Moody's: Aa1
(See "Ratings" herein)

NEW ISSUE

DAC Bond®

$53,910,000
DORMITORY AUTHORITYOF THE STATE OF NEW YORK
RESIDENTIAL INSTITUTIONS FOR CHILDREN REVENUE BONDS

Consisting of:

$53,835,000	$75,000
Sub-Series 2008A-1	Federally Taxable Sub-Series 2008A-2

Dated: Date of delivery **Due: June 1, as shown on the inside cover**

Payment and Security: The Residential Institutions for Children Revenue Bonds, Sub-Series 2008A-1 Tax Exempt Bonds and the Federally Taxable Sub-Series 2008A-2 Bonds (collectively, the "Series 2008 Bonds") will be special obligations of the Dormitory Authority of the State of New York (the "Authority"). Principal of and interest on the Series 2008 Bonds are payable solely from and secured by a pledge of certain payments to be made under separate Loan Agreements, dated as of March 26, 2008, (the "Loan Agreements"), between each of Gateway-Longview, Inc., Green Chimneys Children's Services, Inc., Gustavus Adolphus Child & Family Services, Inc., Hillside Children's Center, Crestwood Children's Center, Snell Farm Children's Center, The New York Foundling Hospital and Northeast Parent & Child Society, Inc., respectively, (collectively the "Residential Providers") and the Authority, and all funds and accounts (other than the Arbitrage Rebate Fund) authorized for the Series 2008 Bonds under the Authority's Residential Institutions for Children Revenue Bond Resolution adopted March 26, 2008, (the "Resolution") and established under the Residential Institutions for Children Revenue Bond Series 2008 Resolution (the "Series 2008 Resolution"), adopted March 26, 2008 (collectively, the "Resolutions").

Pursuant to the Resolutions, the Series 2008 Bonds will be secured by a pledge of Revenues which shall consist of payments received or receivable by the Authority pursuant to the Loan Agreements between each of the Residential Providers and the Authority, and from certain mortgage insurance policies issued by the State of New York Mortgage Agency ("SONYMA" and the "SONYMA Mortgage Insurance Policies").

Each of the Residential Providers are New York not-for-profit corporations licensed by the New York State Office of Children and Family Services (the "OCFS") and provide residential care services for foster children and children with special needs. Pursuant to the Act (as hereinafter defined), the OCFS shall periodically assess against each of the school districts and social service districts placing children with a Residential Provider for residential services a capital financing add-on rate, which shall be paid by such school district or social services district to the Residential Provider. The OCFS shall assess the capital financing add-on rate against each such school district and social service district in an amount expected to be sufficient to pay when due amounts owed under each Residential Provider's Loan Agreement including each Residential Provider's allocable portion of debt service on the Series 2008 Bonds. The aggregate of payments made by the respective school districts and social service districts pursuant to the capital financing add-on rate are expected to be in an amount sufficient to pay debt service on the Series 2008 Bonds. In the event a social service district or school district fails to pay amounts due to a Residential Provider including the capital financing add-on rate, the State Comptroller is required, upon certification of the OCFS or the State Education Department as applicable, to withhold state reimbursement to such social service district or school district in the amount equal to the unpaid capital financing add-on rate for payment over to the Trustee.

The Loan Agreements provide that amounts paid to a Residential Provider by a school district or social service district for residential services provided by the Residential Provider, including the capital financing add-on-rate, shall, immediately upon receipt by the Residential Provider, be deposited by the Residential Provider into a secured account (the "Account"). Each month an amount necessary to satisfy the Residential Provider's payment obligation under the Loan Agreement will be transferred from the respective Residential Provider's Account to the Trustee to be utilized by the Trustee pursuant to the terms of the Resolutions.

Each Loan Agreement constitutes a general obligation of each respective Residential Provider to repay only that portion of Series 2008 Bonds loaned to it. Payments of amounts due under each Loan Agreement will not be a joint and several obligation of the Residential Providers. See "PART 2 - SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS."

At the time of delivery of the Series 2008 Bonds, bond proceeds will be deposited in the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement.

The Series 2008 Bonds will not be a debt of the State of New York, or SONYMA nor will the State or SONYMA be liable on them. The Authority has no taxing power.

Description: The Series 2008 Bonds will be issued as fully registered bonds in denominations of $5,000 or any integral multiple thereof. Interest (due December1, 2008 and each June 1 and December 1 thereafter) on the Series 2008 Bonds will be payable by check mailed to the registered owners thereof and principal and Redemption Price of the Series 2008 Bonds will be payable at the principal corporate trust office of The Bank of New York, 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 Series 2008 Bonds, by wire transfer, as more fully described herein.

The Series 2008 Bonds will be issued initially under a Book-Entry Only System, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Individual purchases of beneficial interests in the Series 2008 Bonds will be made in book-entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2008 Bonds, payments of the principal and Redemption Price of and interest on such Series 2008 Bonds will be made directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. See "PART 4 - THE SERIES 2008 BONDS - Book-Entry Only System" herein.

Redemption and Purchase in Lieu of Redemption: *The Series 2008 Bonds are subject to redemption and purchase in lieu of redemption prior to maturity as more fully described herein.*

Tax Exemption: In the opinion of Hiscock & Barclay, LLP, Bond Counsel, under existing law (i) assuming compliance with certain covenants and the accuracy of certain representations, interest on the Sub-Series 2008A-1 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and (ii) interest on the Series 2008 Bonds is exempt from personal income taxes imposed by the State of New York and political subdivisions thereof, including The City of New York and the City of Yonkers. Interest on the Sub-Series 2008A-1 Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of the tax aspects, see "PART 11 - TAX MATTERS" herein.

The Series 2008 Bonds are offered when, as and if issued and received by the Underwriters. The offer of the Series 2008 Bonds may be subject to prior sale, or withdrawn or modified at any time without notice. The offer is subject to the approval of legality by Hiscock & Barclay, LLP, Albany, New York, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Underwriters by its counsel, Winston & Strawn LLP, New York, New York. Certain legal matters will be passed upon for the Residential Providers, by their respective counsels. The Authority expects to deliver the Series 2008 Bonds in definitive form in New York, New York, on or about June 17, 2008.

Depfa First Albany Securities LLC **RBC Capital Markets**

May 30, 2008

$53,910,000
RESIDENTIAL INSTITUTIONS FOR CHILDREN
REVENUE BONDS,

$53,835,000

SUB-SERIES 2008A-1

$25,275,000 Serial Bonds

Due June 1,	Principal Amount	Interest Rate	Yield	Cusip Number[1]	Due June 1,	Principal Amount	Interest Rate	Yield	Cusip Number[1]
2011	$ 825,000	3.500%	3.000%	649903 C66	2020	$1,390,000	5.000%	4.310%*	649903 D73
2012	940,000	3.500	3.230	649903 C74	2021	1,470,000	5.000	4.400*	649903 D81
2013	975,000	3.750	3.370	649903 C82	2022	1,555,000	5.000	4.470*	649903 D99
2014	1,015,000	4.000	3.510	649903 C90	2023	1,645,000	4.375	4.580	649903 E23
2015	1,070,000	5.000	3.660	649903 D24	2024	1,715,000	4.500	4.630	649903 E31
2016	1,120,000	5.000	3.820	649903 D32	2025	1,810,000	4.500	4.680	649903 E49
2017	1,185,000	5.000	3.960	649903 D40	2026	1,900,000	4.500	4.730	649903 E56
2018	1,255,000	5.000	4.080	649903 D57	2027	1,995,000	4.625	4.780	649903 E64
2019	1,315,000	5.000	4.210*	649903 D65	2028	2,095,000	5.000	4.780*	649903 E72

$12,360,000 5.000% Term Bonds Due June 1, 2033 to Yield 4.870%* CUSIP 649903 E80
$16,200,000 5.000% Term Bonds Due June 1, 2038 to Yield 4.920%* CUSIP 649903 E98

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*Priced to the June 1, 2018 par call.

$75,000

FEDERALLY TAXABLE SUB-SERIES 2008A-2

$75,000 5.000% Term Bond Due June 1, 2011 to Yield 5.000% CUSIP 649903 F22

(1) CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of the holders of the Series 2008 Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2008 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2008 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Series 2008 Bonds.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Residential Providers, or SONYMA to give any information or to make any representations with respect to the Series 2008 Bonds, other than the information and representations contained in this Official Statement. If given or made, any such information or representations must not be relied upon as having been authorized by the Authority, the OCFS, the Residential Providers, or SONYMA.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be a sale of the Series 2008 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information in this Official Statement has been supplied by the Residential Providers, SONYMA and other sources that the Authority believes are reliable. The Authority does not guarantee the accuracy or completeness of such information and such information is not to be construed as a representation of the Authority.

Each Residential Provider has reviewed the parts of this Official Statement describing such Residential Providers, its Project, Estimated Sources and Uses of Funds and Principal, Sinking Fund Installments and Interest Requirements for the Series 2008 Bonds and Appendix B - Audited Financial Statements of the Residential Providers. As a condition to delivery of the Series 2008 Bonds, the Residential Providers shall certify that as of the dates of this Official Statement and of delivery of the Series 2008 Bonds, such parts do not contain any untrue statements of a material fact and do not omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which the statements are made, not misleading.

The Underwriters have reviewed the information in this Official Statement pursuant to its responsibility to investors under the federal securities law, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

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

Under no circumstances shall the delivery of this Official Statement or any sale made after its delivery create any implication that the affairs of the Authority, the Residential Providers, or SONYMA have remained unchanged after the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2008 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2008 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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DORMITORY AUTHORITY - STATE OF NEW YORK - 515 BROADWAY ALBANY, N.Y. 12207
MICHAEL T. CORRIGAN - ACTING EXECUTIVE DIRECTOR GAIL H. GORDON, ESQ. - CHAIR

OFFICIAL STATEMENT RELATING TO

$53,910,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK RESIDENTIAL INSTITUTIONS FOR CHILDREN REVENUE BONDS

Consisting of:

$53,835,000	$75,000
Sub-Series 2008A-1	Federally Taxable Sub-Series 2008A-2

PART 1 - INTRODUCTION

Purpose of the Official Statement

The purpose of this Official Statement, including the cover page and appendices, is to provide information about the Authority, the State of New York Mortgage Agency ("SONYMA") and the Residential Providers in connection with the offering by the Authority of $53,910,000 principal amount of its Residential Institutions For Children Revenue Bonds, Sub-Series 2008A-1 Bonds and the Federally Taxable Sub-Series 2008A-2 Bonds (collectively the "Series 2008 Bonds") for the purpose of financing Projects for Gateway-Longview Inc., Green Chimneys Children's Services, Inc., Gustavus Adolphus Child & Family Services Inc., Hillside Children's Center, Crestwood Children's Center, Snell Farm Children's Center, The New York Foundling Hospital and Northeast Parent & Child Society, Inc. (collectively, the "Residential Providers"). Each of the Residential Providers is a New York not-for-profit corporation licensed by the New York State Office of Children and Family Services ("the OCFS") and provides residential care services for foster children and children with special needs.

Purpose of the Issue

The Series 2008 Bonds are being issued, together with other available moneys (i) to pay costs of the Projects; (ii) to make a deposit into the Debt Service Reserve Fund; (iii) to provide moneys sufficient to pay a portion of the interest on the Series 2008 Bonds,and (iv) to pay certain Costs of Issuance of the Series 2008 Bonds. See "PART 6 - ESTIMATED SOURCES AND USES OF FUNDS" and "PART 7 - THE PROJECTS."

Authorization of Issuance

The Act authorizes the Authority, among other things, to issue its bonds for the purpose of financing the construction or improvement of residential facilities on behalf of certain residential institutions for children which provide residential care services for foster children and children with special needs and which are licensed by the OCFS as provided in the Act.

The Series 2008 Bonds will be issued pursuant to the Resolutions and the Act. The Resolution authorizes the issuance of other Series of Bonds in addition to the Series 2008 Bonds to pay Costs of the Projects, to make deposits to the Debt Service Reserve Fund established with respect to such Series of Bonds, to pay the Costs of Issuance of the Series of Bonds and to refund all or a portion of the Outstanding Bonds or other notes or bonds of the Authority. Each Series of Bonds is to be separately secured by (i) the funds and accounts established pursuant to a Series Resolution and (ii) the Loan Agreements to be executed by and between the Authority and the applicable Residential Provider. Neither the funds and accounts established under any Series Resolution, nor any Loan Agreement entered in connection with one Series of Bonds, shall secure any other Series of Bonds. The Series 2008 Resolution authorizes the issuance of the Series 2008 Bonds in an amount not to exceed $75,000,000. See "PART 4 - THE SERIES 2008 BONDS."

The Series 2008 Bonds

The Series 2008 Bonds will be dated and bear interest from their date of delivery, payable each December 1 and June 1, commencing December 1, 2008. The Series 2008 Bonds will bear interest at the rates and mature at the times set forth on the inside cover page of this Official Statement. See "PART 4 - THE SERIES 2008 BONDS - Description of the Series 2008 Bonds."

Payment of the Series 2008 Bonds

The Series 2008 Bonds will be special obligations of the Authority payable solely from Revenues consisting of the moneys received under the Loan Agreements, moneys held by the Trustee pursuant to the Resolutions, and upon an event of default, amounts paid pursuant to the applicable SONYMA Mortgage Insurance Policy, all as described herein. Pursuant to its Loan Agreement, each Residential Provider will be required to pay its Allocable Portion of the principal, Sinking Fund Installments and Redemption Price of and interest due on the Series 2008 Bonds, corresponding to that portion of the Series 2008 Bond proceeds loaned to it. The obligation of each Residential Provider to make payments under its Loan Agreement constitutes a general obligation of such Residential Provider. Payment of amounts due under the Series 2008 Bonds will not be joint and several obligations of the Residential Providers.

The Series 2008 Bonds will not be a debt of the State, or SONYMA nor will the State or SONYMA be liable on them. The Authority has no taxing power.

Security for the Series 2008 Bonds

The Series 2008 Bonds will also be secured by the proceeds from the sale of the Series 2008 Bonds (until disbursed as provided by the Resolution) and by all funds and accounts authorized by the Resolution and established by the Series 2008 Resolution (with the exception of the Arbitrage Rebate Fund), including a Debt Service Reserve Fund. See "PART 2-SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS - Payment of the Series 2008 Bonds."

Additional Security for the Series 2008 Bonds

The OCFS shall periodically assess against each of the school districts and social service districts placing children with the Residential Providers a per child capital financing add-on rate with respect to the Projects being financed by the Series 2008 Bonds. The aggregate of payments made pursuant to the capital financing add-on rate will be sufficient to pay debt service on the Series 2008 Bonds. The capital financing add-on rate will be a component of the maintenance rate paid monthly by each school district or social service district placing children with the Residential Providers for the provision of residential services to those children. Amounts paid to each Residential Provider by each school district or social service district for residential services provided to such school district or social service district will be deposited by such Residential Provider into a depository account (the "Account") established by such Residential Provider with a depository bank which account shall be governed and maintained pursuant to the terms of the Loan Agreement and an Account Control Agreement among the Residential Provider, the Trustee, the Authority and such depository bank. Each month an amount necessary to satisfy such Residential Provider's payment obligation under its Loan Agreement will be transferred from such Residential Provider's Account to the Trustee to be utilized by the Trustee pursuant to the terms of the Resolutions to pay the Residential Provider's Allocable Portion of debt service on the Series 2008 Bonds.

In the event a social service district or school district fails to pay the maintenance rate to a Residential Provider, the State Comptroller is required, upon certification of the OCFS or the State Education Department as applicable, to withhold state reimbursement to such social service district or school district in the amount equal to the unpaid capital financing add-on rate for payment of such amount over to the Trustee.

The Authority

The Authority is a public benefit corporation of the State, created for the purpose of financing and constructing a variety of public-purpose facilities for certain educational, governmental and not-for-profit institutions. See "PART 8 - THE AUTHORITY."

The Office of Children and Family Services

The New York State Office of Children and Family Services (the "OCFS") was formed on January 8, 1998 by merging the former State Division for Youth with the family and children's services programs administered by the former State Department of Social Services. The OCFS was created to improve the integration of services for New York's children, youth, families and vulnerable populations and to promote their development and protect them from violence, neglect, abuse and abandonment. the OCFS has numerous responsibilities including: foster care, adoption and adoption assistance, child protective services, preventive services for children and families, services for pregnant adolescents, child care and referral programs, and protective programs for vulnerable adults.

The Projects

A portion of the proceeds of the Series 2008 Bonds will be used to fund capital improvement projects of the Residential Providers approved by the OCFS (each a "Project" and collectively the "Projects"). See "PART 7 - THE PROJECTS."

PART 2—SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS

Set forth below is a narrative description of certain contractual and legislative provisions relating to the sources of payment of and security for the Series 2008 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 2008 Resolution, the Loan Agreements and the SONYMA Mortgage Insurance Policies. Copies of the Resolution, the Series 2008 Resolution, the Loan Agreements and the SONYMA Mortgage Insurance Policies are on file with the Authority and the Trustee. See also "Appendix C - Summary of Certain Provisions of the Loan Agreements," "Appendix D - Summary of Certain Provisions of the Resolution" for a more complete statement of the rights, duties and obligations of the parties hereto. Certain terms used in this Official Statement are defined in Appendix A hereto.

Payment of the Series 2008 Bonds

Special Obligations. The Series 2008 Bonds will be special obligations of the Authority. The principal, Sinking Fund Installments and Redemption Price of and interest on the Series 2008 Bonds are payable solely from Revenues consisting of the payments required to be made by or on behalf of the Residential Providers under their respective Loan Agreements, on account of each Residential Provider's Allocable Portion of, (i) the principal , Sinking Fund Installments and Redemption Price of and interest on the Series 2008 Bonds and (ii)the Series 2008 Debt Service Reserve Fund Requirement. Such funds and the right to receive them have been pledged to the Trustee for the benefit of the Owners of the Series 2008 Bonds.

The aggregate of payments due and payable to the Authority in each Bond Year under the Loan Agreements is an amount sufficient, when added to certain other amounts available under the Resolution, to pay (i) the principal, Sinking Fund Installments and Redemption Price of and interest due on the Series 2008 Bonds in that Bond Year, (ii) amounts necessary to maintain the Series 2008 Debt Service Reserve Fund at its required level for that Bond Year, (iii) the Annual Administrative Fee of the Authority for that Bond Year and (iv) the Annual SONYMA Fee.

Each Loan Agreement is a general obligation of the applicable Residential Provider to make payments to satisfy its Allocable Portion of Principal Sinking Fund Installments,Redemption Price and Interest on its Allocable Portion of the Outstanding Series 2008 Bonds. Each Loan Agreement constitutes a general obligation of each respective Residential Provider to repay only that portion of Series 2008 Bonds loaned to it. Payments of amounts due under each Loan Agreement will not be a joint and several obligation of the Residential Providers. See PART - 7 THE PROJECTS, which sets forth each of the Residential Providers Allocable Portion of the Series 2008 Bonds.

Capital Financing Add-On Rate. The OCFS is required by the Act to establish and impose with respect to each Project financed by the 2008 Bonds a per child capital financing add-on rate. The capital financing add-on rate will be assessed against each of the school districts or social service districts placing children with the Residential Providers. The capital financing add-on rate will be a component of the maintenance rate paid monthly by each school district or social service district placing children with a Residential Provider for the provision of residential services to those children pursuant to the Maintenance Rate Payment Contract between such school district or social services district and a Residential Provider. The OCFS shall assess the capital financing add-on rate against each school district and social service district in an aggregate amount sufficient to pay when due each Residential Provider's Allocable Portion of debt service on the Series 2008 Bonds. The aggregate of all payments made by the respective school districts and social service districts pursuant to the capital financing add-on rate will be in an amount sufficient to pay debt service on the Series 2008 Bonds.

State Intercept. In the event of a failure by an applicable social service district or school district to make a maintenance rate payment to a Residential Provider, the State Comptroller is required, upon certification by the OCFS or the State Education Department as applicable, to withhold State reimbursement to the applicable social service district or school district in an amount equal to the unpaid obligation for the capital financing add-on rate and pay over such sum to the Authority or the Trustee.

The Account Control Agreement. The Loan Agreement requires each Residential Provider to enter into an account control agreement (the "Account Control Agreement") by and among the Residential Provider, the Authority, the Trustee and the Residential Provider's bank (the "Depository"). The Loan Agreement and the Account Control Agreement require that each Residential Provider shall establish and maintain an account with the Depository, subject to the terms thereof, for so long as the Loan Agreement is in effect. The Loan Agreement and the Act require that all amounts received from any school district, social service district or any other Payor on account of the residential services provided by the Residential Provider, including the capital financing add-on rate, must be deposited by the Residential Provider into the Account immediately upon the Residential Provider's receipt of such amounts. Each Residential Provider is further required by the Act to grant the Authority a security interest in its respective Account and the funds deposited therein. Each month during the term of the Loan Agreement, an amount necessary to satisfy each Residential Provider's next due payment obligation under its respective Loan Agreement, will be transferred from the Residential Provider's Account to the Trustee to be utilized by the Trustee pursuant to the terms of the Resolutions to pay such Residential Providers Allocable Portion of debt service on the Series 2008 Bonds. Moneys on deposit in each Account shall become available to the Residential Provider only after payment of amounts then due to the Authority.

In addition, each Residential Provider will be required to include in each of its respective contracts with a social service district, school district or any other Payor, a provision requiring that the Residential Provider deposit all of its maintenance rate payments, including the capital financing add-on rate payment, received from such social service district or school district or other Payor on account of residential services, into the Account.

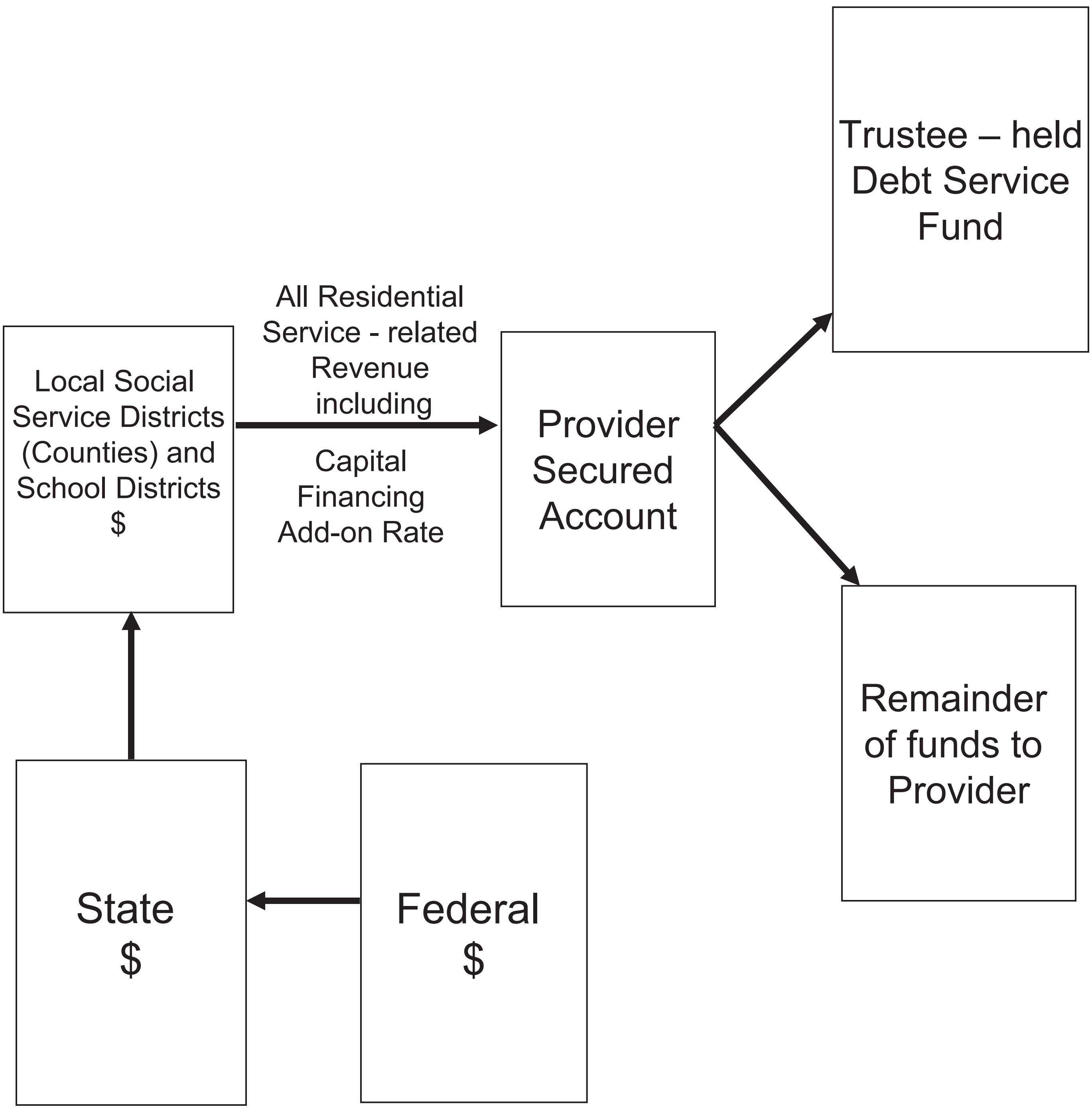
Pledged Revenues. As security for its obligations under the Loan Agreements, each Residential Provider has granted to the Authority a security interest in the Pledged Revenues, and the Authority has pledged and assigned to the Trustee its security interest in the Pledged Revenues.

Debt Service Reserve Fund. The Resolution requires that the Series 2008 Debt Service Reserve Fund be maintained at an amount equal to its requirement, which is one third of the amount of maximum annual principal, whether at maturity or on mandatory redemption, plus interest in any future 12 month period due from each Institution on its Allocable Portion of the debt service of the Series 2008 Bonds.

Proceeds of the Series 2008 Bonds will be deposited in the Applicable Debt Service Reserve Account of the Series 2008 Debt Service Reserve Fund in amounts equal to each of the Residential Provider's Allocable Portion of the Series 2008 Debt Service Reserve Fund Requirements. Moneys in the Applicable Debt Service Reserve Account of the Debt Service Reserve Fund are to be withdrawn and deposited in the Applicable Debt Service Account of the Debt Service Fund established with respect to the Series 2008 Bonds (the "Series 2008 Debt Service Fund") whenever the amount in the Applicable Debt Service Account of the Series 2008 Debt Service Fund on the fourth Business Day preceding an interest payment date is less than the amount which is necessary to pay the Residential Provider's Allocable Portion of principal of and interest on Outstanding Series 2008 Bonds payable on such interest payment date. Moneys in the Series 2008 Debt Service Reserve Fund in excess of their requirement shall be applied in accordance with the Resolution.

In lieu of or in substitution for moneys 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 Owners of the Applicable Series of Bonds for all or any part of the Applicable Debt Service Reserve Fund Requirement; provided that, among other things, any such surety bond or insurance policy shall be issued by an insurance company or association duly authorized to do business in the State. See "Appendix D - Summary of Certain Provisions of the Resolution."

Flow of Funds



The Mortgages. The Act requires that the obligations of each of the Residential Providers to the Authority under its Loan Agreement be secured by a Mortgage on real property used by the Residential Provider to provide residential services or such other interest in real property as is acceptable to the Authority.

The obligation of each Residential Provider under its Loan Agreement shall be secured by a Mortgage on certain real property owned by the Residential Provider or a Mortgage on the leasehold interest of the Residential Provider in real property used by the Residential Provider, and by security interests in certain fixtures, furnishing and equipment now or hereafter located therein or used in connection therewith. None of the Mortgages nor any security interests created thereunder, have been assigned to the Trustee to secure the Series 2008 Bonds. However, the Authority may, though it has no present intention to, and shall, upon the occurrence of certain events pursuant to the Resolution, assign one or more of the Mortgages and such security interests thereunder to the Trustee. In addition, upon a lump sum payment by SONYMA, the Authority or the Trustee shall assign the applicable Mortgage to SONYMA or its designee and the proceeds of such lump sum payment shall be applied to the redemption of a portion of the Series 2008 Bonds. See "PART 4 - THE SERIES 2008 BONDS - Redemption Provisions - Special Mandatory Redemption." Each Mortgage secures only the obligations of the Residential Provider granting the Mortgage, and in the event of a default by a Residential Provider which may lead to the assignment of its Mortgage, only the Mortgage of that Residential Provider may be assigned to the Trustee.

Each Residential Provider may incur debt secured on parity with or subordinate to the lien of its Mortgage with the prior consent the Authority and SONYMA.

SONYMA Mortgage Insurance Policies

Simultaneously with the delivery of the Series 2008 Bonds, SONYMA will issue a SONYMA Mortgage Insurance Policy with respect to each of the Mortgages of the Residential Providers. Each Residential Provider's Mortgage securing its respective payment obligations under its Loan Agreement will be insured by the applicable SONYMA Mortgage Insurance Policy upon compliance with certain conditions.

Pursuant to each of the SONYMA Mortgage Insurance Policies, following certain defaults (each, a "Covered Default") under the Mortgage securing the applicable Residential Provider's obligations under its Loan Agreement, the Authority shall file a claim for loss with SONYMA. Such claim may only be made pursuant to the SONYMA Mortgage Insurance Policy relating to the Mortgage of the Residential Provider with the Covered Default. Covered Defaults include a failure by an Residential Provider to make all or part of any required payment under its Loan Agreement, and the avoidance as a preferential transfer under any bankruptcy law of any payment paid under such Loan Agreement. Upon the Authority filing a claim for loss, SONYMA has the option to either (i) make periodic payments of its obligation under the applicable SONYMA Mortgage Insurance Policy in amounts equal to the amounts due under the Loan Agreement, or (ii) make a lump sum payment under the applicable SONYMA Mortgage Insurance Policy in an amount equal to the sum of the principal outstanding and interest accrued under the Loan Agreement from the date of such claim for loss to the date thirty (30) days following the date of payment in respect of such claim for loss.

Periodic payments are to be made monthly. In addition, if SONYMA has chosen initially to make periodic payments it may nevertheless exercise its option to make a lump sum payment of its then outstanding obligation under the applicable SONYMA Mortgage Insurance Policy at any time while SONYMA is making periodic payments.

Upon a lump sum payment by SONYMA, the Authority shall assign the applicable Mortgage to SONYMA or its designee. Pursuant to the Resolutions, a lump sum payment received from SONYMA is to be applied to the redemption of a portion of the Series 2008 Bonds. See "PART 4 - THE SERIES 2008 BONDS - Redemption Provisions - Special Mandatory Redemption."

For specific information on the coverage provided by the SONYMA Mortgage Insurance Policies, reference should be made to the "Special Terms and Conditions of SONYMA Insurance" which is available at the principal office of the Authority. SONYMA makes no representation as to the contents of this Official Statement (other than this section and "PART 3 - STATE OF NEW YORK MORTGAGE AGENCY"), the suitability of the Series 2008 Bonds for any investor, or compliance with any securities or tax laws and regulations which may relate to the issuance of the Series 2008 Bonds.

SONYMA's role is limited to providing the SONYMA Mortgage Insurance Policies.

The SONYMA Mortgage Insurance Policies may terminate pursuant to their respective terms upon the occurrence of certain events including the modification of the applicable Mortgage without the prior written consent of SONYMA or the disposal of property or collateral securing any Residential Provider's obligations under the applicable Loan Agreement prior to the final settlement of a claim for loss.

Events of Default and Acceleration

The following are events of default with respect to the Series 2008 Bonds under the Resolution: (i) a default in the payment of the principal or Redemption Price of or interest on any Series 2008 Bonds, (ii) a default by the Authority in the due and punctual performance of certain tax covenants with the result that interest on the Series 2008 Bonds is no longer excludable from gross income for Federal income tax purposes, (iii) a default by the Authority in the due and punctual performance of any other covenants for the benefit of Series 2008 Bonds Bondholders and continuance of such default for 30 days after written notice from the Trustee specifying such default to the Authority or (iv) an "Event of Default," as defined in the Loan Agreements arising out of or resulting from the failure of any Residential Provider to comply with the requirements of its Loan Agreement, shall have occurred and be continuing and all sums payable by such Residential Provider under such Loan Agreement shall have been declared immediately due and payable (unless such declaration shall have been annulled). Unless all sums payable under a Loan Agreement are declared immediately due and payable, an "Event of Default" under a Loan Agreement is not an event of default under the Resolution. See "Appendix C - Summary of Certain Provisions of the Loan Agreement" and "Appendix D - Summary of Certain Provisions of the Resolution."

The Resolution provides that if an event of default (other than as described in clause (ii) of the preceding paragraph) occurs and continues, the Trustee shall, upon the written request of (i) SONYMA or the Owners of not less than 25% in principal amount of the Outstanding Series 2008 Bonds with the consent of SONYMA or (ii) if SONYMA has deposited with the Trustee a sum sufficient to pay the principal of and interest on the Allocable Portion of the Outstanding Series 2008 Bonds due upon the acceleration thereof, SONYMA, without the consent of the Owners of the Series 2008 Bonds, by written notice to the Authority, declare the principal of and interest on the Allocable Portion of the Outstanding Series 2008 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 SONYMA or the Owners of not less than 25% in principal amount of Outstanding Series 2008 Bonds, with the consent of SONYMA, annul such declaration and its consequences under the terms and conditions specified in the Resolution with respect to such annulment.

The Resolution provides that if an event of default occurs and continues, the Trustee may proceed, and upon the written request of SONYMA or the Owners of not less than 25% in principal amount of the Outstanding Series 2008 Bonds with the consent of SONYMA shall proceed (subject to the provisions of the Resolution), to protect and enforce its rights and the rights of the Owners of the Series 2008 Bonds under the 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 in aid or execution of any power granted in the Resolution, 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.

The Resolution provides that the Trustee shall give notice in accordance with the Resolution of each event of default known to the Trustee to SONYMA within five days, and to the Owners of Series 2008 Bonds within thirty 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 Installment or Redemption Price of, or interest on, any of the Series 2008 Bonds, the Trustee shall be protected in withholding such notice thereof from the Owners if the Trustee in good faith determines that the withholding of such notice is in the best interests of the Owners of the Series 2008 Bonds.

General

The Series 2008 Bonds will not be a debt of the State or SONYMA nor will the State or SONYMA 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 8—THE AUTHORITY."

PART 3 - STATE OF NEW YORK MORTGAGE AGENCY

SONYMA Insurance Program

As further described below, the State of New York Mortgage Agency ("SONYMA") operates a mortgage insurance program. Mortgage Loans insured by SONYMA are referred to as the "SONYMA Insured Mortgage Loans." The Bonds are not insured by SONYMA and SONYMA is not liable on the Series 2008 Bonds.

SONYMA was established pursuant to the State of New York Mortgage Agency Act, Chapter 612 of the Laws of New York, 1970, as amended (the "SONYMA Act"). The directors of SONYMA consist of the State Comptroller or his appointee, the Director of the Budget of the State of New York, the Commissioner of the New York State Division of Housing and Community Renewal, one director appointed by the Temporary President of the State Senate, one director appointed by the Speaker of the State Assembly, and four directors appointed by the Governor with the advice and consent of the State Senate. SONYMA employs a staff of approximately 113 employees, including 10 persons who staff the legal, underwriting and risk evaluation, administrative and servicing units of the SONYMA Mortgage Insurance Fund. The issuance of commitments to insure loans of greater than $1,500,000 requires the approval of SONYMA's Mortgage Insurance Committee and the issuance of commitments to insure loans of greater than $5,000,000 also requires the approval of the members of SONYMA.

The SONYMA Act authorizes SONYMA, among other things, to enter into commitments to insure mortgages and contracts of mortgage insurance and to contract to facilitate the financial activities of the Convention Center Development Corporation (the "CCDC"), a subsidiary of the New York State Urban Development Corporation, and to fulfill SONYMA's obligations and enforce its rights under any insurance or financial support so furnished. Part II of the SONYMA Act, authorizing, among other things, the mortgage insurance program, was adopted by the State Legislature in 1978 to encourage financial institutions to make mortgage loans in neighborhoods suffering from disinvestment by providing mortgage insurance to minimize the investment risk. In 1989, the SONYMA Act was amended to authorize SONYMA to provide insurance for a loan or pool of loans (a) when the property is located in an "economic development zone" as defined under State law, (b) when the property will provide affordable housing, (c) when the entity providing the mortgage financing was or is created by local, State or Federal legislation, and certifies to SONYMA that the project meets the program criteria applicable to such entity or (d) when the property will provide a retail or community service facility that would not otherwise be provided. In December 2004, the SONYMA Act was amended to authorize SONYMA to enter into agreements with CCDC to provide a source or potential source of financial support to bonds of the CCDC and, to the extent not otherwise provided in respect of the support of bonds, for its ancillary bond facilities.

The SONYMA Act authorizes SONYMA to create a mortgage insurance fund (the "SONYMA Mortgage Insurance Fund"). The SONYMA Mortgage Insurance Fund is used as a revolving fund for carrying out the provisions of the SONYMA Act with respect to mortgages insured thereunder and with respect to providing credit support for the CCDC bonds or ancillary bond facilities. The Series 2008 Bonds are not secured by monies held in the SONYMA Mortgage Insurance Fund and SONYMA is not liable on the Series 2008 Bonds. The SONYMA Act provides that all monies held in the SONYMA Mortgage Insurance Fund, with certain exceptions, shall be used solely for the payment of its liabilities arising from mortgages insured by SONYMA or for providing credit support for the CCDC bonds or ancillary bond facilities pursuant to the SONYMA Act. Only monies in the appropriate accounts of the SONYMA Mortgage Insurance Fund will be available to SONYMA for payment of SONYMA's liabilities under the SONYMA mortgage insurance policies for the SONYMA insured Mortgage Loans (the "SONYMA Insurance").

The SONYMA Act establishes within the SONYMA Mortgage Insurance Fund a project pool insurance account with respect to insurance on properties other than one to four dwelling units (the "Project Pool Insurance Account"), a special account (the "Special Account"), a single family pool insurance account with respect to insurance related to one to four dwelling units (the "Single Family Pool Insurance Account"), and a project corporation credit support account with respect to providing credit support for the Series 2008 Bonds or ancillary bond facilities of the CCDC (the "Development Corporation Credit Support Account"). The Development Corporation Credit Support Account is a source or potential source of payment of the sum of the respective amounts (or percentages) of required or permissive funding by the CCDC of each reserve and financial support fund established by the CCDC for its bonds and, to the extent not otherwise provided in respect of the support of bonds, for its ancillary bond facilities for which SONYMA has determined that the Development Corporation Credit Support Account is or will be a source or potential source of funding.

The SONYMA Act provides that assets of the Project Pool Insurance Account, the Special Account, the Single Family Pool Insurance Account and the Development Corporation Credit Support Account shall be kept separate and shall not be commingled with each other or with any other accounts which may be established from time to time, except as authorized by the SONYMA Act. The SONYMA insured Mortgage Loans are insured by SONYMA under the Project Pool Insurance Account.

The SONYMA Act provides that all monies held in the Project Pool Insurance Account, with certain exceptions, shall be used solely for the payment of its liabilities arising from mortgages insured by SONYMA pursuant to the SONYMA Act. The claims paying ability of the Project Pool Insurance Account and the Single Family Pool Insurance Account of the SONYMA Mortgage Insurance Fund are rated "Aa1" and "Aaa," respectively, by Moody's Investors Service. The claims paying ability of the Project Pool Insurance Account and the Single Family Pool Insurance Account of the SONYMA Mortgage Insurance Fund are rated "AA-" and "AA+," respectively, by Fitch, Inc. Such ratings were most recently affirmed by Moody's Investors Service in September 2005 and by Fitch, Inc. in December 2007 and reflect only the views of such organizations; an explanation of the significance of such ratings maybe obtained from the respective rating agencies. There is no assurance that such ratings will continue for any period of time or that they will not be revised downward or withdrawn entirely by such rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2008 Bonds. These ratings were established subsequent to SONYMA's change in its procedures to now require that reserves established with respect to project primary insurance it provides be deposited to the Project Pool Insurance Account. The claims paying ability of the Development Corporation Credit Support Account has not been rated. The SONYMA Act provides that SONYMA may not execute a contract to provide credit support to the Series 2008 Bonds or ancillary bond facilities of the CCDC if, at the time such contract is executed, such execution would impair any then existing credit rating of the Single Family Pool Insurance Account or the Project Pool Insurance Account.

The SONYMA Mortgage Insurance Fund is funded primarily by a surtax on the State mortgage recording tax. Section 253(1 a) of the State Tax Law (the "State Tax Law") imposes a surtax (the "Tax") on recording mortgages of real property situated within the State. Excluded from the Tax are, among others, recordings of mortgages executed by voluntary nonprofit hospital corporations, mortgages executed by or granted to the Dormitory Authority of the State of New York and mortgages, wherein the mortgagee is a natural person, on mortgaged premises consisting of real property improved by a structure containing six or fewer residential dwelling units, each with separate cooking facilities. The Tax is equal to $0.25 for each $100 (and each remaining major fraction thereof) of principal debt which is secured by the mortgage. Section 261 of the State Tax Law requires the respective recording officers of each county of the State, on or before the tenth day of each month, after deducting certain administrative expenses incident to the maintenance of their respective recording offices, to pay SONYMA for deposit to the credit of the SONYMA Mortgage Insurance Fund the portion of the Tax collected by such counties during the preceding month, except that: (i) with respect to mortgages recorded on and after May 1, 1987, the balance of the Tax paid during each month to the recording officers of the counties comprising the Metropolitan Commuter Transportation District on mortgages of any real property improved by a structure containing six residential dwelling units or less with separate cooking facilities, shall be paid over to the Metropolitan Transportation Authority; (ii) with respect to mortgages recorded on and after May 1, 1987, the balance of the Tax paid during each month to the recording officers of the County of Erie on mortgages of any real property improved by a structure containing six residential dwelling units or less with separate cooking facilities, shall be paid over to the State Comptroller for deposit into the Niagara Frontier Transportation Authority light rail rapid transit special assistance fund; and (iii) Taxes paid upon mortgages covering real property situated in two or more counties shall be apportioned by the State Tax Commission among SONYMA, the Metropolitan Transportation Authority and the Niagara Frontier Transportation Authority, as appropriate.

Mortgage recording taxes have been collected in the State for more than 75 years. SONYMA has been entitled to receive Tax receipts since December 1978. Under existing law, no further action on the part of the State legislature is necessary for the SONYMA Mortgage Insurance Fund to continue to receive such monies. However, the State is not bound or obligated to impose, or to impose at current levels, the mortgage recording taxes described above or to direct the proceeds to SONYMA as currently provided. The SONYMA Mortgage Insurance Fund's receipt of Tax receipts is dependent upon the performance by the county recording officers of their collection and remittance obligations; the State Tax Commission is given general supervisory power over such officers. Tax receipts paid to the Mortgage Insurance Fund in calendar years 2003, 2004, 2005, 2006 and 2007 were approximately $106 million, $131 million, $168 million, $184 million and $210 million respectively.

The SONYMA Act provides that SONYMA must credit the amount of money received from the recording officer of each county to the Special Account. The SONYMA Act provides that SONYMA may credit from the Special Account to the Project Pool Insurance Account, the Single Family Pool Insurance Account or the Development Corporation Credit Support Account, such moneys as are needed to satisfy the mortgage insurance fund requirement (as defined in the SONYMA Act) (the "Mortgage Insurance Fund Requirement") of the Project Pool Insurance Account, the Single Family Pool Insurance Account and the Development Corporation Credit Support Account, respectively, except that during any twelve month period ending on March thirty first the aggregate amount credited to the Development Corporation Credit Support Account (excluding investment earnings thereon) shall not exceed the lesser of (i) fifty million dollars or (ii) the aggregate of the amounts required under the contracts executed by SONYMA to provide credit support to the CCDC's bonds or ancillary bond facilities. The SONYMA Act also provides that if at any time the monies, investments and cash equivalents (valued as determined by SONYMA) of the Project Pool Insurance Account, the Single Family Pool Insurance Account or the Development Corporation Credit Support Account exceed the amount necessary to attain and maintain the credit rating or, with respect to credit support to the CCDC's bonds or ancillary bond facilities, credit worthiness (as determined by SONYMA) required to accomplish the purposes of either of such Accounts, SONYMA shall transfer such excess to the Special Account. Any excess balance in the Special Account is required to be remitted to the State annually. The SONYMA Act provides that no monies shall be withdrawn from any account within the SONYMA Mortgage Insurance Fund at any time in such amount as would reduce the amount in each account of such Fund to less than its applicable Mortgage Insurance Fund Requirement, except for the purpose of paying liabilities as they become due and for the payment of which other monies are not available. There can be no assurance that the amounts on deposit in the Project Pool Insurance Account will not be depleted through payment of liabilities arising with respect to insured mortgage loans other than the SONYMA insured Mortgage Loans.

The Mortgage Insurance Fund Requirement as of any particular date of computation is equal to an amount of money or cash equivalents equal to (a) the aggregate of (i) the insured amounts of loans and such amount of credit support for the CCDC's bonds or ancillary bond facilities that SONYMA has determined to be due and payable as of such date pursuant to its contracts to insure mortgages or provide credit support for the CCDC's bonds or ancillary bond facilities plus (ii) an amount equal to twenty per centum (20%) of the amounts of loans insured under SONYMA's insurance contracts plus twenty per centum (20%) of the amounts to be insured under SONYMA's commitments to insure less the amounts payable pursuant to subparagraph (i) above (provided, however, that if the board of directors of SONYMA shall have established a higher per centum for a category of loans pursuant to the SONYMA Act, such per centum shall be substituted for twenty per centum (20%) in this paragraph as, for example, the March 2001 board of directors determination that the per centum for special needs facilities was forty per centum (40%)), plus (iii) an amount equal to the respective amounts established by contracts under which SONYMA has determined that the Development Corporation Credit Support Account will provide credit support for CCDC, less the amounts payable with respect to credit support for CCDC's bonds or ancillary bond facilities pursuant to subparagraph (i) above less (b) the aggregate of the amount of each reinsurance contract procured in connection with obligations of SONYMA determined by SONYMA to be a reduction pursuant to this paragraph in calculating the Mortgage Insurance Fund Requirement. Pursuant to the SONYMA Act, the board of directors of SONYMA may, from time to time, establish a Mortgage Insurance Fund Requirement in an amount higher than the twenty per centum (20%) set forth above. There can be no assurance that, in the future, there will not be additional changes in the Mortgage Insurance Fund Requirement for any category of loans.

As of October 31, 2007, the amount of reserves (money or cash equivalents) on deposit in the Project Pool Insurance Account was $1,036,538,114 and the Mortgage Insurance Fund Requirement related to such Account was $550,372,071. Amounts on deposit in the Project Pool Insurance Account maybe transferred to other accounts or withdrawn as described in the second preceding paragraph.

As of October 31, 2007, the SONYMA Mortgage Insurance Fund's total liability against project mortgage insurance commitments and policies in force was $2,193,183,377 and the SONYMA Mortgage Insurance Fund had a total loan amount on outstanding project mortgage insurance commitments and policies in force of $2,354,103,605.

As of October 31, 2007, the Project Pool Insurance Account had paid 38 project mortgage insurance claims for loss in the aggregate amount of $84,288,197. As of October31, 2007, the SONYMA Mortgage Insurance Fund had 13 project mortgage insurance policies in force on which claims for loss had been submitted. SONYMA estimates that its total liability thereon is $65,295,463.

On September 28, 2005, the board of directors of SONYMA authorized SONYMA to enter into a credit support agreement with CCDC, pursuant to which SONYMA has agreed to provide credit support for the New York Convention Center Development Corporation Revenue Bonds (Hotel Unit Fee Secured) Series 2005 (the "CCDC Series 2005 Bonds") issued by CCDC. SONYMA has made an initial deposit of $33.8 million into the Development Corporation Credit Support Account and, thereafter, will maintain a minimum balance of $25 million in such Account. These moneys will be used to support the payment of an amount equal to up to one third of the scheduled principal and interest due on the CCDC Series 2005 Bonds.

In addition to the mortgage insurance program and the credit support program, the SONYMA Act authorizes SONYMA to purchase and make commitments to purchase mortgage loans on single family (one to four unit) housing and home improvement loans from certain lenders in the State. The SONYMA Act also empowers SONYMA to make and purchase certain student loans. SONYMA may issue its bonds to finance purchases of loans.

Copies of SONYMA's annual report for the fiscal year ended October 31, 2007 and audited financial statements for the fiscal year ended October 31, 2007 are available from the State of New York Mortgage Agency, 641 Lexington Avenue, New York, New York 10022, telephone (212) 688-4000.

SONYMA makes no representation as to the contents of this Official Statement (other than this section), the suitability of the Series 2008 Bonds for any investor, the feasibility of any Project or compliance with any securities or tax laws and regulations which may relate to the issuance and sale of the Series 2008 Bonds.

SONYMA's role is limited to providing the coverage set forth in the SONYMA Insurance.

PART 4—THE SERIES 2008 BONDS

Description of the Series 2008 Bonds

The Series 2008 Bonds will be issued pursuant to the Resolution. The Series 2008 Bonds will be dated their date of delivery and will bear interest from such date (payable December 1, 2008 and on each June 1 and December 1 thereafter) at the rates, and mature at the times, set forth on the inside cover page of this Official Statement.

The Series 2008 Bonds are to be issued as fully registered bonds in denominations of $5,000 or any integral multiple thereof and may be exchanged for other fully registered Series 2008 Bonds in any other authorized denomination of the same maturity. The Trustee may impose 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 or any transfer of the Series 2008 Bonds. The cost, if any, of preparing each new Series 2008 Bonds issued upon such exchange or transfer and any other expenses of the Authority or the Trustee incurred in connection therewith, is to be paid by the person requesting such exchange or transfer. The Authority will not be obligated to make any exchange or transfer of Series 2008 Bonds after (i) the Record Date next preceding an interest payment date for such Series 2008 Bonds, or (ii) the date on which the Trustee commences selection of Series 2008 Bonds for redemption.

The principal and Redemption Price of and interest on the Series 2008 Bonds will be payable in lawful money of the United States of America at the principal corporate trust office of The Bank of New York, New York, New York, the Trustee and Paying Agent. Interest on the Series 2008 Bonds will be payable by check or draft mailed to the registered owners thereof at their addresses as shown on the registration books held by the Trustee. Interest is payable to the registered owners who are such registered owners at the close of business on the fifteenth day of the calendar month next preceding an interest payment date. Bondholders of $1,000,000 or more aggregate principal amount of Series 2008 Bonds may receive interest by wire transfer to the wire transfer address, within the continental United States specified by such Bondholder, upon the written request of such Holder received not less than 20 days prior to the next interest payment date, which written request may apply to multiple interest payment dates. Such Bondholders may receive the Redemption Price by wire transfer at the address in the continental United States specified by such Bondholder in a written request to the Trustee not later than upon presentation and surrender to the Trustee of the Series 2008 Bonds to be redeemed.

For a more complete description of the Series 2008 Bonds, see "Appendix D - Summary of Certain Provisions of the Resolution."

Redemption and Purchase in Lieu of Redemption Provisions

The Series 2008 Bonds are subject to optional, special and mandatory redemption and purchase in lieu of redemption as described below.

Optional Redemption

The Series 2008 Bonds maturing on or before June 1, 2018 are not subject to optional redemption prior to maturity. The Series 2008 Bonds maturing after June 1, 2018 are subject to optional redemption prior to maturity, at the election or direction of the Authority, beginning on or after June 1, 2018, as a whole or in part at any time at par, plus accrued interest to the date of redemption.

Extraordinary Redemption

The Series 2008 Bonds are also subject to redemption, in whole or in part, at a price of 100% of the principal amount thereof, at the option of the Authority on any interest payment date, from proceeds of a condemnation or insurance award, which proceeds are not used to repair, restore or replace a Project, and from unexpended proceeds of the Series 2008 Bonds upon an abandonment of all or a portion of a Project due to a legal or regulatory impediment.

Special Mandatory Redemption

The Series 2008 Bonds are also subject to special mandatory redemption, in whole or in part at any time prior to maturity, at 100% of the principal amount to be redeemed plus interest accrued to the redemption date, from the proceeds of a SONYMA Mortgage Insurance Policy or policies received by the Authority in the event of a covered default under one or more of the Mortgages. See "PART 2 - SONYMA MORTGAGE INSURANCE POLICIES" for a description of SONYMA options to make periodic or lump-sum payments.

Mandatory Redemption

In addition, the Series 2008 Bonds maturing on June 1, 2011, June 1, 2033 and June 1, 2038 are also subject to redemption, in part, on each June 1 of the years and in the respective principal amounts set forth below, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem on June 1 of each year the principal amount of Series 2008 Bonds specified for each of the years shown below:

Term Bonds Maturing on June 1, 2011

Year	Sinking Fund Installments
2011†	$75,000

Term Bonds Maturing on June 1, 2033

Year	Sinking Fund Installments
2029	$2,205,000
2030	2,335,000
2031	2,470,000
2032	2,600,000
2033†	2,750,000

Term Bonds Maturing on June 1, 2038

Year	Sinking Fund Installments
2034	$2,900,000
2035	3,055,000
2036	3,235,000
2037	3,420,000
2038†	3,590,000

†Final maturity.

The Authority may from time to time direct the Trustee to purchase Series 2008 Bonds with moneys set aside for redemption in the Debt Service Fund, at or below par plus accrued interest to the date of such purchase, and apply any Series 2008 Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required Sinking Fund Installment on the Series 2008 Bonds of the same maturity. The Residential Providers also may purchase Series 2008 Bonds and apply any Series 2008 Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required Sinking Fund Installment on the Series 2008 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 2008 Bonds of the maturity so purchased will be reduced for such year.

Selection of Bonds to be Redeemed

In the case of redemption of the Series 2008 Bonds describe above under the heading "Optional Redemption", the Authority will select the principal amounts and maturities of the Series 2008 Bonds to be redeemed. In the case of redemption of Series 2008 Bonds described above under the headings "Extraordinary Redemption" and "Special Mandatory Redemption", Series 2008 Bonds will be redeemed to the extent practicable pro rata among maturities within the Series 2008 Bonds to be redeemed. If less than all the Series 2008 Bonds of a maturity are to be redeemed (pursuant to an optional, extraordinary or special redemption), the Series 2008 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 and as prescribed in the Resolution.

Notice of Redemption

The Trustee is to give notice of the redemption of the Series 2008 Bonds in the name of the Authority which notice shall be given by first-class mail, postage prepaid, not less than 30 days nor more than 45 days prior to the redemption date to the registered owners of any Series 2008 Bonds which are to be redeemed, at their last known addresses appearing on the registration books. The failure of any owner of a Series 2008 Bond to be redeemed to receive notice of redemption thereof will not affect the validity of the proceedings for the redemption of such Series 2008 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 30 days nor more than 60 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 2008 Bonds. Notwithstanding the foregoing, with respect to any "Special Mandatory Redemption" the Trustee shall give notice to the Holders thereof at least ten (10) days prior to the redemption date.

Any notice of optional redemption may state that such redemption is conditioned upon the deposit of moneys sufficient to pay the Redemption Price and upon any other conditions specified by the Authority. If, on the redemption date, moneys for the redemption of the Series 2008 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 2008 Bonds of such maturity will cease to accrue from and after the redemption date and such Series 2008 Bonds will no longer be considered to be Outstanding under the Resolution and the Series 2008 Resolution.

For a more complete description of the redemption and other provisions relating to the Series 2008 Bonds, see "Appendix D - Summary of Certain Provisions of the Resolution."

Purchase In Lieu of Optional Redemption Provisions

The Series 2008 Bonds maturing after June 1, 2018 are also subject to purchase prior to maturity, at the election of the Authority, with prior written consent of SONYMA, on or after June 1, 2018, in any order, in whole or in part at any time, at par (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 2008 Bonds to be so purchased.

Notice of Purchase and its Effect

Notice of the purchase of Series 2008 Bonds will be given by the Authority in the name of the Institution to the registered owners of the Series 2008 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 2008 Bonds to be purchased are required to be tendered on the Purchase Date to the Trustee. Series 2008 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 2008 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 2008 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 2008 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 2008 Bonds to be purchased, the former registered owners of such Series 2008 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 2008 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 2008 Bonds in accordance with their respective terms.

In the event not all of the Outstanding Series 2008 Bonds of a maturity are to be purchased, the Series 2008 Bonds of such maturity to be purchased will be selected by lot in the same manner as Series 2008 Bonds of a maturity to be redeemed in part are to be selected.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2008 Bonds. The Series 2008 Bonds will be issued as fully-registered securities registered 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 Bond certificate will be issued for each maturity of the Series 2008 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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, as amended. 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 a 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 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 the Series 2008 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008 Bonds on DTC's records. The ownership interest of each actual purchaser of each 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. Beneficial Owners are, however, 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 2008 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 the Series 2008 Bonds, except in the event that use of the book-entry only system for the Series 2008 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008 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 Series 2008 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2008 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2008 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 DTC. If less than all of the Series 2008 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2008 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2008 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an 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 2008 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2008 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 Paying Agent or the Authority, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by 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 Participant and not of DTC, the Paying Agent or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent or the Authority, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the any series of the Series 2008 Bonds at any time by giving reasonable notice to the Authority or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Series 2008 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2008 Bond certificates will be printed and delivered to DTC.

NEITHER THE AUTHORITY NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO: (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY PARTICIPANT OR INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 2008 BONDS; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO SERIES 2008 BONDHOLDERS; (IV) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS A SERIES 2008 BONDHOLDER; OR (V) THE SELECTION BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2008 BONDS.

Each person for which a Participant acquires an interest in the Series 2008 Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments. NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS, INDIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE SERIES 2008 BONDS.

For every transfer and exchange of beneficial ownership of the Series 2008 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

The Authority, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to any series of the Series 2008 Bonds if the Authority determines that (i) DTC is unable to discharge its responsibility with respect to such series of Bonds or (ii) a continuation of the requirement that all of Outstanding Series 2008 Bonds be registered in the registration books kept by the Trustee in the name of Cede & Co., as nominee of DTC, is not in the best interests of the Beneficial Owners. In the event that no substitute securities depository is found by the Authority or restricted registration is no longer in effect, Bond certificates will be delivered as described in the applicable General or Supplemental Resolution.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources the Authority believes to be reliable, but the Authority takes not responsibility for the accuracy thereof.

Principal, Sinking Fund Installment and Interest Requirements for the Series 2008 Bonds

The following table sets forth the amounts required to be paid by Residential Providers during each twelve-month period ending May 31 of the Bond Years shown for the payment of debt service on the Series 2008 Bonds.

12-Month Period Ending May 31	Principal and Sinking Fund Installment Payments	Interest Payments	Total Debt Service
2009	$ -	$2,486,164	$2,486,164
2010	-	2,601,800	2,601,800
2011	900,000	2,601,800	3,501,800
2012	940,000	2,569,175	3,509,175
2013	975,000	2,536,275	3,511,275
2014	1,015,000	2,499,713	3,514,713
2015	1,070,000	2,459,112	3,529,112
2016	1,120,000	2,405,613	3,525,613
2017	1,185,000	2,349,612	3,534,612
2018	1,255,000	2,290,363	3,545,363
2019	1,315,000	2,227,612	3,542,612
2020	1,390,000	2,161,863	3,551,863
2021	1,470,000	2,092,362	3,562,362
2022	1,555,000	2,018,863	3,573,863
2023	1,645,000	1,941,112	3,586,112
2024	1,715,000	1,869,144	3,584,144
2025	1,810,000	1,791,969	3,601,969
2026	1,900,000	1,710,519	3,610,519
2027	1,995,000	1,625,019	3,620,019
2028	2,095,000	1,532,750	3,627,750
2029	2,205,000	1,428,000	3,633,000
2030	2,335,000	1,317,750	3,652,750
2031	2,470,000	1,201,000	3,671,000
2032	2,600,000	1,077,500	3,677,500
2033	2,750,000	947,500	3,697,500
2034	2,900,000	810,000	3,710,000
2035	3,055,000	665,000	3,720,000
2036	3,235,000	512,250	3,747,250
2037	3,420,000	350,500	3,770,500
2038	3,590,000	179,500	3,769,500

PART 5—THE RESIDENTIAL PROVIDERS

Purpose and Operations

The Residential Providers provide foster care for children placed in their settings.These settings typically include a residential school as well as residential facilities where the children live for the duration of their placement. The services provided in these residential facilities are designed to meet the needs of children placed primarily through two referral mechanisms. One mechanism is a court-related placement process that involves the removal of a child from his/her family and the determination that the child needs a highly structured residential program that includes therapeutic and special educational services. The other mechanism is a school-related placement process through a local school district Committee on Special Education (CSE) that determines a child's placement needs from the educational perspective. The primary reason for a CSE placement is not court-related, but is the need for the child to access the specialized educational services of the Residential Provider, as well as the other treatment services available at the residential facility where the child will live.

The length of stay for foster children placed in these residential facilities is approximately one year, after which time a child is either discharged or transferred to another setting. The treatment programs at these residential facilities are typically designed to help a foster child better manage personal and family challenges with one of the following permanency goals: return home; placement with an adoptive family; or independent living after developing the necessary skills. Length of stay for CSE placements can be much longer, inasmuch as there is no regulatory mandate to achieve a "permanent" home because the child's parents continue to have care and custody of the child. Thus, the CSE child is entitled to remain in the residential school and residential facility as long as he/she is of school age, and as long as the CSE and the child's parent(s) determine the child's ongoing need for a Residential Provider's residential educational services. When a foster or CSE child no longer needs the residential setting and leaves, a Residential Provider refills the residential bed from its waiting list of other children who need the program.

Residential Providers

The following is certain information about the Residential Providers. Such information has been provided by the Residential Providers and has not been independently verified by the Authority or the Underwriters.

Gateway-Longview, Inc.

Gateway-Longview Inc. (Gateway-Longview) is a 501 (c) (3) not-for-profit organization working with children, youth, individuals and families to improve their lives by providing care, treatment, education and supportive services. Founded in 1890, Gateway-Longview provides a continuum of treatment services for children, youth, and families facing behavioral, emotional or educational difficulties. With corporate offices in Buffalo, New York, the agency serves clients across Upstate New York by providing services for over 700 children and families, with a network of 330 full-timestaff, 167 part-time staff and 25 volunteers in environments such as group homes, residential treatment, special education, respite services, foster care, adoption, community day care, supervised independent living, therapeutic preschool and day school/treatment programs.

Historical Utilization

The table below presents the Residential Provider's full-time equivalent residential enrollment for the past five school years:

	2007	2006	2005	2004	2003
Residents (beds)	48	48	48	60	60
Utilization Rate	79%	83%	89%	86%	92%
Average duration (months)	8.4	12.1	9.7	11.1	9.9

Finances

Gateway-Longview
Balance Sheet
School Year Ending June 30,

	2007	2006	2005	2004	2003
Current Assets	$ 5,815,614	$ 4,282,483	$ 3,451,485	$ 3,545,539	$ 2,855,136
Total Assets	27,104,714	24,735,067	23,390,737	24,067,665	22,935,763
Current Liabilities	2,374,674	2,158,615	6,398,453	4,600,063	3,851,914
Total Liabilities	11,030,698	10,867,267	11,558,528	10,032,998	9,572,064
Total Net Assets	16,074,016	13,867,800	11,832,209	14,034,667	13,363,699

Gateway-Longview
Revenues and Expenses
Fiscal Year End Surplus
School Year Ending June 30,

	2007	2006	2005	2004	2003
Support and Revenue					
Program Revenue	$ 18,893,714	$16,434,431	$15,224,735	$15,397,486	$14,534,807
Non-program Revenue	2,130,344	3,626,126	1,504,336	1,825,758	1,168,165
Other Revenue	-	-	-	-	-
Total Support and Revenue	$ 21,024,058	$20,060,557	$16,729,071	$17,223,244	$15,702,972
Expenses					
Program Services	$ 16,600,639	$15,600,278	$16,143,768	$14,495,753	$13,588,055
Management and General	3,236,425	2,309,430	2,803,136	2,742,498	2,635,111
Total Expenses	19,837,064	17,909,708	18,946,904	17,238,251	16,223,166
Surplus (Deficit)	$ 1,186,994	$ 2,150,849	$(2,217,833)	$ (15,007)	$ (520,194)

Sources of Funding

The following chart shows, for the fiscal years ended June 30, 2005, June 30, 2006 and June 30, 2007, for Gateway-Longview the total amount payable from each major social service district, school district or any other Payor to Gateway-Longview and the percentage such amount represents of total receipts of Gateway-Longview.

Source of Public Funding	Received in 2005 (% total revenues)	Received in 2006 (% total revenues)	Received in 2007 (% total revenues)
Counties			
Erie	88%	87%	90%
Livingston	1%	1%	0%
Monroe	5%	7%	7%
Niagara	5%	4%	2%
Onondaga	0%	1%	1%
Orleans	1%	0%	0%
Total % of County Revenue	100%	100%	100%

School Districts			
Akron	0.0%	0.0%	1.0%
Alden	4.1%	2.0%	3.1%
Alexander	1.0%	0.0%	0.0%
Amherst	5.2%	5.1%	6.1%
Buffalo	53.1%	48.2%	47.0%
Cheektowaga	2.1%	2.0%	1.0%
Clarence	2.1%	4.1%	3.1%
Cleveland-Hill	1.0%	0.0%	0.0%
Depew	0.0%	2.5%	5.1%
Eden	0.0%	0.0%	1.0%
Frontier	2.1%	1.0%	2.0%
Grand Island	1.0%	1.0%	1.0%
Hamburg	1.0%	0.0%	0.0%
Ken-Ton	6.2%	5.1%	2.0%
Lakeshore	4.1%	3.1%	3.1%
Lancaster	1.0%	2.0%	1.0%
Lockport	1.0%	1.3%	1.0%
Maryvale	1.0%	4.1%	2.0%
Newfane	1.0%	1.0%	1.0%
Niagara Falls	1.0%	0.0%	0.0%
Orchard Park	1.0%	1.0%	1.0%
Pioneer	0.0%	1.0%	2.0%
Royalton-Hartford	1.0%	0.5%	0.5%
Sweet Home	1.0%	2.0%	1.0%
Tonawanda	1.0%	0.3%	2.0%
N. Tonawanda	1.0%	1.0%	4.1%
Warsaw	1.0%	1.0%	0.0%
West Seneca	0.0%	2.0%	1.2%
Williamsville	5.7%	8.6%	7.6%
Total School District Revenue	100%	100%	100%

Employees

Gateway-Longview employs approximately 330 persons full-time (261 faculty/social service professionals; 53 administration and management; 8 buildings and grounds and security personnel; 7 clerical and secretarial staff; 1 other).

Litigation

Gateway-Longview has no suits pending or, to the knowledge of the Residential Provider, threatened against them, wherein an unfavorable result would have a material adverse effect on its financial condition or its ability to perform its obligations under its Loan Agreement. Any litigation pending is generally of a routine nature which does not affect the ability of Gateway-Longview to conduct its business or the validity of its obligations under its Loan Agreement.

For financial statements of the Gateway-Longview see “Appendix B - Financial Statements of the Residential Providers”

Green Chimneys School for Little Folk and Green Chimneys Children's Services, Inc.

Green Chimneys School for Little Folk and Green Chimneys Children's Services, (together "Green Chimneys") are two not-for-profit 501(c)(3) corporations sharing the same management and Board of Trustees providing services to children with special needs. Founded in 1947, Green Chimneys is situated on a 166-acre farm in Patterson, New York. Green Chimneys operates residential treatment facilities for children and a special education school. Green Chimneys offers specialized treatment and educational and recreational services specializing in animal-assisted therapy. Green Chimneys serves nearly 200 students: approximately 100 in the residential program, and more than 70 in the day school.

The Residential Treatment Center (RTC) is the Green Chimneys program that will benefit from the project being financed by the Series 2008 Bonds. The RTC is an 88-bed program serves boys and girls ages 6-14 who are experiencing significant emotional, behavioral and academic difficulties and cannot be maintained at home or in their communities. The program utilizes the natural environment including a therapeutic farm and wildlife rehabilitation program.

Historical Utilization

The table below presents Green Chimneys full-time equivalent residential enrollment for the past five school years:

	2007	2006	2005	2004	2003
Residents (licensed Beds)	88	88	88	88	88
Utilization Rate	98.9%	98.9%	98.5%	99.0%	99.0%
Average duration months	27	31	29	29	25

Finances

Green Chimneys
Balance Sheet
School Year Ending June 30,
(000's)

	2007	2006	2005	2004	2003
Current Assets	$12,115	$10,005	$9,454	$ 9,352	$ 9,487
Total Assets	29,841	27,743	27,780	28,396	28,769
Current Liabilities	8,257	6,440	5,757	5,783	6,025
Total Liabilities	20,326	19,088	19,492	20,377	21,075
Total Net Assets	$ 9,515	$8,655	$8,288	$ 8,019	$ 7,694

Green Chimneys
Revenues and Expenses
Fiscal Year End Surplus
School Year Ending June 30,
(000's)

	2007	2006	2005	2004	2003
Support and Revenue					
Program Revenue	$29,915	$27,033	$25,238	$25,096	$24,687
Non-program Revenue	706	1,012	1,289	1,371	545
Other Revenue	640	1,010	1,190	382	315
Total Support and Revenue	$31,261	$29,055	$27,717	$26,849	$25,547
Expenses					
Program Services	$27,909	$26,362	$25,274	$24,363	$22,989
Management and General	2,492	2,327	2,174	2,161	2,169
Total Expenses	$30,401	$28,689	$27,448	$26,524	$25,158
Surplus (Deficit)	$ 860	$ 366	$ 269	$ 325	$ 389

*The financial results contained herein represent the combined operations of Green Chimneys Children's Services and Green Chimneys School for Little Folk. The combined entity ("the Agency"), operates on a combined basis; having the same Board of Directors (Green Chimneys Children's Services) and Board of Trustees (Green Chimneys School).

Sources of Funding

The following chart shows, for the fiscal years ended June 30, 2005, June 30, 2006 and June 30, 2007 for Green Chimneys Children's Services the total amount payable from each major social service district, school district or any other payor to the Green Chimneys Children's Services and the percentage such amount represents of total receipts of Green Chimneys Children's Services.

Source of Public Funding	Received in 2005 (% total revenues)	Received in 2006 (% total revenues)	Received in 2007 (% total revenues)
NYS Department of Education	27%	32%	33%
NYC ACS	42%	33%	24%
Various DSS Counties	31%	35%	43%

Employees

Green Chimneys Children's Services employs approximately 404 persons full-time; 239 faculty/social service professionals; 54 administration and management; 29 buildings and grounds and security personnel; 35 clerical and secretarial staff and 47other.

Litigation

There are no suits pending or, to the knowledge of Green Chimneys, threatened against it, wherein an unfavorable result would have a material adverse effect on the financial condition of Green Chimneys or its ability to perform its obligations under its Loan Agreement and any litigation pending is generally of a routine nature which does not affect the right of Green Chimneys to conduct its business or the validity of its obligations under its Loan Agreement.

For financial statements of the Green Chimneys see "Appendix B - Financial Statements of the Residential Providers"

Gustavus Adolphus Child & Family Services, Inc.

Gustavus Adolphus Child & Family Services Inc. ("GA") was founded in 1886, in Jamestown New York, as an orphanage for Swedish immigrants. Today it provides specialized treatment programs for youth and their families who are in need of care. Treatment includes residential, educational, and preventative services. Youths, aged 12-17 are placed by family courts, the Department of Social Services, or public school districts. GA provides a full continuum of services for at-risk youths. All services are individualized, child-centered and permanency-focused.

Historical Utilization

The table below presents the Residential Provider's full-time equivalent residential enrollment for the past five school years, based upon a 366 day year:

	2007	2006	2005	2004	2003
Licensed Capacity	18,009	21,900	25,008	26,352	26,280
Actual Days	16,349	18,999	23,194	24,879	25,434
% of Occupancy	90.78%	86.75%	92.75%	94.41%	96.78%
Institution	12,169	16,060	16,060	16,104	16,060
Boarding Home	-	-	3,108	4,392	4,380
Group Home	5,110	5,110	5,110	5,124	5,110
SILP	730	730	730	732	730
Total Days	18,009	21,900	25,008	26,352	26,280

Gustavus Adolphus
Balance Sheet
School Year Ending June 30,

	2007	2006	2005	2004	2003
Current Assets	$ 1,847,706	$ 2,293,703	$ 1,465,001	$ 1,500,018	$ 1,456,126
Total Assets	$ 8,291,254	$ 9,381,738	$ 8,741,987	$ 9,211,846	$ 9,555,767
Current Liabilities	$ 1,481,787	$ 2,225,833	$ 1,386,112	$ 1,173,987	$ 1,341,167
Total Liabilities	$ 6,273,945	$ 7,346,992	$ 6,809,578	$ 6,907,431	$ 7,397,478
Total Net Assets	$ 2,017,309	$ 2,034,746	$ 1,932,409	$ 2,304,415	$ 2,158,289

Gustavus Adolphus
Revenues and Expenses
Fiscal Year End Surplus
School Year Ending June 30,

	2007	2006	2005	2004	2003
Support and Revenue					
Program Revenue	$6,649,781	$5,816,858	$5,609,237	$6,017,713	$5,852,169
Other Revenue	43,832	367,545	32,070	32,524	90,425
Total Support and Revenue	$6,693,613	$6,184,403	$5,641,307	$6,050,237	$5,942,594
Expenses					
Program Services	$5,234,619	$4,744,012	$4,672,937	$4,713,842	$4,534,766
Management and General	1,476,431	1,338,054	1,340,376	1,190,269	1,291,189
Total Expenses	$6,711,050	$6,082,066	$6,013,313	$5,904,111	$5,825,955
Surplus (Deficit)	$ (17,437)	$ 102,337	$ (372,006)	$ 146,126	$ 116,639

Sources of Funding

The following chart shows, for the fiscal years ended June 30, 2005, June 30, 2006 and June 30, 2007, for GA, the percentage of revenues payable from each major social service district, school district and any other such payor to the GA, excluding part I tuition and the percentage such amount represents of total such revenues of GA.

Source of Public Funding	Received in 2005 (% revenues)	Received in 2006 (% revenues)	Received in 2007 (% revenues)
Allegany	2.49%	2.52%	2.87%
Cattaraugus	15.50%	13.17%	14.11%
Chautauqua	1.69%	2.93%	4.92%
Erie	44.71%	34.15%	30.67%
Jefferson	0.87%	1.31%	1.05%
Livingston	0.42%	0.00%	1.57%
Monroe	16.05%	20.31%	17.62%
Niagara	0.60%	2.84%	1.90%
Ontario	1.21%	0.19%	0.53%
Orleans	0.21%	2.44%	0.09%
Wayne	-	0.14%	0.20%
Wyoming	2.20%	2.39%	2.31%
Total % of County Revenue	85.95%	82.39%	77.84%
NYS ACS	-	0.10%	0.88%
Total % of ACS Revenue	-	0.10%	0.88%
Bemus Point	-	-	0.01%
Clymer	-	0.03%	0.00%
Falconer	1.26%	-	0.57%
Frewsburg	-	0.66%	0.45%
Jamestown	6.14%	10.21%	15.09%
Pine Valley	-	-	0.11%
Pittsford	0.32%	0.85%	0.11%
Randolph	-	0.31%	0.00%
Ripley	-	-	0.27%
Southwestern	0.64%	-	0.00%
Total % School District Revenue	8.36%	12.06%	16.61%
MMIS	5.69%	5.45%	4.67%
Total % of MMIS Revenue	5.69%	5.45%	4.67%
Total	100.00%	100.00%	100.00%

Employees

GA employees approximately 107 persons full-time (20 faculty/social service professionals; 14 administration and management; 6 buildings and grounds and security personnel; 3 clerical and secretarial staff).

Litigation

There are no suits pending or, to the knowledge of GA, threatened against GA, wherein an unfavorable result would have a material adverse effect on the financial condition of GA or its ability to perform its obligations under its Loan Agreement and any litigation pending is generally of a routine nature which does not affect the right of GA to conduct its business or the validity of its obligations under its Loan Agreement.

Hillside Family of Agencies

Three of the Residential Providers (Hillside Children's Center, Crestwood Children's Center, and Snell Farm Children's Center) that will be participating in the Series 2008 Bond issue are affiliates of the Hillside Family of Agencies. However, Hillside Family Agencies is not responsible for any of its affiliates' debt service obligations with respect to the Series 2008 Bonds and none of the affiliates are responsible for the debt of another. Hillside Family of Agencies is one of the largest non-profit agencies in New York and has been serving Upstate New York for more than 170 years. A staff of over 2,000 provides services out of more than 40 locations to more than 7,100 families annually. Services include therapeutic foster care, adoption, day treatment, juvenile justice, treatment of the developmentally disabled, independent living, and school based services.

Hillside Children's Center

Hillside Children's Center is a provider of community-based, residential and educational services to the child welfare, mental health, developmental disability, and juvenile justice systems of government.

*Historical Utilization**

The table below presents select residential capacity and utilization for the most recently completed fiscal years. RTF is residential treatment facility (OMH) capacity. Residential treatment center (RTC,) hard to place (HTP,) group emergency (GE,) and group home (GH) are service groups within the child welfare system. Individual residential alternatives (IRA) are group homes for the multiply impaired youngsters in the developmental disability system. These represent services reimbursed on a fee for service basis. Omitted are those services for which entire capacities are contracted.

	2007		2006		2005		2004		2003	
	Capacity	Utilization	Capacity	Utilization	Capacity	Utilization	Capacity	Utilization	Capacity	Utilization
RTF	82	99%	84	98%	84	99%	84	99%	84	99%
RTC	32	78%	48	74%	48	85%	48	94%	48	95%
HTP	146	91%	146	89%	146	67%	24	98%	24	85%
GE	16	83%	16	73%	16	77%	16	83%	18	77%
GH	8	75%	8	82%	8	82%	8	84%	8	85%
IRA	40	98%	34	97%	34	93%	28	96%	28	94%

*Prior to completion of construction of the Project, utilization may fluctuate in order to accomodate the transition of the residential facilities to 8-bed units.

Finances

Hillside Children's Center
Year Ending June 30,

	2007	2006	2005	2004	2003
Cash, receivables & investments, net	$22,786,849	$20,530,011	$21,961,083	$17,602,245	$10,531,989
Other assets	63,596,954	50,959,129	44,883,017	32,693,457	32,225,946
Total assets	$86,383,803	$71,489,140	$66,844,100	$50,295,702	$42,757,935
Payables and accrued expenses	$21,640,565	$16,329,166	$11,579,918	$12,417,450	$4,608,710
Bonds and notes payable	41,259,887	31,660,239	31,717,048	14,718,305	14,970,334
Total liabilities	$62,900,452	$47,989,405	$43,296,966	$27,135,755	$19,579,044
Net assets	$23,483,351	$23,499,735	$23,547,134	$23,159,947	$23,178,891
Support and Revenue					
Program revenue	$82,251,145	$77,886,389	$61,980,343	$51,904,781	$50,165,140
Nonprogram revenue	1,197,264	1,022,229	375,162	910,300	656,647
Other	4,283,500	2,017,649	2,622,696	3,231,899	689,620
Total support and revenue	$87,731,909	$80,926,267	$64,978,201	$56,046,980	$51,511,407
Expenses					
Program services	$80,427,842	$73,908,757	$59,222,211	$51,276,598	$47,674,714
Management and general	7,320,451	7,064,909	5,368,803	4,789,326	4,489,497
Total expenses	$87,748,293	$80,973,666	$64,591,014	$56,065,924	$52,164,211
Surplus/(deficit)	$ (16,384)	$ (47,399)	$ 387,187	$ (18,944)	$ (652,804)

Sources of Funding

The following chart displays revenue sources for the three most recently completed fiscal years ended June 30.

Source of Public Funding*
(in thousands)

	2005		2006		2007	
Counties						
Monroe	$14,305	23%	$17,486	22%	$16,865	20%
Onondaga	2,936	5%	4,624	6%	5,154	6%
Erie	2,881	5%	3,652	5%	2,614	3%
Niagara	928	1%	1,119	1%	1,515	2%
Allegany	894	1%	1,212	2%	1,452	2%
Oswego	684	1%	1,308	2%	1,333	2%
Steuben	1,100	2%	1,351	2%	1,247	1%
Others	6,308	10%	10,429	13%	12,085	14%
Other Sources						
Mental Health	16,801	27%	17,820	22%	19,779	24%
Education	9,631	15%	12,826	16%	12,655	15%
Mental Retardation	3,664	6%	4,083	5%	5,070	6%
Other public and nonpublic	2,224	4%	2,999	4%	3,679	4%
Total revenue	$62,356		$78,909		$83,448	

* percentages may not add up to 100% due to rounding

Employees

Hillside Children's Center employs approximately 1,600 Full Time Equivalent non-union employees. Child care workers, social workers and teachers comprise the largest employee segments.

Litigation

There are no suits pending or, to the knowledge of management of Hillside Children's Center, threatened, wherein an unfavorable result would have a material effect on the financial condition of Hillside Children's Center or its ability to perform its obligations under its Loan Agreement and any litigation pending is generally of a routine nature which does not affect the right of Hillside Children's Center to conduct its business or the validity of its obligations under its Loan Agreement.

For financial statements of the Hillside Children's Center see “Appendix B - Financial Statements of the Residential Providers”

Crestwood Children's Center

Crestwood Children's Center is a provider of community-based, residential and educational services to the child welfare and mental health systems of government, focusing primarily on the needs of younger children and their families.

Historical Utilization

The table below presents residential capacity and utilization for the most recently completed fiscal years. RTF is residential treatment facility (OMH) capacity. Residential treatment center (RTC) and group home (GH) are service groups within the child welfare system.

	2007		2006		2005		2004		2003	
	Capacity	Utilization	Capacity	Utilization	Capacity	Utilization	Capacity	Utilization	Capacity	Utilization
RTF	18	100%	18	100%	18	99%	18	100%	18	100%
RTC	9	100%	9	100%	9	99%	9	99%	9	99%
GH	0	0% *	8	100%	8	99%	8	100%	8	99%

*Facility was closed at the beginning of fiscal year 2007.

Finances

Crestwood Children's Center
Year Ending June 30,

	2007	2006	2005	2004	2003
Cash, receivables & investments, net	$5,043,195	$6,533,296	$4,535,865	$3,913,711	$4,326,741
Other assets	5,727,948	4,857,495	4,494,499	4,694,752	4,491,349
Total assets	$10,771,143	$11,390,791	$9,030,364	$8,608,463	$8,818,090
Payables and accrued expenses	$3,207,189	$4,275,810	$2,526,265	$2,154,355	$2,401,764
Bonds and notes payable	565,918	652,977	749,966	861,073	976,181
Total liabilities	$3,773,107	$4,928,787	$3,276,231	$3,015,428	$3,377,945
Net assets	$6,998,036	$6,462,004	$5,754,133	$5,593,035	$5,440,145
Support and Revenue					
Program revenue	$13,748,305	$14,441,102	$13,015,611	$12,914,587	$12,953,001
Nonprogram revenue	112,495	82,702	107,702	135,364	57,108
Other	732,066	534,118	210,316	590,024	383,589
Total support and revenue	$14,592,866	$15,057,922	$13,333,629	$13,639,975	$13,393,698
Expenses					
Program services	$12,818,467	$13,118,003	$12,027,282	$12,333,261	$12,256,692
Management and general	1,238,367	1,232,048	1,145,249	1,153,824	1,199,144
Total expenses	$14,056,834	$14,350,051	$13,172,531	$13,487,085	$13,455,836
Surplus/(deficit)	$536,032	$707,871	$161,098	$152,890	$(62,138)

Sources of Funding

The following chart displays revenue sources for the three most recently completed fiscal years ended June 30.

Source of Public Funding*
(in thousands)

	2005		2006		2007	
Counties						
Monroe	$ 964	7%	$ 1,276	9%	$ 1,056	8%
Erie	79	1%	41	0%	-	0%
Steuben	33	0%	100	1%	37	0%
Others	343	3%	725	5%	388	3%
Other Sources						
Mental Health	4,731	36%	4,972	34%	4,985	36%
Education	6,151	47%	6,433	44%	6,482	47%
Other public and nonpublic	822	6%	977	7%	913	7%
Total revenue	$13,123		$14,524		$13,861	

* percentages may not add up to 100% due to rounding

Employees

Crestwood Children's Center employs approximately 240 Full Time Equivalent non-union employees. Child care workers, social workers and teachers comprise the largest employee segments.

Litigation

There are no suits pending or, to the knowledge of management of Crestwood Children's Center, threatened, wherein an unfavorable result would have a material effect on the financial condition of Crestwood Children's Center or its ability to perform its obligations under its Loan Agreement and any litigation pending is generally of a routine nature which does not affect the right of the Crestwood Children's Center to conduct its business or the validity of its obligations under its Loan Agreement.

For financial statements of the Crestwood Children's Center see "Appendix B - Financial Statements of the Residential Providers"

Snell Farm Children's Center

Snell Farm Children's Center provides residential services to adolescent boys with sexually harmful behaviors. An independent not for profit entity since 1973, Snell Farm Children's Center became an affiliate of Hillside Family of Agencies in 2005.

Historical Utilization

The table below presents select residential capacity and utilization for the most recently completed fiscal years since the year Snell Farms became an affiliate of Hillside in 2005. Hard to place (HTP) is a service group within the child welfare system.

	2007		2006		2005		2004		2003	
	Capacity	Utilization	Capacity	Utilization	Capacity	Utilization	Capacity	Utilization	Capacity	Utilization
HTP	28	95%	28	95%	28	92%	28	na	28	na

Finances

Snell Farm Children's Center
Year Ending June 30,

	2007	2006	2005	2004	2003
Cash, receivables & investments, net	$562,773	$371,779	$636,452	$283,397	$268,744
Other assets	2,758,707	2,793,097	1,249,957	1,132,423	1,010,749
Total assets	$3,321,480	$3,164,876	$1,886,409	$1,415,820	$1,279,493
Payables and accrued expenses	$1,918,652	$2,108,339	$997,519	$491,459	$156,146
Bonds and notes payable	782,417	168,237	838,025	915,406	934,067
Total liabilities	$2,701,069	$2,276,576	$1,835,544	$1,406,865	$1,090,213
Net assets	$620,411	$888,300	$50,865	$8,955	$189,280
Support and Revenue					
Program revenue	$3,343,337	$3,215,146	$2,711,780	$1,438,997	$1,347,439
Nonprogram revenue	13,824	37,909	57,032	69,131	53,149
Other	68,161	882,939	27,330	1,187	(1,663)
Total support and revenue	$3,425,322	$4,135,994	$2,796,142	$1,509,315	$1,398,925
Expenses					
Program services	$3,405,088	$3,018,991	$2,494,796	$1,604,368	$1,304,302
Management and general	288,123	279,568	259,436	85,272	92,290
Total expenses	$3,693,211	$3,298,559	$2,754,232	$1,689,640	$1,396,592
Surplus/(deficit)	$(267,889)	$837,435	$41,910	$(180,325)	$2,333

Sources of Funding

The following chart displays revenue sources for the three most recently completed fiscal years ended June 30.

Source of Public Funding*
(in thousands)

	2005		2006		2007	
Counties						
Monroe	$ 346	12%	$ 207	6%	$ 25	1%
Erie	117	4%	200	6%	546	16%
Steuben	542	20%	554	17%	840	25%
Chemung	144	5%	325	10%	129	4%
Broome	286	10%	276	8%	449	13%
Wyoming	24	1%	107	3%	101	3%
Livingston	33	1%	249	8%	163	5%
Cattaraugus	116	4%	44	1%	103	3%
Chenango	222	8%	117	4%	12	1%
Others	851	32%	1,100	34%	942	28%
Other Sources						
Other public and nonpublic	88	3%	74	2%	47	1%
Total revenue	$2,769		$3,253		$3,357	

* percentages may not add up to 100% due to rounding

Employees

Snell Farm Children's Center employs approximately 100 Full Time Equivalent non-union employees. Child care workers and social workers comprise the largest employee segments.

Litigation

There are no suits pending or, to the knowledge of management of the Snell Farm Children's Center, threatened, wherein an unfavorable result would have a material effect on the financial condition of Snell Farm Children's Center or its ability to perform its obligations under its Loan Agreement and any litigation pending is generally of a routine nature which does not affect the right of the Center to conduct its business or the validity of its obligations under its Loan Agreement.

For financial statements of the Snell Farm Children's Center see "Appendix B - Financial Statements of the Residential Providers"

The New York Foundling Hospital

The New York Foundling Hospital (The Foundling) was established in 1869 as an orphanage in New York City to care for babies abandoned in the wake of the Civil War. Today The Foundling helps children, youth and adults in need through advocacy and through preventive and in-care services. Operated by the Sisters of Charity, The Foundling cares for more than 13,000 children each year in the New York City area and in Puerto Rico.

Historical Utilization

The table below presents the Residential Provider's full-time equivalent residential enrollment for the past five school years:

	2003	2004	2005	2006	2007
Licensed Beds	24	24	24	24	24
Utilization Rate	78%	82.9%	82.2%	85.9%	88.8%
Days of Average Occupancy	90	90	90	90	90

Finances

New York Foundling
Balance Sheet
School Year Ending June 30,

	2007	2006	2005	2004	2003
Current Assets	$38,026,225	$34,011,477	$26,534,783	$25,344,946	$26,833,234
Total Assets	$47,225,993	$37,970,790	$29,747,395	$31,261,580	$33,250,559
Current Liabilities	$25,945,300	$23,899,201	$19,841,479	$18,364,463	$16,379,039
Total Liabilities	$27,838,744	$24,361,771	$21,639,723	$20,183,957	$18,451,349
Total Net Assets	$19,387,249	$13,609,019	$8,107,672	$11,077,623	$14,799,210

New York Foundling
Revenues and Expenses*
Fiscal Year End Surplus
School Year Ending June 30,

	2007	2006	2005	2004	2003
Support and Revenue					
Program Revenue	$81,503,024	$69,279,084	$65,966,560	$75,548,618	$79,429,035
Non-program Revenue	$ 5,254,221	$ 8,298,596	$ 5,516,032	$ 6,260,076	$ 3,447,826
Total Support & Revenue	$86,757,245	$77,577,680	$71,482,592	$81,808,694	$82,876,861
Expenses					
Program Services	$73,780,205	$64,898,320	$62,558,646	$77,562,642	$76,979,612
Management and General Fundraising	7,198,810	$ 7,178,013	8,283,226	7,967,639	6,674,354
Loss from Discontinued Programs	-	-	3,610,671	-	-
Total Expenses	$80,979,015	$72,076,333	$74,452,543	$85,530,281	$83,653,966
Surplus (Deficit)	$ 5,778,230	$5,501,347	($2,969.951)	($3,721,587)	($777,105)

* Includes unrestricted, temporarily restricted and permanently restricted.

Sources of Funding

With regard to residential fostercare The Foundling receives all of its funding from the New York City Administration for Children Services (ACS).

Employees

The Foundling employs approximately 1,543 staff full and part time. Staff is comprised of residential care staff, social service professionals, administrative staff, maintenance staff and clerical staff. Approximately 360 direct care workers, social workers and clerical staff are members of Union Local 888.

Litigation

There are no suits pending or, to the knowledge of The Foundling, threatened against The Foundling, wherein an unfavorable result would have a material adverse effect on the financial condition of The Foundling or its ability to perform its obligations under its Loan Agreement and any litigation pending is generally of a routine nature which does not affect the right of The Foundling to conduct its business or the validity of its obligations under its Loan Agreement.

For financial statements of The Foundling see "Appendix B - Financial Statements of the Residential Providers"

Northeast Parent & Child Society, Inc.

Founded in 1888, Northeast Parent & Child Society, Inc. ("Northeast Parent") offers 28 residential, educational, and prevention programs to help children at 17 service locations. Every year, Northeast Parent assists 4,800 children and family members from 18 counties to overcome emotional, educational, and behavioral deficits. Throughout its 119-year history, Northeast Parent has served more than 100,000 members in the community.

Historical Utilization

The table below presents the Residential Provider's full-time equivalent residential enrollment for the past five school years:

	2007	2006	2005	2004	2003
Residents	68	68	60	60	60
Average Occupancy	65.2	66.5	58.3	58.8	58.2
Utilization	95.9%	97.8%	97.2%	98.0%	97.0%
Average Duration (in months)	8.4	7.1	10.0	9.7	n/a

Finances

Northeast Parent & Child
Balance Sheet
School Year Ending June 30,

	2007	2006	2005	2004	2003
Current Assets	$ 9,060,244	$ 7,869,768	$ 6,824,156	$ 6,794,501	$ 6,092,964
Total Assets	19,970,473	16,440,260	15,123,937	14,119,865	13,748,664
Current Liabilities	5,414,817	3,121,645	2,406,732	2,445,094	2,039,549
Total Liabilities	9,995,376	7,159,312	6,694,869	5,899,642	5,675,110
Total Net Assets	9,975,097	9,280,948	8,429,068	8,220,223	8,073,554

Northeast Parent & Child
Revenues and Expenses
Fiscal Year End Surplus
School Year Ending June 30,

	2007	2006	2005	2004	2003
Support and Revenue					
Program Revenue	$25,228,016	$21,470,038	$17,299,504	$15,743,855	$13,493,752
Public Support	850,389	936,255	557,301	390,902	425,987
Other Revenue	655,186	279,774	247,109	409,010	480,849
Total Support and Revenue	$26,733,591	$22,686,067	$18,103,914	$16,543,767	$14,400,588
Expenses					
Program Services	$22,280,894	$19,374,846	$17,677,219	$16,213,080	$14,250,598
Management and General	3,264,505	2,175,236	-	-	-
Fundraising	494,043	284,105	217,850	184,018	83,015
Total Expenses	$26,039,442	$21,834,187	$17,895,069	$16,397,098	$14,333,613
Surplus (Deficit)	$ 694,149	$ 851,880	$ 208,845	$ 146,669	$ 66,975

Sources of Funding

The following chart shows, for the fiscal years ended June 30, 2005, June 30, 2006 and June 30, 2007, for Northeast the total amount payable from each major social service district, school district or any other payor to the Northeast and the percentage such amount represents of total receipts of Northeast.

Sources of Funding

	2005		2006		2007	
County Social Services						
Schenectady County	$ 3,745,691	22%	$ 4,724,049	22%	$ 5,662,196	23%
Rensselaer County	$ 2,105,040	12%	$ 3,081,302	14%	$ 2,843,723	11%
Warren County	$ 640,488	3%	$ 882,630	4%	$ 1,155,164	5%
Columbia County	$ 1,156,303	7%	$ 1,040,714	5%	$ 1,483,406	6%
All Other Counties	$ 3,789,706	22%	$ 3,444,894	16%	$ 4,636,435	18%
Total	$11,437,228	66%	$13,173,589	61%	$15,780,924	63%
School and Local Districts						
Schenectady City SD	$ 3,820,764	22%	$ 3,846,434	18%	$ 4,655,635	18%
Scotia-Glenville SD	$ 398,105	2%	$ 136,957	1%	$ 100,981	.5%
Albany City SD	$ 216,339	1%	$ 261,674	1%	$ 62,949	.5%
All Other School Districts	$ 803,022	5%	$ 1,582,866	8%	$ 1,737,667	7%
Total	$ 5,238,230	30%	$ 5,827,931	28%	$ 6,557,232	26%
State Medicaid	$ 624,046	4%	$ 1,774,184	9%	$ 1,653,904	6%
Federal Grants	$ -	0%	$ 694,334	2%	$ 1,235,956	5%
Total Program Funding	$17,299,504		$21,470,038		$25,228,016	

Employees

Northeast Parent employs approximately 460 persons full-time (351 faculty/social service/direct care professionals; 67 administration and management; 22 buildings and grounds and security personnel; 20 clerical and secretarial staff).

Litigation

There are no suits pending or, to the knowledge of Northeast Parent, threatened against it, wherein an unfavorable result would have a material adverse effect on its financial condition or its ability to perform its obligations under its Loan Agreement and any litigation pending is generally of a routine nature which does not affect the right of Northeast Parent to conduct its business or the validity of its obligations under its Loan Agreement.

For financial statements of Northeast Parent see "Appendix B - Financial Statements of the Residential Providers".

PART 6 - ESTIMATED SOURCES AND USES OF FUNDS

Estimated sources and uses of funds are as follows:

	Sub-Series 2008A-1	Sub-Series 2008A-2
Sources of Funds		
Principal Amount of the Series 2008 Bonds	$53,835,000	$75,000
Net Original Issue (Discount)/Premium	795,821	-
Additional Required Equity Contribution	8,915	-
Total Sources	$54,639,736	$75,000
Uses of Funds		
Deposit to Construction Fund	$47,499,038	$ -
Debt Service Reserve Fund	1,258,663	1,754
Deposit to Capitalized Interest Account	3,780,039	10,288
Costs of Issuance*	2,101,996	62,958
Total Uses	$54,639,736	$75,000

*Includes the Underwriters' discount, SONYMA fee and State Bond Issuance Fee.

PART 7 - THE PROJECTS

The Projects consists of new construction and/or renovation of the Residential Providers' residential facilities to address their capital improvement needs. Through an application process, OCFS identified a group of eight qualified Residential Providers were identified by OCFS from providers across the State as having proposed capital projects that meet the goals of the Program and the requirements of the Act. The amount of each of the projects being funded by the Series 2008 Bonds and its Allocable Portion of the proceeds of the Series 2008 Bonds, including capitalized interest, is as follows:

Residential Provider	Project Cost Funded	Allocable Portion of the Series 2008 Bonds
Gateway-Longview	$ 3,632,518	$ 4,050,000
Green Chimneys	17,665,977	20,795,000
Gustavus Adolphus	3,411,894	3,880,000
Hillside Children's Center	4,171,500	4,720,000
Crestwood Children's Center	896,250	985,000
Snell Farms Children's Center	1,046,800	1,140,000
New York Foundling	6,577,009	7,190,000
Northeast Parent & Child Society	10,097,090	11,150,000

Individual Project summaries are as follows:

Gateway-Longview

The Gateway-Longview Project consists of the construction of a 24-bed CAB (Changing Attitudes and Behavior) complex that will be located at the Main Street/Lynde School Campus, 6350 Main Street, Williamsville, New York. This facility will have institutional residence for up to 12 male and 12 female clients with full supervision, total separation in 4 individual 6-unit wings, as well as, recreation, therapy, laundry, relaxation, health treatment, counseling, dining and snack kitchen available for all residence and staff. There will be a small gym with social and musical functionality, meeting rooms, time out rooms, administrative offices and parent visitation areas.

The new construction will replace Hart Cottage, which is slated for demolition after completion and testing of the new complex. In addition, Memorial Cottage, the current CAB facility, which will be vacated by this Project is under study for possible demolition or renovation for other use.

Green Chimneys

The Green Chimneys Project includes the construction of three (3) buildings (the "Green Chimneys Facilities") that will be operated by Green Chimneys and will be located on the southern edge of the 47-acre campus located at 400 Doansburg Road in Patterson, New York. The Green Chimneys Facilities will constitute new housing and will include (A) two two-story houses, each with 6,090 sq. ft. on the first floor and 5,990 sq. ft. on the second floor, and will contain four units of eight beds and one staff suite each and (B) one two-story house with 6,428 sq. ft. on the first floor and 4,315 sq. ft. on the second floor, which will contain three units of eight beds and one staff suite each. Each of the Green Chimneys Facilities will also include a lobby, a staff office, a social workers' office, a multi-purpose room and a support suite. The Green Chimneys component of the Project will also include financing for the partial demolition of a wing of Building #1, which includes the Okun, Alcove and Behrman dormitory units, located on the western side of the above-described Doansburg Road campus.

Gustavus Adolphus

GA's facility is a 27,200 square foot, two-story, wood framed facility constructed in 1968 at 200 Gustavus Ave. Jamestown, N. Y. Its radial configuration, with five wings projecting from a central core, was designed for 60 students; it is currently licensed for 33 beds. The student bedrooms, facility kitchen and administrative offices are on the first floor and group rooms, dining areas, ancillary support rooms, gym and maintenance/mechanical areas are on the lower level.

The purpose of the Project is to update the mechanical, electrical and plumbing systems, reconfigure space within each residential wing to provide a common room, modernize the toilet and bath facilities and reconstruct the interior stairways to provide more controlled access between floors. Asbestos abatement and updates to interior finishes will be coordinated with the primary work being accomplished. The exterior envelope is in relatively good condition and only windows are scheduled for replacement.

Hillside Children's Center

The Hillside Children's Center Project consists of the (a) complete renovation of two existing two-story, 7,800 sq. ft., residential cottages, (b) the construction of a 5,400 sq. ft. connecting building between the two cottages to accommodate elevators, mechanicals, fire safety, handicapped accessibility, air conditioning and ventilation; and (c) a 500 sq. ft. addition to a third cottage, for similar updating, which represents the final phase related to upgrading 1905-vintage residential facilities on the Monroe Avenue Campus.

Crestwood Children's Center

The Crestwood Children's Center Project consists of the construction of two one-story, 3,600 sq. ft. residential cottages, each with 8-bed capacity, designed for flexibility and durability, on the Scottsville Campus.

Snell Farm Children's Center

The Snell Farms Children's Project consists of the construction of one one-story, 4,000 sq. ft. residential cottage with a 10-bed capacity, designed for flexibility and durability, on the Bath Campus.

The New York Foundling

The Foundling's Project includes financing for a multi-purpose building (the "Foundling Facility"), located at 119 Tompkins Avenue in Staten Island, New York. The Foundling Facility will be 22,000 sq. ft. and will include five stories and an extended basement. The first three floors and basement will provide housing and diagnostic assessment services for 24 residents and will include 24 single bedrooms, kitchen and dining facilities, recreation space and offices. The fourth and fifth floors will provide space for administrative support offices for diagnostic programs and social service programs provided to residents and family members.

Northeast Parent & Child Society

The Northeast Parent & Child Society Project involves construction of a new 57,460 sq. ft. Children's Home residential facility at 122 Park Avenue, Schenectady, New York, for up to 68 at-risk youth. The new facility will have the following enhanced features: (a) single bedrooms, private baths, laundry facilities, enhanced program and recreational capabilities, infrastructure support for clinical services, and entirely new core plumbing, electrical, heating and ventilation system, (b) extensive safety features to meet the needs of the population, including appropriate windows, private bedrooms and baths, and secure doors and (c) dormitories designed to enhance staff supervision of youth which will include (i) single bedrooms around the perimeter of the dorm, private bathrooms, and an open living space dramatically improving sight lines for staff and (ii) a centralized glass-enclosed staff office allowing for complete visual supervision of the dormitory. The dormitories can also function as separate eight bed units, which further improve supervision. The dormitories will create a more normalized environment, incorporate a central open living space including a sitting area for watching television or having group meetings, a kitchen area for cooking and eating food, computer stations, and recreational space.

PART 8 - 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, 2008, the Authority had approximately $35.2 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, 2008 were as follows:

Public Programs	**Bonds Issued**	**Bonds Outstanding**	**Notes Outstanding**	**Bonds and Notes Outstanding**
State University of New York Dormitory Facilities	$ 2,120,821,000	$ 873,355,000	$ 0	$ 873,355,000
State University of New York Educational and Athletic Facilities	11,757,912,999	5,004,985,745	0	5,004,985,745
Upstate Community Colleges of the State University of New York	1,397,910,000	589,930,000	0	589,930,000
Senior Colleges of the City University of New York	8,609,563,549	2,982,606,270	0	2,982,606,270
Community Colleges of the City University of New York	2,194,081,563	513,213,730	0	513,213,730
BOCES and School Districts	1,731,396,208	1,291,165,000	0	1,291,165,000
Judicial Facilities	2,161,277,717	738,632,717	0	738,632,717
New York State Departments of Health and Education and Other	4,233,285,000	2,849,490,000	0	2,849,490,000
Mental Health Services Facilities	5,682,130,000	3,558,845,000	0	3,558,845,000
New York State Taxable Pension Bonds	773,475,000	0	0	0
Municipal Health Facilities Improvement Program	913,895,000	809,250,000	0	809,250,000
Totals Public Programs	$ 41,575,748,036	$ 19,211,473,462	$ 0	$ 19,211,473,462

Non-Public Programs	**Bonds Issued**	**Bonds Outstanding**	**Notes Outstanding**	**Bonds and Notes Outstanding**
Independent Colleges, Universities and Other Institutions	$ 14,899,256,020	$ 7,001,777,344	$190,230,000	$ 7,192,007,344
Voluntary Non-Profit Hospitals	12,693,404,309	7,817,570,000	0	7,817,570,000
Facilities for the Aged	1,979,275,000	1,027,235,000	0	1,027,235,000
Supplemental Higher Education Loan Financing Program	95,000,000	0	0	0
Totals Non-Public Programs	$ 29,666,935,329	$ 15,846,582,344	$190,230,000	$ 16,036,812,344
Grand Totals Bonds and Notes	$ 71,242,683,365	$ 35,058,055,806	$190,230,000	$ 35,248,285,806

Outstanding Indebtedness of the Agency Assumed by the Authority

At March 31, 2008, the Agency had approximately $401 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, 2008 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	$ 3,605,000
Insured Mortgage Programs	6,625,079,927	389,564,927
Revenue Bonds, Secured Loan and Other Programs	2,414,240,000	8,255,000
Total Non-Public Programs	9,265,549,927	401,424,927
Total MCFFA Outstanding Debt	$ 13,082,780,652	$ 401,424,927

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:

GAIL H. GORDON, Esq., *Chair*, Slingerlands.

Gail H. Gordon was appointed as a Member of the Authority by the Governor on May 10, 2004. Ms. Gordon served as Deputy Commissioner and General Counsel for the Office of Children and Family Services from September 15, 1997 to December 31, 2006. She previously was of counsel to the law firm of Helm, Shapiro, Anito & McCale, P.C., in Albany, New York, where she was engaged in the private practice of law. From 1987 to 1993, Ms. Gordon served as Counsel to the Comptroller of the State of New York where she directed a legal staff of approximately 40 attorneys, was responsible for providing legal and policy advice to the State Comptroller and his deputies in all areas of the State Comptroller's responsibilities, including the supervision of accounts of public authorities and in the administration, as sole trustee, of the New York State Employees Retirement System and the Policemen's and Firemen's Retirement System. She served as Deputy Counsel to the Comptroller of the State of New York from 1983 to 1987. From 1974 to 1983, Ms. Gordon was an attorney with the law firm of Hinman, Howard & Kattell, Binghamton, New York, where she concentrated in areas of real estate, administrative and municipal law. Ms. Gordon holds a Bachelor of Arts degree from Smith College and a Juris Doctor degree from Cornell University School of Law. Ms. Gordon's term expired on March 31, 2007 and by law she continues to serve until a successor shall be chosen and qualified.

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

John B. Johnson, Jr. was appointed as a Member of the Authority by the Governor on April 26, 2004. 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, 2010.

JOSE ALBERTO CORVALAN, M.D., *Secretary*, Armonk.

Dr. Corvalan was appointed as a Member of the Authority by the Governor on June 22, 2005. Dr. Corvalan is Chief of Laparoscopic Surgery at St. Vincent's Midtown Hospital in Manhattan. Dr. Corvalan is a Diplomate, American Board of Surgery, and is a Fellow of the American College of Surgeons and the New York Academy of Medicine. Dr. Corvalan has held a number of teaching positions and is Associate Professor of Surgery at New York Medical College, Valhalla, New York. His current term expired on March 31, 2008 and by law he continues to serve until a successor shall be chosen and qualified.

BRIAN RUDER, Scarsdale.

Mr. Ruder was appointed as a Member of the Authority on June 23, 2006. He is Chief Executive Officer of Skylight Partners, a strategic marketing and business development consulting group that he founded in 2001. Prior to Skylight Partners, Mr. Ruder served for four years as Executive Vice President of Global Marketing for Citigroup. He spent 16 years at the H.J. Heinz Co. in progressively responsible positions, including President of Heinz USA, President of Weight Watchers Food Company and corporate Vice President of Worldwide Infant Feeding. He also served as Director of Marketing, New Products and Sales for Pepsi USA in the mid-1980s. Mr. Ruder is a member of the board of the New York State Foundation for Science, Technology and Academic Research (NYSTAR), and also serves as chair of the board of the Adirondack Council, board member and secretary of the New York Metro Chapter of the World Presidents' Organization, and an advisory board member of PNC Private Client Advisors. Mr. Ruder earned a Bachelor of Arts degree in American History in 1976 from Washington University in St. Louis, Mo., and a Master of Business Administration degree in Marketing in 1978 from the Tuck School at Dartmouth College. His current term expires on March 31, 2009.

ANTHONY B. MARTINO, CPA, Buffalo.

Mr. Martino was appointed as a Member of the Authority by the Governor on April 26, 2004. 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. He is a member of the Board of Directors of Natural Health Trends Inc., a public company, where he chairs the Audit Committee. 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 term expired on August 31, 2007 and by law he continues to serve until a successor shall be chosen and qualified.

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.

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.

KEVIN R. CARLISLE, Averill Park.

Mr. Carlisle was appointed as a Member of the Authority by the Temporary President of the Senate on January 29, 2007. After a career in public housing and business consulting, Mr. Carlisle retired in 2003 as Assistant Commissioner of the state Division of Housing and Community Renewal ("DHCR") and Vice President of the New York State Housing Trust Fund Corporation. He was responsible for capital development programs which financed approximately 4,000 units annually, with a total development cost of $500 million. He conceived the state's Homes for Working Families Program, which received the 1999 Award for Program Excellence from the National Council of State Housing Finance Agencies. Similarly, Mr. Carlisle implemented the Rural Leveraging Partnership Program, which was cited as a national model by U.S. Rural Housing Services. He also served at DHCR as Director of Underwriting, Deputy Director of the Office of Rural Development, and designed the housing strategy that met the state's off-site commitment to induce the U.S. Army's 10th Mountain Division to locate at Fort Drum. Before he joined DHCR in 1982, Mr. Carlisle was a partner in Barrett Carlisle & Co., a real estate development and consulting firm, and served the City of Troy and the City of Cohoes in economic planning and real estate project management. Mr. Carlisle earned both a Bachelor's degree in Economics and a Master's degree in Urban and Environmental Studies from Rensselaer Polytechnic Institute.

RICHARD P. MILLS, *Commissioner of Education of the State of New York,* Albany; *ex-officio.*

Dr. Mills became Commissioner of Education on September 12, 1995. Prior to his appointment, Dr. Mills served as Commissioner of Education for the State of Vermont since 1988. From 1984 to 1988, Dr. Mills was Special Assistant to Governor Thomas H. Kean of New Jersey. Prior to 1984, Dr. Mills held a number of positions within the New Jersey Department of Education. Dr. Mills' career in education includes teaching and administrative experience at the secondary and postsecondary education levels. Dr. Mills holds a Bachelor of Arts degree from Middlebury College and a Master of Arts, a Master of Business Administration and a Doctor of Education degree from Columbia University.

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

Ms. Anglin was appointed Budget Director on January 1, 2008. As Budget Director, she is responsible for the overall development and management of the State's fiscal policy, including overseeing the preparation of budget recommendations for all State agencies and programs, economic and revenue forecasting, tax policy, fiscal planning, capital financing and management of the State's debt portfolio, as well as pensions and employee benefits. Ms. Anglin previously served as First Deputy Budget Director from January 2007 to December 2007. She was appointed Deputy Comptroller of the Division of Retirement Services in January 2003 and was responsible for overseeing the administration and managing the operations of the New York State and Local Retirement System. From 1996-2003, Ms. Anglin worked in the New York State Assembly where she served as Director of Budget Studies for the Assembly Ways and Means Committee and as First Deputy Fiscal Director for the Committee. Ms. Anglin has also held the position of Econometrician in the Department of Taxation and Finance from 1992-1996 and began her career as an Economist for the Department of Environmental Conservation. Ms. Anglin holds a Bachelor of Arts degree and a Masters degree in Economics from the State University of New York at Albany.

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.

The principal staff of the Authority is as follows:

MICHAEL T. CORRIGAN currently serves as the Acting Executive Director and chief administrative and operating officer of the Authority until such time as a new Executive Director is appointed by the Members of the Board of the Authority. In this capacity, Mr. Corrigan is responsible for the overall management of the Authority's administration and operations. He came to the Authority in 1995 as Budget Director, and served as Deputy Chief Financial Officer from 2000 until 2003. In 2003, Mr. Corrigan became Deputy Executive Director and served in that capacity until becoming Acting Executive Director on May 15, 2008. 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, Mr. Corrigan served as the appointed Rensselaer County Executive for a short period. He 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.

JOHN G. PASICZNYK is the Chief Financial Officer of the Authority. Mr. Pasicznyk is responsible for investment management and accounting, as well as the development of the financial policies for the Authority. Before joining the Authority in 1985, Mr. Pasicznyk worked in audit positions at KPMG Peat Marwick and Deloitte & Touche. He holds a Bachelor's degree from Syracuse University and a Master of Business Administration degree from the Fuqua School of Business at Duke University.

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.

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 2007 Bonds.

Legislation

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

Environmental Quality Review

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

Independent Auditors

The accounting firm of KPMG LLP audited the financial statements of the Authority for the fiscal year ended March 31, 2007. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

PART 9 - LEGALITY OF THE SERIES 2008 BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2008 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 2008 Bonds may be deposited with the Comptroller to secure deposits of State moneys in banks, trust companies and industrial banks.

PART 10 - NEGOTIABLE INSTRUMENTS

The Series 2008 Bonds shall be negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution and in the Series 2008 Bonds.

PART 11 - TAX MATTERS

In the opinion of Hiscock & Barclay, LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Sub-Series 2008A-1 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Sub-Series 2008A-1 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Series 2008 Bonds is exempt from personal income taxes of the State of New York and its political subdivisions. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

Certain of the Sub-Series 2008A-1 Bonds may be initially offered to the public at prices less than the amount payable with respect to such Bonds at maturity (the "Discount Bonds"). The difference between the stated principal amount of the Discount Bonds and the initial offering to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity were sold constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Sub-Series 2008A-1 Bonds. Further, such original issue discount secures actuarially on a constant yield basis over the term of each Discount Bond and the basis of such Discount Bond acquired at such initial offering price by an initial purchaser of each Discount Bond will be increased by the amount of such accrued discount.

Certain of the Sub-Series 2008A-1 Bonds may be initially offered to the public at prices greater than the amount payable with respect to such Bonds at maturity (the "Premium Bonds"). As a result of requirements under the Code relating to tax cost reduction associated with the amortization of bond premium, under certain circumstances the initial owner of a Premium Bond may realize taxable gain upon disposition thereof even though sold or redeemed for an amount less than or equal to such owner's original acquisition cost. The amortization requirements may also result in the reduction of the amount of stated interest, which an owner of a Premium Bond is treated as having received for Federal tax purposes. Owners of Premium Bonds are advised to consult with their own tax advisers with respect to the tax consequences of owning such Premium Bonds.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Sub-Series 2008A-1 Bonds. The Authority and OCFS have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Sub-Series 2008A-1 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Sub-Series 2008A-1 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Sub-Series 2008A-1 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Sub-Series 2008A-1 Bonds may adversely affect the value of, or the tax status of interest on, the Sub-Series 2008A-1 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Sub-Series 2008A-1 Bonds is excluded from gross income for federal income tax purposes and is exempt from personal income taxes of the State of New York and its political subdivisions, the ownership or disposition of, or the accrual or receipt of interest on, the Sub-Series 2008A-1 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2008 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2008 Bonds. Prospective purchasers of the Series 2008 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2008 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the Residential Providers, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS.

PART 12 - STATE NOT LIABLE ON THE SERIES 2008 BONDS

The Act provides that notes and bonds of the Authority shall not be a debt of the State nor shall the State be liable thereon, nor shall such notes or bonds be payable out of any funds other than those of the Authority. The Resolution specifically provides that the Series 2008 Bonds shall not be a debt of the State nor shall the State be liable thereon.

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 2008 Bonds by the Authority are subject to the approval of Hiscock & Barclay, LLP, Albany, New York, Bond Counsel, whose approving opinion will be delivered with the Series 2008 Bonds. The proposed form of Bond Counsel's opinion is set forth in Appendix E hereto.

Certain legal matters will be passed upon for the Underwriters by their counsel, Winston & Strawn, LLP, New York, New York.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2008 Bonds or questioning or affecting the validity of the Series 2008 Bonds or the proceedings and authority under which they are to be issued.

PART 15 - UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2008 Bonds from the Authority at an aggregate purchase price of $54,034,317.77 and to make a public offering of the Series 2008 Bonds at prices that are not in excess of the public offering prices stated on the cover of this Official Statement. The Underwriters will be obligated to purchase all such Series 2008 Bonds, if any are purchased. The Series 2008 Bonds may be offered and sold to certain dealers (including Underwriters), at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters.

PART 16-RATINGS

The Series 2008 Bonds have been rated "Aa1" by Moody's Investors Service ("Moody's") by virtue of the SONYMA Mortgage Insurance Policies. Unenhanced ratings of "A-" and "A3" have also been assigned to the Series 2008 Bonds by Fitch Ratings and Moody's, respectively. These underlying ratings do not recognize the additional security present in the form of the SONYMA Mortgage Insurance Policies. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agencies at the following addresses: Fitch Ratings, One State Street, New York, New York 10004; Moody's Investors Service, 7 World Trade Center New York, NY 10007. There is no assurance that such ratings will apply for any given period of time or that they will not be revised downward or withdrawn entirely by any or all such rating agencies if, in the judgment of any or all of them, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2008 Bonds.

PART 17 - CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (“Rule 15c2-12”), each Residential Provider has undertaken in a written agreement (collectively the “Continuing Disclosure Agreements”) for the benefit of the holders of the Series 2008 Bonds to provide to Digital Assurance Certification LLC (“DAC”), on behalf of the Authority as the Authority’s disclosure dissemination agent, on or before 120 days after the end of each fiscal year, commencing with the fiscal year of the participating Residential Providers ending June 30, 2008, for filing by DAC with each nationally recognized municipal securities information repository designated by the Securities and Exchange Commission in accordance with Rule 15c2-12 (each a “Repository”), and if and when one is established, the New York State Information Depository (the “State Information Depository”), on an annual basis, operating data and financial information of the type hereinafter described which is included in this Official Statement (the “Annual Information”), together with the Residential Providers 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 each Repository and the State Information Depository when they become available.

If, and only if, and to the extent that it receives the Annual Information and annual financial statements described above from the Residential Provider, DAC has undertaken in each Continuing Disclosure Agreement, on behalf of and as agent for the applicable Residential Provider 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 Residential Provider, with each such Repository and to the State Information Depository.

The Residential Providers also will undertake in their respective Continuing Disclosure Agreements to provide to the Authority, the Trustee and DAC, in a timely manner, the notices required to be provided by Rule 15c2-12 and described below (the "Notices"). In addition, the Authority and the Trustee will undertake to provide such notices to DAC, should they have actual knowledge of the occurrence of a Notice Event (as hereinafter defined). Upon receipt of Notices from a Residential Provider, the Trustee or the Authority, DAC will file the Notices with each such Repository or with the Municipal Securities Rulemaking Board (the "MSRB"), and with the State Information Depository, in a timely manner. With respect to the Series 2008 Bonds, DAC has only the duties specifically set forth in the Continuing Disclosure Agreements. DAC's obligation to deliver the information at the times and with the contents described in the Continuing Disclosure Agreements are limited to the extent it has been provided such information pursuant to the Continuing Disclosure Agreements. DAC has no duty with respect to the content of any disclosure or Notices made pursuant to the terms of the Continuing Disclosure Agreements and DAC has no duty or obligation to review or verify any information contained in the Annual Information, Audited Financial Statements, Notices or any other information, disclosures or notices provided to it by a Residential Provider, the Trustee or the Authority and shall not be deemed to be acting in any fiduciary capacity for the Authority, a Residential Provider, the Trustee, the Owners of the Series 2008 Bonds or any other party. DAC has no responsibility for the Authority, any Residential Provider or Trustee's failure to provide to DAC a Notice required by the Continuing Disclosure Agreements or duty to determine the materiality thereof. DAC shall have no duty to determine or liability for failing to determine whether a Residential Provider, the Trustee or the Authority has complied with the Continuing Disclosure Agreements and DAC may conclusively rely upon certifications of a Residential Provider, the Trustee and the Authority with respect to their respective obligations under the Continuing Disclosure Agreements. In the event that the obligations of DAC as the Authority's disclosure dissemination agent terminate, the Authority will either appoint a successor disclosure dissemination agent or, alternatively, assume all responsibilities of the disclosure dissemination agent for the benefit of the Bondholders.

The Annual Information will consist of the following: (a) operating data and financial information of the type included in this Official Statement in "PART 5 - THE RESIDENTIAL PROVIDERS" under the headings "*Historical Utilization*" and "*Finances - Sources of Funding*"; and a narrative update of information under the heading *"Litigation"*.

The Notices include notice of any of the following events with respect to the Series 2008 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 2008 Bonds; (7) modifications to rights of the Owners of the Series 2008 Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2008 Bonds; and (11) rating changes on the Series 2008 Bonds. In addition, DAC will undertake to provide to each Repository or the MSRB and to the State Information Depository, in a timely manner, notice of any failure by any of the Residential Providers to provide the Annual Information and annual financial statements by the date required in the Residential Providers undertaking described above.

The sole and exclusive remedy for breach or default under any Continuing Disclosure Agreements is an action to compel specific performance of the undertakings of the defaulting Residential Provider and/or the Authority or the Trustee, and no person, including any Holder of the Series 2008 Bonds, may recover monetary damages thereunder under any circumstances. The Authority or such defaulting Residential Provider may be compelled to comply with their respective obligations under a Continuing Disclosure Agreement (i) in the case of enforcement of their obligations to provide information required thereunder, by any Holder of Outstanding Series 2008 Bonds or by the Trustee on behalf of the Owners of Outstanding Series 2008 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 2008 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 2008 Bonds. A breach or default under a Continuing Disclosure Agreement will not constitute an Event of Default under the Resolution. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the Continuing Disclosure Agreements, insofar as the provision of Rule 15c2-12 no longer in effect required the providing of such information, will no longer be required to be provided.

The foregoing undertakings are intended to set forth a general description of the type of financial information and operating data that will be provided; the descriptions are not intended to state more than general categories of financial information and operating data; and where an undertaking calls for information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. Any Continuing Disclosure Agreement, however, may under certain circumstances be amended or modified without the consent of Owners of the Series 2008 Bonds. Copies of all Continuing Disclosure Agreements when executed by the parties thereto upon the delivery of the Series 2008 Bonds will be on file at the principal office of the Authority.

PART 18 - MISCELLANEOUS

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

The agreements of the Authority with Owners of the Series 2008 Bonds are fully set forth in the Resolution. Neither any advertisement of the Series 2008 Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2008 Bonds.

Any statements in this Official Statement involving matters of opinion, whether or not expressly stated, are intended merely as expressions of opinion and not as representations of fact.

The information regarding the Residential Providers was supplied by the Residential Providers. The Authority believes that this information is reliable, but the Authority makes no representations or warranties whatsoever as to the accuracy or completeness of such information.

The information regarding SONYMA and the SONYMA Mortgage Insurance Policies have been furnished by SONYMA. No representation is made herein by the Authority or the Residential Providers as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. Neither the Authority nor the Residential Providers has made any independent investigation of SONYMA or its Policy.

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 to the accuracy or completeness of this information.

"Appendix A - Definitions," "Appendix C - Summary of Certain Provisions of the Loan Agreements" "Appendix D - Summary of Certain Provisions of the Resolution," and "Appendix E - Form of Approving Opinion of Bond Counsel" have been prepared by Hiscock & Barclay LLP, Albany, New York, Bond Counsel.

"Appendix B - Financial Statements of the Residential Providers" were supplied by the Residential Providers.

The Residential Providers have reviewed the respective parts of this Official Statement describing such Residential Providers, the Projects, the Estimated Sources and Uses of Funds and Principal and Interest Requirements. It is a condition to the sale and delivery of the Series 2008 Bonds that each of the Residential Providers shall certify as of the dates of sale and delivery of the Series 2008 Bonds that information regarding such Residential Provider and its respective Project, the Estimated Sources and Uses of Funds and the Principal and Interest Requirements, do not contain any untrue statement of a material fact and does not omit any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading.

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

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

DORMITORY AUTHORITY OF THE STATE OF NEW YORK

By: /s/ Michael T. Corrigan
Authorized Officer

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DEFINITIONS

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APPENDIX A - DEFINITIONS

The following are definitions of certain of the terms defined in the Resolution or Loan Agreement and used in this Official Statement.

"Account" means the depository account established by an Institution with a Depository, which such account shall be governed and maintained pursuant to the terms of the Account Control Agreement and the Loan Agreement.

"Account Control Agreement" means that certain agreement dated as of June 1, 2008 by and among the Institution, the Authority, the Depository and the Trustee.

"Act" means the Dormitory Authority Act being and constituting Title 4 of Article 8 of the Public Authorities Law of the State of New York.

"Allocable Portion" means each Institution's proportionate share of certain obligations arising from time to time under the Bonds and the respective Loan Agreements, particularly with respect to the Debt Service Reserve Fund Requirement, the Arbitrage Rebate Fund, the Costs of Issuance, and the payment of principal, interest and redemption price of the Bonds as particularly determined by the Applicable Series Resolution.

"Alternative Parity Indebtedness" means any indebtedness issued by the Institution or any other issuer on behalf of the Institution as permissible pursuant thereto and secured equally and ratably with or subordinate to the Loan made pursuant to the Loan Agreement, by the Mortgaged Property and/or the Pledged Revenues of the Institution; provided , however that any such pledge of the Institution's Pledged Revenues may not include a pledge or security interest in the Secured Funds or the Account.

"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.

"Annual SONYMA Fee" means the fee payable during each Bond Year in connection with the issuance of the SONYMA Insurance Policy, as more particularly described in Exhibit G of each Loan Agreement.

"Applicable" with respect to the Construction Account or subaccount thereof, the Debt Service Account, the Debt Service Reserve Fund Account, the Arbitrage Rebate Account, the Loan or the Project referred to in the Loan Agreement means the Construction Account, the Debt Service Account, the Debt Service Reserve Fund Account, the Arbitrage Rebate Account, the Loan and the Project, established and undertaken with respect to the Institution and the Project described in Exhibit A of each Loan Agreement.

"Arbitrage Rebate Fund" means the fund so designated and established 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.

"Authorized Officer" means (i) in the case of the Authority, the Chair, the Executive Director, the Deputy Executive Director, the General Counsel and Assistant Counsel, the Chief Financial Officer and Treasurer, the Managing Director of Public Finance and Portfolio Monitoring, the Managing Director of Construction, an Associate General Counsel and Assistant Secretary, the Assistant Director, Financings and Assistant Treasurer, and the Assistant Director, Financial Management and Assistant Treasurer, 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 Institution, the person or persons authorized to perform any act or sign any document by or pursuant to a resolution of the Institution's Board of Trustees or its Executive Committee or the by-laws of the Institution; and (iii) in the case of SONYMA, the person or persons authorized by a resolution of SONYMA to perform any act or execute any document.

"Bond" or "Bonds" means 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 Year" means, unless otherwise stated in a Series Resolution, a period of twelve (12) consecutive months beginning June 1 in any calendar year and ending on May 31 of the succeeding calendar year.

"Bondholder", "Holder of Bonds", "Holder" or "Owner" 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.

"Business Day" shall mean any day other than a Saturday, Sunday or a day on which the Trustee or the Insurance Trustee is authorized by law to remain closed.

"Capital Financing Add-On Rate Payment" means that portion of the Maintenance Rate Payment to be made to an Institution by a Payor based on the capital financing add-on rate established by the Commissioner of OCFS pursuant to section 398-a of the Social Services Law of the State of New York.

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

"Commissioner of Education" means the Commissioner of Education of the State of New York.

"Commissioner of OCFS" means the Commissioner of the New York State Office of Children and Family Services.

"Comptroller" means the Comptroller of the State of New York.

"Cost or Costs of Issuance" means the item or items of expense incurred in connection with the authorization, sale and issuance of Bonds authorized hereunder, 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 insurance on such Bonds or for SONYMA 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 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 Institution 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 Institution 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 Institution), (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 a Series Resolution or to any Loan or Loan Agreement.

"Debt Service Account" means each of the respective accounts or subaccounts so designated and established by an Applicable Series Resolution pursuant to the Resolution.

"Debt Service Fund" means the fund so designated and established pursuant to the Resolution.

"Debt Service Reserve Account" means each of the respective accounts or subaccounts so designated and established by an Applicable Series Resolution pursuant to the Resolution.

"Debt Service Reserve Fund" means the fund so designated and established pursuant to the Resolution.

"Debt Service Reserve Fund Requirement" means, unless otherwise specified in the Applicable Series Resolution or Applicable Bond Series Certificate, as of any particular date of computation, an amount equal to the greatest amount required in the then current or any future calendar year to pay the sum of (i) interest on the Outstanding Bonds of a Series payable during such year, excluding interest accrued thereon prior to July 1 of the next preceding year and (ii) the principal and the Sinking Fund Installments of such Bonds except that if, upon the issuance of a Series of Bonds, such amount would require a deposit of moneys therein, in an amount in excess of the maximum amount permitted under the Code to be deposited therein from the proceeds of such Series of Bonds, the Debt Service Reserve Fund Requirement shall mean the maximum amount permitted under the Code to be deposited therein from the proceeds of such Series of Bonds, as certified by an Authorized Officer of the Authority.

"Depository" shall have the same meaning as ascribed to such term in each Loan Agreement.

"Fiscal Year" means the duly adopted fiscal year of the Institution.

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

"Institution" or "Institutions" collectively mean each or all of the residential institutions for children for whose benefit the Authority shall have issued Bonds hereunder and with whom the Authority shall have executed one or more Loan Agreements as particularly defined in the Applicable Series Resolution.

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

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

"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.

"Monthly Deficiency" shall have the same meaning as ascribed to such term in the Account Control Agreement.

"Mortgage" means, collectively, any fee or leasehold mortgage or mortgages granted by any of the Institutions, or a party related to any Institution, 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 Institution'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 described in the Mortgage and the buildings an improvements thereon or thereafter erected thereon, and the fixtures, furnishings and equipment owned by the Institution and now or thereafter located therein or thereon, provided that the Authority may, in accordance with the SONYMA Insurance Policy, consent to the exclusion, release or subordination of the Authority's interest in certain of such property.

"OCFS" means the New York State Office of Children and Family Services.

"Official Statement" means an official statement or other offering document relating to and in connection with the sale of any Bonds.

"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 hereunder 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.

"Paying Agent" means, with respect to 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.

"Payor" means any Person, including a school district or social service district, which makes payments to the Institution on account of Residential Services provided by the Institution.

"Pledged Revenues" means all funds, including Secured Funds, funds on deposit in the Account, receipts, revenues, income, gifts, grants, assistance, bequests and other moneys received by the Institution, including all rights to receive the same whether in the form of accounts receivable, lease payments or other contract rights or other rights, and the proceeds of such rights whether now owned or held or thereafter coming into existence, in an amount equal in each Bond Year to the greatest amount required in any Bond Year to make the payments required to be made by the Institution pursuant to the Loan Agreement including, without limitation, the interest on the Institution's Allocable Portion of the Outstanding Bonds payable during such year and the principal and Sinking Fund Installments of Institution's Allocable Portion of the Outstanding Bonds payable on July 1 of such Bond Year; excluding, however, gifts, grants and bequests received by the Institution which are subject to restrictions upon the use thereof which are inconsistent with the use thereof for the purposes contemplated thereby and by the Resolution and the Series Resolution, and the income thereon to the extent that said income is so restricted as to use.

"Project" or "Projects" means, with respect to each Institution and each Loan under the Resolution and as approved by the Office of Children and Family Services, the acquisition, financing, construction, reconstruction, renovation, development, improvement, expansion and equipping of certain 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 in the Applicable Loan Agreement.

"Redemption Price", when used with respect to an Applicable Series of Bonds, means the principal amount of such Bond plus the applicable premium, if any, payable upon redemption thereof pursuant to the Resolution or to such Applicable Series Resolution or such Applicable Bond Series Certificate.

"Required Balance" means the amount required to be on deposit, from time to time, in each of the Applicable Debt Service Accounts of the Debt Service Fund pursuant to each of the Loan Agreements.

"Residential Program" means a program to provide Residential Services to children pursuant to a Maintenance Rate Payment Contract with a Payor.

"Residential Services" means residential services provided to children by the Institution pursuant to a Residential Program as contemplated by subsection 40 of section 1680 of the Public Authorities Law of the State of New York.

"Resolution" means the "Residential Institutions for Children Revenue Bond Resolution" adopted by the members of the Authority on March 26, 2008, as the same may be amended, supplemented or otherwise modified pursuant to the terms thereof.

"Revenues" mean, with respect to a particular Series of Bonds, all payments received or receivable by the Authority (including Contribution Amounts) pursuant to each of the Loan Agreements and the SONYMA Insurance Policies, 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, (iii) the Annual Administrative Fee and (iv) the Annual SONYMA Fee) securing such Bonds.

"Secured Funds" means any funds provided to the Institution by a Payor on account of Residential Services provided by the Institution.

"Series" means all of the Bonds authenticated and delivered on original issuance and pursuant to 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 collectively the Applicable Series Resolution or Series Resolutions adopted with respect to the Project, or any other resolution of the Authority authorizing the issuance of a Series of Bonds pursuant to the Resolution with respect to the Project, as the same may be amended, supplemented or otherwise modified pursuant to the terms thereof.

"Sinking Fund Installment" means, with respect to any Series of Bonds, as of any date of calculation and with respect to any Bonds of such Series, so long as any such Bonds thereof are Outstanding, the amount of money required by the

Applicable Series Resolution pursuant to which such Bonds were issued or by the Applicable Bond Series Certificate, to be paid on a single future June 1 for the retirement of any Outstanding Bonds of such Series which mature after such future June 1, but does not include any amount payable by the Authority by reason only of the maturity of such Bond, and such future June 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.

"SONYMA" means the State of New York Mortgage Agency, a corporate governmental agency of the State, constituting a political subdivision and public benefit corporation established under the SONYMA Act, or any successor thereto.

"SONYMA Act" means the State of New York Mortgage Agency Act, constituting Chapter 612 of the Laws of New York, as amended.

"SONYMA Insurance Policy" or "SONYMA Insurance Policies" means each mortgage insurance policy authorized pursuant to the SONYMA Act issued in connection with the issuance of the Bonds, which shall insure the payments due pursuant to the Applicable Loan Agreement secured by a Mortgage.

"State" means the State of New York.

"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 Article IX of the Resolution.

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

"Transfer Date" shall have the same meaning as ascribed to such term in the Account Control Agreement.

"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 and having the duties, responsibilities and rights provided for in the Resolution with respect to such Series, and its successor or successors and any other bank or trust company which may at any time be substituted in its place pursuant to the Resolution.

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FINANCIAL STATEMENTS OF
Residential Fostercare Providers

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GATEWAY-LONGVIEW, INC.

FINANCIAL STATEMENTS

June 30, 2007

Lumsden & McCormick, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Gateway-Longview, Inc.
Buffalo, New York

We have audited the accompanying balance sheets of Gateway-Longview, Inc. as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 Gateway-Longview, Inc. at June 30, 2007 and 2006 and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the financial statements, the Organization changed its method of accounting for its defined benefit pension plan.

Lumsden & McCormick, LLP

October 9, 2007

Balance Sheets

June 30,	2007	2006
Assets		
Current assets:		
Cash	**$ 1,026,795**	$ 925,958
Accounts receivable, net of estimated uncollectible accounts of $107,000 and $174,000	**4,110,860**	3,081,332
Receivable from property sale (Note 3)	**302,074**	-
Prepaid expenses	**375,885**	275,193
	5,815,614	4,282,483
Net assets of the Foundation (Note 1)	**11,294,944**	10,275,722
Property and equipment, net (Note 2)	**7,893,802**	7,318,725
Receivable from property sale (Note 3)	**561,325**	987,660
Pension asset (Note 4)	**-**	154,566
Other assets, net (Note 5)	**1,539,029**	1,715,911
	$ 27,104,714	$ 24,735,067
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt (Note 6)	**$ 580,868**	$ 652,214
Accounts payable	**573,874**	390,850
Accrued payroll and related liabilities	**1,013,348**	1,051,748
Other accrued expenses	**107,584**	63,803
Deferred revenue	**99,000**	-
	2,374,674	2,158,615
Long-term debt (Note 6)	**8,276,637**	8,708,652
Pension liability (Note 4)	**379,387**	-
Net assets:		
Unrestricted	**4,732,307**	3,545,313
Temporarily restricted (Note 8)	**10,786,543**	9,767,321
Permanently restricted (Note 8)	**555,166**	555,166
	16,074,016	13,867,800
	$ 27,104,714	$ 24,735,067

See accompanying notes.

Statements of Activities

For the years ended June 30,	2007	2006
Unrestricted net assets:		
Revenue:		
Program fees	$ 18,893,714	$ 16,434,431
Management fee from Foundation	60,000	50,000
Investment earnings and other income	105,902	28,848
Gain on sale of assets (Note 3)	-	2,131,003
Net assets released from restrictions	1,964,442	1,416,275
Total revenue	21,024,058	20,060,557
Expenses:		
Program services	16,600,639	15,600,278
Supporting services:		
General and administrative	1,980,101	1,649,833
Campus maintenance	557,520	831,757
Development	127,563	141,562
Total expenses	19,265,823	18,223,430
Change in unrestricted net assets before pension plan related adjustments	1,758,235	1,837,127
Defined benefit pension plan adjustment (Note 4)	(571,241)	313,722
Increase in unrestricted net assets	1,186,994	2,150,849
Temporarily restricted net assets:		
Net appreciation of funds held by Foundation	2,983,664	1,301,017
Net assets released from restrictions	(1,964,442)	(1,416,275)
Increase (decrease) in temporarily restricted net assets	1,019,222	(115,258)
Change in net assets	2,206,216	2,035,591
Net assets - beginning	13,867,800	11,832,209
Net assets - ending	$ 16,074,016	$ 13,867,800

See accompanying notes.

Statements of Cash Flows

For the years ended June 30,	2007	2006
Cash flows from operating activities:		
Increase (decrease) in net assets:		
Increase in net assets before pension plan related adjustments	**$ 2,777,457**	$ 1,721,869
Net assets adjustments - pension plan related adjustments (Note 4)	**(571,241)**	313,722
Change in net assets	**2,206,216**	2,035,591
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Bad debts expense	**13,823**	89,954
Depreciation and amortization	**646,430**	586,888
Net (appreciation) depreciation of funds held by Foundation	**(1,019,222)**	115,259
Part I tuition deposited into reserve accounts	**(275,659)**	(297,252)
Pension plan related adjustments	**571,241**	(313,722)
Interest expense paid out of bond reserve	**224,675**	237,600
Gain on sale of assets	**-**	(2,131,003)
Pension asset/liability	**(37,288)**	(132,846)
Net change in other current assets and current liabilities:		
Accounts receivable	**(1,043,351)**	15,620
Prepaid expenses	**(100,692)**	(175,516)
Accounts payable	**183,024**	(324,227)
Accrued expenses	**5,381**	(228,563)
Deferred revenue	**99,000**	-
Estimated third-party payor settlements	**-**	113,470
Net cash flows from (for) operating activities	**1,473,578**	(408,747)
Cash flows from investing activities:		
Proceeds from sale of assets	**-**	1,300,000
Property and equipment expenditures	**(1,207,431)**	(357,622)
Receipts on installment sale	**124,261**	-
Other assets	**213,790**	187,365
Net cash flows from (for) investing activities	**(869,380)**	1,129,743
Cash flows from financing activities:		
Net payments on short-term borrowings	**-**	(3,732,364)
Proceeds from long-term debt	**23,620**	4,500,000
Principal payments on long-term debt	**(526,981)**	(592,386)
Net cash flows from (for) financing activities	**(503,361)**	175,250
Net increase in cash	**100,837**	896,246
Cash - beginning	**925,958**	29,712
Cash - ending	**$ 1,026,795**	$ 925,958

See accompanying notes.

1. Summary of Significant Accounting Policies:

Organization:

The mission of Gateway-Longview, Inc. (the Agency) is to provide supportive, educational, residential and substitute care services for children and families. The Agency serves primarily children with emotional or behavioral problems who are at risk for, or require out-of-home placement. Services are provided primarily in Western New York State. Credit is granted to all clients, the majority of whom are covered by third-party payors.

Cash:

Cash in financial institutions may exceed insured limits at various times during the year and subject the Agency to concentrations of credit risk.

Accounts Receivable:

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is recorded based on management's assessment of the collectibility of individual account balances and historical trends. Amounts outstanding after management has used reasonable collection efforts are written off through a charge to allowance for bad debts and a credit to accounts receivable.

Property and Equipment:

Property and equipment is stated at cost or fair market value at the date of donation, net of accumulated depreciation. Depreciation is computed by the straight-line method over estimated service lives. Maintenance and repairs are charged to operations as incurred; significant improvements are capitalized.

Net Assets of the Foundation:

The Agency is a beneficiary of funds held by Gateway-Longview Foundation (the Foundation), a not-for-profit organization whose purpose is to solicit, collect, and invest funds on behalf of the Agency. The Foundation's net assets consist primarily of marketable securities stated at fair value, and amounts are distributed periodically to the Agency. The Agency and the Foundation share certain management personnel and Board of Director members.

Pursuant to accounting standards, the Agency recognizes the assets held by the Foundation on its behalf on the accompanying balance sheet. Distributions to the Agency are included in net assets released from restrictions, and totaled $1,964,442 in 2007 and $1,416,275 in 2006.

Temporarily and Permanently Restricted Net Assets:

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

Revenue:

The Agency renders services to clients under agreements with third-party payors whereby the Agency is reimbursed under provisions of various cost reimbursement formulas. Revenue is reported at the estimated net realizable amounts from third-party payors and others for services rendered. Identifiable retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The composition of revenue from third-party payors for the years ended June 30, 2007 and 2006 was as follows:

	2007	2006
Counties	**61%**	68%
School districts	**24%**	23%
New York State, Medicaid and others	**15%**	9%
	100%	100%

Contributions:

Unconditional promises to give are reported by the Agency at fair value at the date the promise is received, unless recognized separately by the Foundation. Contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Functional Expenses:

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

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Tax Status:

The Agency is a 501(c)(3) corporation exempt from income taxation under Section 501(a) of the Internal Revenue Code.

2. Property and Equipment:

	2007	2006
Land	**$ 112,025**	$ 90,826
Buildings and improvements	**13,710,724**	13,095,231
Equipment and furnishings	**4,091,040**	3,520,301
	17,913,789	16,706,358
Less accumulated depreciation	**10,019,987**	9,387,633
	$ 7,893,802	$ 7,318,725

Depreciation expense totaled $632,354 in 2007 and $573,916 in 2006.

3. Receivable from Property Sale:

During the year ended June 30, 2006, the Agency signed an installment sales agreement whereby it agreed to sell approximately 40 acres of real estate in exchange for a cash payment of $1,300,000 and the right to minimum future payments of $1,100,000. This transaction required the Agency to recognize a gain of $2,131,003 and an account receivable from the sale of the property. This unsecured account receivable has been discounted to present value using rates for investments of similar periods. The timing of future payments was dependent on the buyer's progress in developing the land and commenced in the spring of 2007 and will continue through early, 2010. Discounted payments expected within the next year have been classified as a current asset.

4. Defined Benefit Pension Plan:

The Agency maintains a noncontributory defined benefit pension plan (the Plan) covering substantially all employees. Benefits are based on a percentage of an employee's highest average earnings over five consecutive years of employment of the last 10 years of employment. The Agency's policy is to contribute on an annual basis an amount at least equal to the minimum funding standards of the Employee Retirement Income Security Act of 1974 (ERISA).

During the year ended June 30, 2007, the Agency adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158), which requires single-employer defined benefit plans to recognize an asset or liability in the balance sheet reflecting the funded status of the defined benefit pension plan, with current-year changes in the funded status recognized in the changes in net assets. SFAS 158 did not change the existing criteria for measurement of periodic benefit costs, plan assets, or benefit obligations. The impact of adopting SFAS 158 on the June 30, 2007 financial statements was to decrease prepaid pension asset and unrestricted net assets by $571,241, resulting from the defined benefit pension plan adjustment as follows:

Unrecognized actuarial loss	$ 564,245
Unrecognized prior service cost	6,996
	$ 571,241

Prior service cost included in 2007 accumulated adjustment to unrestricted net assets totaling $6,996 are expected to recognized in the Statement of Activities in 2008.

The status of the defined benefit pension plan at and for the years ended June 30, 2007 and 2006 is presented below. The measurement date used to determine the plan assets and benefit obligations is June 30th of each year.

	2007	2006
Benefit obligation	$ 7,144,434	$ 6,784,000
Fair value of plan assets	6,765,047	5,758,524
Funded status	$ (379,387)	$(1,025,476)
Prepaid (accrued) pension costs	$ (379,387)	$ 154,566
Pension expense	$ 419,783	$ 435,651
Employer contributions	457,071	671,751
Benefits paid	359,888	100,869
Weighted average assumptions used to determine benefit obligations at June 30:		
Discount rate	6.25%	6.25%
Expected future salary increase	4.50%	4.50%
Expected return on plan assets	8.00%	8.00%
Weighted average assumptions used to determine net periodic benefit cost:		
Discount rate	6.25%	5.75%
Expected return on plan assets	4.50%	4.50%
Expected future salary increase	8.00%	8.00%

The most recent expected long-term rate of return on assets assumption is 8%. As defined in SFAS 87, *Employers' Accounting for Pensions*, as amended by SFAS 158, this assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class.

It is estimated that contributions of $431,000 will be required for the year ending June 30, 2008.

Estimated benefits to be paid in each of the next five fiscal years and the following five years in aggregate are:

2008	$ 82,423
2009	113,470
2010	145,347
2011	160,469
2012	200,103
2013-2017	1,788,210
	$ 2,490,022

The Agency's pension plan weighted-average asset allocations at June 30, 2007 and 2006 are as follows:

	2007	2006
Asset Category:		
Equity securities	78%	74%
Debt securities	14%	15%
Other	8%	11%
	100%	100%

The primary objective of investment management for the Plan is to achieve a total consistent return within the fiduciary standards of ERISA. A secondary objective is to maintain liquidity to provide for the timely payment of benefits to beneficiaries. Another objective is to grow investments at a rate exceeding the expected return on plan assets, while minimizing risk.

5. Other Assets:

	2007	2006
Deferred financing costs	$ 269,485	$ 269,485
Less accumulated amortization	117,152	103,076
	152,333	166,409
Bond reserve funds (Note 6):		
Debt service	855,064	832,335
Building and replacement	120,721	120,317
Construction	455	455
	976,240	953,107
Part 1 tuition reserve (Note 6):	396,951	567,506
Estimated assets from charitable remainder bequests	13,505	28,889
	$ 1,539,029	$ 1,715,911

Deferred financing costs associated with the issuance of long-term debt are amortized on a straight-line basis over the terms of the related loans.

6. Long-Term Debt:

	2007	2006
Mortgage note payable to Dormitory Authority of the State of New York (DASNY), payable in semiannual installments of principal and interest at 5.3% through June 2018.	**$ 4,085,000**	$ 4,320,000
Add: Bond premium, net of amortization	**97,433**	106,290
	4,182,433	4,426,290
Bank term loan payable, monthly installments of $40,273 including interest at 6.83% through May 2016, balloon payment of approximately $2,039,000 due June 2016, secured by a portion of investments held by held by Foundation.	**4,328,276**	4,500,000
Borrowing from the Foundation, monthly installments of $6,710 including interest at 6.5% through February 2012. Required payments on this loan were suspended beginning in 2005. Loan principal totaling $108,644 was forgiven in 2007. If certain conditions are met, the remaining principal balance will be forgiven over the next three fiscal years.	**325,932**	434,576
Other	**20,864**	-
	8,857,505	9,360,866
Less current portion	**580,868**	652,214
	$ 8,276,637	$ 8,708,652

Aggregate maturities on long-term debt subsequent to June 30, 2007 are:

2008	**$ 580,868**
2009	**604,516**
2010	**639,126**
2011	**561,121**
2012	**590,107**
Thereafter	**5,881,767**
	$ 8,857,505

The Agency entered into a mortgage loan agreement with DASNY to finance certain building renovations and additions. The funds provided by DASNY were raised from the sale of Insured Revenue Bonds, Series 1998A. As a condition of the borrowing, certain bond reserve funds must be maintained, including funds for debt service, building and replacement, and construction (see Note 5).

The Agency funds payments on the bonds through an additional tuition assessment referred to as Part 1 Tuition. This additional tuition is charged to the school districts served by the Agency. The tuition rate is set annually by the New York State Education Department (SED). The Part 1 Tuition revenue is deposited directly into a bond sinking fund maintained by an independent trustee. The Agency recognized Part 1 Tuition revenue of $275,659 and $297,252 for 2007 and 2006. Proceeds from Part 1 Tuition revenue received in excess of annual debt service requirements are held in a Part 1 Tuition Reserve account. The balance in this account was $396,951 and $567,506 as of June 30, 2007 and 2006.

7. Short-Term Borrowings:

The Agency has available a $1,200,000 bank demand line of credit with interest payable at prime less .50%. Security for the note consists of all tangible and intangible property of the Agency. The line is subject to the usual terms and conditions applied by the bank for working capital financing, and is annually reviewed and renewed. No amounts were outstanding at June 30, 2007 and 2006.

The debt agreements contain restrictive covenants relating to minimum liquidity, maximum negative change in unrestricted net assets and debt service coverage.

8. Restricted Net Assets:

Temporarily restricted net assets at June 30, 2007 and 2006 consist of the following:

	2007	2006
Net assets held by the Foundation (time restricted for future distribution to the Agency)	**$10,739,778**	$9,720,556
Others	**46,765**	46,765
	$10,786,543	$9,767,321

Permanently restricted net assets include certain assets held by the Foundation that require investments to be held in perpetuity, the income from which is expendable for unrestricted purposes.

9. Cash Flows Information:

Net cash flows from operating activities reflect cash payments for interest (approximates expense) of $561,000 in 2007 and $516,000 in 2006.

Noncash investing activities excluded from the 2006 statement of cash flows include the sale of property in exchange in part for a discounted receivable of $987,660 (see Note 3).

10. Guarantee:

The Agency is a co-guarantor of a $50,000 line of credit and a term loan with an original balance of $70,000 owed by an unrelated organization.

11. Contingencies:

The Agency is involved in legal proceedings which, in the opinion of management, will not have a material adverse effect upon the financial position of the Agency.

12. Related Party Transactions:

The Agency provides various operating and administrative support to the Foundation. Management fees received from the Foundation for these services totaled $60,000 in 2007 and $50,000 in 2006. The Foundation owes the Agency $128,532 and $53,515 for contributions received on the Agency's behalf.

Lumsden &
McCormick, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

The Board of Directors
Gateway-Longview, Inc.
Buffalo, New York

Our report on our audits of the basic financial statements of Gateway-Longview, Inc. for 2007 and 2006 appears on page 1. Those audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on page 11 is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lumsden & McCormick, LLP

October 9, 2007

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GATEWAY-LONGVIEW, INC.

Additional Information
Schedule of Functional Expenses

For the year ended June 30, 2007 (with comparative totals from 2006)

	Program Services			
	Boarding	Tuition-Based Services	Other Services	Total Progam Services
Salaries	$ 3,214,460	$ 4,671,337	$ 1,526,998	$ 9,412,795
Employee taxes and benefits	843,144	1,225,398	400,502	2,469,044
Total salaries and related expenses	4,057,604	5,896,735	1,927,500	11,881,839
Food	295,333	296,288	51,244	642,865
Utilities	175,248	180,515	89,302	445,065
Purchased services	35,021	76,794	32,564	144,379
Rent and leases	110,468	192,779	-	303,247
Telephone	109,969	72,810	18,569	201,348
Insurance	63,421	46,897	15,092	125,410
Medical services and supplies	198,450	217,565	(960)	415,055
Federal funded programs	-	-	-	-
Maintenance	67,705	40,977	42,612	151,294
Supplies	69,831	67,241	33,611	170,683
Clothing	110,696	-	350	111,046
Equipment and furnishings	48,217	18,354	15,818	82,389
Travel	43,371	26,427	23,212	93,010
Transportation	17,151	1,826	7,975	26,952
Dues and licenses	13,191	17,691	9,815	40,697
Training and development	3,529	12,269	13,452	29,250
Tuition	7,468	42,685	-	50,153
Professional fees	-	-	-	-
Payments to parents	8,375	-	494,220	502,595
Postage	3,115	2,485	3,596	9,196
Housing and other allowances	12,593	-	-	12,593
Printing	-	-	-	-
Cottage	12,525	7,990	1,992	22,507
Public relations	-	-	-	-
Recruitment and retention	-	-	-	-
Personal care	18,971	-	-	18,971
Other	6,630	11,164	20,659	38,453
Interest	100,729	351,521	50,150	502,400
Depreciation and amortization	243,865	279,241	56,136	579,242
Bad debts	-	-		-
	$ 5,833,476	$ 7,860,254	$ 2,906,909	$ 16,600,639

Supporting Services					
General and Administrative	Maintenance	Development	Total Supporting Services	2007 Total	2006 Total
$ 882,049	$ 354,497	$ 66,074	$ 1,302,620	$ 10,715,415	$ 10,353,205
230,065	93,969	17,329	341,363	2,810,407	2,655,427
1,112,114	448,466	83,403	1,643,983	13,525,822	13,008,632
600	-	-	600	643,465	626,284
63,559	16,143	86	79,788	524,853	553,916
180,453	1,071	418	181,942	326,321	413,288
-	-	-	-	303,247	301,737
27,133	677	-	27,810	229,158	209,978
93,128	21,344	-	114,472	239,882	258,646
-	-	-	-	415,055	159,112
-	-	-	-	-	235,928
15,014	14,018	-	29,032	180,326	125,952
20,145	4,087	4,408	28,640	199,323	191,558
-	881	-	881	111,927	122,409
13,306	1,860	2,377	17,543	99,932	96,177
15,782	6,928	415	23,125	116,135	99,288
-	-	-	-	26,952	26,262
4,509	5,539	-	10,048	50,745	77,076
6,843	1,060	300	8,203	37,453	42,274
-	-	-	-	50,153	43,222
73,024	-	-	73,024	73,024	72,445
-	-	-	-	502,595	57,392
6,786	-	5,966	12,752	21,948	22,776
-	-	-	-	12,593	18,865
868	-	22,074	22,942	22,942	15,365
-	-	-	-	22,507	21,089
-	-	7,323	7,323	7,323	21,318
65,746	-	-	65,746	65,746	47,796
-	-	-	-	18,971	21,100
183,654	64	-	183,718	222,171	133,457
34,934	17,667	-	52,601	555,001	523,246
49,024	17,371	793	67,188	646,430	586,888
13,479	344	-	13,823	13,823	89,954
$ 1,980,101	$ 557,520	$ 127,563	$ 2,665,184	$ 19,265,823	$ 18,223,430

Green Chimneys School for Little Folk and Green Chimneys Children's Services, Inc.

Report on Combined Financial Statements (With Supplementary Information)

Years Ended June 30, 2007 and 2006

GREEN CHIMNEYS SCHOOL FOR LITTLE FOLK AND GREEN CHIMNEYS CHILDREN'S SERVICES, INC.

Index

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Report of Independent Public Accountants

To the Board of Trustees and the Directors
Green Chimneys School for Little Folk and
Green Chimneys Children's Services, Inc.

We have audited the accompanying combined and combining statement of financial position of Green Chimneys School for Little Folk and Green Chimneys Children's Services, Inc. as of June 30, 2007, and the related combined statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The combined financial statements of Green Chimneys School for Little Folks and Green Chimneys Children's Services, Inc. as of June 30, 2006 were audited by other auditors whose report dated September 29, 2006 expressed an unqualified opinion on those statements.

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

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of Green Chimneys School for Little Folk and Green Chimneys Children's Services, Inc. as of June 30, 2007, and the changes in their net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

J.H. Cohn LLP

New York, New York
January 25, 2008

GREEN CHIMNEYS SCHOOL FOR LITTLE FOLK AND GREEN CHIMNEYS CHILDREN'S SERVICES, INC.

COMBINED AND COMBINING STATEMENTS OF FINANCIAL POSITION JUNE 30, 2007 AND 2006

	Green Chimneys School for Little Folk	Green Chimneys Children's Services, Inc.		Combined
				June 30,
			2007	2006
ASSETS				
Current assets:				
Cash and cash equivalents	$ 1,941,385	$ 98,348	$ 2,039,733	$ 1,252,148
Accounts receivable, net of allowance for doubtful accounts of $1,057,322 and $967,041	4,707,233	4,157,069	8,864,302	6,067,982
U.S. Treasury notes, current	520,652	-	520,652	500,652
Investments in marketable securities	374,553	-	374,553	1,340,494
Prepaid expenses and other current assets	197,147	118,854	316,001	600,846
Total current assets	7,740,970	4,374,271	12,115,241	9,762,122
U.S. Treasury notes, net of current portion	1,387,504	-	1,387,504	1,395,507
Property, equipment and leasehold improvements, net	14,177,005	1,308,055	15,485,060	15,897,292
Bond closing costs, net	287,001	-	287,001	312,929
Other assets	222,341	344,023	566,364	485,871
Totals	$23,814,821	$6,026,349	$29,841,170	$27,853,721
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	$ 322,171	$ 605,435	$ 927,606	$ 660,860
Accrued expenses and other current liabilities	239,499	2,188,205	2,427,704	2,385,113
Due to Friends of Green Chimneys	105,419	-	105,419	142,095
Bank loan payable	-	2,300,000	2,300,000	1,830,000
Bonds payable, current portion	520,652	-	520,652	500,652
Capitalized lease obligations, current portion	9,051	86,961	96,012	119,562
Mortgages payable, current portion	238,327	-	238,327	262,849
Due to NYC ACS, current portion	-	8,364	8,364	192,000
Deferred revenue	230,830	85,161	315,991	346,654
Loan payable, Friends of Green Chimneys	-	1,316,992	1,316,992	-
Total current liabilities	1,665,949	6,591,118	8,257,067	6,439,785
Bonds payable, net of current portion	7,711,519	-	7,711,519	8,232,171
Capitalized lease obligations, net of current portion	9,128	125,733	134,861	116,379
Mortgages payable, net of current portion	4,035,797	-	4,035,797	4,273,595
Due to NYC ACS, net of current portion	-	-	-	4,225
Deferred revenue	-	-	-	21,494
Deferred compensation payable	-	186,648	186,648	110,870
Totals	13,422,393	6,903,499	20,325,892	19,198,519
Commitments				
Net assets (deficit):				
Unrestricted	7,049,626	(877,150)	6,172,47	5,215,190
Temporarily restricted	3,342,802	-	3,342,802	3,440,012
Total net assets (deficit)	10,392,428	(877,150)	9,515,278	8,655,202
Totals	$23,814,821	$6,026,349	$29,841,170	$27,853,721

See Notes to Combined Financial Statements.

GREEN CHIMNEYS SCHOOL FOR LITTLE FOLK AND GREEN CHIMNEYS CHILDREN'S SERVICES, INC.

COMBINED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2007 AND 2006

	2007			2006		
	Unrestricted	Temporarily Restricted	Combined	Unrestricted	Temporarily Restricted	Combined
Revenue and public support:						
Green Chimneys School for Little Folk:						
Tuition fees	$ 7,782,718	$ 772,773	$ 8,555,491	$ 5,744,628	$ 874,543	$ 6,619,171
Federal, state, county and local contracts	540,350	-	540,350	442,764	-	442,764
Public support revenue	1,132,817	-	1,132,817	1,048,553	-	1,048,553
Contributions and grants	31,860	-	31,860	138,258	-	138,258
Investment income	129,807	49,763	179,570	77,435	48,755	126,190
Other income	403,718	-	403,718	798,859	-	798,859
Net assets released from restrictions	919,746	(919,746)	-	919,585	(919,585)	-
	10,941,016	(97,210)	10,843,806	9,170,082	3,713	9,173,795
Green Chimneys Children's Services, Inc.:						
Maintenance and Medicaid fees	16,884,437	-	16,884,437	16,727,669	-	16,727,669
Federal, state, county and local contracts	2,398,310	-	2,398,310	2,195,385	-	2,195,385
Contributions and grants	493,693	-	493,693	747,288	-	747,288
Investment income	254	-	254	403	-	403
Other income	640,080	-	640,080	211,101	-	211,101
	20,416,774	-	20,416,774	19,881,846	-	19,881,846
Total revenue and support	31,357,790	(97,210)	31,260,580	29,051,928	3,713	29,055,641
Expenses:						
Green Chimneys School for Little Folk:						
Salaries	5,213,696	-	5,213,696	5,136,712	-	5,136,712
Employee benefits and payroll taxes	1,141,750	-	1,141,750	1,145,464	-	1,145,464
Other	3,628,834	-	3,628,834	3,506,465	-	3,506,465
	9,984,280	-	9,984,280	9,788,641	-	9,788,641
Green Chimneys Children's Services, Inc.:						
Salaries	11,817,792	-	11,817,792	10,943,615	-	10,943,615
Employee benefits and payroll taxes	2,643,296	-	2,643,296	2,339,029	-	2,339,029
Other	5,955,136	-	5,955,136	5,617,067	-	5,617,067
	20,416,224	-	20,416,224	18,899,711	-	18,899,711
Total expenses	30,400,504	-	30,400,504	28,688,352	-	28,688,352
Change in net assets	957,286	(97,210)	860,076	363,576	3,713	367,289
Net assets at beginning of year	5,215,190	3,440,012	8,655,202	4,851,614	3,436,299	8,287,913
Net assets at end of year	$ 6,172,476	$3,342,802	$ 9,515,278	$ 5,215,190	$3,440,012	$ 8,655,202

See Notes to Combined Financial Statements.

GREEN CHIMNEYS SCHOOL FOR LITTLE FOLK AND GREEN CHIMNEYS CHILDREN'S SERVICES, INC.

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2007

	2007		
	Program Expenses	Management and General Expenses	Total
Salaries	$15,596,709	$1,434,779	$17,031,488
Employee benefits	2,295,022	312,680	2,607,702
Payroll taxes	1,083,164	94,180	1,177,344
Totals	18,974,895	1,841,639	20,816,534
Other expenses:			
Professional fees	505,247	205,343	710,590
Temporary personnel	158,282	4,901	163,183
Supplies	1,307,859	45,517	1,353,376
Food purchases	998,314	1,683	999,997
Recreation and education costs	355,681	-	355,681
Rent and real estate taxes	931,144	6,001	937,145
Utilities	461,544	-	461,544
Repairs and maintenance	554,695	4,682	559,377
Equipment expenses	199,537	29,898	229,435
Gasoline	98,390	169	98,559
Telephone	152,116	9,419	161,535
Postage	42,028	4,136	46,164
Printing	12,535	8,679	21,214
Transportation	230,158	11,462	241,620
Conferences and staff development	92,979	46,608	139,587
Insurance	462,497	(6,646)	455,851
Advertising	29,197	13,838	43,035
Dues and subscriptions	49,220	15,657	64,877
Interest	872,928	186,636	1,059,564
Depreciation and amortization	1,365,300	60,124	1,425,424
Loss on disposal of fixed assets	1,494	-	1,494
Miscellaneous	52,873	1,845	54,718
Total other expenses	8,934,018	649,952	9,583,970
Total expenses	$27,908,913	$2,491,591	$30,400,504

See Notes to Combined Financial Statements.

GREEN CHIMNEYS SCHOOL FOR LITTLE FOLK AND GREEN CHIMNEYS CHILDREN'S SERVICES, INC.

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2006

	2006		
	Program Expenses	Management and General Expenses	Total
Salaries	$14,722,470	$1,357,857	$16,080,327
Employee benefits	2,070,971	288,199	2,359,170
Payroll taxes	1,034,130	91,193	1,125,323
Totals	17,827,571	1,737,249	19,564,820
Other expenses:			
Professional fees	459,361	218,640	678,001
Temporary personnel	135,367	3,431	138,798
Supplies	1,047,552	37,503	1,085,055
Food purchases	927,420	19,210	946,630
Recreation and education costs	326,677	-	326,677
Rent	904,049	17,802	921,851
Utilities	501,367	9,195	510,562
Repairs and maintenance	493,752	21,698	515,450
Equipment expenses	224,815	-	224,815
Gasoline	94,364	54	94,418
Telephone	112,519	28,531	141,050
Postage	52,913	4,769	57,682
Printing	22,184	-	22,184
Transportation	252,047	14,940	266,987
Conferences and staff development	81,162	18,879	100,041
Insurance	477,832	12,412	490,244
Advertising	32,544	5,346	37,890
Dues and subscriptions	8,806	31,856	40,662
Interest	875,953	108,396	984,349
Depreciation and amortization	1,359,115	62,682	1,421,797
Loss on disposal of fixed assets	11,716	-	11,716
Miscellaneous	132,445	(25,772)	106,673
Total other expenses	8,533,960	589,572	9,123,532
Total expenses	$26,361,531	$2,326,821	$28,688,352

See Notes to Combined Financial Statements.

GREEN CHIMNEYS SCHOOL FOR LITTLE FOLK AND GREEN CHIMNEYS CHILDREN'S SERVICES, INC.

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
Operating activities:		
Change in net assets	$ 860,076	$ 367,289
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Bad debt expense	90,281	51,856
Depreciation and amortization	1,377,687	1,382,602
Amortization of bond closing costs	25,928	25,927
Amortization of bond premium	(15,652)	(15,652)
Amortization of mortgage closing cost	21,809	13,268
Loss on disposal of equipment	1,494	11,716
Net realized and unrealized (gain)/loss on marketable securities	(14,718)	9,491
Net realized and unrealized gain on U.S. Treasury Notes	(2,467)	(32,971)
Changes in operating assets and liabilities:		
Accounts receivable	(2,886,601)	(1,082,882)
Due from Friends of Green Chimneys	-	252,499
Prepaid expenses and other current assets	284,845	(52,054)
Other assets	(102,302)	(149,354)
Accounts payable	266,746	(3,916)
Accrued expenses and other current liabilities	42,591	(528,151)
Deferred revenue	(52,157)	97,260
Due to Friends of Green Chimneys	(36,676)	-
Deferred compensation payable	75,778	110,870
Net cash provided by (used in) operating activities	(63,338)	457,798
Investing activities:		
Purchase of property, equipment and leasehold improvements	(821,376)	(815,598)
Redemption of marketable securities	2,215,000	2,027,018
Purchase of marketable securities	(1,234,341)	(2,027,812)
Purchases of U.S. Treasury notes	(2,804,324)	(3,492,312)
Proceeds from loan of U.S. Treasury notes	2,794,794	3,489,059
Net cash provided by (used in) investing activities	149,753	(819,645)
Financing activities:		
Proceeds from bank loan	470,000	930,000
Repayment of mortgages payable	(262,320)	(258,394)
Repayment of capital lease obligations	(150,641)	(149,323)
Repayment of bond	(485,000)	(465,000)
Proceeds from loan payable, Friends of Green Chimneys	1,316,992	-
Repayment of amounts due to New York City ACS	(187,861)	(153,652)
Net cash provided by (used in) financing activities	701,170	(96,369)
Net increase (decrease) in cash and cash equivalents	787,585	(458,216)
Cash and cash equivalents, beginning of year	1,252,148	1,710,364
Cash and cash equivalents, end of year	$ 2,039,733	$ 1,252,148
Supplemental disclosure of cash flow data:		
Interest paid	$ 799,294	$ 761,823
Supplemental disclosure of noncash investing and financing activities:		
Capital lease obligations incurred for new equipment	$ 145,573	$ -

See Notes to Combined Financial Statements.

GREEN CHIMNEYS SCHOOL FOR LITTLE FOLK AND GREEN CHIMNEYS CHILDREN'S SERVICES, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1 - Organization and operations:

Green Chimneys School for Little Folk (the "School") was incorporated under the New York State Education Law, and was granted an Absolute Charter on September 20, 1957. It is a facility for the educational treatment of emotionally troubled children. Green Chimneys Children's Services, Inc. (the "Institution") was incorporated on May 16, 1974 pursuant to Section 402 of the New York Not-for-Profit Corporation Law and provides residential facilities and care for emotionally troubled children. The School and Institution (the "Organization") are exempt from federal and state taxes under Internal Revenue Code Section 501(c)(3).

Current programs of the School and Institution include the following:

Therapeutic Day School:

This is a special education school serving both the Residential Treatment Facility ("RTF") and Residential Treatment Center ("RTC") populations (see below) and approximately 75 day students from local and regional school districts.

Farm and Wildlife Conservation Center:

This center serves a therapeutic role in the operation of the agency's programs. It houses more than 380 farm animals and 40 permanently disabled birds of prey. The center also operates an organic farm.

Chapter 1:

This program focuses on remedial help in reading and computerized learning instruction and serves the populations of the RTF, RTC programs and the Therapeutic Day School.

Hillside Outdoor Education Center:

This facility provides outdoor education and adventure programming to public and private schools, not-for-profit organizations, corporate groups and other interested parties.

Nature's Nursery:

This is a year-round pre-school, day care, and before and after school programs serving the general public in Putnam County and neighboring Fairfield County, Connecticut.

Residential Treatment Center (RTC):

This 88-bed program serves boys and girls ages 6-14 who are experiencing significant emotional, behavioral and academic difficulties and cannot be maintained at home or in their communities. The program utilizes the natural environment including a therapeutic farm and wildlife rehabilitation program (see above).

Note 1 - Organization and operations (continued):

Group Homes:

This program serves adolescents ages 13-21 with emotional, behavioral and academic difficulties in group homes located in Westchester and Putnam Counties. The adolescents attend community public schools with the objective of developing skills necessary for transition to independent living.

Gramercy Life Skills Residence:

This program serves males ages 16-21 who have gender-related issues and have experienced prior residential or group home care and need continued structured, supervised living. The adolescents attend community public schools with a goal of preparation for independent living.

Independent Living Skills:

This is a non-residential program that serves youth in the RTC, Group Homes, Gramercy and Supervised Independent Living Program ("SILP") programs who are 14 years of age and older. It focuses on providing them with independent living skills such as household budgeting, job search skills, interviewing skills, check writing, credit counseling and other skills needed for successful transition to independent living.

Supervised Independent Living Program (SILP):

This program serves adolescents ages 18-21 who are preparing for transition to independent living. They function with minimal supervision with a focus on living successfully in an urban and suburban community.

New York City Transitional Living Program (TLP):

This program serves adolescents in New York City who are 18-21 years of age who have gender related issues and are in need of housing services.

Agency Operated Boarding Home (AOBH):

This program serves adolescents ages 12-15 who have gender-related issues with emotional, behavioral and academic difficulties. The adolescents attend community public schools with the objective of developing skills necessary for transition to independent living.

Medical:

This program provides medical care for the residential populations in the RTC, Group Homes, Gramercy, SILP and AOBH programs. Licensed professionals provide medical care such as nursing, psychology and psychiatry. In addition, the RTC staffs a 24-hour per day infirmary available to both the RTC and RTF populations.

Note 1 - Organization and operations (concluded):

Residential Treatment Facility (RTF):

This 14-bed program serves males ages 13-21 who demonstrate serious and persistent psycho-pathology, but who do not require current inpatient psychiatric hospitalization.

Connecticut Adult Services (CTMR):

The Organization operates a number of residences for developmentally disabled adults in the Danbury, Connecticut area. It also operates three supportive work programs for developmentally disabled adults specializing in the lawn care, bottle redemption and food services areas.

Children and Youth Services of Putnam:

This program offers 24-hour a day services for youths ages 10-18 experiencing conflict within the home or homeless youths. The focus is to reunite youths with their families and to provide problem resolution through case management services.

Goodfriend:

This program serves children ages 7-14 from single parent homes in Northern Fairfield County, Connecticut. The program pairs children with adult mentors and also provides after-school activities.

Preparing Youth for Adulthood:

This program is funded by the NYC Administration for Children's Services (NYC ACS) and provides counseling and other services to foster care populations meant to transition children to independent living.

Reinvestment:

This program is funded by the NYC Administration for Children's Services and provides services to foster care populations meant to reduce numbers of children in residential care, increasing adoptions and reintroduction into a child's family.

Fair value of financial instruments:

Cash, cash equivalents and short-term investments:

The carrying amounts reflected in the balance sheets for cash and cash equivalents approximates fair value due to the short maturity of these instruments.

Long-term investments and U.S. Treasury notes:

The fair values of investments are estimated based on quoted market prices for those investments and U.S. Treasury notes.

Note 1 - Organization and operations (concluded):

Fair value of financial instruments (concluded):

Long-term debt:

The fair value of the Organization's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Corporation or debt of the same remaining maturity.

Donated assets and supplies:

Donations of assets and supplies are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donated services:

Donated services are recognized as contributions in accordance with Statement of Financial Accounting Standards No. 116, Accounting for Contributions Received and Contributions Made, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. There were no donated services for the years ended June 30, 2007 and 2006.

Note 2 - Significant accounting policies:

Combination policy:

The accompanying combined financial statements include the accounts of Green Chimneys School for Little Folk and Green Chimneys Children's Services, Inc., both of which are under common control. All significant intercompany transactions and balances have been eliminated in combination.

Financial statement presentation:

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ("SFAS") No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Note 2 - Significant accounting policies (continued):

Unrestricted net assets

Unrestricted net assets are not subject to donor-imposed restrictions.

Temporarily restricted net assets:

Temporarily restricted net assets consists of tuition income whose use is restricted to the payment of the Dormitory Authority of the State of New York ("DASNY") bonds and DASNY interest. These amounts are reclassified to release from restriction when used to make payments of DASNY bonds and interest related to the bonds.

Revenue recognition:

Revenue from government grants and contracts designated for use in specific activities is recognized based upon actual number of child care days for which services are provided. Revenue received in excess of expenditures incurred on specific contracts is recorded as liabilities due to the relevant agency.

Investments:

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair value in the Statements of Financial Position. Unrealized gains and losses are included in the changes in net assets in the accompanying statements of activities.

Property, equipment and leasehold improvements:

Property, equipment and leasehold improvements are stated at cost or if donated at estimated fair value at time of donation. A portion of the cost is charged against earnings each year as depreciation expense. It has been the policy of management to depreciate assets using the straight-line method of depreciation. An impairment review of these assets is performed periodically.

The estimated useful lives for computing depreciation and amortization on the principal classes of property, equipment and leasehold improvements are:

Buildings	25 and 40 years
Building improvements	5 to 40 years
Land improvements	5 to 25 years
Leasehold improvements	Shorter of useful life or term of lease
Furniture, fixtures and equipment	5 to 10 years
Computer equipment	3 to 5 years
Automobile and farm equipment	3 to 10 years

Note 2 - Significant accounting policies (concluded):

Deferred revenue:

Deferred revenue represents funds received as advances for which the related expenses have not yet been incurred.

Contributions:

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 116, Accounting for Contributions Received and Contributions Made, contributions are recorded as either temporarily or permanently restricted revenues if they are received with donor stipulations that limit their use.

Functional allocation of expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses on pages 6 and 7. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Cash and cash equivalents:

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Estimates:

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

Fund raising:

The Organization's fund raising activities are administered by the Friends of Green Chimneys, a related party. As such, the Organization does not record fund raising expense in its statements of functional expenses. Contributions to the Organization are awarded at the discretion of Friends of Green Chimneys' management and Board of Directors (see Notes 6 and 15).

Advertising:

The Organization expenses advertising costs as they are incurred. For the years ended June 30, 2007 and 2006, the Organization expensed $43,035 and $37,890, respectively of advertising costs.

Note 3 - Financial instruments:

Credit risk:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of temporary cash investments and accounts receivable. The Organization maintains its cash with several financial institutions located in New York. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. At June 30, 2007, the Organization's uninsured cash balances totaled approximately $884,000.

Concentrations of credit risk with respect to accounts receivable are limited due to the fact that they are created through contractual obligations with various federal, state and local agencies, and are collected on a reimbursement basis for actual expenses incurred in the ordinary course of operations. Reserves for potential losses are maintained.

Interest rate swaps:

The Organization follows settlement accounting principles for interest rate swaps, in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, whereby the net interest rate differentials to be paid or received are recorded currently as adjustments to interest expense.

During the year ended June 30, 1999, the Organization entered into an interest rate swap agreement at notional amounts equal to the unpaid principal to manage the interest rate exposure on an adjustable rate mortgage payable to Key Bank (see Note 12). Interest expense increased by $30,209 and $76,785 during the years ended June 30, 2007 and 2006, respectively, as a result of this agreement.

Note 4 - Investments in marketable securities:

In accordance with SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations marketable securities are stated at fair value, which is determined by closing market prices.

The aggregate amount of the securities by type is as follows:

	2007		2006	
	Fair Value	**Cost**	Fair Value	Cost
Mutual funds	**$374,553**	**$366,531**	$1,340,494	$1,347,190

Note 4 - Investments in marketable securities (concluded):

Investment income on marketable securities included in the Statements of Activities for the years ended June 30, 2007 and 2006 was as follows:

	2007	2006
Interest and dividends	$60,261	$43,449
Realized loss	-	(5)
Unrealized (loss) gain	14,718	(9,486)
Totals	$74,979	$33,958

Note 5 - U.S. Treasury notes:

These notes were purchased as a result of the issuance of Series 2000A Insured Revenue Bonds by the Dormitory Authority of the State of New York. The bonds were issued on April 15, 1999 for the purpose of funding a construction project of the school (Note 14). The proceeds from the issuance of the bonds are held by a trustee and have been invested in U.S. Treasury Securities that are designated for specific purposes.

The cost and fair value of the notes and a description of their purpose as of June 30, 2007 and 2006 are as follows:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
U.S. Treasury note with an interest rate of 3.625% maturing on June 30, 2007. This note has been designated as a debt service fund and is used to make principal and interest payments to the bondholders.	$ 756,031	$ 758,053	$ 739,338	$ 739,338
U.S. Treasury note with an interest rate of 4.25% maturing on October 31, 2007. This note has been designated as a debt service reserve fund and will be used to make principal and interest payments to the bondholders should the funds in the debt service fund be insufficient to make required payments.	904,389	905,309	907,778	909,136
Two U.S. Treasury notes with interest rates of 4.25% maturing on October 31, 2007. These notes have been designated as building and equipment reserve funds and are to provide money for other than ordinary repairs and improvements to the project.	244,789	244,794	247,319	247,685
	1,905,209	1,908,156	1,894,435	1,896,159
Less: current portions	520,652	520,652	500,652	500,652
Totals	$1,384,557	$1,387,504	$1,393,783	$1,395,507

Note 5 - U.S. Treasury notes (concluded):

Included in the balances are current investments as of June 30, 2007 and 2006 of $520,652 and $500,652, respectively, for the current portion of the bonds payable.

Investment income on DASNY bond funds in escrow included in the Statement of Activities for the years ended June 30, 2007 and 2006 was as follows:

	2007	2006
Interest and dividends	**$47,296**	$15,784
Realized gain	**1,245**	28,333
Unrealized gain	**1,222**	4,638
Totals	**$49,763**	$48,755

Note 6 - Due to The Friends of Green Chimneys:

The Friends of Green Chimneys is a company organized for the purpose of supporting organizations that provide services to children and young adults. The amounts due to The Friends of Green Chimneys at June 30, 2007 and 2006 represent the net amount of unconditional promises to give, expenses incurred by the School and Institution on behalf of The Friends of Green Chimneys and the rental of certain property on a month-to-month basis by the School from The Friends of Green Chimneys.

Included in revenue and public support of the Organization for the years ended June 30, 2007 and 2006 is $310,513 and $727,706 of unrestricted contributions and grants from the Friends of Green Chimneys, respectively.

Note 7 - Property, equipment and leasehold improvements:

	2007			2006		
	School	**Services**	**Total**	School	Services	Total
Land	**$ 534,486**	**$ 81,397**	**$ 615,883**	$ 534,486	$ 81,397	$ 615,883
Land improvements	**1,093,865**	**75,688**	**1,169,553**	1,012,393	75,688	1,088,081
Buildings	**16,733,634**	**280,988**	**17,014,622**	16,641,327	280,988	16,922,315
Building improvements	**3,690,036**	**218,485**	**3,908,521**	3,350,417	202,671	3,553,088
Furniture, fixtures and equipment	**2,230,587**	**3,072,150**	**5,302,737**	2,058,868	2,895,165	4,954,033
Automobile equipment	**175,070**	**636,270**	**811,340**	175,070	719,448	894,518
Farm equipment	**291,174**	**-**	**291,174**	264,493	-	264,493
Leasehold improvements	**100,724**	**211,830**	**312,554**	72,110	211,832	283,942
	24,849,576	**4,576,808**	**29,426,384**	24,109,164	4,467,189	28,576,353
Less: accumulated depreciation and amortization	**10,672,571**	**3,268,753**	**13,941,324**	9,592,731	3,086,330	12,679,061
Totals	**$14,177,005**	**$1,308,055**	**$15,485,060**	$14,516,433	$1,380,859	$15,897,292

Note 7 - Property, equipment and leasehold improvements (concluded):

Depreciation and amortization expense included in the statement of activities was $1,377,687 and $1,382,602 for the years ended June 30, 2007 and 2006, respectively.

Note 8 - Bond closing costs:

Bond closing costs are costs that were incurred in connection with the issuance of the revenue bonds by DASNY (Notes 5 and 14). They have been capitalized and are being amortized over the life of the bonds. The costs and accumulated amortization of the assets are as follows:

	2007	2006
Underwriter's discount	**$ 133,355**	$ 133,355
Bond insurance premium	**223,466**	223,466
Costs of issuance	**133,663**	133,663
DASNY finance fee	**8,000**	8,000
	498,484	498,484
Accumulated amortization	**(211,483)**	(185,555)
Totals	**$ 287,001**	$ 312,929

Amortization expense included in the Statement of Activities for the years ended June 30, 2007 and 2006 was $25,928 and $25,927, respectively

Note 9 - Other assets:

Included in other assets is the cash surrender value of officers' life insurance of approximately $268,300 and $224,000 at June 30, 2007 and 2006, respectively.

Also included in other assets are prepaid mortgage costs of $62,957 and $84,766 at June 30, 2007 and 2006, respectively. Amortization expense for the years ended June 30, 2007 and 2006 was $21,809 and $13,268, respectively.

Note 10 - Bank loan payable:

The Organization has a $4,000,000 line of credit with a bank which matures on February 29, 2008. Interest is charged at the bank's prime rate which was 8.25% at June 30, 2007. There was $2,300,000 and $1,830,000 outstanding at June 30, 2007 and 2006, respectively.

Interest expense charged on the above borrowings was approximately $160,000 and $93,000 for the years ended June 30, 2007 and 2006, respectively.

Note 11 - Capitalized lease obligations:

Assets recorded under capitalized lease obligations are included in the combined statements of financial position as follows:

	2007	2006
Equipment	**$2,397,108**	$2,215,535
Less: accumulated depreciation	**2,098,733**	1,996,599
Net equipment under capitalized leases	**$ 298,375**	$ 218,936

Interest rates currently in effect on capitalized leases range from 2.08% to 13.63%.

Green Chimneys School for Little Folk:

The future minimum lease payments under the capitalized leases are as follows:

Years ending June 30,	2008	$10,612
	2009	6,443
	2010	3,222
	Total	$20,277

	2007	2006
Total minimum lease payments	**$20,277**	$44,169
Less: amount representing interest	**2,098**	2,757
Present value of net minimum payments	**18,179**	41,412
Less: current portion	**9,051**	22,409
Totals	**$ 9,128**	$19,003

Green Chimneys Children's Services, Inc.:

The future minimum lease payments under the capitalized leases are as follows:

Years ending June 30,	2008	$104,018
	2009	72,833
	2010	56,621
	2011	7,624
	Total	$241,096

Note 11 - Capitalized lease obligations (concluded):
Green Chimneys Children's Services, Inc. (concluded):

	2007	2006
Total minimum lease payments	$241,096	$202,741
Less: amount representing interest	28,402	8,212
Present value of net minimum payments	212,694	194,529
Less: current portion	86,961	97,153
Totals	$125,733	$ 97,376

Note 12 - Mortgages payable:

	2007	2006
Green Chimneys School for Little Folk:		
An adjustable rate mortgage, original principal $150,941, payable to First Union National Bank, due August 2015, collateralized by residential property. Interest rate is 8% at June 30, 2007.	$ 80,701	$ 115,361
A purchase money mortgage, original principal $1,300,000, payable to the seller, due June 2023, collateralized by residential property. Interest rate is 9.75% at June 30, 2007.	1,126,757	1,154,416
An adjustable rate mortgage, original principal $1,902,560, payable to Key Bank, due October 2012, secured by a first mortgage lien on the land and buildings located in Brewster, New York. Repayment is based on equal monthly principal payments of $5,861 with a balloon payment due at the end. The Organization entered into an interest rate swap agreement that fixes the interest rate on this mortgage at 2.25% above the 30 day LIBOR rate which was approximately 9.875% at June 30, 2007 (see Note 3).	1,078,516	1,148,854
An adjustable rate mortgage, original principal $2,593,240, payable to Key Bank, due October 2012, secured by a first mortgage lien on the land and buildings located in Brewster, New York. Repayment is based on equal monthly principal payments of $10,805 with a balloon payment due at the end. The Organization entered into an interest rate swap agreement that fixes the interest rate on this mortgage at 2.25% above the 30 day LIBOR rate, which was approximately 9.875% at June 30, 2007 (see Note 3).	1,988,150	2,117,813
	4,274,124	4,536,444
Less: current portion	238,327	262,849
Totals	$4,035,797	$4,273,595

Note 12 - Mortgages payable (concluded):

Principal payments due are as follows:

Years ending June 30,	2008	$ 238,327
	2009	1,304,600
	2010	208,890
	2011	209,473
	2012	210,095
	Thereafter	2,102,739
	Total	$4,274,124

Interest expense charged on the above mortgages was $390,334 and $416,588 during the years ended June 30, 2007 and 2006, respectively.

Note 13 - Due to NYC ACS (New York City Administration for Children Services):

The Administration for Children's Services conducted audits of the books and records of the Organization for the periods July 1, 1997 through June 30, 1999 in order to establish final rates for those contract years. Audit disallowances for the years ended June 30, 1997, 1998 and 1999 were applied against amounts due from New York City as of June 30, 2006 and 2007. Years ended June 30, 2000 and forward have not been audited as of June 30, 2007. At June 30, 2007 the remaining payable balance is $8,364.

Note 14 - Bonds payable:

The Organization has constructed a new school building and renovated existing pool and gym buildings. The cost of construction has been funded through Dormitory Authority of the State of New York (DASNY) bonds. The bonds are collateralized by the new building and equipment. Bond and interest repayments are financed via a special tuition rate billed to school and social service districts. New York State legislation allows the New York State Comptroller to recoup unpaid tuition from State aid owed the billed districts, thus ensuring collection of the tuition and the subsequent payment of principal and interest to the bondholders. During the years ended June 30, 2007 and 2006, the Organization billed districts additional tuition income of $772,773 and $874,543, respectively. Proceeds from the issuance of the bonds and the tuition collected are held by a trustee in DASNY bond funds, from which principal and interest payments are made (Note 5).

Note 14 - Bonds payable (concluded):

The following summarize the outstanding bonds:

	2007	2006
Serial Bonds, maturing July 1, 2007 through July 1, 2009 with varying interest rates from 3.30% to 4.375%	**$1,585,000**	$2,070,000
Term Bonds, due July 1, 2018, with interest at 5.50%	**6,475,000**	6,475,000
	8,060,000	8,545,000
Premium on Bond issuance	**300,648**	300,648
	8,360,648	8,845,648
Accumulated amortization on premium	**(128,477)**	(112,825)
	8,232,171	8,732,823
Less: current portion	**520,652**	500,652
Totals	**$7,711,519**	$8,232,171

Annual maturities of bonds payable are as follows:

Years ending June 30,	2008	$ 520,652
	2009	545,652
	2010	565,652
	2011	590,652
	2012	620,652
	Thereafter	5,388,911
	Total	$8,232,171

Included in accrued expenses and other current liabilities at June 30, 2007 and 2006 is an accrual of $212,220 and $222,526 for an interest-only payment made to the bondholders on July 1, 2007 and 2006, respectively.

Interest expense charged on the above bonds was $424,440 and $445,053 for the years ended June 30, 2007 and 2006, respectively.

Bond premium amortization of $15,652 for each of the years ended June 30, 2007 and 2006 is included in investment income.

Note 15 - Loan payable, Friends of Green Chimneys:

During the year ended June 30, 2007, Green Chimneys Children's Services, Inc. borrowed funds from the Friends of Green Chimneys. The loan is due on demand and interest is at 8.25%. The balance outstanding at June is $1,316,992.

Interest expense for the year ended June 30, 2007 was $68,050.

Note 16 - Contributions and grants:

	2007	2006
Green Chimneys School for Little Folk:		
Unrestricted:		
The Friends of Green Chimneys	**$ 9,224**	$ 90,646
New York State	**-**	47,612
In-Kind Supplies and Services	**22,636**	-
Totals	**$31,860**	$138,258
Green Chimneys Children's Services, Inc.:		
Unrestricted:		
The Friends of Green Chimneys	**$301,289**	$634,060
United Way	**56,035**	107,419
In-Kind Supplies and Services	**136,369**	5,809
Totals	**$493,693**	$747,288

Note 17 - Major source of revenue:

The Organization's major source of revenue is from various agencies of The City of New York. The amounts of such revenue were $8,501,236 (27%) and $9,280,009 (32%) for the years ended June 30, 2007 and 2006, respectively.

Note 18 - Pension:

The Organization has three defined contribution pension plans: a Money Purchase Pension Plan, a Profit Sharing Plan and a Tax Sheltered Annuity Plan. The Plans cover substantially all eligible employees. The Money Purchase Plan is an employer contributory match, up to a maximum of 2% of earnings, based on the employee contributions to the Tax Sheltered Annuity Plan. Contributions to the Profit Sharing Plan are made at the discretion of the Board of Directors. Contributions for the year ended June 30, 2007 were $176,274 to the Money Purchase Plan and $367,096 to the Profit Sharing Plan. Contributions for the year ended June 30, 2006 were $165,607 to the Money Purchase Plan and $376,495 to the Profit Sharing Plan.

Note 19 - Commitments:

Leases:

The Organization is obligated under operating leases for its office and program facilities expiring on July 31, 2012. At June 30, 2007, aggregate minimum rental payments under operating leases are as follows:

		Leased Premises - Unrelated Party	Leased Premises - Related Party
Years ending June 30,	2008	$221,783	$ 50,400
	2009	152,089	50,400
	2010	156,647	50,400
	2011	117,166	50,400
	2012	85,031	50,400
	Thereafter	8,441	3,672,579
	Totals	$741,157	$3,924,579

The organization also rents additional space for specific programs that are under one year leases and vehicles, furniture and equipment that are on a month-to-month basis.

Rent expense was $919,025 and $905,543 for the years ended June 30, 2007 and 2006, respectively.

Included in leased premises are two leases with The Friends of Green Chimneys. One of these leases expires on June 30, 2015 and the other February 29, 2104. Rent expense for each of the years ended June 30, 2007 and 2006 was $50,400.

Note 20 - Deferred Compensation Plan:

The Organization sponsors a deferred compensation plan whereby certain management employees may elect to defer a portion of their compensation. The amounts deferred have been invested in various mutual funds with fair values of $136,648 and $110,870 as of June 30, 2007 and 2006, respectively. These amounts are included in other assets. Amounts deferred for the years ended June 30 2007 and 2006 were $31,000 and $26,000, respectively.

Note 21 - Donated assets, services and supplies:

Included in revenue and public support for the years ended June 30, 2007 and 2006 are approximately $159,000 and $6,000, respectively, of donated assets, services and supplies at fair market value. Of the total amount contributed $64,132 and $-0- of furniture and fixtures and labor costs has been capitalized. The Organization used estimated fair value based on current cost to value the donations.

Note 22 - Subsequent events:

Subsequent to June 30, 2007, the Organization renewed several operating leases expiring in 2012. Future aggregate minimum rental payments under these leases are as follows:

Years ending June 30, 2008	$267,262
2009	146,015
2010	123,865
2011	125,290
2012	126,758
Thereafter	8,441
Total	$797,631

On October 17, 2007, the Organization entered into a $284,000 Commercial Mortgage Variable Rate Note with a financial institution. The interest rate at the date of the loan was 7.25% adjusted every five years to a rate 2% above the Current Index Rate at the fifth year anniversary date. The term of this note is 20 years and the monthly payments are based upon an amortization schedule of 25 years. Payment will commence on December 1, 2007 until November 1, 2027 when the entire unpaid principal balance plus interest thereon is payable in full. The initial monthly amount will be $2,072 until the interest is adjusted. The loan is secured by the residential building for which the loan proceeds were used to partially finance.

The Organization entered into a $568,000 term note on November 28, 2007 with another financial institution. The note bears interest at the lender's ten year Cost of Fund Rate plus 2%. The initial interest rate is fixed as of the date of the note and for the subsequent ten year period. The Organization is committed to paying 119 monthly payments based upon a 240 month amortization and one final payment of the then entire unpaid principal balance of this note, plus accrued interest at maturity (December 1, 2017). Payment begins on January 1, 2008.

Note 22 - Subsequent events (concluded):

During June 2007, both the Board of Green Chimneys Children's Services, Inc. and the Board of Clearpool, Inc. ("Clearpool"), a not-for-profit educational camp located in Carmel, New York voted to merge the operations of Clearpool into the Institution. The transaction requires approval from both the New York State Attorney General and various funding agencies of the Institute. Approval has been obtained from the funding agencies and an application was filed with the Attorney General on October 3, 2007. No action has been taken on the application but the Institute fully expects to obtain the required approval. The assets, liabilities and net assets of Clearpool were approximately as follows as of June 30, 2007:

	Book Value
Assets	$3,660,000
Liabilities	$1,631,000
Net assets	$2,029,000

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Report of Independent Accountants on Supplementary Information

To the Board of Trustees and the Directors
Green Chimneys School for Little Folk
and Green Chimneys Children's Services, Inc.

Our report on our audit of the 2007 basic combined financial statements of Green Chimneys School for Little Folk and Green Chimneys Children's Services, Inc. appears on page 2. That audit was conducted for the purpose of forming an opinion on the 2007 basic combined financial statements taken as a whole. The 2007 supplementary information of other expenses is presented for purposes of additional analysis and is not a required part of the 2007 basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2007 basic combined financial statements, and in our opinion, is fairly stated in all material respects in relation to the 2007 basic financial statements for the year ended June 30, 2007, taken as a whole.

The 2006 basic combined financial statements of Green Chimneys School for Little Folk and Green Chimneys Children's Services, Inc. for the year ended June 30, 2006, were audited by other auditors' whose report dated September 29, 2006, expressed an unqualified opinion on those financial statements. Their report, as of the same date, on the 2006 supplementary information of other expenses stated that, in their opinion, such information was fairly stated in all material respects in relation to the 2006 basic combined financial statements for the year ended June 30, 2006, taken as a whole.

J.H. Cohn LLP

New York, New York
January 25, 2008

GREEN CHIMNEYS SCHOOL FOR LITTLE FOLK AND GREEN CHIMNEYS CHILDREN'S SERVICES, INC.

OTHER EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
Professional fees	**$ 710,590**	$ 678,001
Temporary personnel	**163,183**	138,798
Supplies	**1,353,376**	1,085,055
Food purchases	**999,997**	946,630
Recreation and education	**355,681**	326,677
Rent and Real Estate Taxes	**937,145**	921,851
Utilities	**461,544**	510,562
Repairs and maintenance	**559,377**	515,450
Equipment expenses	**229,435**	224,815
Gasoline	**98,559**	94,418
Telephone	**161,535**	141,050
Postage	**46,164**	57,682
Printing	**21,214**	22,184
Transportation	**241,620**	266,987
Conferences and staff development	**139,587**	100,041
Insurance	**455,851**	490,244
Advertising	**43,035**	37,890
Dues and subscriptions	**64,877**	40,662
Interest	**1,059,564**	984,349
Depreciation and amortization	**1,425,424**	1,421,797
Loss on disposal of assets	**1,494**	11,716
Miscellaneous	**54,718**	106,673
Totals	**$9,583,970**	$9,123,532

See Report of Independent Accountants on Supplementary Information.

GUSTAVUS ADOLPHUS CHILD AND FAMILY SERVICES, INC.

AUDITED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

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GUSTAVUS ADOLPHUS CHILD AND FAMILY SERVICES, INC.
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GUSTAVUS ADOLPHUS CHILD AND FAMILY SERVICES, INC.
BOARD OF DIRECTORS

James W. Vanstrom & Company

CERTIFIED PUBLIC ACCOUNTANTS

James W. Vanstrom, CPA
Harold L. Brunacini, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Gustavus Adolphus Child and Family Services, Inc.
Jamestown, New York

We have audited the accompanying balance sheets of Gustavus Adolphus Child and Family Services, Inc. (a nonprofit organization) as of June 30, 2007 and 2006, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying other financial information for the years ended June 30, 2007 and 2006 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

James W. Vanstrom + Company

September 10, 2007

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	June 30, 2007	June 30, 2006
ASSETS		
CURRENT ASSETS		
Cash	$ 276,804	$ 211,823
Accounts receivable, less reserve of $17,235 (2006 - $23,334)	989,968	961,299
Due from governmental agencies	120,312	648,902
Inventory	6,800	7,753
Prepaid expenses	550	18,173
Current portion of reserved funds held by trustee	453,272	445,753
Total current assets	1,847,706	2,293,703
ASSETS LIMITED AS TO USE		
Reserved funds held by trustee, net of current portion	902,115	895,694
Interest in net assets of recipient organization	227,141	427,587
	1,129,256	1,323,281
PROPERTY AND EQUIPMENT, less accumulated depreciation	5,314,292	5,764,754
Total assets	$ 8,291,254	$ 9,381,738
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Notes payable - bank	$ 322,000	$ 789,000
Accounts payable	163,703	100,394
Accrued payroll and related liabilities	451,903	305,816
Accrued interest payable	134,272	140,753
Due to related parties	80,907	565,971
Current portion of long-term debt	329,002	323,899
Total current liabilities	1,481,787	2,225,833
LONG-TERM DEBT, less current portion	4,792,158	5,121,159
Total liabilities	6,273,945	7,346,992
NET ASSETS		
Unrestricted	1,790,168	1,607,159
Temporarily restricted	130,767	331,213
Permanently restricted	96,374	96,374
Total net assets	2,017,309	2,034,746
Total liabilities and net assets	$ 8,291,254	$ 9,381,738

See accompanying independent auditor's report and notes to financial statements.

	Year Ended June 30, 2007	2006
UNRESTRICTED NET ASSETS		
Operating revenue and other support:		
Operating revenues	$ 6,649,781	$ 5,816,858
Investment income - reserved funds	37,420	31,927
Total operating revenue and other support	6,687,201	5,848,785
Operating expenses:		
Salaries and wages	3,166,390	2,998,676
Fringe benefits	926,124	740,689
Depreciation	553,961	586,794
Interest expense	324,109	324,981
Other operating expenses	1,740,466	1,430,926
Total operating expenses	6,711,050	6,082,066
Loss from operations	(23,849)	(233,281)
Other:		
Net assets released from restrictions	239,911	131,500
Grants for technology upgrades	-	179,631
Transfer to recipient organization	-	(179,631)
Gain (loss) on sale of assets	(33,053)	142,435
Increase in unrestricted net assets	183,009	40,654
TEMPORARILY RESTRICTED NET ASSETS		
Change in interest in net assets of recipient organization	39,465	193,183
Net assets released from restrictions	(239,911)	(131,500)
Increase (decrease) in temporarily restricted net assets	(200,446)	61,683
Change in net assets	(17,437)	102,337
Net assets at beginning of year	2,034,746	1,932,409
Net assets at end of year	$ 2,017,309	$ 2,034,746

	Year Ended June 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (17,437)	$ 102,337
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	553,961	586,794
(Gain) loss on sale of fixed assets	33,053	(142,435)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(28,669)	(49,198)
(Increase) decrease in due from governmental agencies	528,590	(626,192)
(Increase) decrease in interest in net assets of recipient organization	(39,465)	(193,183)
(Increase) decrease in inventory	953	1,074
(Increase) decrease in prepaid expenses	17,623	(12,753)
Increase (decrease) in accounts payable	35,161	26,457
Increase (decrease) in accrued payroll and related liabilities	146,087	(83,838)
Increase (decrease) in accrued interest payable	(6,481)	(6,088)
Net cash provided by (used in) operating activities	1,223,376	(397,025)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(290,627)	(145,723)
Proceeds from sales of fixed assets	7,058	151,090
Increase in reserved funds held by trustee	(13,940)	(25,839)
Transfers of interest in net assets of recipient organization	239,911	131,500
Net cash provided by (used in) investing activities	(57,598)	111,028
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in notes payable - bank	(467,000)	387,749
Proceeds from issuance of long-term debt	-	24,790
Repayment of long-term debt	(323,898)	(324,075)
Increase (decrease) in amounts due to related parties	(309,899)	337,254
Net cash provided by (used in) financing activities	(1,100,797)	425,718
Net increase in cash	64,981	139,721
Cash at beginning of year	211,823	72,102
Cash at end of year	$ 276,804	$ 211,823

See accompanying independent auditor's report and notes to financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Gustavus Adolphus Child and Family Services, Inc. is a not-for-profit Organization operating a children's home for emotionally disturbed youths consisting of four types of residential living arrangements: institutional care, group home care, foster family care, and semi-independent living. In addition, the Organization maintains a learning center, which provides a comprehensive program of remedial and special education to residents of the children's home and other youth in the Jamestown community.

The Organization is a subsidiary of Lutheran Social Services Group, Inc. (LSS), a not-for-profit social service agency. In addition to the Organization, LSS includes six other subsidiary corporations, all of which are under common control and management. LSS and the Organization are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Basis of Accounting and Presentation

The Organization maintains its accounts on the accrual basis of accounting.

Display of Net Assets by Class

The accompanying financial statements have been prepared in conformity with the disclosure and display requirements of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-for-Profit Organizations*. SFAS No. 117 requires that resources be classified for reporting purposes into three net asset categories as temporarily restricted, permanently restricted and unrestricted net assets according to the existence or absence of donor-imposed restrictions. Temporarily restricted net assets are those whose use has been limited by donors to a specific purpose or time period. Permanently restricted net assets are those for which donors require the principal of the gift to be maintained in perpetuity.

Revenue Recognition

The Organization provides services under rates established by various New York State agencies, including the Office of Children and Family Services, Department of Health, and State Education Department. A provision is recorded in the financial statements under Due from Governmental Agencies for anticipated rate adjustments, including retroactive provisions.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor-restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of cash accounts in financial institutions. Although the cash accounts, may at times, exceed the federally insured deposit amount, management does

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk (Continued)

not anticipate nonperformance by the financial institutions.

The Organization grants credit in the form of accounts receivable to a concentration of governmental agencies in the Western New York area. Accordingly, the Organization's ability to collect amounts due from such governmental agencies is affected by economic conditions in that region.

Reserve for Doubtful Accounts

A reserve has been made on the financial statements for any accounts estimated by management to be uncollectible.

Inventories

Inventories of food supplies are valued at the lower of cost or market, using the first-in, first-out method.

Assets Limited As to Use

Reserved Funds Held by Trustees

Reserved funds held by trustees as of June 30, 2007 and 2006 totaling $1,355,387 and $1,341,447, respectively, pertain to Dormitory Authority of the State of New York Insured Revenue Bonds, Series 1999B (The Bonds). The funds consist of $489,871 ($471,577 - June 30, 2006) held in a debt service fund, $645,567 ($650,770 - June 30, 2006) in a debt service reserve fund, $178,483 ($179,336 - June 30, 2006) in a building and equipment reserve fund, and $41,466 ($39,764 - June 30, 2006) in an arbitrage rebate fund. The debt service fund provides for repayment of principal and interest becoming due on the Bonds. The debt service reserve fund provides for repayment of interest and principal due on the bonds in the event of mortgage default by Gustavus Adolphus Child and Family Services, Inc. The building and equipment reserve fund is available to pay debt service, if necessary. However, the primary purpose of such fund is to provide monies for repairs and improvements to the project. Monies in the fund may be used to pay costs, other than ordinary maintenance and repair, of maintaining, repairing, replacing, renovating and improving the project. Moneys withdrawn from the fund for repairs or improvements may be repaid over a period of five years (the period may be extended to six or seven years if DASNY permits). The arbitrage rebate fund provides for the rebate of reserved fund investment earnings that exceed the bond yield. Investment income related to such funds amounted to $37,420 and $31,927 for the years ended June 30, 2007 and 2006, respectively.

Reserved funds held by trustees that are required to meet current liabilities are reported as current assets.

School Financing Reserve Fund

DASNY has entered into a memorandum of understanding with the State Education Department (SED) regarding the calculation of Part I Tuition pertaining to "853 Schools". The "853 Schools", which include the Gustavus Adolphus Child and Family Services, Inc.'s learning center, provide education and related services to children with disabilities (as defined in the State Education Law) referred to them primarily by local school districts and social service districts in the State. The financing act provides that the Commissioner of Education is to establish tuition rates for each 853 School which has entered into a loan agreement with DASNY in two parts,

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets Limited As to Use (Continued)

School Financing Reserve Fund (Continued)

one of which, Part I Tuition, is equal to the cost per child of the annual payment payable pursuant to such 853 School's loan agreement. In the memorandum of understanding, SED has indicated that it will establish such Part I Tuition rates on a quarterly basis, and will reflect in the cost per child for a particular quarter, any deficiency in tuition payments received resulting from a difference between the actual number of pupils enrolled, and the number of pupils assumed in calculating the cost per child for the immediately preceding quarter.

Each participating 853 School, including Gustavus Adolphus Child and Family Services, Inc.'s learning center, has agreed to notify all public school districts or social services districts that refer pupils to it, that Part I Tuition for such pupils is to be paid directly to the Comptroller of the State of New York for deposit in each school's School Financing Reserve Fund. The education law and the financing act authorize the Comptroller to intercept State education aid to local school districts and State social services reimbursements to social services districts that fail to pay Part I Tuition due the participating 853 Schools.

Under the loan agreement, the annual payments from the school financing reserve fund are payable in two installments, due on November 15 and May 15 of each bond year, and DASNY is to submit a certificate to the Comptroller at least thirty days prior to such due dates requesting payment of such amounts from the appropriate School Financing Reserve Fund. Each participating 853 School, including Gustavus Adolphus Child and Family Services, Inc.'s learning center, has also assigned and granted a security interest to DASNY on any amounts on deposit in the School Financing Reserve Fund.

Because the school financing reserve fund is held and controlled by the Comptroller of the State of New York and is, therefore, outside the control of Gustavus Adolphus Child and Family Services, Inc., the Organization has not included this fund in its financial statements. The Organization records Part I Tuition revenue in an amount equal to the bi-annual remittances from the school financing reserve fund to DASNY. Part I Tuition revenues recognized for the years ended June 30, 2007 and 2006 totaled $556,544 and $578,506, and are included in fees from governmental agencies.

Interest in Net Assets of Recipient Organization

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, which requires the recognition of contributions held by another organization, as an interest in net assets of a recipient organization. Accordingly, included in assets limited to use as of June 30, 2007 and 2006 is an interest in net assets of recipient organization totaling $227,141 and $427,587, respectively.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at cost or fair market value at the date of donation, renewals and betterments are capitalized at cost, and maintenance and repairs are charged to expense as incurred.

Depreciation is computed over the estimated useful lives of the assets by the straight-line method.

Accounting Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts.

NOTE B - PROPERTY AND EQUIPMENT

Major classes of property and equipment consist of:

	June 30,	
	2007	2006
Land and land improvements	$ 176,832	$ 176,832
Buildings and building improvements	8,417,515	8,441,162
Equipment	1,212,039	1,153,456
Vehicles	183,723	180,323
Construction in progress	13,811	-
	10,003,920	9,951,773
Less accumulated depreciation	4,689,628	4,187,019
	$ 5,314,292	$ 5,764,754

Depreciation expense for the years ended June 30, 2007 and 2006 amounted to $553,961 and $586,794 respectively.

Construction in progress represents preliminary costs relating to a potential project to renovate the Organization's institutional facility.

NOTE C - NOTES PAYABLE - BANK

As of June 30, 2007 and 2006, the Organization's obligations under notes payable consist of the following:

	June 30, 2007	June 30, 2006
$1,100,000 line of credit ($900,000 - 2006), payable on demand, with a variable interest rate equal to the bank's prime rate (8.25% at June 30, 2007). The line of credit is secured by a pledge of investments by Lutheran Social Services Foundation of Upstate New York, Inc., and co-guaranteed by Lutheran Social Services Group, Inc., and Lutheran Social Services Foundation of Upstate New York, Inc.	$ 295,000	$ 750,000
Promissory note payable to an area bank, payable on demand, with a variable interest rate equal to the bank's prime rate (8.25% at June 30, 2007), secured by a pledge of investments by Lutheran Social Services Foundation of Upstate New York, Inc., and co-guaranteed by Lutheran Social Services Group, Inc., and Lutheran Social Services Foundation of Upstate New York, Inc.	27,000	39,000
	$ 322,000	$ 789,000

NOTE D - LONG-TERM DEBT

Long-term debt consists of the following:

	June 30, 2007	June 30, 2006
Mortgage note payable to Dormitory Authority of the State of New York (DASNY). The terms of the mortgage are further disclosed below.	$ 5,100,000	$ 5,405,000
Bank note payable, interest only at .9% payable monthly through December 2003, monthly payments of $1,403, plus interest at 5.75% beginning January 2004 through May 2007, secured by three vehicles.	-	9,534
Vehicle finance contract, monthly payments of $332, including interest at 5.74% through November 2008.	5,394	8,947
Vehicle finance contract, monthly payments of $592, including interest at 6.74% through November 2009.	15,766	21,577
	5,121,160	5,445,058
Less current portion	329,002	323,899
	$ 4,792,158	$ 5,121,159

NOTE D - LONG-TERM DEBT (CONTINUED)

The mortgage payable to DASNY is dated April 15, 1999, and secures a loan agreement to DASNY dated October 2, 1998. The funds were provided by DASNY from the sale of its Series 1999B Insured Revenue Bonds, which included serial bonds totaling $3,315,000 and term bonds totaling $4,625,000. The serial bonds bear interest at rates varying from 3.3% to 4.375% with principal due on July 1, of each year beginning July 1, 2000 through July 1, 2009. The term bonds bear interest at 5.5% with principal due on July 1, of each year beginning July 1, 2010 through July 1, 2018.

Interest on both the serial and term bonds is payable on January 1, and July 1, of each year. Annual payments to DASNY are made by the Comptroller of the State of New York using Part I Tuition revenues held by the Comptroller in the school financing reserve fund. The mortgage is collateralized by all land, buildings, improvements, machinery, equipment, fixtures, furnishings, and all other personal property now or hereafter located in or upon the real estate of Gustavus Adolphus Child and Family Services, Inc. The mortgage is also secured by a pledge and assignment of the Organization's Part I Tuition revenues, as well as any amounts on deposit in the school financing reserve fund.

The aggregate amount of long-term debt maturing in each of the next five fiscal years and thereafter is as follows:

Year Ended June 30,	DASNY Mortgage	Other Long-Term Debt	Total
2008	$ 319,000	$ 10,002	$ 329,002
2009	336,000	8,288	344,288
2010	350,000	2,870	352,870
2011	410,000	-	410,000
2012	435,000	-	435,000
Thereafter	3,250,000	-	3,250,000
	$ 5,100,000	$ 21,160	$ 5,121,160

NOTE E - PENSION PLAN

Lutheran Social Services Group, Inc. maintains a single non-contributory defined contribution pension plan covering substantially all employees. Gustavus Adolphus Child and Family Services, Inc. have agreed to contribute 3% of each eligible employee's annual wages. The plan also provides for an employer match of employee contributions to a maximum of 2% of employee wages. The Organization's policy is to fund pension cost accrued. The total pension expense for the Organization for the years ended June 30, 2007 and 2006 was $115,389 and $78,317, respectively.

NOTE F - RELATED PARTY TRANSACTIONS

The Organization operates as a subsidiary of Lutheran Social Services Group, Inc. (LSS). In addition to Gustavus Adolphus Child and Family Services, Inc., LSS includes six other subsidiary corporations, all of which are under common control and management. Transactions between Gustavus Adolphus Child and Family Services, Inc. and LSS as of and for the years ended June 30, 2007 and 2006 are as follows:

As of June 30, 2007 and 2006, the Organization had amounts due to LSS totaling $80,907 and $390,806, respectively. The amounts are non-interest bearing, unsecured obligations with no defined repayment terms.

As of June 30, 2006, the Organization had amounts due to LSS totaling $175,165 related to the purchase of fixed assets. The amount was repaid during 2007.

As further described in Note A, the Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, which requires the recognition of contributions held by another organization, as an interest in net assets of a recipient organization. As of June 30, 2007 and June 30, 2006, the Organization has an interest in net assets of Lutheran Social Services Foundation of Upstate New York, Inc., an affiliated corporation, totaling $227,141 and $427,587, respectively. Net asset transfers by the Organization to the Foundation during the year ended June 30, 2006 totaled $179,631. Net assets released from restrictions during the years ended June 30, 2007 and 2006, totaled $239,911 and $131,500, respectively, resulted from net assets transferred from the Foundation.

Gustavus Adolphus Child and Family Services, Inc. is located on the campus of LSS. Accordingly, the Organization reimburses LSS monthly, for the actual cost of certain operating expenses. The Organization also leases its administrative offices from LSS under a month-to-month lease. Rental expense under this lease amounted to $9,396 per year for the years ended June 30, 2007 and 2006.

Included in management and general expenses for the years ended June 30, 2007 and 2006 are amounts paid to LSS totaling $328,208 and $289,985, respectively, for agency administration fees. Services rendered include accounting, human resources, payroll, information systems and administrative support.

Lutheran Social Services Foundation of Upstate New York, Inc. has entered into agreements to pledge investments for certain notes payable and long-term debt obligations payable to an area bank by Gustavus Adolphus Child and Family Services, Inc.

Lutheran Social Services Group, Inc. and Lutheran Social Services Foundation of Upstate New York, Inc. have entered into agreements with an area bank to co-guarantee payment and performance with respect to obligations payable to the bank by Gustavus Adolphus Child and Family Services, Inc.

NOTE G - OPERATING LEASE COMMITMENTS

The Organization leases equipment and office space under operating leases expiring in various years through 2011. Rental expense for the years ended June 30, 2007 and 2006 amounted to $41,275, per year.

Minimum future rental payments under operating leases having remaining terms in excess of one year as of June 30, 2007 are as follows:

2008	$ 36,095
2009	$ 15,696
2010	$ 15,354
2011	$ 646

NOTE H - ADDITIONAL CASH FLOW INFORMATION

Cash paid for interest during the years ended June 30, 2007 and 2006 amounted to $330,590 and $331,069 respectively. The Organization had noncash investing and financing activities during the year ended June 30, 2007 totaling $28,148 related to capital expenditures included in accounts payable. The Organization also had noncash investing and financing activities during the year ended June 30, 2006 totaling $175,165 related to capital expenditures included in Due to Related Parties.

	Year Ended June 30,	
	2007	**2006**
Residential	$ 2,938,275	$ 2,733,879
Foster boarding home	510,973	195,737
Foster parent payment	206,364	70,249
Tuition	1,919,850	1,757,458
Part I tuition	556,544	578,506
1:1 Aide	-	10,383
Medical	282,672	266,936
Travel reimbursement	39,081	58,054
Breakfast and lunch programs	63,331	53,499
Clothing reimbursement	19,552	16,236
Independent living skills	4,778	5,913
Teacher wage enhancement	13,809	18,843
School flow-through funds	44,687	32,108
Gifts, grants, and other income	49,865	19,057
	$ 6,649,781	$ 5,816,858

	Year Ended June 30, 2007	2006
Salaries and wages	$ 3,166,390	$ 2,998,676
Fringe benefits	926,124	740,689
Depreciation - DASNY	339,829	345,946
Depreciation - other	214,132	240,848
Depreciation expense	553,961	586,794
Interest expense - DASNY	268,543	281,505
Interest expense - other	55,566	43,476
Interest expense	324,109	324,981
Contracted services-medical	66,409	73,059
Contracted services-other	64,809	21,735
Foster parent payment	204,663	71,028
Agency administration fees	328,208	289,985
Allowances, gifts, and paid chores	26,825	33,775
Medical supplies	73,112	68,205
Clothing supplies	39,446	32,388
Food and commissary supplies	128,852	113,976
Maintenance, grounds, and housekeeping supplies	47,076	63,083
Other supplies	75,054	53,557
Activities	42,451	19,273
Transportation	112,366	116,919
Dues and subscriptions	63,232	18,999
Repairs and maintenance	107,001	76,849
Utilities	201,248	197,220
Insurance	62,543	93,703
Other	97,171	87,172
Other operating expenses	1,740,466	1,430,926
	$ 6,711,050	$ 6,082,066

Hillside

Crestwood Children's Center

Financial Statements as of and for the Years Ended June 30, 2007 and 2006, and Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee of
Hillside Family of Agencies:

We have audited the accompanying statements of financial position of Crestwood Children's Center (an affiliate of the Hillside Family of Agencies) (the "Center") as of June 30, 2007 and 2006, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of Crestwood Children's Center at 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.

Deloitte & Touche LLP

October 19, 2007

CRESTWOOD CHILDREN'S CENTER

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2007 AND 2006

ASSETS	2007	2006
CASH AND CASH EQUIVALENTS	$ 2,507,973	$ 3,505,894
RECEIVABLES — Net	1,857,398	2,418,765
INVESTMENTS	677,824	608,637
PROPERTY — Net	3,021,189	2,986,500
INTERAFFILIATE RECEIVABLE — Net	199,760	
OTHER ASSETS	39,283	95,141
BENEFICIAL INTEREST IN NET ASSETS OF CRESTWOOD CHILDREN'S FOUNDATION	2,467,716	1,775,854
TOTAL	$ 10,771,143	$ 11,390,791

LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 147,747	$ 170,922
Accrued expenses and other liabilities	478,651	573,513
Refundable advances	1,538,728	1,831,631
Interaffiliate payable — net		649,831
Notes payable	565,918	652,977
Other postretirement benefits	1,042,063	1,049,913
Total liabilities	3,773,107	4,928,787
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted	4,530,320	4,686,150
Temporarily restricted	2,224,930	1,263,516
Permanently restricted	242,786	512,338
Total net assets	6,998,036	6,462,004
TOTAL	$ 10,771,143	$ 11,390,791

See notes to financial statements.

CRESTWOOD CHILDREN'S CENTER

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007 (WITH COMPARATIVE TOTALS FOR 2006)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total	2006 Total
OPERATING REVENUE AND PUBLIC SUPPORT:					
Program-related revenue:					
NYS Department of Children and Family Services	$ 1,481,099	$ -	$ -	$ 1,481,099	$ 2,141,924
NYS Office of Mental Health	4,984,890			4,984,890	4,972,054
NYS Education Department	6,482,486			6,482,486	6,432,728
Private billings	169,055			169,055	181,891
Government and agency grants	369,461			369,461	382,035
United Way	261,314			261,314	330,470
Total program-related revenue	13,748,305	-	-	13,748,305	14,441,102
Miscellaneous other operating revenue	112,495			112,495	82,702
Total operating revenue and public support	13,860,800	-	-	13,860,800	14,523,804
OPERATING EXPENSES:					
Program services:					
Children and family services	5,530,103			5,530,103	6,033,996
Education services	7,288,364			7,288,364	7,084,007
Total program services	12,818,467	-	-	12,818,467	13,118,003
Supporting services — management and general	1,238,367			1,238,367	1,232,048
Total operating expenses	14,056,834	-	-	14,056,834	14,350,051
GRANTS FROM AFFILIATES FOR OPERATING ACTIVITIES	283,927			283,927	197,122
INCREASE FROM OPERATING ACTIVITIES	87,893	-	-	87,893	370,875
NONOPERATING ACTIVITIES:					
Net investment income	85,618			85,618	47,602
Miscellaneous	(145,519)			(145,519)	(15,563)
Change in beneficial interest in Crestwood Children's Foundation		961,414	(269,552)	691,862	304,957
INCREASE (DECREASE) FROM NONOPERATING ACTIVITIES	(59,901)	961,414	(269,552)	631,961	336,996
Cumulative effect of adoption of recognition provisions of FASB Statement No. 158	(183,822)	-	-	(183,822)	
CHANGE IN NET ASSETS	(155,830)	961,414	(269,552)	536,032	707,871
NET ASSETS — Beginning of year	4,686,150	1,263,516	512,338	6,462,004	5,754,133
NET ASSETS — End of year	$ 4,530,320	$ 2,224,930	$ 242,786	$ 6,998,036	$ 6,462,004

See notes to financial statements.

CRESTWOOD CHILDREN'S CENTER

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total
OPERATING REVENUE AND PUBLIC SUPPORT:				
Program-related revenue:				
NYS Department of Children and Family Services	$ 2,141,924	$ -	$ -	$ 2,141,924
NYS Office of Mental Health	4,972,054			4,972,054
NYS Education Department	6,432,728			6,432,728
Private billings	181,891			181,891
Government and agency grants	382,035			382,035
United Way	330,470			330,470
Total program-related revenue	14,441,102	-	-	14,441,102
Miscellaneous other operating revenue	82,702			82,702
Total operating revenue and public support	14,523,804	-	-	14,523,804
OPERATING EXPENSES:				
Program services:				
Children and family services	6,033,996			6,033,996
Education services	7,084,007			7,084,007
Total program services	13,118,003	-	-	13,118,003
Supporting services — management and general	1,232,048			1,232,048
Total operating expenses	14,350,051	-	-	14,350,051
GRANTS FROM AFFILIATES FOR OPERATING ACTIVITIES	197,122			197,122
INCREASE FROM OPERATING ACTIVITIES	370,875	-	-	370,875
NONOPERATING ACTIVITIES:				
Net investment income	47,602			47,602
Miscellaneous	(15,563)			(15,563)
Change in beneficial interest in Crestwood Children's Foundation	269,554	35,403		304,957
INCREASE FROM NONOPERATING ACTIVITIES	301,593	35,403	-	336,996
CHANGE IN NET ASSETS	672,468	35,403	-	707,871
NET ASSETS — Beginning of year	4,013,682	1,228,113	512,338	5,754,133
NET ASSETS — End of year	$ 4,686,150	$ 1,263,516	$ 512,338	$ 6,462,004

See notes to financial statements.

CRESTWOOD CHILDREN'S CENTER

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007 (WITH COMPARATIVE TOTALS FOR 2006)

	Program Services					
	Children and Family Services	Education Services	Total Program Services	Management and General	2007 Total	2006 Total
PERSONNEL EXPENSES:						
Salaries and wages	$3,247,042	$4,584,072	$ 7,831,114	$ -	$ 7,831,114	$ 7,958,046
Employee benefits	712,362	1,042,394	1,754,756		1,754,756	2,013,685
Total personnel expenses	3,959,404	5,626,466	9,585,870	-	9,585,870	9,971,731
DIRECT CHILD CARE:						
Food	174,488	178,600	353,088		353,088	376,298
Clothing and linen	13,321	208	13,529		13,529	15,829
Supplies — medical	180,422	4,584	185,006		185,006	169,969
Purchase of services — medical	250,590	248,099	498,689		498,689	507,605
Boarding home payments			-		-	88
Recreation, work activities, and other	68,425	8,101	76,526		76,526	80,032
Staff development	28,047	7,123	35,170		35,170	20,638
Total direct child care	715,293	446,715	1,162,008	-	1,162,008	1,170,459
OTHER EXPENSES:						
Occupancy	455,396	842,461	1,297,857		1,297,857	1,123,086
Supplies	43,818	80,250	124,068		124,068	184,563
Professional fees	93,082	39,676	132,758		132,758	118,218
Telephone	46,765	26,051	72,816		72,816	70,178
Conferences and administration	31,384	2,195	33,579		33,579	31,074
Transportation	36,442	14,162	50,604		50,604	45,296
Interest	16,007	35,619	51,626		51,626	78,929
Postage	6,105	5,539	11,644		11,644	12,469
Publications and publicity	979	465	1,444		1,444	1,377
Total other expenses	729,978	1,046,418	1,776,396	-	1,776,396	1,665,190
MANAGEMENT FEE			-	1,238,367	1,238,367	1,232,048
TOTAL EXPENSES BEFORE DEPRECIATION	5,404,675	7,119,599	12,524,274	1,238,367	13,762,641	14,039,428
DEPRECIATION	125,428	168,765	294,193		294,193	310,623
TOTAL EXPENSES	$5,530,103	$7,288,364	$12,818,467	$1,238,367	$14,056,834	$14,350,051

See notes to financial statements.

CRESTWOOD CHILDREN'S CENTER

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006

	Program Services				
	Children and Family Services	Education Services	Total Program Services	Management and General	2006 Total
PERSONNEL EXPENSES:					
Salaries and wages	$3,506,491	$4,451,555	$ 7,958,046	$ -	$ 7,958,046
Employee benefits	873,008	1,140,677	2,013,685		2,013,685
Total personnel expenses	4,379,499	5,592,232	9,971,731	-	9,971,731
DIRECT CHILD CARE:					
Food	205,974	170,324	376,298		376,298
Clothing and linen	15,791	38	15,829		15,829
Supplies — medical	169,676	293	169,969		169,969
Purchase of services — medical	275,561	232,044	507,605		507,605
Boarding home payments	88		88		88
Recreation, work activities, and other	67,998	12,034	80,032		80,032
Staff development — recreation, work activities, and other	14,813	5,825	20,638		20,638
Total direct child care	749,901	420,558	1,170,459	-	1,170,459
OTHER EXPENSES:					
Occupancy	509,989	613,097	1,123,086		1,123,086
Supplies	54,718	129,845	184,563		184,563
Professional fees	66,755	51,463	118,218		118,218
Telephone	42,776	27,402	70,178		70,178
Conferences and administration	26,301	4,773	31,074		31,074
Transportation	31,488	13,808	45,296		45,296
Interest	32,227	46,702	78,929		78,929
Postage	6,831	5,638	12,469		12,469
Publications and publicity	972	405	1,377		1,377
Total other expenses	772,057	893,133	1,665,190	-	1,665,190
MANAGEMENT FEE			-	1,232,048	1,232,048
TOTAL EXPENSES BEFORE DEPRECIATION	5,901,457	6,905,923	12,807,380	1,232,048	14,039,428
DEPRECIATION	132,539	178,084	310,623	-	310,623
TOTAL EXPENSES	$6,033,996	$7,084,007	$13,118,003	$1,232,048	$14,350,051

See notes to financial statements.

CRESTWOOD CHILDREN'S CENTER

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATING ACTIVITIES:		
Change in net assets	$ 536,032	$ 707,871
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation	294,193	310,623
Amortization of debt issue costs	1,857	1,857
Net realized and unrealized gains on investments	(62,527)	(28,516)
Decrease (increase) in accounts receivable	561,367	(250,794)
Decrease (increase) in other assets	54,001	(58,955)
Increase in interaffiliate receivable — net	(199,760)	
Increase in beneficial interest in net assets of Crestwood Children's Foundation	(691,862)	(304,957)
Decrease in accounts payable	(33,333)	(9,544)
(Decrease) increase in accrued expenses and other liabilities	(94,862)	134,674
(Decrease) increase in refundable advances	(292,903)	1,503,226
(Decrease) increase in interaffiliate payable — net	(649,831)	96,829
Decrease in postretirement benefit obligation	(7,850)	(9,917)
Net cash (used in) provided by operating activities	(585,478)	2,092,397
INVESTING ACTIVITIES:		
Purchases of property	(318,724)	(277,287)
Purchases of investments	(22,803)	(19,086)
Proceeds from the sales of investments	16,143	13,252
Net cash used in investing activities	(325,384)	(283,121)
FINANCING ACTIVITIY — Payments on notes payable	(87,059)	(96,989)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(997,921)	1,712,287
CASH AND CASH EQUIVALENTS — Beginning of year	3,505,894	1,793,607
CASH AND CASH EQUIVALENTS — End of year	$ 2,507,973	$ 3,505,894
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$ 50,063	$ 72,890
Capital expenditures included in accounts payable	$ 44,435	$ 34,277

See notes to financial statements.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization — Crestwood Children's Center (the "Center") is a not-for-profit public benefit exempt organization under Internal Revenue Code Section 501(c)(3). The Center provides mental health, educational, and social services for children, youth, and families in the Western New York area.

The Center is an affiliate of Hillside Family of Agencies (the "System" or HFA), a not-for-profit corporation that reviews and monitors the missions, objectives, activities, and resources of its affiliates. In its capacity as the sole corporate member of the Center, the System has the right to elect Center directors and amend its by-laws.

Basis of Presentation — The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Amounts for each of three classes of net assets — permanently restricted, temporarily restricted, and unrestricted — are displayed in the statements of financial position and the amounts of changes in each of these classes of net assets are displayed in the statements of activities and changes in net assets.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents — All highly liquid instruments purchased with an original maturity of three months or less are considered to be cash equivalents. Cash is held primarily in four banks. Certain cash equivalents are classified within investments at year-end (as disclosed in Note 2) due to the fact that the investment portfolio is treated as a pool of assets and cash balances can accumulate due to the timing of transfers between classes of assets within the investment portfolio. The investment portfolio is established such that management does not have direct oversight, but rather account activity is at the direction of the board of governors and is carried out by the investment managers.

Allowance for Doubtful Accounts — At June 30, 2007 and 2006, receivables are presented net of allowances for doubtful accounts of $185,446 and $33,746, respectively.

Investments and Related Income — Investments are stated at fair value based on quoted market prices, when available, or at fair value as determined by qualified appraisers or by reference to the market value of similar investments for which a market value is readily ascertainable, as follows:

	2007	2006
Investments at fair value based on quoted market prices	$322,806	$ 335,537
Investments at fair value based on estimates	355,018	273,100
Total investments	$677,824	$ 608,637

Investment income and gains and losses from the sale or other disposition of investments are accounted for in accordance with specific donor instructions. In the absence of such instructions, investment income and gains and losses are accounted for in unrestricted net assets. Interest and dividend income are recognized as earned. Gains and losses on security sales are determined based upon the average cost of the security within the respective net asset portfolio.

Property and Accumulated Depreciation — Land, buildings, and equipment are recorded at cost if purchased or at fair value if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which are as follows:

	Years
Buildings	40
Building improvements	10–20
Equipment	4–10
Furniture and fixtures	6

Fully depreciated assets are retained in the accounting records until their retirement. Repairs and maintenance are expensed as incurred.

Impairment of Long-Lived Assets — The Center reviews its long-lived assets in accordance with Statement of Financial Accounting Standards Board (FASB) Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When the carrying value of the asset is in excess of the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition, this indicates that a long-lived asset may be impaired. When an impairment is indicated, the estimated future cash flows are then discounted, or another appropriate fair value methodology is utilized, to determine the estimated fair value of the asset, and an impairment charge, if any, is recorded for the difference between the carrying value and the fair value of the asset.

The determination of the fair value and any subsequent impairment of the Center's long-lived assets require management to make estimates and assumptions that may affect its financial statements. Factors that may affect the recoverability of the Center's long-lived assets include shifts or reductions in the System's services and adverse changes in its expected future cash flows.

No impairment charges were recorded on long-lived assets for the years ended June 30, 2007 and 2006.

Debt Issue Costs — Debt issue costs consist of capitalized amounts for bank financing fees, professional fees, and other expenses related to the Center's debt. Debt issue costs are included in prepaid expenses and other assets in the accompanying statements of financial position and amounted to $3,096 and $4,953 at June 30, 2007 and 2006, respectively. These costs are being amortized over the life of the debt.

Amortization expense for these costs is included as a component of interest expense in the accompanying statements of activities and changes in net assets and amounted to $1,857 for the years ended June 30, 2007 and 2006.

Refundable Advances — Refundable advances represent short-term overpayments for contracted services.

Operating and Nonoperating Activities — Operating activities are those that occur in the normal course of business operation for the current period. Nonoperating activities include investment income and activities that are unrelated to the current time period or to normal operations.

Program-Related Revenue — Revenue under most contracts and grants with various authorities (principally governmental agencies in New York State) is recognized as the services are performed. Certain rates under such contracts and grants are subject to audits by the contracting authority. Rate modifications for prior fiscal years are reported as an adjustment to miscellaneous income in the year realized. These program-related revenues are categorized in the accompanying financial statements under the New York State department, which is responsible for the regulatory oversight of the related programs.

Donations — Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated at cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities and changes in net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as other revenue in the statements of activities and changes in net assets. In the absence of donor specification that income and gains on donated funds are restricted, such income and gains are reported as income of unrestricted net assets.

No amounts have been included in the accompanying financial statements for donated goods and services since such amounts are not material. Contributed long-lived assets are recorded as unrestricted net assets designated for facilities.

Functional Expense Allocations — The costs of providing program and supporting services have been summarized on a functional basis in the statements of functional expenses. Such costs have been allocated among the program and supporting services based upon certain statistics and estimates made by the Center's management.

Interest Expense — Interest expense is a recurring cost incurred in normal business operations, and accordingly, is presented with operating expenses in the accompanying statements of activities and changes in net assets.

Income Taxes — The Center has been ruled a tax-exempt organization by the Internal Revenue Service, and accordingly, is not subject to federal or state taxes on income.

Net Assets — The following is a description of the net assets shown in the accompanying financial statements:

Unrestricted Net Assets — Unrestricted net assets include all net assets over which the Center has full discretion as to use. The Center uses the income and, in certain instances, the principal of unrestricted investments to cover revenue shortfalls in programs, to establish new services for families and children, to fund property improvements, and to maintain an adequate level of working capital.

Temporarily Restricted — These amounts represent resources, which are restricted as to use by the donor or grantor for specific purposes or period of time.

Permanently Restricted — These amounts include the principal amounts of gifts and bequests accepted with the donor stipulation that the principal be maintained intact in perpetuity.

Fair Value of Financial Instruments — The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents — The carrying amount of cash and cash equivalents approximates fair value because of the short maturity of those instruments.

Investments — Investments are stated at fair value based on quoted market prices, when available, or at fair value as determined by qualified appraisers, or by reference to the market value of similar investments for which a market value is readily ascertainable.

Notes Payable — At June 30, 2007 and 2006, the fair value of long-term debt payments is estimated to be $585,284 and $659,582, respectively. The fair value was calculated in accordance with FASB Statement No. 107, *Disclosures About the Fair Value of Financial Instruments*, and long-term debt payments were estimated by discounted cash flow analysis based on the Center's current incremental borrowing rates for similar types of borrowing arrangements.

Recently Issued Accounting Standards — In September 2006, the FASB issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, to improve financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan, implementation of which is further described in Note 5. Another provision of FASB Statement No. 158 requires valuation to be timed to coincide precisely with the end of the accounting period, rather than within three months as has been traditional actuarial practice. There is a phase-in period, such that the timing provision will not take effect until the Center's fiscal year ending June 30, 2009.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*, to define fair value, establish a framework for measuring fair value in GAAP, and expand disclosures about fair value measurements. FASB Statement No. 157 will be effective for the Center's fiscal year ending June 30, 2009. The Center has not completed its evaluation of the requirements of FASB Statement No. 157 and cannot yet estimate the effect the adoption of FASB Statement No. 157 will have on its financial statements. In early 2007, the FASB issued FASB Statement No. 159, *Fair Value Option*, which provides entities to optionally value each asset and liability at fair value and treat changes in fair value as income or expense. Given the regulated nature of most of the Center's operations, broad adoption would present significant reimbursement challenges that would need to be fully considered. FASB Statement No. 159 assumes full adoption of FASB Statement No. 157.

2. INVESTMENTS

At June 30, 2007 and 2006, investments — at fair value, consisted of the following:

	2007	2006
Cash equivalents	$ 19,386	$ 19,004
Mutual funds:		
Equity	474,620	423,707
Fixed income	183,818	165,926
Total	$677,824	$608,637

Net investment income for the years ended June 30, 2007 and 2006, included the following:

	2007	2006
Interest and dividends	$23,091	$19,086
Realized and unrealized gains — net	62,527	28,516
Total	$85,618	$47,602

3. PROPERTY

At June 30, 2007 and 2006, property consisted of the following:

	2007	2006
Land	$ 98,973	$ 98,973
Buildings	3,270,252	3,275,205
Building and land improvements	2,983,729	2,955,638
Furniture, fixtures, and equipment	1,620,406	1,843,467
Construction in process	210,951	
Total property	8,184,311	8,173,283
Less accumulated depreciation	(5,163,122)	(5,186,783)
Property — net	$ 3,021,189	$ 2,986,500

Depreciation expense was $294,193 and $310,623 for the years ended June 30, 2007 and 2006, respectively.

During 2007, the Center initiated a plan to renovate its Scottsville Campus in four phases: Cutler renovation and campus improvements; cottages licensed by the New York State Office of Children and Family Services (OCFS) and part of the Dormitory Authority of the State of New York (DASNY) pooling project (see Note 4); cottages licensed by the Office of Mental Health; and upgrades to the educational facilities. Early work on phases one and two are reflected as construction in process.

4. NOTES PAYABLE

At June 30, 2007 and 2006, notes payable consisted of the following:

	2007	2006
Mortgage payable requiring monthly payments of $9,312, including interest at bank's prime rate (8.25% at June 30, 2007), through February 2009.	$ 565,918	$ 627,602
Notes payable requiring monthly payments ranging from $2,990 to $3,172, including interest at the bank's prime rate (8.25% at June 30, 2007), through August 2007.		25,375
Total	$ 565,918	$ 652,977

At June 30, 2007, the aggregate principal payments on notes payable are as follows:

2008	$ 67,575
2009	498,343
Total	$ 565,918

The mortgage is collateralized by the Scottsville Campus of the Center with a net book value at June 30, 2007, of $2,646,041.

The Center has access to a $15 million revolving demand line of credit as a benefit of its affiliation with the HFA. Amounts borrowed bear interest at the bank's prime rate (8.25% at June 30, 2007), or at HFA's option of the London InterBank Offered Rate (5.35% at June 30, 2007) plus 1.4% and are due in full by December 31, 2008. Amounts are guaranteed by and secured by the assets of the Center as well as Hillside Children's Center, Hillside Children's Foundation, Crestwood Children's Foundation, Snell Farms Children's Center, and Hillside Work Scholarship Connection. Net book value of collateral at June 30, 2007, was $22,559,818. At June 30, 2007, amounts outstanding under this obligation were $13,988,000. It is not anticipated that payments would be required under the guarantee, and accordingly, no related liability was recorded by the Center as of June 30, 2007.

In December 2006, OCFS gave preliminary approval subject to significant conditions for three affiliates of the System to participate in a tax-exempt bond issue for capital financing through DASNY. Chapter 472 of the Laws of 2004, as amended by Chapter 506 of the Laws of 2006 (NY), authorizes DASNY to issue up to $60,000,000 statewide. Several sponsors are pooling their projects into one or two issues within this legislative authority. It represents the first time that OCFS has recognized the cost of capital in operating residential services in the child welfare system.

Preliminary proceeds, excluding costs of issuance, are estimated to be $1,737,000 for the Center. This amount is targeted at construction of two new prototype cottages on the Scottsville Campus.

Final approval and diligence efforts are underway to finalize the effort in early 2008. The Center has authorized acceleration of the project.

5. EMPLOYEE RETIREMENT PLANS

Defined Benefit Plan — The Center participates in a noncontributory defined benefit plan (the "pension plan"), which covers substantially all employees of the System. Prior to January 1, 2003, benefits were based on years of service, the employee's highest five consecutive years of base earnings out of the last 10 consecutive years prior to actual retirement date, the employee's age at retirement, and his or her primary social security benefit expected at age 65. Prior to that date, the Center employees were not eligible to participate in the pension plan.

Effective January 1, 2003, the pension plan was amended to use a cash accumulation plan formula. The formula credits both age and years of service, as well as matching employee contributions to the 403(b) plan at a rate of 50% of employee contributions up to a maximum of 3% additional employer contribution. Prior to January 1, 2007, matching funds remained in the pension plan. For eligible matching after January 1, 2007, contributions are made directly into employees' 403(b) accounts, subject to recapture in accordance with a vesting schedule. The pension plan includes a 10-year grandfathering provision from January 1, 2003. It credits interest at 10-year treasury rates plus 1%. The System's funding policy is to meet minimum funding requirements and to fund the average net periodic pension cost. As of January 1, 2003, the pension plan covers the eligible employees of the Center, as well as Hillside Family of Agencies, Hillside Children's Center, Hillside Children's Foundation, and Hillside Work-Scholarship Connection. The pension plan measurement date is March 31.

Effective January 1, 2005, the first day of the plan year in which the affiliation was completed, the pension plan covers eligible employees of Snell Farm Children's Center.

The measurement date of the plan is March 31, 2007.The recognition provisions of FASB Statement No. 158 were implemented during the year ended June 30, 2007, to include the funded status of pension plans as a gain or loss within the change in unrestricted net assets and within the statement of financial position. Its effect is a reduction in the System's unrestricted net assets of $1,499,283. That effect is distributed among the System's affiliates based on total wages and salaries.

The information related to the entire pension plan as of and for the years ended June 30, 2007 and 2006, is as follows:

	2007	2006
Projected benefit obligation	$ 28,141,982	$ 28,830,784
Fair value of plan assets	25,735,715	24,594,603
Funded status	$ (2,406,267)	$ (4,236,181)
Unamortized items:		
Prior service cost	$ (2,558,399)	$ (1,021,823)
Net loss	4,057,682	4,482,790
Total unamortized items	$ 1,499,283	$ 3,460,967
Amounts recognized in the statement of financial position:		
Liability for benefits	$ (2,406,267)	$ (775,214)
Unrestricted net assets	1,499,283	-
Net periodic pension cost	1,893,267	1,974,331
Employer contributions	1,761,497	2,104,866
Benefits paid	1,411,922	1,168,128
Expected effect in unrestricted assets in the next fiscal year:		
Prior service cost	(170,887)	N/A
Net loss	74,634	N/A

The Center's share of the net pension cost, which was allocated based upon the Center's percentage of the System's total payroll, was $232,160 in 2007, and $261,924 in 2006. The Center's share of the accrued benefit cost was $111,218 and $102,844 as of June 30, 2007 and 2006, respectively, and is included within the net interaffiliate receivable in the statements of financial position (parent company, only). The Center's share of the charge to change in unrestricted net assets as a result of adoption of the recognition provisions of FASB Statement No. 158 at June 30, 2007, was $183,822.

The System expects to contribute approximately $1,948,215 to the pension plan during the year ending June 30, 2008.

The assumptions used in determining the actuarial present value of the benefit obligations and the net periodic benefit cost at June 30, 2007 and 2006, were as follows:

	2007	2006
Weighted-average assumptions used to determine the benefit obligation:		
Discount rate	6.34 %	6.23 %
Expected long-term rate of return on assets	8.00	8.00
Rate of increase in compensation levels	3.00	4.00
Weighted-average assumptions used to determine the net periodic benefit cost:		
Discount rate	6.23 %	5.95 %
Expected long-term rate of return on assets	8.00	8.00
Rate of increase in compensation levels	4.00	4.00

The investment policies and individual decisions are made for the exclusive benefit of the pension plan participants, consistent with the Employee Retirement Income Security Act of 1974 (ERISA) and regulations thereunder. Total long-term investment returns are optimized against risk in a manner that reasonably protects benefit requirements and timely cash payments. The policy establishes target allocations for diversification and investment performance over a time line that mirrors liabilities. It also limits exposure to quality and concentration risks

The pension plan's weighted-average asset allocations at June 30, 2007, by asset category are as follows:

	Actual Allocation	Percentage Allocation	Target % Allocation
Large-cap domestic equity	$ 8,964,368	34.83 %	35.00 %
Mid/small-cap domestic equity	4,285,839	16.65	20.00
International equity	3,620,123	14.07	10.00
Other	1,337,893	5.20	5.00
Fixed income	7,141,048	27.75	30.00
Cash	386,444	1.50	
Total	$25,735,715	100.00 %	100.00 %

The long-term rate of return expectation is 8%. Asset allocations are aligned with long-term, independently determined, expected segment performance to ensure a reasonable expectation of achieving that return.

The System has selected the assumed rate of return based on the following:

	Long-Term Asset Allocation Strategy	Asset Class Expected Return	Weighted-Average Expected Return
Large-cap domestic equity	35.00 %	8.20 %	2.87 %
Mid/small-cap domestic equity	20.00	12.03	2.41
International equity	10.00	8.31	0.83
Other	5.00	5.33	0.27
Fixed income	30.00	5.99	1.80
Total	100.00 %		8.18 %

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

Years Ending June 30	Expected Benefit Payments
2008	$ 1,948,215
2009	1,175,820
2010	1,767,279
2011	2,206,762
2012	2,411,582
2013–2017	18,904,014

The System offers a voluntary 403(b) plan, which is available to all employees of the System. Employee contributions into the 403(b) plan, after January 1, 2003, become the basis for the limited 50% employer match, as described above.

Other Postretirement Benefits — The Center provides postretirement health care benefits to employees who retire after age 62 with 10 or more years of service or after age 55 with 20 or more years of service. The Center continues full coverage for the employee at the Center's expense. For those retirees separating from employment prior to January 1, 1997, the employer covers full premiums throughout the retired employee's lifetime. For employees retiring after that date, the Center covered full premium expenses through 1997 and 50% of the increase in premiums in 1998. Thereafter, the retiree covered will be responsible for all additional premium increases. Life insurance benefits equal to 25% of final annual rate of pay, but not more than $25,000, are provided for employees who retire after age 62, with five or more years of service, or after age 55, with 20 or more years of service. The life insurance benefit is available only to employees hired before January 1, 1989. FASB Statement No. 158 applies to other postretirement benefits as well, but has no net effect in this case.

The following sets forth information about the aforementioned postretirement benefit plan, which has a June 30 measurement date, and amounts recognized in the accompanying consolidated financial statements:

	2007	2006
Benefit obligation	$ (864,695)	$ (738,952)
Fair value of plan assets		
Funded status	$ (864,695)	$ (738,952)
Accrued cost recognized in the statements of financial position	$(1,042,063)	$(1,049,913)
Weighted-average assumptions used to determine the benefit obligation:		
Discount rate	6.5 %	6.5 %
Annual rate of increase in per capita cost of covered health care benefits	6.0	6.0
Rate of increase in compensation levels	4.0	4.0
Weighted-average assumptions used to determine the net periodic benefit costs:		
Discount rate	6.0 %	6.0 %
Annual rate of increase in per capita cost of covered health care benefits	6.0	6.0
Rate of increase in compensation levels	N/A	4.0
Health care cost trend rate assumed for the next year	6.0 %	6.0 %
Benefit cost	$ 36,866	$ 45,916
Employer contributions	44,716	55,833
Benefits paid	44,716	55,833

The impact of a 1% increase in the health care cost trend would result in an increase to the benefit cost and benefit obligation of $3,362 and $51,735, respectively.

Crestwood expects to contribute approximately $68,000 to the aforementioned postretirement benefit plan during the year ending June 30, 2007.

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

Years Ending June 30	Expected Benefit Payments
2008	$ 69,054
2009	67,887
2010	69,827
2011	68,432
2012	74,810

6. COMMITMENTS AND CONTINGENCIES

Leases — The Center has operating lease commitments for office facilities which expire at various dates through fiscal 2009, some of which provide for annual escalation of rents based on specific percentage increases. Rent expense is paid by the HFA and charged back to the Center through management fees.

Future annual rent payments under these leases are as follows:

2008	$ 234,599
2009	28,000
Total	$ 262,599

Legal Matters — The Center is a defendant in various legal actions arising in the normal course of business. It is management's opinion that the actions are either without merit or that settlements which arise, if any, will be covered by insurance.

Self-Insurance — The Center is self-insured for a portion of its disability claims. The Center maintains excess insurance coverage for certain major claims. There is no liability recorded as of June 30, 2007 and 2006, related to disability claims.

In 2006, the System self-insured workers' compensation benefits for its employees and health care benefits for its participating employees and dependents. The related liability is included in the net interaffiliate payable in the Center's statements of financial position. The Center's portion of the related liability and costs as of and for the year ended June 30, 2007, which was allocated based upon the Center's percentage of the System's total payroll, are as follows:

Workers' compensation expense	$ 172,543
Workers' compensation liability	207,724
Health insurance expense	654,266
Health insurance liability	30,658

During the year ended 2006, the Center incurred expenses of $219,836 and $834,101 related to workers' compensation and health insurance, respectively.

7. RELATED-PARTY TRANSACTIONS

The Center periodically requests funds from Crestwood Children's Foundation (the "Foundation"), a financially interrelated organization, for capital or other needs. Such requests are received by the Foundation and, if approved, funds are granted to the Center. The Foundation granted $169,246 and $98,770 in 2007 and 2006, respectively, to the Center. Such grants of funds are reported in the accompanying financial statements as grants from affiliate. Pursuant to FASB Statement No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, the Center's beneficial interest in the unrestricted and temporarily restricted net assets of the Foundation and its share of the change in those net assets are reported in the accompanying financial statements in temporarily restricted net assets. The Center's beneficial interest in permanently restricted net assets of the Foundation and its share of changes therein are reported in the accompanying financial statements in permanently restricted net assets.

The System provides certain operating and administrative services to the Center. The costs of these services, which are reported as a management fee in the accompanying statements of functional expenses, are allocated to the receiving entities based upon cost studies and/or actual amounts incurred. Fees were $1,238,367 and $1,232,048 in 2007 and 2006, respectively.

The Center provides services to other affiliates of the System, the cost of which is included in operating grants from affiliates in the accompanying statements of activities and changes in net assets. This amount was $114,681 and $91,968 in 2007 and 2006, respectively.

Unpaid amounts relating to these services are included as a net interaffiliate receivable or payable in the accompanying statements of financial position and consisted of the following:

	2007	2006
Interaffiliate (payable to) receivable from :		
Hillside Children's Center	$ (38,583)	$ (53,897)
Hillside Children's Foundation	12,177	(1,984)
Crestwood Children's Foundation	168,675	(450)
Snell Farm Children's Center		(30)
Hillside Work Scholarship Connection	(312)	
Hillside Family of Agencies (parent company, only)	57,803	(593,470)
Interaffiliate payable — net	$ 199,760	$ (649,831)

* * * * * *

Hillside

Hillside Children's Center

Financial Statements as of and for the Years Ended June 30, 2007 and 2006, and Independent Auditors' Report

Deloitte

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee of
Hillside Family of Agencies:

We have audited the accompanying statements of financial position of Hillside Children's Center (an affiliate of the Hillside Family of Agencies) (the "Center") as of June 30, 2007 and 2006, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of Hillside Children's Center at 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.

Deloitte & Touche LLP

October 19, 2007

HILLSIDE CHILDREN'S CENTER

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2007 AND 2006

ASSETS	2007	2006
CASH AND CASH EQUIVALENTS	$ 1,600,247	$ 53,705
RECEIVABLES — Net	17,639,649	17,120,082
INVESTMENTS	3,546,953	3,356,224
PREPAID EXPENSES AND OTHER ASSETS	561,954	603,597
DEFERRED REIMBURSEMENT	475,580	574,741
PROPERTY — Net	57,075,600	45,517,036
BENEFICIAL INTEREST IN NET ASSETS OF HILLSIDE CHILDREN'S FOUNDATION	5,483,820	4,263,755
TOTAL	$86,383,803	$71,489,140
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Refundable advances	$ 2,306,894	$ 2,321,672
Accounts payable	2,365,498	3,099,962
Accrued expenses and other liabilities	2,686,669	2,624,060
Interaffiliate payable — net	14,281,504	8,283,472
Interaffiliate capital loan payable	6,200,000	
Bonds and notes payable	35,059,887	31,660,239
Total liabilities	62,900,452	47,989,405
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted	17,999,531	19,235,980
Temporarily restricted	4,478,735	3,258,670
Permanently restricted	1,005,085	1,005,085
Total net assets	23,483,351	23,499,735
TOTAL	$86,383,803	$71,489,140

See notes to financial statements.

HILLSIDE CHILDREN'S CENTER

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007 (WITH COMPARATIVE TOTALS FOR 2006)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total	2006 Total
OPERATING REVENUE AND PUBLIC SUPPORT:					
Program-related revenue:					
NYS Department of Children and Family Services	$42,264,670	$ -	$ -	$42,264,670	$ 41,180,171
NYS Office of Mental Health	19,779,180			19,779,180	17,819,833
NYS Education Department	12,655,170			12,655,170	12,826,341
NYS OMRDD	5,070,013			5,070,013	4,082,872
Adoption (private)	36,033			36,033	56,026
Government and agency grants	2,167,816			2,167,816	1,581,246
United Way	278,263			278,263	339,900
Total program-related revenue	82,251,145			82,251,145	77,886,389
Miscellaneous other operating revenue	1,197,264			1,197,264	1,022,229
Total operating revenue and public support	83,448,409	-	-	83,448,409	78,908,618
OPERATING EXPENSES:					
Program services:					
Children and family services	67,745,040			67,745,040	62,147,711
Educational services	12,682,802			12,682,802	11,761,046
Total program services	80,427,842	-	-	80,427,842	73,908,757
Supporting services — management and general	7,320,451			7,320,451	7,064,909
Total operating expenses	87,748,293	-	-	87,748,293	80,973,666
GRANTS FROM AFFILIATES FOR OPERATING ACTIVITIES	2,720,671			2,720,671	2,190,792
(DECREASE) INCREASE FROM OPERATING ACTIVITIES	(1,579,213)	-	-	(1,579,213)	125,744
NONOPERATING ACTIVITIES:					
Net investment income	235,232			235,232	30,658
Miscellaneous	(55,984)			(55,984)	(423,490)
Contributions of long-lived property	1,250,000			1,250,000	
Change in beneficial interest in net assets of Hillside Children's Foundation		1,220,065		1,220,065	219,689
INCREASE (DECREASE) FROM NONOPERATING ACTIVITIES	1,429,248	1,220,065	-	2,649,313	(173,143)
Cumulative effect of adoption of recognition provisions of FASB statement No. 158	(1,086,484)			(1,086,484)	
CHANGE IN NET ASSETS	(1,236,449)	1,220,065	-	(16,384)	(47,399)
NET ASSETS — Beginning of year	19,235,980	3,258,670	1,005,085	23,499,735	23,547,134
NET ASSETS — End of year	$17,999,531	$4,478,735	$1,005,085	$23,483,351	$ 23,499,735

See notes to financial statements.

HILLSIDE CHILDREN'S CENTER

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total
OPERATING REVENUE AND PUBLIC SUPPORT:				
Program related revenue:				
NYS Department of Children and Family Services	$ 41,180,171	$ -	$ -	$ 41,180,171
NYS Office of Mental Health	17,819,833			17,819,833
NYS Education Department	12,826,341			12,826,341
NYS OMRDD	4,082,872			4,082,872
Adoption (private)	56,026			56,026
Government and agency grants	1,581,246			1,581,246
United Way	339,900			339,900
Total program related revenue	77,886,389	-	-	77,886,389
Miscellaneous other operating revenue	1,022,229			1,022,229
Total operating revenue and public support	78,908,618	-	-	78,908,618
OPERATING EXPENSES:				
Program services:				
Children and family services	62,147,711			62,147,711
Educational services	11,761,046			11,761,046
Total program services	73,908,757	-	-	73,908,757
Supporting services — management and general	7,064,909			7,064,909
Total operating expenses	80,973,666	-	-	80,973,666
GRANTS FROM AFFILIATES FOR OPERATING ACTIVITIES	2,190,792			2,190,792
INCREASE FROM OPERATING ACTIVITIES	125,744	-	-	125,744
NONOPERATING ACTIVITIES:				
Net investment income	30,658			30,658
Miscellaneous	(423,490)			(423,490)
Change in beneficial interest in net assets of Hillside Children's Foundation		219,689		219,689
(DECREASE) INCREASE FROM NONOPERATING ACTIVITIES	(392,832)	219,689	-	(173,143)
CHANGE IN NET ASSETS	(267,088)	219,689	-	(47,399)
NET ASSETS — Beginning of year	19,503,068	3,038,981	1,005,085	23,547,134
NET ASSETS — End of year	$ 19,235,980	$ 3,258,670	$ 1,005,085	$ 23,499,735

See notes to financial statements.

HILLSIDE CHILDREN'S CENTER

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007 (WITH COMPARATIVE TOTALS FOR 2006)

	Program Services			Management and General	2007 Total	2006 Total
	Children and Family Services	Educational Services	Total			
PERSONNEL EXPENSES:						
Salaries and wages	$37,979,249	$ 8,306,573	$46,285,822	$ -	$46,285,822	$43,316,534
Employee benefits	8,440,969	1,837,483	10,278,452		10,278,452	10,834,971
Total personnel expenses	46,420,218	10,144,056	56,564,274	-	56,564,274	54,151,505
DIRECT CHILD CARE:						
Food services	1,912,719	165,438	2,078,157		2,078,157	2,068,924
Clothing and linen	188,029	1,053	189,082		189,082	225,111
Supplies — medical	1,252,126	621	1,252,747		1,252,747	1,114,023
Purchase of services — medical	1,524,254	40,955	1,565,209		1,565,209	1,576,422
Recreation, work activities, and other	882,701	37,135	919,836		919,836	736,188
Staff development — recreation, work activities, and other	238,095	33,201	271,296		271,296	273,136
Boarding home payments	455,446		455,446		455,446	490,627
Total direct child care	6,453,370	278,403	6,731,773	-	6,731,773	6,484,431
OTHER EXPENSES:						
Occupancy	6,449,340	1,115,257	7,564,597		7,564,597	5,622,821
Supplies	701,895	311,856	1,013,751		1,013,751	1,038,937
Professional fees	680,652	101,136	781,788		781,788	492,394
Telephone	924,422	67,007	991,429		991,429	887,371
Conferences and administration	284,367	44,703	329,070		329,070	240,889
Transportation	986,277	17,913	1,004,190		1,004,190	969,711
Interest	2,478,944	208,554	2,687,498		2,687,498	1,596,700
Postage	47,079	929	48,008		48,008	44,019
Publications and publicity	8,813	3,226	12,039		12,039	14,853
Total other expenses	12,561,789	1,870,581	14,432,370	-	14,432,370	10,907,695
MANAGEMENT FEE				7,320,451	7,320,451	7,064,909
Total expenses before depreciation	65,435,377	12,293,040	77,728,417	7,320,451	85,048,868	78,608,540
DEPRECIATION	2,309,663	389,762	2,699,425		2,699,425	2,365,126
TOTAL OPERATING EXPENSES	$67,745,040	$12,682,802	$80,427,842	$ 7,320,451	$87,748,293	$80,973,666

See notes to financial statements.

HILLSIDE CHILDREN'S CENTER

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006

	Program Services				
	Children and Family Services	Educational Services	Total	Management and General	2006 Total
PERSONNEL EXPENSES:					
Salaries and wages	$35,719,826	$ 7,596,708	$43,316,534	$ -	$43,316,534
Employee benefits	8,916,422	1,918,549	10,834,971		10,834,971
Total personnel expenses	44,636,248	9,515,257	54,151,505	-	54,151,505
DIRECT CHILD CARE:					
Food services	1,905,034	163,890	2,068,924		2,068,924
Clothing and linen	224,931	180	225,111		225,111
Supplies — medical	1,113,956	67	1,114,023		1,114,023
Purchase of services — medical	1,560,171	16,251	1,576,422		1,576,422
Recreation, work activities, and other	713,547	22,641	736,188		736,188
Staff development — recreation, work activities, and other	244,260	28,876	273,136		273,136
Boarding home payments	490,627		490,627		490,627
Total direct child care	6,252,526	231,905	6,484,431	-	6,484,431
OTHER EXPENSES:					
Occupancy	4,527,367	1,095,454	5,622,821		5,622,821
Supplies	720,936	318,001	1,038,937		1,038,937
Professional fees	415,103	77,291	492,394		492,394
Telephone	842,605	44,766	887,371		887,371
Conferences and administration	216,162	24,727	240,889		240,889
Transportation	952,453	17,258	969,711		969,711
Interest	1,470,877	125,823	1,596,700		1,596,700
Postage	40,541	3,478	44,019		44,019
Publications and publicity	10,947	3,906	14,853		14,853
Total other expenses	9,196,991	1,710,704	10,907,695	-	10,907,695
MANAGEMENT FEE				7,064,909	7,064,909
Total expenses before depreciation	60,085,765	11,457,866	71,543,631	7,064,909	78,608,540
DEPRECIATION	2,061,946	303,180	2,365,126		2,365,126
TOTAL OPERATING EXPENSES	$62,147,711	$11,761,046	$73,908,757	$7,064,909	$80,973,666

See notes to financial statements.

HILLSIDE CHILDREN'S CENTER

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATING ACTIVITIES:		
Change in net assets	$ (16,384)	$ (47,399)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,699,425	2,365,126
Amortization of debt issue costs	15,314	742
Realized and unrealized gains on investments — net	(59,554)	
Contributions of long-lived property	(1,250,000)	
(Increase) decrease in receivables	(519,567)	653,029
Decrease (increase) in prepaid expenses and other assets	26,329	(156,937)
Decrease in deferred reimbursement	99,161	110,561
Increase in beneficial interest in Hillside Children's Foundation	(1,220,065)	(219,689)
(Decrease) increase in refundable advances	(14,778)	1,190,742
(Decrease) increase in accounts payable	(1,250,780)	189,229
Increase in accrued expenses and other liabilities	62,609	411,499
Increase in interaffiliate payable — net	5,998,032	2,405,786
Net cash provided by operating activities	4,569,742	6,902,689
INVESTING ACTIVITIES:		
Purchases of property	(12,491,673)	(7,577,963)
Proceeds from sales of property		3,335
Proceeds from the sale of investments	44,503	30,217
Purchases of investments	(175,678)	(30,658)
Net cash used in investing activities	(12,622,848)	(7,575,069)
FINANCING ACTIVITIES:		
Net payments on lines of credit	(96,885)	(6,780,473)
Borrowings on bonds and notes payable	5,331,085	12,525,723
Payments on bonds and notes payable	(1,834,552)	(5,802,059)
Payments for debt issuance costs		(49,295)
Increase in interaffiliate capital loan payable	6,200,000	
Net cash provided by financing activities	9,599,648	(106,104)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,546,542	(778,484)
CASH AND CASH EQUIVALENTS — Beginning of year	53,705	832,189
CASH AND CASH EQUIVALENTS — End of year	$ 1,600,247	$ 53,705
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$ 2,633,651	$ 1,495,078
Capital expenditures included in accounts payable	$ 1,068,308	$ 551,992

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — Hillside Children's Center (the "Center") is a not-for-profit public benefit exempt organization under Internal Revenue Code Section 501(c)(3). The Center provides mental health, educational, and social services for children, youth, and families in Central and Western New York.

The Center is an affiliate of Hillside Family of Agencies (the "System" or HFA), a not-for-profit corporation that reviews and monitors the missions, objectives, activities, and resources of its affiliates. In its capacity as the sole corporate member of the Center, the System has the right to elect Center directors and amend its by-laws.

Basis of Presentation — The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Amounts for each of three classes of net assets — permanently restricted, temporarily restricted, and unrestricted — are displayed in the statements of financial position and the amounts of changes in each of these classes of net assets are displayed in the statements of activities and changes in net assets.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents — All highly liquid instruments purchased with an original maturity of three months or less are considered to be cash equivalents. Cash is held primarily in four banks. Certain cash equivalents are classified within investments at year-end (as disclosed in Note 2) due to the fact that the investment portfolio is treated as a pool of assets and cash balances can accumulate due to the timing of transfers between classes of assets within the investment portfolio. The investment portfolio is established such that management does not have direct oversight, but rather account activity is at the direction of the board of governors and is carried out by the investment managers.

Allowance for Doubtful Accounts — At June 30, 2007 and 2006, program-related receivables are presented net of allowances for doubtful accounts of approximately $228,239 and $220,860, respectively.

Investments and Related Income — Investments are stated at fair value based on quoted market quotations, when available, or at fair value as determined by qualified appraisers or by reference to the market value of similar investments for which a market value is readily ascertainable. Investment income and gains and losses from the sale or other disposition of investments are accounted for in accordance with specific donor instructions. In the absence of such instructions, investment income and gains and losses are accounted for in unrestricted net assets. Interest and dividend income are recognized as earned. Gains and losses on security sales are determined based upon the average cost of the security within the respective net asset portfolio.

Deferred Reimbursement — This balance represents reimbursements received for capital costs, including depreciation and interest, in excess of amounts incurred.

Property and Accumulated Depreciation — Land, buildings, and equipment are recorded at cost if purchased or at fair value if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which are as follows:

	Years
Buildings	40
Building improvements	10–20
Equipment	4–10
Furniture and fixtures	6
Vehicles	4

Fully depreciated assets are retained in the accounting records until their retirement. Repairs and maintenance are expensed as incurred.

Impairment of Long-Lived Assets — The Center reviews its long-lived assets in accordance with Financial Accounting Standards Boards (FASB) Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When the carrying value of the asset is in excess of the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition, this indicates that a long-lived asset may be impaired. When an impairment is indicated, the estimated future cash flows are then discounted, or another appropriate fair value methodology is utilized, to determine the estimated fair value of the asset, and an impairment charge, if any, is recorded for the difference between the carrying value and the fair value of the asset.

The determination of the fair value and any subsequent impairment of the Center's long-lived assets require management to make estimates and assumptions that may affect its consolidated financial statements. Factors that may affect the recoverability of the Center's long-lived assets include shifts or reductions in the Center's services and adverse changes in its expected future cash flows.

No impairment charges were recorded on long-lived assets for the years ended June 30, 2007 and 2006.

Debt Issue Costs — Debt issue costs consist of capitalized amounts for bank financing fees, professional fees, and other expenses related to the Center's debt. Debt issue costs are included in prepaid expenses and other assets in the accompanying statements of financial position and amounted to $170,762 and $48,553 at June 30, 2007 and 2006, respectively. These costs are being amortized over the life of the debt. Amortization expense for these costs is included as a component of interest expense in the accompanying statements of activities and changes in net assets and amounted to $15,314 and $742 for the years ended June 30, 2007 and 2006, respectively.

Refundable Advances — Refundable advances represent short-term overpayments for contracted services.

Operating and Nonoperating Activities — Operating activities are those that occur in the normal course of business operation for the current period. Nonoperating activities include investment income and activities that are unrelated to the current time period or to normal operations.

Program-Related Revenue — Revenue under most contracts and grants with various authorities (principally governmental agencies in New York State) is recognized as the services are performed. Certain rates under such contracts and grants are subject to audit by the contracting authority. Rate modifications for prior fiscal years are reported as an adjustment to miscellaneous income in the year realized. These program-related revenues are categorized in the accompanying financial statements under the New York State department, which is responsible for the regulatory oversight of the related programs.

Donations — Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted revenue in the statements of activities and changes in net assets. In the absence of donor specification that income and gains on donated funds are restricted, such income and gains are reported as income of unrestricted net assets.

No amounts have been included in the accompanying financial statements for donated goods and services since such amounts are not material. Contributed long-lived assets are recorded as unrestricted net assets designated for facilities.

Functional Expense Allocations — The costs of providing program and supporting services have been summarized on a functional basis in the statements of functional expenses. Such costs have been allocated among the program and supporting services based upon certain statistics and estimates made by the Center's management.

Interest Expense — Interest expense is a recurring cost incurred in normal business operations, and accordingly, is presented within operating expenses in the accompanying statements of activities and changes in net assets.

Income Taxes — The Center has been ruled a tax-exempt organization by the Internal Revenue Service, and accordingly, is not subject to federal or state taxes on income.

Net Assets — The following is a description of the net assets shown in the accompanying financial statements:

Unrestricted Net Assets — Unrestricted net assets include all net assets over which the Center has full discretion as to use. The Center uses the income, and in certain instances, the principal of unrestricted investments to cover revenue shortfalls in programs, to establish new services for families and children, to fund property improvements, and to maintain an adequate level of working capital.

Temporarily Restricted — These amounts represent resources, which are restricted as to use by the donor or grantor for specific purposes or period of time.

Permanently Restricted — These amounts include the principal amounts of gifts and bequests accepted with the donor stipulation that the principal be maintained intact in perpetuity.

Derivative Financial Instruments — The Center does not engage in interest rate speculation. Derivative financial instruments are utilized to hedge interest rate risk and are not held for trading purposes. FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, requires that all derivative instruments, such as interest rate swap agreements, be recorded on the statements of financial position at fair value regardless of the purpose or intent for holding them.

Fair Value of Financial Instruments — The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents — The carrying amount of cash and cash equivalents approximates fair value because of the short maturity of those instruments.

Investments — Investments are stated at fair value based on quoted market prices, when available, or at fair value as determined by qualified appraisers, or by reference to the market value of similar investments for which a market value is readily ascertainable.

Derivative Instruments — The Center's interest rate swap agreements are stated at fair value, which represents the estimated amount that the System would expect to pay if it terminated the interest rate swap agreements at the reporting date.

Bonds and Notes Payable and Lines of Credit — At June 30, 2007 and 2006, the fair value of long-term debt payments is estimated to be $34,147,231 and $28,926,798, respectively. The fair value was calculated in accordance with FASB Statement No. 107, *Disclosures About the Fair Value of Financial Instruments*, and long-term debt payments were estimated by discounted cash flow analysis based on the Center's current incremental borrowing rates for similar types of borrowing arrangements. The estimated fair value of short-term debt approximates its carrying amount.

Recently Issued Accounting Standards — In September 2006, the FASB issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, to improve financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan, implementation of which is further described in Note 6. Another provision of FASB Statement No. 158 requires valuation to be timed to coincide precisely with the end of the accounting period, rather than within 3 months as has been traditional actuarial practice. There is a phase-in period, such that the timing provision will not take effect until the Center's fiscal year ending June 30, 2009.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*, to define fair value, establish a framework for measuring fair value in GAAP, and expand disclosures about fair value measurements. FASB Statement No. 157 will be effective for the System's fiscal year ending June 30, 2009. The System has not completed its evaluation of the requirements of FASB Statement No. 157 and cannot yet estimate the effect the adoption of FASB Statement No. 157 will have on its consolidated financial statements. In early 2007, the FASB issued FASB Statement No. 159, *Fair Value Option*, which provides entities to optionally value each asset and liability at fair value and treat changes in fair value as income or expense. Given the regulated nature of most of the System's operations, broad adoption would present significant reimbursement challenges that would need to be fully considered. FASB Statement No. 159 assumes full adoption of FASB Statement No. 157.

2. INVESTMENTS

Investment assets are pooled on a market value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit at market value at the beginning of the calendar quarter in which the transaction takes place.

At June 30, 2007 and 2006, investments — at fair value based on quoted market prices, consisted of the following:

	2007	2006
U.S. government obligations	$3,515,291	$3,344,940
Cash equivalents	31,662	11,284
Total	$3,546,953	$3,356,224

Net investment income for the years ended June 30, 2007 and 2006, included the following:

	2007	2006
Interest and dividends	$ 175,678	$ 30,658
Realized and unrealized gains — net	59,554	-
Total	$ 235,232	$ 30,658

3. PROPERTY

At June 30, 2007 and 2006, property consisted of the following:

	2007	2006
Land	$ 533,459	$ 534,128
Buildings	39,736,627	30,704,740
Building and land improvements	27,805,838	24,620,691
Furniture, fixtures, and equipment	6,969,048	7,688,436
Vehicles and other	1,301,306	1,564,063
Construction in process	3,172,946	1,456,588
Total property	79,519,224	66,568,646
Less accumulated depreciation	(22,443,624)	(21,051,610)
Property — net	$ 57,075,600	$ 45,517,036

Depreciation expense was $2,699,425 and $2,365,126 for the years ended June 30, 2007 and 2006, respectively.

The Center is in the process of renovating its Monroe Avenue campus, which was built around 1905. The first phase of renovations, construction of a new emergency shelter and clinic building, began in

July 2001, and was completed during the year ended June 30, 2004. The second phase of renovation was completed during the year ended June 30, 2007. The third phase was still in process at June 30, 2007. During the year ended June 30, 2007 and 2006, the Center capitalized interest of approximately $0 and $402,000, respectively, related to these renovations.

4. DERIVATIVE INSTRUMENTS

The Center accounts for its derivative instruments in accordance with FASB Statement No. 133, as amended, which requires that all derivative financial instruments, such as interest rate swap agreements, be recognized in the consolidated financial statements and measured at fair value regardless of the purpose or intent for holding them. The Center used interest rate hedges to manage its interest rate risk. The transactions did not qualify to be recorded in accordance with hedge accounting. The interest differential to be paid or received under the related interest rate swap agreements is recognized in the consolidated statements of activities and changes in net assets as additional interest expense or a reduction of interest expense.

The Center had an interest rate swap agreement with notional principal amount of $3,210,000 and $3,380,000 at June 30, 2007 and 2006, respectively. The variable interest rate agreement expires on August 1, 2018, and is swapped to a fixed rate of 4.75%. The net fair value of the interest rate swap agreement was a liability of approximately $4,900 and $5,700 at June 30, 2007 and 2006, respectively. The fair value of the interest rate swap agreement is determined by the investment bank with which the Center entered into the swap.

The Center had two interest rate swap agreements with notional principal amounts of $1,008,877 and $1,101,284 at June 30, 2007 and 2006, respectively. The variable interest rate agreements expire on May 1, 2018, and are swapped to a fixed rate of 6.88%. The net fair value of the interest rate swap agreement was an asset of approximately $600 and a liability of approximately $500 at June 30, 2007 and 2006, respectively. The fair value of the interest rate swap agreements is determined by the investment bank with which the Center entered into the swaps.

The interest rate swaps were marked to fair value with the impact of $5,500 and $9,800 recorded in the Center's statements of activities and changes in net assets as additional interest expense for the years ended June 30, 2007 and 2006, respectively.

5. BONDS AND NOTES PAYABLE AND LINES OF CREDIT

At June 30, 2007 and 2006, bonds and notes payable obligations and lines of credit consisted of the following:

	2007	2006
Term loan with mortgage — Varick Campus	$ 4,155,646	$ 4,252,533
MCFFA bond payable to New York State Office of Mental Health	4,946,544	5,212,426
COMIDA bond	3,210,000	3,380,000
Term promissory note — Hogan Road	192,610	212,885
Term promissory note — Lehigh Station Road	715,206	780,721
Term promissory note — Abbott Road	293,671	320,572
Term promissory note — Finger Lakes	958,792	1,046,620
Bond payable — Varick Campus	5,720,000	5,960,000
Term loan — Varick Campus	1,958,333	2,458,333
Mortgage payable — Monroe Avenue	5,107,500	5,377,500
Term loan with mortgage — Monroe Avenue	2,147,445	2,261,469
Mortgage payable — Strickler Road	370,554	397,180
Mortgage — Snell Farm Campus School	3,081,086	
Mortgage — Metro Park	875,000	
Mortgage — Atlantic Avenue	1,327,500	
Total	$35,059,887	$31,660,239

Lines of Credit — The Center has access to a $15 million revolving demand line of credit as a benefit of its affiliation with HFA. Amounts borrowed bear interest at the bank's prime rate (8.25% at June 30, 2007) or, at the System's option, the London InterBank Offered Rate (LIBOR) rate (5.375% at June 30, 2007) plus 1.4%. Amounts are guaranteed by and secured by assets of the Center, as well as Crestwood Children's Center, Hillside Children's Foundation, Crestwood Children's Foundation, Snell Farm Children's Center, and Hillside Work-Scholarship Connection. Net book value of collateral at June 30, 2007, was $22,559,818. The outstanding balance at June 30, 2007 and 2006, was $13,988,000 and $6,397,798, respectively. At June 30, 2007 and 2006, amounts outstanding under this obligation related to the Center were $10,071,360 and $6,397,798, respectively. These amounts are reflected in the interaffiliate balances in the statement of financial position. It is not anticipated that payments would be required under the guarantee for the remaining portion of the borrowings outstanding, and accordingly, no related liability was recorded by the Center.

Term Loan with Mortgage — Varick Campus — In December 2005, a $4.3 million building loan facility was converted to a 10-year term loan with mortgage, with a maturity date of January 2016 and monthly principal payments of $17,917 based on 20-year amortization. Interest is variable at LIBOR (5.375% at June 30, 2007) plus 2%. The loan is collateralized by the Varick Campus of the Center with a net book value at June 30, 2007, of $9,859,292. Under the terms of this loan, the Center is subject to various financial covenants, and as of June 30, 2007, the Center is in compliance with all of these covenants.

MCFFA Bond — The bond payable to New York State Office of Mental Health represents proceeds from Medical Care Facilities Finance Agency (MCFFA) Mental Health Services Facilities Bonds which were issued in conjunction with the construction of a 40-bed residential treatment facility in Sennett, NY. The bonds bear interest at 7.6% and are due in semiannual installments of $323,000 through

December 2018. The bonds are secured by a mortgage on a portion of the Sennett property with a net book value at June 30, 2007, of $4,674,822.

COMIDA Bond — In August 1998, the Center entered into a 20-year bond arrangement with the County of Monroe Industrial Development Agency for $6,915,000, at a variable rate of interest which is swapped to a fixed rate of approximately 4.75%. The proceeds were used, in part, to acquire the Van Hoover Place property to house existing day treatment services to children. The remaining proceeds were used for a variety of capital projects throughout Monroe County. The debt is partially secured by the Van Hoover Place property and certain investments of the Center with net book values of $2,093,089 and $3,546,953, respectively, at June 30, 2007.

Term Promissory Note — Hogan Road — In December 2001, the Center entered into a 15-year note with Key Bank, N.A. for $304,121 at a variable per annum interest rate equal to the fixed LIBOR rate (5.375% at June 30, 2007). Payments are due in equal monthly installments of $1,690 through December 2016. It is secured by the Hogan Road property with a net book value at June 30, 2007, of $325,557.

Term Promissory Note — Lehigh Station Road — In April 2003, the Center entered into a 15-year note with Key Bank, N.A. for $982,726 at a variable interest rate swapped to a fixed rate of 6.88%. Payments are due in equal monthly installments of $5,460 through May 2018. It is secured by the Lehigh Station Road property with a net book value at June 30, 2007, of $921,792.

Term Promissory Note — Abbott Road — In April 2003, the Center entered into a 15-year note with Key Bank, N.A. for $403,517 at a variable interest rate swapped to a fixed rate of 6.88%. Payments are due in equal monthly installments of $2,242 through May 2018. It is secured by the Abbott Road property with a net book value at June 30, 2007, of $418,701.

Term Promissory Note — Finger Lakes — In April 2003, the Center entered into a 15-year note with Key Bank, N.A. for $1,317,424 at a variable per annum interest rate equal to the LIBOR rate (5.375% at June 30, 2007). Payments are due in equal monthly installments of $7,319 through May 2018. It is secured by a portion of the Finger Lakes Campus with a net book value at June 30, 2007, of $1,085,492.

Bond Payable — Varick Campus — In December 2004, the System opened the Varick Campus, including the assumption of $6.29 million in outstanding indebtedness pursuant to a bond issue by the Seneca County Industrial Development Agency (SCIDA) and three temporary credit facilities were arranged with a bank, as discussed below. The 20-year SCIDA bond is tax-exempt, dated April 1, 2000, and originally issued in favor of KidsPeace National Centers of New York, Inc., predecessor operator of the Varick Campus. Interest is variable based on weekly market conditions for tax-exempt debt. The interest rate at June 30, 2007, was 3.80%. It is secured by the Varick Campus with a net book value at June 30, 2007, of $9,859,292.

Term Loan — Varick Campus — In April 2006, the Center entered into a $2.5 million term loan with Key Bank, N.A. to replace a transitional working capital line of credit related to the opening of the Varick Campus. Principal is paid monthly over a five-year term ending in 2011, in equal installments of $41,668. Interest is at LIBOR (5.375% at June 30, 2007) plus 2%. It is secured by the Varick Campus with a net book value at June 30, 2007, of $9,859,292. Under the terms of this loan, the Center is subject to various financial covenants, and as of June 30, 2007, the Center is in compliance with all of these covenants.

Mortgage Payable — Monroe Avenue — In April 2006, the Center converted a construction facility to a $5.4 million 20-year term loan and mortgage. Principal is payable in equal monthly installments of $22,500 through 2026. Interest is at LIBOR (5.375% at June 30, 2007) plus 2%. This mortgage is secured by the Monroe Avenue Campus with a net book value at June 30, 2007, of $10,368,891. Under the terms of this loan, the Center is subject to various financial covenants and, as of June 30, 2007, the Center is in compliance with all of these covenants.

Term Loan with Mortgage — Monroe Avenue — In April 2006, the Center entered into a $2,280,743 20-year term loan agreement with Key Bank, N.A. Principal is payable in equal monthly installments of $9,502 through 2026. Interest is at LIBOR (5.375% at June 30, 2007) plus 2%. It is collateralized by a mortgage on the Monroe Campus with a net book value at June 30, 2007, of $10,368,891. Under the terms of this loan, the Center is subject to various financial covenants, and as of June 30, 2007, the Center is in compliance with all of these covenants.

Mortgage Payable — Strickler Road — In April 2006, the Center entered into a 15-year term loan and mortgage agreement with Key Bank, N.A., for $399,399. Principal is payable in equal monthly installments of $2,219 through May 2021. Interest is at a fixed rate of 9.04%. This mortgage is secured by the Strickler Road property with a net book value at June 30, 2007, of $427,232. Under the terms of this loan, the Center is subject to various financial covenants, and as of June 30, 2007, the Center is in compliance with all of these covenants.

Mortgage — Snell Farm Campus School — In May 2007, a new school, operated by the Center but located on the Snell Farm Bath Campus, was opened. A construction loan agreement in contemplation of a mortgage in the amount of $3,700,000 was entered. Interest is payable at LIBOR (5.375% at June 30, 2007) plus 2% during the construction period.

Mortgage — Metro Park — In December 2006, the Center entered into a mortgage agreement for an original amount of $900,000. Principal payments in the amount of $5,000 per month and interest at LIBOR (5.375% at June 30, 2007) plus 2% are payable through 2016. This mortgage is secured by the Metro Park property with a net book value at June 30, 2007, of $1,288,405.

Mortgage — Atlantic Avenue — In March 2007, the Center entered into a mortgage agreement for an original amount of $1,350,000. Principal payments of $7,500 per month and interest at LIBOR (5.375% at June 30, 2007) plus 2% are payable through 2016. This mortgage is secured by the Atlantic Avenue property with a net book value at June 30, 2007, of $2,642,698.

At June 30, 2007, the aggregate principal payments on bonds and notes payable due on demand consisted of the following:

Years Ending June 30	
2008	$ 2,371,632
2009	2,441,050
2010	2,496,670
2011	2,302,361
2012	2,113,255
Thereafter	23,334,919
Total	$35,059,887

In December 2006, the New York State Office of Children & Family Services (OCFS) gave preliminary approval subject to significant conditions for three affiliates of the System to participate in a tax-exempt bond issue for capital financing through the Dormitory Authority of the State of New York (DASNY). Chapter 472 of the Laws of 2004, as amended by Chapter 506 of the Laws of 2006 (NY), authorizes

DASNY to issue up to $60,000,000 statewide. Several sponsors are pooling their projects into one or two issues within this legislative authority. It represents the first time that OCFS has recognized the cost of capital in operating residential services in the child welfare system.

Preliminary proceeds, excluding costs of issuance, are estimated to be $4,538,240 for the Center. This amount is targeted at major renovations of the last three original cottages on the Monroe Avenue Campus.

Final approval and diligence efforts are underway to finalize the effort in early 2008. The Center has authorized acceleration of the project and intends to do so. There is some risk associated with final approval, but the Center would privately finance its project in the event this process failed. The underlying project is vitally important to the Center's ability to manage its service life cycles.

6. EMPLOYEE RETIREMENT PLANS

Defined Benefit Plan — The Center participates in a noncontributory defined benefit plan (the "pension plan"), which covers substantially all employees of the System. Prior to January 1, 2003, benefits were based on years of service, the employee's highest five consecutive years of base earnings out of the last 10 consecutive years prior to actual retirement date, the employee's age at retirement, and his or her primary social security benefit expected at age 65. Prior to that date, Crestwood Children's Center employees were not eligible to participate in the pension plan.

Effective January 1, 2003, the pension plan was amended to use a cash accumulation plan formula. The formula credits both age and years of service, as well as matching employee contributions to the 403(b) plan at a rate of 50% of employee contributions up to a maximum of 3% additional employer contribution. Prior to January 1, 2007, matching funds remained in the pension plan. For eligible matching after January 1, 2007, contributions are made directly into employees' 403(b) accounts, subject to recapture in accordance with a vesting schedule. The pension plan includes a 10-year grandfathering provision from January 1, 2003. It credits interest at 10-year treasury rates plus 1%. The System's funding policy is to meet minimum funding requirements and to fund the average net periodic pension cost. As of January 1, 2003, the pension plan covers the eligible employees of Crestwood Children's Center, as well as Hillside Family of Agencies, the Center, Hillside Children's Foundation, and Hillside Work-Scholarship Connection. The pension plan measurement date is March 31.

Effective January 1, 2005, the first day of the plan year in which the affiliation was completed, the pension plan covers eligible employees of Snell Farm Children's Center.

The measurement date of the plan is March 31, 2007.

The recognition provisions of FASB Statement No. 158 were implemented during the year ended June 30, 2007, to include the funded status of pension plans as a gain or loss within the change in unrestricted net assets and within the statement of financial position. Its effect is a reduction in the System's unrestricted net assets of $1,499,283. That effect is distributed among the System's affiliates based on total wages and salaries.

The information related to the entire pension plan as of and for the years ended June 30, 2007 and 2006, is as follows:

	2007	2006
Projected benefit obligation	$ 28,141,982	$ 28,830,784
Fair value of plan assets	25,735,715	24,594,603
Funded status	$ (2,406,267)	$ (4,236,181)
Unamortized items:		
Prior service cost	$ (2,558,399)	$ (1,021,823)
Net loss	4,057,682	4,482,790
Total unamortized items	$ 1,499,283	$ 3,460,967
Amounts recognized in the statement of financial position:		
Liability for benefits	$ (2,406,267)	$ (775,214)
Unrestricted net assets	1,499,283	-
Net periodic pension cost	1,893,267	1,974,331
Employer contributions	1,761,497	2,104,866
Benefits paid	1,411,922	1,168,128
Expected effect in unrestricted assets in the next fiscal year:		
Prior service cost	(170,887)	N/A
Net loss	74,634	N/A

The Center's share of the net pension cost, which was allocated based upon the Center's percentage of the System's total payroll, was $1,372,180 in 2007 and $1,426,715 in 2006. The Center's share of the accrued benefit cost was $657,353 and $560,194 as of June 30, 2007 and 2006, respectively, and is included within the net interaffiliate receivable in the statements of financial position (parent company only). The Center's share of the charge to change in unrestricted net assets income as a result of adoption of the recognition provisions of FASB Statement No. 158 at June 30, 2007, was $1,086,484.

The System expects to contribute approximately $1,948,215 to the pension plan during the year ending June 30, 2008.

The assumptions used in determining the actuarial present value of the benefit obligations and the net periodic benefit cost at June 30, 2007 and 2006, were as follows:

	2007	2006
Weighted-average assumptions used to determine the benefit obligation:		
Discount rate	6.34 %	6.23 %
Expected long-term rate of return on assets	8.00	8.00
Rate of increase in compensation levels	3.00	4.00
Weighted-average assumptions used to determine the net periodic benefit cost:		
Discount rate	6.23 %	5.95 %
Expected long-term rate of return on assets	8.00	8.00
Rate of increase in compensation levels	4.00	4.00

The investment policies and individual decisions are made for the exclusive benefit of the pension plan participants, consistent with the Employee Retirement Income Security Act of 1974 (ERISA) and regulations thereunder. Total long-term investment returns are optimized against risk in a manner that reasonably protects benefit requirements and timely cash payments. The policy establishes target allocations for diversification and investment performance over a time line that mirrors liabilities. It also limits exposure to quality and concentration risks

The pension plan's weighted-average asset allocations at June 30, 2007, by asset category are as follows:

	Actual Allocation	Percentage Allocation	Target % Allocation
Large-cap domestic equity	$ 8,964,368	34.83 %	35.00 %
Mid/small-cap domestic equity	4,285,839	16.65	20.00
International equity	3,620,123	14.07	10.00
Other	1,337,893	5.20	5.00
Fixed income	7,141,048	27.75	30.00
Cash	386,444	1.50	
Total	$25,735,715	100.00 %	100.00 %

The long-term rate of return expectation is 8%. Asset allocations are aligned with long-term, independently determined, expected segment performance to ensure a reasonable expectation of achieving that return.

The System has selected the assumed rate of return based on the following:

	Long-Term Asset Allocation Strategy	Asset Class Expected Return	Weighted-Average Expected Return
Large-cap domestic equity	35.00 %	8.20 %	2.87 %
Mid/small-cap domestic equity	20.00	12.03	2.41
International equity	10.00	8.31	0.83
Other	5.00	5.33	0.27
Fixed income	30.00	5.99	1.80
Total	100.00 %		8.18 %

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

Years Ending June 30	Expected Benefit Payments
2008	$ 1,948,215
2009	1,175,820
2010	1,767,279
2011	2,206,762
2012	2,411,582
2013–2017	18,904,014

Defined Contribution Plan — The System offers a voluntary 403(b) plan, which is available to all of the Center's employees. Employee contributions into the 403(b) plan, after January 1, 2003, become the basis for the limited 50% employer match described above.

7. COMMITMENTS AND CONTINGENCIES

Leases — The Center has operating lease commitments for office facilities. The leases expire at various times through fiscal 2026 and provide for annual escalation of rents based on specific percentage increases. Rent expense under these leases is paid by HFA and charged back to the Center through management fees.

Future annual rent payments under these leases are as follows:

Years Ending June 30	
2008	$ 173,328
2009	158,378
2010	148,428
2011	140,825
2012	124,455
Thereafter	1,998,430
Total	$2,743,844

Legal Matters — The Center is a defendant in various legal actions arising in the normal course of business. It is management's opinion that the actions are either without merit or that settlements which arise, if any, will be covered by insurance.

Self-Insurance — The Center is self-insured for a portion of its disability claims. The Center maintains excess insurance coverage for certain major claims. There is no liability recorded as of June 30, 2007 and 2006, related to disability claims.

In 2006, the System self-insured workers' compensation benefits for its employees and health care benefits for its participating employees and dependents. The related liability is included in the net interaffiliate payable in the Center's statements of financial position. The Center's portion of the related liability and costs as of and for the year ended June 30, 2007, which was allocated based upon the Center's percentage of the System's total payroll, are as follows:

Workers' compensation expense	$ 1,019,287
Workers' compensation liablity	1,227,754
Health insurance expense	3,867,040
Health insurance liablity	671,180

During the year ended 2006, the Center incurred expenses of $1,197,461 and $4,543,393 related to workers' compensation and health insurance, respectively.

8. RELATED-PARTY TRANSACTIONS

The Center periodically requests funds from the Hillside Children's Foundation, a financially interrelated organization, for capital or other needs. Such requests are received by the Hillside Children's Foundation, and if approved, funds are granted to the Center. Such grants of funds are reported in the accompanying financial statements as nonoperating grants from the Hillside Children's Foundation. In fiscal 2007 and 2006, the Hillside Children's Foundation granted $604,335 and $418,991, respectively, to the Center in connection with construction of a new emergency shelter and clinic. Pursuant to FASB Statement No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, the Center's beneficial interest in the unrestricted and temporarily restricted net assets of the Hillside Children's Foundation and its share of the change in those net assets are reported in the accompanying financial statements in temporarily restricted net assets. The Center's beneficial interest in permanently restricted net assets of the Hillside Children's Foundation and its share of changes therein are reported in the accompanying financial statements in permanently restricted net assets.

Shared Services — The System provides certain operating and administrative services to the Center. The costs of these services, which are reported as a management fee in the accompanying statements of functional expenses, are allocated to the receiving entities based upon cost studies and/or actual amounts incurred. These fees were $7,320,451 and $7,064,909 in 2007 and 2006, respectively.

The Center provides services to and receives services from other affiliates of the System, the cost of which is reported as operating grants from (to) affiliates in the accompanying statements of activities and changes in net assets. This amount was $2,116,336 and $1,771,801 in 2007 and 2006, respectively.

Unpaid amounts relating to these services at June 30, 2007 and 2006, are included as a net interaffiliate receivable or payable in the accompanying statements of financial position and consisted of the following:

	2007	2006
Interaffiliate receivable from (payable to):		
Hillside Children's Foundation	$ 306,747	$ 22,127
Crestwood Children's Center	38,583	53,897
Crestwood Children's Foundation	35,764	
Hillside Work-Scholarship Connection	(27,534)	16,667
Snell Farm Children's Center	(72,457)	58,514
Hillside Family of Agencies (parent company only)	(14,562,607)	(8,434,677)
Interaffiliate payable — net	$(14,281,504)	$(8,283,472)

The interaffiliate capital loan payable of $6,200,000 in the accompanying statement of financial position as of June 30, 2007, consisted of amounts borrowed from Hillside Family of Agencies (parent company only) for capital purposes.

* * * * * *

Hillside

Snell Farm Children's Center

Financial Statements as of and for the Years Ended June 30, 2007 and 2006, and Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee of
Hillside Family of Agencies:

We have audited the accompanying statements of financial position of Snell Farm Children's Center (an affiliate of the Hillside Family of Agencies) (the "Center") as of June 30, 2007 and 2006, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of Snell Farm Children's Center at 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.

Deloitte & Touche LLP

October 19, 2007

SNELL FARM CHILDREN'S CENTER

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
CASH AND CASH EQUIVALENTS	$ 24,636	$ 24,495
RECEIVABLES — Net	538,137	347,284
PREPAID EXPENSES AND OTHER ASSETS	21,615	44,665
PROPERTY — Net	2,733,150	2,746,769
BENEFICIAL INTEREST IN NET ASSETS OF HILLSIDE CHILDREN'S FOUNDATION	3,942	1,663
TOTAL	$3,321,480	$3,164,876
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$1,046,423	$1,476,167
Accrued expenses and other liabilities	182,259	107,539
Interaffiliate payable — net	689,970	524,633
Notes payable	782,417	168,237
Total liabilities	2,701,069	2,276,576
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted	616,469	886,637
Temporarily restricted	3,942	1,663
Total net assets	620,411	888,300
TOTAL	$3,321,480	$3,164,876

See notes to financial statements.

SNELL FARM CHILDREN'S CENTER

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007 (WITH COMPARATIVE TOTALS FOR 2006)

	Unrestricted	Temporarily Restricted	2007 Total	2006 Total
OPERATING REVENUE AND PUBLIC SUPPORT:				
Program-related revenue:				
NYS Department of Children and Family Services	$ 3,303,429	$ -	$ 3,303,429	$ 3,179,377
NYS Education Department	6,843		6,843	1,554
Government and agency grants	33,065		33,065	34,052
United Way				163
Total program-related revenue	3,343,337	-	3,343,337	3,215,146
Miscellaneous other operating revenue	13,824		13,824	37,909
Total operating revenue and public support	3,357,161	-	3,357,161	3,253,055
OPERATING EXPENSES:				
Program services — children and family services	3,405,088		3,405,088	3,018,991
Supporting services — management and general	288,123		288,123	279,568
Total operating expenses	3,693,211	-	3,693,211	3,298,559
GRANTS FROM AFFILIATES FOR OPERATING ACTIVITIES	110,548		110,548	60,759
(DECREASE) INCREASE FROM OPERATING ACTIVITIES	(225,502)	-	(225,502)	15,255
NONOPERATING ACTIVITIES:				
Miscellaneous	192		192	(41,515)
Grant from affiliate				862,032
Change in beneficial interest in net assets of Hillside Children's Foundation		2,279	2,279	1,663
INCREASE FROM NONOPERATING ACTIVITIES	192	2,279	2,471	822,180
Cumulative effect of adoption of recognition provisions of FASB Statement No. 158	(44,858)		(44,858)	
CHANGE IN NET ASSETS	(270,168)	2,279	(267,889)	837,435
NET ASSETS — Beginning of year	886,637	1,663	888,300	50,865
NET ASSETS — End of year	$ 616,469	$ 3,942	$ 620,411	$ 888,300

See notes to financial statements.

SNELL FARM CHILDREN'S CENTER

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	Unrestricted	Temporarily Restricted	2006 Total
OPERATING REVENUE AND PUBLIC SUPPORT:			
Program-related revenue:			
NYS Department of Children and Family Services	$ 3,179,377	$ -	$ 3,179,377
NYS Education Department	1,554		1,554
Government and agency grants	34,052		34,052
United Way	163		163
Total program-related revenue	3,215,146	-	3,215,146
Miscellaneous other operating revenue	37,909		37,909
Total operating revenue and public support	3,253,055	-	3,253,055
OPERATING EXPENSES:			
Program services — children and family services	3,018,991		3,018,991
Supporting services — management and general	279,568		279,568
Total operating expenses	3,298,559	-	3,298,559
GRANTS FROM AFFILIATES FOR OPERATING ACTIVITIES	60,759		60,759
INCREASE FROM OPERATING ACTIVITIES	15,255	-	15,255
NONOPERATING ACTIVITIES:			
Miscellaneous	(41,515)		(41,515)
Grant from affiliate	862,032		862,032
Change in beneficial interest in net assets of Hillside Children's Foundation		1,663	1,663
INCREASE FROM NONOPERATING ACTIVITIES	820,517	1,663	822,180
CHANGE IN NET ASSETS	835,772	1,663	837,435
NET ASSETS — Beginning of year	50,865		50,865
NET ASSETS — End of year	$ 886,637	$ 1,663	$ 888,300

See notes to financial statements.

SNELL FARM CHILDREN'S CENTER

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007 (WITH COMPARATIVE TOTALS FOR 2006)

	Program Services — Children and Family Services	Management and General	2007 Total	2006 Total
PERSONNEL EXPENSES:				
Salaries and wages	$ 1,911,025	$ -	$ 1,911,025	$ 1,757,402
Employee benefits	408,364		408,364	441,472
Total personnel expenses	2,319,389	-	2,319,389	2,198,874
DIRECT CHILD CARE:				
Food services	155,784		155,784	179,303
Clothing and linen	30,926		30,926	15,489
Supplies — medical	62,080		62,080	62,135
Purchase of services — medical	26,660		26,660	17,506
Recreation, work activities, and other	33,215		33,215	18,268
Staff development — recreation, work activities, and other	18,224		18,224	9,817
Total direct child care	326,889	-	326,889	302,518
OTHER EXPENSES:				
Occupancy	331,436		331,436	180,140
Supplies	92,023		92,023	62,006
Professional fees	63,040		63,040	58,148
Telephone	38,946		38,946	30,480
Conferences and administration	16,788		16,788	11,843
Transportation	27,186		27,186	27,716
Interest	72,169		72,169	55,176
Postage	3,097		3,097	5,108
Publications and publicity	627		627	150
Total other expenses	645,312	-	645,312	430,767
MANAGEMENT FEE		288,123	288,123	279,568
TOTAL EXPENSES BEFORE DEPRECIATION	3,291,590	288,123	3,579,713	3,211,727
DEPRECIATION	113,498		113,498	86,832
TOTAL EXPENSES	$ 3,405,088	$ 288,123	$ 3,693,211	$ 3,298,559

See notes to financial statements.

SNELL FARM CHILDREN'S CENTER

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006

	Program Services — Children and Family Services	Management and General	2006 Total
PERSONNEL EXPENSES:			
Salaries and wages	$1,757,402	$ -	$1,757,402
Employee benefits	441,472		441,472
Total personnel expenses	2,198,874	-	2,198,874
DIRECT CHILD CARE:			
Food services	179,303		179,303
Clothing and linen	15,489		15,489
Supplies — medical	62,135		62,135
Purchase of services — medical	17,506		17,506
Recreation, work activities, and other	18,268		18,268
Staff development — recreation, work activities, and other	9,817		9,817
Total direct child care	302,518	-	302,518
OTHER EXPENSES:			
Occupancy	180,140		180,140
Supplies	62,006		62,006
Professional fees	58,148		58,148
Telephone	30,480		30,480
Conferences and administration	11,843		11,843
Transportation	27,716		27,716
Interest	55,176		55,176
Postage	5,108		5,108
Publications and publicity	150		150
Total other expenses	430,767	-	430,767
MANAGEMENT FEE		279,568	279,568
TOTAL EXPENSES BEFORE DEPRECIATION	2,932,159	279,568	3,211,727
DEPRECIATION	86,832		86,832
TOTAL EXPENSES	$3,018,991	$ 279,568	$3,298,559

See notes to financial statements.

SNELL FARM CHILDREN'S CENTER

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATING ACTIVITIES:		
Change in net assets	$ (267,889)	$ 837,435
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	113,498	86,832
Amortization of debt issue costs	1,138	
(Increase) decrease in receivables	(190,853)	269,301
Decrease (increase) in prepaid expenses and other assets	21,912	(44,665)
Increase in beneficial interest in Hillside Children's Foundation	(2,279)	(1,663)
(Decrease) increase in accounts payable	(210,176)	458,762
Increase in accrued expenses and other liabilities	74,720	8,814
Increase in interaffiliate payable — net	165,337	418,915
Net cash (used in) provided by operating activities	(294,592)	2,033,731
INVESTING ACTIVITIES:		
Purchases of property	(319,447)	(1,362,722)
Proceeds from the sale of property		3,407
Net cash used in investing activities	(319,447)	(1,359,315)
FINANCING ACTIVITIES:		
Borrowings on notes payable	820,000	
Payments on notes payable	(205,820)	(669,788)
Net cash provided by (used in) financing activities	614,180	(669,788)
NET INCREASE IN CASH AND CASH EQUIVALENTS	141	4,628
CASH AND CASH EQUIVALENTS — Beginning of year	24,495	19,867
CASH AND CASH EQUIVALENTS — End of year	$ 24,636	$ 24,495
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$ 66,215	$ 55,176
Capital expenditures included in accounts payable	$ 4,760	$ 224,328

See notes to financial statements.

SNELL FARM CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — Snell Farm Children's Center (the "Center") is a not-for-profit public benefit exempt organization under Internal Revenue Code Section 501(c)(3). The Center operates a residential treatment program in Bath, NY, which provides vocational and educational programs for teenage boys in need of supervision.

Effective February 2005, the Center became an affiliate of Hillside Family of Agencies (the "System" or HFA), a not-for-profit corporation that reviews and monitors the missions, objectives, activities, and resources of its affiliates. In its capacity as the sole corporate member of the Center, the System has the right to elect Center directors and amend its by-laws.

Basis of Presentation — The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Amounts for each of three classes of net assets — permanently restricted, temporarily restricted, and unrestricted — are displayed in the statements of financial position, and the amounts of changes in each of these classes of net assets are displayed in the statements of activities and changes in net assets.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents — All highly liquid instruments purchased with an original maturity of three months or less are considered to be cash equivalents. Cash is held primarily in four banks.

Allowance for Doubtful Accounts — At June 30, 2007 and 2006, receivables are presented net of allowances for doubtful accounts of $8,188 and $5,289, respectively.

Property and Accumulated Depreciation — Land, buildings, and equipment are recorded at cost if purchased or at fair value if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which are as follows:

	Years
Buildings	40
Building improvements	10–20
Equipment	4–10
Furniture and fixtures	6
Vehicles	4

Fully depreciated assets are retained in the accounting records until their retirement. Repairs and maintenance are expensed as incurred.

Impairment of Long-Lived Assets — The Center reviews its long-lived assets in accordance with Financial Accounting Standards Board (FASB) Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When the carrying value of the asset is in excess of the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition, this indicates that a long-lived asset may be impaired. When an impairment is indicated, the estimated future cash flows are then discounted, or another appropriate fair value methodology is utilized, to determine the estimated fair value of the asset, and an impairment charge, if any, is recorded for the difference between the carrying value and the fair value of the asset.

The determination of the fair value and any subsequent impairment of the Center's long-lived assets require management to make estimates and assumptions that may affect its consolidated financial statements. Factors that may affect the recoverability of the Center's long-lived assets include shifts or reductions in the Center's services and adverse changes in its expected future cash flows.

No impairment charges were recorded on long-lived assets for the years ended June 30, 2007 and 2006.

Debt Issue Costs — Debt issue costs consist of capitalized amounts for bank financing fees, professional fees, and other expenses related to the Center's debt. Debt issue costs are included in prepaid expenses and other assets in the accompanying statements of financial position and amounted to $21,615 and $0 at June 30, 2007 and 2006, respectively. These costs are being amortized over the life of the debt. Amortization expense for these costs is included as a component of interest expense in the accompanying statements of activities and changes in net assets and amounted to $1,138 and $0 for the years ended June 30, 2007 and 2006, respectively.

Program-Related Revenue — Revenue under most contracts and grants with various authorities (principally, governmental agencies in New York State) is recognized as the services are performed. Certain rates under such contracts and grants are subject to audit by the contracting authority. Rate modifications for prior fiscal years are reported as an adjustment to miscellaneous income in the year realized. These program-related revenues are categorized in the accompanying financial statements under the New York State department that is responsible for the regulatory oversight of the related programs.

Donations — Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities and changes in net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted revenue in the statements of activities and changes in net assets. In the absence of donor specification that income and gains on donated funds are restricted, such income and gains are reported as income of unrestricted net assets.

No amounts have been included in the accompanying financial statements for donated goods and services since such amounts are not material. Contributed long-lived assets are recorded as unrestricted net assets designated for facilities.

Functional Expense Allocations — The costs of providing program and supporting services have been summarized on a functional basis in the statements of functional expenses. Such costs have been allocated among the program and supporting services based upon certain statistics and estimates made by the Center's management.

Interest Expense — Interest expense is a recurring cost incurred in normal business operations, and accordingly, is presented within operating expenses in the accompanying statements of activities and changes in net assets.

Income Taxes — The Center has been ruled a tax-exempt organization by the Internal Revenue Service, and, accordingly, is not subject to federal or state taxes on income.

Operating and Nonoperating Activities — Operating activities are those that occur in the normal course of business operations for the current period. Nonoperating activities include investment income and activities that are unrelated to the current time period or to normal operations.

Net Assets — The following is a description of the net assets shown in the accompanying financial statements:

Unrestricted Net Assets — Unrestricted net assets include all net assets over which the Center has full discretion as to use. The Center uses the income and, in certain instances, the principal of unrestricted investments to cover revenue shortfalls in programs, to establish new services for families and children, to fund property improvements, and to maintain an adequate level of working capital.

Temporarily Restricted — These amounts represent resources that are restricted as to use by the donor or grantor for a specific purpose or period of time.

Fair Value of Financial Instruments — The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents — The carrying amount of cash and cash equivalents approximates fair value because of the short maturity of those instruments.

Notes Payable — At June 30, 2007 and 2006, the fair value of long-term debt payments is estimated to be $800,409 and $202,386, respectively. The fair value was calculated in accordance with FASB Statement No. 107, *Disclosures About the Fair Value of Financial Instruments*, and long-term debt payments were estimated by discounted cash flow analysis based on the Center's current incremental borrowing rates for similar types of borrowing arrangements.

Recently Issued Accounting Standards — In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, to improve financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan, implementation of which is further described in Note 4. Another provision of FASB Statement No. 158 requires valuation to be timed to coincide precisely with the end of the accounting period, rather than within three months as has been traditional actuarial practice. There is a phase-in period, such that the timing provision will not take effect until the Center's fiscal year ending June 30, 2009.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*, to define fair value, establish a framework for measuring fair value in GAAP, and expand disclosures about fair value measurements. FASB Statement No. 157 will be effective for the System's fiscal year ending June 30,

2009. The System has not completed its evaluation of the requirements of FASB Statement No. 157 and cannot yet estimate the effect the adoption of FASB Statement No. 157 will have on its consolidated financial statements. In early 2007, the FASB issued Statement No. 159, *Fair Value Option*, which provides entities to optionally value each asset and liability at fair value and treat changes in fair value as income or expense. Given the regulated nature of most of the System's operations, broad adoption would present significant reimbursement challenges that would need to be fully considered. FASB Statement No. 159 assumes full adoption of FASB Statement No. 157.

2. PROPERTY

At June 30, 2007 and 2006, property consisted of the following:

	2007	2006
Land	$ 34,283	$ 34,283
Buildings	2,353,115	2,337,826
Building and land improvements	695,338	622,034
Furniture, fixtures, and equipment	55,726	68,012
Vehicles and other	94,811	88,656
Construction in process	503	
Total property	3,233,776	3,150,811
Less accumulated depreciation	(500,626)	(404,042)
Property — net	$ 2,733,150	$ 2,746,769

Depreciation expense was $113,498 and $86,832 for the years ended June 30, 2007 and 2006, respectively.

3. NOTES PAYABLE

At June 30, 2007 and 2006, notes payable consisted of the following:

	2007	2006
Note payable to Five Star Bank, secured by mortgage	$ -	$ 168,237
Notes payable to Key Bank, requiring monthy payments of $3,417 through 2016, plus interest of LIBOR (5.375% at June 30, 2007) plus 2%.	782,417	
Total	$ 782,417	$ 168,237

The note payable to Key Bank is secured by the Bath Campus of the Center with a net book value at June 30, 2007, of $2,692,969.

Principal Payments — The aggregate principal payments on notes payable at June 30, 2007, are as follows:

Years Ending June 30	
2008	$ 41,000
2009	41,000
2010	41,000
2011	41,000
2012	41,000
Thereafter	577,417
Total	$ 782,417

Lines of Credit — The Center has access to a $15 million revolving demand line of credit as a benefit of its affiliation with the HFA. Amounts borrowed bear interest at the bank's prime rate (8.25% at June 30, 2007), or, at HFA's option, the LIBOR rate (5.35% at June 30, 2007) plus 1.4% and are due in full by December 31, 2008. Amounts are guaranteed by and secured by the assets of the Center as well as Hillside Children's Center, Crestwood Children's Center, Hillside Children's Foundation, Crestwood Children's Foundation, and Hillside Work Scholarship Connection. Net book value of collateral at June 30, 2007, was $22,559,818. At June 30, 2007, amounts outstanding under this obligation were $13,988,000. It is not anticipated that payments would be required under the guarantee and, accordingly, no related liability was recorded by the Center as of June 30, 2007.

In December 2006, the New York State Office of Children & Family Services (OCFS) gave preliminary approval subject to significant conditions for three affiliates of the System to participate in a tax-exempt bond issue for capital financing through the Dormitory Authority of the State of New York (DASNY). Chapter 472 of the Laws of 2004, as amended by Chapter 506 of the Laws of 2006 (NY), authorizes DASNY to issue up to $60,000,000 statewide. Several sponsors are pooling their projects into one or two issues within this legislative authority. It represents the first time that OCFS has recognized the cost of capital in operating residential services in the child welfare system.

Preliminary proceeds, excluding costs of issuance, are estimated to be $1,000,000 for the Center. This amount is targeted at replacement of one cottage with a new prototype unit on the Bath Campus.

Final approval and diligence efforts are underway to finalize the effort in early 2008. The Center has authorized acceleration of the project.

4. EMPLOYEE RETIREMENT PLANS

Defined Benefit Plan — Effective January 1, 2005, the Center participated in a noncontributory defined benefit plan (the "pension plan"), which covers substantially all employees of the System. Prior to January 1, 2003, benefits were based on years of service, the employee's highest five consecutive years of base earnings out of the last 10 consecutive years prior to actual retirement date, the employee's age at retirement, and his or her primary social security benefit expected at age 65. Prior to that date, Crestwood Children's Center employees were not eligible to participate in the pension plan.

Effective January 1, 2003, the pension plan was amended to use a cash accumulation plan formula. The formula credits both age and years of service, as well as matching employee contributions to the 403(b) plan at a rate of 50% of employee contributions up to a maximum of 3% additional employer contribution. Prior to January 1, 2007, matching funds remained in the pension plan. For eligible matching after January 1, 2007, contributions are made directly into employees' 403(b) accounts, subject to recapture in accordance with a vesting schedule. The pension plan includes a 10-year grandfathering provision from January 1, 2003. It credits interest at 10-year treasury rates plus 1%. The System's funding policy is to meet minimum funding requirements and to fund the average net periodic pension cost. As of January 1, 2003, the pension plan covers the eligible employees of Crestwood Children's Center, as well as Hillside Family of Agencies, Hillside Children's Center, Hillside Children's Foundation, and Hillside Work-Scholarship Connection. The pension plan measurement date is March 31.

The measurement date of the plan is March 31, 2007.

The recognition provisions of FASB Statement No. 158 were implemented during the year ended June 30, 2007, to include the funded status of pension plans as a gain or loss within the change in unrestricted net assets and within the statement of financial position. Its effect is a reduction in the System's unrestricted net assets of $1,499,283. That effect is distributed among the System's affiliates based on total wages and salaries.

The information related to the entire pension plan as of and for the years ended June 30, 2007 and 2006, is as follows:

	2007	2006
Projected benefit obligation	$ 28,141,982	$ 28,830,784
Fair value of plan assets	25,735,715	24,594,603
Funded status	$ (2,406,267)	$ (4,236,181)
Unamortized items:		
Prior service cost	$ (2,558,399)	$ (1,021,823)
Net loss	4,057,682	4,482,790
Total unamortized items	$ 1,499,283	$ 3,460,967
Amounts recognized in the statement of financial position:		
Liability for benefits	$ (2,406,267)	$ (775,214)
Unrestricted net assets	1,499,283	-
Net periodic pension cost	1,893,267	1,974,331
Employer contributions	1,761,497	2,104,866
Benefits paid	1,411,922	1,168,128
Expected effect in unrestricted assets in the next fiscal year:		
Prior service cost	(170,887)	N/A
Net loss	74,634	N/A

The Center's share of the net pension cost, which was allocated based upon the Center's percentage of the System's total payroll, was $56,654 in 2007 and $58,260 in 2006. The Center's share of the accrued benefit cost was $27,140 and $22,876 as of June 30, 2007 and 2006, respectively, and is included within the net interaffiliate receivable in the statements of financial position (parent company only). The Center's share of the charge to change in unrestricted net assets as a result of adoption of the recognition provisions of FASB Statement No. 158 at June 30, 2007 was $44,858.

The System expects to contribute approximately $1,948,215 to the pension plan during the year ending June 30, 2008.

The assumptions used in determining the actuarial present value of the benefit obligations and the net periodic benefit cost at June 30, 2007 and 2006, were as follows:

	2007	2006
Weighted-average assumptions used to determine the benefit obligation:		
Discount rate	6.34 %	6.23 %
Expected long-term rate of return on assets	8.00	8.00
Rate of increase in compensation levels	3.00	4.00
Weighted-average assumptions used to determine the net periodic benefit cost:		
Discount rate	6.23 %	5.95 %
Expected long-term rate of return on assets	8.00	8.00
Rate of increase in compensation levels	4.00	4.00

The investment policies and individual decisions are made for the exclusive benefit of the pension plan participants, consistent with the Employee Retirement Income Security Act of 1974 and regulations thereunder. Total long-term investment returns are optimized against risk in a manner that reasonably protects benefit requirements and timely cash payments. The policy establishes target allocations for diversification and investment performance over a time line that mirrors liabilities. It also limits exposure to quality and concentration risks

The pension plan's weighted-average asset allocations at June 30, 2007, by asset category are as follows:

	Actual Allocation	Percentage Allocation	Target % Allocation
Large-cap domestic equity	$ 8,964,368	34.83 %	35.00 %
Mid/small-cap domestic equity	4,285,839	16.65	20.00
International equity	3,620,123	14.07	10.00
Other	1,337,893	5.20	5.00
Fixed income	7,141,048	27.75	30.00
Cash	386,444	1.50	
Total	$25,735,715	100.00 %	100.00 %

The long-term rate of return expectation is 8%. Asset allocations are aligned with long-term, independently determined, expected segment performance to ensure a reasonable expectation of achieving that return.

The System has selected the assumed rate of return based on the following:

	Long-Term Asset Allocation Strategy	Asset Class Expected Return	Weighted-Average Expected Return
Large-cap domestic equity	35.00 %	8.20 %	2.87 %
Mid/small-cap domestic equity	20.00	12.03	2.41
International equity	10.00	8.31	0.83
Other	5.00	5.33	0.27
Fixed income	30.00	5.99	1.80
Total	100.00 %		8.18 %

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

Year Ending June 30	Expected Benefit Payments
2008	$ 1,948,215
2009	1,175,820
2010	1,767,279
2011	2,206,762
2012	2,411,582
2013–2017	18,904,014

The System offers a voluntary 403(b) plan, which is available to all employees of the System. Employee contributions into the 403(b) plan, after January 1, 2003, become the basis for the limited 50% employer match, as described above.

5. RELATED-PARTY TRANSACTIONS

Shared Services — The System provides certain operating and administrative services to the Center. The costs of these services, which are reported as a management fee in the accompanying statements of functional expenses, are allocated to the receiving entities based upon cost studies and/or actual amounts incurred. These fees were $288,123 in 2007 and $279,568 in 2006.

Pursuant to FASB Statement No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, the Center's beneficial interest in the net assets of the Hillside Children's Foundation and its share of the change in those net assets are reported in the accompanying financial statements in temporarily restricted net assets.

The Center provides services to and receives services from other affiliates of the System, the cost of which is reported as operating grants from (to) affiliates in the accompanying statements of activities and changes in net assets. This amount was $110,548 in 2007 and $60,759 in 2006.

Unpaid amounts relating to these services are included as a net interaffiliate receivable or payable in the accompanying statements of financial position at June 30, 2007 and 2006, and consisted of the following:

	2007	2006
Interaffiliate (payable to) receivable from:		
Hillside Children's Center	$ 72,457	$ (58,514)
Crestwood Children's Center		30
Hillside Children's Foundation	67,640	1,475
Hillside Family of Agencies (parent company only)	(830,067)	(467,624)
Interaffiliate payable — net	$ (689,970)	$ (524,633)

6. COMMITMENTS AND CONTINGENCIES

Legal Matters — The Center is a defendant in various legal actions arising in the normal course of business. It is management's opinion that the actions are either without merit or that settlements which arise, if any, will be covered by insurance.

Self-insurance — The System is self-insured for a portion of its disability claims. The System maintains excess insurance coverage for certain major claims. There is no liability recorded as of June 30, 2007 and 2006, related to disability claims.

In 2006, the System self-insured workers' compensation benefits for its employees and health care benefits for its participating employees and dependents. The related liability is included in the net interaffiliate payable in the Center's statements of financial position. The Center's portion of the related liability and costs as of and for the year ended June 30, 2007, which was allocated based upon the Center's percentage of the System's total payroll, are as follows:

Workers' compensation expense	$ 42,084
Workers' compensation liability	50,691
Health insurance expense	159,660
Health insurance liability	27,711

During the year ended 2006, there were $48,898 and $185,529 incurred by the Center related to workers' compensation and health insurance, respectively.

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The New York Foundling Hospital and Affiliate

Combining Financial Statements
Year Ended June 30, 2007

BDO

BDO Seidman, LLP
Accountants and Consultants

The New York Foundling Hospital and Affiliate

Combining Financial Statements

Year Ended June 30, 2007

The New York Foundling Hospital and Affiliate

Contents

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Independent Auditors' Report

Board of Trustees
The New York Foundling Hospital and Affiliate
New York, New York

We have audited the accompanying combining statement of financial position of The New York Founding Hospital and Affiliate (the "Foundling and Affiliate") as of June 30, 2007, and the related combining statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Foundling and Affiliate's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of investment partnerships which represent approximately 33% of the Foundling and Affiliate's total net assets as of June 30, 2007 and approximately 1% of the Foundling and Affiliate's total revenue for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the investments in these investment partnerships is based solely on the reports of the other auditors.

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

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the financial position of The New York Foundling Hospital and Affiliate as of June 30, 2007, and the changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

BDO Seidman, LLP

October 30, 2007

The New York Foundling Hospital and Affiliate

Combining Statement of Financial Position

June 30, 2007

	New York Foundling Hospital	Fontana Center	Eliminations	Total
Assets				
Cash and cash equivalents (Notes 3 and 11)	$10,305,203	$ 938,546	$ -	**$11,243,749**
Investments at fair value (Notes 3, 4 and 11)	6,696,851	5,246,477	-	**11,943,328**
Investments in limited partnerships (Notes 3 and 5)	10,913,349	-	-	**10,913,349**
Accounts receivable from government agencies, net of allowance of $1,054,240 (Note 3)	8,691,159	194,363	-	**8,885,522**
Pledges receivable - current portion (Notes 3 and 6)	325,000	230,666	-	**555,666**
Prepaid expenses, deposits and other assets	790,420	38,227	-	**828,647**
Consumer funds (Note 3)	205,016	-	-	**205,016**
Due from affiliates (Note 7)	99,227	-	(55,489)	**43,738**
Total current assets	38,026,225	6,648,279	(55,489)	**44,619,015**
Pledges receivable, net of allowance for uncollectible pledges and discounts of $28,674 (Notes 3 and 6)	-	187,032	-	**187,032**
Fixed assets, net (Notes 3, 8 and 11)	9,199,768	6,954,936	-	**16,154,704**
	$47,225,993	**$13,790,247**	**$(55,489)**	**$60,960,751**
Liabilities and Net Assets				
Liabilities:				
Current:				
Accounts payable and accrued expenses	$10,614,577	$ 74,422	$ -	**$10,688,999**
Consumer funds (Note 3)	205,016	-	-	**205,016**
Advance on sale of property (Note 10)	12,500,000	-	-	**12,500,000**
Due to affiliates (Note 7)	556,269	55,489	(55,489)	**556,269**
Deferred revenue	1,871,309	-	-	**1,871,309**
Current portion of mortgages payable (Note 12)	198,129	-	-	**198,129**
Total current liabilities	25,945,300	129,911	(55,489)	**26,019,722**
Accrued pension obligation (Note 11)	247,986	-	-	**247,986**
Mortgages payable, less current maturities (Note 12)	1,645,458	-	-	**1,645,458**
Total liabilities	27,838,744	129,911	(55,489)	**27,913,166**
Commitments and contingencies (Notes 8, 9,10,11,14 and 17)				
Net assets (Notes 3, 14 and 15):				
Unrestricted	15,079,977	9,391,617	-	**24,471,594**
Temporarily restricted (Note 14)	2,672,311	1,891,500	-	**4,563,811**
Permanently restricted (Note 15)	1,634,961	2,377,219	-	**4,012,180**
Total net assets	19,387,249	13,660,336	-	**33,047,585**
	$47,225,993	**$13,790,247**	**$(55,489)**	**$60,960,751**

See accompanying notes to combining financial statements.

Year ended June 30, 2007

	New York Foundling Hospital		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Program revenue:			
Government and other grants and contracts	$74,285,292	$ -	$ -
Contributions	2,114,689	137,063	15,000
Special event revenue, net of direct expenses of $198,146	674,900	-	-
Rental income, net of rental expenses of $324,675	-	-	-
Other program revenue	2,728,360	5,000	-
In-kind contributions	1,542,720	-	-
Net assets released from restrictions (Note 13)	491,103	(491,103)	-
Total program revenue	81,837,064	(349,040)	15,000
Program expenses:			
Program services:			
Foster care residential facilities	12,243,974	-	-
Foster family boarding homes and adoption	16,341,832	-	-
OMRDD services	14,066,413	-	-
Medicaid	5,758,366	-	-
Day care	3,799,101	-	-
Puerto Rico Headstart	7,832,004	-	-
Preventive services	6,728,998	-	-
Other programs	7,009,517	-	-
Total program services	73,780,205	-	-
Supporting services:			
Management and general	6,217,349	-	-
Fundraising	1,077,099	-	-
Total supporting services	7,294,448	-	-
Total expenses	81,074,653	-	-
Change in net assets from operations	762,411	(349,040)	15,000
Nonoperating revenue:			
Interest and dividends	938,985	65,267	-
Realized and unrealized gains on investments	231,769	9,532	-
Realized and unrealized gains on investments in limited partnerships	1,158,119	-	-
Contribution from affiliate	1,750,000	-	-
Legacies and bequests	1,100,549	-	-
Total nonoperating revenue	5,179,422	74,799	-
Change in net assets before effect of adoption of recognition and measurement date provisions of FASB Statement No. 158	5,941,833	(274,241)	15,000
Effect of adoption of recognition and measurement date provisions of FASB Statement No. 158 (Note 9)	95,638	-	-
Change in net assets	6,037,471	(274,241)	15,000
Net assets, beginning of year	9,042,506	2,946,552	1,619,961
Net assets, end of year	**$15,079,977**	**$2,672,311**	**$1,634,961**

Combining Statement of Activities

	Vincent J. Fontana Center for Child Prevention					
Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Eliminations	**Total**
$74,285,292	$ 529,568	$ -	$ -	$ 529,568	$ -	**$74,814,860**
2,266,752	311,292	61,664	-	372,956	-	**2,639,708**
674,900	78,922	-	-	78,922	-	**753,822**
-	38,060	-	-	38,060	-	**38,060**
2,733,360	483	13,655	-	14,138	(734,194)	**2,013,304**
1,542,720	81,411	-	-	81,411	-	**1,624,131**
-	193,971	(193,971)	-	-	-	**-**
81,503,024	1,233,707	(118,652)	-	1,115,055	(734,194)	**81,883,885**
12,243,974	-	-	-	-	-	**12,243,974**
16,341,832	-	-	-	-	-	**16,341,832**
14,066,413	-	-	-	-	-	**14,066,413**
5,758,366	-	-	-	-	-	**5,758,366**
3,799,101	-	-	-	-	-	**3,799,101**
7,832,004	-	-	-	-	-	**7,832,004**
6,728,998	-	-	-	-	-	**6,728,998**
7,009,517	801,946	-	-	801,946	(546,488)	**7,264,975**
73,780,205	801,946	-	-	801,946	(546,488)	**74,035,663**
6,217,349	278,354	-	-	278,354	(149,913)	**6,345,790**
1,077,099	56,276	-	-	56,276	(37,793)	**1,095,582**
7,294,448	334,630	-	-	334,630	(187,706)	**7,441,372**
81,074,653	1,136,576	-	-	1,136,576	(734,194)	**81,477,035**
428,371	97,131	(118,652)	-	(21,521)	-	**406,850**
1,004,252	183,669	94,216	-	277,885	-	**1,282,137**
241,301	5,101	5,640	-	10,741	-	**252,042**
1,158,119	-	-	-	-	-	**1,158,119**
1,750,000	-	-	-	-	-	**1,750,000**
1,100,549	-	-	-	-	-	**1,100,549**
5,254,221	188,770	99,856	-	288,626	-	**5,542,847**
5,682,592	285,901	(18,796)	-	267,105	-	**5,949,697**
95,638	-	-	-	-	-	**95,638**
5,778,230	285,901	(18,796)	-	267,105	-	**6,045,335**
13,609,019	9,105,716	1,910,296	2,377,219	13,393,231	-	**27,002,250**
$19,387,249	**$9,391,617**	**$1,891,500**	**$2,377,219**	**$13,660,336**	**$ -**	**$33,047,585**

See accompanying notes to combining financial statements.

Year ended June 30, 2007

	New York Foundling Hospital					
	Foster care residential facilities	Foster family boarding and adoption	OMRDD services	Medicaid	Day care	Puerto Rico Headstart
Salaries and employee benefits:						
Salaries	$ 7,089,495	$ 4,572,755	$ 8,935,434	$2,948,504	$ 794,351	$3,921,600
Payroll taxes	744,575	470,393	903,272	304,682	79,107	410,201
Other employee benefits	973,591	688,036	1,295,411	428,335	102,091	736,394
Total salaries and employee benefits	8,807,661	5,731,184	11,134,117	3,681,521	975,549	5,068,195
Other expenses:						
Transportation and workers' expenses	86,788	93,432	76,456	4,369	354	23,833
Allowances and activities - parents and children	141,994	21,051	183,079	58	10,226	17,533
Tuition, school expenses and camp fees	12,257	7,679	44	-	204	32,538
Purchase of services	437,402	322,997	234,061	79,650	2,425,620	3,095
Purchase of health services	1,941	4,891	121,698	1,049,449	1,352	123,759
Training expense	-	-	-	-	-	-
Food	380,951	18,692	201,804	228	22,159	580
Clothing, bedding and linen	101,055	2,702	54,377	-	-	-
Supplies and equipment	233,669	52,754	216,721	12,982	6,532	66,367
Rent, utilities and real estate taxes	1,132,909	542,318	758,871	428,049	301,355	388,246
Rental of furnishing, equipment and vehicles	46,936	83,395	57,775	14,515	7,795	19,043
Repairs and equipment - plant, equipment and vehicles	87,030	89,730	160,554	14,655	10,680	255,416
Communications	104,209	117,965	96,686	26,837	7,769	51,025
Dues, licenses and permits	8,222	13,359	12,321	901	929	-
Office supplies	45,707	84,236	43,349	39,522	6,979	13,585
Conference expenses	-	-	291	-	-	-
Administrative expenses	92,937	705,982	100,127	25,737	12,195	107,139
Professional services	73,869	132,666	244,473	20,514	6,160	
Insurance	167,647	61,497	239,407	83,152	-	118,703
Interest and bank charges	768	661	28,976	66	-	-
Boarding home and clothing pass-thru	1,152	7,865,496	124	-	-	-
Boarding payment - special	21,674	234,938	-	-	-	-
Donated services	-	-	-	-	-	1,542,720
Depreciation	257,196	154,207	101,102	12,490	3,243	227
Bad debt	-	-	-	263,671	-	-
Other	-	-	-	-	-	-
Total expenses	**$12,243,974**	**$16,341,832**	**$14,066,413**	**$5,758,366**	**$3,799,101**	**$7,832,004**

Combining Statement of Functional Expenses

			Supporting services					
Preventive services	Others	Total	Management and general	Fundraising	Total supporting services	Fontana Center	Eliminations	Total
$4,146,698	$3,848,483	$36,257,320	$2,994,804	$450,232	$3,445,036	$ -	$ -	$39,702,356
464,996	400,920	3,778,146	306,110	39,213	345,323	-	-	4,123,469
639,290	606,502	5,469,650	555,451	64,669	620,120	-	-	6,089,770
5,250,984	4,855,905	45,505,116	3,856,365	554,114	4,410,479	-	-	49,915,595
45,830	22,350	353,412	5,238	130	5,368	-	-	358,780
32,890	175,780	582,611	-	650	650	-	-	583,261
1,472	53,134	107,328	-	-	-	-	-	107,328
154,937	237,829	3,895,591	362,214	25,146	387,360	672,607	(672,607)	4,282,951
13,465	1,190	1,317,745	9,759	-	9,759		-	1,327,504
-	-	-	-	-	-	82,423	-	82,423
61,626	683,723	1,369,763	890	-	890	-	-	1,370,653
1,215	5,941	165,290	-	-	-	-	-	165,290
335,376	182,282	1,106,683	13,270	2,152	15,422	33,883	(10,606)	1,145,382
383,554	246,607	4,181,909	352,345	27,675	380,020	62,203	(19,523)	4,604,609
42,345	32,615	304,419	117,031	5,733	122,764	-	-	427,183
44,171	44,536	706,772	21,040	192	21,232	17,589	-	745,593
97,939	36,782	539,212	152,458	53,873	206,331	16,780	(10,623)	751,700
60	3,629	39,421	31,227	960	32,187	-	-	71,608
45,252	71,867	350,497	51,620	163,385	215,005	6,870	-	572,372
-	28,359	28,650	-	-	-	-	-	28,650
67,433	83,278	1,194,828	442,459	153,872	596,331	22,518	-	1,813,677
84,127	166,324	728,133	362,409	73,796	436,205	42,181	(20,835)	1,185,684
28,808	40,791	740,005	249,274	11,836	261,110	19,513	-	1,020,628
25	460	30,956	6,841	-	6,841	1,039	-	38,836
-	5,709	7,872,481	-	-	-	-	-	7,872,481
-	4,830	261,442	-	-	-	-	-	261,442
-	-	1,542,720	-	-	-	81,411	-	1,624,131
37,489	25,596	591,550	182,909	3,585	186,494	39,474	-	817,518
-	-	263,671	-	-	-	-	-	263,671
-	-	-	-	-	-	38,085	-	38,085
$6,728,998	$7,009,517	$73,780,205	$6,217,349	$1,077,099	$7,294,448	$1,136,576	$(734,194)	$81,477,035

See accompanying notes to combining financial statements.

The New York Foundling Hospital and Affiliate

Combining Statement of Cash Flows

Year ended June 30, 2007

	New York Foundling Hospital	Fontana Center	Eliminations	Total
Cash flows from operating activities:				
Change in net assets	$ 5,778,230	$ 267,105	$ -	**$ 6,045,335**
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation	778,044	175,040	-	**953,084**
Bad debt expense	263,671	-	-	**263,671**
Adjustment of discount on pledges receivable	-	14,473	-	**14,473**
Donated securities	-	(183,994)	-	**(183,994)**
Permanently restricted contributions	(15,000)	-	-	**(15,000)**
Realized and unrealized gains on investments	(241,301)	(10,741)	-	**(252,042)**
Realized and unrealized gains on investments in limited partnerships	(1,158,119)	-	-	**(1,158,119)**
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable from governmental agencies	(3,302,734)	(57,575)	-	**(3,360,309)**
Pledges receivable	241,565	145,048	-	**386,613**
Prepaid expenses, deposits and other assets	(225,867)	(19,667)	-	**(245,534)**
Consumer funds	(66,382)	-	-	**(66,382)**
Due from affiliates	(12,935)	-	8,227	**(4,708)**
Increase (decrease) in:				
Accounts payable and accrued expenses	1,773,274	13,393	-	**1,786,667**
Accrued pension obligation	(95,638)	-	-	**(95,638)**
Consumer funds	66,382	-	-	**66,382**
Due to affiliates	20,916	8,227	(8,227)	**20,916**
Deferred revenue	353,272	-	-	**353,272**
Net cash provided by operating activities	4,157,378	351,309	-	**4,508,687**
Cash flows from investing activities:				
(Increase) decrease in short-term investments	1,127,822	(1,730,593)	-	**(602,771)**
Purchase of investments	(4,670,590)	-	-	**(4,670,590)**
Proceeds from sale of investments	4,851,255	176,401	-	**5,027,656**
Purchases of fixed assets	(5,752,806)	(28,404)	-	**(5,781,210)**
Net cash used in investing activities	(4,444,319)	(1,582,596)	-	**(6,026,915)**
Cash flows from financing activities:				
Permanently restricted contributions	15,000	-	-	**15,000**
Proceeds from mortgages payable	1,381,017	-	-	**1,381,017**
Repayments of mortgages payable	(22,250)	-	-	**(22,250)**
Net cash provided by financing activities	1,373,767	-	-	**1,373,767**
Net increase (decrease) in cash and cash equivalents	1,086,826	(1,231,287)	-	**(144,461)**
Cash and cash equivalents, beginning of year	9,218,377	2,169,833	-	**11,388,210**
Cash and cash equivalents, end of year	**$10,305,203**	**$ 938,546**	**$ -**	**$11,243,749**
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	**$ 28,905**	**$ -**	**$ -**	**$ 28,905**

See accompanying notes to combining financial statements.

1. Principles of Combination

The accompanying combining financial statements include the accounts of The New York Foundling Hospital (the "Foundling") and Vincent J. Fontana Center for Child Protection (the "Fontana Center") (collectively, the "Foundling and Affiliate") which are related by certain common members of the Board of Trustees and identical management. The Foundling and Affiliate are sponsored by the Sisters of Charity.

All intercompany balances and transactions have been eliminated in combination.

2. Nature of the Organizations

(a) The Foundling is a voluntary not-for-profit child care agency serving the New York City metropolitan area. It is a multifunctional social services agency providing the following services: nursery care on an emergency basis to abandoned and neglected children regardless of creed or color; casework services to families requesting placement of children; placement and supervision of children in boarding and adoption homes; after-care supervision of children discharged from foster care; and shelter care and casework services to unmarried mothers.

Effective January 1, 2007, the Foundling obtained the operating licenses of Lakeside Family and Children's Services, Inc. ("Lakeside"). As a result, the impact was an increase in assets and liabilities of $1,381,017 and an increase in program revenues of approximately $3.6 million. (See Note 12).

(b) The Fontana Center provides programs and services that work to reduce the incidence of child abuse and neglect and help children and families heal from the potentially short and long-term effects of abuse and neglect.

3. Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(b) Financial Statement Presentation

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

These classes are defined as follows:

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

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

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

(c) *Cash and Cash Equivalents*

The Foundling and Affiliate consider all money market accounts and highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

(d) *Consumer Funds*

Consumer funds consist of cash deposits held by the Foundling and Affiliate on behalf of their residents for the residents' personal use.

(e) *Investments at Fair Value*

Investments consist of debt and equity securities, government bonds and mutual funds. Investments of the Foundling and Affiliate are valued at fair value in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

(f) *Investments in Limited Partnerships*

The Foundling's investments in limited partnerships are accounted for under the equity method. These investments are stated at fair value based upon the Foundling's equity interest reported by the investment entities.

(g) *Provision for Doubtful Accounts*

The Foundling and Affiliate provide an allowance for doubtful accounts for accounts receivable which are specifically identified by management as to their uncertainty in regards to collectibility.

(h) *Contributions and Promises to Give*

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

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at present value of estimated future cash flows. Conditional promises to give are not included as support until such time as the conditions are substantially met.

The Foundling and Affiliate use the allowance method to determine uncollectible unconditional pledge receivables.

In-kind contributions are reported in the financial statements for voluntary donations of services if those services create or enhance non-financial assets or require specialized skills provided by individuals processing those skills and would typically be purchased if not provided by the donation. Securities and tangible property received as a gift or bequest are reflected at fair value at the date of the gift.

(i) *Fixed Assets*

Fixed assets are stated at cost or, if donated, at fair market value at date of the gift. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the related assets. Depreciation is computed over the estimated useful lives of the assets by the straight-line method for financial reporting purposes as follows:

Building and building improvements	10-25 years
Equipment, furniture and signs	3-10 years
Education center exhibit	5-10 years
Leasehold improvements	4-20 years

(j) *Third-Party Reimbursements and Revenue Recognition*

The Foundling and Affiliate receive substantially all of their revenue for services provided from governmental agencies, including the Office of Mental Retardation and Developmental Disabilities ("OMRDD"), New York City Administration for Children Services ("ACS") and Medicaid. These revenues are based on predetermined rates based on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary.

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

The fiscal years ended June 30, 2000 through June 30, 2007 are subject to audit by ACS.

(k) *Use of Estimates*

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

(l) *Income Taxes*

The Foundling and Affiliate are exempt from Federal income tax and private foundation excise tax pursuant to a group exemption issued to the Roman Catholic Church in the United States.

(m) *Functional Allocation Expenses*

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain administrative costs have been allocated among the programs and supporting services based on benefits received.

(n) Concentration of Credit Risk

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

4. Investments at Fair Value

Investments at fair value at June 30, 2007 are as follows:

	Foundling	Affiliate	Total
Short-term investments	$2,914,659	$ -	$ 2,914,659
Mutual funds	1,652,537	-	1,652,537
Bonds	64,099	5,246,477	5,310,576
Equities	2,065,556	-	2,065,556
	$6,696,851	$5,246,477	$11,943,328

The fair value of the investments detailed above is determined by reference to market quotations at June 30, 2007. The investments are managed by professional investment advisors and managers.

5. Investments in Limited Partnerships

The Foundling's alternative investments in limited partnerships consist of the following:

June 30, 2007

	Original investment	Fair value
Aspen B.E. Fund	$ 900,000	$ 940,450
Centigrade Fund Limited	650,000	687,791
Celtic Pharmaceutical Holdings, LP	423,000	423,000
Cornerstone International Value (Offshore) Fund, LP	820,000	937,109
Royalty Pharma Investors Cayman, LP	3,000,005	5,460,009
Whitebox Hedge High Yield Fund, Ltd.	820,000	1,427,468
Winton Futures Fund, LP	635,858	1,037,522
	$7,248,863	$10,913,349

Certain of the limited partnership funds engage in speculative trading of commodity and security interest, including futures, options on futures, forwards and securities and other financial instruments. Risks to such funds arise from the possible adverse changes in the market value of such interests and from the potential inability of counterparties to perform pursuant to contractual commitments. However, the risk to the Foundling, with respect to its ownership interest, is limited to the amount of the Foundling's investment in each of the respective funds.

Redemptions of the Foundling's investments in these investment entities vary, but are primarily available at month-end, quarter-end, or year-end with appropriate notice. Management fees and incentive fees are charged by these investment entities at an annual rate ranging from .08% to 2% plus an incentive allocation, usually 20% of profits.

6. Pledges Receivable, Net

Included in pledges receivable, net are the following unconditional promises to give:

June 30, 2007

	Foundling	Affiliate	Total
Total pledges receivable	$325,000	$446,672	$771,672
Estimated uncollectible pledges	-	(20,666)	(20,666)
Discount at 4%	-	(8,308)	(8,308)
Net present value of pledges receivable	$325,000	$417,698	$742,698

June 30, 2007

	Foundling	Affiliate	Total
Amounts due in:			
Less than one year	$325,000	$230,666	$555,666
One to five years	-	216,006	216,006
	$325,000	$446,672	$771,672

7. Affiliate Transactions

(a) The Foundling has a lease with the New York Foundling Charitable Corporation (the "Charitable Corporation"), an agency also sponsored by the Sisters of Charity, which expires in July 2012 for its facilities at 590 Avenue of the America, New York, New York. The rent charged for these facilities was $587,913 for the year ended June 30, 2007. In addition, the Charitable Corporation charges the Foundling for the use of equipment. The amount charged totaled $36,945 for the year ended June 30, 2007.

In addition, the Charitable Corporation contributed $1,750,000 to subsidize the Foundling's operations during the year ended June 30, 2007.

The Foundling charges the Charitable Corporation administrative and accounting service fees. Total fees charged for the year ended June 30, 2007 was $53,400.

The amount due to the Charitable Corporation as of June 30, 2007 was $241,395.

(b) The Foundling charges the New York Foundling Hospital Center for Pediatric, Medical and Rehabilitative Care, Inc. (the "Center"), an agency sponsored by the Sisters of Charity, for psychiatric services, utilities, postage and telephone fees. Total fees charged for the year ended June 30, 2007 were $642,172.

The Center charges the Foundling for security, maintenance, pharmaceuticals, laundry and food. Total fees charged for the year ended June 30, 2007 were $675,794.

The amount due to the Center as of June 30, 2007 was $314,874.

(c) The Foundling charges the John Coleman School (the "Coleman School"), an agency sponsored by the Sisters of Charity, for utilities, equipment, postage and telephone fees. Total fees charged for the year ended June 30, 2007 were $110,221.

The amount due from the Coleman School at June 30, 2007 was $43,738.

8. Fixed Assets, Net

Fixed assets, net, consist of the following:

June 30, 2007

	Foundling	Affiliate	Total
Land	$ 804,340	$1,800,000	$ 2,604,340
Building and improvements	6,012,283	5,299,367	11,311,650
Equipment, furniture and signs	10,721,775	280,551	11,002,326
Education center exhibit		176,077	176,077
Leasehold improvements	5,973,001	-	5,973,001
Total fixed assets	23,511,399	7,555,995	31,067,394
Less: Accumulated depreciation	(17,321,739)	(635,044)	(17,956,783)
Construction-in-progress	3,010,108	33,985	3,044,093
Fixed assets, net	$ 9,199,768	$6,954,936	$ 16,154,704

Included in land is $674,365 that is held for sale (Note 10).

The estimated cost to complete construction-in-progress is approximately $37 million.

9. Pension Plans

(a) Archdiocesan Pension Plan

The Foundling participates in the pension plan of the Archdiocese of New York (the "Plan"). This multi-employer plan covers salaried lay employees of any Roman Catholic organization with the Archdiocese of New York who elect to participate in the Plan. Participating employers are required to make annual contributions to the Plan based on a percentage of annual salary subject to the Plan's limitations. Pension costs for the year ended June 30, 2007 was $1,502,903.

(b) Religious Pension Plan

The Foundling also participates in a defined benefit pension plan administered by Metropolitan Life Insurance Company of Connecticut for the Sisters of Charity and other religious organizations employed by the Foundling.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 158, "Employers Accounting for Defined Benefit Pension and Other Postretirement Plans", which is effective for fiscal years ending after June 15, 2007. The new pronouncement requires any retirement benefit plan's funding deficit or surplus to be recognized in the sponsoring employer's statement of financial position. Under previous accounting standards, certain gains and losses related to prior service costs, differences between actuarial assumptions and actual results, and transition obligations were deferred and amortized over extended periods of time. Financial statements for previous periods will not be adjusted.

The components of net periodic pension costs are as follows:

June 30, 2007	
Interest cost	$ 78,854
Actual return on plan assets	(147,908)
Net amortization and deferral	118,358
Net periodic pension cost	$ 49,304

Measurement of the Foundling's benefit obligation and pension expense as of July 1, 2006 used the following assumptions:

June 30, 2007	
Discount rate	6.50%
Expected return on plan assets	4.75
Rate of compensation increase	3.25

A reconciliation of the changes in the Plan's benefit obligations and fair value of assets during 2007 and a statement of the funded status of the Plan as of June 30, 2007 is as follows:

June 30, 2007	
Change in benefit obligation:	
Benefit obligation at July 1, 2006	$1,500,597
Interest costs	78,854
Actuarial gain	(71,253)
Disbursements	(124,572)
Benefit obligation at June 30, 2007	$1,383,626

An analysis of the change in fair value of plan assets is as follows:

June 30, 2007	
Fair value of plan assets at July 1, 2006	$ 943,090
Actual return on plan assets	147,908
Employer contributions	169,214
Benefits paid	(124,572)
Fair value of plan assets at June 30, 2007	$1,135,640

The following table sets forth the plan's funded status at June 30, 2007:

June 30, 2007	
Projected benefit obligation	$1,383,626
Plan assets at fair value	1,135,640
Funded status	(247,986)
Unrecognized net actuarial gain	(173,950)
Unrecognized prior service cost	408,137
Net amount recognized	$ (13,799)

Amounts recognized in the statement of financial position are as follows:

June 30, 2007	
Accrued pension obligation	$(247,986)

The following table sets forth the percentage of the fair value of total plan assets of each major category of plan assets:

June 30, 2007	
Guaranteed interest contract	100%

The plan assets are maintained in the general account of Metropolitan Life Insurance Company of Connecticut. The expected long-term rate of return is based on the portfolio as a whole and not the sum of the returns on individual assets. The return is based exclusively on historical returns without adjustments.

The Foundling anticipates contributing approximately $125,000 to the plan in the year ended June 30, 2008.

The following benefit payments reflect expected future service to be paid.

Year ending June 30,	
2008	$ 133,593
2009	133,593
2010	133,593
2011	139,298
2012	139,298
2013-2017	696,490
	$1,375,865

10. Sale of Land

On June 29, 2006, the Foundling signed a memorandum of sale of certain property located at its St. Agatha's campus in Nanuet, New York. The total sale price is $13,000,000. An advance of $12,500,000 was received on June 30, 2006 and the remaining $500,000 is held in escrow pending approval for subdivision or acquisition by eminent domain and delivery of corrected deed, if required. The final closing is expected to take place in November 2007.

11. Line of Credit Payable

The Foundling has a line of credit, due on demand, with Allied Irish Bank, p.l.c. in the amount of $2,000,000. The purpose of this credit line is to provide working capital. Interest is payable monthly at prime minus 1%, which was 7.25% at June 30, 2007. The line of credit which expires July 30, 2008 had no outstanding balance at June 30, 2007 and is secured by cash and investments.

12. Mortgages Payable

Mortgage payable consists of the following as of June 30, 2007:

Year ended June 30, 2007		
(a)	Pelham Manor	$ 462,570
(b)	Laconia Avenue	488,775
	Laconia Avenue	26,010
	153 Stephens Avenue	365,901
	153 Stephens Avenue	64,363
	155 Stephens Avenue	371,608
	155 Stephens Avenue	64,360
		1,843,587
Less: Current portion		198,129
		$1,645,458

(a) On April 15, 1997, the Foundling entered into a mortgage to finance the operation of an intermediate care facility for developmentally disabled individuals. The principal amount shall bear interest at the rate of 5.9% per annum and shall be payable by Foundling through OMRDD to Facility Development Corporation in semi-annual debt service and administrative fee payments ranging from \$16,418 to \$26,458 until August 2021. The mortgage is secured by the building located on Shoreview Circle in Pelham Manor, New York.

(b) On June 26, 2007, the Foundling entered into three mortgage agreements with a bank to finance the operation of community residential centers. Principal payments which range from \$963 to \$3,325 are due on the first business day of each month, commencing on July 1, 2007, with maturities through September 2019. Interest is payable on a monthly basis at prime plus .5% which was 8.75% at June 30, 2007. The mortgages are secured by the related properties in the Bronx, New York.

The three community residential centers in the Bronx, New York were acquired from Lakeside and the related outstanding mortgages were assumed by the Foundling (Note 2).

Future principal payments are as follows:

Year ending June 30,	
2008	$ 198,129
2009	199,629
2010	135,697
2011	128,782
2012	130,657
Thereafter	1,050,693
	$1,843,587

13. Net Assets Released from Restrictions

Temporarily restricted net assts were released from donor restrictions by incurring expenses for the following specific programs or purposes:

June 30, 2007

	Foundling	Affiliate	Total
Head Start	$ 42,441	$ -	$ 42,441
Information Technology	152,244	-	152,244
Fostercare Deaf Service	6,185	-	6,185
Fostercare Housing	245,882	-	245,882
Training	-	81,327	81,327
Other programs	44,351	112,644	156,995
	$491,103	$193,971	$685,074

14. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following programs or purposes:

June 30, 2007

	Foundling	Affiliate	Total
General operating support capital fund - building	$ -	$1,473,346	$1,473,346
Head Start	1,025,697	-	1,025,697
Information Technology	408,111	-	408,111
Fostercare Deaf Service	365,780	-	365,780
Fostercare Housing	108,713	-	108,713
Training	-	202,116	202,116
Other programs	764,010	216,038	980,048
	$2,672,311	$1,891,500	$4,563,811

15. Permanently Restricted Net Assets

Permanently restricted net assets represent funds that must remain invested in perpetuity. Permanently restricted net assets at June 30, 2007 are summarized as follows:

June 30, 2007

	Foundling	Affiliate	Total
Alice Ward Kelly Fund	$1,050,232	$ -	$1,050,232
James Donohue Fund	268,742	-	268,742
William Fries Fund	10,000	-	10,000
Emily M. Moos Fund	251,487	-	251,487
Other funds	54,500	-	54,500
General operating support	-	2,177,219	2,177,219
Nursing training program purposes	-	200,000	200,000
	$1,634,961	$2,377,219	$4,012,180

16. Subsequent Event

On July 2, 2007, the Foundling agreed to purchase a building in the Bronx to operate as a charter school and certain child welfare programs. Actual closing commenced on September 6, 2007. The total purchase price of the building was $3,500,000.

17. Commitments and Contingencies

(a) *Commitments*

The Foundling and Affiliate have operating lease agreements for office space, housing and equipment. Future annual minimum lease payments due under noncancelable leases as of June 30, 2007 are as follows:

Year ending June 30,

	Foundling	Affiliate	Total
2008	$2,319,156	$36,000	$2,355,156
2009	1,802,737	36,000	1,838,737
2010	1,187,350	24,000	1,211,350
2011	895,598	-	895,598
2012	737,484	-	737,484
	$6,942,325	$96,000	$7,038,325

Rental expense for the Foundling and Affiliate for June 30, 2007 was $3,813,885.

(b) *Contingencies*

The Foundling is involved in various claims and legal actions arising in the ordinary course of business. Management believes that open claims will be covered by insurance policies in force. For those claims not covered by insurance, management has recorded an estimated liability it believes is sufficient to cover any possible loss.

The government-funded programs are generally subject to audit and, therefore, the final operating reimbursement rate to be realized for each program may not be determinable until years after the Foundling has rendered related services. Government funding is based upon allowable costs; the excess is returnable to the governmental funding agency. The Foundling reflects an estimated amount in its financial statements for underspent interim rates which also includes an amount for possible audit disallowances based upon allowable costs.

NORTHEAST PARENT AND CHILD SOCIETY, INC.
SCHENECTADY, NEW YORK

FINANCIAL STATEMENTS

JUNE 30, 2007

NORTHEAST PARENT AND CHILD SOCIETY, INC.

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JUNE 30, 2007

TMB

T. M. BYXBEE COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, NY, P.C.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northeast Parent and Child Society, Inc.
Schenectady, New York

We have audited the statement of financial position of Northeast Parent and Child Society, Inc. (a non-profit organization) as of June 30, 2007 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2006 financial statements and, in our report dated August 23, 2006, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northeast Parent and Child Society, Inc. as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2007 on our consideration of Northeast Parent and Child Society, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of testing of Internal Control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the Internal Control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic 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.

T. M. Byxbee Company, CPAs, NY, P.C.

September 9, 2007

NORTHEAST PARENT AND CHILD SOCIETY, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

ASSETS

	2007	2006
ASSETS		
Cash	$ 211,380	$ 951,396
Due From Governmental Agencies	5,010,660	3,324,169
Legacies and Bequests Receivable	100,907	246,130
Pledges Receivable	81,362	64,585
Other Receivables	4,995	16,048
Prepaid Expenses	174,707	105,318
Deposits	15,850	25,237
Investments:		
Pledged as Collateral for Loan Agreements	-	854,333
Other	3,744,281	2,572,850
Accrued Income	15,423	9,656
Inventory	28,004	17,888
Bond Issuance Costs - Net	87,555	95,007
Property and Equipment - Net	10,495,349	8,157,643
TOTAL ASSETS	$ 19,970,473	$ 16,440,260

LIABILITIES AND NET ASSETS

	2007	2006
LIABILITIES		
Accounts Payable	$ 1,084,446	$ 535,133
Accrued Salaries and Expenses	1,455,200	1,150,393
Deferred Revenue	169,287	181,505
New York State Medicaid Payable	465,890	-
County OMH Advance	-	228,606
Capitalized Lease Obligations	5,825	10,853
Notes Payable	1,915,000	1,429,764
Mortgage Note Payable	2,635,391	1,216,377
Bonds Payable	2,264,337	2,406,681
Total Liabilities	9,995,376	7,159,312
NET ASSETS		
Unrestricted:		
Operating	6,250,858	5,803,859
DASNY Bond Fund	541,416	533,184
Board Designated	3,073,024	2,784,106
Total Unrestricted	9,865,298	9,121,149
Temporarily Restricted	-	50,000
Permanently Restricted	109,799	109,799
Total Net Assets	9,975,097	9,280,948
TOTAL LIABILITIES AND NET ASSETS	$ 19,970,473	$ 16,440,260

See independent auditor's report and notes to financial statements.

NORTHEAST PARENT AND CHILD SOCIETY, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTALS 2007	TOTALS 2006
SUPPORT AND REVENUE					
Public Support:					
Contributions	$ 426,923	$ -	$ -	$ 426,923	$ 504,129
Legacies and Bequests	389,466	-	-	389,466	$ 401,426
Grants	34,000	-	-	34,000	30,700
Total Public Support	850,389	-	-	850,389	936,255
Revenue From Governmental Agencies:					
Board and Care	12,284,505	-	-	12,284,505	10,626,506
Prevention Program Fees	3,453,716	-	-	3,453,716	2,819,598
Tuition and Tutoring	6,543,172	-	-	6,543,172	5,488,019
Medical Care	2,259,433	-	-	2,259,433	2,031,758
Clothing	86,087	-	-	86,087	10,162
Food	124,852	-	-	124,852	99,789
Transportation	476,251			476,251	394,206
Total Revenue From Governmental Agencies	25,228,016	-	-	25,228,016	21,470,038
Other Revenue:					
Investment Income	131,751	-	-	131,751	124,876
Realized Gain (Loss) on Sale of Investments	96,818	-	-	96,818	390,279
Unrealized Gain (Loss) on Investments	175,565	-	-	175,565	(292,420)
Insurance Reimbursement	16,125	-	-	16,125	10,619
Rent	187,101	-	-	187,101	24,075
Miscellaneous	47,826	-	-	47,826	22,345
Total Other Revenue	655,186	-	-	655,186	279,774
Total Support and Revenue	26,733,591	-	-	26,733,591	22,686,067
Net Assets Released From Restrictions	50,000	(50,000)	-	-	-
TOTAL	$ 26,783,591	$ (50,000)	$ -	$ 26,733,591	$ 22,686,067

See independent auditor's report and notes to financial statements.

 (Continued on Page 3A)

NORTHEAST PARENT AND CHILD SOCIETY, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR 2006)
(Continued)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTALS 2007	TOTALS 2006
EXPENSES					
Program and Supporting Services:					
Child Care	11,703,668	-	-	11,703,668	10,008,928
Education	5,692,979	-	-	5,692,979	5,628,509
Prevention	3,019,396	-	-	3,019,396	2,551,174
Child Guidance	1,262,690	-	-	1,262,690	1,041,454
Federal Grants	602,161	-	-	602,161	144,781
Fundraising	494,043	-	-	494,043	284,105
Management and General	3,264,505	-	-	3,264,505	2,175,236
Total Expenses	26,039,442	-		26,039,442	21,834,187
CHANGES IN NET ASSETS	744,149	(50,000)	-	694,149	851,880
NET ASSETS - BEGINNING OF YEAR	9,121,149	50,000	109,799	9,280,948	8,429,068
NET ASSETS - END OF YEAR	$ 9,865,298	$ -	$ 109,799	$ 9,975,097	$ 9,280,948

See independent auditor's report and notes to financial statements.

NORTHEAST PARENT AND CHILD SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

	CHILD CARE							
	RESIDENTIAL	HARD TO PLACE	GROUP HOMES	ILP	TFFP	SHELTER	MEDICAID	EDUCATION
Salaries	$ 2,210,131	$ 532,887	$ 712,016	$ 145,179	$ 1,434,996	$ 563,281	$ 192,708	$ 3,507,777
Employee Health and Retirement Benefits	318,404	76,771	102,577	21,015	206,734	81,149	27,763	505,330
Payroll Taxes	217,616	52,470	70,107	14,295	141,294	55,462	18,975	345,387
Total Compensation and Benefits	2,746,151	662,128	884,700	180,489	1,783,024	699,892	239,446	4,358,494
Allowances - Children	17,924	2,870	7,977	6,046	-	2,134	-	29,121
Allowances - Parents	-	-	40	36	-	-	-	-
Auto and Transportation	39,013	5,817	15,934	7,602	135,322	4,564	833	31,498
Bedding	2,516	257	567	125	-	-	-	-
Boarding Home	-	-	-	-	1,832,821	-	-	-
Clothing	38,049	4,526	14,250	2,782	-	651	-	-
Conferences and Administrative Expense	12,906	270	9,233	2,386	33,710	1,518	121	12,351
Dues, Licenses and Permits	1,060	127	688	645	596	-	100	695
Food	208,097	39,590	71,166	26,440	-	21,381	-	71
Insurance	29,100	6,214	10,693	1,447	13,337	4,469	3,504	41,880
Interest	1,194	163	-	4,810	16,561	-	15	180,679
Legal, Professional and Investment Fees	-	-	-	-	-	-	-	-
Office Supplies and Expense	7,110	768	1,789	599	13,192	3,647	597	24,921
Postage and Shipping	791	6	153	104	2,235	309	-	1,857
Publicity	18,196	5,804	5,277	61	72,492	11,581	2,849	23,843
Purchase of Health Services	-	-	-	-	20,575	-	198,318	3,641
Purchase of Services, Other	50,880	5,025	18,934	4,918	20,493	15,190	478	72,662
Recreation	49,927	7,906	18,465	5,930	17,234	7,189	-	75,799
Rent	-	-	4,534	22,314	62,568	-	-	-
Rent - Furnishings and Equipment	9,312	1,758	4,329	880	15,280	3,186	680	16,373
Rent - Vehicles	30,176	6,280	13,308	420	3,056	1,024	803	47,129
Repair and Maintenance	5,084	766	633	-	3,816	796	-	21,309
Repair and Maintenance - Vehicles	8,023	643	6,995	104	993	2,746	726	16,251
School Expense	948	-	2,092	267	-	159	-	655
Staff Development	5,346	638	1,657	215	1,764	2,259	-	8,134
Subscription and Publications	88	16	-	-	552	-	-	770
Supplies and Equipment	123,296	13,036	79,521	10,412	33,796	9,470	1,688	167,157
Supplies and Equipment - Medical	-	-	-	-	-	-	268,367	-
Telephone	49,225	6,177	10,423	4,591	49,244	4,457	768	25,570
Tuition	-	-	-	-	-	-	-	156,242
Utilities	91,034	17,296	19,895	20,442	47,805	19,839	4,791	138,811
Depreciation and Amortization	66,632	18,157	14,978	3,695	13,004	25,346	-	237,066
TOTAL EXPENSES	$ 3,612,078	$ 806,238	$ 1,218,231	$ 307,760	$ 4,193,470	$ 841,807	$ 724,084	$ 5,692,979

See independent auditor's report and notes to financial statements.

NORTHEAST PARENT AND CHILD SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR 2006)
(Continued)

	PREVENTION					MANAGEMENT	TOTALS	
	PREVENTION	TANF IAPP	CHILD GUIDANCE	FEDERAL GRANTS	FUND-RAISING	AND GENERAL	2007	2006
Salaries	$ 1,855,323	$ 147,604	$ 658,586	$ 276,430	$ 261,119	$ 1,799,312	$ 14,297,349	$ 12,155,068
Employee Health and Retirement Benefits	267,288	21,265	94,880	39,824	37,618	259,138	2,059,756	1,841,022
Payroll Taxes	182,681	14,534	64,846	27,218	25,711	177,166	1,407,762	1,180,765
Total Compensation and Benefits	2,305,292	183,403	818,312	343,472	324,448	2,235,616	17,764,867	15,176,855
Allowances - Children	-	-	-	93,675	-	-	159,747	61,625
Allowances - Parents	5,563	-	11,765	-	-	-	17,404	3,461
Auto and Transportation	100,031	17,433	1,001	4,083	1,317	11,415	375,863	286,224
Bedding	-	-	-	3,823	-	-	7,288	4,818
Boarding Home	-	-	-	-	-	-	1,832,821	1,373,610
Clothing	-	-	-	-	-	-	60,258	67,306
Conferences and Administrative Expense	12,282	1,224	1,571	17,536	16,408	71,565	193,081	161,929
Dues, Licenses and Permits	394	-	6,680	1,500	3,039	57,824	73,348	77,734
Food	9,814	-	98	4,062	-	-	380,719	342,574
Insurance	16,007	138	6,713	630	4,258	11,266	149,656	140,252
Interest	-	-	-	-	-	182,251	385,673	296,765
Legal, Professional and Investment Fees	-	-	2,975	-	-	87,369	90,344	59,787
Office Supplies and Expense	9,101	394	10,931	3,795	1,972	21,839	100,655	88,211
Postage and Shipping	628	37	1,618	691	7,622	5,878	21,929	15,545
Publicity	28,404	336	27,137	8,619	62,702	51,230	318,531	160,010
Purchase of Health Services	9,170	-	252,716	-	-	-	484,420	446,832
Purchase of Services, Other	11,519	1,290	16,527	70,308	16,756	135,745	440,725	356,053
Recreation	21,057	715	3,486	10,198	-	-	217,906	160,409
Rent	109,330	17,383	64,452	8,068	-	1,250	289,899	218,994
Rent - Furnishings and Equipment	21,912	1,456	2,617	3,658	3,830	32,731	118,002	95,243
Rent - Vehicles	15,920	32	1,538	144	1,787	4,312	125,929	136,285
Repair and Maintenance	3,661	-	7,529	895	2,932	26,144	73,565	43,173
Repair and Maintenance - Vehicles	2,141	10	527	47	269	113	39,588	30,372
School Expense	-	18	-	-	-	-	4,139	3,074
Staff Development	5,112	-	727	251	1,032	34,197	61,332	31,274
Subscription and Publications	1,473	264	482	1,027	3,062	8,422	16,156	8,470
Supplies and Equipment	16,183	1,273	3,989	17,293	13,898	37,014	528,026	467,974
Supplies and Equipment - Medical	-	-	-	-	-	-	268,367	225,528
Telephone	57,905	5,049	6,026	8,386	3,984	42,221	274,026	217,184
Tuition	-	-	-	-	-	-	156,242	244,361
Utilities	18,034	4,310	8,929	-	23,224	123,507	537,917	402,879
Depreciation and Amortization	3,698	-	4,344	-	1,503	82,596	471,019	429,376
TOTAL EXPENSES	$ 2,784,631	$ 234,765	$ 1,262,690	$ 602,161	$ 494,043	$ 3,264,505	$ 26,039,442	$ 21,834,187

See independent auditor's report and notes to financial statements.

NORTHEAST PARENT AND CHILD SOCIETY, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITES		
Change in Net Assets	$ 694,149	$ 851,880
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	471,018	436,827
Amortization of Bond Premium	(7,344)	(7,344)
Amortization of Bond Issuance Cost	7,452	7,452
Dispostion of Fixed Assets	-	(5,621)
Gain on Sale of Investments	(96,818)	(390,279)
Unrealized (Gain) Loss on Investments	(175,565)	292,420
Donated Investments	-	(3,341)
(Increase) Decrease in:		
Due From Governmental Agencies	(1,686,491)	(897,612)
Legacies and Bequests Receivable	145,223	(246,130)
Pledges Receivable	(16,777)	43,679
Other Receivables	11,053	(12,604)
Accrued Income	(5,767)	259
Prepaid Expenses	(69,389)	(38,847)
Inventories	(10,116)	(1,338)
Deposits	9,387	(10,287)
Increase (Decrease) in:		
Accounts Payable	549,313	341,116
Accrued Expenses	304,807	(76,075)
Deferred Revenue	(12,218)	129,885
New York State Medicaid Payable	465,890	-
County OMH Advance	(228,606)	228,606
Total Adjustments	(344,948)	(209,234)
NET CASH PROVIDED BY OPERATING ACTIVITIES	349,201	642,646
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(2,808,724)	(849,448)
Purchase of Investments	(1,928,383)	(3,339,468)
Sale of Investments	1,883,669	3,386,162
NET CASH (USED IN) INVESTING ACTIVITIES	(2,853,438)	(802,754)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Issuance of Notes Payable	2,115,194	1,201,287
Repayment of Bond Payable	(135,000)	(130,000)
Repayment of Capital Lease Obligation	(5,029)	(5,029)
Repayment of Mortgages Payable	(210,944)	(1,218,003)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,764,221	(151,745)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(740,016)	(311,853)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	951,396	1,263,249
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 211,380	$ 951,396

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Organization

Northeast Parent and Child Society, Inc. is a non-profit organization formed for the purpose of providing therapeutic, educational and other related services to children and their families, through the operation of residential and non-residential programs. The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, non-profit organizations are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

DASNY (Dormitory Authority of the State of New York) Bond Fund

The DASNY Bond Fund was created as the result of the issuance of the Series 1999 D Bonds by the Dormitory Authority of the State of New York for the reconstruction of Grout Park School. These funds are held by a trustee and payments are made only upon proper authorization. The DASNY Bond Fund is a combination of the following funds:

Construction Fund – This fund is being utilized to pay the costs of issuance of the bonds and costs of the project.

Debt Service Fund – Payments of principal and interest are made from this fund.

Debt Service Reserve Fund – This fund will be used to augment the funds in the Debt Service Fund if the amount in the Debt Service Fund is insufficient to make required payments.

Building and Equipment Reserve Fund – This fund will be used to augment the funds in the Debt Service Fund if the amount in the Debt Service Fund is insufficient to make required payments, and to defray costs of renovation or repair to the project (other than ordinary maintenance and repair).

Arbitrage Rebate Fund – This will be used to pay any amounts to the Treasury Department required under the Internal Revenue Code.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Use of Estimates

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

Investments

Marketable securities are stated at fair market value. The Organization records investments in marketable securities with readily determinable market values and all investments in debt securities at their fair value. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Other Receivables

Other receivables include employee advances and other miscellaneous items.

Inventories

Inventories are stated at the lower of cost (first in, first out) or market value.

Property and Equipment

All expenditures for land, buildings, and equipment in excess of $1,000 with a useful life of two years or more, are capitalized and recorded at cost unless otherwise specified by the funding source. The fair value of donated land, buildings, and equipment is similarly capitalized. Donated materials and supplies are recorded as contributions at their estimated market value at date of receipt.

Depreciation of buildings and equipment is computed on the straight-line basis over estimated useful lives of three to fifty years.

Bond Issuance Cost

These are costs incurred in connection with obtaining financing through DASNY, and are being capitalized and amortized over the terms of the related debt instrument.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Net Program Service Revenue and Accounts Receivable Concentration

Program service revenue includes assistance from the Department of Social Services, State Education Department of New York State and other governmental agencies for providing services to children primarily in the Capital Region. Accounts receivable arise from the normal course of providing these services and are not secured. An allowance for uncollectible amounts is provided for accounts receivable when considered necessary by management. No allowance has been provided as of June 30, 2007, as substantially all receivables are considered by management as being collectible.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less.

Donated Materials and Services

Donated materials are recorded as contributions at estimated fair market value at the date of gift. The Organization receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. The value of the services have not been reflected in these financial statements because the criteria under SFAS No. 116 has not been satisfied.

Functional Allocation of Expenses

The costs of providing the Organization's services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated based upon management's estimates of time and resources devoted to each function.

Comparative Summarized Totals

The financial statements include certain prior-year summarized comparative information, in total, not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America and is presented for comparative purposes only. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2006, from which summarized information was derived.

Reclassifications

Certain amounts relating to the prior year have been restated to conform to the current year's presentation. These reclassifications have no effect on previously-reported activities or net assets.

NOTE 2 - PLEDGES RECEIVABLE

Pledges receivable represent promises to give which have been made by donors, but not yet received by the Organization. The Organization considers pledges receivable to be fully collectible. Accordingly, no allowance for uncollectible pledges has been provided. Total unconditional promises to give were as follows at June 30, 2007 and 2006:

	2007	2006
Receivables Due in Less Than One Year	$78,617	$48,919
Receivables Due in One to Five Years	2,745	15,666
Total Pledges Receivable	$81,362	$64,585

NOTE 3 – INVESTMENTS

The total approximate market values and cost amounts at June 30, 2007 and 2006 are summarized as follows:

	JUNE 30, 2007		JUNE 30, 2006	
	MARKET VALUE	COST	MARKET VALUE	COST
Key Bank				
Investment Management Account:				
U.S. Government and Agencies	$ 744,185	$ 745,103	$ 658,703	$ 658,620
Common Stock	611,238	505,913	338,552	262,105
Cash Equivalents	310,750	310,750	525,412	525,412
Total Key Bank	1,666,173	1,561,766	1,522,667	1,446,137
Wachovia Bank				
Investment Management Account:				
Common Stock	1,459,915	1,253,642	1,325,313	1,266,390
Cash Equilvalents	56,735	56,735	45,925	45,925
Total Wachovia Bank	1,516,650	1,310,377	1,371,238	1,312,315
JPMorgan Chase				
DASNY Funding Project:				
U.S. Government	540,318	539,443	319,221	318,742
Cash Management Funds	1,098	1,098	213,963	213,963
Total JPMorgan Chase	541,416	540,541	533,184	532,705
SEI Investments				
Common Stock	19,897	19,948	-	-
Cash Equivalents	145	146	94	88
Total SEI Investments	20,042	20,094	94	88
TOTAL	$3,744,281	$3,432,778	$3,427,183	$3,291,245

NOTE 3 – INVESTMENTS (Continued)

The following tabulation summarizes the relationship between market value and cost of investment assets:

	MARKET VALUE	COST	UNREALIZED APPRECIATION
Balance - Beginning of Year	$3,427,183	$3,291,245	$135,938
Balance - End of Year	$3,744,281	$3,432,778	311,503
Increase in Unrealized Appreciation			$175,565

A portion of the securities above had been pledged as collateral against Notes Payable per Notes 6 and 7 in the total amount of $854,333 as of June 30, 2006. None of the securities were pledged as collateral for the year ended June 30, 2007.

NOTE 4 – PROPERTY AND EQUIPMENT

Details for the year ended June 30, 2007 are as follows:

	JUNE 30, 2006	ADDITIONS	DISPOSALS	JUNE 30, 2007
COST				
Construction-in-Progress	$ -	$2,379,225	$ -	$ 2,379,225
Land, Buildings and Improvements	11,589,618	365,352	-	11,954,970
Capitalized Leases	203,547	-	-	203,547
Furnishings and Equipment	1,335,697	56,965	-	1,392,662
Vehicles	199,021	7,182	-	206,203
Total	$13,327,883	$2,808,724	$ -	$16,136,607
ACCUMULATED DEPRECIATION				
Buildings and Improvements	$ 3,846,678	$ 382,571	$ -	$ 4,229,249
Capitalized Leases	175,186	7,853	-	183,039
Furnishings and Equipment	975,824	72,833	-	1,048,657
Vehicles	172,552	7,761	-	180,313
Total	$ 5,170,240	$ 471,018	$ -	$ 5,641,258
NET BOOK VALUE	$ 8,157,643			$10,495,349

The construction-in-progress balance at June 30, 2007 relates to the purchase and renovation at the Organization's new corporate headquarters, and the Student Counseling Center located in Schenectady, New York.

NOTE 5 – CAPITALIZED LEASE OBLIGATION

Lease transactions relating to the financing of various office equipment and computer software are accounted for as installment purchases. The capitalized lease obligation reflects the net present value of the future rental payments, discounted at the interest rate implied in the leases, and a corresponding amount is capitalized as the cost of the asset and depreciated over the asset's useful life.

Future minimum lease payments under capital lease contracts, together with the present value of minimum lease payments subsequent to June 30, 2007, are as follows:

Total Minimum Lease Payments	$7,421
Less Amount Representing Interest	1,596
Present Value of Net Minimum Lease Payments	$5,825

NOTE 6 – NOTES PAYABLE

Details are as follows:

	2007	2006
Revolving line-of-credit with interest at Citizen's Bank, one month London Interbank Offered Rate (LIBOR) plus 1.65% or Prime minus 0.25%, to be selected by the borrower prior to rate change period. The one month LIBOR and Prime rates at June 30, 2007 were 5.32% and 8.25%, respectively. The maximum borrowing limit is $2,600,000. The line-of-credit expires December 31, 2007, secured by Accounts Receivable, as indicated in the security agreement dated December 1, 2004. Advances will only be made against 80% of the accounts receivable that are less than 90 days from invoice date.	$1,915,000	$ 799,764
Commercial Loan due May, 2008. Interest only, payable monthly based on 30 day LIBOR plus 1.15%. The loan as of June 30, 2006 was secured by an interest in marketable securities held at Wachovia Securities. During June, 2007, the Organization refinanced the note agreement as referenced in Note 7, Item (f) to the financial statements.	-	630,000
	$1,915,000	$1,429,764

NORTHEAST PARENT AND CHILD SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(WITH COMPARATIVE DISCLOSURES FOR 2006)

NOTE 7 – MORTGAGE NOTES PAYABLE

Details are as follows:

	2007	2006
MORTGAGEE (A) Citizen's Bank **MORTGAGED PROPERTY** Grout Park School Hamburg Street Schenectady, NY	$174,481	$ 224,333
MORTGAGEE (B) Citizen's Bank **MORTGAGED PROPERTY** Genium Plaza Hamburg Street Schenectady, NY	652,338	687,759
MORTGAGEE (C) Citizen's Bank **MORTGAGED PROPERTY** Keyes Avenue Schenectady, NY	223,788	235,939
MORTGAGEE (D) Citizen's Bank **MORTGAGED PROPERTY** Brandywine Avenue Schenectady, NY	64,826	68,346
MORTGAGEE (E) Bank of America **MORTGAGED PROPERTY** Franklin Street Schenectady, NY	999,958	-
MORTGAGEE (F) Citizen's Bank **MORTGAGED PROPERTY** Abbottsford Road Schenectady, NY	520,000	-
TOTAL	$2,635,391	$1,216,377

NOTE 7 - MORTGAGE NOTES PAYABLE (Continued)

(A) During 2006, the Organization refinanced the mortgage agreement with Citizen's Bank resulting in a new rate of interest and principal balance. The interest rate is computed at the floating one-month LIBOR plus 1.15%. Monthly principal payments in the amount of $4,154 will be paid in addition to interest at the aforesaid rate. Final payment is due November, 2015.

(B) During 2006, the Organization refinanced the mortgage agreement with Citizen's Bank resulting in a new rate of interest and principal balance. The rate of interest is computed at the floating one-month LIBOR plus 1.75%. Principal payments in the amount of $2,952 will be paid in addition to interest at the aforesaid rate. Final payment is due November, 2015.

(C) During 2006, the Organization refinanced the mortgage agreement with Citizen's Bank resulting in a new rate of interest and principal balance. The rate of interest is computed at the floating one-month LIBOR plus 1.75%. Principal payments in the amount of $1,013 will be paid in addition to interest at the aforesaid rate. Final payment is due November, 2015.

(D) Monthly principal payments in the amount of $293, plus interest payable at the floating one-month LIBOR plus 1.75%. Final payment is due November, 2015.

(E) Non-revolving line of credit mortgage agreement dated October 31, 2006. Maximum borrowing limit of $1,750,000 available until October 31, 2007 at which time a repayment period commences. Interest only payable at prime minus 1%, 7.25% at June 30, 2007, to October 31, 2007. Beginning November, 2007, monthly payments of principal and interest (at the 20 year U.S. Treasury Securities rate plus 1.75%; 6.75% at June 30, 2007) will apply and continue until October 31, 2027. This fixed payment amount will be determined based on the loan balance at October 31, 2007, a 25 year repayment period and the interest rate in effect at October 31, 2007.

(F) During 2007, the Organization converted the commercial loan referenced in Note 6 of the financial statements to a mortgage note payable secured by real estate due July, 2017. Principal payments are due monthly with interest based on a 30 day LIBOR rate plus 1.65%. Certain financial covenants apply to this note. The interest rate at June 30, 2007 was 6.97%.

Principal payments due on mortgaged property for the years subsequent to June 30, 2007 are as follows:

June 30, 2008	$ 118,308
2009	125,606
2010	127,377
2011	104,348
2012	81,456
2013 and thereafter	2,078,296
TOTAL	$2,635,391

NOTE 8 – BONDS PAYABLE

The Dormitory Authority of the State of New York issued Series 1999 D Bonds during 1999 for a total of $3,075,000. These bonds were issued as part Serial Bonds and part Term Bonds. The funds are being used for the reconstruction of Grout Park School. Payment of principal and interest on the bonds is guaranteed by a municipal bond insurance policy issued by AMBAC Assurance Corporation.

Northeast Parent and Child Society, Inc. will pay Part I tuition directly to the State Comptroller while the bonds are outstanding and school districts have consented to an assignment of education contracts to the Comptroller.

The following summarizes the outstanding bonds at June 30, 2007 and 2006:

Dormitory Authority of the State of New York Series 2000 D Bonds Issue 1:

	2007	2006
Series Bonds: Maturing July 1, 2000 through July 1, 2009 with interest rates varying during these years beginning at 4.00% and ending at 4.38%	$ 425,000	$ 560,000
Term Bond: 5.50% due July 1, 2018	1,810,000	1,810,000
Total Dormitory Authority Bonds	2,235,000	2,370,000
Premium on Issuance of Bonds	29,337	36,681
	$2,264,337	$2,406,681

Annual maturities of bonds payable for the years succeeding June 30, 2007 are as follows:

June 30, 2008	$ 140,000
2009	145,000
2010	155,000
2011	160,000
2012	170,000
2013 and thereafter	1,465,000
TOTAL	$2,235,000

Interest expense on all obligations for the years ended June 30 2007 and 2006 was $385,673 and $296,765, respectively.

The Organization's loan agreements contain certain restrictions and covenants.

NOTE 9 – PENSION PLANS

The Organization maintains a 401(k) Employees Savings Plan and Trust. The Plan covers substantially all full-time employees 21 years of age and older with one or more years of service. Employees can defer up to $15,500 a year within Internal Revenue Service Code limits. Effective July 1, 1996, the Organization amended the Plan and Trust. The effect of these changes decreased the regular employer contribution from 6% of eligible wages to 4%, and decreased the amount the employer matches employee salary reduction from 4% to 2% of eligible wages. Pension costs are accrued and funded on a current basis. Pension costs for the years ended June 30, 2007 and 2006 were:

NOTE 9 – PENSION PLANS (Continued)

	2007	2006
Regular Employer Contribution	$412,451	$394,414
Employer Matching Contribution	168,811	159,095
Total	$581,262	$553,509

The present value of vested and non-vested accumulated Plan benefits, and the net assets of the Plan available for benefits is approximately $12,234,319 at June 30, 2007.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Lease Commitments

At June 30, 2007 the minimum rental commitment under various operating leases is as follows:

	Vehicles	Equipment	Premises	Total
June 30, 2008	$218,483	$ 87,381	$167,544	$473,408
2009	40,125	68,925	131,931	240,981
2010	-	23,332	117,321	140,653
2011	-	4,556	83,931	88,487
2012	-	580	20,528	21,108
TOTAL	$258,608	$184,774	$521,255	$964,637

The Organization presently occupies various premises under month-to-month rental agreements. Total premises rent expense for the years ended June 30, 2007 and 2006 was $289,899 and $218,994, respectively.

During 2006, the Organization entered into an agreement to rent office space for Child Guidance Program. This agreement is cancelable upon 3 months notice.

Self-Funded Unemployment Insurance

The Organization's Unemployment Compensation Insurance program is self-funded. Unemployment benefits that separated employees receive are determined by New York State statute and are administered by New York State Department of Labor (NYSDOL). The Organization is billed quarterly by NYSDOL for benefits paid to former employees. Unemployment is budgeted annually at 8-1/2% of total compensation.

Building Commitment

At June 30, 2007, the Organization had a commitment of approximately $700,000 for the renovations of the corporate headquarters.

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

Reimbursement Rates

The Organization files financial reports annually with various New York State departments to report operating revenues, costs, statistical and other operating data. This information is utilized by the rate setting units to evaluate and adjust historical rates and to set future reimbursement rates. In addition, reimbursement rates are always subject to audit by the New York State departments which provide funding. The potential financial impact of this process cannot be readily determined, therefore, no future obligation has been recognized in these financial statements.

Concentration of Credit

The Organization maintains significant cash balances with a financial institution in excess of the insurance provided by the Federal Deposit Insurance Corporation (FDIC).

NOTE 11 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2007	2006
Cash paid during the year for:		
Interest	$378,221	$294,480
Non-cash investing and financing activities:		
Donation of securities to the Organization	$ 43,392	$ 3,342

NOTE 12 – TEMPORAILY RESTRICTED NET ASSETS

Details of temporarily restricted net assets at June 30 consisted of the following:

	2007	2006
Wright Family Foundation Contribution Restricted to Window Installation in the Mohawk Dormitory Building Project	$ -	$50,000

NOTE 13 – PERMANENTLY RESTRICTED NET ASSETS

Details of permanently restricted net assets at June 30 consisted of the following:

NOTE 13 - PERMANENTLY RESTRICTED NET ASSETS (Continued)

	2007	2006
Income from these funds may be utilized for the benefit of the Organization	$ 9,799	$ 9,799
Income from these funds is restricted to scholarships for children or parents of children enrolled in Northeast Parent and Child Society, Inc. programs	100,000	100,000
	$109,799	$109,799

NOTE 14 - POST-RETIREMENT BENEFIT

During the year ended June 30, 2002, the Organization approved a lifetime post-retirement benefit for its former Executive Director and spouse. The Organization will provide a benefit for health and dental insurance equal to 50% of the cost. These benefits will be coordinated with Medicare benefits and any other federal health care. The benefits commenced July 1, 2003. An accrual of $31,695 was made at June 30, 2003 to establish the estimated present value of these future benefit obligations. For accrual measurement purposes, a 10% annual rate of increase in the per capita cost of health care was assumed for the benefit period. In addition, an 8% projected discount factor was utilized for the present value computation. The benefit is unfunded. During the year ended June 30, 2007, the Organization amortized $497 of benefit, resulting in a balance of $28,435.

TMB

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Northeast Parent and Child Society, Inc.
Schenectady, New York

We have audited the financial statements of Northeast Parent and Child Society, Inc. as of and for the year ended June 30, 2007, and have issued our report thereon dated September 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Northeast Parent and Child Society, Inc.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Organization in a separate letter dated October 16, 2007.

This report is intended solely for the information and use of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

T.H. Byxbee Company, CPAs, N.Y., P.C.

September 9, 2007

TMB

T. M. BYXBEE COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, NY, P.C.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Northeast Parent and Child Society, Inc.
Schenectady, New York

Compliance

We have audited the compliance of Northeast Parent and Child Society, Inc. (a non-profit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Northeast Parent and Child Society, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Northeast Parent and Child Society, Inc.'s management. Our responsibility is to express an opinion on Northeast Parent and Child Society, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about Northeast Parent and Child Society, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Northeast Parent and Child Society, Inc.'s compliance with those requirements.

In our opinion, Northeast Parent and Child Society, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Northeast Parent and Child Society, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Northeast Parent and Child Society, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the entity's internal control over compliance.

Board of Directors
Northeast Parent and Child Society, Inc.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specific parties.

T.M. Byxbee Company, CPAs, NY, P.C.

September 9, 2007

NORTHEAST PARENT AND CHILD SOCIETY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	AGENCY PASS-THROUGH	FEDERAL EXPENDITURES
Pass-Through Program From U.S. Department of Health and Human Services Temporary Assistance to Needy Families	93.558	New York State Office of Children & Family Services	$ 262,633
Total U.S. Department of Health And Human Services			262,633
Pass-Through Program From U.S. Department of Education Individuals With Disabilities Education	84.027	New York State School Districts	138,782
Title I Pass-Through Funds	84.013		135,198
School-Based Mentoring Program	84.184B		208,494
Total U.S. Department of Education			482,474
Pass-Through Program From U.S. Department of Agriculture/New York State Department of Education		New York State Education Department	
School Breakfast	10.553		51,187
National School Lunch Programs	10.555		66,482
			117,669
Adult Care Food Program	10.558	New York State Department of Health	7,183
Total U.S. Department of Education			124,852
U.S. Department of Housing and Urban Development Opportunities for Youth - Youth Build Program	14.243		340,993
Total U.S. Department of Housing and Urban Development			340,993
U.S. Department of Labor Employment and Training Administration Pass-Through Schenectady County, New York		PY06WIA/IS-04	2,800
		PY06WIA/OS-05	22,204
Job Training Agency (SJTA)	17.274		
Total U.S. Department of Labor			25,004
Total Expenditures of Federal Awards			$1,235,956

See independent auditor's reports and notes to schedule of federal awards.

NORTHEAST PARENT AND CHILD SOCIETY, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards presents the activity of all federal awards programs of Northeast Parent and Child Society, Inc. for the year ended June 30, 2007.

The accompanying schedule of federal awards, including the federal grant activity of Northeast Parent and Child Society, Inc. is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Federal financial assistance revenues are reported in Northeast Parent and Child Society, Inc.'s financial statements as grant and contract revenues from government agencies.

NOTE 2 – CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the *Catalog of Federal Domestic Assistance.*

NORTHEAST PARENT AND CHILD SOCIETY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued:	**Unqualified**	
Internal control over financial reporting:		
☐ Material weakness(es) identified?	______ Yes	X No
☐ Significant Deficiency(ies) identified that are not considered to be material weaknesses?	______ Yes	X None reported
Non-compliance material to financial statements noted?	______ Yes	X No

Federal Awards:

☐ Material weakness(es) identified?	______ Yes	X No
☐ Significant Deficiency (ies) identified that are not considered to be material weaknesses?	______ Yes	X None reported
Type of auditor's report issued on compliance for major programs:	**Unqualified**	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	______ Yes	X No

Identification of Major Programs:

CFDA Number:	Name of Federal Program:
84.027, 84.013, 84.367, 84.318, 84.186, 84.298, 84.184B	U.S. Department of Education
14.243	U.S. Department of Housing and Urban Development

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?	X Yes	______ No

NORTHEAST PARENT AND CHILD SOCIETY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)

II. FINANCIAL STATEMENT FINDINGS

None noted - Current Year

None noted - Prior Year

III. FEDERAL AWARDS FINDINGS & QUESTIONED COSTS

CURRENT YEAR FINDINGS

None noted.

PRIOR YEAR FINDINGS

None noted.

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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. The headings below are not part of the Loan Agreement but have been added for each of reference. Defined terms used in the Loan Agreement shall have the meaning ascribed to them in Appendix A of this Official Statement.

Construction of the Project

The Institution agrees that, whether or not there are sufficient moneys available to it under the provisions of the Resolution, the Series Resolution and the Loan Agreement, the Institution 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 and as such Project has been approved by OCFS and the New York State Division of the Budget. Subject to the conditions of the Loan Agreement, the Authority will, to the extent of moneys available in the Applicable Construction Account of the Construction Fund, cause the Institution to be reimbursed for, or pay, any costs and expenses incurred by the Institution which constitute Costs of the Project, provided such costs and expenses are approved by the Authority and SONYMA, which approval shall not be unreasonably withheld.

(Section 5)

Amendment of the Project; Sale of the Project

The Project, with the consent of OCFS and SONYMA, may be amended by agreements supplementing the Loan Agreement by and between the Authority and the Institution, 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 and which has been approved by OCFS.

The Institution covenants that it shall not (nor permit any other Person to) transfer, sell, encumber or convey any interest in the Project or the Mortgaged Property or any part thereof or interest therein, including development rights, without the prior written consent of the Authority and SONYMA, which consent shall be accompanied by (i) an agreement by the Institution 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 or SONYMA may require that the Institution 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 Institution may remove equipment, furniture or fixtures in the Project or which comprise a part of the Project provided that the Institution substitutes equipment, furniture or fixtures having a value and utility at least equal to the equipment, furniture or fixtures removed or replaced. The Institution may, however, remove and dispose (without substitution thereof) of equipment, furniture or fixtures in the Project or which comprise a part of the Project which may, from time to time, become obsolete.

(Section 6)

Financial Obligations

Except to the extent that moneys are available therefor under the Resolution, the Series Resolution or the Loan Agreement, including, without limitation, moneys in the Applicable Debt Service Account of the Debt Service Fund, but excluding moneys from the Institution'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 Institution unconditionally agrees to pay, so long as the Loan is outstanding, to or upon the order of the Authority, from its general funds or any other moneys legally available to it:

(1) On or before the date of delivery of the Bonds, an amount set forth in the Applicable Series Resolution or the Applicable Bond Series Certificate related thereto to be applied as a credit against payment of the Institution's Allocable Portion of the Authority Fee estimated by the Authority to be such amount;

(2) 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 Institution's Allocable Portion of the Costs of Issuance of such Bonds, and the Institution's Allocable Portion of the other costs in connection with the issuance of such Bonds;

(3) On each of the dates and in each of the amounts set forth in Exhibit D of the Loan Agreement the Institution shall make Loan Repayments as set forth in Exhibit D;

(4) 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 Institution's Allocable Portion of the amount required to pay the Redemption Price or purchase price of such Bonds;

(5) The Institution's Allocable Portion of the Annual Administrative Fee through the final maturity date of the Bonds or until such Bonds are no longer Outstanding;

(6) 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 Institution's Allocable Portion of the Authority Fee then unpaid, (ii) to reimburse the Authority for payments made by it on behalf of the Institution pursuant to the Loan Agreement and any expenses or liabilities incurred by the Authority pursuant to the Loan Agreement, (iii) to reimburse the Authority for Institution's Allocable Portion of any external costs or expenses incurred by it attributable to the issuance of the Bonds of a Series, (iv) to reimburse the Authority for any external costs or expenses incurred by it attributable to the financing or construction of the Project, including, but not limited to, costs and expenses of insurance and auditing, (v) for the costs and expenses incurred by the Authority to compel full and punctual performance by the Institution of all the provisions of the Loan Agreement, the Account Control Agreement, the Resolution or the Series Resolution in accordance with the terms thereof, and (vi) for the Institution'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, the Series Resolution, or the Account Control Agreement;

(7) 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 Institution as a result of an acceleration pursuant to the provisions of the Loan Agreement;

(8) Promptly upon demand by the Authority, the difference between the amount on deposit in the Institution'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 Institution'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 of any Series;

(9) Promptly upon demand by the Authority, an amount, as calculated by the Authority, sufficient to fund the Applicable Debt Service Account of the Debt Service Fund in an amount such that there will remain in such account after payment of interest on the Series 2008 Bonds on each succeeding June 1 and payment of the principal, sinking fund installments of and interest on the Series 2008 Bonds on each succeeding December 1, an amount equal to two (2) Loan Repayments; and

(10) The Annual SONYMA Fee through the final maturity date of the Bonds or until such time as the Bonds are no longer Outstanding.

Subject to the provisions the Loan Agreement, the Resolution and the Series Resolution, the Institution shall receive a credit against the amount required to be paid by the Institution during a Bond Year pursuant to the Loan Agreement, (i) 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 June 1, the Institution delivers to the Trustee for cancellation one or more Bonds of the Series and maturity to be so redeemed on such June 1 (the amount of the credit shall be equal to the principal amount of the Bonds so delivered) and/or, (ii) in an amount and at the time as established by the Authority pursuant to the Resolution.

Under the Loan Agreement the Authority directs the Institution, and the Institution thereby agrees, to make or cause to be made the payments required by paragraphs (3), (4), (5), (7), (9) and (10) 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 (2) above directly to the Trustee for deposit in the Applicable Construction Account of the Construction Fund or other fund established under the Resolution or the Series Resolution, as directed by the Authority, the payments required by paragraph (8) above directly to the Trustee for deposit in the Arbitrage Rebate Fund, and the payments required by paragraphs (1), (5) and (6) above directly to 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 the Loan Agreement), (i) all moneys paid by the Institution to the Trustee pursuant to paragraphs (3), (4), (5), (7) and (9) (other than moneys received by the Trustee pursuant to Section 8.06 of 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 Institution'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 paragraph) held by it in the Applicable Construction Account of the Construction Fund to the Applicable Debt Service Account of the Debt Service Fund in accordance with the applicable provisions the Loan Agreement or of the Resolution shall be deemed, upon such transfer, receipt by the Authority from the Institution of a payment in satisfaction of the Institution's indebtedness to the Authority with respect to the Institution'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 Institution by the Trustee as provided for in Section 5.05(B) of the Resolution.

The obligations of the Institution 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 Institution may otherwise have against the Authority, the Trustee, the Depository or any Bondholder for any cause whatsoever including, without limiting the generality of the foregoing, failure of the Institution to complete the Project or the completion thereof with defects, failure of the Institution to occupy or use the Project, any declaration or finding that the Bonds of any Series are or the Resolution or the Series Resolution is invalid or unenforceable or any other failure or default by the Authority, the Depository 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 in the contained therein 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 Institution 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 Institution for, or to pay, the Costs of the Project beyond the extent of moneys in the Applicable Construction Account of the Construction Fund established for such Project.

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

The Authority, for the convenience of the Institution, shall furnish to the Institution 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 by the Loan Agreement.

The Authority shall have the right in its sole discretion to make on behalf of the Institution any payment required pursuant to the Loan Agreement which has not been made by the Institution when due; provided, that notice of such payment is immediately made to the Institution. No such payment by the Authority shall limit, impair or otherwise affect the rights of the Authority under the Loan Agreement arising out of the Institution'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 Institution to make such payment.

The Institution, 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 Institution or any deposit in the Applicable Debt Service Account of the Debt Service Fund made pursuant to the Loan Agreement, 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 for redemption or defeasance of Bonds the in accordance with the 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 under the Loan Agreement, the Resolution or the Series Resolution, including the purchase or redemption of the Institution's Allocable Portion of the Bonds Outstanding, or to pay or provide for the payment of the Institution's Allocable Portion of the Bonds Outstanding in accordance with the provisions of the Resolution, the Authority agrees, in accordance with the instructions of the Institution, to direct the Trustee to purchase or redeem the Institution's Allocable Portion of Bonds Outstanding, or to cause the Institution's Allocable Portion of Bonds Outstanding to be paid or to be deemed paid in accordance with the provisions of the Resolution.

(Section 9)

Additional Covenants of the Institution

The Institution covenants and agrees that, from and after the date of the Loan Agreement until the Loan is paid in full, the Institution shall maintain its existence as a "residential institution for children" pursuant to subsection 44 of section 1676 of the New York State Public Authorities Law and shall continue to operate a Residential Program.

In the event that (i) the Institution fails to operate a Residential Program during the term of the Loan Agreement; (ii) an Event of Default occurs under the Loan Agreement; or (iii) the Institution fails to maintain all governmental approvals, licenses and operating certificates necessary to operate a Residential Program; the Institution, to facilitate the continued availability of its facilities and the continued provision of Residential Services for the benefit of its clients and residents, shall: (a) (i) use its best efforts to identify a replacement not-for-profit operator that is qualified to provide such services and that will assume the obligations of the Institution pursuant to the Loan Agreement; and (ii) cooperate to the fullest extent possible with OCFS and the Authority and otherwise take all steps reasonably necessary to provide for the transfer to and operation of the residential facilities of the Institution by such replacement not-for-profit operator or, (b) cooperate with any provider of Residential Services identified by or designated by OCFS to assume the Institutions obligations pursuant to the Loan Agreement.

The Institution covenants and agrees that, (i) it will request that OCFS establish a Maintenance Rate which includes a Capital Financing Add-On Rate a sufficient time prior to the expected completion of the Project such that the Institution will begin receiving the Capital Financing Add-On Rate from each of its Payors prior to the date the Institution's first Loan Repayment is due pursuant to the Loan Agreement, and (ii) it shall request increases or adjustments to such Capital Financing Add-On Rate as are required to have funds available to make timely payments required under the Loan Agreement.

(Section 15)

Warranty of Title

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

The Institution warrants, represents and covenants that (i) the Project and all Mortgaged 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 Mortgaged Property shall have its own separate and independent means of access, apart from any other property owned by the Institution or others. Such access, however, may be through common roads or walks owned by the Institution used also for other parcels owned by the Institution.

(Section 16)

Tax-Exempt Status

The Institution 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 Institution 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 Institution 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 Mortgaged Property to be used in any manner, or for any trade or business or other non exempt use unrelated to the purposes of the Institution, which could adversely affect the exclusion of interest on the Bonds which was intended to be excludable from federal gross income pursuant to Section 103 of the Code.

(Section 18)

Securities Act Status

The Institution represents that it is an organization organized and operated: (i) exclusively for educational, benevolent or charitable purposes, (ii) not for pecuniary profit, and (iii) no part of the net earnings of which inures to the benefit of any person, private stockholder or individual, all within the meaning, respectively, of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. The Institution agrees that it shall not perform any act or enter into any agreement which shall adversely affect such status as set forth in clauses (i), (ii) and (iii) of Section 19 of the Loan Agreement.

(Section 19)

Maintenance of Corporate Existence

The Institution covenants that it will maintain its corporate existence, will continue to operate as a non profit institution for educational or charitable purposes as set forth in its charter, will obtain, maintain and keep or cause to be obtained, maintained and kept in full force and effect such governmental approvals, consents, licenses, permits and accreditations as may be necessary for the continued operation of the Institution as an institution for educational or charitable purposes as set forth in its charter providing such services as it may from time to time determine, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it; provided, however, that if no Event of Default shall have occurred and be continuing and prior written notice shall have been given to the Authority, SONYMA and the Trustee, the Institution may, (i) sell or otherwise transfer all or substantially all of its assets to, or consolidate with or merge into, another organization or corporation which qualifies under Section 501(c)(3) of the Code, or any successor provision of federal income tax law, or (ii) permit one or more corporations or any other organization to consolidate with or merge into it, or (iii) acquire all or substantially all of the assets of one or more corporations or any other organization; provided, however, (a) that any such sale, transfer, consolidation, merger or acquisition does not in the opinion of counsel satisfactory to the Authority adversely affect the exclusion from federal gross income of the interest paid or payable on the Bonds, (b) that the surviving, resulting or transferee corporation, as the case may be, is incorporated under the laws of the State, and qualified under Section 501(c)(3) of the Code or any successor provision of federal income tax law, (c) that the surviving, resulting or transferee corporation, as the case may be, assumes in writing all of the obligations of and restrictions on the Institution under the Loan Agreement and furnishes to the Authority a certificate and an opinion of counsel to the effect that upon such sale, transfer, consolidation, merger or acquisition such corporation shall be in compliance with each of the provisions of the Loan Agreement and shall meet the requirements of the Act and (d) such other certificates and opinions as may reasonably be required by the Authority.

The Institution may not amend its charter or by-laws with respect to the establishment of an independent director or the covenants and procedures to establish the Institution as a bankruptcy remote entity without the prior written consent of the Authority and SONYMA, each acting in its sole discretion.

(Section 20)

Environmental Quality Review and Historic Preservation

For the purpose of assisting the Authority in making any findings or determinations which might be required by (i) Article 8 of the New York Environmental Conservation Law and the regulations promulgated thereunder (collectively "SEQR") or (ii) the New York State Historic Preservation Act of 1980 and the regulations promulgated thereunder (collectively the "Preservation Act"), the Institution represents, warrants, covenants and agrees as set forth in the Loan Agreement.

(Section 21)

Use of the Project

Subject to the rights, duties and remedies of the Authority under the Loan Agreement, the Institution shall have sole and exclusive control of, possession of and responsibility for (i) the Project and all Mortgaged Property, (ii) the operation of the Project and all Mortgaged 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 Mortgaged Property.

(Section 22)

Restrictions on Religious Use

The Institution 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 thereafter, 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 thereby. The Institution thereby 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 the Loan Agreement 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.

(Section 23)

Maintenance; Repair and Replacement

The Institution agrees that, throughout the term of the Loan Agreement, it shall (or shall cause related parties to), at its own expense, hold, operate and maintain the Project and the Mortgaged Property in a careful, prudent and economical manner, and keep the same, with the appurtenances and every part and parcel thereof, in good repair, working order and condition and shall from time to time make all necessary and proper repairs, replacements and renewals so that at all times the operation of the Project and the Mortgaged Property may be properly and advantageously conducted. The Institution shall not make (or permit to be made) any change or alteration of a structural nature in or to the Project and the Mortgaged Property without the prior written consent of the Authority and SONYMA.

The Institution further agrees that it shall pay at its own expense all extraordinary costs of maintaining, repairing and replacing the Project or the Mortgaged Property except insofar as funds are made available therefor from proceeds of insurance, condemnation or eminent domain awards.

(Section 26)

Covenants as to Insurance

(A) The Institution shall procure and maintain, or cause to be procured and maintained, to the extent reasonably obtainable, from responsible insurers reasonably acceptable to the Authority and SONYMA, insurance of the type and in the amounts customarily maintained by institutions providing services similar to those provided by the Institution. All policies of insurance required by the Loan Agreement shall be primary to any insurance maintained by the Authority.

(B) The Institution shall, with respect to the Project and the Mortgaged Property, at the times specified in the following paragraphs, procure and maintain, or cause to be procured and maintained, to the extent reasonably obtainable, from responsible insurers acceptable to the Authority and SONYMA, the following insurance:

(1) with respect to any building on the Mortgaged Property the construction of which shall not have been completed (and until insurance is procured pursuant to the Loan Agreement), all risk builders' risk insurance against direct physical loss or damage, or with respect to the acquisition and installation of equipment or machinery, in lieu of all risk builders' risk, an installation floater on an all risk basis. The amount of such insurance shall be on a one hundred per cent (100%) completed value basis on the insurable portion;

(2) at all times (except during a period when builders' risk insurance is in effect as required by the Loan Agreement)), all risk property insurance against direct physical loss or damage to the Project or the Mortgaged Property in an amount not less than one hundred per cent (100%) of the replacement value thereof (such replacement value to be determined on the basis of replacement costs without allowance for depreciation), exclusive of excavations and foundations and similar property normally excluded under New York standard forms; provided, however, that the inclusion of the Project or the Mortgaged Property under a blanket insurance policy or policies of the Institution insuring against the aforesaid hazards in an amount aggregating at least one hundred per cent (100%) of the insurable value of the insured property, exclusive of excavations and foundations and similar property normally excluded under New York standard forms, shall constitute complete compliance with the provisions of this paragraph with respect to the Project or the Mortgaged Property; provided further, that in any event, each such policy shall be in an amount sufficient to prevent the Institution and the Authority from becoming co insurers under the applicable terms of such policy;

(3) at all times, business income interruption insurance in an amount equal to one year's debt service and extra expense insurance in an amount sufficient to defray extra expenses incurred as a result of a covered loss for a period of not less than 120 days;

(4) at all times, statutory workers' compensation insurance, covering loss resulting from injury, sickness, disability or death of employees and employer's liability insurance with limits of at least $1,000,000 for each accident, each sickness, and aggregate occupational illness or sickness;

(5) at all times, statutory disability benefits;

(6) at all times, commercial general liability insurance protecting the Authority and the Institution against loss or losses from liabilities arising from bodily injury of persons or damage to the property of others caused by accident or occurrence, with limits of not less than $1,000,000 per accident or occurrence on account of injury to persons or property damage with $2,000,000 policy aggregate, excluding liability imposed upon the Authority or the Institution by any applicable workers' compensation law;

(7) commencing with the date on which the Project or any improvement on the Mortgaged Property or any part thereof is completed or first occupied, or any equipment, machinery, fixture or personal property covered by comprehensive boiler and machinery coverage is accepted, whichever occurs earlier, insurance providing comprehensive boiler and machinery coverage in an amount considered adequate by the Authority, which insurance may include deductible provisions approved by the Authority; and

(8) each other form of insurance which the Institution is required by law to provide and such other kinds of insurance in such amounts as from time to time may be reasonably required by the Authority and SONYMA.

(C) Any insurance procured and maintained by the Authority or the Institution pursuant to the Loan Agreement, including any blanket insurance policy, may include deductible provisions reasonably satisfactory to the Authority and the Institution. In determining whether or not any insurance required by the Loan Agreement is reasonably obtainable or if the deductible on any such insurance is a reasonable deductible, the Authority may rely solely and exclusively upon the advice and judgment of any insurance consultant chosen by the Institution and approved by the Authority, and any such decision by the Authority, based upon such advice and judgment, shall be conclusive.

(D) No provision of the Loan Agreement shall be construed to prohibit the Institution from self-insuring against any risk at the recommendation of any insurance consultant chosen by the Institution and approved by the Authority provided, however, that self insurance plans shall not cover property, plant and equipment. The Institution shall also cause an annual evaluation of such self insurance plans to be performed by an independent insurance consultant. The Institution shall provide adequate funding of such self-insurance if and to the extent recommended by such insurance consultant and approved by the Authority.

(E) Each policy maintained pursuant to the Loan Agreement shall provide that the insurer writing such policy shall give at least thirty (30) days notice in writing to the Authority and SONYMA of the cancellation or non-renewal or material change in the policy unless a lesser period of notice is expressly approved in writing by the Authority SONYMA. The Institution, not later than July 15 of each year, shall provide to the Authority and SONYMA certificate(s) of insurance describing all policies of insurance maintained as of June 30 by the Institution pursuant to the Loan Agreement stating with respect to each such policy (i) the insurer, (ii) the insured parties or loss payees, (iii) the level of coverage, and (iv) such other information as the Authority and SONYMA may have reasonably requested.

(F) All policies of insurance shall be open to inspection by the Authority, SONYMA and the Trustee or their representatives at all reasonable times. If any change shall be made in any such insurance, a description and notice of such change shall be furnished to the Authority, SONYMA and the Trustee at the time of such change. The Institution covenants and agrees not to make any change in any policy of insurance which would reduce the coverages or increase the deductible thereunder without first securing the prior written approval of the Authority and SONYMA.

(G) All policies of insurance required pursuant to subdivision (B) of the Loan Agreement, other than policies of workers' compensation insurance, shall include the Authority, SONYMA and the Institution, and, upon assignment of a Mortgage pursuant to the Resolution, the assignees of the Authority, as additional insureds or as mortgagee or as loss payee as appropriate.

(H) In the event the Institution fails to provide the insurance required by the Loan Agreement, the Authority or SONYMA may elect at any time thereafter to procure and maintain the insurance required by the Loan

Agreement at the expense of the Institution. The policies procured and maintained by the Authority shall be open to inspection by the Institution at all reasonable times, and, upon request of the Institution, a complete list describing such policies as of the June 30 preceding the Authority's receipt of such request shall be furnished to the Institution by the Authority. The Authority, upon giving at least sixty (60) days notice of the Institution, with a copy to SONYMA, may cancel or terminate any coverage provided by the Authority pursuant to this paragraph; whereupon the Institution shall be responsible for providing such coverage as required therein upon the effective date of termination or cancellation.

(Section 25)

Damage or Condemnation

In the event of a taking of the Project or the Mortgaged Property or any portion thereof by eminent domain or of condemnation, damage or destruction affecting all or part of the Project or the Mortgaged 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 Institution or the Authority to the Trustee for deposit in the Applicable Construction Account of the Construction Fund, and

(A) if within 120 days from the receipt by the Authority of actual notice or knowledge of the occurrence, the Institution, the Authority and SONYMA agree in writing that the Project, the Mortgaged Property or the affected portion thereof shall be repaired, replaced or restored, the Institution shall proceed to repair, replace or restore the Project, the Mortgaged 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 Institution and approved in writing by the Authority and SONYMA. 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 and SONYMA 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 Institution; or

(B) if no agreement for the repair, restoration or replacement of the Project, the Mortgaged Property or the affected portion thereof shall be reached by the Authority, the Institution and SONYMA 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 Construction Account of the Construction 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 26)

The Institution 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 Mortgaged Property or any part thereof, and upon all ordinary costs of operating, maintaining, renovating, repairing and replacing the Project and the Mortgaged Property and its equipment. The Institution shall file or cause to be filed exemption certificates as required by Governmental Requirements. The Institution 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 Institution 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 Institution, may pay (such payment shall be made under protest if so requested by the Institution) any such charges, taxes and assessments if, in the reasonable judgment of the Authority, the Project or the Mortgaged Property, or any part thereof, would be in substantial danger by reason of the Institution'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, the Series Resolution or under the Resolution nor the Mortgage (including any benefits that may be derived pursuant to the SONYMA Insurance Policy); (ii) the ability of the Authority to enforce its rights thereunder; (iii) the ability of the Authority to fulfill the terms of any covenants or perform any of its obligations under the Loan Agreement, the Series Resolution or under the Resolution; or (iv) the ability of the Institution to fulfill the terms of the covenants or perform any of its obligations under the Loan Agreement, the Series Resolution, and the Institution 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 27)

Reports relating to the Project or the Mortgaged Property and Financial Information

The Institution shall, if and when requested by the Authority or SONYMA, render to the Authority, SONYMA and the Trustee reports with respect to all repairs, replacements, renovations, and maintenance made to the Project or the Mortgaged Property. In addition, the Institution shall, if and when requested by the Authority or SONYMA, render such other reports concerning the condition of the Project or the Mortgaged Property as the Authority or SONYMA may request. The Institution shall also furnish annually, not later than one hundred and twenty (120) days after the end of the Institution's Fiscal Year, to the Trustee, the Authority, the Insurer and to such other parties as the Authority may reasonably designate, including rating services, copies of its financial statement audited by an independent public accountant selected by the Institution and acceptable to the Authority and SONYMA 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 Institution and such other information as may be reasonably required by the Authority.

Furthermore, the Institution shall also furnish annually, not later than one hundred and fifty (150) days after the end of the Institution's Fiscal Year, to the Authority, certificate of an Authorized Officer of the Institution stating whether the Institution is in compliance with the provisions of the Loan Agreement.

(Section 28)

Defaults and Remedies

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

(1) the Institution shall default in the performance of any of the requirements of Section 13 or covenants of Section 15 the Loan Agreement;

(2) the Institution shall default in the timely payment of any amount payable pursuant to Section 9 the Loan Agreement or in the delivery of Securities or the payment of any other amounts required to be delivered or paid in accordance with the Loan Agreement, the Series Resolution or the Resolution, and such default continues for a period in excess of seven (7) days;

(3) (i) contained in the Loan Agreement the Institution shall default in the due and punctual performance of any covenant in the Loan Agreement contained and such default continues for thirty (30) days after written notice requiring the same to be remedied shall have been given to the Institution by the Authority or the Trustee;

(4) as a result of any default in payment or performance required of the Institution under the Loan Agreement or any Event of Default thereunder, 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;

(5) the Institution 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;

(6) a court or governmental authority of competent jurisdiction shall enter an order appointing, without consent by the Institution, 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 Institution, or any petition for any such relief shall be filed against the Institution and such petition shall not be dismissed within ninety (90) days;

(7) the charter of the Institution shall be suspended or revoked;

(8) a petition to dissolve the Institution shall be filed by the Institution with the legislature of the State or other governmental authority having jurisdiction over the Institution;

(9) an order of dissolution of the Institution shall be made by the legislature of the State or other governmental authority having jurisdiction over the Institution, which order shall remain undismissed or unstayed for an aggregate of thirty (30) days;

(10) 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 Institution which petition shall remain undismissed or unstayed for an aggregate of ninety (90) days;

(11) 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 Institution, which order shall remain undismissed or unstayed for an aggregate of thirty (30) days; or

(12) 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 Institution and at any time after forty-five (45) days from the entry thereof, (i) such judgment shall not have been discharged or (ii) the Institution 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.

Upon the occurrence of an Event of Default the Authority shall provide SONYMA written notice upon its becoming aware thereof and may, with the consent of SONYMA, and shall, at the direction of SONYMA, take any one or more of the following actions:

(1) declare all sums payable by the Institution under the Loan Agreement immediately due and payable;

(2) direct the Trustee to withhold any and all payments, advances and reimbursements from the proceeds of the Loan or the Applicable Construction Account of the Construction Fund or otherwise to which the Institution 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;

(3) withhold any or all further performance under the Loan Agreement;

(4) maintain an action against the Institution under the Loan Agreement to recover any sums payable by the Institution or to require its compliance with the terms of the Loan Agreement;

(5) permit, direct or request the Trustee to liquidate all or any portion of the assets comprising the Institution'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 Institution's Allocable Portion of Bonds, or any other obligation or liability of the Institution or the Authority arising from the Loan Agreement, the Series Resolution or from the Resolution;

(6) realize upon any pledge of or security interest which the Authority may then have in the pledge and assignment of the Pledged Revenues and the rights to receive the same, including the exercise of its rights with respect to the Account and the Account Control Agreement, and its rights pursuant to the terms of the Memorandum of Understanding executed with the Comptroller and as provided in Sections 11 and 13 the Loan Agreement, and in a manner consistent with the rights of the holders of indebtedness secured by the [Prior Pledges], by any one or more of the following actions: (i) enter the Institution or the property of the Institution and examine and make copies of the

financial books and records of the Institution 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 Institution representing Pledged Revenues or proceeds thereof; (ii) notify any account debtors obligated on any Pledged Revenues to make payment directly to the Authority or to the Trustee, as the Authority may direct, and of the amount to be so paid; provided, however, that the Authority may, in its discretion, immediately collect the entire amount of interest, principal, and Sinking Fund Installments, if any, coming due with respect to the Institution's Allocable Portions of the Bonds on the next January 1 and July 1, subject to the [Prior Pledges] and of acceleration to the extent of Pledged Revenues, as the case may be, and may continue to do so commencing on each January 1 and July 1 to the extent of amounts due to the Authority under the Loan Agreement on the next July 1 and January 1, with respect to Pledged Revenues, until such amounts are fully collected; provided, however, that written notice of such notification shall be mailed to the Institution ten (10) days prior to mailing or otherwise making such notification to account debtors; and provided further that until the Institution shall receive such notice it shall have full authority and responsibility to enforce and collect Pledged Revenues owing from its account debtors; (iii) following the above-mentioned notification to account debtors, collect, compromise, settle, compound or extend amounts payable as Pledged Revenues which are in the form of accounts receivable or contract rights from the Institution's account debtors by suit or other means and give a full acquittance therefor and receipt therefor in the name of the Institution whether or not the full amount of any such account receivable or contract right owing shall be paid to the Authority; (iv) require the Institution 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 Institution 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 Institution 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 Institution when all Events of Default under the Loan Agreement by the Institution have been cured; (v) forbid the Institution 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; and (vi) endorse in the name of the Institution any checks or other orders for the payment of money representing any unpaid assigned Pledged Revenues or the proceeds thereof

(7) 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 Institution, consent to such entry being by the Loan Agreement given by the Institution, (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 Institution 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 Institution 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 Institution, 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 (7), (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 Institution 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 (7) 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 Institution to the Authority upon demand. The Institution by the Loan Agreement 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 Institution for the purpose of exercising the rights granted to the Authority by the term of the Loan Agreement; and

(8) take any action necessary to enable the Authority to realize on its liens under the Loan Agreement, or by law, and any other action or proceeding permitted by the terms of the Loan Agreement, 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 the Loan Agreement 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.

(Section 31)

Investment of Moneys

The Institution acknowledges that the Authority may in its sole discretion direct the investment of certain moneys held under the Resolution and the Series Resolution as provided therein and that no representation or warranty has been made by the Authority with respect to interest rates on, or the amount to be earned as a result of, any such investment. Neither the Authority nor the Trustee shall have any liability arising out of or in connection with the making of any investment authorized by the provisions of Article VI of the Resolution in the manner provided therein, for any depreciation in value of any investment or for any loss, direct or indirect, resulting from any such investment. The Authority agrees that it shall direct the making of investments as permitted by the Resolution as soon as practicable when moneys are legally available therefor.

(Section 38)

Limitation on Agreements

The Institution shall not enter into any contract or agreement or perform any act which may adversely affect any of the assurances or rights of the Authority or SONYMA under the Loan Agreement or the Holders under the Resolution and the Series Resolution.

(Section 40)

Certificate as to Representations and Warranties

The obligations of the Authority under the Loan Agreement and the delivery of the Bonds of each Series are conditioned upon the receipt by the Authority at or prior to delivery of the Bonds of a Series of a certificate of an Authorized Officer of the Institution acceptable to an Authorized Officer of the Authority to the effect that the representations and warranties contained in the Loan Agreement are true and correct and in full force and effect on and as of the date of delivery of the Bonds of such Series as if made on the date of delivery of the Bonds of such Series.

(Section 44)

Further Assurances

The Institution, at any and all times, shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular, the rights, the Pledged Revenues and other moneys, securities, funds and security interests by the Loan Agreement, the Series Resolution or by the Resolution pledged, assigned or granted, or intended so to be, or which the Institution may after the Loan Agreement become bound to pledge, assign or grant to the Authority pursuant to the Loan Agreement.

(Section 47)

Amendments to Loan Agreement

This Loan Agreement may be amended only in accordance with Section 7.11 of the Resolution and each amendment shall be made by an instrument in writing signed by an Authorized Officer of the Institution and the Authority, an executed counterpart of which shall be filed with the Trustee. The Authority may not, without the prior written consent of SONYMA, modify, forbear or waive any obligation of the Institution under the Loan Agreement or the Mortgage.

(Section 48)

Termination

This Loan Agreement shall remain in full force and effect until the Institution'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 Institution shall have been made or provision made for the payment thereof; provided, however, that the liabilities and the obligations of the Institution under subdivision (A)(8) of Section 9 the Loan Agreement and to provide reimbursement for or indemnification against expenses, costs or liabilities made or incurred pursuant to Sections 25, 27, 30, 32 or 34 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 Institution to evidence such termination and the discharge of the Institution's duties under the Loan Agreement, including the release or surrender of any security interests granted by the Institution to the Authority pursuant to the Loan Agreement.

(Section 49)

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a brief summary of certain provisions of the Resolution. This summary does not purport to be complete and reference is made to the Resolution for full and complete statements of such and all provisions. The headings below are not part of the Resolution but have been added for each of reference. Defined terms used in the Resolution shall have the meaning ascribed to them in Appendix A of this Official Statement.

Resolution, Series Resolutions and the Bonds Constitute Separate Contracts.

It is the intent of the Resolution to authorize the issuance by the Authority, from time to time, of its Residential Institutions for Children Revenue Bonds in one or more Series, each such Series to be authorized by a separate Series Resolution. Each 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 issue or maturity, shall be of equal rank without preference, priority or distinction of any Bonds of a 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)

Option of Authority to Assign Certain Rights and Remedies to the Trustee and/or SONYMA and Assignment of the 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 a Series Resolution, the Authority may grant, pledge and assign to SONYMA or the Trustee all of the Authority's estate, right, title, interest and claim in, to and under any or all of the Loan Agreements and the Applicable Mortgages, if applicable, 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, with the Applicable Series Resolution with the Resolution and in accordance therewith) all Revenues, insurance proceeds, sales proceeds and other payments and other security now or thereafter 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 or SONYMA shall, in their discretion, when an "Event of Default" (as defined in a Loan Agreement) under such Loan Agreement shall have occurred and shall be continuing, so elect, by instrument in writing delivered to the Authority and the Applicable Institution (and then only to the extent that the Trustee or SONYMA shall so elect), the Trustee or SONYMA 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 or SONYMA in the course of its performance of any such covenant or provision), and until such time 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; and (c) that the Mortgage may not be assigned by any party thereto without the written consent of the other parties thereto and SONYMA except to the Trustee as permitted by the Resolution; provided, however, that any grant, pledge and assignment of moneys, revenues, accounts, rights or other property of an Institution made with respect to a Loan Agreement pursuant to this paragraph shall secure, in the case of such Loan Agreement and Mortgage, only the payment of the amounts payable under such Loan Agreement and Mortgage.

Upon the happening of any withdrawal from any Institution's Allocable Portion of the Debt Service Reserve Fund securing the Institution's Allocable Portion of the Bonds which has not been restored to the Institution's Allocable Portion of the Debt Service Reserve Fund Requirement within thirty (30) days after notice given in accordance with the Resolution has been received by the Authority, the Authority shall, upon the request of the Bond Insurer, if any, or SONYMA assign to the Trustee for the benefit of the Bondholders of a Series all of its right, title and interest in and to the Mortgage, if any, of said non-performing Institution and in and to the rights of the Authority under the Applicable Loan Agreement relating to such Institution to exercise any of the remedies provided thereby for the enforcement of the obligations of such Institution 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; provided, however, that the Authority may retain the right to the payment of the fees, costs and expenses of the Authority payable pursuant to such 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 the Institution, 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 and the Bond Insurer, if any, or SONYMA making the request to the Authority to assign said Mortgage to the Trustee. The Trustee shall notify the Bond Insurer, if any, or SONYMA of such assignment and provide each Bond Insurer or SONYMA with a copy of the documents of assignment. If prior to the foreclosure of any such Mortgage, the 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 the 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. The Trustee shall notify SONYMA and/or a Bond Insurer, if any, or SONYMA of any such reassignment and provide SONYMA and/or any Bond Insurer or SONYMA with a copy of the documents of reassignment. In the event that an assignment to SONYMA of an Institution's Applicable Mortgage is required pursuant to the Resolution, and such Mortgage has been assigned to the Trustee, the Trustee shall, notwithstanding anything to the contrary in the Resolution, make such assignment to SONYMA as provided in the Resolution or in the Applicable Loan Agreement.

In the event the Authority grants, pledges and assigns to the Trustee any of its rights as provided in the Resolution, 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.

In the event the Authority assigns to the Trustee any of its rights as provided in the Resolution, the Trustee shall agree to follow the instructions of the Bond Insurer, if any, or SONYMA.

(Section 1.04)

Refunding Bonds.

All or any portion of one or more Series of Refunding Bonds may be authenticated and delivered to refund all Outstanding Bonds of one or more Series, a portion of a Series of Outstanding Bonds, or a portion of a maturity of a Series of Outstanding Bonds. The Authority by resolution of its members may issue Refunding Bonds of a Series in an aggregate principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make such deposits required by the provisions of the Resolution and of the Series Resolution authorizing such Series of Refunding Bonds.

(a) if the Bonds to be refunded are to be redeemed, irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption of all the Bonds to be refunded on a redemption date specified in such instructions;

(b) irrevocable instructions to the Trustee, satisfactory to it, to make due publication of the notice provided for in the Resolution to the Holders of the Bonds being refunded;

(c) either or both of (1) moneys in an amount sufficient to effect payment of the principal at the maturity date therefor or the Redemption Price on the applicable redemption date of the Bonds to be refunded, together with accrued interest on such Bonds to the maturity or redemption date, which money shall be held by the Trustee or any one or more of the Paying Agents in a separate account irrevocably in trust for and assigned to the respective Holders of the Bonds to be refunded and (2) direct obligations of the United States of America in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications, as shall be necessary to comply with the provisions of said Resolution, which direct obligations of the United States of America and moneys shall be held in trust and used only as provided in said Resolution; and

(d) a certificate of the Authority containing such additional statements as may be reasonably necessary to show compliance with the requirements of the Resolution.

The proceeds, including accrued interest, of such Refunding Bonds shall be applied simultaneously with the delivery or such Refunding Bonds in the manner provided in or determined in accordance with the Series Resolution authorizing such Refunding Bonds.

(Section 2.04)

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 except as provided in the Resolution, so long as such bonds, notes or other obligations are not, or such other indebtedness is not, entitled to a charge or 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 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)

Redemption of Bonds

Authorization of Redemption of a Series.

Bonds of a Series subject to redemption or purchase prior to maturity pursuant to the Resolution or to an Applicable Series Resolution or an Applicable Bond Series Certificate shall be redeemable or purchasable, in accordance with the Resolution, at such times, at such Redemption Prices or purchase prices and upon such terms as may otherwise be specified in the Resolution or in an Applicable Series Resolution or an Applicable Bond Series Certificate.

(Section 4.01)

Redemption at the Election of the Authority.

In the case of any redemption of Bonds of a Series other than as provided in the Resolution, such Bonds may be redeemed at the option of the Authority as provided in an Applicable Series Resolution or an Applicable Bond Series Certificate. In exercising such option, the Authority shall give written notice to the Trustee, SONYMA, the Bond Insurer, if any, and each Applicable Facility Provider of its election to redeem, including the Series designation, the principal amounts and the maturities of such Bonds so elected. The Series designation, maturities and principal amounts thereof to be redeemed shall be determined by the Authority in its sole discretion, subject to any limitations with respect thereto contained in the Resolution. Such notice shall be given to the Trustee, SONYMA, the Bond Insurer, if any, and each Applicable Facility Provider at least forty-five (45) days prior to the date on which the Bonds of such Series are to be redeemed, or such fewer number of days as shall be acceptable to the Trustee. Unless the notice of redemption required by the Resolution provides that the redemption is subject to the condition that moneys for the payment of the Redemption Price is available on the Redemption Date, the notice of redemption required by the Resolution to be given shall not be given with respect to such Bonds to be redeemed pursuant to the Resolution unless prior to the date such notice is to be given the Authority shall (i) have paid or caused to be paid to the Trustee an amount of money which, in addition to other money available therefor held by the Trustee, is sufficient to redeem, on the redemption date at the Redemption Price thereof, together with interest accrued and unpaid thereon to the redemption date, all of the Bonds of such Series to be so redeemed and (ii) if money is then due to a Facility Provider for moneys advanced under a Reserve Fund Facility constituting any part of the Debt Service Reserve Fund which is then unpaid, including interest due thereon, have obtained the written consent of such Facility Provider. Notwithstanding the foregoing, in the event any Bonds of a Series or any portion thereof are to be redeemed at the option of the Authority pursuant to Section 24(b) of the Loan Agreement, such Bonds shall be redeemed at a Redemption Price equal to the principal amount thereof and to the extent practicable among maturities pro rata within the Allocable Portion of such Series. All other requirements of the Resolution with respect to notice shall apply to redemptions pursuant to Section 24(b) of the Loan Agreement.

(Section 4.02)

Redemption other than at Authority's Election.

Whenever by the terms of the Resolution the Trustee is required or authorized to redeem Bonds of a Series from Sinking Fund Installments, the Trustee shall select the Bonds of such Series to be redeemed. Whenever by the terms of the Resolution the Trustee is required or authorized to redeem Bonds of a Series other than pursuant to the Resolution and other than through Sinking Fund Installments, the Authority shall select the maturities of the Bonds of such Series to be redeemed by notice thereof given to such Trustee at least ten (10) days prior to the date notice of redemption is mailed. The Trustee shall select the Bonds of a Series and maturities to be redeemed in the manner provided in the Resolution, give the notice of redemption and pay out of moneys available therefor the Redemption Price thereof, together with interest accrued to the redemption date, to the Applicable Paying Agent in accordance with the terms of the Resolution.

(Section 4.03)

Selection of Bonds to Be Redeemed.

In the event of redemption of less than all of the Outstanding Bonds of an Applicable Series and maturity the Trustee shall assign to each such Outstanding Bond of the Applicable Allocable Portion of such Series and maturity to be redeemed a distinctive number for each unit of the principal amount of such Bond equal to the lowest denomination in which the Bonds of the Applicable Allocable Portion of such Series are authorized to be issued and shall select by lot, using such method of selection as in the Resolution provided or as it shall deem proper in its discretion, from the numbers assigned to such Bonds as many numbers as, at such unit amount equal to the lowest denomination in which the Bonds of the Applicable Allocable Portion of such Series are authorized to be issued for each number, shall equal the principal amount of such Bonds to be redeemed. In making such selections the Trustee may draw such Bonds by lot (i) individually or (ii) by one or more groups the grouping for the purpose of such drawing to be by serial numbers (or, in the case of Bonds of a denomination of more than the lowest denomination in which the Bonds of such Series are authorized to be issued, by the numbers assigned thereto as in the Resolution provided) which end in the same digit or in the same two digits. In case, upon any drawing by groups, the total principal amount of Bonds of such Series drawn shall exceed the amount to be redeemed, the excess may be deducted from any group or groups so drawn in such manner as the Trustee may determine. The Trustee may in its discretion assign numbers to allocable portions of such Bonds and select part of any such Bond for redemption.

(Section 4.05)

Notice of Redemption.

Whenever Bonds of a Series are to be redeemed, the Trustee shall give notice of the redemption of such Bonds in the name of the Authority, which notice shall be given by first-class mail, postage prepaid to the registered owners of Bonds of a Series which are to be redeemed, at their last known addresses, if any, appearing on the registration books of the Authority, not more than ten (10) business days prior to the date such notice is given and to the Bond Insurer or SONYMA, in each case at least thirty (30) days but not more than forty-five (45) days prior to the redemption date. The Trustee shall promptly certify to the Authority that it has mailed or caused to be mailed such notice to such Bondholders, and such certificate shall be conclusive evidence that such notice was given in the manner required by the Resolution. The failure of any such owner to receive notice shall not affect the validity of the proceedings for the redemption of Bonds with respect to which notice has been given in accordance with the Resolution. Such notice shall specify: (i) the Bonds to be redeemed which shall be identified by the designation of the Bonds given in accordance with the Resolution, the maturity dates and interest rates of the Bonds to be redeemed and the date such Bonds were issued; (ii) the numbers and other distinguishing marks of the Bonds to be redeemed, including CUSIP numbers; (iii) the redemption date; (iv) the Redemption Price; (v) of each such Bond, the principal amount thereof to be redeemed; (vi) the date of publication, if any, of the notice of redemption; (vii) that such Bonds will be redeemed at the principal corporate trust office of the Trustee giving the address thereof and the name and telephone number of a representative of the Trustee to whom inquiries may be directed; and (viii) that no representation is made as to the correctness of the CUSIP number either as printed on the Bonds or as contained in such notice and that an error in a CUSIP number as printed on such Bond or as contained in such notice shall not affect the validity of the proceedings for redemption. Such notice shall further state that on such date there shall become due and payable upon each Bond of a Series to be redeemed the Redemption Price thereof, together with interest accrued to the redemption date, and that from and after such date, payment having been made or provided for, interest thereon shall cease to accrue. If directed in writing by the Authority, the Trustee shall also publish or cause to be published such notice in an Authorized Newspaper and such publication shall be not less than thirty (30) days nor more than forty-five (45) days prior to the redemption date, but such publication shall not be a condition precedent to such redemption and failure to so publish or any defect in such notice or publication shall not affect the validity of the proceedings for the redemption of Bonds.

In addition, the Trustee shall (i) if any of the Bonds to be redeemed are Book Entry Bonds, mail a copy of the notice of redemption to the depository for such Book Entry Bonds not less than thirty-five (35) days prior to the redemption, but, if notice of redemption is to be published as aforesaid, in no event later than five (5) Business Days prior to the date of publication, and (ii) mail a copy of the notice of redemption to Kenny Information Systems Notification Service and to Standard & Poor's Called Bond Record, in each case at the most recent address therefor. Such copies shall be sent by certified mail, return receipt requested, or by a recognized overnight delivery service, but mailing or sending such copies shall not be a condition precedent to such redemption and failure to so mail or send or of a person to which such copies were mailed or sent to receive such copy shall not affect the validity of the proceedings for the redemption of the Bonds.

(Section 4.06)

Payment of Redeemed Bonds.

Notice having been mailed in the manner provided in the Resolution, the Bonds of an Applicable Series or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office or offices specified in such notice, together with, in the case of such Bonds presented by other than the registered owner, a written instrument of transfer duly executed by the registered owner or such owner's duly authorized attorney, such Bonds, or portions thereof, shall be paid at the Redemption Price plus interest accrued and unpaid to the redemption date. For so long as the Bonds of a Series shall no longer be issued in book-entry only form, the Redemption Price shall be paid to the registered owner of one million dollars ($1,000,000) or more in principal amount of Bonds to be redeemed, by wire transfer to such registered owner at the wire transfer address in the continental United States to which such registered owner has, not later than upon presentation and surrender of the Bond to be redeemed to the Trustee, directed in writing the Trustee to wire such Redemption Price. If there shall be drawn for redemption less than all of the principal amount of a Bond of an Applicable Series, the Authority shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance or the principal amount of such Bond so surrendered, Bonds of like Series and maturity in any of the authorized denominations. If, on the redemption date, moneys for the redemption of all Bonds of a Series or portions thereof to be redeemed, together with interest to the redemption date, shall be held by the Trustee and the Applicable Paying Agent so as to be available therefor on such date and if notice of redemption shall have been mailed as aforesaid, then, from and after the redemption date, interest on such Bonds or portion thereof so called for redemption shall cease to accrue and such Bonds will no longer be considered to be Outstanding under the Resolution or a Series Resolution. If such moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

(Section 4.07)

Purchase of Purchased Bonds.

Whenever Bonds are to purchased at the election of an Institution, written notice thereof and of the Bonds of the Series, Subseries, if any, and maturity to be so purchased having been given by such Institution to the Authority, the Trustee, SONYMA or any Bond Insurer, the Trustee shall select the particular Bonds of such Series, Subseries, if any, and maturity to be so purchased in the same manner as provided in the Resolution for the selection of Bonds to be redeemed in part. Promptly thereafter the Trustee shall give notice of the purchase of such Bonds at the times and in the manner provided in the Series Resolution authorizing such Bonds or the Bond Series Certificate related thereto. The Trustee shall not give such notice unless prior to the date such notice is given the applicable Institution has caused to be delivered to the Trustee the written consent to such purchase of the Authority, SONYMA and any Bond Insurer. All such purchases may be subject to conditions to the applicable Institution's obligation to such Bonds and shall be subject to the condition that money for the payment of the purchase price therefore is available on the date set for such purchase.

Notice of purchase having been given in the manner required by the Series Resolution authorizing the Bonds to be so purchased or the Bond Series Certificate relating thereto, then, if sufficient money to pay the purchase price of such Bonds is held by the Trustee, the purchase price of the Bonds or portions thereof so called for purchase shall become due and payable on the date set for purchase, upon presentation and surrender of such Bonds (other than Book Entry Bonds) to be purchased at the office or offices specified in such notice, and, in the case of Bonds presented by other than the registered owner, together with a written instrument of transfer duly executed by the registered owner or his duly authorized attorney. Payment of the purchase price of [other than Book Entry Bonds] shall be made, upon the request of the registered owner of one million dollars ($1,000,000) or more in principal amount of Bonds to be so purchased, by wire transfer to such registered owner at the wire transfer address in the continental United States to which such registered owner has prior to the purchase date directed in writing the Trustee to wire such purchase price. No Purchased Bond shall be considered to be no longer outstanding by virtue of its purchase and each such Purchased Bond that is not a Bond Entry Bond shall be registered in the name or at the direction of the applicable Institution.

(Section 4.08)

Pledge of Revenues; Funds and Accounts; Revenues and Application Thereof

Pledge of Revenues.

The proceeds from the sale of a Series of Bonds, the Revenues, the Authority's security interest in the 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 thereby, subject to the terms of an 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 with respect to such Series, all in accordance with the provisions of the Resolution and the terms of the Applicable Series Resolution authorizing such Series of Bonds. The pledge made by the Resolution with respect to all funds and accounts authorized thereby and the proceeds of the sale of a Series of Bonds shall relate only to the Bonds of a Series authorized by the related 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 other than with respect to the funds and accounts and the proceeds of the sale of a Series of Bonds, shall relate only to the Bonds of a Series authorized by the related 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 Revenues, the Authority's security interest in the Pledged Revenues and all funds and accounts established by the Resolution and pursuant to the Applicable Series Resolution which are pledged by the Resolution and pursuant to such Series 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. 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 Revenues, the Authority's security interest in the 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 Pledged Revenues, to the Prior Pledges (as defined in the Applicable Loan Agreement).

(Section 5.01)

Establishment of Funds.

Unless otherwise provided by an Applicable Series Resolution, the following funds and accounts are thereby authorized and established, to be held and maintained for each Series by the Trustee under an Applicable Series Resolution separate from any other funds and accounts established and maintained pursuant to any other Series Resolution:

Construction Fund;

Construction Account;

Debt Service Fund;

Debt Service Account;

Debt Service Reserve Fund;

Debt Service Reserve Account; and

Arbitrage Rebate Fund

Arbitrage Rebate Account

Accounts and sub-accounts within each of the foregoing funds and accounts 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. All moneys at any time deposited in any fund or account created thereby, other than the Arbitrage Rebate Fund and other than any funds that constitute payments for the Annual DASNY Fee and the Annual SONYMA Fee, shall be held in trust for the benefit of the Holders of the Bonds, but shall nevertheless be disbursed, allocated and applied solely in connection with a Series of Bonds for the uses and purposes provided in the Resolution.

(Section 5.02)

Application of Bond Proceeds and Allocation Thereof.

Upon the receipt of proceeds from the sale of a Series of Bonds, the Authority shall apply such proceeds as specified in the Resolution and in the Applicable Series Resolution authorizing such Series 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 of the Debt Service Fund unless all or any portion of such amount is to be otherwise applied as specified in an Applicable Series Resolution or an Applicable Bond Series Certificate.

Any and all interest earned on any funds constituting the proceeds from the sale of a Series of Bonds shall only be used to pay the debt service on such Series of Bonds, except that the interest earned on the proceeds of a Series of Bonds may be used for purposes of complying with the Code, including making payments as may be required pursuant to the Resolution.

(Section 5.03)

Application of Moneys in the Construction Fund.

For purposes of internal accounting, the Construction Fund may contain one or more accounts or sub-accounts including a Construction Account with respect to each Loan made under the Resolution as the Authority or the Trustee may deem necessary or desirable. The Authority shall apply moneys in each of the respective Construction Accounts for the making of Loans to Institutions in accordance with Section 5 of the Loan Agreements. Proceeds of the Loans shall be held in separate Construction Accounts of the Construction Fund established with respect to each Institution 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 and of the Costs of Issuance funded from proceeds of a Series of Bonds shall be accounted for separately for each Institution, and the total amount of the Loan to each Institution shall include such Allocable Portions. In addition, the Authority shall remit to the Trustee and the Trustee shall deposit in the Applicable Construction Account in the Construction 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 Article V of the Resolution and in an Applicable Series Resolution or Applicable Bond Series Certificate, moneys deposited in the Applicable Construction Account of the Construction Fund shall be used only to pay the Costs of Issuance of a Series of Bonds issued in connection with such Series Resolution or Bond Series Certificate and the Costs of the Applicable Project or Projects in connection with which such 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 Institution, 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 a 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 Construction Account of the Construction Fund to the Applicable Debt Service Account of the Debt Service Fund.

Any proceeds of insurance, condemnation or eminent domain awards received by the Trustee, the Authority or the Institution with respect to a particular Project or the Mortgaged Property shall be deposited in the Applicable Construction Account in the Construction Fund relating to such Project or Projects and, if necessary, such Fund may be reestablished for such purpose and if 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 all or a portion of the Applicable Series of Bonds 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, SONYMA, if applicable, any Bond Insurer and the Trustee of a certificate signed by an Authorized Officer of the applicable Institution, which certificate shall be delivered as soon as practicable after the date of completion of such Project or (b) upon delivery to the applicable Institution, SONYMA, if applicable, any Bond Insurer 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 Institution, shall specify the date of completion.

Upon receipt by the Trustee of the certificate required pursuant to the Resolution, the moneys, if any, then remaining in the Applicable Construction 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 a Series of Bonds and Costs of a Project then unpaid with respect to the Applicable Institution and 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 the Institution's Allocable Portion of Arbitrage Rebate due to the United States Federal Government due with respect to such Loan and the Applicable Bonds relating thereto;

Second: To the Debt Service Reserve Fund, such amount as shall be necessary to make the amount on deposit in such Fund equal to the Institution's Allocable Portion of the Debt Service Reserve Fund Requirement; and

Third: Any balance remaining, to the Applicable Debt Service Account of the Debt Service Fund relating to such Loan, (i) for the redemption or purchase of a Series of Bonds or any portion thereof in accordance with the Resolution and the Applicable Series Resolution which corresponds to the Institution's Allocable Portion of the principal and interest on the Bonds the portion of the proceeds of which funded such Project, and/or (2) for application at the direction of the Authority pursuant to the Resolution.

(Section 5.04)

Deposit of Revenues and Allocation Thereof.

The Revenues and any other moneys which, by any of the provisions of each of the Loan Agreements, or a SONYMA Insurance Policy, are required to be deposited in each of the respective Debt Service Accounts of the Debt Service Fund, shall be deposited to the credit of the Applicable Debt Service Account of the Debt Service Fund. To the extent not required to pay the Allocable Portion with respect to a particular Loan of, (a) the interest becoming due on Outstanding Bonds of a Series on the next succeeding interest payment date of such Bonds; (b) (i) in the case of amounts deposited in each of the respective Debt Service Accounts 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 respective Series of Outstanding Bonds on the next succeeding July 1; and (ii) in the case of amounts deposited in the each of 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 Applicable Series of Outstanding Bonds on such July 1; (c) moneys which are required or have been set aside for the redemption of Bonds of the Applicable Series; and (d) moneys which are required to maintain the Required Balance in each of the respective

Debt Service Accounts, moneys in each of the respective Debt Service Accounts of the Debt Service Fund (other than Contribution Amounts) shall, with respect to each respective Institution and Loan made under the Resolution, be paid by the Trustee on or before the Business Day preceding each interest payment date 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 which constitutes any part of the Debt Service Reserve Fund for moneys advanced thereunder relating to the Allocable Portion with respect to such particular Loan and Institution of the Debt Service Reserve Fund relating thereto, including interest thereon, in proportion to the respective amounts advanced by each such Facility Provider;

Second: To the Debt Service Reserve Fund, (i) the amount, if any, necessary to make the Allocable Portion with respect to such particular Loan and Institution of the amount on deposit therein equal to the Debt Service Reserve Fund Requirement, 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 the Allocable Portion of a particular Loan to an Institution made under the Resolution for: (i) expenditures of the Authority for fees and expenses of auditing, and fees and expenses of the Trustee and Applicable Paying Agent, all as required by the Resolution, (ii) all other expenditures reasonably and necessarily incurred by the Authority in connection with the financing of the particular Project relating to such Loan, including expenses incurred by the Authority to compel full and punctual performance of all the provisions of the Applicable Loan Agreement or Mortgage in accordance with the terms thereof, and (iii) the Annual Administrative Fee of the Authority; but only upon receipt by the Trustee of a certificate of the Authority, stating in reasonable detail the amounts payable to the Authority pursuant to this paragraph Third.

After making the payments required by the Resolution, any balance remaining in any of the Applicable Debt Service Accounts (except for the Required Balance and Contribution Amounts which shall remain in such Accounts) on the immediately succeeding July 1 shall be paid by the Trustee in accordance with the Resolution. The Trustee shall notify the Authority and such Institution promptly after making the payments required by the Resolution of any balance remaining in the Debt Service Fund on the immediately succeeding July 1.

After receipt of notice of any balance remaining in any of the Applicable Debt Service Accounts as set forth in the Resolution, the Authority shall (i) calculate the amount, if any, of the credit against the amount required to be paid by the respective Institution pursuant to Section 9 of the Applicable Loan Agreement and (ii) provide the Trustee and the Institution with notice of the amount of such credit and the payment(s) due from the Institution pursuant to Section 9 of the Applicable Loan Agreement to which the credit shall apply.

Notwithstanding the provisions of the Resolution, 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 a Series to be redeemed from such Sinking Fund Installment. Any such Term Bond so purchased and any Term Bonds purchased by any Institution 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 Loan principal payment due 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.

The Authority shall enforce its rights with respect to any SONYMA Insurance Policy immediately upon the occurrence of any "covered default" as so defined in such SONYMA Insurance Policy. Amounts received from SONYMA under the SONYMA Insurance Policies shall be deposited in the Applicable Debt Service Account of the Debt Service Fund and shall constitute "Revenues" under the Resolution.

(Section 5.05)

Debt Service Fund.

The Trustee shall on or before the Business Day preceding each interest payment date pay, from each of the Applicable 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 Resolution shall be irrevocably pledged to and applied to such payments. Contribution Amounts with respect to a particular Institution and Loan shall be applied only to the payment of the Allocable Portion of such Institution's principal due and Sinking Fund Installments obligation on Outstanding Bonds of a Series pursuant to the Resolution.

In the event that on the fourth (4) Business Day preceding any interest payment date the amount in an Applicable Debt Service Account of the Debt Service Fund shall be less than the amounts, respectively, required for payment of interest on the Outstanding Bonds of a Series, for the payment of principal of such Outstanding Bonds, for the payment of Sinking Fund Installments of such Outstanding Bonds due and payable on such interest payment date or for the payment of 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 withdraw from the Applicable Debt Service Reserve Account of the Debt Service Reserve Fund and deposit to the Debt Service Fund such amounts as will increase the amount in the Applicable Debt Service Account of the Debt Service Fund to an amount sufficient to make such payments. The Trustee shall notify SONYMA, if applicable, and/or any Bond Insurer as applicable and each Applicable Facility Provider of a withdrawal from the Debt Service Reserve Fund. In no event shall the Trustee withdraw moneys from the Applicable Debt Service Reserve Fund to make up for the failure of an Institution to make payments under the Applicable Loan Agreement if that Institution's Allocable Portion of the Debt Service Reserve Fund is depleted.

(Section 5.06)

Debt Service Reserve Fund.

Moneys in the Debt Service Reserve Fund shall be allocated to each Institution in an amount equal to its Allocable Portion thereof. An Institution's Allocable Portion of the Debt Service Reserve Fund, together with any interest thereon, shall be replenished in accordance with Section 10 of said Institution's Applicable Loan Agreement following application thereof pursuant to the Resolution.

Amounts in the Debt Service Reserve Fund shall be applied solely for the following purposes:

If on the fourth (4th) Business Day preceding any interest payment date the balance on deposit in the Applicable Debt Service Account of the Debt Service Fund is insufficient to pay an Institution's Allocable Portion of interest on, principal of, Sinking Fund Installments on or Redemption Price of the Bonds due on the next interest payment date, the Trustee shall in the first instance transfer to the Debt Service Fund from such Institution's Allocable Portion of the Debt Service Reserve Fund an amount sufficient to make the amount in the Applicable Debt Service Account of the Debt Service Fund sufficient to make such payment.

An Institution's Allocable Portion of the Debt Service Reserve Fund shall also be applied to the partial extraordinary mandatory redemption of Bonds of a Series upon the acceleration of such Institution's Loan pursuant to Section 31 (B)(1) of the Loan Agreement.

Upon the exercise by an Institution of its option to prepay its Loan under Section 9(F) of the Loan Agreement, the Trustee shall transfer such Institution'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

Bonds which correspond to the principal of and interest on the Applicable Loan so prepaid.

In lieu of or in substitution for moneys and Permitted Investments otherwise required to be deposited in the Debt Service Reserve Fund, the Authority may deposit or cause to be deposited with the Trustee a Reserve Fund Facility for the benefit of the Holders of the Bonds for all or any part of the Debt Service Reserve Fund Requirement or any Institution's Allocable Portion thereof; provided that any such Reserve Fund Facility shall be issued by a Qualified Financial Institution.

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 Bond Insurer 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 Bond Insurer.

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 drawing upon, if the Reserve Fund Facility consists of a Letter of Credit, such Letter of Credit or, 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 the Resolution, in computing the amount on deposit in a 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.

Moneys and investments held for the credit of the Debt Service Reserve Fund in excess of the Debt Service Reserve Fund Requirement shall, except as provided in the Series Resolution, remain on deposit within the Debt Service Reserve Fund and be applied in accordance with the provisions of the Resolution.

If, upon a valuation, the value of all moneys, Permitted Investments and Reserve Fund Facilities held for the credit of an Institution's Allocable Portion of the Debt Service Reserve Fund is less than an Institution's Allocable Portion of the Debt Service Reserve Fund Requirement, the Trustee shall immediately notify the Authority, SONYMA, any Bond Insurer, each Applicable Facility Provider and the particular Institution of such deficiency. Such Institution shall, as soon as practicable, but in no event later than five (5) days after receipt of such notice, deliver to the Trustee moneys and Permitted Investments, the value of which is sufficient to increase the Institution's Allocable Portion of the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement.

If, upon a valuation, the value of all moneys, Permitted Investments and Reserve Fund Facilities held for the credit of an Institution's Allocable Portion of the Debt Service Reserve Fund is in excess of an Institution's Allocable Portion of the Debt Service Reserve Fund Requirement, the Trustee shall, upon notice to such Institution, the Authority and SONYMA, transfer such excess fund to the credit of such Institution's Debt Service Fund to be utilized pursuant to the Resolution.

(Section 5.07)

Arbitrage Rebate Fund.

The Trustee shall deposit to the appropriate account in the Arbitrage Rebate Fund any moneys delivered to it by each of the Institutions for deposit therein and, notwithstanding any other provisions of Article V 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 thereunder 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 each Series of Bonds and direct the Trustee to

(i) transfer from any other of the funds held by the Trustee under the Resolution 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 5.10)

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 Construction Account of the Construction Fund and of an Institution's Allocable Portion of the Debt Service Reserve Fund, pursuant to the Resolution, the amounts held in the Applicable Debt Service Account of the Debt Service Fund, the Applicable Construction Account of the Construction Fund, and of an Institution's Allocable Portion of the Debt Service Reserve Fund are sufficient to pay the principal or Redemption Price of an Institution's Allocable Share 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, SONYMA, any Bond Insurer and the Applicable Institution. Upon receipt of such notice, the Authority may request the Trustee to redeem all such Outstanding Bonds of the Applicable Series. 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 of the Applicable Series in the manner provided for redemption of such Bonds by the Resolution and by the Applicable Series Resolution as provided in Article IV of the Resolution.

(Section 5.11)

Transfer of Investments.

Whenever moneys in any fund established under the Resolution or under a Series Resolution are to be paid in accordance with the Resolution to another such fund, such payment may be made, in whole or in part, by transferring to such other fund investments held as part of the fund from which such payment is to be made, whose value, together with the moneys, if any, to be transferred, is at least equal to the amount of the payment then to be made, provided that no such transfer of investments would result in a violation of any investment standard or guideline applicable to such fund.

(Section 5.12)

Security for Deposits and Investment of Funds

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 of the Resolution as an investment of such moneys.

(Section 6.01)

Investment of Funds Held by the Trustee.

(A) Money held under the Resolution by the Trustee of a Series of Bonds in the Debt Service Fund, Construction Fund, Debt Service Reserve Fund and Arbitrage Rebate Fund, 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, Exempt Obligations, and, if not inconsistent with the investment guidelines of a Rating Service applicable to funds held under the Resolution, Permitted Investment other than Government Obligations, Federal Agency Obligations or Exempt Obligations; provided, however, that each such investment shall permit the moneys so deposited or invested to be available for use at the times at which the Authority reasonably believes such moneys will be required for the purposes of the Resolution; provided, further, that (x) 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, (y) the Permitted Collateral shall be deposited with and held by the Trustee or an agent thereof approved by the Authority, and (z) the Permitted Collateral shall be free and clear of claims of any other person.

(B) Permitted Investments purchased or other investments made as an investment of moneys in any fund held by the Trustee under the provisions of the Resolution shall be deemed at all times to be a part of such fund and the income or interest earned, profits realized or losses suffered by a fund due to the investment thereof shall be retained in, credited or charged, as the case may be, to such fund unless otherwise provided in the Applicable Series Resolution.

(C) In computing the amount in any fund held by the Trustee under the provisions of the Resolution, each Permitted Investment purchased as an investment of moneys therein or held therein shall be valued at par or the market value thereof, plus accrued interest, whichever is lower, except that investments held in the Applicable Debt Service Reserve Fund shall be valued at the market value thereof, plus accrued interest and except that Investment Agreements shall be valued at original cost, plus accrued interest.

(D) The Authority, in its discretion, may direct the Trustee in writing to, and the Trustee shall, sell, or present for redemption or exchange any investment held by the Trustee pursuant to the Resolution, and the proceeds thereof may be reinvested as provided in the Resolution. 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 moneys to meet any payment or transfer from the fund in which such investment is held. The Trustee shall advise the Authority and the Institution in writing, on or before [the fifteenth (15th) day] of each calendar month, of the details of all investments held for the credit of each fund 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 the Resolution. 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 in the previous month.

(E) No part of the proceeds of any Series of Bonds or any other funds 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)

Particular Covenants

Payment of Principal and Interest.

The Authority shall pay or cause to be paid the principal, Sinking Fund installments, if any, and Redemption Price of and interest on every Bond of each Applicable Series on the date and at the places and in the manner provided in such Bonds according to the true intent and meaning thereof.

(Section 7.01)

Further Assurance.

The Authority, at any and all times, shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights and the Revenues by the Resolution and pursuant to an Applicable Series Resolution pledged or assigned, or intended so to be, or which the Authority may thereafter become bound to pledge or assign.

(Section 7.04)

Accounts and Audits.

The Authority shall keep proper books of record and accounts (separate from all other records and accounts), which may be kept on behalf of the Authority by the Trustee, in which complete and correct entries shall be made of its transactions relating to the Bonds, which books and accounts, at reasonable hours and subject to the reasonable rules and regulations of the Authority, shall be subject to the inspection of the Institutions, each Bond Insurer, the Trustee or any Holder of a Bond of the Applicable Series or such Holder's representative duly authorized in writing. The Trustee shall annually prepare a report which shall be furnished to the Authority and to each Facility Provider. Such report shall include, at least, a statement of all funds (including investments thereof) held by the Trustee and the Authority pursuant to the provisions of the Resolution and of each Series Resolution; a statement of the Revenues collected in connection with the Resolution and with each Series Resolution; a statement that the balances in the Debt Service Reserve Fund meets the requirements of the Resolution and of an Applicable Series Resolution.

(Section 7.05)

Creation of Liens.

The Authority shall not create or cause to be created any lien or charge prior or equal to that of the Bonds of any 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 and SONYMA Insurance Policy that are to be deposited with the Trustee, the Pledged Revenues (subject to the 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 and provided, further, that, pursuant to the provisions of the Loan Agreement, a lien or charge on Gross Revenues equal to that of the Bonds may be created. An Institution may incur Alternative Parity Indebtedness with the prior consent of the Authority and SONYMA.

(Section 7.06)

Enforcement of Duties and Obligations of the Institutions.

The Authority shall take all legally available action to cause each of the Institutions to perform fully all duties and acts and comply fully with the covenants of such Institution 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 Agreement (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 Resolution) 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)

Deposit of Certain Moneys in the Construction Fund.

In addition to the proceeds of Bonds of a Series to be deposited in each of the respective Construction Accounts of the Construction Fund, any moneys paid or Letter of Credit or other security payable to the Authority for the financing, acquisition, construction, reconstruction, renovation or equipment of a particular Project and any moneys received in respect of damage to or condemnation of such Project shall be deposited in the Applicable Construction Account of the Construction Fund.

(Section 7.08)

Offices for Payment and Registration of Bonds.

The Authority shall at all times maintain an office or agency in the State where Bonds may be presented for payment. The Authority may, pursuant to a Supplemental Resolution or Series Resolution or pursuant to a resolution adopted in accordance with the Resolution, designate an additional Paying Agent or Paying Agents where Bonds authorized thereby or referred to therein may be presented for payment. The Authority shall at all times maintain an office or agency in the State where Bonds may be presented for registration, transfer or exchange and the Trustee is thereby appointed as its agent to maintain such office or agency for the registration, transfer or exchange of such Bonds. The provisions of this Section shall be subject to the provisions of the Resolution.

(Section 7.09)

Amendment of a Loan Agreement.

A Loan Agreement may not be amended, changed, modified, altered or terminated so as to materially adversely affect the interest of the Holders of the Outstanding Bonds of the Applicable Series without the prior written consent of SONYMA, if applicable, any Bond Insurer and the Holders of at least a majority in aggregate principal amount of such Bonds of the 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 Bond Insurer or the Holders of such Bonds shall not be required; provided, further, that no such amendment, change, modification, alteration or termination will reduce the percentage of the aggregate principal amount of Outstanding Bonds of such 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 any Institution under the Applicable Loan Agreement that is to be deposited with the Trustee or extend the time of payment thereof. Except as otherwise provided in the Resolution, a Loan Agreement may be amended, changed, modified or altered without the consent of a Bond Insurer, the Holders of Outstanding Bonds of the Applicable Series or the Trustee but with the prior consent of SONYMA, if applicable. Specifically, and without limiting the generality of the foregoing, a Loan Agreement may be amended, changed, modified or altered without the consent of a Bond Insurer, the Trustee and the Holders of Outstanding Bonds of the Applicable Series, but with the consent of SONYMA, if applicable, 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, 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 each appropriate Bond Insurer and the Trustee.

For the purposes of the Resolution, Outstanding Bonds of the Applicable Series shall be deemed to be adversely affected by an amendment, change, modification or alteration of the Application a Loan Agreement if the same adversely affects or diminishes the rights of the Holders of the 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 the Bonds.

For all purposes of the Resolution, the Trustee shall be entitled to rely upon an opinion of counsel, which counsel shall be satisfactory to the Trustee and the appropriate Bond Insurer, with respect to whether any amendment, change, modification or alteration adversely affects the interests of any Holders of Bonds and any Bond Insurer of the Applicable Series then Outstanding.

(Section 7.11)

Notice as to Event of Default Under Loan Agreements and as to Enforcement of SONYMA Insurance Policies.

If one or more SONYMA Policies are in effect, the Authority shall notify SONYMA and the Trustee in writing that an "Event of Default" under the Applicable Loan Agreement, as such term is defined in such Loan Agreement, has occurred and is continuing, which notice shall be given within five (5) days after the Authority has obtained actual knowledge thereof. The Authority shall keep SONYMA, if applicable and the Trustee advised as to any actions taken to cure such Event of Default and/or to claim the benefits under the Applicable SONYMA Insurance Policy, including, but not limited to, the filing of a claim with respect thereto. The Authority shall, or shall cause the Trustee to, assign a Mortgage in default to SONYMA or take such other actions at such times and in such manner so as to avoid any loss or diminution of benefits receivable under the SONYMA Insurance Policy relating to such Mortgage, and shall, or shall cause the Trustee to, take any and all action necessary or appropriate to ensure that all benefits of such SONYMA Insurance Policy are paid in cash in accordance with all applicable regulations of SONYMA and the terms of such SONYMA Insurance Policy, The Authority shall not take any action in violation of the applicable regulations of SONYMA which would cause the termination of a SONYMA Insurance Policy.

(Section 7.12)

Series Resolutions and Supplemental Resolutions

Modification and Amendment Without Bondholder Consent.

Notwithstanding any other provisions of Article IX or Article X 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 the Authority:

(i) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(ii) 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;

(iii) 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;

(iv) 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;

(v) To modify any of the provisions of the Resolution in any other respects, provided that such modifications shall not be effective until after all Bonds Outstanding as of the date of adoption of such Supplemental Resolution shall cease to be Outstanding, and all Bonds issued under such resolutions shall contain a specific reference to the modifications contained in such subsequent resolutions; or

(vi) 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 or the Bond Insurer in any material respect.

The Authority shall give the Bond Insurer notice of each such Supplemental Resolution adopted pursuant to the Resolution amending the Resolution and the Bond Insurer notice of each such Supplemental Resolution amending a Series Resolution.

(Section 9.02)

Supplemental Resolutions Effective With Consent of Bondholders.

The provisions of the Resolution and 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 Bond Insurers and Bondholders in accordance with and subject to the provisions of Article X of the Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by the Authority.

(Section 9.03)

General Provisions Relating to Supplemental Resolutions.

The Resolution or any Series Resolution shall not be modified or amended in any respect except in accordance with and subject to the provisions of Article IX and Article X of the Resolution. Nothing contained in Article IX or Article X of the Resolution shall affect or limit the rights or obligations of the Authority to adopt, make, do, execute or deliver any resolution, act or other instrument pursuant to the provisions of the Resolution or the right or obligation of the Authority to execute and deliver to the Trustee or Applicable Paying Agent any instrument elsewhere therein provided or permitted to be delivered to the Trustee or Applicable Paying Agent.

A copy of every Supplemental Resolution adopted by the members of the Authority, when filed with the Trustee thereunder, shall be accompanied by an opinion of Bond Counsel stating that such Supplemental Resolution has been duly and lawfully adopted 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.

The Trustee is thereby authorized to accept delivery of a certified copy of any Supplemental Resolution permitted or authorized pursuant to the provisions of the Resolution and to make all further agreements and stipulations which may be contained therein, and, in taking such action, the Trustee shall be fully protected in relying on the opinion of Bond Counsel that such Supplemental Resolution is authorized or permitted by the provisions of the Resolution.

No Supplemental Resolution changing, amending or modifying any of the rights or obligations of the Trustee or of Applicable Paying Agent shall become effective without the written consent of the Trustee or such Paying Agent affected thereby.

(Section 9.04)

Amendments of Resolution

Powers of Amendment.

Any modification or amendment of the Resolution and of the rights and obligations of the Authority which shall be deemed to affect a Series of Bonds and of the Holders of the Bonds of such Series under the Resolution, in any particular, may be made by a Supplemental Resolution, with the written consent given as thereinafter provided in the Resolution, (i) of any Bond Insurer and the Holders of at least two thirds (2/3) in principal amount of the Bonds Outstanding of a Series 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 Bond Insurer and the Holders of at least two thirds (2/3) in principal amount of the Bonds of a 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 any Series and maturity remain Outstanding, the consent of the Bond Insurer and 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 the Resolution. No such modification or amendment shall jeopardize the procurement or continuation of the SONYMA Insurance Policies. 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 Bond Insurer and 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, an Applicable 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 Bond Insurer or the Holders of Bonds of an Applicable Series. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, the Bonds of a 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 Bonds of a 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 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 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 Bond Insurer and the Holders of a 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 Bond Insurer and 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 in the Resolution provided). Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consent of such Bond Insurer and of the Holders of the percentages of Outstanding Bonds of a Series specified in 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 thereby, and is valid and binding upon the Authority and enforceable in accordance with its terms. 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 Bond Insurer and the Holders of the Bonds of a Series described in the certificate or certificates of the Trustee. Any consent given by a Bond Insurer or a Holder of Bonds of a Series shall be binding upon such Bond Insurer or such Bondholder giving such consent and, anything in the Resolution to the contrary notwithstanding, upon any such subsequent Bond Insurer or Bondholder and of any Bonds issued in exchange therefor (whether or not such subsequent Bond Insurer or Holder thereof has notice thereof), unless such consent is revoked in writing by such Bond Insurer or such Bondholder giving such consent or such subsequent Bond Insurer or Holder thereof by filing such revocation with the Trustee, prior to the time when the written statement of the Trustee thereinafter in the Resolution provided for 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 Bond Insurer and 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 Bond Insurer and 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 Bond Insurer and Holders of the required percentages of Bonds of each Series and will be effective as provided in the Resolution, shall be given to such Bond Insurer and such Bondholders by the Trustee at the direction of the Authority by mailing or causing the mailing of such notice to such Bond Insurer and the Bondholders (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in the Resolution provided) and, in the sole discretion of the Authority, by publishing the same at least once not more than ninety (90) days after such Bond Insurer and 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 hereinabove provided for is filed (but failure to publish such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in the Resolution provided). 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 such Bond Insurer and 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 Bond Insurer and the Holders of each 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. The Trustee, in determining whether any amendments or supplements to the Resolution or a Series Resolution may be made without the consent of the Holders of Bonds of such Series, or, in determining whether any other discretionary action should be taken, shall consider the effect of such action on the rights of such Holders as if the Municipal Bond Insurance Policy were not in effect.

(Section 10.02)

Modifications by Unanimous Consent.

The terms and provisions of the Resolution and the rights and obligations of the Authority and of the Holders of the Bonds of a Series thereunder may be modified or amended in any respect upon the adoption and filing with the Trustee by the Authority of a copy of such Supplemental Resolution certified by the Authority and the consent of the

Bond Insurer and the Holders of all of the Bonds then Outstanding of a Series, such consent to be given as provided in the Resolution, except that no notice to such Bondholders either by mailing or publication shall be required.

(Section 10.03)

Consent of Facility Provider.

Whenever by the terms of Article X of the Resolution the consent of any of the Holders of the Bonds of a Series to a modification or amendment of the Resolution made by a Supplemental Resolution is required, such modification or amendment shall not become effective until the written consent of each Applicable Facility Provider has been obtained. Any modification or amendment of the Resolution made by a Supplemental Resolution which would expressly affect the rights of such Facility Provider shall not become effective until the written consent of such Facility Provider has been obtained. Notice of the adoption of such Supplemental Resolution and of the effectiveness of the modification or amendment made thereby shall be given to each Applicable Facility Provider and to S&P at the times and in the manner provided therein with respect to notices thereof required to be given to the Bond Insurer of the Bonds of such Series. Notice thereof shall also be given to Moody's and S&P as soon as practicable after adoption of such Supplemental Resolution.

(Section 10.04)

Defaults and Remedies

Events of Default.

An event of default shall exist under the Resolution and under a Series Resolution (herein called "event of default") if:

(i) with respect to a Series of Bonds, payment of the principal, Sinking Fund Installments or Redemption Price of any such 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; or

(ii) with respect a Series of Bonds, payment of an installment of interest on any Bond shall not be made by the Authority when the same shall become due and payable; or

(iii) with respect a Series of Bonds, the Authority shall default in the due and punctual performance of the covenants contained in the Resolution and, as a result thereof, the interest on the Bonds of an Applicable Series, the interest on which it was intended to be excluded, shall no longer be excludable from gross income under Section 103 of the Code; or

(iv) 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 or in a 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 a Series or the Bond Insurer; or

(v) with respect to a Loan Agreement, an "Event or Default", as defined in such Loan Agreement, shall have occurred and is continuing and all sums payable by the Applicable Institution under the Applicable Loan shall have been declared to be immediately due and payable, which declaration shall not have been annulled.

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 the Resolution thereof solely as a result of payments made to Bondholders from draws under a Reserve Fund Facility, which draws remain unreimbursed.

(Section 11.02)

Acceleration of Maturity.

Upon the happening and continuance of any event of default specified in the Resolution, other than certain events of default relating to the Authority's obligations to comply with provisions of the Code relating to the exclusion from gross income of interest on Bonds issued under the Resolution, the Trustee upon the written request of (i) SONYMA or the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of a Series, with the consent of SONYMA or (ii) if SONYMA has deposited with the Trustee a sum sufficient to pay the principal of and interest on the Allocable Portion of the Outstanding Bonds of such Series due upon the acceleration thereof, SONYMA, without the consent of the Owners of the Outstanding Bonds, by a notice in writing to the Authority, declare the principal of and interest on all of the Allocable Portion of the Outstanding Bonds of a Series to be due and payable immediately. At the expiration of thirty (30) days from the giving of notice of such declaration, such principal and interest shall become and be immediately due and payable, anything in the Resolution or in a Series Resolution or in a Series of Bonds to the contrary notwithstanding. If SONYMA makes any payments of principal of or interest on any of the Bonds of such Series pursuant to the SONYMA Insurance Policy or Policies and the Allocable Portion of the Bonds of such Series are so accelerated, SONYMA may, at any time and at its sole option, pay to the Bondholders of such Series all or any portion of amounts due under such Bonds prior to the stated maturity dates thereof. At any time after the Allocable Portion of the principal of the Bonds of a 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 SONYMA or the Holders of not less than twenty five per centum (25%) in principal amount of such Series of Bonds not then due by their terms and then Outstanding, with the consent of SONYMA or, if such SONYMA is then the Holder of all Outstanding Bonds of a Series, upon the written request of SONYMA, 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 Allocable Portion of the Outstanding Bonds of such 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 Allocable Portion of the Series of Bonds; (iii) all other amounts then payable by the Authority under the Resolution in connection with such Allocable Portion of the Series of Bonds and under such 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 such 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 under the Resolution) 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 upon the written request of SONYMA or the Bond Insurer, as the case may be, or the Holders of not less than twenty five per centum (25%) in principal amount of the Outstanding Bonds of a Series with the consent of SONYMA or the Bond Insurer, as the case may be, shall proceed (subject to the provisions of the Resolution), to protect and enforce its rights and the rights of the Holders of Bonds of a Series under the Resolution or under such 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 Series Resolution or in aid or execution of any power in the Resolution or therein 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 Mortgage assigned to the Trustee pursuant to the Resolution. In the enforcement of any remedy under the Resolution and under a 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 a Series Resolution or of a 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 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)

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 an Applicable Series Resolution and an 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 an 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 Facility Provider which has certified to the Trustee and the Authority that moneys advanced under a Reserve Fund Facility which constitutes any part of the Debt Service Reserve Fund 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 a Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the Applicable Institution, as directed in writing by the Authority. Such Securities so paid or delivered shall be released from any trust, pledge, lien, encumbrance or security interest created by the Resolution, by a Series Resolution or by such Loan Agreement.

(B) Notwithstanding any provision of the Resolution to the contrary, if any Institution shall have prepaid its respective Loan pursuant to the 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 Bonds or portions thereof applicable to such Loan 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 such Loan Agreement and any Mortgage or security interest relating thereto 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 Institution, and the Authority, and all moneys or other Securities held by it pursuant to the Resolution and to a Series Resolution which are not required for the payment or redemption of its Allocable Portion of the Bonds of such 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 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 Institution's Allocable Portion of the Debt Service Reserve Fund 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 relating to the Applicable Loan to be prepaid for fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the Institution. Such Securities so paid or delivered shall be released from any trust, pledge, lien, encumbrance or security interest created by the Resolution, by a Series Resolution or by such Loan Agreement.

(C) Bonds of the Applicable 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 the Resolution. All Outstanding Bonds of the Applicable Series or portions thereof or any maturity or a portion of a maturity shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the Resolution if (a) 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 mail as provided in Article IV of the Resolution notice of redemption on said date of such Bonds, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or direct obligations of the United States of America, which obligations are not subject to redemption prior to maturity other than at the option of the holder or which have been irrevocably called for redemption on a stated future date, 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 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 Article XII of the Resolution shall be held by the Trustee in separate trust accounts established with respect to each Loan prepaid under the Resolution, (c) the Trustee shall have received the consent to each deposit of each Facility Provider which has issued a Reserve Fund Facility which constitutes a part of the Debt Service Reserve Fund and which has given written notice to the Authority that amounts advanced thereunder or the interest thereon have not been paid to such Facility Provider, and (d) 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 said 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 (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Resolution 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 in the Resolution. Neither direct obligations of the United States of America nor moneys deposited with the Trustee pursuant to the Resolution nor principal or interest payments on any such direct obligations of the United States of America 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 that any moneys received from such principal or interest payments on such direct obligations of the United States of America deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in direct obligations of the United States of America 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. 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 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 the Debt Service Reserve Fund, 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 Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to any applicable Institution, 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 such Loan Agreement.

(D) Anything therein 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 three (3) 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, 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.

(E) No principal or Sinking Fund Installment of or installment of interest on a Bond of an Applicable Series shall be considered to have been paid, and the obligation of the Authority for the payment thereof shall continue, notwithstanding that any Bond Insurer pursuant to a Municipal Bond Insurance Policy issued with respect to such Bond has paid the principal or Sinking Fund Installment thereof or the installment of interest thereon.

(F) Prior to any defeasance of any Bonds becoming effective under the Resolution, any Bond Insurer shall have received (a) the final official statement delivered in connection with the refunding of bonds, if any, (b) a copy of the accountants' verification report relating to such defeasance, (c) a copy of the escrow deposit agreement or letter of instruction in form and substance acceptable to the Bond Insurer, and (d) a copy of an opinion of Bond Counsel, dated the date of defeasance and addressed to the Bond Insurer, to the effect that such Bonds have been paid within the meaning and with the effect expressed in the Resolution and a Series Resolution, and that the covenants, agreements and other obligations of the Authority to the Holders of such Bonds have been discharged and satisfied.

(G) Subject to the Resolution, in the event SONYMA has paid an insurance claim under a SONYMA Insurance Policy with respect to an Applicable Mortgage, the Trustee shall transfer to SONYMA the Applicable Mortgage and all other instruments related thereto.

(Section 12.01)

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FORM OF APPROVING OPINION OF BOND COUNSEL

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FORM OF APPROVING OPINION OF BOND COUNSEL

Hiscock & Barclay LLP
50 Beaver Street
Albany, New York 12207

_______________, 2008

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

Ladies and Gentlemen:

We have examined the record of proceedings relating to the $53,835,000 aggregate principal amount of Residential Institutions for Children Revenue Bonds, Sub-Series 2008A-1 (the "Sub-Series 2008A-1 Bonds") and $75,000,000 aggregate principal amount of Residential Institutions for Children Revenue Bonds, Sub-Series 2008A-2 (Federally Taxable) (the "Sub-Series 2008A-2 Bonds", and, collectively with the Sub-Series 2008A-1 Bonds, the "Series 2008 Bonds") issued by 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 and pursuant to the Constitution and statutes of the State of New York, including the Dormitory Authority Act, being Title 4 of Article 8 of the Public Authorities Law of the State of New York, as amended to the date hereof (the "Act"). We have also examined such certificates, documents, records and matters of law as we have deemed necessary for the purpose of rendering the opinions hereinafter set forth. Terms used but not otherwise defined herein shall have the respective meanings set forth in the Resolution (as defined herein).

The Series 2008 Bonds are issued under and pursuant to the Act, the Authority's Residential Institutions for Children Revenue Bond Resolution adopted March 26, 2008 (the "Resolution"), and the Authority's Residential Institutions for Children Revenue Bonds Series 2008 Resolution Authorizing Up To $75,000,000 Bonds, adopted March 26, 2008 (the "Series 2008 Resolution"). The Resolution and the Series 2008 Resolution are herein collectively called the "Resolutions". The Series 2008 Bonds are being issued for the purposes set forth in the Resolutions.

The Series 2008 Bonds are to mature on the dates and in the years and amounts and interest on the Series 2008 Bonds is payable at the rates in the Bond Series Certificate executed and delivered pursuant to the Resolutions and in the Bond Series Certificate executed on behalf of the Authority.

The Series 2008 Bonds will be issued as fully registered bonds in denominations of $5,000 or any integral multiple thereof. The Series 2008 Bonds are payable, subject to redemption prior to maturity, exchangeable, transferable and secured upon such terms and conditions as are contained in the Resolution.

The Authority has entered into Loan Agreements with certain Residential Institutions for Children (the "Institutions"), each dated as of March 26, 2008 (the "Loan Agreements") providing, among other things, for loans to the Institutions for the purposes permitted thereby and by the Resolutions. Pursuant to the Loan Agreements, each Institution is required to make payments sufficient to pay its allocable portion of the principal, sinking fund installments and redemption price, if applicable, of and interest on the Series 2008 Bonds as the same become due, which payments have been pledged by the Authority to the Trustee for the benefit of the holders of the Series 2008 Bonds.

Based upon the foregoing, we are of the opinion that:

1. The Authority is a body corporate and politic constituting a public benefit corporation of the State of New York with the right and lawful authority and power to adopt the Resolutions and to issue the Series 2008 Bonds thereunder.

2. The Resolution has been duly and lawfully adopted by the Authority. The Series 2008 Resolution has been duly and lawfully adopted by the Authority in accordance with the provisions of the Resolution and is authorized and permitted by the Resolution. The Resolutions are in full force and effect, and are legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms. The Resolutions create the valid pledge and the valid lien upon the Revenues which they purport to create, subject only to the provisions of the Resolutions permitting the withdrawal, payment, setting apart or appropriation thereof for the purposes and on the terms and conditions set forth in the Resolutions.

3. The Series 2008 Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of New York, including the Act, and in accordance with the Resolutions. The Series 2008 Bonds are legal, valid and binding special obligations of the Authority payable as provided in the Resolutions, are enforceable in accordance with their terms pursuant to the Resolutions and are entitled to the equal benefits of the Resolutions and the Act.

4. The Authority has the right and lawful authority and power to enter into the Loan Agreements. The Loan Agreements have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery of the Loan Agreements by the Institutions constitute a legal, valid and binding obligation of the Authority enforceable in accordance with its terms.

5. Under existing laws, regulations, administrative interpretations and court decisions:

(a) interest on the Sub-Series 2008A-1 Bonds is excludable from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1987, as amended (the "Code");

(b) interest on the Sub-Series 2008A-1 Bonds will not be treated as a specific item of tax preference for purposes of the alternative minimum tax provisions of the Code; provided, however, that the interest with respect to any such Bond owned by certain corporations will be included in such corporation's "adjusted current earnings", a portion of which will be taken into account in determining the alternative minimum tax liability, if any, of such corporation;

(c) interest on the Sub-Series 2008A-2 Bonds is includable in gross income for federal income tax purposes; and

(d) interest on the Series 2008 Bonds is exempt from State of New York, The City of New York and the City of Yonkers personal income taxes.

We are further of the opinion that the difference between the principal amount of the Sub-Series 2008A-1 Bonds maturing on June 1, 2023 through June 1, 2027, inclusive (the "Discount Bonds"), which were sold at less than the stated principal amount thereof to initial purchasers in the initial offering to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Sub-Series 2008A-1 Bonds of the same maturity were sold constitutes original issue discount ("OID") which is excluded from gross income for federal income tax purposes to the same extent as interest on the Sub-Series 2008A-1 Bonds. Further, such original issue discount accrues actuarially on a constant yield basis over the term of each Discount Bond and the basis of such Discount Bond acquired at such initial offering price by an initial purchaser of each Discount Bond will be increased by the amount of such accrued discount.

We are further of the opinion that the Sub-Series 2008A-1 Bonds maturing on June 1, 2011 through June 1, 2022, inclusive, June 1, 2028, June 1, 2033 and June 1, 2038 (the "Premium Bonds"), will be subject to requirements under the Code relating to tax cost reduction associated with the amortization of bond premium, and, under certain circumstances, the initial owner of a Premium Bond may realize taxable gain upon disposition of Premium Bonds even though sold or redeemed for an amount less than or equal to such owner's original cost of acquiring Premium Bonds. The amortization requirements may also result in the reduction of the amount of stated interest which an owner of Premium Bonds is treated as having received for federal tax purposes (and an adjustment to basis). Owners of Premium Bonds are advised to consult with their own tax advisors with respect to the tax consequences of owning such Premium Bonds.

In rendering the opinions set forth in paragraph 5, we have assumed the accuracy of certain factual certifications of, and continuing compliance with, the provisions and procedures set forth in the Resolutions and the Loan Agreements by the Authority and the Institutions. In the event of the inaccuracy or incompleteness of any of the certifications made by the Authority or the Institutions, or of the failure by the Authority or the Institutions to comply with the provisions and procedures set forth in the Resolution and the Loan Agreements, the interest could become includable in gross income for federal income tax purposes retroactive to the date of original execution and delivery of the Sub-Series 2008 A-1 Bonds, regardless of the date on which the event causing such inclusion occurs. Further, although the interest is excludable from gross income for federal income tax purposes, receipt or accrual of the interest may otherwise affect the tax liability of a holder of a Sub-Series 2008 A-1 Bond. The tax effect of receipt or accrual of the interest will depend upon the tax status of a holder of a Sub-Series 2008 A-1 Bond and such holder's other items of income, deduction or credit. We express no opinion with respect to any such effect.

We have examined a fully executed Sub-Series 2008A-1 Bond and a fully executed Sub-Series 2008A-2 Bond and, in our opinion, the forms of said Bonds and their execution are regular and proper.

The opinions contained in paragraphs 2, 3 and 4 above are qualified to the extent that the enforceability of the Resolutions, the Loan Agreement and the Series 2008 Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws effecting creditors' rights generally and as to the availability of any particular remedy.

Very truly yours,

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DORMITORY AUTHORITY OF THE STATE OF NEW YORK
RESIDENTIAL INSTITUTIONS FOR CHILDREN REVENUE BONDS, SUB-SERIES 2008A-1 AND FEDERALLY TAXABLE SUB-SERIES 2008A-2

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