year ended June 30, 2009 were as follows:

<u>Program/Purpose</u>	<u>Balances, June 30, 2008</u>	<u>Restricted Contributions</u>	<u>Net Assets Released from Restrictions</u>	<u>Balances, June 30, 2009</u>
Contract programs	\$ 6,764,375	\$ 2,442,891	\$ (2,870,912)	\$ 6,336,354
Restricted capital grants	1,405,048	-	(82,342)	1,322,706
Other:		-		
Residential treatment centers	963,273	30,966	(155,475)	838,764
Group homes	41,255	4,440	(1,840)	43,855
Residential treatment facilities	19,344	5,963	(5,731)	19,576
Schools	85,738	193,329	(16,005)	263,062
Miscellaneous	836,203	707,172	(80,040)	1,463,335
	<u>1,945,813</u>	<u>941,870</u>	<u>(259,091)</u>	<u>2,628,592</u>
All programs	<u>\$ 10,115,236</u>	<u>\$ 3,384,761</u>	<u>\$ (3,212,345)</u>	<u>\$ 10,287,652</u>

Restricted capital grants are comprised of funds received from governmental sources relating to purchase and renovation costs incurred in opening new program facilities. These advances are amortized to unrestricted activities as the new program facility costs are depreciated to operations.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Operating Leases

As of June 30, 2009, minimum annual rental commitments for the remaining terms of SCO Family of Services operating leases relating to buildings for programs and equipment were as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2010	\$ 12,571,462
2011	11,631,154
2012	10,899,099
2013	10,640,048
2014	7,114,154
Thereafter	<u>4,057,181</u>
	<u>\$ 56,913,098</u>

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

Certain leases require additional payments based upon property tax and maintenance expense escalations. Substantially all leases have a defunding clause, as defined, which provides that SCO Family of Services obligations under the lease would terminate if the applicable governmental funding agency were to eliminate or significantly reduce funding for the related program.

Aggregate rental expense for buildings and equipment for the years ended June 30, 2009 and 2008 amounted to approximately \$14,450,842 and \$13,838,300, respectively.

Other Matters

SCO participates in various Federal, State and City programs, all of which have strict requirements for participation, and accordingly, SCO is subject to government program reviews covering compliance with laws and regulations. In addition, the expenses of programs which have been reimbursed pursuant to Federal, State and Local government contracts and grants, are subject to audit by the respective granting agencies. Until such audits are completed and final settlements reached, there exists a contingency to refund any amount in excess of allowable costs. Management is of the opinion that no material liability would result from such audits.

SCO is involved with several cases in litigation as a defendant. A number of the cases are currently in pre-trial discovery. Management is unable to determine at this time the likelihood of the outcomes. Management believes that insurance coverage will be sufficient to cover any potential claims.

NOTE 12 -PENSION PLANS

SCO Family of Services makes contributions to the Brooklyn Diocese and Rockville Centre Diocese Pension Plans (the "Plans"); both are church plans, which have been approved by the Internal Revenue Service and are exempt from ERISA reporting requirements. Contributions are actuarially determined by the aggregate cost method using an assumed rate of return of 6.75 percent and other assumptions. The Brooklyn Diocese Pension Plan covered employees who have been employed for three years or more and have reached the age of 30. Effective September 1, 2008, the Brooklyn Diocese Pension Plan changed the coverage to employees who have been employed for one year or more and have reached the age of 25. The Rockville Centre Pension Plan covers employees who were covered under the plan while working for Madonna Heights Services prior to its merger with SCO Family of Services in 1996.

The Plans are multiemployer plans and contributions for all participating employers are pooled and held by an independent trustee for the purpose of providing retirement and other benefits for eligible employees. As of the beginning of the most recent plan years, each of the Plans has assets in excess of the actuarially computed value of the vested benefits for all participating employers.

SCO Family of Services has received no information from the administrators of the Plans, which would permit it to determine its share of unfunded vested benefits, if any. Contributions to the Plans amounted to \$3,983,685 and \$2,205,291 for the years ended June 30, 2009 and 2008, respectively.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 12 - PENSION PLANS (Continued)

In fiscal 2000, the Corporation adopted a supplemental pension plan through an insurance company. The plan is tax-qualified as a defined contribution arrangement under IRS Section 403(b). Funding is provided by employee withholding and annual employer matching contributions of either 1% of the employee's annual salary or 25% of the employee's contribution to the Plan, whichever is less. Contributions to this plan amounted to \$248,812 and \$232,594 for the years ended June 30, 2009 and 2008, respectively. Effective June 27, 2009 the annual employer matching contribution to the Plan was no longer provided.

NOTE 13 - SUBSEQUENT EVENTS

In July 2009, the Dormitory Authority of the State of New York ("the Authority") sold its Improvement Bonds issued under the Mental Health Services Facilities Improvement Revenue Bond Series 2008B for the purpose of the design, construction, acquisition, reconstruction, rehabilitation and improving or otherwise furnishing and equipping of a Chemical Dependence Treatment Program Facility. The Corporation's share of the bond proceeds, totaling \$1,792,076 is defined in a Loan Agreement with the Authority and in exchange, the Corporation has granted a security interest in the treatment facility. The loan bears interest at the rate of 4.76% per annum on the unpaid principal balance and shall be payable to the Authority in 40 semi-annual installments due on February 15th and August 15th of each year.

OTHER INFORMATION

**SCO FAMILY OF SERVICES
SCHEDULE OF FUNCTIONAL EXPENSES
Year Ended June 30, 2009 (With Comparative Totals for Year Ended June 30, 2008)**

	Contract Programs	Foster Boarding Homes	Group Homes	Medicaid Reimbursed Services	Residential Treatment Facilities	Residential Treatment Centers	Individual Residential Alternative	Schools	Intermediate Care Facilities	Shelter	Management and Other Costs	2009 Total Expenses	2008 Total Expenses
Salaries	\$ 32,915,212	\$ 13,050,876	\$ 9,400,279	\$ 7,220,569	\$ 5,469,293	\$ 7,670,002	\$ 5,548,195	\$ 5,504,044	\$ 3,536,973	\$ 1,237,078	\$ 6,568,805	\$ 98,121,126	\$ 90,643,149
Employee fringe	8,511,074	3,718,846	2,670,519	2,083,488	1,507,900	2,161,658	1,519,325	1,540,278	908,327	351,431	1,834,812	26,807,858	23,485,854
	41,426,286	16,769,822	12,070,898	9,304,057	6,977,193	9,831,658	7,067,520	7,044,322	4,445,300	1,588,509	8,403,617	124,928,982	114,129,003
Occupancy	11,265,451	569,768	833,750	61,417	10,581	87,467	319,423	13,269	78,988	-	41,093	13,301,177	12,723,924
Purchase of services	4,680,649	1,459,050	214,187	27,975	390,029	656,468	66,609	86,287	40,160	44,337	269,660	7,938,411	7,756,439
Utilities	1,267,519	241,742	414,476	42,218	306,160	400,377	171,307	175,704	101,125	72,580	142,623	3,335,831	3,166,556
Supplies and equipment	1,122,082	667,897	434,501	54,823	125,245	274,678	160,668	145,820	84,900	65,125	80,479	3,208,209	4,387,669
Depreciation and amortization	421,122	328,548	285,585	59,288	421,214	266,348	347,192	200,557	204,594	57,982	389,387	2,081,717	2,731,084
Transportation	906,086	1,061,510	360,876	15,622	38,204	131,177	22,621	1,433	6,258	2,520	65,362	2,681,669	2,167,066
Purchase of health services	260,502	-	-	1,462,252	178,855	305,644	106,879	291,555	287,827	-	-	2,607,870	2,953,374
Food	568,467	7,129	749,732	-	217,148	184,157	322,659	11,039	167,996	67,350	-	2,407,164	2,560,258
Interest	348,304	214,667	127,726	59,901	301,090	184,157	279,324	302,797	243,236	32,970	211,730	2,305,902	2,041,590
Supplies and equipment	46,362	-	-	1,227,346	784,822	-	30,878	1,157	22,835	141	-	2,113,541	2,008,286
- medical	232,698	673,139	14,768	1,027	4,115	22,134	2,455	1,314	399	-	703,840	1,655,889	1,495,313
Professional fees	474,767	222,552	207,955	27,165	81,845	117,053	118,464	97,308	64,516	37,185	99,829	1,548,539	1,631,825
Insurance	314,574	257,886	166,554	31,082	46,398	46,782	116,378	42,432	55,521	10,339	61,719	1,149,665	1,114,376
Rent of furnishings and equipment	347,386	55,520	150,112	14,581	70,488	128,725	158,580	37,151	60,485	70,733	34,190	1,127,951	1,619,433
Repairs and maintenance	887,280	128,949	871	-	13	152	351	-	-	-	-	1,017,616	912,227
Allowance - parents	431,503	128,419	106,716	27,889	32,573	56,304	40,696	25,372	19,143	7,066	128,048	1,005,709	1,238,366
Office supplies	346,135	175,436	145,159	14,726	23,885	30,776	53,348	11,474	19,734	15,441	131,467	967,581	875,184
Telephone and telegraph	389,149	26,955	185,325	162	59,126	28,513	21,576	16,064	14,979	2,469	2,587	746,905	996,970
Activities - children	22,168	14,042	23,424	7,303	5,946	2,898	536	1,328	460,796	918	211,726	751,085	673,771
Administrative expense	33,597	221	200,539	-	77,778	79,547	44,022	-	20,947	9	-	456,660	508,183
Clothing	250,709	1,191	(665)	-	300	-	-	-	-	-	110,897	392,532	157,080
Real estate taxes	145,248	17,962	6,860	5,807	12,544	28,514	10,936	8,474	4,092	907	61,318	302,462	429,659
Staff development	88,965	-	26,955	-	96,405	4,933	12,599	52	19,767	183	-	249,859	293,236
Beddings and linen	22,976	2,554	6,320	1,230	20,480	14,631	1,280	9,663	11,226	143	59,127	149,610	135,568
Dues, licenses and permits	18,359	70,431	3,958	5,724	1,985	4,462	285	2,323	508	2,573	35,616	146,224	119,521
Postage	21,970	22,123	190	3,278	3,735	3,389	-	1,051	20,000	2,556	4,937	83,239	84,188
Other expenses	30,381	2,809	8,022	-	-	113	-	10,588	-	43	-	49,756	39,822
Tuition and related - children	29,129	1,711	1,904	2,899	245	105	256	800	1,196	-	3,536	41,781	38,619
Subscriptions and publications	-	-	-	-	-	-	-	-	-	-	-	-	-
Repairs and maintenance - vehicles	24,983,539	6,362,011	4,676,052	3,173,695	3,311,209	2,875,358	2,412,292	1,495,012	2,010,002	494,776	2,865,219	54,659,164	54,887,069
Foster Care Payments	920,752	13,215,956	-	-	-	-	-	-	-	-	-	14,136,708	13,820,826
Clothing Replacement	125	970,518	-	-	-	-	-	-	-	-	-	970,643	923,283
Special Payments	174,000	526,454	41,184	-	-	4,476	-	-	-	-	-	746,114	718,543
	1,094,877	14,712,928	41,184	-	-	4,476	-	-	-	-	-	15,853,465	15,462,652
Total expenses	\$ 67,504,701	\$ 37,844,581	\$ 16,788,134	\$ 12,477,752	\$ 10,288,402	\$ 12,711,492	\$ 9,479,812	\$ 8,539,334	\$ 6,455,302	\$ 2,083,285	\$ 11,268,836	\$ 195,441,811	\$ 184,478,724

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SCO FAMILY OF SERVICES

AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

Years Ended June 30, 2008 and 2007

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SCO FAMILY OF SERVICES

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
SCO Family of Services

We have audited the accompanying statements of financial position of SCO Family of Services as of June 30, 2008 and 2007, and the related statements of unrestricted activities, temporarily restricted activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of SCO Family of Services management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCO Family of Services as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedule of functional expenses is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

UHY LLP

New York, New York
November 14, 2008

FINANCIAL STATEMENTS

SCO FAMILY OF SERVICES
STATEMENTS OF FINANCIAL POSITION

	June 30,	
	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,722,658	\$ 3,480,792
Investments in marketable securities (Note 2)	23,655,784	24,704,031
Program receivables (Note 3)	45,113,542	33,928,440
Prepaid expenses, pledges and other current assets	1,517,677	3,414,054
Custodial accounts	<u>310,290</u>	<u>273,175</u>
Total current assets	<u>72,319,951</u>	65,800,492
PROPERTY AND EQUIPMENT, Net (Note 4)	39,963,686	34,475,216
INVESTMENTS IN MARKETABLE SECURITIES HELD FOR RESTRICTED PURPOSES (Note 2)	3,285,483	3,222,997
OTHER ASSETS (Note 5)	<u>2,025,049</u>	<u>2,294,792</u>
	<u><u>\$ 117,594,169</u></u>	<u><u>\$ 105,793,497</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit (Note 6)	\$ 16,500,000	\$ 6,995,150
Current portion of long-term debt (Note 7)	2,233,391	2,098,492
Accounts payable and accrued expenses	7,138,297	5,463,935
Accrued payroll and compensated absence liability	12,274,253	10,689,446
Accrued interest payable	479,183	504,968
Accrued foster care payments	1,062,158	1,115,256
Estimated liabilities due funding agencies (Note 8)	1,059,544	1,462,139
Custodial accounts	<u>310,290</u>	<u>273,175</u>
Total current liabilities	<u>41,057,116</u>	28,602,561
LONG-TERM DEBT (Note 7)	26,647,540	28,103,677
DEFERRED REVENUE (Note 1)	<u>4,824,442</u>	<u>4,378,329</u>
	<u><u>72,529,098</u></u>	<u><u>61,084,567</u></u>
COMMITMENTS AND CONTINGENCIES (Notes 7, 10 and 11)		
NET ASSETS		
Unrestricted - board designated:		
Collateral (Note 2)	3,285,483	3,222,997
Other purposes	15,221,252	16,514,134
Unrestricted - undesignated	<u>16,443,100</u>	<u>15,575,717</u>
Total unrestricted net assets	<u>34,949,835</u>	35,312,848
Temporarily restricted (Note 9)	<u>10,115,236</u>	<u>9,396,082</u>
	<u><u>45,065,071</u></u>	<u><u>44,708,930</u></u>
	<u><u>\$ 117,594,169</u></u>	<u><u>\$ 105,793,497</u></u>

See notes to financial statements.

SCO FAMILY OF SERVICES
STATEMENTS OF UNRESTRICTED ACTIVITIES

	<u>Years Ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
REVENUE		
Current year program revenue	\$ 180,941,374	\$ 158,073,616
Prior years' cost reimbursement adjustments	(586,570)	292,311
Net assets released from restrictions	<u>2,629,604</u>	<u>4,353,294</u>
Total program revenue	182,984,408	162,719,221
SUPPORT AND OTHER		
Contributions and other income	2,318,488	1,601,480
Interest and dividend income, net	720,053	585,597
Realized and unrealized gains (losses) on marketable securities	<u>(1,907,238)</u>	<u>2,684,146</u>
Total support and revenue	<u>184,115,711</u>	<u>167,590,444</u>
DIRECT PROGRAM EXPENSES		
Contract programs	63,287,313	52,502,864
Foster boarding homes	34,120,795	28,939,017
Group homes	16,536,531	15,772,814
Residential treatment centers	12,730,617	10,561,597
Medicaid reimbursed services	11,287,819	10,538,479
Residential treatment facilities	10,161,867	9,986,286
Schools	8,151,785	8,536,529
Individual residential alternative	7,915,221	7,619,532
Intermediate care facilities	6,367,339	6,073,891
Shelters	1,889,552	1,832,990
Enhanced independent living	-	<u>258,832</u>
Total direct program expenses	<u>172,448,839</u>	<u>152,622,831</u>
MANAGEMENT AND OTHER INDIRECT EXPENSES		
Management and general	11,596,381	11,605,922
Fund raising	<u>433,504</u>	<u>358,004</u>
Total management and other indirect expenses	<u>12,029,885</u>	<u>11,963,926</u>
Total expenses	<u>184,478,724</u>	<u>164,586,757</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>\$ (363,013)</u>	<u>\$ 3,003,687</u>

See notes to financial statements.

**SCO FAMILY OF SERVICES
STATEMENTS OF TEMPORARILY RESTRICTED ACTIVITIES AND CHANGES IN NET ASSETS**

	Years Ended June 30,					
	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
NET ASSETS, Beginning	\$ 35,312,848	\$ 9,396,082	\$ 44,708,930	\$ 32,309,161	\$ 8,931,858	\$ 41,241,019
Program support and revenue	180,354,804	-	180,354,804	158,365,927	-	158,365,927
Net assets released from restrictions	2,629,604	(2,629,604)	-	4,353,294	(4,353,294)	-
Contributions	2,318,488	3,348,758	5,667,246	1,601,480	4,817,518	6,418,998
Investment income	(1,187,185)	-	(1,187,185)	3,269,743	-	3,269,743
Total	184,115,711	719,154	184,834,865	167,590,444	464,224	168,054,668
EXPENSES	184,478,724	-	184,478,724	164,586,757	-	164,586,757
CHANGE IN NET ASSETS	(363,013)	719,154	356,141	3,003,687	464,224	3,467,911
NET ASSETS, Ending	\$ 34,949,835	\$ 10,115,236	\$ 45,065,071	\$ 35,312,848	\$ 9,396,082	\$ 44,708,930

See notes to financial statements.

SCO FAMILY OF SERVICES
STATEMENTS OF CASH FLOWS

	<u>Years Ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 356,141	\$ 3,467,911
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,536,395	2,410,178
Amortization of deferred financing costs	154,578	160,508
Unrealized (appreciation) depreciation of marketable securities	1,851,909	(2,368,010)
Realized (gain) loss on sale of marketable securities	55,329	(316,136)
Change in operating assets and liabilities:		
Program receivables	(11,185,102)	16,450
Prepaid expenses, pledges and other current assets	1,896,377	(813,576)
Other assets	115,165	(186,838)
Accounts payable and accrued expenses	1,674,362	(302,324)
Accrued payroll and compensated absences	1,584,807	2,403,869
Accrued foster parent payroll	(53,098)	104,005
Accrued interest payable	(25,785)	(25,419)
Estimated liabilities due to funding agencies	(402,595)	(1,080,009)
Deferred revenue	446,113	(1,432,565)
Net cash provided by (used in) operating activities	<u>(995,404)</u>	<u>2,038,044</u>
INVESTING ACTIVITIES		
Purchases of marketable securities	(2,586,715)	(1,132,676)
Proceeds from sales of marketable securities	1,720,567	2,715,372
Purchases of property and equipment, net	<u>(8,077,689)</u>	<u>(6,805,176)</u>
Net cash used in investing activities	<u>(8,943,837)</u>	<u>(5,222,480)</u>
FINANCING ACTIVITIES		
Payments of long-term liabilities	(9,031,303)	(436,426)
Proceeds from long-term debt	712,410	149,249
Line of credit proceeds	<u>16,500,000</u>	<u>3,140,000</u>
Net cash provided by financing activities	<u>8,181,107</u>	<u>2,852,823</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(1,758,134)	(331,613)
CASH AND CASH EQUIVALENTS, Beginning	<u>3,480,792</u>	<u>3,812,405</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 1,722,658</u>	<u>\$ 3,480,792</u>
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid, net of amounts capitalized	<u>\$ 1,578,145</u>	<u>\$ 1,175,654</u>

See notes to financial statements.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SCO Family of Services (the "Corporation") is a not-for-profit corporation as described under Section 501(c)(3), and qualified as a tax-exempt organization under Section 501(a) of the Internal Revenue Code. Accordingly, the Corporation is not subject to Federal income taxes. It provides human care services to children, young adults and families in metropolitan New York. Each year, its programs reach more than 30,000 New Yorkers in need. Its core service areas include preventive services, foster care and adoption, youth development services, homelessness services, schools, school-based programs, mental health programs and services and homes for people with developmental disabilities.

Basis of Presentation

The financial statements of SCO Family of Services have been prepared on the accrual basis of accounting. Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant estimates by management are used in the computation of program receivables, and the estimated liabilities due to funding agencies.

Cash and Cash Equivalents

The Corporation considers cash and cash equivalents to include all highly liquid investments with a maturity of three months or less, when purchased. Cash and cash equivalents are maintained at a level to meet anticipated operating cash needs, and are maintained in FDIC insured accounts at credit qualified financial institutions. At times, such amounts may exceed the FDIC insurance limits.

Investments in Marketable Securities

Investments in marketable securities are stated at fair value. Realized gain (loss) on the sale of investment securities is the difference between sale proceeds and the specifically identified carrying value of the security sold.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Deferred Financing Costs

Deferred financing costs, presented in “Other Assets”, are comprised of expenses incurred to obtain construction loans, and legal, professional and commitment fees paid in connection with the closing of long-term debt financings. These costs are being amortized over the term of the related loans.

Custodial Accounts

Custodial accounts primarily represent Supplemental Social Security funds, plus accrued interest held by SCO Family of Services on behalf of certain children in its care.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization, or at the fair market value of the donated assets at the date a gift is received. Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the respective assets, which range from 3 to 40 years. Items of property and equipment, where title is held by the granting agency, are expensed when purchased.

Net Assets

Revenue and support are classified based on the existence or absence of restrictions imposed by the donor or granting governmental agency. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets: Net assets that are either not subject to restrictions imposed by the donor or grantor, or net assets that have been reclassified from temporarily restricted net assets because the basis for any restrictions has expired.

Board Designated Reserves: Unrestricted net assets whose use has been reserved by board action for certain specified purposes, designated by a revocable resolution of the Board of Directors.

Temporarily Restricted Net Assets: Net assets, subject to stipulations imposed by the donor or granting agency that have not been satisfied. When a stipulated time restriction ends or if a purpose restriction is met, generally by expenditures of funds, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Program Expenses and Revenue

Expenses are recorded in the period in which they are incurred. Program income is recorded as revenue as services are provided and costs incurred (contract revenue). Certain program revenues are recorded based on the number of care days rendered and expected reimbursement rates (rate based program).

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

However, reimbursement rates are subject to change and retroactive adjustment subsequent to the fiscal year end, on the basis of audit by the governmental agencies responsible for such funding. Provisions for unfavorable settlements are accrued as estimated liabilities due funding agencies, in the period in which the related services are rendered. Revenues resulting from rate appeals are recorded in the period such appeals are determined to be collectible. Any subsequent adjustments thereto are included in revenue reimbursement adjustments in the year of such revision, audit or settlement.

Receipts under certain government-funded fee-for-services contract programs, which have not been spent, and are therefore available for application to future years' renewal contracts are classified as deferred revenue.

Contributions and Grants

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

Asset Impairment

The Corporation evaluates its long-lived assets for impairment on an annual basis or whenever events or changes in circumstances would indicate that the carrying value of assets may not be recoverable. Long-lived assets would be deemed to be impaired if the forecast of undiscounted future net cash flows is less than the carrying value of the assets. There were no impairment losses recognized at June 30, 2008 and 2007.

NOTE 2 - INVESTMENTS IN MARKETABLE SECURITIES

At June 30, investments in marketable securities, partially pledged, were as follows:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Money market investments	\$ 182,516	\$ 182,516	\$ 101,310	\$ 101,310
Equity securities	10,359,474	12,214,825	12,080,041	16,091,094
United States government obligations	11,169,851	11,258,443	8,735,974	8,511,627
Totals	<u>\$ 21,711,841</u>	<u>\$ 23,655,784</u>	<u>\$ 20,917,325</u>	<u>\$ 24,704,031</u>

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 2 – INVESTMENTS IN MARKETABLE SECURITIES (Continued)

In addition, SCO Family of Services maintains debt service reserves for long-term mortgage financings. At June 30, 2008 and 2007 marketable securities held for debt service reserves under long-term capital leases totaled \$3,285,483 (\$3,222,997 in 2007) as follows:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
United States government obligations	\$ 149,047	\$ 154,290	\$ 1,985,783	\$ 2,000,172
Cash and cash equivalents	3,131,193	3,131,193	1,222,825	1,222,825
Totals	<u>\$ 3,280,240</u>	<u>\$ 3,285,483</u>	<u>\$ 3,208,608</u>	<u>\$ 3,222,997</u>

NOTE 3 - PROGRAM RECEIVABLES

At June 30, 2008 and 2007, the Corporation's program receivables were comprised of the following:

	June 30,	
	2008	2007
Rate-Based Programs:		
City of New York Agency for Children's Services	\$ 8,350,722	\$ 6,728,963
Medicaid	2,738,761	1,551,501
New York State Office of Mental Health	3,200,023	1,904,847
New York State Office of Mental Retardation and Developmental Disabilities	4,681,242	3,042,307
New York City Department of Homeless Services	4,527,404	2,100,537
County and other	16,490,647	12,939,016
	<u>39,988,799</u>	<u>28,267,171</u>
Contract Programs	<u>7,221,446</u>	<u>7,757,972</u>
	47,210,245	36,025,143
Less - Estimated allowances	<u>(2,096,703)</u>	<u>(2,096,703)</u>
Totals	<u>\$ 45,113,542</u>	<u>\$ 33,928,440</u>

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30,	
	<u>2008</u>	<u>2007</u>
Land	\$ 2,175,113	\$ 2,005,699
Building and improvements	58,117,709	50,735,561
Furniture and equipment	7,901,617	7,557,667
Leasehold improvements	<u>3,026,395</u>	<u>2,886,586</u>
	71,220,834	63,185,513
Less accumulated depreciation and amortization	<u>31,257,148</u>	<u>28,710,297</u>
Totals	<u>\$ 39,963,686</u>	<u>\$ 34,475,216</u>

At June 30, 2008 and 2007, there were approximately \$10,127,545 and \$9,283,973, respectively, of fully depreciated assets included in gross property, plant and equipment, still in use by SCO Family of Services.

Depreciation and amortization expense of property and equipment for the years ended June 30, 2008 and 2007 were \$2,731,084 and \$2,599,986, respectively.

NOTE 5 - OTHER ASSETS

Other assets consisted of the following:

	June 30,	
	<u>2008</u>	<u>2007</u>
Deferred financing costs, net of accumulated amortization of \$1,903,560 in 2008 and \$1,748,982 in 2007	\$ 1,783,807	\$ 1,938,386
Other	<u>241,242</u>	<u>356,406</u>
Totals	<u>\$ 2,025,049</u>	<u>\$ 2,294,792</u>

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 6 - LINE OF CREDIT

At June 30, 2008 and 2007, the Corporation had a line of credit with commercial banks based on the market value of underlying investments, which are partially pledged as collateral. The Corporation had an outstanding balance at June 30, 2008 and 2007 of \$16,500,000 and \$6,995,150, respectively with interest ranging from 3% to 5% per annum, payable on demand.

NOTE 7 - LONG TERM DEBT

The Corporation was indebted under long-term obligations as follows:

	<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>
Loan payable to the New York State Rehabilitation Association, Inc. through 2024 payable monthly plus accrued interest at rates ranging from 4% to 5% for Series A and through 2015 at 6.75% for Series B. (a)	\$ 10,900,392	\$ 11,551,859
Medical Care Facilities Finance Agency mortgages payable through 2019 at rates ranging from 6.12% to 7.58% (b)	7,074,242	7,567,960
Other loans payable, (c)	1,565,702	1,141,030
Loan payable to the New York State Rehabilitation Association, Inc. through 2023 payable monthly plus accrued interest at rates ranging from 3% to 5.125% for Series A and through 2013 at 5.38% for Series B. (d)	7,745,037	8,309,373
Loan payable to the New York State Rehabilitation Association, Inc. through 2031 payable monthly plus accrued interest at a rate of 5.047% (e).	<u>1,595,558</u>	<u>1,631,947</u>
Totals	28,880,931	30,202,169
Less current portion	<u>2,233,391</u>	<u>2,098,492</u>
Long-term debt	<u>\$ 26,647,540</u>	<u>\$ 28,103,677</u>

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 7 - LONG TERM DEBT (Continued)

- (a) In January 2001, the Dormitory Authority of the State of New York (the "Authority") sold its Insured Revenue Bonds issued under the New York State Rehabilitation Association Pooled Loan Program No. 1, consisting of two issues, Series 2001A (non-taxable) and Series 2001B (federally taxable). Several not-for-profit corporations, including SCO Family of Services, who are members of the New York State Rehabilitation Association, Inc., (the "Association"), which is an organization exempt under Section 501(c)(6) of the Internal Revenue Code, received varying portions of the bond issue proceeds.

The Corporation's participation in the bond proceeds, totaling \$16,060,000 (including \$460,000 of the Series 2001B issue) is defined in a Loan Agreement with the Association dated June 2000. In exchange, the Corporation has granted a security interest in certain pledged revenues equivalent to annual debt service requirements and has assigned them ratably and equally to the Association, which is responsible for protecting the Authority's interest therein. This debt is net of discount in the amount of \$359,608 and \$383,141, respectively as of June 30, 2008 and 2007.

- (b) Since fiscal 1993, the Corporation has been obligated under three mortgage agreements payable over a 25-year period, with the New York State Medical Care Facilities Finance Agency ("MCFFA") for acquisition of three Intermediate Care Facilities ("ICFs") located at Kew Gardens, Jamaica and Richmond Hill, New York. In fiscal 1994, a similar arrangement with MCFFA was negotiated for a residential treatment facility located in Jamaica, New York. The Corporation's reimbursement rates with the applicable state funding agency were adjusted to include debt service through the Facilities Development Corporation as trustee for MCFFA. Pursuant to the mortgage agreements, MCFFA financed the acquisition and renovation of these buildings through the issuance of its General and Series Bonds, which are secured by the mortgages with the Corporation. Under the mortgage agreements, title to the buildings rests with SCO Family of Services.
- (c) Other mortgages and loans payable with interest rates ranging from 7.95% to 10.5% per annum were largely refinanced in fiscal 2001 with the proceeds from the Association loan. The remaining loans include a \$145,066 balance on a financing of a sewer connection, payable monthly with interest at 5.5% ending in fiscal 2020 and three commercial loans for \$234,924, \$254,412 and \$684,704 payable to a bank on demand with interest at 6% for the first two loans and 6.37% for the third. During 2005 SCO Family of Services assumed a \$414,000 Dormitory Authority Bond with interest at 9.48% due to the purchase of a building with a pre-existing mortgage with a balance of \$246,596 at June 30, 2008.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 7 - LONG TERM DEBT (Continued)

- (d) In August 2003, the Dormitory Authority of the State of New York (the "Authority") sold its Insured Revenue Bonds issued under the New York State Rehabilitation Association Pooled Loan Program No. 2, consisting of two issues, Series 2003A (non-taxable) and Series 2003B (federally taxable). Several not-for-profit corporations, including SCO Family of Services, who are members of the New York State Rehabilitation Association, Inc., (the "Association"), which is an organization exempt under Section 501(c)(6) of the Internal Revenue Code, received varying portions of the bond issue proceeds.

The Corporation's participation in the bond proceeds, totaling \$10,355,000 (including \$355,000 of the Series 2003B issue) is defined in a Loan Agreement with the Association dated June 2003. In exchange, the Corporation has granted a security interest in certain pledged revenues equivalent to annual debt service requirements and has assigned them ratably and equally to the Association, which is responsible for protecting the Authority's interest therein.

The Series 2003A Bonds were issued to refinance a line of credit and to finance real property acquisitions. These debts are net of discounts of \$309,963 and \$330,627, respectively as of June 30, 2008 and 2007.

- (e) In June 2007, the Corporation entered into two agreements with the Dormitory Authority of the State of New York (the "Authority") to borrow \$1,554,500 for the purpose of refinancing the acquisition and construction of two facilities. The two loans in the amount of \$1,135,400 and \$419,000 are in the form of non-recourse mortgages secured by the real properties. The Authority has been granted a security interest in certain pledged revenues equivalent to annual debt service requirements.

The Funds for the mortgage were obtained by the Authority through the issuance of Bonds. Premiums and discounts on the bonds in the amounts of \$74,287 and \$77,447, respectively as of June 30, 2008 and 2007 were charged to the Corporation and are recorded as part of the loans.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 7 - LONG TERM DEBT (Continued)

Scheduled debt service on long-term debt subsequent to June 30, 2008 is as follows:

Years Ending June 30,	Amount
2009	\$ 18,643,390
2010	2,256,876
2011	2,108,512
2012	2,198,582
2013	2,286,442
Thereafter	17,887,129
	<u>\$ 45,380,931</u>

NOTE 8 - ESTIMATED RECEIVABLES/LIABILITIES DUE FROM/TO FUNDNG AGENCIES

Liabilities

The Corporation has recorded estimated liabilities of \$1,059,544 and \$1,462,139 for 2008 and 2007, respectively, for future settlements with funding agencies, generally related to the Corporation's underspending of past years' contracts.

Audits have been completed by the Agency for Children Services ("ACS") through fiscal 1999. It is management's opinion that retroactive adjustments, if any, for years subsequent to fiscal 1999 will not have a material adverse impact on the financial position or net assets of SCO Family of Services.

Receivables

At June 30, 2008 the Corporation estimates approximately \$7.2 million in receivables from a governmental agency that is pending rate appeals. It is at least reasonably possible that once there is an appeal verdict this receivable may be significantly reduced.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Changes in temporarily restricted net assets for the year ended June 30, 2008 were as follows:

<u>Program/Purpose</u>	<u>Balances, June 30, 2007</u>	<u>Restricted Contributions</u>	<u>Net Assets Released from Restrictions</u>	<u>Balances, June 30, 2008</u>
Contract programs	\$ 5,734,079	\$ 2,720,022	\$ (2,297,622)	\$ 6,156,479
Restricted capital grants	1,487,391	-	(82,343)	1,405,048
Other:				
Residential treatment centers	1,319,103	48,279	(165,937)	1,201,445
Group homes	41,295	800	(840)	41,255
Residential treatment facilities	47,917	26,514	(55,087)	19,344
Schools	36,358	10,169	(6,323)	40,204
Miscellaneous	729,939	542,974	(21,452)	1,251,461
	<u>2,174,612</u>	<u>628,736</u>	<u>(249,639)</u>	<u>2,553,709</u>
All programs	<u>\$ 9,396,082</u>	<u>\$ 3,348,758</u>	<u>\$ (2,629,604)</u>	<u>\$ 10,115,236</u>

Restricted capital grants are comprised of funds received from governmental sources relating to purchase and renovation costs incurred in opening new program facilities. These advances are amortized to unrestricted activities as the new program facility costs are depreciated to operations.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Operating Leases

As of June 30, 2008, minimum annual rental commitments for the remaining terms of SCO Family of Services operating leases relating to buildings for programs and equipment rental were as follows:

Years Ending June 30,	Amount
2009	\$ 12,543,464
2010	12,046,874
2011	11,162,907
2012	10,506,939
2013	10,318,509
Thereafter	<u>10,720,732</u>
	<u>\$ 67,299,425</u>

Certain leases require additional payments based upon property tax and maintenance expense escalations. Substantially all leases have a defunding clause, as defined, which provides that SCO Family of Services obligations under the lease would terminate if the applicable governmental funding agency were to eliminate or significantly reduce funding for the related program.

Aggregate rental expense for buildings and equipment for the years ended June 30, 2008 and 2007 amounted to approximately \$13,838,300 and \$9,923,947; respectively.

Other Matters

SCO participates in various Federal, State and City programs, all of which have strict requirements for participation, and accordingly, SCO is subject to government program reviews covering compliance with laws and regulations. In addition, the expenses of programs which have been reimbursed pursuant to Federal, State and Local government contracts and grants, are subject to audit by the respective granting agencies. Until such audits are completed and final settlements reached, there exists a contingency to refund any amount in excess of allowable costs. Management is of the opinion that no material liability would result from such audits.

SCO is involved with several cases in litigation as a defendant. A number of the cases are currently in pre-trial discovery. Management is unable to determine at this time the likelihood of the outcomes. Management believes that insurance coverage will be sufficient to cover any potential claims.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 11 - PENSION PLANS

SCO Family of Services makes contributions to the Brooklyn Diocese and Rockville Centre Diocese Pension Plans (the "Plans"); both are church plans, which have been approved by the Internal Revenue Service and are exempt from ERISA reporting requirements. Contributions are actuarially determined by the aggregate cost method using an assumed rate of return of 6.75 percent and other assumptions. The Brooklyn Diocese Pension Plan covers employees who have been employed for three years or more and have reached the age of 30. The Rockville Centre Pension Plan covers employees who were covered under the plan while working for Madonna Heights Services prior to its merger with SCO Family of Services in 1996.

The Plans are multiemployer plans and contributions for all participating employers are pooled and held by an independent trustee for the purpose of providing retirement and other benefits for eligible employees. As of the beginning of the most recent plan years, each of the Plans has assets in excess of the actuarially computed value of the vested benefits for all participating employers.

SCO Family of Services has received no information from the administrators of the Plans, which would permit it to determine its share of unfunded vested benefits, if any. Contributions to the Plans amounted to \$2,205,291 and \$2,062,538 for the years ended June 30, 2008 and 2007, respectively.

In fiscal 2000, the Corporation adopted a supplemental pension plan funded with an insurance company. The plan is tax-qualified as a defined contribution arrangement under IRS Section 403(b). Funding is provided by employee withholding and annual employer matching contributions of either 1% of the employee's annual salary or 25% of the employee's contribution to the Plan, whichever is less. Contributions to this plan amounted to \$232,594 and \$200,002 for the years ended June 30, 2008 and 2007, respectively.

SUPPLEMENTARY INFORMATION

**SCO FAMILY OF SERVICES
 SCHEDULE OF FUNCTIONAL EXPENSES
 Year Ended June 30, 2008 (With Comparative Totals for Year Ended June 30, 2007)**

	Contract Programs	Foster Boarding Homes	Group Homes	Medicaid Reimbursed	Residential Treatment Facilities	Residential Treatment Centers	Individual Residential Alternative	Schools	Intermediate Care Facilities	Shelter	Management and Other Costs	2008 Total Expenses	2007 Total Expenses
Salaries	\$ 29,020,867	\$ 11,738,803	\$ 8,875,386	\$ 6,494,274	\$ 5,325,342	\$ 7,685,673	\$ 4,675,276	\$ 5,348,475	\$ 3,449,234	\$ 1,141,589	\$ 6,885,430	\$ 90,643,149	\$ 81,346,530
Employee fringe	7,304,472	3,159,075	2,316,037	1,653,808	1,384,582	2,000,089	1,243,576	1,373,932	892,179	310,926	1,847,178	23,485,854	20,790,177
	<u>36,325,139</u>	<u>14,897,878</u>	<u>11,191,423</u>	<u>8,148,082</u>	<u>6,709,924</u>	<u>9,685,762</u>	<u>5,918,852</u>	<u>6,722,407</u>	<u>4,341,413</u>	<u>1,452,515</u>	<u>8,735,608</u>	<u>114,129,003</u>	<u>102,136,707</u>
Occupancy	10,664,002	545,206	796,075	44,783	5,473	67,911	276,850	218,325	41,012	891	61,396	12,723,924	8,917,213
Supplies and equipment	1,671,653	483,052	864,671	62,894	137,587	444,441	189,400	186,157	112,326	38,738	195,750	4,387,669	3,782,675
Purchase of services	5,121,189	894,387	267,087	24,842	369,392	623,612	60,940	66,678	51,736	48,008	228,568	7,756,439	5,739,806
Depreciation and amortization	392,800	313,496	249,333	57,978	423,045	252,677	227,149	90,433	204,037	57,483	462,653	2,731,084	2,589,986
Insurance	442,373	226,094	203,418	29,933	69,854	98,301	113,141	64,936	70,722	31,548	281,505	1,631,825	2,507,938
Food	733,574	8,532	734,622	-	201,033	328,172	289,278	14,171	179,945	70,931	-	2,560,258	2,277,229
Utilities	1,252,369	210,700	411,998	43,725	304,341	408,634	154,569	114,707	105,609	83,560	106,344	3,196,556	2,756,721
Interest	206,619	221,117	91,224	56,327	314,459	170,925	131,192	38,271	198,984	31,626	580,846	2,041,590	1,715,271
Supplies and equipment - medical	43,822	-	-	1,168,925	759,877	-	21,461	1,769	12,230	202	-	2,008,266	1,980,846
Purchase of health services	198,701	-	13,740	1,500,958	310,812	-	60,511	421,042	447,610	-	-	2,953,374	2,511,065
Transportation	1,033,048	556,481	322,502	10,892	47,201	93,789	22,060	1,837	6,960	2,597	69,679	2,167,066	1,812,056
Office supplies	590,727	150,858	129,584	21,715	23,685	68,444	44,092	26,408	34,543	5,228	143,092	1,238,366	1,169,966
Professional fees	275,622	604,143	52,234	2,307	4,060	29,090	16,555	8,892	18	188	502,304	1,389,394	1,389,394
Repairs and maintenance	80,723	212,258	39,071	88,101	88,101	178,460	152,331	22,889	60,414	28,072	55,817	1,619,433	1,801,062
Rent of furnishings and equipment	308,552	242,046	171,988	33,728	47,224	41,200	101,891	46,394	56,619	12,091	61,193	1,114,376	1,006,734
Activities - children	446,055	300,943	300,943	276	57,449	41,200	30,423	28,913	15,979	1,267	3,695	956,970	923,059
Telephone and telegraph	315,255	139,156	149,838	12,136	25,505	30,263	51,929	10,540	19,228	13,498	107,836	875,184	748,650
Allowance - parents	764,009	144,515	2,089	-	750	563	301	-	368,336	2,942	242,106	673,771	707,082
Administrative expense	29,730	10,884	7,787	3,052	5,924	1,526	2,153	9,331	9,331	1,157	84,188	641,749	641,749
Other expenses	9,871	1,400	-	7,077	49,893	10,142	-	4,648	-	-	-	84,188	84,188
Clothing	43,912	-	240,124	-	91,124	75,307	30,010	-	27,611	95	-	508,183	464,973
Staff development	215,976	19,865	12,189	10,624	17,787	35,916	9,162	33,123	8,717	1,649	64,651	429,859	431,777
Beddings and linen	128,182	-	38,632	164	85,761	27,884	8,740	-	3,233	640	-	293,236	249,144
Postage	20,447	47,532	4,147	4,464	1,989	4,444	461	2,112	244	2,078	31,563	119,521	153,543
Dues, licenses and permits	23,788	1,336	8,059	537	22,511	1,675	1,275	8,384	10,713	744	56,546	135,568	181,226
Real estate taxes	150,966	5,003	1,111	-	-	-	-	-	-	-	-	157,080	21,595
Subscriptions and publications	24,402	646	2,137	3,305	664	836	305	1,556	80	798	3,890	38,619	38,412
Tuition and related -children	22,844	3,134	6,138	-	-	67	-	7,839	-	-	-	39,822	46,419
Repairs and maintenance -vehicles	2,162	219	18	4	6	41	190	13	-	6	34,823	37,482	25,171
	<u>25,893,637</u>	<u>4,941,295</u>	<u>5,295,926</u>	<u>3,139,737</u>	<u>3,451,943</u>	<u>3,041,544</u>	<u>1,996,369</u>	<u>1,429,378</u>	<u>2,025,926</u>	<u>437,037</u>	<u>3,294,277</u>	<u>54,887,069</u>	<u>47,201,542</u>
Foster Care Payments	965,592	12,855,219	-	-	-	15	-	-	-	-	-	13,820,826	13,691,279
Clothing Replacement	-	923,034	249	-	-	-	-	-	-	-	-	923,283	938,133
Special Payments	162,945	503,369	48,933	-	-	3,296	-	-	-	-	-	718,543	619,096
	<u>1,128,537</u>	<u>14,281,622</u>	<u>49,182</u>	<u>-</u>	<u>-</u>	<u>3,311</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,462,652</u>	<u>15,248,508</u>
Total expenses	\$ 63,287,313	\$ 34,120,795	\$ 16,556,531	\$ 11,287,819	\$ 10,161,867	\$ 12,730,617	\$ 7,915,221	\$ 8,151,785	\$ 6,367,339	\$ 1,889,552	\$ 12,029,885	\$ 184,478,724	\$ 164,586,757

SCO FAMILY OF SERVICES

AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

Years Ended June 30, 2007 and 2006

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SCO FAMILY OF SERVICES

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
SCO Family of Services

We have audited the accompanying statements of financial position of SCO Family of Services as of June 30, 2007 and 2006, and the related statements of unrestricted activities, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of SCO Family of Services management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCO Family of Services as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedule of functional expenses is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

UHY LLP

New York, New York
November 27, 2007

FINANCIAL STATEMENTS

SCO FAMILY OF SERVICES
STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,480,792	\$ 3,812,405
Investments in marketable securities (Note 2)	24,704,031	22,680,116
Program receivables (Note 3)	33,928,440	33,944,890
Prepaid expenses, pledges and other current assets	3,414,054	2,600,478
Custodial accounts	<u>273,175</u>	<u>258,848</u>
Total current assets	65,800,492	63,296,737
PROPERTY AND EQUIPMENT, Net (Note 4)	34,475,216	30,923,887
INVESTMENTS IN MARKETABLE SECURITIES HELD FOR RESTRICTED PURPOSES (Note 2)	3,222,997	3,301,793
OTHER ASSETS (Note 5)	<u>2,294,792</u>	<u>2,268,462</u>
	<u>\$ 105,793,497</u>	<u>\$ 99,790,879</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit (Note 6)	\$ 6,995,150	\$ 3,855,150
Current portion of long-term debt (Note 7)	2,098,492	1,997,168
Accounts payable and accrued expenses	5,463,935	5,766,259
Accrued payroll and compensated absence liability	10,689,446	8,285,577
Accrued interest payable	504,968	530,387
Accrued foster care payments	1,115,256	1,011,251
Estimated liabilities due funding agencies (Note 8)	1,462,139	2,542,148
Custodial accounts	<u>273,175</u>	<u>258,848</u>
Total current liabilities	28,602,561	24,246,788
LONG-TERM DEBT (Note 7)	28,103,677	28,492,178
DEFERRED REVENUE (Note 1)	<u>4,378,329</u>	<u>5,810,894</u>
	<u>61,084,567</u>	<u>58,549,860</u>
COMMITMENTS AND CONTINGENCIES (Notes 7, 10 and 11)		
NET ASSETS		
Unrestricted - board designated:		
Collateral (Note 2)	3,222,997	3,301,793
Other purposes	16,514,134	14,562,441
Unrestricted - undesignated	<u>15,575,717</u>	<u>14,444,927</u>
Total unrestricted net assets	35,312,848	32,309,161
Temporarily restricted (Note 9)	<u>9,396,082</u>	<u>8,931,858</u>
	<u>44,708,930</u>	<u>41,241,019</u>
	<u>\$ 105,793,497</u>	<u>\$ 99,790,879</u>

See notes to financial statements.

SCO FAMILY OF SERVICES
STATEMENTS OF UNRESTRICTED ACTIVITIES

	<u>Years Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
REVENUE		
Current year program revenue	\$ 158,073,616	\$ 141,087,161
Prior years' cost reimbursement adjustments	292,311	531,291
Net assets released from restrictions	<u>4,353,294</u>	<u>4,163,895</u>
Total program revenue	<u>162,719,221</u>	<u>145,782,347</u>
SUPPORT AND OTHER		
Contributions and other income	1,601,480	1,395,403
Interest and dividend income, net	585,597	620,984
Realized and unrealized gains on marketable securities	<u>2,684,146</u>	<u>593,713</u>
Total support and revenue	<u>167,590,444</u>	<u>148,392,447</u>
DIRECT PROGRAM EXPENSES		
Contract programs	52,502,864	45,707,425
Foster boarding homes	28,939,017	24,976,240
Group homes	15,772,814	13,407,051
Residential treatment centers	10,561,597	9,698,759
Medicaid reimbursed services	10,538,479	9,436,460
Residential treatment facilities	9,986,286	9,617,847
Schools	8,536,529	7,934,884
Individual residential alternative	7,619,532	7,325,997
Intermediate care facilities	6,073,891	5,912,551
Shelters	1,832,990	2,172,896
Enhanced independent living	<u>258,832</u>	<u>1,046,872</u>
Total direct program expenses	<u>152,622,831</u>	<u>137,236,982</u>
MANAGEMENT AND OTHER INDIRECT EXPENSES		
Management and general	11,605,922	10,306,381
Fund raising	<u>358,004</u>	<u>278,741</u>
Total management and other indirect expenses	<u>11,963,926</u>	<u>10,585,122</u>
Total expenses	<u>164,586,757</u>	<u>147,822,104</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>\$ 3,003,687</u>	<u>\$ 570,343</u>

See notes to financial statements.

**SCO FAMILY OF SERVICES
STATEMENTS OF CHANGES IN NET ASSETS**

	Years Ended June 30,					
	2007		2006			
	Unrestricted	Temporarily Restricted	Total	Temporarily Restricted	Total	
NET ASSETS, Beginning	\$ 32,309,161	\$ 8,931,858	\$ 41,241,019	\$ 31,738,818	\$ 7,960,224	\$ 39,699,042
Program support and revenue	158,365,927	-	158,365,927	141,618,452	-	141,618,452
Net assets released from restrictions	4,353,294	(4,353,294)	-	4,163,895	(4,163,895)	-
Contributions	1,601,480	4,817,518	6,418,998	1,395,403	5,135,529	6,530,932
Investment income	3,269,743	-	3,269,743	1,214,697	-	1,214,697
Total	167,590,444	464,224	168,054,668	148,392,447	971,634	149,364,081
EXPENSES	164,586,757	-	164,586,757	147,822,104	-	147,822,104
INCREASE IN NET ASSETS	3,003,687	464,224	3,467,911	570,343	971,634	1,541,977
NET ASSETS, Ending	\$ 35,312,848	\$ 9,396,082	\$ 44,708,930	\$ 32,309,161	\$ 8,931,858	\$ 41,241,019

See notes to financial statements.

**SCO FAMILY OF SERVICES
STATEMENTS OF CASH FLOWS**

	<u>Years Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Increase in net assets	\$ 3,467,911	\$ 1,541,977
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,410,178	2,212,396
Amortization of deferred financing costs	160,508	152,719
Unrealized appreciation of marketable securities	(2,368,010)	(633,140)
Realized (gain) loss on sale of marketable securities	(316,136)	39,427
Change in operating assets and liabilities:		
Program receivables	16,450	(7,014,251)
Prepaid expenses, pledges and other current assets	(813,576)	378,617
Other assets	(186,838)	(19,262)
Accounts payable and accrued expenses	(302,324)	(348,376)
Accrued payroll and compensated absences	2,403,869	389,918
Accrued foster parent payroll	104,005	(48,089)
Accrued interest payable	(25,419)	(40,078)
Estimated liabilities due to funding agencies	(1,080,009)	770,078
Deferred revenue	(1,432,565)	2,073,225
Net cash provided by (used in) operating activities	<u>2,038,044</u>	<u>(544,839)</u>
INVESTING ACTIVITIES		
Purchases of marketable securities	(1,132,676)	(93,917)
Proceeds from sales of marketable securities	2,715,372	385,409
Purchases of property and equipment, net	(6,805,176)	(3,054,904)
Net cash used in investing activities	<u>(5,222,480)</u>	<u>(2,763,412)</u>
FINANCING ACTIVITIES		
Payments of long-term liabilities	(436,426)	(2,196,333)
Proceeds from long-term debt	149,249	364,369
Line of credit proceeds	3,140,000	3,640,150
Net cash provided by financing activities	<u>2,852,823</u>	<u>1,808,186</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(331,613)	(1,500,065)
CASH AND CASH EQUIVALENTS, Beginning	<u>3,812,405</u>	<u>5,312,470</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 3,480,792</u>	<u>\$ 3,812,405</u>
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid, net of amounts capitalized	<u>\$ 1,175,654</u>	<u>\$ 1,144,948</u>

See notes to financial statements.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SCO Family of Services or (the "Corporation") is a not-for-profit corporation as described under Section 501(c)(3), and qualified as a tax-exempt organization under Section 501(a) of the Internal Revenue Code. Accordingly, the Corporation is not subject to Federal income taxes. It provides human care services to children, young adults and families in metropolitan New York. Each year, its programs reach more than 30,000 New Yorkers in need. Its core service areas include preventive services, foster care and adoption, youth development services, homelessness services, schools, school-based programs, mental health programs and services and homes for people with developmental disabilities.

Basis of Presentation

The financial statements of SCO Family of Services have been prepared on the accrual basis of accounting. Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant estimates by management are used in the computation of program receivables, and the estimated liabilities due to funding agencies.

Cash and Cash Equivalents

The Corporation considers cash and cash equivalents to include all highly liquid investments with a maturity of three months or less, when purchased. Cash and cash equivalents are maintained at a level to meet anticipated operating cash needs, and are maintained in FDIC insured accounts at credit qualified financial institutions. At times, such amounts may exceed the FDIC insurance limits.

Investments in Marketable Securities

Investments in marketable securities are stated at fair value. Realized gain (loss) on the sale of investment securities is the difference between sale proceeds and the specifically identified carrying value of the security sold.

Deferred Financing Costs

Deferred financing costs, presented in "Other Assets", are comprised of expenses incurred to obtain construction loans, and legal, professional and commitment fees paid in connection with the closing of long-term debt financings. These costs are being amortized over the life of the related loans.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Custodial Accounts

Custodial accounts primarily represent Supplemental Social Security funds, plus accrued interest held by SCO Family of Services on behalf of certain children in its care.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization, or at the fair market value of the donated assets at the date a gift is received. Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the respective assets, which range from 3 to 40 years. Items of property and equipment, where title is held by the granting agency, are expended when purchased.

Net Assets

Revenue and support are classified based on the existence or absence of restrictions imposed by the donor or granting governmental agency. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets: Net assets that are either not subject to restrictions imposed by the donor or grantor, or net assets that have been reclassified from temporarily restricted net assets because the basis for any restrictions has expired.

Board Designated Reserves: Unrestricted net assets whose use has been reserved by board action for certain specified purposes, designated by a revocable resolution of the Board of Directors.

Temporarily Restricted Net Assets: Net assets, subject to stipulations imposed by the donor or granting agency that have not been satisfied. When a stipulated time restriction ends or if a purpose restriction is met, generally by expenditures of funds, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Program Expenses and Revenue

Expenses are recorded in the period in which they are incurred. Program income is recorded as revenue as services are provided and costs incurred (contract revenue). Certain program revenues are recorded based on the number of care days rendered and expected reimbursement rates (rate based program).

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

However, reimbursement rates are subject to change and retroactive adjustment subsequent to the fiscal year end, on the basis of audit by the governmental agencies responsible for such funding. Provisions for unfavorable settlements are accrued as estimated liabilities due funding agencies, in the period in which the related services are rendered. Revenues resulting from rate appeals are recorded in the period such appeals are determined to be collectible. Any subsequent adjustments thereto are included in revenue reimbursement adjustments in the year of such revision, audit or settlement.

Receipts under certain government-funded fee-for-services contract programs, which have not been spent, and are therefore available for application to future years' renewal contracts are classified as deferred revenue.

Contributions and Grants

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

Asset Impairment

The Corporation evaluates its long-lived assets for impairment on an annual basis or whenever events or changes in circumstances would indicate that the carrying value of assets may not be recoverable. Long-lived assets would be deemed to be impaired if the forecast of undiscounted future net cash flows is less than the carrying value of the assets. There were no impairment losses recognized at June 30, 2007 and 2006.

NOTE 2 - INVESTMENTS IN MARKETABLE SECURITIES

At June 30, investments in marketable securities, partially pledged, were as follows:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Money market investments	\$ 101,310	\$ 101,310	\$ 2,979	\$ 2,979
Equity securities	12,080,041	16,091,094	12,792,568	14,525,402
United States government obligations	<u>8,735,974</u>	<u>8,511,627</u>	<u>8,456,920</u>	<u>8,151,735</u>
Totals	<u>\$ 20,917,325</u>	<u>\$ 24,704,031</u>	<u>\$ 21,252,467</u>	<u>\$ 22,680,116</u>

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 2 – INVESTMENTS IN MARKETABLE SECURITIES (Continued)

In addition, SCO Family of Services maintains debt service reserves for long-term mortgage financings. At June 30, 2007 and 2006 marketable securities held for debt service reserves under long-term capital leases totaled \$3,222,997 (\$3,301,793 in 2006) as follows:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
United States government obligations	\$ 1,985,783	\$ 2,000,172	\$ 119,278	\$ 124,717
Cash and cash equivalents	<u>1,222,825</u>	<u>1,222,825</u>	<u>3,177,076</u>	<u>3,177,076</u>
Totals	<u>\$ 3,208,608</u>	<u>\$ 3,222,997</u>	<u>\$ 3,296,354</u>	<u>\$ 3,301,793</u>

NOTE 3 - PROGRAM RECEIVABLES

At June 30, 2007 and 2006, the Corporation's program receivables were comprised of the following:

	June 30,	
	2007	2006
Rate-Based Programs:		
City of New York Agency for Children's Services	\$ 6,728,963	\$ 5,289,217
Medicaid	1,551,501	1,627,421
New York State Office of Mental Health	1,904,847	2,895,858
New York State Office of Mental Retardation and Developmental Disabilities	3,042,307	5,307,747
County and other	<u>15,039,553</u>	<u>13,405,199</u>
	28,267,171	28,525,442
Contract Programs	<u>7,757,972</u>	<u>7,428,537</u>
	36,025,143	35,953,979
Less - Estimated allowances	<u>(2,096,703)</u>	<u>(2,009,089)</u>
Totals	<u>\$ 33,928,440</u>	<u>\$ 33,944,890</u>

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30,	
	<u>2007</u>	<u>2006</u>
Land	\$ 2,005,699	\$ 1,551,302
Building and improvements	50,735,561	45,626,518
Furniture and equipment	7,557,667	7,248,785
Leasehold improvements	<u>2,886,586</u>	<u>2,799,571</u>
	63,185,513	57,226,176
Less accumulated depreciation and amortization	<u>28,710,297</u>	<u>26,302,289</u>
Totals	<u>\$ 34,475,216</u>	<u>\$ 30,923,887</u>

At June 30, 2007 and 2006, there were approximately \$9,283,973 and \$8,841,603, respectively, of fully depreciated assets included in gross property, plant and equipment, still in use by SCO Family of Services.

Depreciation and amortization expense of property and equipment for the years ended June 30, 2007 and 2006 were \$2,410,178 and \$2,212,396, respectively.

NOTE 5 - OTHER ASSETS

Other assets consisted of the following:

	June 30,	
	<u>2007</u>	<u>2006</u>
Deferred financing costs, net of accumulated amortization of \$1,748,982 and \$1,596,257	\$ 1,938,386	\$ 2,045,509
Other	<u>356,406</u>	<u>222,953</u>
Totals	<u>\$ 2,294,792</u>	<u>\$ 2,268,462</u>

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 6 - LINE OF CREDIT

At June 30, 2007 and 2006, the Corporation had a line of credit with commercial banks based on the market value of underlying investments, which are partially pledged as collateral. The Corporation had an outstanding balance at June 30, 2007 and 2006 of \$6,995,150 and \$3,855,150, respectively with interest ranging from 3% to 5% per annum, payable on demand.

NOTE 7 - LONG TERM DEBT

The Corporation was indebted under long-term obligations as follows:

	June 30,	
	2007	2006
Loan payable to the New York State Rehabilitation Association, Inc. through 2024 payable monthly plus accrued interest at rates ranging from 4% to 5% for Series A and through 2015 at 6.75% for Series B. (a)	\$ 11,551,859	\$ 12,188,327
Medical Care Facilities Finance Agency mortgages payable through 2019 at rates ranging from 6.12% to 7.58% (b)	7,567,960	8,030,299
Other loans payable, (c)	1,141,030	1,402,011
Loan payable to the New York State Rehabilitation Association, Inc. through 2023 payable monthly plus accrued interest at rates ranging from 3% to 5.125% for Series A and through 2013 at 5.38% for Series B. (d)	8,309,373	8,868,709
Loan payable to the New York State Rehabilitation Association, Inc. through 2031 payable monthly plus accrued interest at a rate of 5.047% (e).	1,631,947	-
Totals	30,202,169	30,489,346
Less current portion	2,098,492	1,997,168
Long-term debt	<u>\$ 28,103,677</u>	<u>\$ 28,492,178</u>

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 7 - LONG TERM DEBT (Continued)

- (a) In January 2001, the Dormitory Authority of the State of New York (the "Authority") sold its Insured Revenue Bonds issued under the New York State Rehabilitation Association Pooled Loan Program No. 1, consisting of two issues, Series 2001A (non-taxable) and Series 2001B (federally taxable). Several not-for-profit corporations, including SCO Family of Services, who are members of the New York State Rehabilitation Association, Inc., (the "Association"), which is an organization exempt under Section 501(c)(6) of the Internal Revenue Code, received varying portions of the bond issue proceeds.

The Corporation's participation in the bond proceeds, totaling \$16,060,000 (including \$460,000 of the Series 2001B issue) is defined in a Loan Agreement with the Association dated June 2000. In exchange, the Corporation has granted a security interest in certain pledged revenues equivalent to annual debt service requirements and has assigned them ratably and equally to the Association, which is responsible for protecting the Authority's interest therein. This debt is net of discount in the amount of \$383,141 and \$406,674, respectively as of June 30, 2007 and 2006.

- (b) Since fiscal 1993, the Corporation has been obligated under three mortgage agreements payable over a 25-year period, with the New York State Medical Care Facilities Finance Agency ("MCFFA") for acquisition of three Intermediate Care Facilities ("ICFs") located at Kew Gardens, Jamaica and Richmond Hill, New York. In fiscal 1994, a similar arrangement with MCFFA was negotiated for a residential treatment facility located in Jamaica, New York. The Corporation's reimbursement rates with the applicable state funding agency were adjusted to include debt service through the Facilities Development Corporation as trustee for MCFFA. Pursuant to the mortgage agreements, MCFFA financed the acquisition and renovation of these buildings through the issuance of its General and Series Bonds, which are secured by the mortgages with the Corporation. Under the mortgage agreements, title to the buildings rests with SCO Family of Services.

- (c) Other mortgages and loans payable with interest rates ranging from 7.95% to 10.5% per annum were largely refinanced in fiscal 2001 with the proceeds from the Association loan. The remaining loans include a \$157,866 balance on a financing of a sewer connection, payable monthly with interest at 5.5% ending in fiscal 2020 and two commercial loans for \$344,384 and \$372,952 payable to a bank on demand with interest at 6%. During 2005 SCO Family of Services assumed a \$414,000 Dormitory Authority Bond with interest at 9.48% due to the purchase of a building with a pre-existing mortgage with a balance of \$265,829 at June 30, 2007.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 7 - LONG TERM DEBT (Continued)

- (d) In August 2003, the Dormitory Authority of the State of New York (the "Authority") sold its Insured Revenue Bonds issued under the New York State Rehabilitation Association Pooled Loan Program No. 2, consisting of two issues, Series 2003A (non-taxable) and Series 2003B (federally taxable). Several not-for-profit corporations, including SCO Family of Services, who are members of the New York State Rehabilitation Association, Inc., (the "Association"), which is an organization exempt under Section 501(c)(6) of the Internal Revenue Code, received varying portions of the bond issue proceeds.

The Corporation's participation in the bond proceeds, totaling \$10,355,000 (including \$355,000 of the Series 2003B issue) is defined in a Loan Agreement with the Association dated June 2003. In exchange, the Corporation has granted a security interest in certain pledged revenues equivalent to annual debt service requirements and has assigned them ratably and equally to the Association, which is responsible for protecting the Authority's interest therein.

The Series 2003A Bonds were issued to refinance the line of credit and to finance real property acquisitions. These debts are net of discount of \$330,627 and \$351,291, respectively as of June 30, 2007 and 2006.

- (e) In June 2007, the Corporation entered into two agreements with the Dormitory Authority of the State of New York (the "Authority") to borrow \$1,554,500 for the purpose of refinancing the acquisition and construction of two facilities. The two loans in the amount of \$1,135,400 and \$419,000 are in the form of non-recourse mortgages secured by the real properties. The Authority has been granted a security interest in certain pledged revenues equivalent to annual debt service requirements.

The Funds for the mortgage were obtained by the Authority through the issuance of Bonds. Premiums and discounts on the bonds in the amount of \$77,447 were charged to the Corporation and are recorded as part of the loans.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 7 - LONG TERM DEBT (Continued)

Scheduled debt service on long-term debt subsequent to June 30, 2007 is as follows:

<u>Years Ending</u> <u>June 30,</u>	<u>Amount</u>
2008	\$ 2,098,492
2009	2,095,997
2010	2,209,382
2011	2,061,018
2012	2,151,088
Thereafter	<u>19,586,192</u>
	<u>\$ 30,202,169</u>

NOTE 8 - ESTIMATED LIABILITIES DUE FUNDNG AGENCIES

The Corporation has recorded estimated liabilities of \$1,462,139 and \$2,542,148 for 2007 and 2006, respectively, for future settlements with funding agencies, generally related to the Corporation's underspending of past years' contracts.

Audits have been completed by the Agency for Children Services ("ACS") through fiscal 1999. It is management's opinion that retroactive adjustments, if any, for years subsequent to fiscal 1999 will not have a material adverse impact on the financial position or net assets of SCO Family of Services.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Changes in temporarily restricted net assets for the year ended June 30, 2007 were as follows:

<u>Program/Purpose</u>	<u>Balances, June 30, 2006</u>	<u>Restricted Contributions</u>	<u>Net Assets Released from Restrictions</u>	<u>Balances, June 30, 2007</u>
Contract programs	\$ 5,004,482	\$ 4,190,531	\$ (3,460,934)	\$ 5,734,079
Restricted capital grants	1,555,081	1,552	(69,242)	1,487,391
Other:				
Residential treatment centers	1,425,314	44,379	(150,590)	1,319,103
Group homes	41,904	584	(1,193)	41,295
Residential treatment facilities	5,592	44,300	(1,975)	47,917
Schools	33,184	9,474	(6,300)	36,358
Miscellaneous	866,301	526,698	(663,060)	729,939
	<u>2,372,295</u>	<u>625,435</u>	<u>(823,118)</u>	<u>2,174,612</u>
All programs	<u>\$ 8,931,858</u>	<u>\$ 4,817,518</u>	<u>\$ (4,353,294)</u>	<u>\$ 9,396,082</u>

Restricted capital grants are comprised of funds received from governmental sources relating to purchase and renovation costs incurred in opening new program facilities. These advances are amortized to unrestricted activities as the new program facility costs are depreciated to operations.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Operating Leases

As of June 30, 2007, minimum annual rental commitments for the remaining terms of SCO Family of Services operating leases relating to office space and equipment rental were as follows:

<u>Years Ending</u> <u>June 30,</u>	<u>Amount</u>
2008	\$ 8,955,798
2009	7,998,904
2010	7,413,428
2011	7,133,690
2012	7,038,073
Thereafter	<u>10,813,720</u>
	<u>\$ 49,353,613</u>

Certain leases require additional payments based upon property tax and maintenance expense escalations. Substantially all leases have a defunding clause, as defined, which provides that SCO Family of Services obligations under the lease would terminate if the applicable governmental funding agency were to eliminate or significantly reduce funding for the related program.

Aggregate rental expense for office space and equipment for the years ended June 30, 2007 and 2006 amounted to approximately \$9,923,947 and \$9,583,700, respectively.

Other Matters

SCO participates in various Federal, State and City programs, all of which have strict requirements for participation, and accordingly, SCO is subject to government program reviews covering compliance with laws and regulations. In addition, the expenses of programs which have been reimbursed pursuant to Federal, State and Local government contracts and grants, are subject to audit by the respective granting agencies. Until such audits are completed and final settlements reached, there exists a contingency to refund any amount in excess of allowable costs. Management is of the opinion that no material liability would result from such audits.

SCO is involved with several cases in litigation as a defendant. A number of the cases are currently in pre-trial discovery. Management is unable to determine at this time the likelihood of an unfavorable outcome. Management believes that insurance coverage will be sufficient to cover any potential claims.

SCO FAMILY OF SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 11 - PENSION PLANS

SCO Family of Services makes contributions to the Brooklyn Diocese and Rockville Centre Diocese Pension Plans (the "Plans"); both are church plans, which have been approved by the Internal Revenue Service and are exempt from ERISA reporting requirements. Contributions are actuarially determined by the aggregate cost method using an assumed rate of return of 6.75 percent and other assumptions. The Brooklyn Diocese Pension Plan covers employees who have been employed for three years or more and have reached the age of 30. The Rockville Centre Pension Plan covers employees who were covered under the plan while working for Madonna Heights Services prior to its merger with SCO Family of Services in 1996.

The Plans are multiemployer plans and contributions for all participating employers are pooled and held by an independent trustee for the purpose of providing retirement and other benefits for eligible employees. As of the beginning of the most recent plan years, each of the Plans has assets in excess of the actuarially computed value of the vested benefits for all participating employers.

SCO Family of Services has received no information from the administrators of the Plans, which would permit it to determine its share of unfunded vested benefits, if any. Contributions to the Plans amounted to \$2,062,538 and \$2,165,496 for the years ended June 30, 2007 and 2006, respectively.

In fiscal 2000, the Corporation adopted a supplemental pension plan funded with an insurance company. The plan is tax-qualified as a defined contribution arrangement under IRS Section 403(b). Funding is provided by employee withholding and annual employer matching contributions of either 1% of the employee's annual salary or 25% of the employee's contribution to the Plan, whichever is less. Contributions to this plan amounted to \$200,002 and \$185,805 for the years ended June 30, 2007 and 2006, respectively.

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APPENDIX C

SCO FAMILY OF SERVICES

UNAUDITED FINANCIAL INFORMATION

FOR THE PERIOD FROM JULY 1, 2009 THROUGH MARCH 31, 2010

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SCO Family of Services

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Statements of Financial Position As Of March 31, 2010

<u>ASSETS</u>	<u>03 - 31 - 10</u>	<u>03 - 31 - 09</u>
CURRENT ASSETS		
Cash and cash equivalents	\$143,989	\$215,266
Investments in marketable securities	23,690,212	19,400,879
Due from governmental agencies	48,484,379	50,132,654
Prepaid expenses, pledges and other current assets	1,476,616	2,150,063
Custodial accounts	344,084	442,818
Total current assets	74,139,280	72,341,680
Property and Equipment	36,814,582	38,953,080
Investment Securities designated as Collateral	2,623,151	2,581,210
Other Assets	1,790,998	1,995,566
TOTAL ASSETS	115,368,011	115,871,536
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Lines of Credit	14,500,000	18,724,304
Current portion of long-term debt	2,199,224	2,143,391
Accounts payable and accrued expenses	3,642,611	6,457,226
Accrued payroll, vacation and related withholdings	10,365,949	9,859,214
Accrued foster care payments	1,283,539	1,170,493
Due to governmental agencies	3,547,049	385,495
Accrued interest payable	241,118	227,566
Short Term Deferred revenue	6,882,322	7,493,275
Custodial accounts	344,084	442,818
Total current liabilities	43,005,896	46,903,782
LONG TERM DEBT	24,593,471	24,785,139
LONG TERM DEFERRED REVENUE	1,947,813	1,755,584
Total liabilities	69,547,180	73,444,505
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted -Board designated		
Collateral	2,623,151	2,581,210
Other	15,710,532	11,529,249
Unrestricted - Undesignated	16,760,407	17,818,937
Total unrestricted net assets	35,094,090	31,929,396
Temporarily restricted	10,726,741	10,497,635
Total net assets	45,820,831	42,427,031
TOTAL LIABILITIES AND NET ASSETS	115,368,011	115,871,536

SCO Family of Services

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Statements of Unrestricted Activities As Of March 31, 2010

	<u>03 - 31 - 10</u>	<u>03 - 31 - 09</u>
PROGRAM REVENUE AND SUPPORT		
Direct program revenues		
Contract programs	51,103,824	47,624,383
Contract programs - Foundation grants	3,169,512	3,020,088
Foster boarding homes	29,567,494	29,051,120
Group homes	12,476,603	13,031,423
Medicaid programs	10,208,748	9,266,406
Residential treatment centers	9,979,284	9,892,524
Residential treatment facilities	8,517,892	8,303,476
Individual residential alternative	7,628,884	7,498,706
Schools	6,922,778	6,322,486
Intermediate care facilities	5,208,767	5,037,694
Shelter programs	1,720,257	1,704,773
Total Direct program revenues	<u>146,504,043</u>	<u>140,753,079</u>
Prior years' cost reimbursement adjustments	(167,876)	307,357
Contributions and other income	801,192	987,250
Net assets released from restrictions	<u>1,933,169</u>	<u>2,307,857</u>
Total program revenue and support	<u>149,070,528</u>	<u>144,355,543</u>
PROGRAM EXPENSES AND OTHER EXPENSES		
Direct program costs:		
Contract programs	52,288,459	49,940,850
Foster boarding homes	28,592,203	26,776,258
Group homes	11,813,558	11,828,965
Residential treatment centers	9,868,944	9,012,372
Medicaid programs	9,111,107	8,521,444
Residential treatment facilities	8,034,139	7,628,596
Individual residential alternative	7,377,449	7,115,423
Schools	6,325,943	6,412,195
Intermediate care facilities	4,658,225	4,735,348
Shelter programs	<u>1,558,167</u>	<u>1,480,030</u>
Total direct program expenses	139,628,194	133,451,481
Management and other indirect costs	9,603,234	9,213,034
Fund Raising expenses	385,941	342,007
	<u>9,989,175</u>	<u>9,555,041</u>
Total program expenses	<u>149,617,369</u>	<u>143,006,522</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>(546,841)</u>	<u>1,349,021</u>
INVESTMENT INCOME (LOSS)		
Interest and dividend income	415,345	453,547
Realized and unrealized gains (losses) on securities	<u>2,290,861</u>	<u>(4,823,006)</u>
	<u>2,706,206</u>	<u>(4,369,459)</u>
CHANGE IN TOTAL UNRESTRICTED NET ASSETS	<u>2,159,365</u>	<u>(3,020,438)</u>

SCO Family of Services

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Statements of Changes in Net Assets As Of March 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
NET ASSETS, BEGINNING OF YEAR	<u>32,934,725</u>	<u>10,287,652</u>	<u>43,222,377</u>
Program revenue and support	146,336,167	0	146,336,167
Net assets released from restrictions	1,933,169	(1,933,169)	0
Contributions	801,192	2,372,258	3,173,450
Investment Gain (loss)	<u>2,706,206</u>	<u>0</u>	<u>2,706,206</u>
Total	<u>151,776,734</u>	<u>439,089</u>	<u>152,215,823</u>
EXPENSES	<u>149,617,369</u>	<u>0</u>	<u>149,617,369</u>
CHANGE IN NET ASSETS	<u>2,159,365</u>	<u>439,089</u>	<u>2,598,454</u>
NET ASSETS, END OF PERIOD	<u><u>35,094,090</u></u>	<u><u>10,726,741</u></u>	<u><u>45,820,831</u></u>

SCO Family of Services

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STATEMENTS OF CASH FLOWS

As Of March 31, 2010

	<u>03 - 31 - 10</u>	<u>03 - 31 - 09</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease)/Increase in net assets	\$2,598,454	(\$2,638,040)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Cumulative effect of a change in accounting principle	-	-
Depreciation and amortization	2,121,950	2,023,995
Amortization of deferred financing costs	118,292	115,936
Unrealized change in appreciation of investments	(2,369,907)	4,778,456
Realized loss on sale of marketable securities	79,047	44,550
Gain on disposal of fixed assets	(11,061)	(13,012)
Restricted contributions	(2,372,258)	(2,690,255)
Change in operating assets and liabilities:		
Decrease/(Increase) in due from governmental agencies	(178,908)	(5,019,112)
Decrease/(Increase) in prepaid expenses, pledges and other receivables	858,617	4,679,394
Decrease/(Increase) in other assets	30,180	(218,981)
(Decrease)/Increase in accounts payable and accrued expenses	(7,628,034)	(681,071)
(Decrease)/Increase in accrued payroll, vacation and related withholdings	(1,683,072)	(2,415,039)
(Decrease)/Increase in accrued foster parent payroll	154,717	108,335
(Decrease)/Increase in accrued interest payable	(214,011)	(251,617)
(Decrease)/Increase in due to governmental agencies	1,192,393	(578,700)
(Decrease)/Increase in long-term liabilities and deferred revenue	4,667,640	4,424,417
(Decrease)/Increase in custodial accounts	0	132,528
	<u>(2,635,961)</u>	<u>1,801,784</u>
Net cash (used) provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment, net	(666,380)	(6,420,518)
Purchase of investments in marketable equity securities	0	0
Proceeds from sales of marketable equity securities	(3,270,998)	(510,539)
Purchases of designated investments	474,413	692,981
Proceeds from sales of designated investments	(64,289)	(33,258)
	<u>(3,527,254)</u>	<u>(6,271,334)</u>
Net cash (used) provided by investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of long-term liabilities & letter of credit	(16,186,180)	(28,928,097)
Restricted contributions	2,372,258	2,690,255
Proceeds from bonds/loan agreements/letter of credit	14,280,075	29,200,000
	<u>466,153</u>	<u>2,962,158</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(5,697,062)	(1,507,392)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>5,841,051</u>	<u>1,722,658</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u><u>143,989</u></u>	<u><u>215,266</u></u>

SCO Family of Services
 Functional Expense Report with Budget
 For the Nine Months Ending March 31, 2010

Description	Contract Programs	Foster Boarding Homes	Group Homes	Mngmnt and Other Costs	Resident Treatment Centers	Medicaid Programs	Resident Treatment Facilities	Individual Resident Altern.	Schools	Intermed. Care Facilities	Shelter Programs	TOTAL COSTS	YTD Budget
Salaries	26,187,709	10,050,893	6,604,468	6,026,878	6,000,599	5,302,007	4,297,289	4,449,633	4,115,519	2,674,923	944,001	76,663,919	79,888,988
Employee Fringe Benefits	7,419,155	3,068,318	2,026,277	1,859,792	1,837,317	1,632,474	1,301,142	1,306,848	1,238,446	780,466	289,538	22,759,773	21,870,200
Sub - Total	33,606,864	13,119,211	8,630,745	7,886,670	7,837,916	6,934,481	5,598,431	5,756,481	5,353,965	3,455,389	1,233,539	99,413,692	101,759,188
Rent	8,578,424	456,271	584,674	17,869	80,250	76,520	7,937	241,084	2,791	45,897	0	10,091,717	10,044,573
Purchase of Services	3,391,803	1,309,709	153,546	283,539	495,827	35,798	312,827	63,143	78,871	34,074	35,657	6,194,794	6,373,820
Utilities	871,496	153,421	273,770	133,582	256,127	27,009	211,876	120,967	111,041	65,706	52,380	2,277,375	2,546,105
Depreciation & Amortization	317,696	238,974	230,462	265,875	203,999	42,350	316,375	231,392	230,091	151,915	43,269	2,272,398	2,371,653
Food	368,329	3,259	536,534	0	218,564	0	153,447	246,161	48	125,587	51,446	1,703,375	1,798,453
Purchase of Health Services	195,514	0	0	0	0	994,940	118,817	24,912	126,122	104,455	0	1,564,760	1,662,828
Interest	276,437	145,788	90,401	143,153	124,440	40,626	208,386	147,312	181,559	150,288	22,391	1,530,781	1,546,405
Supplies & Equipment	472,666	80,645	260,229	75,359	197,577	58,371	107,909	104,772	65,298	60,208	36,116	1,519,150	1,941,473
Supplies & Equipment - Med	27,790	0	0	0	0	782,866	579,736	17,734	858	15,604	123	1,424,711	1,564,590
Transportation & Workers Exp	570,219	425,842	213,638	44,701	59,909	6,156	28,931	16,691	1,038	3,968	923	1,372,016	1,738,309
Insurance	367,179	174,214	158,580	73,492	95,280	21,241	64,767	86,894	63,639	47,599	27,355	1,180,240	1,193,858
Professional Fees	124,174	430,482	9,131	401,347	20,963	13,151	1,681	4,243	1,491	1,042	1,527	1,009,232	1,104,124
Allowance - Parents	735,329	85,041	7,463	0	81	3	0	0	0	0	0	827,917	707,562
Rent of Furnishings & Equip	224,924	186,364	114,399	43,312	33,324	21,925	30,904	85,715	31,941	38,367	10,736	821,911	911,578
Repairs & Maintenance	275,900	50,861	73,421	18,612	94,019	14,018	61,900	125,394	28,504	48,707	21,304	812,530	713,077
Office Supplies	230,394	82,951	62,243	117,666	41,284	15,585	16,140	24,941	10,790	17,042	6,375	625,411	749,407
Real Estate Taxes	327,037	2,493	0	244,433	0	0	0	0	0	0	65	574,028	13,453
Telephone & Telegraph	210,502	98,310	85,269	69,722	13,053	9,333	15,532	22,136	3,974	11,438	7,373	546,642	733,807
Activities - Children	149,014	56,374	101,522	1,515	23,864	256	52,379	16,484	6,513	5,208	2,149	415,278	1,171,753
Clothing	12,458	0	140,796	0	45,640	0	60,436	30,369	0	16,977	318	306,994	333,483
Administrative Expense	4,185	4,806	7,678	8,267	507	4,257	2,225	292	455	236,196	73	268,941	359,393
Dues, Licenses & Permits	20,219	2,401	1,782	94,144	6,669	860	20,577	1,218	11,387	8,586	51	167,894	110,177
Beddings and Linen	55,914	0	22,780	0	1,480	0	58,952	5,284	0	12,794	1,995	159,199	164,953
Other Expenses	117,640	10,381	0	275	300	2,830	0	0	192	0	0	131,618	0
Staff Development	42,841	11,881	4,622	36,147	13,276	4,332	1,360	3,269	5,441	456	621	124,246	239,863
Postage	12,616	50,172	2,945	22,984	3,791	3,689	1,299	222	1,394	384	1,476	100,982	102,676
Tuition and Related - Children	21,785	2,253	5,346	0	54	0	0	0	8,131	0	115	37,684	34,149
Subscriptions & Publications	17,035	1,258	1,182	2,054	0	500	682	339	409	338	790	24,587	23,492
Repairs & Maintenance - Veh	253	0	0	4,457	0	0	743	0	0	0	0	5,453	4,583
Sub - Total	18,019,773	4,064,151	3,142,413	2,102,505	2,030,278	2,176,626	2,435,708	1,620,968	971,978	1,202,836	324,628	38,091,864	40,259,617
Foster Care Payments	527,762	10,713,889	0	0	0	0	0	0	0	0	0	11,241,651	10,992,239
Clothing Replacement Payments	1,534	304,998	0	0	0	0	0	0	0	0	0	306,532	743,081
Special Payments	132,526	389,954	40,400	0	750	0	0	0	0	0	0	563,630	568,617
Sub - Total	661,822	11,408,841	40,400	0	750	0	0	0	0	0	0	12,111,813	12,303,937
Total Costs	52,288,459	28,592,203	11,813,558	9,989,175	9,868,944	9,111,107	8,034,139	7,377,449	6,325,943	4,658,225	1,558,167	149,617,369	154,322,742

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APPENDIX D

CERTAIN DEFINITIONS

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CERTAIN DEFINITIONS

The following are definitions of certain of the terms defined in the Resolution, the Series 2010B Resolution or the Loan Agreements and used in this Private Placement Memorandum.

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 August 1, 2010, between the Authority and the Program Facilitator, as accepted and consented to by the Participants.

Allocable Portion means with respect to a Series of Bonds, an Applicable Participant's proportionate share of certain obligations arising under such Series of Bonds from time to time and under the Applicable Loan Agreement, particularly with respect to the Debt Service Reserve Fund Requirement, if any, the Arbitrage Rebate Fund and Costs of Issuance, in each case corresponding to the principal amount of the Applicable Loan made to such Participant by the Authority with proceeds of such Series of Bonds and determined by the Applicable Series Resolution or Applicable Bond Series Certificate; *provided, however*, that with respect to the payment of principal, Sinking Fund Installments and Redemption Price, if any, of and interest on such Series of Bonds, Allocable Portion shall mean that portion of each such payment designated in Exhibit D attached to the Applicable Loan Agreement as being allocable to such Participant, as the same may be adjusted from time to time to reflect any prepayments of the Applicable Loan by or on behalf of such Participant.

Annual Administrative Fee means the annual fee for the general administrative expenses of the Authority in the amount or percentage stated in each of the Loan Agreements relating to the Loans made thereunder.

Applicable means

(i) with respect to a particular Loan or Project referred to in the Resolution, the Loan and the Project established and undertaken with respect to a particular Participant and particular Project as described in a particular Loan Agreement;

(ii) with respect to any Account, the Account established with respect to a particular Participant in connection with such Participant's Allocable Portion of a particular Series of Bonds;

(iii) with respect to any Series Resolution, the Series Resolution relating to a particular Project 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;

Appendix D

(vi) with respect to a Bond Series Certificate, such certificate authorized pursuant to a particular Series Resolution;

(vii) with respect to any Supplemental Resolution, any such Resolution supplementing a particular Series Resolution;

(viii) with respect to a Participant, the Participant undertaking the obligations set forth in the Applicable Loan Agreement;

(ix) with respect to a Paying Agent, the Paying Agent accepting the responsibility to perform the obligations set forth therefor with respect to a particular Series of Bonds;

(x) with respect to Revenues, the Revenues pledged to the payment of a particular Series of Bonds pursuant to the Resolution and an Applicable Series Resolution;

(xi) with respect to Pledged Revenues, the Pledged Revenues pledged by the Participants as security for their respective obligations under the Applicable Loan Agreements; and

(xii) with respect to a Facility Provider, the Facility Provider that has provided a Reserve Fund Facility with respect to a particular Series of Bonds.

Arbitrage Rebate Fund means the fund so designated and established by a Series Resolution pursuant to the Resolution.

Authority means the Dormitory Authority of the State of New York, a body corporate and politic constituting a public benefit corporation of the State created by the Act, or any body, agency or instrumentality of the State which shall hereafter succeed to the rights, powers, duties and functions of the Authority.

Authority Fee means a fee payable to the Authority upon the issuance of any Series of Bonds authorized under the Resolution in an amount set forth in the Applicable Series Resolution, unless otherwise provided in the Applicable Series Resolution or Applicable Bond Series Certificate.

Authorized Newspaper means The Bond Buyer or any other newspaper of general circulation printed in the English language and customarily published at least once a day for at least five (5) days (other than legal holidays) in each calendar week in the Borough of Manhattan, City and State of New York, designated by the Authority.

Authorized Officer means (i) in the case of the Authority, the Chair, the Vice Chair, the Executive Director, the Deputy Executive Director, the Chief Financial Officer, the Treasurer, any Assistant Treasurer, the Managing Director of Public Finance and Portfolio Monitoring, the Managing Director of Construction, the General Counsel, the Secretary and any Assistant Secretary, and when used with reference to any act or document also means any other person authorized by a resolution or the by-laws of the Authority to perform such act or execute such document; (ii) in the case of any Participant, the person or persons authorized by a resolution or the by-laws of such Participant to perform any act or execute any document; (iii) in the case of the Trustee, the President, a Vice President, an Assistant Vice President, a Corporate Trust Officer, a Trust Officer or an Assistant Trust Officer of the Trustee, and when used with reference to any act or document also means any other person authorized to perform any act or sign any document by or pursuant to a resolution of the Board of Directors of such Trustee or the by-laws of such Trustee; and (iv) in the case of any Insurer, the person or persons authorized by a resolution or bylaws of the Insurer to perform any act or execute any document.

Balloon Indebtedness means with respect to a Participant (i) long-term Indebtedness, or short-term Indebtedness which is intended to be refinanced upon or prior to its maturity (and which short-term Indebtedness is subject to a commercially reasonable binding commitment for such refinancing) so that such short-term Indebtedness will be outstanding, in the aggregate, for more than one year as certified in a certificate of an Authorized Officer of such Participant delivered to the Authority and the Trustee, twenty-five percent (25%) or

more of the initial principal amount of which matures (or is payable at the option of the holder) in any twelve month period, or (ii) long-term Indebtedness, or short-term Indebtedness which is intended to be refinanced upon or prior to its maturity (and which short-term Indebtedness is subject to a commercially reasonable binding commitment for such refinancing) so that such short-term Indebtedness will be outstanding, in the aggregate, for more than one year as certified in a certificate of an Authorized Officer of such Participant delivered to the Authority and the Trustee, twenty-five percent (25%) or more of the initial principal amount of which is payable at the option of the holder in any twelve month period, if such twenty-five percent (25%) or more is not to be amortized to below twenty-five percent (25%) by mandatory redemption prior to such twelve month period, or (iii) any portion of an issue of long-term Indebtedness which, if treated as a separate issue of Indebtedness would meet the test set forth in clause (i) of this definition and which Indebtedness is designated as Balloon Indebtedness in a certificate of an Authorized Officer of such Participant delivered to the Authority and the Trustee stating that such portion shall be deemed to constitute a separate issue of Balloon Indebtedness.

Bond or **Bonds** means the InterAgency Council Pooled Loan Program Revenue Bonds and any of the bonds of the Authority authorized pursuant to the Resolution and issued pursuant to an Applicable Series Resolution.

Bond Counsel means an attorney or a law firm, appointed by the Authority with respect to a particular Series of Bonds, having a national reputation in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds.

Bond Series Certificate means a certificate of an Authorized Officer of the Authority fixing terms, conditions and other details of Bonds of a Series in accordance with the delegation of power to do so under a Series Resolution.

Bond Year means, unless otherwise provided in an Applicable Series Resolution or Applicable Bond Series Certificate, a period of twelve (12) consecutive months beginning July 1 in any calendar year and ending on June 30 of the succeeding calendar year.

Bondholder, Holder of Bonds, Owner or Holder or any similar term, when used with reference to a Bond or Bonds of a Series, means the registered owner of any Outstanding Bonds of such Series.

Book Entry Bond means any Bond issued hereunder in book entry form pursuant to the Resolution.

Business Day means, unless otherwise defined with respect to Bonds of a Series in an Applicable Series Resolution or Applicable Bond Series Certificate, any day other than a Saturday, Sunday or a day on which the Trustee is authorized by law to remain closed.

Code means the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

Contract Documents means any general contract or agreement for the construction of a Project, notice to bidders, information for bidders, form of bid, general conditions, supplemental general conditions, general requirements, supplemental general requirements, bonds, plans and specifications, addenda, change orders, and any other documents entered into or prepared by or on behalf of an Applicable Participant relating to the construction of a Project, and any amendments to the foregoing.

Contribution Amounts means amounts received by a Participant and deposited in the Applicable Project Loan Account of the Project Loan Fund or the Applicable Debt Service Account of the Debt Service Fund pursuant to the Applicable Loan Agreement, which amounts shall constitute Revenues.

Cost or Costs of Issuance means the item or items of expense incurred in connection with the authorization, sale and issuance of Bonds authorized under the Resolution, which items of expense shall include, but not be limited to, document printing and reproduction costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Trustee, legal fees and charges, professional consultants' fees, fees and charges for execution, transportation and safekeeping of such Bonds, premiums, fees and charges for Municipal Bond Insurance

Policies for such Bonds or for Mortgage Insurance Policies, costs and expenses of refunding such Bonds and other costs, charges and fees, including those of the Authority, in connection with the foregoing.

Cost or Costs of the Project means, with respect to an Applicable Project or any portion thereof, costs and expenses or the refinancing of costs and expenses determined by the Authority to be necessary in connection therewith, including, but not limited to, (i) costs and expenses of the acquisition of the title to (including premiums and other charges in connection with obtaining title insurance) or other interest in real property, including easements, rights-of-way and licenses, (ii) costs and expenses incurred for labor and materials and payments to contractors, builders and materialmen for the acquisition, construction, reconstruction, rehabilitation, renovation, repair and improvement of such Project, (iii) the cost of surety bonds and insurance of all kinds that may be required or necessary prior to completion of such Project, which is not paid by a contractor or otherwise provided for, (iv) the costs and expenses for design, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising construction of such Project, (v) costs and expenses required for the acquisition and installation of equipment or machinery, (vi) all other costs which the Applicable Participant shall be required to pay for the acquisition, construction, reconstruction, rehabilitation, renovation, repair, improvement and equipping of such Project, (vii) any sums required to reimburse the Applicable Participant or the Authority for advances made by either of them for any of the above items or for other costs incurred and for work done by either of them in connection with such Project (including interest on moneys borrowed from parties other than such Applicable Participant), (viii) interest on the Bonds of a Series prior to, during and for a reasonable period after completion of the acquisition, construction, reconstruction, rehabilitation, renovation, repair, improvement or equipping of such Project, and (ix) fees, expenses and liabilities of the Authority incurred in connection with such Project or pursuant to the Resolution, to the Applicable Series Resolution or to any Applicable Loan or Applicable Loan Agreement.

Debt Service Account means each of the respective accounts so designated, created and established in the Applicable Debt Service Fund pursuant to the Applicable Series Resolution.

Debt Service Fund means the fund so designated, created and established for a Series of Bonds by an Applicable Series Resolution pursuant to the Resolution.

Debt Service Reserve Fund means a reserve fund, if any, for the payment of the principal and Sinking Fund Installments of and interest on a Series of Bonds, so designated, created and established by the Authority by or pursuant to an Applicable Series Resolution.

Debt Service Reserve Fund Requirement means with respect to the Series 2010B Bonds, as of any date of computation, an amount equal to the lesser of (i) the greatest amount required in the then current or any future calendar year to pay the sum of interest on Outstanding Series 2010B Bonds payable during such calendar year, and the principal and Sinking Fund Installments of such Outstanding Series 2010B Bonds payable on July 1 of such calendar year, (ii) an amount equal to ten percent (10%) of the net proceeds of the sale of the Series 2010B Bonds, and (iii) 125% of the average of the principal, whether at maturity or on mandatory redemption, and interest becoming due in any one calendar year on the Outstanding Series 2010B Bonds.

Defaulted Allocable Portion means with respect to an event of default on a particular Series of Bonds pursuant to the Resolution, that portion of each maturity of such Series of Bonds then Outstanding that corresponds to a principal installment on a defaulting Participant's Applicable Loan under the terms of the Applicable Loan Agreement, in each case as determined by the Trustee in the manner set forth in the Resolution.

Defeasance Security means

(i) a Government Obligation of the type described in clauses (i), (ii) or (iii) of the definition of Government Obligation;

(ii) a Federal Agency Obligation described in clauses (i) or (ii) of the definition of Federal Agency Obligation; and

(iii) an Exempt Obligation, provided such Exempt Obligation (a) is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, (b) is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (a) above, (c) as to which the principal of and interest on the direct obligations of the United States of America which have been deposited in such fund, along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (a) above, and (d) is rated by at least two nationally recognized statistical rating services in the highest rating category for such Exempt Obligation;

provided, however, that (1) such term shall not include any interest in a unit investment trust or mutual fund or (2) any obligation that is subject to redemption prior to maturity other than at the option of the holder thereof.

Excess Earnings means, with respect to an Applicable Series of Bonds, the amount equal to the rebatable arbitrage and any income attributable to the rebatable arbitrage as required by the Code.

Exempt Obligation means:

(i) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, which is not a “specified private activity bond” within the meaning of Section 57(a)(5) of the Code and which, at the time an investment therein is made or such obligation is deposited in any fund or account under the Resolution, is rated, no lower than the second highest rating category for such obligation by at least two Rating Services; and

(ii) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1940, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, whose objective is to maintain a constant share value of \$1.00 and which, at the time such investment is rated, no lower than the second highest rating category for such obligation by at least two Rating Services.

Facility Provider means the issuer of a Reserve Fund Facility.

Federal Agency Obligation means:

(i) an obligation issued by any federal agency or instrumentality rated no lower than the second highest rating category for such obligation by at least two Rating Services;

(ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency or instrumentality, and which is rated no lower than the second highest rating category for such obligation by at least two Rating Services;

(iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, any of the foregoing; and

(iv) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company

Act of 1940, as amended, wholly comprised of any of the foregoing obligations and whose objective is to maintain a constant share value of \$1.00.

Fiscal Year means the duly adopted fiscal year of a Participant.

Fitch means Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns.

Government Obligation means:

- (i) a direct obligation of the United States of America;
- (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by the United States of America;
- (iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, any of the foregoing; and
- (iv) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, wholly comprised of any of the foregoing obligations and whose objective is to maintain a constant share value of \$1.00.

Governmental Requirements means any present and future laws, rules, orders, ordinances, regulations, statutes, requirements and executive orders applicable to the Project or any Project Property, of the United States, the State and any political subdivision thereof, and any agency, department, commission, board, bureau or instrumentality of any of them, now existing or hereafter created, and having or asserting jurisdiction over the Project or any Project Property or any part of either.

Gross Proceeds means, with respect to an Applicable Series of Bonds, unless inconsistent with the provisions of the Code, (i) amounts received by the Authority from the sale of such Series of Bonds (other than amounts used to pay underwriters' fees and other expenses of issuing such Series of Bonds), (ii) amounts treated as transferred proceeds of such Series of Bonds in accordance with the Code, (iii) amounts treated as proceeds under the provisions of the Code relating to invested sinking funds, including any necessary allocation between two or more Series of Bonds in the manner required by the Code, (iv) amounts in the Debt Service Reserve Fund, if any, established with respect to such Series of Bonds, (v) securities or obligations pledged by the Authority or the Participant as security for payment of debt service on such Bonds, (vi) amounts received with respect to obligations acquired with Gross Proceeds, (vii) amounts used to pay debt service on such Series of Bonds, and (viii) amounts received as a result of the investment of Gross Proceeds at a yield equal to or less than the yield on such Series of Bonds as such yield is determined in accordance with the Code.

Indebtedness means with respect to a Participant, without duplication, (i) all obligations of such Participant recorded or required to be recorded as liabilities on the balance sheets thereof for the payment of moneys incurred or assumed by such Participant as determined in accordance with generally accepted accounting principles consistently applied (exclusive of reserves such as those established for deferred taxes) and (ii) all contingent obligations in respect of, or to purchase or otherwise acquire or service, indebtedness of other persons, including but not limited to guarantees and endorsements (other than for purposes of collection in the ordinary course of business) of indebtedness of other persons, obligations to reimburse issuers of letters of credit or equivalent instruments for the benefit of any person, and contingent obligations to repurchase property theretofore sold by such contingent obligor. For the purposes of calculating Indebtedness for any period with respect to any Balloon Indebtedness, the Participant may, at its option, by a certificate of an Authorized Officer of such Participant delivered to the Authority and the Trustee at the end of each Fiscal Year, direct that such Indebtedness may be calculated assuming that (i) the principal of such Indebtedness that is not amortized is amortized on a level debt service basis from the date of calculation thereof over a term not to exceed thirty (30) years, and (ii) interest is calculated at (A) the actual rate (if such rate is not variable or undeterminable) or (B) if such rate is variable or undeterminable, an assumed rate

derived from The Bond Buyer Thirty-year Revenue Bond Index published immediately prior to the date of calculation, as certified in a certificate of an Authorized Officer of such Participant delivered to the Authority and the Trustee; provided that if such index is at such time not being published a comparable index reasonably acceptable to the Authority and the Trustee may be used.

Insurance Consultant means a person or firm which is qualified to survey risks and to recommend insurance coverage for a Participant's facilities and services and organizations engaged in like operations and which is selected by the Applicable Participant.

Intercept Agreement means each letter dated the date of issuance of the Bonds from the Applicable Participant to OMRDD, as acknowledged by OMRDD, as may be amended and supplemented from time to time, regarding the deduction, withholding and/or payment of public funds by OMRDD, in an amount required by the Applicable Loan Agreement to the Authority or the Trustee.

Governmental Requirements means any present and future laws, rules, orders, ordinances, regulations, statutes, requirements and executive orders applicable to the Project or any Project Property, of the United States, the State and any political subdivision thereof, and any agency, department, commission, board, bureau or instrumentality of any of them, now existing or hereafter created, and having or asserting jurisdiction over the Project or any Project Property or any part of either.

Contract Documents means any general contract or agreement for the construction of a Project, notice to bidders, information for bidders, form of bid, general conditions, supplemental general conditions, general requirements, supplemental general requirements, bonds, plans and specifications, addenda, change orders, and any other documents entered into or prepared by or on behalf of the Participant relating to the construction of a Project, and any amendments to the foregoing.

Investment Agreement means an agreement for the investment of moneys with a Qualified Financial Institution.

Letter of Credit means, with respect to an Applicable Series of Bonds, an irrevocable letter of credit, or as appropriate, a confirmation or confirming letter of credit, issued in favor of the Authority or the Trustee, as the case may be, in form and substance satisfactory to the Authority or the Trustee, as the case may be, which is issued by a Qualified Financial Institution, and is accompanied by a legal opinion or opinions addressing the enforceability thereof.

Loan means each loan made by the Authority to a Participant pursuant to the provisions of the Resolution, the Applicable Series Resolution and the Applicable Loan Agreement relating thereto in an amount equal to the Participant's Allocable Portion of the principal amount of a Series of Bonds. Each Loan shall relate to a particular Project or Projects for a particular Participant including amounts required to pay such Participant's Allocable Portion of the Costs of Issuance, Costs of the Project related to such Loan and the Debt Service Reserve Fund Requirement, if any, established for such Series of Bonds.

Loan Agreement or **Loan Agreements** mean each of the Loan Agreements or other agreement, between the Authority and the Applicable Participant in connection with each Loan made under the Resolution, as the same may from time to time be amended, supplemented or otherwise modified as permitted by the Resolution and by the Loan Agreement.

Loan Repayments means the scheduled monthly payments of principal of and interest on the Loan paid by a Participant pursuant to the Applicable Loan Agreement.

Management Consultant means a nationally recognized accounting or management consulting firm or other similar firm, experienced in reviewing and assessing operations of organizations similar to the Participants, acceptable to the Authority.

Moody's means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns.

Mortgage means, collectively, any fee or leasehold mortgage or mortgages granted by any of the Participants, or a party related to any Participant, to the Authority in connection with the granting of a particular Loan under the Resolution, in form and substance satisfactory to the Authority, on the Mortgaged Property mortgaged in connection therewith, as security for the performance of said Participant's obligations under the Applicable Loan Agreement, as such Mortgage may be amended or modified as provided in such Loan Agreement.

Mortgaged Property means the land or interest therein described in a Mortgage and the buildings and improvements thereon or thereafter erected thereon and the fixtures, furnishings and equipment owned by the Applicable Participant and now or hereafter located therein or thereon.

Non-PPA Expenses means with respect to a Participant, all operating and nonoperating expenses of such Participant other than PPA Expenses.

Non-PPA Facility means with respect to a Participant, any facility of such Participant which is, or was, not subject to the Prior Property Approval process incorporated in New York State Codes, Rules and Regulations, Title 14, Parts 681, 686 and 690, as amended from time to time.

Non-PPA Indebtedness means with respect to a Participant, any Indebtedness incurred by such Participant to finance, in whole or in part, a Non-PPA Facility. Indebtedness incurred by such Participant with respect to a facility only a portion of which constitutes a Non-PPA Facility shall constitute Non-PPA Indebtedness to the extent such Indebtedness financed the Non-PPA Facility portion of such facility.

Non-PPA Revenues means with respect to a Participant, all operating and nonoperating revenues of such Participant other than PPA Revenues.

Private Placement Memorandum means a private placement memorandum or other offering document relating to and in connection with the placement or sale of any Bonds of a Series.

OMRDD means the New York State Office of Mental Retardation and Developmental Disabilities.

Outstanding, when used in reference to an Applicable Series of Bonds means, as of a particular date, all Bonds of such Series authenticated and delivered under the Resolution and under the Applicable Series Resolution except: (i) any such Bond cancelled by the Trustee at or before such date; (ii) any such Bond or Bonds deemed to have been paid in accordance with the Resolution; and (iii) any such Bond or Bonds in lieu of or in substitution for which another such Bond shall have been authenticated and delivered pursuant to the Resolution.

Participant or **Participants** collectively means each or all of the not-for-profit members of Inter-Agency Council of Mental Retardation and Developmental Disabilities Agencies, Incorporated for whose benefit the Authority shall have issued Bonds under the Resolution and with whom the Authority shall have executed one or more Loan Agreements as particularly defined in the Applicable Series Resolution.

Paying Agent means, with respect to a Series of Bonds, the Trustee and any other bank or trust company and its successor or successors, appointed pursuant to the provisions of the Resolution or of the Applicable Series Resolution, the Applicable Bond Series Certificate or any other resolution of the Authority adopted prior to authentication and delivery of such Bonds for which such Paying Agent or Paying Agents shall be so appointed.

Permitted Collateral means:

- (i) Government Obligations described in clauses (i) or (ii) of the definition of Government Obligations;

(ii) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations;

(iii) commercial paper that (a) matures within two hundred seventy (270) days after its date of issuance, (b) is rated in the highest short term rating category by at least one Rating Service and (c) is issued by a domestic corporation whose unsecured senior debt is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category;

(iv) financial guaranty agreements, surety or other similar bonds or other instruments of an insurance company (a) that has an equity capital of at least \$125,000,000, (b) is rated by Bests Insurance Guide or a nationally recognized statistical rating service in the highest rating category, and (c) which regularly deals in such agreements, bonds or instruments; and

(v) bankers' acceptances that (a) mature within three hundred sixty-five (365) days after its date of issuance, and (b) are issued by a bank rated in the highest short term rating category by at least one Rating Service.

Permitted Encumbrances means with respect to a Participant, (i) the Applicable Loan Agreement, (ii) the Resolutions, (iii) the Mortgage, if any, (iv) any instrument recorded pursuant to the Loan Agreement, (v) any encumbrances or matters set forth in the Applicable Loan Agreement, including matters referred to in any title insurance policy described in the Loan Agreement and accepted by the Authority, (vi) any mortgage or other lien or encumbrance in connection with any additional Bonds issued under the Resolution approved in writing by the Authority, and (vii) any other encumbrances or matters approved in writing by the Authority after the date of delivery of the Bonds.

Permitted Investments means:

(i) Government Obligations;

(ii) Federal Agency Obligations;

(iii) Exempt Obligations;

(iv) uncollateralized certificates of deposit that are fully insured by the Federal Deposit Insurance Corporation and issued by a banking organization authorized to do business in the State;

(v) collateralized certificates of deposit that are (a) issued by a banking organization authorized to do business in the State that has an equity capital of not less than \$125,000,000, whose unsecured senior debt, or debt obligations fully secured by a letter or credit, contract, agreement or surety bond issued by it, are rated by at least one nationally recognized statistical rating service in at least the second highest rating category, and (b) fully collateralized by Permitted Collateral;

(vi) Investment Agreements that are fully collateralized by Permitted Collateral; and

(vii) Permitted Collateral of the type described in clauses (iii) and (v) of the definition of Permitted Collateral.

Person means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Pledged Revenues means the Public Funds attributable to the Applicable Project and/or the Project Property..

PPA Expenses means with respect to a Participant, all operating and nonoperating expenses properly incurred by such Participant with respect to a PPA Facility in accordance with the Prior Property Approval received by such Participant with respect to such PPA Facility.

PPA Facility means with respect to a Participant, any facility of such Participant which was, or will be, approved by OMRDD pursuant to the Prior Property Approval process incorporated in New York State Codes, Rules and Regulations, Title 14, Parts 681, 686 and 690, as amended from time to time.

PPA Revenues means with respect to a Participant, revenues received by such Participant with respect to a PPA Facility intended to amortize the PPA Expenses incurred with respect to such PPA Facility.

Prior Pledges means, with respect to the Bonds of the Applicable Series and any Applicable Loan made under a Loan Agreement, any liens, pledges, charges, encumbrances and security interests made and given by a Participant to secure prior obligations of such Participant as described in such Loan Agreement.

Program Facilitator shall mean Inter-Agency Council of Mental Retardation and Developmental Disabilities Agencies, Incorporated, as program facilitator under the Administration Agreement, and its successors in such capacity.

Project or Projects means, with respect to each Participant and each Loan under the Resolution, the acquisition, financing, refinancing, construction, reconstruction, renovation, development, improvement, expansion and equipping of certain educational, administrative, day program and residential facilities to be located in the State, which may include more than one part, financed in whole or in part from the proceeds of the sale of an Applicable Series of Bonds or any portion thereof, as more particularly described and designated the Applicable Series Resolution.

Project Loan Account means each of the respective accounts or subaccounts so designated, created and established in the Applicable Project Loan Fund by an Applicable Series Resolution.

Project Loan Fund means the fund so designated and established for a Series of Bonds by an Applicable Series Resolution.

Project Property means the administrative, educational and residential facilities owned or leased by a Participant including real and personal property located thereat, as more particularly described in the Applicable Loan Agreement.

Public Funds means all moneys appropriated, apportioned or otherwise payable to a Participant by the Federal government, any agency thereof, the State, any agency of the State, a political subdivision, as defined in Section 100 of the General Municipal Law, any social services district in the State or any governmental entity, including OMRDD pursuant to each Prior Property Approval with respect to the Applicable Project Property.

Purchased Bonds means Bonds of a Series purchased by or at the direction of an Applicable Participant pursuant to the provisions of the Applicable Series Resolution or Applicable Bond Series Certificate as authorized by the Resolution.

Qualified Financial Institution means any of the following entities that has an equity capital of at least \$125,000,000 or whose obligations are unconditionally guaranteed by an affiliate or parent having an equity capital of at least \$125,000,000:

- (i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, and (a) that is on the Federal Reserve Bank of New York list of primary government securities dealers and (b) whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one Rating Service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one Rating Service no lower than in the highest rating category for such short term debt;

(ii) a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of the United States of America, any state of the United States of America, whose unsecured long term debt or debt obligations fully secured by a letter or credit, contract, agreement or surety bond issued by it, is, at the time an investment with it is made, rated by at least one Rating Service no lower than in the second highest rating category;

(iii) a corporation affiliated with or which is a subsidiary of any entity described in (i) or (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity or which is a subsidiary of a foreign insurance company, whose senior unsecured long term debt or debt obligations fully secured by a letter or credit, contract, agreement or surety bond issued by it, is, at the time an investment with it is made, rated by at least one Rating Service no lower than in the second highest rating category;

(iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, the Student Loan Marketing Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority; or

(v) a corporation whose obligations, including any investments of any moneys held hereunder purchased from such corporation, are insured by an insurer that meets the applicable rating requirements set forth above.

Rating Service means each of Fitch, Moody's and S&P, in each case, which has assigned a rating to Outstanding Bonds of the Applicable Series at the request of the Authority, or their respective successors and assigns.

Record Date means, unless otherwise defined with respect to Bonds of a Series in an Applicable Series Resolution or Applicable Bond Series Certificate, the fifteenth (15th) day (whether or not a Business Day) of the calendar month next preceding an interest payment date.

Redemption Price means, when used with respect to a Series of Bonds, the principal amount of such Bonds plus the applicable premium, if any, payable upon redemption thereof pursuant to the Resolution or to the Applicable Series Resolution or Applicable Bond Series Certificate; *provided, however*, when used with respect to an extraordinary mandatory redemption of a Defaulted Allocable Portion of a Series of Bonds, Redemption Price shall have the meaning set forth in the Resolution.

Refunding Bonds means all Bonds, whether issued in one or more Series of Bonds, authenticated and delivered on original issuance pursuant to the Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds.

Reserve Fund Facility means a surety bond, insurance policy or Letter of Credit authorized by or pursuant to a Series Resolution establishing a Debt Service Reserve Fund to be delivered in lieu of or substitution of all or a portion of the moneys otherwise required to be held in such Debt Service Reserve Fund.

Resolution means this InterAgency Council Pooled Loan Program Revenue Bond Resolution, as the same may be from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms and provisions hereof.

Revenues mean, with respect to a particular Series of Bonds, all payments received or receivable by the Authority (including Contribution Amounts and Public Funds) pursuant to each of the Applicable Loan Agreements, which payments are to be paid to the Trustee, except (i) payments to such Trustee for the administrative costs and

expenses or fees of such Trustee, (ii) payments to such Trustee for deposit to the Arbitrage Rebate Fund, and (iii) the Annual Administrative Fee.

S&P means Standard & Poor's Ratings Service, a division of The McGraw Hill Corporation, a corporation organized and existing under the laws of the State, and its successors and assigns.

Serial Bonds means the Bonds so designated in an Applicable Series Resolution or an Applicable Bond Series Certificate.

Series means all of the Bonds authenticated and delivered on original issuance and pursuant the Resolution and an Applicable Series Resolution, and any Bonds of such Series thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions.

Series Resolution means a resolution of the members of the Authority authorizing the issuance of a Series of Bonds, adopted by the Authority pursuant to the Resolution.

Series 2010B Resolution means the Authority's Series Resolution Authorizing Up to \$45,000,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2010B adopted by the Authority on March 31, 2010, as amended and supplemented by the Series 2010 Supplemental Resolution, as the same may be amended, supplemented or otherwise modified pursuant to the terms thereof.

Sinking Fund Installment means, with respect to any Series or Subseries of Bonds, as of any date of calculation and with respect to any Bonds of such Series or Subseries, so long as any such Bonds are Outstanding, the amount of money required by the Applicable Series Resolution or the Applicable Bond Series Certificate to be paid on a single future July 1 for the retirement of any Outstanding Bonds of such Series which mature after such future July 1, but does not include any amount payable by the Authority by reason only of the maturity of such Bond, and such future July 1 is deemed to be the date when such Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Bonds are deemed to be Bonds entitled to such Sinking Fund Installment.

State means the State of New York.

Subseries means the grouping of Bonds of a Series established by the Authority pursuant to the Applicable Series Resolution or the Applicable Bond Series Certificate.

Supplemental Resolution means any resolution of the members of the Authority amending or supplementing the Resolution, any Series Resolution or any Supplemental Resolution adopted and becoming effective in accordance with the terms of the Resolution.

Supplemental Series 2010 Resolution means the Supplemental Resolution Amending and Supplementing the Dormitory Authority of the State of New York InterAgency Council Pooled Loan Program Series 2010B Resolution, Series 2010B Resolution and Series 2010C Resolution, adopted by the Authority on May 12, 2010.

Term Bonds means, with respect to Bonds of a Series, the Bonds so designated in an Applicable Series Resolution or an Applicable Bond Series Certificate and payable from Sinking Fund Installments.

Total Debt Service Coverage Ratio means with respect to a Participant, the ratio for the applicable Fiscal Year of Total Net Revenues Available for Debt Service to Total Maximum Annual Debt Service.

Total Maximum Annual Debt Service means with respect to a Participant, the greatest amount required in the then current or any future Fiscal Year to pay the debt service on any outstanding Indebtedness of such Participant; *provided, however*, that any Indebtedness secured solely by a security interest in its Accounts Receivable in accordance with such Participant's rate covenant set forth in the Applicable Loan Agreement shall not be included in "Indebtedness" for the purposes of this definition; *provided further* that the debt service for the final

year of amortization of any Indebtedness shall not be included for purposes of this definition to the extent that such debt service is payable from any funded reserve(s) established with and held by a Person other than such Participant.

Total Net Revenues Available for Debt Service means with respect to a Participant, for any Fiscal Year, the excess of Revenues, including the proceeds of business interruption insurance, over the Expenses accrued or paid by such Participant for such Fiscal Year as determined and reported by the independent certified public accountants of such Participant in its most recently audited financial statements. For purposes of this definition, as determined in accordance with generally accepted accounting principles, consistently applied, (i) extraordinary items shall be excluded from Revenues and Expenses, (ii) depreciation, amortization and current interest expenses shall be excluded from Expenses, and (iii) if the Indebtedness to be incurred or guaranteed is with respect to the refinancing of a Project, then “current interest expenses” for purposes of clause (ii) above and such Participant’s additional Indebtedness covenant set forth in the Applicable Loan Agreement shall include the bona fide loan payments made by such Participant with respect to such Project Property in the Fiscal Year for which the determination is made.

Trustee means a bank or trust company appointed as Trustee for a Series of Bonds pursuant to an Applicable Series Resolution or an Applicable Bond Series Certificate delivered hereunder and having the duties, responsibilities and rights provided for herein with respect to such Series, and its successor or successors and any other bank or trust company which may at any time be substituted in its place pursuant hereto.

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APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

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SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a brief summary of certain provisions of the Loan Agreement. This summary does not purport to be complete and reference is made to the Loan Agreement 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 Bonds or any portion thereof the proceeds of which have been applied to make the Applicable Loan under the Loan Agreement for federal income taxation purposes. As a condition to such approval, the Authority may require that the Participant pay to the Trustee for deposit in the Applicable Debt Service Account of the Debt Service Fund an amount not to exceed the principal amount of the Applicable Loan outstanding at the date of such transfer, sale or conveyance, as such amount is determined by the Authority. Notwithstanding the foregoing, the Participant may remove equipment, furniture or fixtures in the Project or which comprise a part of the Project provided that the Participant substitutes equipment, furniture or fixtures having a value and utility at least equal to the equipment, furniture or fixtures removed or replaced.

The Participant covenants that it shall not sell, assign or transfer, nor shall it be released from, any of its obligations under the Loan Agreement without the prior written consent of the Authority, which consent shall be accompanied by (i) an agreement by the Participant and the assignee to comply with all terms and conditions of such consent and (ii) an opinion of Bond Counsel stating that the assignment will not have an effect on the status of the taxability of the Bonds or any portion thereof the proceeds of which have been applied to make the Applicable Loan under the Loan Agreement for federal income taxation purposes. In connection with any such assignment and assumption, the Participant and assignee shall execute and deliver such documents, certificates and agreements as may be required by the Authority, including but not limited to documents, certificates and agreements regarding the deduction, withholding and/or payment of Pledged Revenues in the amount required by the Loan Agreement.

Notwithstanding any other provision of the Loan Agreement, so long as there exists no Event of Default under the Loan Agreement, nor any event which upon the giving of notice or the passage of time or both, would constitute an Event of Default, the Participant may, upon written notice to the Authority and the Trustee and compliance with the following, effect the release of a Project Property from the Loan Agreement and 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 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 Bonds or any portion thereof the proceeds of which have been applied to make the Applicable Loan under the Loan Agreement for federal income taxation purposes.

The Participant shall provide such moneys or an irrevocable letter of credit or other security in such form as may be acceptable to the Authority as in the reasonable judgment of the Authority may be required to pay the cost of completing the Project in excess of the moneys, letter of credit or other security in the Applicable Project Loan Account of the Project Loan Fund established for such Project. Such moneys, letter of credit or other security shall be paid or be available to the Trustee for deposit in the Applicable Project Loan Account of the Project Loan Fund within thirty (30) days of receipt of notice from the Authority that such moneys or other security are required.

No Contract Documents shall be entered into after the date of execution and delivery of the Loan Agreement and no material modification, addition or amendment to the Contract Documents shall be made after the date of the execution and delivery of the Loan Agreement, including without limitation change orders materially affecting the scope or nature of the Project or where the cost of implementing the change exceeds \$50,000, without the prior written approval of the Authority, which approval shall not be unreasonably withheld. The Participant agrees to furnish or cause to be furnished to the Authority copies of all change orders regardless of amount, upon the request of the Authority therefor.

The Authority, upon request of the Participant, may, but shall not be required to, issue Bonds to provide moneys required for the cost of completing the Project in excess of the moneys in the Applicable Project Loan Account of the Project Loan Fund. Nothing contained in the Loan Agreement or in the Resolutions shall be construed as creating any obligation upon the Authority to issue Bonds for such purpose, it being the intent to reserve to the Authority full and complete discretion to decline to issue such Bonds. The proceeds of any additional Bonds shall be deposited and applied as specified in the Series Resolution authorizing such Bonds or the Bond Series Certificate relating to such Bonds.

(Section 6)

Financial Obligations of the Participant; General and Unconditional Obligation; Voluntary Payments

Except to the extent that moneys are available therefor under the Resolution or the Series Resolution or under the Loan Agreement, including, without limitation, moneys in the Applicable Debt Service Account of the Debt Service Fund, but excluding moneys from the Participant's Allocable Portion of the Debt Service Reserve Fund and excluding interest accrued but unpaid on investments held in the Applicable Debt Service Account of the Debt Service Fund, the Participant unconditionally agrees to pay, so long as the Loan is outstanding, to or upon the

order of the Authority or, with respect to paragraph (d) below, the Program Facilitator from its general funds or any other moneys legally available to it:

(a) On or before the date of delivery of the Bonds, the Authority Fee in the amount set forth in the Loan Agreement;

(b) On or before the date of delivery of the Bonds, such amount, if any, as in the reasonable judgment of the Authority is necessary to pay the Participant's Allocable Portion of the Costs of Issuance of such Bonds, and the Participant's Allocable Portion of the other costs in connection with the issuance of such Bonds;

(c) The Participant shall make Loan Repayments on the dates and in the amounts as set forth in the Loan Agreement;

(d) The fees of the Program Facilitator to be paid by the Participant pursuant to the Administration Agreement;

(e) At least forty-five (45) days prior to any date on which the Redemption Price or purchase price of Bonds previously called for redemption or contracted to be purchased is to be paid exclusive of Bonds to be redeemed or purchased pursuant to Sinking Fund Installments, the Participant's Allocable Portion of the amount required to pay the Redemption Price or purchase price of such Bonds;

(f) The Annual Administrative Fee, through the final maturity date of the Bonds or until such Bonds are no longer Outstanding, as set forth in the Loan Agreement;

(g) Promptly after notice from the Authority, but in any event not later than fifteen (15) days after such notice is given, the amount set forth in such notice as payable to the Authority (i) for the Participant's Allocable Portion of the Authority Fee then unpaid, (ii) to reimburse the Authority for payments made by it pursuant to the penultimate paragraph under this heading and any expenses or liabilities incurred by the Authority pursuant to provisions of the Loan Agreement as described under the headings "Covenants as to Insurance" and "Taxes and Assessments" below and other provisions of the Loan Agreement relating to indemnity by the Participant, (iii) to reimburse the Authority for the Participant's Allocable Portion of any external costs or expenses incurred by it attributable to the issuance of the Bonds, (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 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 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.

Appendix E

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 are or the Resolution or the Series Resolution is invalid or unenforceable or any other failure or default by the Authority or the Trustee; provided, however, that nothing in the Loan Agreement shall be construed to release the Authority from the performance of any agreements on its part therein contained or any of its other duties or obligations, and in the event the Authority shall fail to perform any such agreement, duty or obligation, the Participant may institute such action as it may deem necessary to compel performance or recover damages for non-performance. Notwithstanding the foregoing, the Authority shall have no obligation to perform its obligations under the Loan Agreement to cause advances to be made to reimburse the Participant for, or to pay, the Costs of the Project beyond the extent of moneys in the Applicable Project Loan Account of the Project Loan Fund established for such Project.

The Loan Agreement and the obligation of the Participant to make payments thereunder are general obligations of the Participant.

The Authority, for the convenience of the Participant, shall furnish to the Participant statements of the due date, purpose and amount of payments to be made pursuant to the Loan Agreement. The failure to furnish such statements shall not excuse non-payment of the amounts payable under the Loan Agreement at the time and in the manner provided thereby.

The Authority shall have the right in its sole discretion to make on behalf of the Participant any payment required pursuant to the provisions of the Loan Agreement as described under this heading which has not been made by the Participant when due; provided, that notice of such payment is immediately made to the Participant. No such payment by the Authority shall limit, impair or otherwise affect the rights of the Authority under the provisions of the Loan Agreement described under the heading “Defaults and Remedies” below arising out of the Participant’s failure to make such payment and no payment by the Authority shall be construed to be a waiver of any such right or of the obligation of the Participant to make such payment.

The Participant, if there is not then an Event of Default under the Loan Agreement, shall have the right to make voluntary payments in any amount to the Trustee. In the event of a voluntary payment, the amount so paid shall be deposited in accordance with the directions of the Authority in the Applicable Debt Service Account of the Debt Service Fund or held by the Trustee for the payment of Bonds or portions thereof in accordance with the Resolution. Upon any voluntary payment by the Participant or any deposit in the Applicable Debt Service Account of the Debt Service Fund made as described in the fifth paragraph above, the Authority agrees to direct the Trustee to purchase or redeem Bonds or portions thereof in accordance with the Resolution or to give the Trustee irrevocable instructions in accordance with defeasance provisions of the Resolution; provided, however, that in the event such voluntary payment is in the sole judgment of the Authority sufficient to prepay the Loan under the Loan Agreement and to pay all other amounts then due thereunder, and to purchase or redeem the Participant’s Allocable Portion of the Bonds Outstanding, or to pay or provide for the payment of the Participant’s Allocable Portion of the Bonds Outstanding in accordance with defeasance provisions of the Resolution, the Authority agrees, in accordance with the instructions of the Participant, to direct the Trustee to purchase or redeem the Participant’s Allocable Portion of the Bonds Outstanding, or to cause the Participant’s Allocable Portion of the Bonds Outstanding to be paid or to be deemed paid in accordance with defeasance provisions of the Resolution.

(Section 9)

Debt Service Reserve Fund

The Participant agrees that it will at all times maintain on deposit in the Debt Service Reserve Fund an amount at least equal to the Participant’s Allocable Portion of the Debt Service Reserve Fund Requirement, provided that the Participant shall be required to deliver moneys or Permitted Investments to the Trustee for deposit in the Debt Service Reserve Fund as a result of a deficiency in such Fund within five (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.

Appendix E

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.

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

At or before the delivery by the Authority of the Bonds, the Participant shall execute and deliver to the Authority the Mortgage, in recordable form, mortgaging the Mortgaged Property to the Authority, subject only to Permitted Encumbrances. As further security for the obligations and liabilities of the Participant under the Loan Agreement, the Participant shall grant the Authority a security interest in such fixtures, furnishings and equipment owned by the Participant which then are or thereafter will be located in or on any Mortgaged Property, together with all proceeds thereof and substitutions therefor. Such security interest in such fixtures, furnishings and equipment shall be subject only to Permitted Encumbrances.

Prior to any assignment of the Mortgage to the Trustee in accordance with the terms of the Resolution, the Authority, with the consent of a majority of the Holders of Bonds then Outstanding, but without the consent of the Trustee, 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; provided however, the Authority may release the Additional Parcels (as defined in the Mortgage) from the Mortgage, without the consent of the Holders of the

Bonds or the Trustee, in accordance with terms of the Mortgage. Notwithstanding the foregoing, the Participant may remove fixtures or equipment from the Mortgaged Property provided that the Participant shall replace such fixtures or equipment with fixtures or equipment having equivalent value and utility.

(Section 13)

Warranty as to Title; Encumbrances; Title Insurance

The Participant warrants and represents to the Authority that (i) it has good and marketable title to the Project and all Project Property, free and clear of liens and encumbrances, except Permitted Encumbrances, so as to permit it to have quiet enjoyment and use thereof for purposes of the Loan Agreement and the Participant's programs and (ii) the Participant has such rights of way, easements or other rights in land as may be reasonably necessary for ingress and egress to and from the Project and all Project Property, for proper operation and utilization of such Project and such Project Property and for utilities required to serve such Project and such Project Property, together with such rights of way, easements or other rights in, to and over land as may be necessary for construction by the Participant of each such Project.

The Participant covenants that title to the Project and all Project Property shall be kept free from any encumbrances, liens or commitments of any kind, other than Permitted Encumbrances.

The Participant warrants, represents and covenants that (i) the Project and all Project Property are and shall be serviced by all necessary utilities (including, to the extent applicable, without limitation, electricity, gas, water, sewer, steam, heating, air-conditioning and ventilation), and (ii) to the extent applicable, such Project and Project Property shall have its own separate and independent means of access, apart from any other property owned by the Participant or others. Such access, however, may be through common roads or walks owned by the Participant used also for other parcels owned by the Participant.

(Section 14)

Consent to Pledge and Assignment by the Authority

The Participant consents to and authorizes the assignment, transfer or pledge by the Authority to the Trustee of the Authority's rights to receive the payments required to be made pursuant to the Loan Agreement as described in paragraphs (c), (e), and (h) under the heading "Financial Obligations of the Participant; General and Unconditional Obligations; Voluntary Payment" above, any or all security interests granted by the Participant under the Loan Agreement, including without limitation the security interest in the Pledged Revenues and the Permitted Investments delivered pursuant to the Loan Agreement and all funds and accounts established by the Resolution (other than the Arbitrage Rebate Fund) and pledged under the Resolution in each case to secure any payment or the performance of any obligation of the Participant under the Loan Agreement or arising out of the transactions contemplated by the Loan Agreement whether or not the right to enforce such payment or performance shall be specifically assigned by the Authority to the Trustee. The Participant further agrees that the Authority may pledge and assign to the Trustee any and all of the Authority's rights and remedies under the Loan Agreement. Upon any pledge and assignment by the Authority to the Trustee authorized by the Loan Agreement, the Trustee shall be fully vested with all of the rights of the Authority so assigned and pledged and may thereafter exercise or enforce, by any remedy provided therefor thereby or by law, any of such rights directly in its own name. Any such pledge and assignment shall be limited to securing the Participant's obligations to make all payments required by the Loan Agreement and to performing all other obligations required to be performed by the Participant thereunder. Any realization upon any pledge made or security interest granted by the Loan Agreement shall not, by operation of law or otherwise, result in cancellation or termination thereof or the obligations of the Participant thereunder.

The Participant covenants, warrants and represents that it is duly authorized by all applicable laws, its charter or certificate of incorporation and by laws to enter into the Loan Agreement, to incur the indebtedness contemplated by the Loan Agreement, to pledge, grant a security interest in and assign to the Authority and the Trustee, for the benefit of the Bondholders, the Pledged Revenues and the Permitted Investments delivered pursuant to the Loan Agreement in the manner and to the extent provided therein and in the Resolution. The Participant

further covenants, warrants and represents that any and all pledges, security interests in and assignments to the Authority and the Trustee for the benefit of the Bondholders, granted or made pursuant to the Loan Agreement are and shall be free and clear of any pledge, lien, charge, security interest or encumbrance prior thereto, or of equal rank therewith, other than the Prior Pledges and the Permitted Encumbrances, and that all corporate action on the part of the Participant and any parties related thereto, to that end has been duly and validly taken. The Participant further covenants that the provisions of the Loan Agreement are and shall be valid and legally enforceable obligations of the Participant in accordance with their terms. The Participant further covenants that it shall at all times, to the extent permitted by law, defend, preserve and protect the pledge, security interest in and assignment of the Pledged Revenues, Permitted Investments and Reserve Fund Facility delivered pursuant to the Loan Agreement and all of the rights of the Authority and Trustee for the benefit of the Bondholders under the Loan Agreement, under the Series Resolution and under the Resolution 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 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 Bonds from federal gross income pursuant to Section 103 of the Code.

(Section 16)

Use of the Project; Restrictions on Religious Use

The Participant agrees that, unless in the opinion of Bond Counsel the Project may be occupied or used other than as required by the Loan Agreement as described under this heading, at least ninety-five percent (95%) of the Project shall be occupied or used primarily by the Participant or members of the staff of the Participant or residents of the Project, as applicable, for activities related to the tax-exempt purposes of the Participant, or, on a temporary basis, persons connected with activities incidental to the operations of the Participant, subject to and consistent with the requirements of the Loan Agreement as described under this heading.

Subject to the rights, duties and remedies of the Authority under the Loan Agreement, the Participant shall have sole and exclusive control of, possession of and responsibility for (i) the Project and all Project Property, (ii) the operation of the Project and all Project Property and supervision of the activities conducted therein or in

connection with any part thereof, and (iii) the maintenance, repair and replacement of the Project and all Project Property.

The Participant agrees that with respect to the Project or any portion thereof, so long as such Project or portion thereof exists and unless and until such Project or portion thereof is sold for the fair market value thereof, such Project or any portion thereof shall not be used for sectarian religious instruction or as a place of religious worship or in connection with any part of a program of a school or department of divinity for any religious denomination; provided, however, that the foregoing restriction shall not prohibit the free exercise of any religion; and, further provided, however, that if at any time hereafter, in the opinion of Bond Counsel, the then applicable law would permit the Project or a portion thereof to be used without regard to the above stated restriction, said restriction shall not apply to such Project and each portion thereof. The Authority and its agents may conduct such inspections as the Authority deems necessary to determine whether the Project or any portion of real property thereof financed by Bonds is being used for any purpose proscribed by the Loan Agreement. The Participant further agrees that prior to any disposition of any portion of the Project for less than fair market value, it shall execute and record (or cause to be executed and recorded) in the appropriate real property records an instrument subjecting, to the satisfaction of the Authority, the use of such portion of such Project to the restriction that (i) so long as such portion of such Project (and, if included in such Project, the real property on or in which such portion of such Project is situated) shall exist and (ii) until such portion of such Project is sold or otherwise transferred to a Person who purchases the same for the fair market value thereof at the time of such sale or transfer, such portion of such Project shall not be used for sectarian religious instruction or as a place of religious worship or used in connection with any part of the program of a school or department of divinity of any religious denomination. The instrument containing such restriction shall further provide that such restriction may be enforced at the instance of the Authority or the Attorney General of the State, by a proceeding in any court of competent jurisdiction, by injunction, mandamus or by other appropriate remedy. The instrument containing such restriction shall also provide that if at any time thereafter, in the opinion of Bond Counsel, the then applicable law would permit such portion of such Project, or, if included in such Project, the real property on or in which such portion is situated, to be used without regard to the above stated restriction, then said restriction shall be without any force or effect. For the purposes of this heading an involuntary transfer or disposition of the Project or a portion thereof, upon foreclosure or otherwise, shall be considered a sale for the fair market value thereof.

(Sections 20 and 21)

Covenant as to Insurance

The Participant agrees to maintain or cause to be maintained insurance with insurance companies or by means of self-insurance, insurance of such type, against such risks and in such amounts as are customarily carried by organizations located in the State of a nature similar to that of the Participant, which insurance shall include property damage, fire and extended coverage, public liability and property damage liability insurance in amounts estimated to indemnify the reasonably anticipated damage, loss or liability, subject to reasonable deductible provisions. The Participant shall at all times also maintain worker's compensation coverage and disability benefits insurance coverage as required by the laws of the State.

(Section 23)

Damage or Condemnation

In the event of a taking of the Project or the Project Property or any portion thereof by eminent domain or of condemnation, damage or destruction affecting all or part of the Project or the Project Property, then and in such event the entire proceeds of any insurance, condemnation or eminent domain award shall be paid upon receipt thereof by the Participant or the Authority to the Trustee for deposit in the Applicable Project Loan Account of the Project Loan Fund, and

(a) if within 120 days from the receipt by the Authority of actual notice or knowledge of such occurrence, the Participant and the Authority agree in writing that the Project, the Project Property or the affected portion thereof shall be repaired, replaced or restored, the Participant shall proceed to repair, replace or restore the Project, the Project Property or the affected portion thereof, including all fixtures, furniture, equipment and effects,

to its original condition insofar as possible with such changes and additions as shall be appropriate to the needs of the Participant and approved in writing by the Authority. The funds required for such repair, replacement or restoration shall be paid from time to time as the work progresses, subject to such conditions and limitations as the Authority may reasonably impose, from the proceeds of insurance, condemnation or eminent domain awards received by reason of such occurrence or from funds to be provided by the Participant; or

(b) if no agreement for the repair, restoration or replacement of the Project, the Project Property or the affected portion thereof shall be reached by the Authority and the Participant within such 120 day period, all respective proceeds (other than the proceeds of builders' risk insurance which shall be deposited pursuant to the Resolution and the Series Resolution) shall be transferred from the Applicable Project Loan Account of the Project Loan Fund in which such proceeds were deposited to the Applicable Debt Service Account of the Debt Service Fund for the redemption at par, at the option of the Authority, of Bonds on any future interest payment date.

(Section 24)

Taxes and Assessments

The Participant shall pay or cause to be paid when due at its own expense, and hold the Authority harmless from, all taxes, assessments, water and sewer charges and other impositions, if any, which may be levied or assessed upon the Project or the Project Property or any part thereof, and upon all ordinary costs of operating, maintaining, renovating, repairing and replacing the Project and the Project Property and its equipment. The Participant shall file or cause to be filed exemption certificates as required by Governmental Requirements. The Participant agrees to exhibit to the Authority within ten (10) days after written demand by the Authority, certificates or receipts issued by the appropriate authority showing full payment of all taxes, assessments, water and sewer charges and other impositions; provided, however, that the good faith contest of such impositions shall be deemed to be complete compliance with the requirements of the Loan Agreement if the Participant deposits with the Authority the full amount of such contested impositions. Notwithstanding the foregoing, the Authority, in its sole discretion, after notice in writing to the Participant, may pay (such payment shall be made under protest if so requested by the Participant) any such charges, taxes and assessments if, in the reasonable judgment of the Authority, the Project or the Project Property, or any part thereof, would be in substantial danger by reason of the Participant's failure to pay such charges, taxes and assessments of being sold, attached, forfeited, foreclosed, transferred, conveyed, assigned or otherwise subjected to any proceeding, equitable remedy, lien, charge, fee or penalty that would impair (i) the interests or security of the Authority under the Loan Agreement, under the Series Resolution, under the Resolution or under the Mortgage; (ii) the ability of the Authority to enforce its rights under the Loan Agreement or thereunder; (iii) the ability of the Authority to fulfill the terms of any covenants or perform any of its obligations under the Loan Agreement, under the Series Resolution or under the Resolution; or (iv) the ability of the Participant to fulfill the terms of the covenants or perform any of its obligations under the Loan Agreement, under the Series Resolution, and the Participant agrees to reimburse the Authority for any such payment, with interest thereon from the date payment was made by the Authority at a rate equal to the highest rate of interest payable on any investment held for the Debt Service Fund on the date such payment was made by the Authority.

(Section 25)

Reports Relating to the Project or the Project Property and Financial Information

The Participant shall, if and when requested by the Authority, render to the Authority and the Trustee reports with respect to all repairs, replacements, renovations, and maintenance made to the Project or the Project Property. In addition, the Participant shall, if and when requested by the Authority, render such other reports concerning the condition of the Project or the Project Property as the Authority may request. The Participant shall also furnish annually, not later than one hundred and eighty (180) days after the end of the Participant's Fiscal Year, to the Trustee, the Program Facilitator, the Placement Agent, 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 Placement Agent and the Trustee a certificate of an Authorized Officer of the Participant stating whether the Participant is in compliance with the provisions the Loan Agreement.

(Section 26)

Defaults and Remedies

As used in the Loan Agreement, the term "Event of Default" shall mean:

(a) the Participant shall default in the timely payment of any amount payable pursuant to the Loan Agreement as described under the heading "Financial Obligations of the Participant; General and Unconditional Obligation; Voluntary Payments" or in the payment of any other amounts required to be delivered or paid in accordance with the Loan Agreement, the Series Resolution or the Resolution or in the timely payment of any amount payable pursuant to any loan agreement with the Authority or any agreement with any lender with respect to the Project Property or Public Funds, and such default continues for a period in excess of seven (7) days;

(b) the Participant shall default in the due and punctual performance of any other covenant contained in the Loan Agreement 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) Reserved;

(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 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) [Reserved];

(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 (e), (f), (g), (h), (i), (j), (k) or (l) above shall have occurred and be continuing with respect to the Participant, 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 students including but not limited to cooperating with any qualified service provider in order to permit such service provider to assume the Participant's liabilities and obligations to provide benefits to such students. 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 Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code, and any proposed or final regulations thereunder as are applicable to the Bonds at the time of such action, investment or use. The Participant (or any related person, as defined in Section 147(a)(2) of the Code) shall not, pursuant to an arrangement, formal or informal, purchase Bonds in an amount related to the amount of any obligation to be acquired from the Participant by the Authority. The Participant will, on a timely basis, provide the Authority with all necessary information and funds not in the Authority's possession, to enable the Authority to comply with the arbitrage and rebate requirements of the Code as identified in the Resolution. The Participant shall be required to pay for any consultant or report necessary to satisfy any such arbitrage and rebate requirement.

(Section 40)

Financial Covenants

Rate Covenant

The Participant covenants that it has maintained in its current Fiscal Year and it will maintain in each Fiscal Year subsequent to the date of delivery of the Loan Agreement Total Net Revenues Available for Debt Service sufficient to produce in each Fiscal Year a Total Debt Service Coverage Ratio of not less than 1.00 to 1.00.

Additional Indebtedness

The Participant may not incur any additional Indebtedness (including, but not limited to, guarantees or derivatives in the form of credit default swaps or total-rate-of-return swaps or similar instruments), without the prior written consent of the Authority, except for the following:

(a) Indebtedness (other than for working capital, other than installment purchase payments payable under installment sale agreements and other than rents payable under lease agreements) incurred in the ordinary course of the Participant's business for its current operations including the maintenance and repair of its property, advances from third party payors and obligations under reasonably necessary employment contracts,

(b) Indebtedness in the form of rentals under leases which are not required to be capitalized in accordance with generally accepted accounting principles in effect on the date of issuance of the Bonds,

Appendix E

(c) Indebtedness in which recourse to the Participant for repayment is expressly limited to proceeds from the sale, lease or foreclosure of any tangible property of the Participant other than the Project Property,

(d) Non-PPA Indebtedness to the extent that the Participant has delivered to the Authority and the Trustee a certificate signed by the Participant's chief executive officer or chief financial officer demonstrating a Total Debt Service Coverage Ratio of not less than 1.25 to 1.00 for the most recent Fiscal Year for which audited financial statements exist. In preparing its calculations of the required ratios, the Participant's representative or the independent certified public accountant, as applicable, shall include the proposed debt service requirements with respect to the Non-PPA Indebtedness to be issued,

(e) Indebtedness to finance a PPA Facility, and

(f) short-term Indebtedness for working capital purposes, provided, however, that such Indebtedness may be secured by no more than ninety percent (90%) of the Participant's Accounts Receivables.

(Exhibit E)

APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

The following is a brief summary of certain provisions of the Resolution and the Series 2010B 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 Private Placement Memorandum.

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 2010B Resolution establishes a Debt Service Reserve Fund to be held and maintained by the Trustee with respect to the Series 2010B 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 2010B 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 2010B Bonds or Permitted Investments in an amount sufficient to satisfy each Applicable Series 2010B Participant's Allocable Portion of the Debt Service Reserve Fund Requirement as set forth in the Applicable Bond Series Certificate. An Applicable Series 2010B 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 2010B Bonds for all or any part of the Debt Service Reserve Fund Requirement or any Applicable Series 2010B 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 2010B are not rated by Moody's and S&P by whichever of said rating services that then rates the Outstanding Series 2010B Bonds..

In addition to the conditions and requirements set forth above, no Reserve Fund Facility shall be deposited in full or partial satisfaction of the Debt Service Reserve Fund Requirement unless the Trustee shall have received prior to such deposit (i) an opinion of counsel acceptable to the Authority to the effect that such Reserve Fund Facility has been duly authorized, executed and delivered by the Facility Provider thereof and is valid, binding and enforceable in accordance with its terms, and (ii) in the event such Facility Provider is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Authority.

Each Reserve Fund Facility shall be payable (upon the giving of such notice as may be required thereby) on any date on which moneys are required to be withdrawn from the Debt Service Reserve Fund and such withdrawal cannot be made without (i) if the Reserve Fund Facility consists of a Letter of Credit, drawing upon the Letter of Credit, or (ii) if the Reserve Fund Facility consists of a surety bond or insurance policy, obtaining payment under such surety bond or insurance policy.

For the purposes of this section and, in computing the amount on deposit in the Debt Service Reserve Fund, a Reserve Fund Facility shall be valued at the amount available to be drawn or payable thereunder on the date of computation.

If, upon a valuation, the value of all moneys, Permitted Investments and Reserve Fund Facilities held for the credit of an Applicable Series 2010B Participant's Allocable Portion of a Debt Service Reserve Fund is less than such Applicable Series 2010B 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 2010B Participant of such deficiency. Such Applicable Series 2010B 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 2010B 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 2010B Participant's Allocable Portion of, respectively, interest on the Outstanding Series 2010B 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 2010B 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 2010B Bonds upon the acceleration of such Series 2010B Participant's Loan pursuant to the Applicable Loan Agreement.

Upon the exercise by a Series 2010B Participant of its option to prepay its Loan under the Applicable Loan Agreement, the Trustee shall transfer such Applicable Participant's Allocable Portion of the Debt Service Reserve Fund to the Applicable Debt Service Account of the Debt Service Fund for application to payment of the portion of principal of and interest on the Applicable Subseries of Series 2010B Bonds which correspond to the principal of and interest on the Loan so prepaid.

(c) The Trustee, as promptly as practicable (i) after the end of each calendar month, (ii) upon the request of the Authority, (iii) upon the request of a Series 2010B 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 2010B 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 2010B 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 2010B 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 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 to the defaulting Participant’s Applicable Loan Agreement, including the such Participant’s Pledged Revenues and other amounts derived from the exercise of any remedies under the Applicable Loan Agreement and the realization of any security or collateral granted by such defaulting Participant as security for its Applicable Loan, and (ii) moneys and securities on deposit in the Applicable Accounts of the funds authorized hereby and established pursuant to the Applicable Series Resolution for the payment of such defaulting Participant’s Allocable Portion of the Applicable Series of Bonds (other than any Account in the Arbitrage Rebate Fund), and the Holders of such Defaulted Allocable Portion of the Applicable Series of Bonds shall have no right to any payments from any other Revenues or any other funds held by the Trustee hereunder for the payment of such Series of Bonds.

(b) Subject to paragraph (a) above, if at any time the moneys held by the Trustee in the funds and accounts under the Resolution and under an Applicable Series Resolution shall not be sufficient to pay the principal of and interest on the Bonds of a Series as the same become due and payable (either by their terms or by acceleration of maturity), such moneys together with any moneys then available or thereafter becoming available for such purpose, whether through exercise of the remedies provided for in the Resolution or otherwise, shall be applied (after payment of all amounts owing to the Trustee hereunder) as follows:

(i) Unless the principal of all the Bonds of a Series has become or been declared due and payable, all such moneys shall be applied:

FIRST: To the payment to the persons entitled thereto of all installments of interest then due in the order of such maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in such Bonds; or

SECOND: To the payment to the persons entitled thereto of the unpaid principal, Sinking Fund Installments or Redemption Price of any Bonds of such Series which shall have become due whether at maturity or by call for redemption in the order of their due dates and, if the amount available shall not be sufficient to pay in full all of such Bonds due on any date, then to the payment thereof ratably, according to the amount of principal, Sinking Fund Installments or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(ii) If the principal of all of the Bonds of a Series or the principal of all of the Defaulted Allocable Portion of the Bonds of a Series shall have become or been declared due and payable, all such

moneys shall be applied to the payment of the principal and interest then due and unpaid upon such Bonds or Defaulted Allocable Portion of such Bonds, as the case may be, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond of such Series over any other such Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in said Bonds.

These provisions summarized above are in all respects subject to the provisions of the Resolution.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of the Resolution summarized herein, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The setting aside of such moneys in trust for application in accordance with the provisions of this section shall constitute proper application by the Trustee, and the Trustee shall incur no liability whatsoever to the Authority, to any Holder of Bonds of a Series or to any other person for any delay in applying any such moneys so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be on an interest payment date unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date. The Trustee shall not be required to make payment to the Holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement.

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

(Section 11.05)

Bondholders' Direction of Proceedings.

Anything in the Resolution to the contrary notwithstanding, the Holders of (i) not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of a Series or the principal amount of the Defaulted Allocable Portion of the Outstanding Bonds of a Series, as applicable, in the case of an event of default specified in paragraphs (a), (c) or (d) under the caption "*Events of Default*" above, or (ii) a majority in principal amount of the Outstanding Bonds of a Series affected thereby, in the case of an event of default specified in paragraph (b) under the caption "*Events of Default*" above, shall have the right by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Resolution and under Applicable Series Resolution, provided, such direction shall not be otherwise than in accordance with law or the provisions of the Resolution and of Applicable Series Resolution, and that the Trustee

shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

(Section 11.07)

Limitation of Rights of Individual Bondholders

No Holder of any of the Bonds of a Series shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Resolution or under any Series Resolution, or for any other remedy under the Resolution unless such Holder previously shall have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of (i) not less than twenty five per centum (25%) in principal amount of the Outstanding Bonds of a Series, in the case of an event of default specified in paragraphs (a) or (c) under the caption “*Events of Default*” above, (ii) a majority in principal amount of the Outstanding Bonds of a Series, in the case of an event of default specified in paragraph (b) under the caption “*Events of Default*” above, or (iii) not less than twenty five per centum (25%) in principal amount of the Defaulted Allocable Portion of the Outstanding Bonds of a Series, in the case of an event of default specified in paragraph (d) under the caption “*Events of Default*” above, shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its or their name, and unless, also there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are by the Resolution declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Resolution or for any other remedy under the Resolution and at equity and in law. It is understood and intended that no one or more Holders of the Bonds of a Series secured by the Resolution and by a Series Resolution shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution or to enforce any right under the Resolution except in the manner provided in the Resolution, and that all proceedings at law or in equity shall be instituted and maintained for the benefit of all Holders of the Outstanding Bonds of such Series. Notwithstanding any other provision of the Resolution, the Holder of any Bond of a Series shall have the right which is absolute and unconditional to receive payment of the principal of (or Redemption Price, if any) and interest on such Bond on the stated maturity expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

(Section 11.08)

Defeasance

(a) If the Authority shall pay or cause to be paid to the Holders of the Bonds of a Series or any portion thereof the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, thereof and interest thereon, at the times and in the manner stipulated therein, in the Resolution, and in the Applicable Series Resolution and Applicable Bond Series Certificate, then the pledge of the Revenues or other moneys and securities pledged to such Series of Bonds or any portion thereof and all other rights granted by the Resolution to such Series of Bonds or any portion thereof shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver such documents to evidence such discharge and satisfaction as may be reasonably required by the Authority, and all moneys or other securities held by it pursuant to the Resolution and to the Applicable Series Resolution which are not required for the payment or redemption of Bonds of such Series or any portion thereof not theretofore surrendered for such payment or redemption shall be paid or delivered by the Trustee as follows: *first*, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; *second*, to each Applicable Facility Provider which has certified to the Trustee and the Authority that moneys advanced under a Reserve Fund Facility together with any interest thereon have not been repaid, *pro rata*, based upon the respective amounts certified by each such Applicable Facility Provider; *third*, to the Authority the amount certified by the Authority to be then due or past due pursuant to an Applicable Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, *fourth*, the balance thereof to the Applicable Participants, as directed in writing by the Authority. Such moneys or securities so paid or delivered

shall be released from any trust, pledge, lien, encumbrance or security interest created by the Resolution, by the Applicable Series Resolution or by an Applicable Loan Agreement.

(b) Notwithstanding any provision of the Resolution to the contrary, if any Participant shall have prepaid its respective Loan pursuant to the Applicable Loan Agreement and in accordance therewith shall pay or cause to be paid its Allocable Portion of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest on the Applicable Series of Bonds or portions thereof at the times and in the manner stipulated therein, in the Resolution, and in the Applicable Series Resolution and the Applicable Bond Series Certificate, then the pledge of the Revenues or other moneys and securities pledged with respect to such Loan or any portion thereof and all other rights granted under the Applicable Loan Agreement and any Mortgage or security interest relating thereto shall be discharged and satisfied; provided that the moneys used for such prepayment shall not constitute an avoidable transfer under Section 547 of the United States Bankruptcy Code, as amended, in the event of a bankruptcy by such Participant. Moneys derived from a refunding, borrowed from a third party financial institution or set aside by the Participant for such purpose in a segregated account for at least 124 days and not commingled with any other moneys of the Participant shall be deemed to be moneys that do not constitute an avoidable transfer under Section 547 of the Bankruptcy Code. In such event, the Trustee shall, upon the request of the Authority, execute and deliver such documents to evidence such discharge and satisfaction as may be reasonably required by the Participant and the Authority, and all moneys or other securities held by the Trustee pursuant to the Resolution and to the Applicable Series Resolution which are not required for the payment or redemption of the Participant's Allocable Portion of the Bonds of such Applicable Series to be defeased or any portion thereof not theretofore surrendered for such payment or redemption shall be paid or delivered by the Trustee as follows: *first*, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; *second*, to each Applicable Facility Provider which has certified to the Trustee and the Authority that moneys advanced under a Reserve Fund Facility which constitutes any part of such Participant's Allocable Portion of the related Debt Service Reserve Fund, if any, together with any interest thereon, have not been repaid, *pro rata*, based upon the respective amounts certified by each such Applicable Facility Provider; *third*, to the Authority the amount certified by the Authority to be then due or past due pursuant to the Applicable Loan Agreement relating to the Applicable Loan to be prepaid for fees and expenses of the Authority or pursuant to any indemnity; and, *fourth*, the balance thereof to such Participant. Such securities so paid or delivered shall be released from any trust, pledge, lien, encumbrance or security interest created by the Resolution, by the Applicable Series Resolution or by the Applicable Loan Agreement.

(c) Bonds of a Series or any portion thereof for which moneys shall have been set aside and shall be held in trust by the Trustee for the payment or redemption thereof (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in paragraphs (a) or (b) above. All Outstanding Bonds of a Series or portions thereof or any maturity within such Series or a portion of a maturity within such Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in paragraphs (a) or (b) above if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to give as provided in the Resolution notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities, the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, any moneys or securities deposited pursuant to the provisions of this paragraph (c) shall be held by the Trustee in separate trust accounts established with respect to each Applicable Loan prepaid under the Resolution, (iii) the Trustee shall have received the consent to each deposit of each Applicable Facility Provider which has issued a Reserve Fund Facility which constitutes any part of such Participant's Allocable Portion of the related Debt Service Reserve Fund, if any, and which has given written notice to the Authority that amounts advanced thereunder or the interest thereon have not been paid to such Applicable Facility Provider, and (iv) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee, in form satisfactory to it, irrevocable instructions to give, as soon as practicable, by first class mail, postage prepaid, to the Holders of such Bonds at their respective last known addresses, if any, appearing on the registration books, and, if directed by an Authorized Officer of the Authority, by publication, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized

Newspaper, a notice to the Holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this paragraph (c) and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds. The Authority shall give written notice to the Trustee of its selection of the maturity for which payment shall be made in accordance with the Resolution. The Trustee shall select which Bonds of such Series and which maturity thereof shall be paid in accordance with the Resolution in the manner provided therein. Neither the Defeasance Securities nor moneys deposited with the Trustee pursuant to the Resolution nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds; *provided, however*, that any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on such Bonds on and prior to such redemption date or maturity date thereof, as the case may be; *provided, further*, that money and Defeasance Securities may be withdrawn and used by the Authority for any purpose upon (i) the simultaneous substitution therefor of either money in an amount which shall be sufficient, or Defeasance Securities the principal of and interest on which when due will provide money which without regard to reinvestment, together with the money, if any, held by or deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (ii) receipt by the Trustee of a letter or other written report of a firm of independent certified public accountants verifying the accuracy of the arithmetical computations which establish the adequacy of such money and Defeasance Securities for such purpose. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, shall, to the extent certified by the Trustee to be in excess of the amount required hereinabove to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: *first*, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; *second*, to each Applicable Facility Provider who has certified to the Trustee and the Authority that moneys advanced under a Reserve Fund Facility issued by it which constitutes any part of such Participant's Allocable Portion of the related Debt Service Reserve Fund, if any, together with any interest thereon, have not been repaid, *pro rata*, based upon the respective amounts certified by each such Facility Provider; *third*, to the Authority the amount certified by the Authority to be then due or past due pursuant to the Applicable Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, *fourth*, the balance thereof to the Applicable Participants, and any such moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Applicable Loan Agreement.

(d) Anything in the Resolution to the contrary notwithstanding, any moneys held by the Trustee or Paying Agent in trust for the payment and discharge of any of the Bonds of a Series which remain unclaimed for two (2) years after the date when such moneys become due and payable, upon such Bonds either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee or Paying Agent at such date, or for two (2) years after the date of deposit of such moneys if deposited with the Trustee or Paying Agent after said date when such Bonds become due and payable, shall at the written request of the Authority, be repaid by the Trustee or Paying Agent to the Authority as its absolute property and free from trust, and the Trustee or Paying Agent shall thereupon be released and discharged with respect thereto and the Holders of Bonds of such Series shall look only to the Authority for the payment of such Bonds; *provided, however*, that, before being required to make any such payment to the Authority, the Trustee or Paying Agent may, at the expense of the Authority, cause to be published in an Authorized Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date shall be not less than forty (40) nor more than ninety (90) days after the date of publication of such notice, the balance of such moneys then unclaimed shall be returned to the Authority.

(Section 12.01)

APPENDIX G

FORM OF APPROVING OPINION OF BOND COUNSEL

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**PROPOSED FORM OF APPROVING OPINION
OF BOND COUNSEL**

Upon delivery of the Series 2010B 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 \$6,980,000 aggregate principal amount of InterAgency Council Pooled Loan Program Revenue Bonds, Series 2010B (the "Series 2010B 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 2010B Bonds are issued under and pursuant to the Act, the InterAgency Council Pooled Loan Program Revenue Bond Resolution adopted by the Authority on March 31, 2010 (the "Bond Resolution") and the series resolution adopted by the Authority on March 31, 2010 authorizing the Series 2010B Bonds, as amended by the supplemental resolution adopted by the Authority on May 12, 2010 (the "Series 2010B Resolution"). The Bond Resolution and the Series 2010B Resolution are herein collectively referred to as the "Resolutions."

The Series 2010B 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 2010B 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 2010B Bonds, the Revenues and all funds and accounts established by the Series 2010B 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 2010B 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 2010B 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 2010B Bonds be payable out of funds of the Authority other than those pledged for the payment of the Series 2010B Bonds.

5. The Loan Agreement between the Authority and SCO Family of Services. (the “Series 2010B Participant”), dated as of March 31, 2010 (the “Loan Agreement”), has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery thereof by the Series 2010B Participant, constitutes a legal, valid and binding obligation of the Authority enforceable in accordance with its terms.

6. Under existing statutes and court decisions, (i) interest on the Series 2010B 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 Series 2010B Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax. In rendering this opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, the Series 2010B Participant and the Inter-Agency Council of Mental Retardation and Developmental Disabilities Agencies, Incorporated (the “Program Facilitator”), and we have assumed compliance by Authority, the Series 2010B Participant and the Program Facilitator with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2010B Bonds from gross income under Section 103 of the Code. In addition, we have relied on the opinion of counsel to the Series 2010B Participant regarding, among other matters, the current qualification of the Series 2010B Participant as an organization described in Section 501(c)(3) of the Code.

7. Under existing statutes, interest on the Series 2010B 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 and 7 above, we express no opinion as to any Federal or state tax consequences with respect to the Series 2010B 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 Series 2010B Bonds, or under state and local tax law.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Series 2010B 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 Series 2010B Bond and, in our opinion, the form of said Series 2010B Bond and its execution are regular and proper.

Very truly yours,

APPENDIX H

FORM OF INVESTOR LETTER

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FORM OF INVESTOR LETTER

_____, 2010

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York

The Bank of New York Mellon,
as Trustee
101 Barclay, Floor 7W
New York, New York

Re: Dormitory Authority of the State of New York
InterAgency Council Pooled Loan Program Revenue Bonds,
Series 2010B, dated August __, 2010

Ladies and Gentlemen:

The undersigned is the purchaser (the “Purchaser”) of \$_____ aggregate principal amount of the above-captioned bonds (the “Bonds”), issued by the Dormitory Authority of the State of New York (the “Authority”) under and pursuant to the Authority’s InterAgency Council Pooled Loan Program Revenue Bond Resolution adopted on March 31, 2010 and its Series Resolution Authorizing the Issuance of up to \$45,000,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2010B, adopted on March 31, 2010 and amended and supplemented on May 12, 2010 (collectively, the “Resolutions”) for the benefit of SCO Family of Services, a not-for-profit corporation organized and existing under the laws of the State of New York and a member of InterAgency Council of Mental Retardation and Developmental Disabilities Agencies, Incorporated (the “Series 2010B Participant”). Capitalized terms used herein, unless otherwise defined, will have the meanings as set forth in the Resolutions.

In connection with the purchase of the Bonds, the Purchaser hereby represents, acknowledges and agrees with you as follows:

1. The Purchaser is a sophisticated investor with experience in purchasing and evaluating obligations similar to the Bonds and is a “qualified institutional buyer” as defined in Rule 144A of the Securities Act of 1933, as amended (the “Securities Act”).

2. The Purchaser has been furnished with, and acknowledges receipt of, a copy of the Private Placement Memorandum dated August 5, 2010 relating to the Bonds, and the Purchaser understands the risks of, and other considerations relating to, the purchase of the Bonds.

3. The Purchaser has been provided an opportunity to ask questions of, and the Purchaser has received answers from, representatives of the Authority and the Series 2010B Participant regarding the terms and conditions of the purchase of the Bonds, and the Purchaser has obtained all information and documentation concerning the Bonds, the Series 2010B Participant and the Project (as defined in the Private Placement Memorandum) requested by it to verify the accuracy of all information furnished to it or otherwise deemed by it to be relevant in connection with its purchase of the Bonds.

4. The Purchaser has made its own independent evaluation of the financial position and business condition of the Series 2010B Participant and the likelihood of the payment of the Bonds, and has not relied upon the Authority in this regard. Although certain information regarding the Series 2010B Participant and the Project was distributed by the Authority, the Purchaser acknowledges that the Authority has made no representation or warranty as to the creditworthiness or financial condition of the Series 2010B Participant or as to the accuracy or completeness of such information.

5. The Purchaser has such knowledge and experience in financial affairs that it is capable of evaluating the merits and risks of purchasing the Bonds. The Purchaser's financial situation is such that it can afford to bear the economic risk of holding the Bonds for an indefinite period of time, and it can afford to suffer the complete loss of its investment in the Bonds.

6. The Purchaser is acquiring the Bonds for its own account for investment purposes and has no present intention to, directly or indirectly, transfer, offer, sell, pledge, hypothecate or otherwise dispose of all or any part of the Bonds (or solicit any offers to buy, purchase or otherwise acquire or take a pledge of all or any part of the Bonds), but the Purchaser reserves the right to dispose of any or all of the Bonds if in the future the Purchaser deems it advisable to do so and provided that any such disposition will be made in a manner consistent with this Investor Letter.

7. The Purchaser agrees that in the event that it exercises its right to dispose of the Bonds or any portion thereof or interest therein, such disposition shall be made only to "qualified institutional buyers" that will be deemed to have accepted the conditions of ownership and restrictions on transfer set forth in the Resolutions and in the legend included on the Bonds. The Purchaser understands that a restrictive legend will be placed on the Bonds reflecting the restrictions in this letter and that stop-transfer instructions will be issued to The Bank of New York Mellon, as Trustee.

8. The Purchaser acknowledges that the Bonds are not registered under the Securities Act and that such registration is not legally required as of the date hereof; and further understand that the Bonds (a) are not being registered or otherwise qualified for sale under the "Blue Sky" laws and regulations of any state, (b) will not be listed in any stock or other securities exchange, (c) will not carry a rating from any rating service, and (d) will be delivered in a form which may not be readily marketable.

9. The Purchaser has not offered, offered to sell, offered for sale or sold any of the Bonds by means of any form of general solicitation or general advertising, and it is not an underwriter of the Bonds within the meaning of Section 2(11) of the Securities Act.

10. The Purchaser acknowledges that the Authority and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that if any of the acknowledgments, representations or agreements deemed to have been made by its purchase of the Bonds are no longer accurate, it shall promptly notify the Authority.

[PURCHASER]

By: _____
Name:
Title:

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