NEW ISSUE – BOOK-ENTRY ONLY

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

$12,970,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
Interagency Council Pooled Loan Program
REVENUE BONDS, SERIES 2014A

Consisting of:

$12,385,000 Subseries 2014A-1 **$585,000 Subseries 2014A-2 (Federally Taxable)**

Dated: Date of Delivery **Due: July 1, as shown on the inside cover**

Payment and Security: The InterAgency Council Pooled Loan Program Revenue Bonds, Series 2014A consisting of Subseries 2014A-1 (the "Subseries 2014A-1 Bonds") and Subseries 2014A-2 (Federally Taxable) (the "Subseries 2014A-2 Bonds;" and together with the Subseries 2014A-1 Bonds, the "Series 2014 Bonds") will be special obligations of the Dormitory Authority of the State of New York ("DASNY"). Principal, Sinking Fund Installments and Redemption Price of and interest on the Series 2014 Bonds are payable solely from and secured by a pledge of the Revenues (described below) and the funds and accounts (other than the Arbitrage Rebate Fund) authorized by DASNY's InterAgency Council Pooled Loan Program Revenue Bond Resolution adopted on March 31, 2010 (the "Resolution") and established with respect to the Series 2014 Bonds by the Series 2014A Resolution Authorizing Up To $24,000,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2014A, adopted March 12, 2014 (the "Series 2014 Resolution"), including a Debt Service Reserve Fund.

The Revenues pledged to the payment of the Series 2014 Bonds are comprised of certain payments to be made under separate Loan Agreements dated as of March 12, 2014 (each a "Series 2014 Loan Agreement"), between DASNY and each of the following members of the Interagency Council of Developmental Disabilities Agencies, Inc., each of which is a New York State not-for-profit corporation, other than Ability Beyond Disability, Inc., which is a Connecticut not-for-profit corporation: Ability Beyond Disability and Ability Beyond Disability, Inc. (which shall be considered a single Series 2014 Participant), Family Residences and Essential Enterprises, Inc., Institute for Community Living Inc. and Ohel Children's Home and Family Services, Inc. (each a "Series 2014 Participant" and collectively, the "Series 2014 Participants").

Each Series 2014 Loan Agreement is a general obligation of the respective Series 2014 Participant to pay, in addition to certain fees and expenses, only its Allocable Portion of the principal, Sinking Fund Installments and Redemption Price of and interest on the Series 2014 Bonds corresponding to such Series 2014 Participant's proportionate share of the proceeds of the Series 2014 Bonds loaned to it by DASNY, and to maintain its Allocable Portion of the Debt Service Reserve Fund Requirement. Payment of amounts due under the Series 2014 Loan Agreements are several and not joint obligations of the Series 2014 Participants. Each of the Series 2014 Participant's obligations under its respective Series 2014 Loan Agreement will be secured by a security interest in certain revenues of such Series 2014 Participant granted to DASNY and pledged and assigned to the Trustee.

A DEFAULT BY ANY ONE OR MORE OF THE SERIES 2014 PARTICIPANTS UNDER THEIR RESPECTIVE SERIES 2014 LOAN AGREEMENTS MAY RESULT IN A DEFAULT UNDER THE RESOLUTION AND THE SERIES 2014 RESOLUTION WITH RESPECT TO SUCH SERIES 2014 PARTICIPANT'S ALLOCABLE PORTION OF THE SERIES 2014 BONDS; HOWEVER, ANY LIABILITY WITH RESPECT TO SUCH DEFAULT IS LIMITED SOLELY TO THE SERIES 2014 PARTICIPANT OR SERIES 2014 PARTICIPANTS THAT ARE IN DEFAULT, WITHOUT RIGHT OF CONTRIBUTION FROM THE NON-DEFAULTING SERIES 2014 PARTICIPANTS. ANY SUCH DEFAULT, HOWEVER, COULD RESULT IN A DEFAULT IN PAYMENT OF THE SERIES 2014 BONDS.

The Series 2014 Bonds will not be a debt of the State of New York nor will the State of New York be liable thereon. DASNY has no taxing power.

Description: The Series 2014 Bonds will be issued as fully registered bonds in denominations of $5,000 or any integral multiple in excess thereof. Interest (due July 1, 2014 and each January 1 and July 1 thereafter) on the Series 2014 Bonds will be payable by check mailed to the registered owners thereof and principal and Redemption Price of the Series 2014 Bonds will be payable at the principal corporate trust office of The Bank of New York Mellon, New York, New York, the Trustee and Paying Agent, or at the option of the holder of at least $1,000,000 principal amount of the Series 2014 Bonds by wire transfer, as more fully described herein.

The Series 2014 Bonds will be issued as fully registered bonds and when issued initially will be issued in book-entry form, registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2014 Bonds. Purchases of beneficial ownership interests in the Series 2014 Bonds may be made only through the DTC book-entry system. Beneficial Owners (as defined herein) of the Series 2014 Bonds will not receive certificates representing their interests in the Series 2014 Bonds. See "PART 4 - THE SERIES 2014 BONDS – Book-Entry Only System" herein.

Redemption and Purchase in Lieu of Redemption: The Series 2014 Bonds are subject to redemption and purchase in lieu of redemption prior to maturity as more fully described herein.

Tax Matters: In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to DASNY, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Subseries 2014A-1 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Subseries 2014A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. Interest on the Subseries 2014A-2 Bonds is included in gross income for Federal income tax purposes pursuant to the Code. In addition, in the opinion of Bond Counsel to DASNY, under existing statutes, interest on the Series 2014 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof. See "PART 10 - TAX MATTERS" herein.

The Series 2014 Bonds are offered, when, as and if issued by DASNY, subject to prior sale, withdrawal or modification of the offer without notice, and subject to the approval of legality by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to DASNY. Certain legal matters will be passed upon for the Series 2014 Participants by Cullen and Dykman, LLP, Albany, New York and for the Underwriter by McCarter & English, LLP, New York, New York and Newark, New Jersey. DASNY expects to deliver the Series 2014 Bonds in definitive form in New York, New York on or about April 29, 2014.

MUNICIPAL CAPITAL MARKETS GROUP, INC.

April 16, 2014

$12,970,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
INTERAGENCY COUNCIL POOLED LOAN PROGRAM
REVENUE BONDS, SERIES 2014A

Consisting of:

$12,385,000 Subseries 2014A-1

Consisting of:

$7,785,000 Serial Bonds

Maturing July 1	Principal Amount	Coupon	Yield	CUSIP[(1)]
2015	$415,000	3.00%	0.48%	649907 ZA3
2016	510,000	3.00	0.74	649907 ZB1
2017	775,000	2.00	1.00	649907 ZC9
2018	790,000	3.00	1.38	649907 ZD7
2019	820,000	3.00	1.63	649907 ZE5
2020	840,000	3.00	2.08	649907 ZF2
2021	865,000	2.00	2.25	649907 ZG0
2022	890,000	2.25	2.40	649907 ZH8
2023	920,000	3.00	2.88	649907 ZJ4
2024	960,000	3.00	3.03	649907 ZK1

$2,850,000 5.00% Term Bond due July 1, 2029 to Yield 3.550% CUSIP[(1)] 649907 ZL9

$775,000 3.75% Term Bond due July 1, 2034 to Yield 4.00% CUSIP[(1)] 649907 ZM7

$975,000 4.00% Term Bond due July 1, 2039 to Yield 4.14% CUSIP[(1)] 649907 ZN5

$585,000
Subseries 2014A-2
(Federally Taxable)

$585,000 1.00% Term Bond due July 1, 2016 to Yield 0.947% CUSIP[(1)] 649907 ZP0

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(1) CUSIP numbers have been assigned by an independent company not affiliated with DASNY and are included solely for the convenience of the holder of the Series 2014 Bonds. Neither DASNY nor the Underwriter is responsible for the selection or uses of the CUSIP numbers, and no representation is made as to their correctness on the Series 2014 Bonds or as indicated above. CUSIP numbers are subject to being changed after the issuance of the Series 2014 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Series 2014 Bonds or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Series 2014 Bonds.

No dealer, broker, salesman or other person has been authorized by DASNY, the Series 2014 Participants or the Underwriter to give any information or to make any representations with respect to the Series 2014 Bonds, other than the information and representations contained in this Official Statement. If given or made, any such information or representation must not be relied upon as having been authorized by DASNY, the Series 2014 Participants or the Underwriter.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2014 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information in this Official Statement has been supplied by the Series 2014 Participants, the Interagency Council of Developmental Disabilities Agencies, Inc. (the "Program Facilitator") and other sources that DASNY believes are reliable. DASNY does not guarantee the accuracy or completeness of such information and such information is not to be construed as a representation of DASNY.

Each Series 2014 Participant has reviewed the portions of this Official Statement describing such Series 2014 Participant, its Series 2014 Facilities, its Mortgages, if any, "PART 1 – INTRODUCTION" (but solely with respect to the headings "The Series 2014 Participants," "Additional Security – Pledged Revenues and Standby Intercepts," "The Mortgages," and "Collateral Assignment of Leases"), "PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2014 BONDS – Security for the Series 2014 Bonds - Pledged Revenues – OPWDD Funds," " – Security for the Series 2014 Bonds – Mortgages" and " – Security for the Series 2014 Bonds – Collateral Assignment of Leases," "PART 3 – THE SERIES 2014 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2014 Bonds," "PART 4 - THE SERIES 2014 PARTICIPANTS," "PART 5 - SOURCES OF SERIES 2014 PARTICIPANT FUNDING," "PART 6 - ESTIMATED SOURCES AND USES OF FUNDS," "PART 11 - BONDHOLDERS' RISKS," and the information relating to it contained in Appendices A, B, and C. It is a condition to the sale and delivery of the Series 2014 Bonds that each Series 2014 Participant certify that, as of each such date, such parts do not contain any untrue statement of a material fact and do not omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which the statements were made, not misleading. The Series 2014 Participants make no representations as to the accuracy or completeness of any other information included in this Official Statement.

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

References in this Official Statement to the Act, the Resolution, the Series 2014 Resolution and the Series 2014 Loan Agreements do not purport to be complete. Refer to the Act, the Resolution, the Series 2014 Resolution and the Series 2014 Loan Agreements for full and complete details of their provisions. Copies of the Resolution, the Series 2014 Resolution and the Series 2014 Loan Agreements are on file with DASNY and the Trustee.

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

Under no circumstances shall the delivery of this Official Statement or any sale made after its delivery create any implication that the affairs of DASNY or the Series 2014 Participants have remained unchanged after the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2014 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2014 BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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DORMITORY AUTHORITY - STATE OF NEW YORK — 515 BROADWAY, ALBANY, N.Y. 12207
PAUL T. WILLIAMS, JR. - PRESIDENT — ALFONSO L. CARNEY, JR. - CHAIR

OFFICIAL STATEMENT

relating to

$12,970,000

INTERAGENCY COUNCIL POOLED LOAN PROGRAM

REVENUE BONDS, SERIES 2014A

Consisting of:

$12,385,000 Subseries 2014A-1 — **$585,000 Subseries 2014A-2 (Federally Taxable)**

PART 1 - INTRODUCTION

Purpose of Official Statement

The purpose of this Official Statement, which includes the cover page, the inside cover page and the appendices hereto, is to provide information about the Dormitory Authority of the State of New York ("DASNY"), Ability Beyond Disability and Ability Beyond Disability, Inc. (which shall be considered a single Series 2014 Participant and collectively referred to as "ABD"), Family Residences and Essential Enterprises, Inc., Institute for Community Living Inc. and Ohel Children's Home and Family Services, Inc. (collectively, the "Series 2014 Participants"), in connection with the offering by DASNY of the $12,970,000 aggregate principal amount of InterAgency Council Pooled Loan Program Revenue Bonds, Series 2014A, consisting of $12,385,000 Subseries 2014A-1 Bonds and $585,000 Subseries 2014A-2 Bonds (Federally Taxable) (collectively, the "Series 2014 Bonds").

The following is a brief description of certain information concerning the Series 2014 Bonds, DASNY and the Series 2014 Participants. A more complete description of such information and additional information that may affect decisions to invest in the Series 2014 Bonds is contained throughout this Official Statement, which should be read in its entirety. Certain capitalized terms used in this Official Statement are defined in Appendix D hereto.

Purpose of the Issue

The Series 2014 Bonds are being issued for the purpose of (i) financing, refinancing or reimbursing a portion of the cost of the acquisition, renovation and furnishing, as applicable, of certain facilities (collectively, the "Series 2014 Facilities") of the Series 2014 Participants for the provision of services to people with developmental disabilities or other special needs and the acquisition of equipment and other personal property with respect to such Series 2014 Facilities (collectively, the "Series 2014 Project"), (ii) making a deposit to each account of the Debt Service Reserve Fund securing the Series 2014 Bonds (the "Series 2014 Debt Service Reserve Fund") in an amount equal to each Series 2014 Participant's Allocable Portion of the Series 2014 Debt Service Reserve Fund Requirement (defined herein) and (iii) paying certain costs of issuance of the Series 2014 Bonds. The Loan Agreements entered into with DANSY by the Series 2014 Participants (the "Series 2014 Loan Agreements"), require, in the aggregate, the payment of amounts sufficient to provide for the payment of the principal or Redemption Price, if any, of, Sinking Fund Installments with respect to, and interest on, the Series 2014 Bonds as the same become due. See "PART 6 - ESTIMATED SOURCES AND USES OF FUNDS." For a description of the Series 2014 Facilities being financed or refinanced with proceeds of the Series 2014 Bonds, see "Appendix A - Description of Series 2014 Participants."

Authorization of Issuance

The Act authorizes DASNY, among other things, to issue its bonds for the purpose of financing or refinancing the costs of the acquisition, construction, reconstruction, renovation, development, improvement, expansion and equipping of certain educational, administrative, day program and residential facilities of the not-for-profit members (each a "Participant") of the Interagency Council of Developmental Disabilities Agencies, Inc., which members include the Series 2014 Participants.

The Resolution authorizes the issuance of multiple series of bonds (each a "Series of Bonds") pursuant to separate series resolutions (each a "Series Resolution"). Pursuant to the Resolution, each Series of Bonds issued thereunder, including the Series 2014 Bonds, is to be separately secured by (i) the funds and accounts established with respect to such Series of Bonds under a Series Resolution, and (ii) the Revenues pledged to such Series of Bonds and derived from payments made under the loan agreements entered into by DASNY and the applicable Participants in connection with the issuance of such Series of Bonds. Neither the funds and accounts established under a Series Resolution nor any loan agreement entered into or any mortgage or other security granted in connection with the issuance of a Series of Bonds shall secure any other Series of Bonds.

The Series 2014 Bonds will be issued pursuant to the Act, the Resolution and the Series 2014 Resolution. The term "Resolutions" shall mean the Resolution and the Series 2014 Resolution. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2014 BONDS."

DASNY

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

The Program Facilitator

The InterAgency Council of Developmental Disabilities Agencies, Inc. (the "Program Facilitator") will act as the facilitator for the InterAgency Council Pooled Loan Program. The Program Facilitator is a not-for-profit membership organization voluntarily supported by 130 not-for-profit service provider agencies that conduct business primarily in the City of New York metropolitan area, but also throughout the State, including the Series 2014 Participants. See "PART 4 - THE SERIES 2014 PARTICIPANTS."

The Series 2014 Participants

Each of the Series 2014 Participants, other than Ability Beyond Disability, Inc., is a not-for-profit corporation organized and existing under the laws of the State. Ability Beyond Disability, Inc. is a not-for-profit corporation organized and existing under the laws of the State of Connecticut. See "PART 4 - THE SERIES 2014 PARTICIPANTS," "PART 5 - SOURCES OF SERIES 2014 PARTICIPANT FUNDING," "Appendix A - Description of Series 2014 Participants," "Appendix B - Audited Financial

Statements of Series 2014 Participants," and "Appendix C - Unaudited Financial Information of Series 2014 Participants."

Upon delivery of the Series 2014 Bonds, the Series 2014 Participants will receive loans from DASNY from the proceeds thereof in the following principal amounts, representing each Series 2014 Participant's Allocable Portion of each Subseries of the Series 2014 Bonds:

Series 2014 Participant	Subseries 2014A-1	Subseries 2014A-2	Total
Ability Beyond Disability and Ability Beyond Disability, Inc.	$3,255,000	$110,000	$3,365,000
Family Residences and Essential Enterprises, Inc.	2,615,000	115,000	2,730,000
Institute for Community Living Inc.	1,010,000	90,000	1,100,000
Ohel Children's Home and Family Services, Inc.	5,505,000	270,000	5,775,000

No Series 2014 Participant is responsible for the payment obligations of any other Series 2014 Participant. If a Series 2014 Participant fails to pay amounts due under its Series 2014 Loan Agreement in respect of its Allocable Portion of the Series 2014 Bonds, DASNY's sole remedy will be against the defaulting Series 2014 Participant and no other Series 2014 Participant.

See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2014 BONDS - Events of Default - Special Provisions Relating to Defaults" and "Appendix F Summary of Certain Provisions of the Resolutions." See also, "PART 3 - THE SERIES 2014 BONDS - Redemption Provisions - Extraordinary Mandatory Redemption."

The Series 2014 Bonds

The Series 2014 Bonds are dated their date of delivery and bear interest from such date (payable July 1, 2014, and on each January 1 and July 1 thereafter) at the rates and will mature at the times set forth on the inside cover page of this Official Statement. See "PART 3 - THE SERIES 2014 BONDS - Description of the Series 2014 Bonds."

Payment of the Series 2014 Bonds

The Series 2014 Bonds are special obligations of DASNY payable from the applicable Revenues, which consist of certain payments required to be made by the Series 2014 Participants pursuant to their respective Series 2014 Loan Agreements on account of the principal, Sinking Fund Installments and Redemption Price, if any, of and interest due on the Outstanding Series 2014 Bonds. The Revenues are pledged and assigned to the Trustee.

Pursuant to its Series 2014 Loan Agreement, each Series 2014 Participant will be required to pay, among other things, its Allocable Portion of the principal, Sinking Fund Installments and Redemption Price of and interest due on the Outstanding Series 2014 Bonds, in each case corresponding to the proceeds of each maturity of each Subseries of the Series 2014 Bonds loaned to it by DASNY. The obligation of each Series 2014 Participant to make payments under its Series 2014 Loan Agreement constitutes a general obligation of such Series 2014 Participant. The payment obligations of the Series 2014 Participants are several, not joint and are not cross-collateralized with the obligations of any other Series 2014 Participant. For a listing of each Series 2014 Participant's Allocable Portion of the principal and Sinking Fund Installments of and interest on the Series 2014 Bonds, see "PART 3 – THE SERIES 2014 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2014 Bonds."

Security for the Series 2014 Bonds

The Series 2014 Bonds will be secured by the pledge and assignment to the Trustee of the Revenues, the proceeds from the sale of the Series 2014 Bonds (until disbursed as provided by the Resolution) and all funds and accounts authorized by the Resolution and established by the Series 2014 Resolution (with the exception of the Arbitrage Rebate Fund), including the Series 2014 Debt Service Reserve Fund, which will be funded at its requirement with proceeds of the Series 2014 Bonds. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2014 BONDS - Security for the Series 2014 Bonds."

The Series 2014 Bonds are separately secured from all other Series of Bonds. The Holders of any Series of Bonds other than the Series 2014 Bonds are not entitled to the rights, benefits and security conferred upon the Holders of the Series 2014 Bonds.

The Series 2014 Bonds will not be a debt of the State nor will the State be liable thereon. DASNY has no taxing power.

Additional Security - Pledged Revenues and Standby Intercepts

The Series 2014 Bonds will also be secured by the pledge and assignment to the Trustee of DASNY's security interest in the applicable Pledged Revenues granted by each of the Series 2014 Participants to DASNY pursuant to its Series 2014 Loan Agreement, subject to Prior Pledges. Certain of the Series 2014 Participants have previously pledged their Public Funds (a portion of which consists of the Pledged Revenues) to DASNY, an industrial development agency or a bank or other financial institution as security for their obligations in connection with bonds previously issued by DASNY or such industrial development agency or their accounts receivable (including Public Funds) in connection with lines of credit. The pledge of the Pledged Revenues granted by each such Series 2014 Participant is subject, and subordinate, to such Prior Pledges in all respects. See "Appendix A - Description of Series 2014 Participants" for a description of which Series 2014 Participants have Prior Pledges of their respective Pledged Revenues.

Pledged Revenues are all Public Funds payable to a Series 2014 Participant with respect to its Series 2014 Facilities. In the case of each Series 2014 Participant, Public Funds includes amounts payable by the New York State Office for People with Developmental Disabilities, formerly known as the New York State Office of Mental Retardation and Developmental Disabilities, ("OPWDD") in connection with its Series 2014 Facilities.

With respect to each Series 2014 Facility, pursuant to separate Prior Property Approvals (each a "PPA"), OPWDD has pre-approved the applicable Series 2014 Facility for reimbursement of amounts calculated to be sufficient to pay the principal and interest costs incurred by the related Series 2014 Participant in connection with its financing or refinancing of the acquisition, renovation and furnishing, as applicable, of such Series 2014 Facility, in each case subject to annual appropriation by the State Legislature and so long as such Series 2014 Participant operates the applicable Series 2014 Facility in accordance with certain defined standards. Assuming annual appropriation of sufficient funds and continued compliance with operational standards, it is expected that the amounts received by such Series 2014 Participants pursuant to their respective PPAs will be sufficient to pay the principal of and interest on their respective Allocable Portions of the Series 2014 Bonds. See "PART 5 - SOURCES OF SERIES 2014 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities."

The Pledged Revenues will be paid directly to each Series 2014 Participant and may be disposed of by such Series 2014 Participant for any of its corporate purposes. However, pursuant to the Act, the respective Series 2014 Loan Agreements and certain agreements entered into by DASNY, OPWDD and the respective Series 2014 Participants (each an "Intercept Agreement"), upon the occurrence of certain events described herein but subject to any Prior Pledges of the Pledged Revenues, DASNY may direct OPWDD to remit the revenues payable by OPWDD to a Series 2014 Participant pursuant to its PPA or PPAs (the "Intercept Funds") directly to DASNY or the Trustee for application to the payment of such Series 2014 Participant's Allocable Portion of the Outstanding Series 2014 Bonds.

Pledged Revenues of one Series 2014 Participant will not be available to satisfy the obligations of any other Series 2014 Participant. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2014 BONDS - Security for the Series 2014 Bonds - Pledged Revenues - OPWDD Funds" and "- Standby Intercepts." See also, "Appendix A - Description of Series 2014 Participants" and "Appendix E - Summary of Certain Provisions of the Series 2014 Loan Agreements."

The ability of the Series 2014 Participants to satisfy their payment obligations under the respective Loan Agreements with respect to the Series 2014 Bonds and DASNY's ability to realize upon its security interests in the respective Pledged Revenues are largely dependent upon the continued operation by the Series 2014 Participants of their respective Series 2014 Facilities, which may be adversely affected by a number of risk factors. Such risk factors include, but are not limited to, (i) the financial condition of the Series 2014 Participants and their ability to continue to generate sufficient revenues to support all of their respective facilities, including their Series 2014 Facilities, (ii) the continued compliance by the Series 2014 Participants with State and local operational standards with respect to their Series 2014 Facilities, and (iii) the continued commitment of public funds to support the programs and facilities operated by the Series 2014 Participants, particularly with respect to the Series 2014 Facilities, the continued appropriations by the State in amounts sufficient for OPWDD to make payments to the Series 2014 Participants pursuant to their respective PPAs. For a more detailed discussion of risk factors affecting the ability of the Series 2014 Participants to pay amounts owed under their Loan Agreements and the Pledged Revenues, as well as other risk factors affecting payment on the Series 2014 Bonds, see "PART 11 - BONDHOLDERS' RISKS" herein. See also, "PART 5 - SOURCES OF SERIES 2014 PARTICIPANT FUNDING."

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

A failure by a Series 2014 Participant to timely pay its obligations under its Series 2014 Loan Agreement might result in an event of default under the Resolutions if either (a) such Series 2014 Participant's loan is accelerated in accordance with the provisions of its Series 2014 Loan Agreement, or (b) as a result of such nonpayment, there is failure to pay the principal, Sinking Fund Installments, and Redemption Price of and interest on the Series 2014 Bonds when due. In either event, the Resolution provides that an event of default will have occurred only with respect to the portion of each maturity of each Subseries of the Outstanding Series 2014 Bonds that corresponds to a principal installment on the defaulting Series 2014 Participant's loan under the terms of its Series 2014 Loan Agreement (referred to as the "Defaulted Allocable Portion"). The funds available for the payment of a Defaulted Allocable Portion of the Series 2014 Bonds are limited by the Resolution to only those Revenues payable by or on behalf of such defaulting Series 2014 Participant pursuant to its Series 2014 Loan Agreement, funds on deposit with the Trustee attributable to such Series 2014 Participant and amounts recovered upon the realization on any collateral granted to DASNY as security for such Series 2014 Participant's obligations under its Series 2014 Loan Agreement and pledged to the payment of the Series 2014 Bonds.

After the application of all such amounts to the payment of the Defaulted Allocable Portion of the Series 2014 Bonds following the acceleration or extraordinary mandatory redemption thereof in accordance with the Resolutions, such Defaulted Allocable Portion of the Series 2014 Bonds will be deemed paid and discharged and the event of default cured, whether or not payment in full of all of the principal of and interest on such Defaulted Allocable Portion has been made to the Holders thereof. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2014 BONDS - Events of Default - Special Provisions Relating to Defaults" and "Appendix F - Summary of Certain Provisions of the Resolutions." See also, "PART 3 - THE SERIES 2014 BONDS - Redemption Provisions - Extraordinary Mandatory Redemption."

NO SERIES 2014 PARTICIPANT IS RESPONSIBLE FOR THE PAYMENT OBLIGATIONS OF ANY OTHER SERIES 2014 PARTICIPANT. IF A SERIES 2014 PARTICIPANT FAILS TO PAY AMOUNTS DUE UNDER ITS SERIES 2014 LOAN AGREEMENT IN RESPECT OF ITS ALLOCABLE PORTION OF THE SERIES 2014 BONDS, DASNY'S SOLE REMEDY WILL BE AGAINST THE DEFAULTING SERIES 2014 PARTICIPANT AND NO OTHER SERIES 2014 PARTICIPANT.

The Mortgages

In the event that a Series 2014 Participant owns its Series 2014 Facilities, such Series 2014 Participant's obligations under its Series 2014 Loan Agreement will be additionally secured by a mortgage (each a "Mortgage") from such Series 2014 Participant to DASNY, granting a first mortgage lien on such owned Series 2014 Facilities (except as otherwise described herein), and by a security interest in the fixtures, furniture and equipment financed with the proceeds of the Series 2014 Bonds located therein or used in connection therewith, such liens and security interests subject to applicable Prior Pledges and Permitted Encumbrances.

The Mortgages do not presently provide any security for the Series 2014 Bonds. However, under certain circumstances described herein, one or more of the Mortgages are required to be assigned to the Trustee. Prior to any such assignment of a Mortgage to the Trustee, each Series 2014 Loan Agreement provides that DASNY, without the consent of the Trustee or the Holders of the applicable Series of 2014 Bonds, may consent to the amendment, modification, termination, subordination or satisfaction of such Mortgage and of any security interest in furniture, fixtures or equipment financed with the proceeds of the Series 2014 Bonds located in or on or used in connection therewith and the property subject to such Mortgage or security interest may be released from the lien thereof, all upon such terms and conditions as DASNY may reasonably require. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2014 BONDS - Security for the Series 2014 Bonds - The Mortgages."

In the event that a Series 2014 Participant does not own its Series 2014 Facilities, such Series 2014 Participant's obligations under its Series 2014 Loan Agreement will not be secured by any mortgage or real property security interest.

See "Appendix A - Description of Series 2014 Participants" for a description of which Series 2014 Participants (i) own or lease their respective Series 2014 Facilities and (ii) will grant mortgages (and the nature of such mortgages) on their respective Series 2014 Facilities.

Collateral Assignment of Leases

Ohel Children's Home and Family Services, Inc. leases its Series 2014 Facilities located at 4224 12th Avenue, Brooklyn, New York and 1255 52nd Street, Brooklyn, New York. In order to secure its obligations under its Series 2014 Loan Agreement, Ohel Children's Home and Family Services, Inc. will collaterally assign to DASNY pursuant to a Collateral Assignment of Leases its right, title and interest (but not its obligations) in the lease for such Series 2014 Facilities. Each landlord under the applicable lease has consented to such collateral assignment.

PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2014 BONDS

Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2014 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 2014 Resolution and the Series 2014 Loan Agreements, copies of which are on file with DASNY and the Trustee. See also "Appendix E - Summary of Certain Provisions of the Series 2014 Loan Agreements" and "Appendix F - Summary of Certain Provisions of the Resolutions" for a more complete statement of the rights, duties and obligations of the parties thereto.

Payment of the Series 2014 Bonds

The Series 2014 Bonds are special obligations of DASNY. The principal, Sinking Fund Installments, and Redemption Price of and interest on the Series 2014 Bonds are payable solely from the Revenues. With respect to the Series 2014 Participants, the Revenues consist of the payments required to be made by each of the Series 2014 Participants under its respective Series 2014 Loan Agreement on account of such Series 2014 Participant's Allocable Portion of (i) the principal, Sinking Fund Installments, and Redemption Price of and interest due on the Series 2014 Bonds, and (ii) the Series 2014 Debt Service Reserve Fund Requirement (as defined below). The Revenues and the right to receive them have been pledged to the Trustee for the benefit of the Holders of the Series 2014 Bonds. The aggregate of payments due and payable to DASNY under all of the Series 2014 Loan Agreements will be sufficient to pay (i) the principal, Sinking Fund Installments and Redemption Price of and interest on the Series 2014 Bonds when due, (ii) amounts necessary to maintain the Series 2014 Debt Service Reserve Fund at its required level, and (iii) the annual fees of DASNY and the Trustee.

Each Series 2014 Loan Agreement is a general obligation of the respective Series 2014 Participant, pursuant to which such Series 2014 Participant will be required to make payments in amounts sufficient to satisfy its Allocable Portion of the principal, Sinking Fund Installments, and Redemption Price of and interest due on the Series 2014 Bonds as reflected in the debt service table set forth in "PART 3 – THE SERIES 2014 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2014 Bonds." The payment obligations of the Series 2014 Participants with respect to the Series 2014 Bonds are several, not joint. Each Series 2014 Participant is obligated to repay only its Allocable Portion of the Series 2014 Bonds. Each Series 2014 Participant's payments under its respective Series 2014 Loan Agreement will be applied pro rata to its Allocable Portion of the principal, Sinking Fund Installments, and Redemption Price of and interest due on each Subseries of the Outstanding Series 2014 Bonds.

Payments under each of the Series 2014 Loan Agreements are to be made monthly on the 10th day of each month. Each payment under the Series 2014 Loan Agreements is to be equal to one-sixth of the respective Series 2014 Participant's Allocable Portion of the interest coming due on the next succeeding interest payment date and one-twelfth of its Allocable Portion of the principal and Sinking Fund Installments coming due on the next succeeding July l. See "PART 3 – THE SERIES 2014 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2014 Bonds." Each of the Series 2014 Loan Agreements also obligates the respective Series 2014 Participant to pay, at least 45 days prior to a redemption date of Series 2014 Bonds called for redemption, its Allocable Portion of the amount, if any, required to pay the Redemption Price of such Series 2014 Bonds. See "PART 3 – THE SERIES 2014 BONDS – Redemption Provisions."

Security for the Series 2014 Bonds

General

The Series 2014 Bonds will be secured ratably by the pledge and assignment to the Trustee of the Revenues and DASNY's security interest in the applicable Pledged Revenues, subject to Prior Pledges. See "Appendix A - Description of the Series 2014 Participants" for a description of which Series 2014 Participants have Prior Pledges of their respective Pledged Revenues.

The Series 2014 Bonds will also be secured by the proceeds from the sale of such Series 2014 Bonds (until disbursed as provided in the Resolutions) and all funds and accounts authorized by the Resolution and established by the Series 2014 Resolution (with the exception of the Arbitrage Rebate Fund), including the Series 2014 Debt Service Reserve Fund.

Pursuant to the terms of the Resolution, the Series 2014 Bonds are separately secured from all other Series of Bonds. The Holders of a Series of Bonds are not entitled to the rights, benefits and security conferred upon the Holders of any other Series of Bonds.

Pledged Revenues - OPWDD Funds

Pursuant to the Act and the respective Series 2014 Loan Agreements, each Series 2014 Participant has pledged and assigned to DASNY its Pledged Revenues in an amount sufficient to satisfy its payment obligations under its Series 2014 Loan Agreement, subject to any Prior Pledges. With respect to each Series 2014 Participant, the Pledged Revenues are all Public Funds payable to a Series 2014 Participant with respect to its Series 2014 Facilities including any Intercept Funds. See "PART 5 - SOURCES OF SERIES 2014 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities."

Each Series 2014 Facility is supported by an OPWDD PPA, which the applicable Series 2014 Participant has received. The PPA represents OPWDD's pre-approval of the applicable Series 2014 Facility for reimbursement of amounts calculated to be sufficient to pay the principal and interest costs incurred by the related Series 2014 Participant in connection with its financing or refinancing of the acquisition, renovation and furnishing, as applicable, of such Series 2014 Facility, in each case subject to annual appropriation by the State Legislature and so long as such Series 2014 Participant operates the applicable Series 2014 Facility in accordance with certain defined standards. Assuming annual appropriation of sufficient funds and continued compliance with operational standards, it is expected by the Series 2014 Participants that the amounts received by the Series 2014 Participants pursuant to their respective PPAs will be sufficient to pay the principal of and interest on their respective Allocable Portions of the Series 2014 Bonds. See "PART 5 - SOURCES OF SERIES 2014 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities."

Standby Intercepts

The Act authorizes, and each Series 2014 Loan Agreement and Intercept Agreement establishes, an intercept mechanism whereby OPWDD officials are authorized and required to pay a Series 2014 Participant's Intercept Funds to DASNY in accordance with a certificate filed by DASNY with such State officer. Until the occurrence of an event with respect to a Series 2014 Participant described in clause (a) or (b) below, a Series 2014 Participant's Intercept Funds will be paid directly to such Series 2014 Participant and applied towards any of its corporate purposes. However, pursuant to the respective Series 2014 Loan Agreements and Intercept Agreements, upon the occurrence of (a) an event of default under a Series 2014 Participant's Series 2014 Loan Agreement, or an event which with the passage of time or giving of notice, or both, would become an event of default under such Series 2014 Participant's Series 2014 Loan Agreement, or (b) a drawing of funds from the Series 2014 Debt Service Reserve Fund for the benefit of such Series 2014 Participant that has not been repaid by such Series 2014 Participant as required by its Series 2014 Loan Agreement and the Resolutions, DASNY may, in addition to all other remedies available pursuant to such Series 2014 Participant's Series 2014 Loan Agreement, cause such Series 2014 Participant's Intercept Funds to be deducted, withheld and paid directly to DASNY or the Trustee, as appropriate, in an amount sufficient to make the payments required by such Series 2014 Participant pursuant to its Series 2014 Loan Agreement. See "PART 5 - SOURCES OF SERIES 2014 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities." Intercept Funds of one Series 2014 Participant will not be available to satisfy the payment obligations of any other Series 2014 Participant.

There can be no assurance that the amount of a Series 2014 Participant's Intercept Funds will be sufficient to satisfy its payment obligations with respect to its Allocable Portion of the Series 2014 Bonds. In the event that amounts received from OPWDD upon the intercept of a Series 2014 Participant's Intercept Funds are insufficient to pay all of a Series 2014 Participant's Allocable Portion of the principal of and interest on the Series 2014 Bonds when due, such amounts received will be applied pro rata to such Series 2014 Participant's Allocable Portion of each Subseries of the Series 2014 Bonds.

The ability of the Series 2014 Participants to satisfy their payment obligations under the respective Series 2014 Loan Agreements with respect to the Series 2014 Bonds and DASNY's ability to realize upon its security interests in the respective Pledged Revenues are largely dependent upon the continued operation by the Series 2014 Participants of their respective Series 2014 Facilities, which may be adversely affected by a number of risk factors. Such risk factors include, but are not limited to, (i) the financial condition of the Series 2014 Participants and their ability to continue to generate sufficient revenues to support all of their respective facilities, including their Series 2014 Facilities, (ii) the continued compliance by the Series 2014 Participants with State and local operational standards with respect to their Series 2014 Facilities, and (iii) the continued commitment of Public Funds to support the programs and facilities operated by the Series 2014 Participants, particularly with respect to the Series 2014 Facilities, the continued appropriations by the State in amounts sufficient for OPWDD to make payments to the Series 2014 Participants pursuant to their respective PPAs or otherwise. For a more detailed discussion of risk factors affecting the ability of the Series 2014 Participants to pay amounts owed under their Series 2014 Loan Agreements and the Pledged Revenues, as well as other risk factors affecting payment on the Series 2014 Bonds, see "PART 11 - BONDHOLDERS' RISKS" herein. See also, "PART 5 - SOURCES OF SERIES 2014 PARTICIPANT FUNDING" and "Appendix A - Description of the Series 2014 Participants" for a description of which Series 2014 Participants have Prior Pledges of their respective Pledged Revenues.

Debt Service Reserve Fund

The Resolution authorizes, and the Series 2014 Resolution establishes, the Series 2014 Debt Service Reserve Fund, which is required to be maintained in an amount equal to one-half of the greatest amount required in the then current or any future calendar year to pay the sum of (i) interest on the Outstanding Series 2014 Bonds payable during such year, excluding interest accrued thereon prior to July 1 of the next preceding year and (ii) the principal and the Sinking Fund Installments of such Series 2014 Bonds (the "Series 2014 Debt Service Reserve Fund Requirement").

Proceeds of the Series 2014 Bonds will be deposited in separate accounts established in the Series 2014 Debt Service Reserve Fund for each Series 2014 Participant in amounts equal to the respective Series 2014 Participant's Allocable Portion of the Series 2014 Debt Service Reserve Fund Requirement. If, on the fourth Business Day preceding an interest payment date for the Series 2014 Bonds, the amount on deposit in the account established for a Series 2014 Participant in the Debt Service Fund is less than the amount necessary to pay such Series 2014 Participant's Allocable Portion of the principal or Sinking Fund Installments of and interest on the Outstanding Series 2014 Bonds payable on such interest payment date, the Trustee is required to transfer moneys from the applicable account of the Series 2014 Debt Service Reserve Fund to the corresponding account of the Debt Service Fund in an amount sufficient to provide for such payment. Each Series 2014 Loan Agreement requires the respective Series 2014 Participant to restore in full any amount withdrawn from the Series 2014 Debt Service Reserve Fund for its benefit within five days after receiving notice of a withdrawal. Each Series 2014 Loan Agreement also requires the respective Series 2014 Participant to restore in full its Allocable Portion of the Series 2014 Debt Service Reserve Fund Requirement within five days after receiving notice of a deficiency in the Series 2014 Debt Service Reserve Fund resulting from a devaluation of the investments held therein. Each Series 2014 Participant is responsible for only its Allocable Portion of the Series 2014 Debt Service Reserve Fund Requirement. Moneys in the Series 2014 Debt Service Reserve Fund in excess of its requirement shall be applied in accordance with the Resolutions.

Reserve Fund Facilities

In lieu of or in substitution for moneys in the Series 2014 Debt Service Reserve Fund, DASNY may deposit or cause to be deposited with the Trustee a Reserve Fund Facility satisfying the requirements of the Resolutions for all or any part of the Series 2014 Debt Service Reserve Fund Requirement or any Series 2014 Participant's Allocable Portion thereof. See "Appendix F - Summary of Certain Provisions of the Resolutions."

Mortgages

In the event that a Series 2014 Participant owns its Series 2014 Facilities, such Series 2014 Participant's obligations to DASNY under its Series 2014 Loan Agreement will be additionally secured by its Mortgage granting a first mortgage lien on such owned Series 2014 Facilities to DASNY, and by a security interest granted to DASNY in the fixtures, furnishings and equipment financed with the proceeds of the Series 2014 Bonds now or hereafter located on the property subject to such Mortgage, such mortgage liens and security interests subject to applicable Prior Pledges and Permitted Encumbrances.. See "Appendix A - Description of Series 2014 Participants."

DASNY may, but has no present intention to, assign all or a portion of any of the Mortgages or such security interests to the Trustee. Upon (a) a withdrawal from an applicable account of the Series 2014 Debt Service Reserve Fund, which has not been restored by the respective Series 2014 Participant to its requirement within 30 days from the date of such withdrawal or (b) the occurrence and continuance of an event of default under a Series 2014 Participant's Series 2014 Loan Agreement and the acceleration of the loan thereunder, DASNY is required to assign such Series 2014 Participant's Mortgage and the related security interest in the fixtures, furnishings and equipment financed with the proceeds of the Series 2014 Bonds to the Trustee for the benefit of the Holders of such Series 2014 Participant's Allocable Portion of the Outstanding Series 2014 Bonds. Unless a Mortgage is assigned to the Trustee, none of the Mortgages or the security interests in the related fixtures, furnishings and equipment or any proceeds therefrom will be pledged to the Holders of the Series 2014 Bonds. **Each Mortgage secures only the obligations of the Series 2014 Participant granting the Mortgage, and, in the event of a default by a Series 2014 Participant which may lead to the assignment of its Mortgage, only the Mortgage of that defaulting Series 2014 Participant may be assigned**.

Prior to any assignment of a Mortgage to the Trustee, each Series 2014 Loan Agreement provides that DASNY, without the consent of the Trustee or the Holders of the applicable Series 2014 Bonds, may consent to the amendment, modification, termination, subordination or satisfaction of such Mortgage and of any security interest in furniture, fixtures or equipment financed with the proceeds of the Series 2014 Bonds located in or on or used in connection therewith and the property subject to such Mortgage or security interest may be released from the lien thereof, all upon such terms and conditions as DASNY may reasonably require. Notwithstanding the foregoing, a Series 2014 Participant may remove such furniture, fixtures or equipment from the Mortgaged Property provided that such Series 2014 Participant shall replace such furniture, fixtures or equipment with furniture, fixtures or equipment having equivalent value and utility.

Each Series 2014 Participant may incur debt secured on parity with or subordinate to the lien of its Mortgage, including debt incurred in connection with the issuance of other Series of Bonds under the Resolution, with the prior consent of DASNY.

The liens and security interest granted to DASNY by a Mortgage are subject to Prior Pledges and Permitted Encumbrances. The lien of and security interest in each Series 2014 Participant's owned Series 2014 Facility(ies) as described in its Mortgage may also be limited by certain factors. See "PART 11-BONDHOLDERS' RISKS" and "Appendix A – Description of Series 2014 Participants" herein.

<u>Collateral Assignment of Leases</u>

In order to secure its obligations under its Series 2014 Loan Agreement, Ohel Children's Home and Family Services, Inc. will collaterally assign to DASNY pursuant to a Collateral Assignment of Leases its right, title and interest (but not its obligations) in the leases for its Series 2014 Facilities located at 4224 12th Avenue, Brooklyn, New York and 1255 52nd Street, Brooklyn, New York. Each landlord under the applicable lease has consented to such collateral assignment.

Events of Default

<u>Events of Default</u>

The Resolutions provide that events of default thereunder constitute events of default with respect to the Series 2014 Bonds. The following are events of default under the Resolutions:

(i) a default in the payment of the principal, Sinking Fund Installments or Redemption Price of or interest on the Series 2014 Bonds of any Subseries; *provided, however,* if the failure to make any such payment is caused by a failure of a Series 2014 Participant to timely pay its Allocable Portion of the principal, Sinking Fund Installments or Redemption Price of or interest on the Series 2014 Bonds pursuant to the terms of its Series 2014 Loan Agreement, then it shall be an event of default under the Resolutions only with respect to the Defaulted Allocable Portion of the Series 2014 Bonds Outstanding;

(ii) DASNY shall default in the due and punctual performance of its tax covenants contained in the Resolutions with the result that the interest on the Subseries 2014A-1 Bonds shall no longer be excludable from gross income for federal income tax purposes;

(iii) a default by DASNY in the due and punctual performance of any other covenant, condition, agreement or provision contained in the Series 2014 Bonds or in the Resolutions which continues for 30 days after written notice thereof is given to DASNY by the Trustee (such notice to be given at the Trustee's discretion or at the written request of Holders of not less than 25% in principal amount of Outstanding Series 2014 Bonds); or

(iv) an event of default under a Series 2014 Loan Agreement shall have occurred and is continuing and, as a result thereof, all sums payable by a Series 2014 Participant under such Series 2014 Loan Agreement shall have been declared to be immediately due and payable, which declaration shall not have been annulled; *provided, however*, that such event of default under a Series 2014 Loan Agreement shall constitute an event of default under the Resolutions only with respect to the Defaulted Allocable Portion of the Series 2014 Bonds.

With respect to an event of default affecting only the Defaulted Allocable Portion of the Series 2014 Bonds and not any other portion of the Series 2014 Bonds, the Trustee will determine such Defaulted Allocable Portion in the manner described in "PART 3 - THE SERIES 2014 BONDS - Redemption Provisions - Extraordinary Mandatory Redemption" herein.

The Series 2014 Bonds are separately secured from all other Series of Bonds which may be issued pursuant to the Resolution. **While an event of default with respect to another Series of Bonds will not necessarily result in an event of default with respect to the Series 2014 Bonds, an event of default by a Series 2014 Participant under a loan agreement entered into in connection with the issuance of another Series of Bonds will result in an event of default under such Series 2014 Participant's Series 2014 Loan Agreement.**

Acceleration; Control of Proceedings

The Resolution provides that if an event of default (other than an event of default described in clause (i) under the first paragraph of the subheading "Events of Default" above resulting from a Series 2014 Participant's failure to timely pay its Allocable Portion of the Series 2014 Bonds or an event as described in clauses (ii) or (iv) under the first paragraph of the subheading "Events of Default") occurs and continues, the Trustee shall, upon the written request of the Holders of not less than 25% in principal amount of the Outstanding Series 2014 Bonds, by a notice in writing to DASNY, declare the principal of and interest on all of the Outstanding Series 2014 Bonds to be due and payable immediately. At the expiration of 30 days from the giving of such notice, such principal and interest shall become immediately due and payable. The Trustee may, with the written consent of the Holders of not less than 25% in principal amount of the Series 2014 Bonds then Outstanding, annul such declaration and its consequences under the terms and conditions specified in the Resolution with respect to such annulment.

In the case of a default described in clause (i) under the first paragraph of the subheading "Events of Default" above resulting from a failure of a Series 2014 Participant to timely pay its Allocable Portion of the Series 2014 Bonds pursuant to its Series 2014 Loan Agreement or a default described in clause (iv) under the first paragraph of the subheading "Events of Default" above then and in every such case the Trustee shall, upon the written request of the Holders of not less than 25% in principal amount of the Defaulted Allocable Portion of the Outstanding Series 2014 Bonds declare the principal of and interest on the Defaulted Allocable Portion of the Outstanding Series 2014 Bonds to be due and payable immediately.

At the expiration of 30 days after notice of such declaration has been given, such principal and interest shall become immediately due and payable. The Trustee may, with the written consent of the Holders of not less than 25% in principal amount of the Defaulted Allocable Portion of the Series 2014 Bonds then Outstanding, annul such declaration and its consequences under the terms and conditions specified in the Resolution with respect to such annulment.

With respect to the Series 2014 Bonds, the Holders of not less than 25% in principal amount of the Outstanding Series 2014 Bonds or 25% in principal amount of Defaulted Allocable Portion of the Outstanding Series 2014 Bonds, as applicable, or, in the case of a default described in clause (ii) in the first paragraph under the subheading "Events of Default" above, the Holders of not less than a majority in principal amount of the Outstanding Series 2014 Bonds, shall have the right to direct the method and place of conducting all remedial actions to be taken by the Trustee with respect to the Series 2014 Bonds.

Notice of Events of Default

The Resolution provides that the Trustee is to give notice in accordance with the Resolution of each event of default actually known to the Trustee to the Holders of the Series 2014 Bonds within 30 days, after knowledge of the occurrence thereof unless such default has been remedied or cured before the giving of such notice; provided, however, that except in the case of default in the payment of principal, Sinking Fund Installments or Redemption Price of or interest due on any of the Series 2014 Bonds, the Trustee is protected in withholding such notice thereof to the Holders if and as long as the Trustee in good faith determines that the withholding of such notice is in the best interests of the Holders of the Series 2014 Bonds.

Special Provisions Relating to Defaults

The Resolution provides that upon the happening and continuance of an event of default affecting only a Defaulted Allocable Portion of the Series 2014 Bonds as described in clauses (i) and (iv) above under the subheading "Events of Default," payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on such Defaulted Allocable Portion of Series 2014 Bonds (either by their terms, by acceleration or by the extraordinary mandatory redemption thereof) shall be limited solely to (i) those Revenues received or receivable by DASNY pursuant to the defaulting Series 2014 Participant's Series 2014 Loan Agreement, including such Series 2014 Participant's Pledged Revenues and other amounts derived from the exercise of any remedies under such Series 2014 Loan Agreement and the realization of any security or collateral granted by such defaulting Series 2014 Participant as security for its loan, and (ii) the moneys and securities on deposit in only those accounts established pursuant to the Series 2014 Resolution for the payment of such defaulting Series 2014 Participant's Allocable Portion of the Series of 2014 Bonds. Holders of a Defaulted Allocable Portion of the Series 2014 Bonds will have no right to any other Revenues or any other funds held by the Trustee under the Resolution derived from payments made by or on behalf of any other Series 2014 Participant for the payment of the Series 2014 Bonds or any other security pledged by such other non-defaulting Series 2014 Participants as security for their loans.

If, following the exercise of all remedies available to the Trustee under the Resolutions and the realization on all security and collateral available for the payment of a Defaulted Allocable Portion of the Outstanding Series 2014 Bonds, moneys derived from the sources specified above are available to pay only a portion of the principal and interest due on such Defaulted Allocable Portion of the Series 2014 Bonds upon the extraordinary mandatory redemption or acceleration thereof, then after application by the Trustee of all available moneys to the partial payment of such Defaulted Allocable Portion of the Series 2014 Bonds on a pro rata basis in accordance with the Resolution, (i) the remaining Defaulted Allocable Portion of the Series 2014 Bonds shall be cancelled with the same effect as if paid in full and the event of default shall be deemed cured, (ii) all obligations of DASNY and the Trustee under the Resolutions with respect to such Defaulted Allocable Portion of the Series 2014 Bonds shall be deemed to have been discharged and satisfied, and (iii) the Holders of the Defaulted Allocable Portion of the Series 2014 Bonds shall no longer be entitled to the benefits of the Resolutions by virtue of their ownership of such Defaulted Allocable Portion of the Series 2014 Bonds. Upon such payment and/or cancellation of a Defaulted Allocable Portion of the Outstanding Series 2014 Bonds, DASNY shall execute and the Trustee shall authenticate a new Series 2014 Bond or Series 2014 Bonds in a principal amount equal to the Outstanding principal amount of the Series 2014 Bonds of each applicable maturity less the principal amount of the Defaulted Allocable Portion thereof so paid and/or cancelled.

Payments made to Holders of the Series 2014 Bonds of less than all of the principal of and interest on a Defaulted Allocable Portion of the Outstanding Series 2014 Bonds following an acceleration or extraordinary mandatory redemption of such Defaulted Allocable Portion of the Series 2014 Bonds and the application by the Trustee of all funds available for the payment thereof as described above, will not be deemed a payment default on the Series 2014 Bonds under the Resolutions.

General

The Series 2014 Bonds will not be a debt of the State nor will the State be liable thereon. DASNY has no taxing power. DASNY has never defaulted in the timely payment of principal or sinking fund installments of or interest on its bonds or notes. See "PART 7 – DASNY."

PART 3 - THE SERIES 2014 BONDS

Set forth below is a narrative description of certain provisions relating to the Series 2014 Bonds. These provisions have been summarized, and this description does not purport to be complete. Reference should be made to the Resolution, the Series 2014 Resolution and the Series 2014 Loan Agreements, copies of which are on file with DASNY and the Trustee. See also "Appendix E - Summary of Certain Provisions of the Series 2014 Loan Agreements" and "Appendix F - Summary of Certain Provisions of the Resolutions," for a more complete description of certain provisions of the Series 2014 Bonds.

General

The Series 2014 Bonds will be issued pursuant to the Resolutions. The Series 2014 Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), pursuant to DTC's Book-Entry Only System. Purchases of beneficial interests in the Series 2014 Bonds will be made in book-entry form, without certificates. So long as DTC or its nominee, Cede & Co., is the registered owner of the Series 2014 Bonds, payments of principal, Sinking Fund Installments, Redemption Price and interest on the Series 2014 Bonds will be made by the Trustee directly to Cede & Co. Disbursement of such payments to the Direct Participants (as hereinafter defined) is the responsibility of DTC and disbursement of those payments to the Beneficial Owners of the Series 2014 Bonds is the responsibility of the Direct Participants and the Indirect Participants (as hereinafter defined). If at any time the Book-Entry Only System is discontinued for the Series 2014 Bonds, the Series 2014 Bonds will be exchangeable for fully registered Series 2014 Bonds in any authorized denominations of the same Subseries and maturity, without charge, except the payment of any tax, fee or other governmental charge required to be paid with respect to such exchange, subject to the conditions and restrictions set for in the Resolution. See " - Book-Entry Only System" herein and "Appendix F - Summary of Certain Provisions of the Resolutions."

Description of the Series 2014 Bonds

The Series 2014 Bonds will be dated their date of delivery and will bear interest from such date (payable on July 1, 2014 and on each January 1 and July 1 thereafter) at the rates per annum, and will mature on July 1 in each of the years set forth on the inside cover page of this Official Statement. The Series 2014 Bonds will be issuable in fully registered book-entry-only form, without coupons, in denominations of $5,000 or any integral multiple in excess thereof.

Each Subseries of the Series 2014 Bonds may be exchanged for other Series 2014 Bonds of the same Subseries in any other authorized denominations upon payment of a charge sufficient to reimburse

DASNY or the Trustee for any tax, fee or other governmental charge required to be paid with respect to such exchange and for the cost of preparing the new bond, and otherwise as provided in the Resolution.

Redemption Provisions

Optional Redemption

The Subseries 2014A-1 Bonds maturing on or after July 1, 2025 are subject to redemption, on or after July 1, 2024, as a whole or in part at any time at the option of DASNY, at the Redemption Price equal to par, plus accrued interest to the redemption date.

The Subseries 2014A-2 Bonds are not subject to optional redemption.

Extraordinary Mandatory Redemption

Each Defaulted Allocable Portion of the Series 2014 Bonds is subject to extraordinary mandatory redemption at any time prior to maturity in whole, within 45 days following the realization by the Trustee pursuant to the Resolution on all security and collateral granted by the applicable defaulting Series 2014 Participant as security for its loan upon an acceleration of such loan under its Series 2014 Loan Agreement. The Series 2014 Bonds to be so redeemed shall be redeemed at a redemption price equal to (a) the principal amount of the Outstanding Defaulted Allocable Portion of the Series 2014 Bonds to be redeemed on the redemption date, times the lesser of (i) 100% or (ii) the quotient, expressed as a percentage, obtained by dividing (A) the amount of funds available to the Trustee to pay the principal of and interest on such Defaulted Allocable Portion of the Series 2014 Bonds on the redemption date less the amount of accrued interest to be paid on such Defaulted Allocable Portion of the Series 2014 Bonds on such date, by (B) the principal amount of the Defaulted Allocable Portion of the Series 2014 Bonds to be redeemed, plus (b) accrued interest to the redemption date.

The Trustee shall, as reasonably practicable, determine the Defaulted Allocable Portion of the Series 2014 Bonds to be redeemed based upon the schedule of amortization of the defaulting Series 2014 Participant's loan which has been accelerated. All Series 2014 Bonds of each maturity that correspond to a principal installment of the defaulted loan shall be called for redemption in part. The Trustee shall redeem only that portion of each Series 2014 Bond which represents the quotient obtained by dividing the principal scheduled to be paid on such defaulted loan in the year of maturity of such Series 2014 Bond by the total principal scheduled to be paid in the year of maturity of such Series 2014 Bond on all loans made with the proceeds of the Series 2014 Bonds, including the defaulted loan.

The particular Series 2014 Bonds of each affected maturity to be redeemed will be selected in the manner described below under "- Selection of Series 2014 Bonds to be Redeemed."

Special Redemption

The Series 2014 Bonds are also subject to redemption at the option of DASNY, as a whole or in part, on any interest payment date at 100% of the principal amount thereof, from (a) the proceeds of a condemnation or insurance award, which is not to be used to repair, restore or replace a Series 2014 Facility of a Series 2014 Participant and (b) the proceeds of the sale of a Series 2014 Facility.

Mandatory Sinking Fund Redemption

The Subseries 2014A-1 Bonds maturing on July 1, 2029, July 1, 2034 and July 1, 2039 shall be subject to mandatory redemption prior to maturity, in part on July 1 of the years and in the respective principal amounts set forth below, at a Redemption Price equal to the principal amount thereof, together with accrued interest to the date of redemption, from mandatory Sinking Fund Installments required to be made in amounts sufficient to redeem on July 1 of each year the principal amount of the Subseries 2014A-1 Bonds specified for each such year below:

Subseries 2014A-1 Bonds Maturing July 1, 2029		**Subseries 2014A-1 Bonds Maturing July 1, 2034**		**Subseries 2014A-1 Bonds Maturing July 1, 2039**	
Year	Sinking Fund Installment	Year	Sinking Fund Installment	Year	Sinking Fund Installment
2025	$980,000	2030	$145,000	2035	$180,000
2026	535,000	2031	150,000	2036	185,000
2027	425,000	2032	155,000	2037	195,000
2028	445,000	2033	160,000	2038	205,000
2029†	465,000	2034†	165,000	2039†	210,000

†Final maturity.

The Subseries 2014A-2 Bonds maturing on July 1, 2016 shall be subject to mandatory redemption prior to maturity, in part on July 1 of the years and in the respective principal amounts set forth below, at a Redemption Price equal to the principal amount thereof, together with accrued interest to the date of redemption, from mandatory Sinking Fund Installments required to be made in amounts sufficient to redeem on July 1 of each year the principal amount of the Subseries 2014A-2 Bonds specified for each such year below:

Year	Sinking Fund Installment
2015	$330,000
2016†	255,000

†Final maturity.

The Series 2014 Participants may elect to have the Series 2014 Bonds purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of a required Sinking Fund Installment on the Series 2014 Bonds of the same Subseries and maturity. To the extent DASNY's obligation to make Sinking Fund Installments in a particular year is fulfilled through such purchases, the likelihood of redemption through mandatory Sinking Fund Installments of any Holder's Series 2014 Bonds of the Subseries and maturity so purchased will be reduced for such year.

Selection of Series 2014 Bonds to be Redeemed

In the case of redemptions of Subseries 2014A-1 Bonds described above under the heading "Optional Redemption," DASNY will select the maturities of the Allocable Portion of the Subseries 2014A-1 Bonds to be redeemed. In the case of redemption of Series 2014 Bonds described above under the heading "Special Redemption," Series 2014 Bonds will be redeemed to the extent practicable pro rata among maturities of the Allocable Portion of the Series 2014 Bonds, but only in integral multiples of $5,000 within each maturity. If less than all of the Series 2014 Bonds of a maturity are to be redeemed (pursuant to an optional, special, extraordinary mandatory or mandatory sinking fund redemption), the

Series 2014 Bonds of such maturity to be redeemed will be selected by the Trustee, by lot, using such method of selection as the Trustee shall consider proper in its discretion.

Notice of Redemption

The Trustee is to give notice of the redemption of a Series 2014 Bond in the name of DASNY which notice shall be given by first-class mail, postage prepaid, not less than 30 days nor more than 45 days prior to the redemption date to the registered owners of any Series 2014 Bonds which are to be redeemed, at their last known addresses appearing on the registration books of DASNY not more than 10 days prior to the date such notice is to be given. If DASNY's obligation to redeem Series 2014 Bonds is subject to one or more conditions, then such notice must describe the conditions to such redemption. The failure of any owner of a Series 2014 Bond to be redeemed to receive notice of redemption thereof will not affect the validity of the proceedings for the redemption of such Series 2014 Bond. If directed in writing by an Authorized Officer of DASNY, the Trustee shall publish or cause to be published such notice in an Authorized Newspaper not less than 30 days nor more than 45 days prior to the redemption date, but such publication is not a condition precedent to such redemption and failure to publish such notice or any defect in such notice or publication will not affect the validity of the proceedings for the redemption of such Series 2014 Bonds.

If, on the redemption date, moneys for the redemption of the Series 2014 Bonds of like Subseries and maturity to be redeemed, together with interest thereon to the redemption date, are held by the Trustee so as to be available for payment of the Redemption Price, and if notice of redemption has been mailed, then interest on the Series 2014 Bonds of such Subseries and maturity will cease to accrue from and after the redemption date and such Series 2014 Bonds will no longer be considered to be Outstanding under the Resolutions.

For a more complete description of the redemption and other provisions relating to the Series 2014 Bonds, see "Appendix F - Summary of Certain Provisions of the Resolutions."

Purchase in Lieu of Optional Redemption

The Subseries 2014A-1 Bonds maturing on or after July 1, 2025 are also subject to purchase prior to maturity, at the election of DASNY, on or after July 1, 2024, in any order, in whole or in part at any time, at the prices set forth in "PART 3 - THE SERIES 2014 BONDS - Redemption Provisions - Optional Redemption" (the "Purchase Price"), plus accrued interest to the date set for purchase (the "Purchase Date") set forth in the notice of purchase to the registered owners of the Subseries 2014A-1 Bonds to be so purchased.

Notice of Purchase and its Effect

Notice of the purchase of Subseries 2014A-1 Bonds will be given by DASNY in the name of the Series 2014 Participants to the registered owners of the Subseries 2014A-1 Bonds to be purchased by first-class mail, postage prepaid, not less than 30 days nor more than 45 days prior to the Purchase Date specified in such notice. The Subseries 2014A-1 Bonds to be purchased are required to be tendered on the applicable Purchase Date to the Trustee. Subseries 2014A-1 Bonds to be purchased that are not so tendered will be deemed to have been properly tendered for purchase. Such purchase shall not operate to extinguish the indebtedness of DASNY evidenced thereby and such Subseries 2014A-1 Bonds need not be cancelled, but shall remain Outstanding under the Resolution and in such case shall continue to bear interest.

DASNY's obligation to purchase a Subseries 2014A-1 Bond to be purchased or cause it to be purchased is conditioned upon the availability of sufficient money to pay the Purchase Price for all of the Subseries 2014A-1 Bonds to be purchased on such Purchase Date. If sufficient money is available on the applicable Purchase Date to pay the applicable Purchase Price of the Subseries 2014A-1 Bonds to be purchased, the former registered owners of such Subseries 2014A-1 Bonds will have no claim thereunder or under the Resolution or otherwise for payment of any amount other than the applicable Purchase Price. If sufficient money is not available on the applicable Purchase Date for payment of the applicable Purchase Price, the Subseries 2014A-1 Bonds tendered or deemed tendered for purchase will continue to be registered in the name of the registered owners on the applicable Purchase Date, who will be entitled to the payment of the principal of and interest on such Subseries 2014A-1 Bonds in accordance with their terms.

In the event not all of the Outstanding Subseries 2014A-1 of a maturity are to be purchased, the Subseries 2014A-1 Bonds of such maturity to be purchased will be selected by lot in the same manner as Subseries 2014A-1 Bonds of a maturity to be redeemed in part are to be selected.

Book-Entry-Only System

DTC will act as securities depository for the Series 2014 Bonds. The Series 2014 Bonds will be issued as fully-registered securities in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2014 Bond certificate will be issued for each maturity of the respective Subseries of Series 2014 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of Series 2014 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2014 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2014 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2014 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2014 Bonds, except in the event that use of the book-entry system for the Series 2014 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2014 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2014 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2014 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2014 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Series 2014 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2014 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an omnibus proxy (the "Omnibus Proxy") to DASNY as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2014 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Series 2014 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from DASNY or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct or Indirect Participant and not of DTC, the Trustee or DASNY, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DASNY and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 2014 Bonds registered in its name for the purposes of payment of the principal and redemption premium, if any, of, or interest on, the Series 2014 Bonds, giving any notice permitted or required to be given to registered owners under the Resolutions, registering the transfer of the Series 2014 Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. DASNY and the Trustee shall not have any responsibility or obligation to any Direct or Indirect Participant or any person claiming a beneficial ownership interest in the Series 2014 Bonds under or through DTC or any Direct or Indirect Participant, or any other person which is not shown on the registration books of DASNY (kept by the Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Direct or Indirect Participant; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal, redemption premium, if any, or interest on the Series 2014 Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by DASNY; or other action taken by DTC as a registered owner.

For every transfer and exchange of beneficial ownership of the Series 2014 Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may discontinue providing its services as depository with respect to the Series 2014 Bonds at any time by giving notice to DASNY and discharging its responsibilities with respect thereto under applicable law, or DASNY may terminate its participation in the system of book-entry transfer through DTC at any time by giving notice to DTC. In either event, DASNY may retain another securities depository for the Series 2014 Bonds or may direct the Trustee to deliver bond certificates in accordance with instructions from DTC or its successor. If DASNY directs the Trustee to deliver such bond certificates, such Series 2014 Bonds may thereafter be exchanged for an equal aggregate principal amount of Series 2014 Bonds in any other authorized denominations and of the same Subseries and maturity as set forth in the Resolution, upon surrender thereof at the principal corporate trust office of the Trustee, who will then be responsible for maintaining the registration books of DASNY.

Unless otherwise noted, certain of the information contained in the preceding paragraphs of this subsection "Book-Entry Only System" has been extracted from information given by DTC. None of DASNY, the Trustee or the Underwriter make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Principal, Sinking Fund Installment and Interest Requirements for the Series 2014 Bonds

The following table sets forth the amounts required to be paid by each of the Series 2014 Participants during each twelve month period ending June 30 of the Bond Years shown for the payment of the interest on the Series 2014 Bonds payable on January 1 of such year and the principal and Sinking Fund Installments of and interest on the Series 2014 Bonds payable on the succeeding July 1 and the aggregate payments to be made by the Series 2014 Participants during each such period with respect to the Series 2014 Bonds.

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Total Debt Service by Series 2014 Participant

FY Ending	Ability Beyond Disability and Ability Beyond Disability, Inc.		FREE, Inc.		Institute for Community Living, Inc.		OHEL Children's Home and Family Services, Inc.	
	Principal & Sinking Fund Installments.	Interest	Principal & Sinking Fund Installments.	Interest	Principal & Sinking Fund Installments.	Interest	Principal & Sinking Fund Installments.	Interest
6/30/2014	0	21,377	0	16,626	0	6,557	0	28,959
6/30/2015	90,000	124,125	145,000	96,538	60,000	38,075	450,000	168,150
6/30/2016	90,000	122,725	150,000	93,988	60,000	37,175	465,000	157,250
6/30/2017	90,000	120,925	155,000	89,988	60,000	36,275	470,000	146,100
6/30/2018	95,000	119,125	155,000	86,888	60,000	35,075	480,000	136,700
6/30/2019	95,000	116,275	165,000	82,238	65,000	33,275	495,000	122,300
6/30/2020	100,000	113,425	165,000	77,288	65,000	31,325	510,000	107,450
6/30/2021	100,000	110,425	170,000	72,338	70,000	29,375	525,000	92,150
6/30/2022	105,000	108,425	175,000	68,938	70,000	27,975	540,000	81,650
6/30/2023	110,000	106,063	185,000	65,000	75,000	26,400	550,000	69,500
6/30/2024	115,000	102,763	190,000	59,450	80,000	24,150	575,000	53,000
6/30/2025	115,000	99,313	195,000	53,750	80,000	21,750	590,000	35,750
6/30/2026	120,000	93,563	205,000	44,000	85,000	17,750	125,000	6,250
6/30/2027	125,000	87,563	215,000	33,750	85,000	13,500		
6/30/2028	130,000	81,313	225,000	23,000	90,000	9,250		
6/30/2029	135,000	74,813	235,000	11,750	95,000	4,750		
6/30/2030	145,000	68,063						
6/30/2031	150,000	62,625						
6/30/2032	155,000	57,000						
6/30/2033	160,000	51,188						
6/30/2034	165,000	45,188						
6/30/2035	180,000	39,000						
6/30/2036	185,000	31,800						
6/30/2037	195,000	24,400						
6/30/2038	205,000	16,600						
6/30/2039	210,000	8,400						

PART 4 - THE SERIES 2014 PARTICIPANTS

Descriptions of the Series 2014 Participants, their operations and the Series 2014 Facilities they will finance or refinance with the proceeds of the Series 2014 Bonds are set forth in Appendix A hereto. Copies of the most recent audited financial statements for each of the Series 2014 Participants are set forth in Appendix B hereto and copies of recent unaudited financial information for each of the Series 2014 Participants are set forth in Appendix C. Prospective purchasers of the Series 2014 Bonds should carefully review Appendix A, Appendix B and Appendix C.

The Series 2014 Participants, other than Ability Beyond Disability, Inc., are not-for-profit corporations, organized and existing under the laws of the State. Ability Beyond Disability, Inc. is a not-for-profit corporation, organized and existing under the laws of the State of Connecticut. All of the Series 2014 Participants have received Section 501(c)(3) designations from the Internal Revenue Service and as such qualify for exemption from certain federal income taxes. Typically, management of each Series 2014 Participant has as an operational goal the acquisition of sufficient revenues to cover programmatic expenses, including debt service and the provision for capital improvements. When revenues exceed expenses, the excess revenues are reflected in a fund balance (or net assets) category and may be used for any lawful purpose consistent with the Series 2014 Participant's charitable purposes. When revenues are not sufficient to cover expenses, the Series 2014 Participant must cover the deficit from fund reserves or other assets or reduce its services and expenses to match its income. Trustees or members of the Board of Directors of a Series 2014 Participant typically serve without remuneration, though expenses associated with attendance at board meetings or other official board functions may be reimbursed.

Each of the Series 2014 Participants owns and/or leases and operates one or more facilities, including the Series 2014 Facilities as described in Appendix A, in the State, to provide services to individuals who are developmentally disabled or have other special needs. Each of the Series 2014 Participants has represented that it has the appropriate licenses and authority to provide its services under State statutes. The Series 2014 Participants all currently have one or more contracts or approved reimbursement arrangements with one or more departments of the State, The City of New York or a county in the State. Such contracts or arrangements have been typically for a period of one fiscal year. *No independent investigation or verification has been made of the status of compliance with State, city, county or federal agency standards of licensing and operations of the Series 2014 Participants in order to continue to receive payments of State, city, county, and/or federal funds under such contracts or arrangements. The contracts or arrangements provide a substantial portion of the total revenues of each of the Series 2014 Participants.* **A careful review should be made of Appendix A, Appendix B and Appendix C to this Official Statement to determine the creditworthiness of each of the Series 2014 Participants**. See "PART 5 - SOURCES OF SERIES 2014 PARTICIPANT FUNDING" herein.

The Series 2014 Participants have engaged the Program Facilitator to act as the facilitator for the InterAgency Council Pooled Loan Program. For its services, the Series 2014 Participants will pay the Program Facilitator a fee of .25% of the principal amount of the Series 2014 Bonds at closing and an annual fee of .125% of all outstanding Series 2014 Bonds. Each of the Series 2014 Participants are members of the Program Facilitator.

All of the Series 2014 Facilities financed by the Series 2014 Bonds are covered by PPAs funded by OPWDD. All of the Series 2014 Participants have over 30 years of experience providing services. See "PART 5 - SOURCES OF SERIES 2014 PARTICIPANT FUNDING."

Also see "Appendix A - Description of Series 2014 Participants" for a description of which Series 2014 Participants have Prior Pledges of their respective Pledged Revenues.

PART 5 - SOURCES OF SERIES 2014 PARTICIPANT FUNDING

General

OPWDD provides a portion of the revenues of the Series 2014 Participants through contracts and reimbursement arrangements for the provision of their services. The current methodology used by OPWDD in determining the amounts to be paid to the Series 2014 Participants for provision of services is set forth below. Other government funding sources for one or more of the Series 2014 Participants are described in "Appendix A - Description of Series 2014 Participants."

New York State Office for People with Developmental Disabilities

OPWDD is responsible for coordinating services for more than 126,000 New Yorkers with developmental disabilities, including intellectual disabilities, cerebral palsy, Down syndrome, autism spectrum disorders, and other disabilities. It provides services directly and through a network of approximately 700 non-profit "service provider" agencies, with about 80% of services provided by the non-profit service provider agencies and 20% provided directly by the State. Although the community residential program statewide has grown from 9,000 community beds in 1980 to over 41,000 community beds in 2014, additional development of community services will be required to serve individuals needing out-of-home placement who cannot be served within the existing capacity. Funding for new services is distributed through a Request for Services process, and is targeted to the locally identified priority services and populations. Awards are based upon an agency's demonstrated ability to identify and serve the various priority populations.

OPWDD is charged with developing a comprehensive, cost-effective and integrated system of services to serve the full range of needs of persons with developmental disabilities. OPWDD recently reorganized its regional structure in order to implement a consistent approach and culture to the entire service system. There are now five regional offices specifically dedicated to oversee the non-profit operations and six regional offices dedicated to the operation and oversight of State provided services. Additionally, families who care for nearly 43,000 disabled family members at home are supported by a variety of services, including respite, family training, in-home services, and service coordination. These services are provided almost entirely by the non-profit sector.

In connection with the foregoing, OPWDD is responsible for, among other things, the regulation and certification of the Series 2014 Facilities expected to be financed or refinanced with the proceeds of the Series 2014 Bonds. Such regulation and certification includes, among other things, participation in the determination as to the need for the Series 2014 Facilities, review of plans and specifications for construction/rehabilitation of the Series 2014 Facilities, the right to conduct inspections and program audits, and the establishment of a reimbursement rate for an individual's care.

Population

Consistent with its comprehensive Five Year Plan, OPWDD serves a diverse population of individuals with developmental disabilities including persons with mental retardation, cerebral palsy, autism and epilepsy. OPWDD's programs are characterized by two related service systems: a State-operated institutional system and a community-based system with programs run by both the State and voluntary non-profit agencies.

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

Additionally, during 2013-14 OPWDD initiated a "system transformation" to address the principles of the Olmstead Act, as well as the guidance of the Federal Centers for Medicaid and Medicare Services ("CMS"). The effort thus far has resulted in more individuals securing employment through supported employment programs operated by the non-profit provider agencies. As of January 2014, approximately 7,200 people are employed.

Population Statistics

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

Year (as of 3/31)	State-Operated Development Centers	Community Residences
2008	1,593	36,760
2009	1,500	37,500
2010	1,300	37,500
2011	1,300	39,000
2012	1,300	40,000
2013	1,100	41,077
2014	800	41,334

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

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

The funding received by the Series 2014 Participants from OPWDD is appropriated through Aid to Localities appropriations.

Prior Property Approval Process

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

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

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

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

Pursuant to the State's Mental Hygiene Law, facilities, such as the Series 2014 Facilities, are required to have an operating certificate issued by the New York State Commissioner of the Office for People with Developmental Disabilities (the "Commissioner"). The Commissioner, upon issuing a notice that he or she will revoke or suspend an operating certificate of a facility, or he or she will disapprove an application for a renewal of such certificate, or prior to suspending an operating certificate for up to 60 days, may ask a court to appoint a receiver for the facility in the event that the health, safety and welfare of the residents are in jeopardy. The court shall appoint a receiver, upon making certain findings as described in the Mental Hygiene Law, which should be a voluntary association or not-for-profit corporation approved by the Commissioner and which holds a valid and current operating certificate for a facility similar to the one going into receivership. The Mental Hygiene Law explicitly provides that the receiver so appointed shall honor all existing leases, mortgages and chattel mortgages that had previously been undertaken as obligations of the owners or operators of the facility. However, such receiver may make application to the appointing court for rescission, reformation or such other relief as may be appropriate with respect to executory covenants or provisions of any contractual obligations of such owners or operators as may be necessary or appropriate to protect the best interests of the persons with developmental disabilities residing within such facility. It further provides that no security interest in any real or personal property comprising the facility, contained within the facility or in any fixture of the facility shall be impaired or diminished in priority by the receiver.

OPWDD Rights With Respect to Series 2014 Facilities

In addition to the statutory receivership remedy described above, each Series 2014 Loan Agreement provides for a contractual remedy upon the failure of a Series 2014 Participant to operate its Series 2014 Facilities in accordance with regulatory standards. Each Series 2014 Participant has covenanted and agreed in its Series 2014 Loan Agreement that in the event that it fails to operate a certified program for the developmentally disabled at one or more of its Series 2014 Facilities in accordance with the valid operating certificate issued by OPWDD for such Series 2014 Facility, in addition to any other legal remedies OPWDD may have, OPWDD shall have the right (after written notice and a request to remedy such failure and without resort to judicial proceedings) to use, possess and occupy such Series 2014 Facility for the remaining term during which such Series 2014 Participant has agreed to operate such certified program at the Series 2014 Facility and, further, may assign such rights to another operator. In such event, OPWDD or any assignee will be required to make the payments owed by the Series 2014 Participant under its Series 2014 Loan Agreement with respect to such Series 2014 Facility as they become due and owing. See "Appendix D - Summary of Certain Provisions of the Series 2014 Loan Agreements" for further details of OPWDD's rights with respect to the Series 2014 Facilities and DASNY's remedy upon an event of default by a Series 2014 Participant under its Series 2014 Loan Agreement to request OPWDD to exercise such rights.

PART 6 - ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of proceeds of the Series 2014 Bonds:

	Subseries 2014A-1 Bonds	Subseries 2014A-2 Bonds
Estimated Sources of Funds		
Principal Amount of Series 2014 Bonds	$12,385,000	$585,000
Net Original Issue Premium	497,139	357
Total Sources of Funds	$12,882,139	$585,357
Estimated Uses of Funds		
Deposit to Project Loan Fund	$11,951,005	$ 47,092
Deposit to Series 2014 Debt Service Reserve Fund	601,875	27,829
Underwriter's Discount	257,642	130,895
Costs of Issuance	71,617	379,541
Total Uses of Funds	$12,882,139	$585,357

PART 7 - DASNY

Background, Purposes and Powers

DASNY is a body corporate and politic constituting a public benefit corporation. DASNY was created in 1944 to finance and build dormitories at State teachers' colleges to provide housing for the large influx of students returning to college on the G.I. Bill following World War II. Over the years, the State Legislature has expanded DASNY's scope of responsibilities. Today, pursuant to the Dormitory Authority Act, DASNY is authorized to finance, design, construct or rehabilitate facilities for use by a variety of public and private not-for-profit entities.

DASNY provides financing services to its clients in three major areas: public facilities; not-for-profit healthcare; and independent higher education and other not-for-profit institutions. DASNY issues State-supported debt, including State Personal Income Tax Revenue Bonds and State Sales Tax Revenue Bonds, on behalf of public clients such as The State University of New York, The City University of New York, the Departments of Health and Education of the State, the Office of Mental Health, the Office of People with Developmental Disabilities, the Office of Alcoholism and Substance Abuse Services, the Office of General Services, and the Office of General Services of the State on behalf of the Department of

Audit and Control. Other public clients for whom DASNY issues debt include Boards of Cooperative Educational Services ("BOCES"), State University of New York, the Workers' Compensation Board, school districts across the State and certain cities and counties that have accessed DASNY for the purpose of providing court facilities. DASNY's private clients include independent colleges and universities, private hospitals, certain private secondary schools, special education schools, facilities for the aged, primary care facilities, libraries, museums, research centers and government-supported voluntary agencies, among others.

To carry out its programs, DASNY is authorized to issue and sell negotiable bonds and notes to finance the construction of facilities for such institutions, to issue bonds or notes to refund outstanding bonds or notes and to lend funds to such institutions. At March 31, 2014, DASNY had approximately $46 billion aggregate principal amount of bonds and notes outstanding. DASNY also is authorized to make tax-exempt leases, with its Tax-Exempt Leasing Program (TELP). As part of its operating activities, DASNY also administers a wide variety of grants authorized by the State for economic development, education and community improvement and payable to both public and private grantees from proceeds of State Personal Income Tax Revenue Bonds issued by DASNY.

DASNY is a conduit debt issuer. Under existing law, and assuming continuing compliance with tax law, interest on most bonds and notes issued by DASNY has been determined to be excludable from gross income for federal tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. All of DASNY's outstanding bonds and notes, both fixed and variable rate, are special obligations of DASNY payable solely from payments required to be made by or for the account of the client institution for which the particular special obligations were issued. DASNY has no obligation to pay its special obligations other than from such payments. DASNY has always paid the principal of and interest on all of its obligations on time and in full; however, as a conduit debt issuer, payments on DASNY's special obligations are solely dependent upon payments made by DASNY's client for which the particular special obligations were issued and the security provisions relating thereto.

DASNY also offers a variety of construction services to certain educational, governmental and not-for-profit institutions in the areas of project planning, design and construction, monitoring project construction, purchasing of furnishings and equipment for projects, interior design of projects and designing and managing projects to rehabilitate older facilities.

In connection with the powers described above, DASNY has the general power to acquire real and personal property, give mortgages, make contracts, operate certain facilities and fix and collect rentals or other charges for their use, contract with the holders of its bonds and notes as to such rentals and charges, borrow money and adopt a program of self-insurance.

DASNY has a staff of approximately 520 employees located in three main offices (Albany, New York City and Buffalo) and at approximately 55 field sites across the State.

Governance

DASNY is governed by an eleven-member board. Board members include the Commissioner of Education of the State, the Commissioner of Health of the State, the State Comptroller or one member appointed by him or her who serves until his or her successor is appointed, the Director of the Budget of the State, one member appointed by the Temporary President of the State Senate, one member appointed by the Speaker of the State Assembly and five members appointed by the Governor, with the advice and consent of the Senate, for terms of three years. The Commissioner of Education of the State, the Commissioner of Health of the State and the Director of the Budget of the State each may appoint a representative to attend and vote at DASNY meetings. The members of DASNY serve without compensation, but are entitled to reimbursement of expenses incurred in the performance of their duties. Two of the appointments to the Board by the Governor are currently vacant.

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

The current members of DASNY are as follows:

ALFONSO L. CARNEY, JR., Chair, New York.

Alfonso L. Carney, Jr. was reappointed as a Member of DASNY by the Governor on June 19, 2013. Mr. Carney is a principal of Rockwood Partners, LLC, which provides medical consulting services in New York City. He has served as Acting Chief Operating Officer and Corporate Secretary for the Goldman Sachs Foundation in New York where, working with the President of the Foundation, he managed the staff of the Foundation, provided strategic oversight of the administration, communications and legal affairs teams, and developed selected Foundation program initiatives. Mr. Carney has held senior level legal positions with Altria Group Inc., Philip Morris Companies Inc., Philip Morris Management Corporation, Kraft Foods, Inc. and General Foods Corporation. Mr. Carney holds a Bachelor's degree in philosophy from Trinity College and a Juris Doctor degree from the University of Virginia School of Law. His current term expires on March 31, 2016.

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

John B. Johnson, Jr. was reappointed as a Member of DASNY by the Governor on June 19, 2013. Mr. Johnson is Chairman of the Board of the Johnson Newspaper Corporation, which publishes the Watertown Daily Times, Batavia Daily News, Malone Telegram, Catskill Daily Mail, Hudson Register Star, Ogdensburg Journal, Massena-Potsdam Courier Observer, seven weekly newspapers and three shopping newspapers. He holds a Bachelor's degree from Vanderbilt University, and Master's degrees in Journalism and Business Administration from the Columbia University Graduate School of Journalism and Business. Mr. Johnson was awarded an Honorary Doctor of Science degree from Clarkson University. Mr. Johnson's term expires on March 31, 2016.

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

Beryl L. Snyder was reappointed as a member of DASNY by the Governor on June 19, 2013. Ms. Snyder is a principal in HBJ Investments, LLC, an investment company where her duties include evaluation and analysis of a wide variety of investments in, among other areas: fixed income, equities, alternative investments and early stage companies. She holds a Bachelor of Arts degree in History from Vassar College and a Juris Doctor degree from Rutgers University. Her current term expires on August 31, 2016.

SANDRA M. SHAPARD, Delmar.

Sandra M. Shapard was appointed as a Member of DASNY by the State Comptroller on January 21, 2003. Ms. Shapard served as Deputy Comptroller for the Office of the State Comptroller from 1995 until her retirement in 2001, during which time she headed the Office of Fiscal Research and Policy Analysis and twice served as Acting First Deputy Comptroller. Previously, Ms. Shapard held the positions of Deputy Director and First Deputy Director for the New York State Division of the Budget from 1991 to 1994. She began her career in New York State government with the Assembly where she held the positions of Staff Director of the Office of Counsel to the Majority, Special Assistant to the Speaker, and Deputy Director of Budget Studies for the Committee on Ways and Means. A graduate of Mississippi

University for Women, Ms. Shapard received a Masters of Public Administration from Harvard University, John F. Kennedy School of Government, where she has served as visiting lecturer, and has completed graduate work at Vanderbilt University.

GERARD ROMSKI, Esq., Mount Kisco.

Gerard Romski was reappointed as a Member of DASNY by the Temporary President of the State Senate on June 21, 2012. He is Counsel and Project Executive for “Arverne by the Sea,” where he is responsible for advancing and overseeing all facets of “Arverne by the Sea,” one of New York City’s largest mixed-use developments located in Queens, New York. Mr. Romski is also of counsel to the New York City law firm of Rich, Intelisano & Katz, LLP. Mr. Romski holds a Bachelor of Arts degree from the New York Institute of Technology and a Juris Doctor degree from Brooklyn Law School.

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

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

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

John B. King, Jr. was appointed by the Board of Regents to serve as President of the University of the State of New York and Commissioner of Education on July 15, 2011. As Commissioner of Education, Dr. King serves as Chief Executive Officer of the State Education Department and as President of the University of the State of New York, which is comprised of public and non-public elementary and secondary schools, public and independent colleges and universities, libraries, museums, broadcasting facilities, historical repositories, proprietary schools and services for children and adults with disabilities. He holds a Bachelor of Arts degree in Government from Harvard University, a Master of Arts degree in Teaching of Social Studies from Teachers College, Columbia University, a Juris Doctor degree from Yale Law School and a Doctor of Education degree in Educational Administrative Practice from Teachers College, Columbia University.

NIRAV R. SHAH, M.D., M.P.H., Commissioner of Health of the State of New York, Albany; ex-officio.

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

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

Robert L. Megna was appointed Budget Director on June 15, 2009. He is responsible for the overall development and management of the State's fiscal policy, including overseeing the preparation of budget recommendations for all State agencies and programs, economic and revenue forecasting, tax policy, fiscal planning, capital financing and management of the State's debt portfolio, as well as pensions and employee benefits. Mr. Megna previously served as Commissioner of the New York State Department of Taxation and Finance, responsible for overseeing the collection and accounting of more than $90 billion in State and local taxes, the administration of State and local taxes, including New York City and the City of Yonkers income taxes and the processing of tax returns, registrations and associated documents. He holds Masters degrees in Public Policy from Fordham University and Economics from the London School of Economics.

The principal staff of DASNY is as follows:

PAUL T. WILLIAMS, JR. is the President and chief executive officer of DASNY. Mr. Williams is responsible for the overall management of DASNY's administration and operations. Prior to joining DASNY, Mr. Williams spent the majority of his career in law including 15 years as a founding partner in Wood, Williams, Rafalsky & Harris, where he helped to develop a national bond counsel practice, then as a partner in Bryan Cave LLP, where he counseled corporate clients in a range of areas. Mr. Williams later left the practice of law to help to establish a boutique Wall Street investment banking company where he served as president for several years. Throughout his career, Mr. Williams has made significant efforts to support diversity and promote equal opportunity, including his past service as president of One Hundred Black Men, Inc. and chairman of the Eagle Academy Foundation. Mr. Williams is licensed to practice law in the State of New York and holds a Bachelor's degree from Yale University and a Juris Doctor degree from Columbia University School of Law.

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

PORTIA LEE is the Managing Director of Public Finance and Portfolio Monitoring. She is responsible for supervising and directing DASNY bond issuance in the capital markets, implementing and overseeing financing programs, overseeing DASNY's compliance with continuing disclosure requirements and monitoring the financial condition of existing DASNY clients. Ms. Lee previously served as Senior Investment Officer at the New York State Comptroller's Office where she was responsible for assisting in the administration of the long-term fixed income portfolio of the New York State Common Retirement Fund, as well as the short-term portfolio, and the Securities Lending Program. From 1995 to 2005, Ms. Lee worked at Moody's Investors Service where she most recently served as Vice President and Senior Credit Officer in the Public Finance Housing Group. She holds a Bachelor's degree from the State University of New York at Albany.

LINDA H. BUTTON is the Acting Chief Financial Officer and Treasurer of DASNY. Ms. Button oversees and directs the activities of the Office of Finance. She is responsible for supervising DASNY's investment program, general accounting, accounts payable, accounts receivable and financial reporting functions, as well as the development and implementation of financial policies, financial management systems and internal controls for financial reporting. Ms. Button has served in various capacities at

DASNY over a long career, most recently as Director, Financial Management in the Office of Finance. She holds a Bachelor of Business Administration degree in Accounting from Siena College.

MICHAEL E. CUSACK is General Counsel to DASNY. Mr. Cusack is responsible for all legal services including legislation, litigation, contract matters and the legal aspects of all DASNY financings. He is licensed to practice law in the State of New York and the Commonwealth of Massachusetts, as well as the United States District Court for the Northern District of New York. Mr. Cusack has over twenty years of combined legal experience, including management of an in-house legal department and external counsel teams (and budgets) across a five-state region. He most recently served as of counsel to the Albany, New York law firm of Young/Sommer, LLC, where his practice included representation of upstate New York municipalities, telecommunications service providers in the siting of public utility/personal wireless service facilities and other private sector clients. He holds a Bachelor of Science degree from Siena College and a Juris Doctor degree from Albany Law School of Union University.

STEPHEN D. CURRO, P.E. is the Managing Director of Construction. Mr. Curro is responsible for DASNY's construction groups, including design, project management, purchasing, contract administration, interior design, and engineering and other technology services. Mr. Curro joined DASNY in 2001 as Director of Technical Services, and most recently served as Director of Construction Support Services. He is a registered Professional Engineer in New York and has worked in the construction industry for more than 20 years. He holds a Bachelor of Science in Civil Engineering from the University of Rhode Island, a Master of Engineering in Structural Engineering from Rensselaer Polytechnic Institute and a Master of Business Administration from Rensselaer Polytechnic Institute's Lally School of Management.

Claims and Litigation

Although certain claims and litigation have been asserted or commenced against DASNY, DASNY believes that such claims and litigation either are covered by insurance or by bonds filed with DASNY, or that DASNY has sufficient funds available or the legal power and ability to seek sufficient funds to meet any such claims or judgments resulting from such matters.

Other Matters

New York State Public Authorities Control Board

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

Legislation

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

Environmental Quality Review

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

Independent Auditors

The accounting firm of KPMG LLP audited the financial statements of DASNY for the fiscal year ended March 31, 2013. Copies of the most recent audited financial statements are available upon request at the offices of DASNY.

PART 8 - LEGALITY OF THE SERIES 2014 BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2014 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 2014 Bonds may be deposited with the State Comptroller to secure deposits of State moneys in banks, trust companies and industrial banks.

PART 9 - NEGOTIABLE INSTRUMENTS

The Series 2014 Bonds are negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution, the Series 2014 Resolution and in the Series 2014 Bonds.

PART 10 - TAX MATTERS

Subseries 2014A-1 Bonds

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to DASNY, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Subseries 2014A-1 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Subseries 2014A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by DASNY, each of the Series 2014 Participants, as applicable, the Program Facilitator, and others, and Bond Counsel has assumed compliance by DASNY, and each of the Series 2014 Participants, as applicable, with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Subseries 2014A-1 Bonds from gross income under Section 103 of the Code. In addition, in rendering its opinion, Bond Counsel has relied on the opinion of counsel to the Series 2014 Participants regarding, among other matters, the current qualifications of the Series 2014 Participants as organizations described in Section 501(c)(3) of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Subseries 2014A-1 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including The City of New York.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series 2014 Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Subseries 2014A-1 Bonds, or under state and local tax law.

Reference is made to Appendix G hereto for the proposed form of the approving opinion, in substantially final form, expected to be rendered by Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, in connection with the issuance of the Series 2014 Bonds.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Subseries 2014A-1 Bonds in order that interest on the Subseries 2014A-1 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Subseries 2014A-1 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Subseries 2014A-1 Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. DASNY and the Series 2014 Participants, as applicable, and the Program Facilitator have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Subseries 2014A-1 Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Subseries 2014A-1 Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Subseries 2014A-1 Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Subseries 2014A-1 Bonds.

Prospective owners of the Subseries 2014A-1 Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Subseries 2014A-1 Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Subseries 2014A-1 Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Subseries 2014A-1 Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Subseries 2014A-1 Bonds is expected to be the initial public offering price set forth on the inside cover page of this Official Statement. Bond Counsel further is of the opinion that, for any Subseries 2014A-1 Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Subseries 2014A-1 Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

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

Bond Premium

In general, if an owner acquires a Subseries 2014A-1 Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Subseries 2014A-1 Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Subseries 2014A-1 Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Subseries 2014A-1 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Subseries 2014A-1 Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Subseries 2014A-1 Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

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

Prospective purchasers of the Subseries 2014A-1 Bonds should consult their own tax advisors regarding the foregoing matters.

Subseries 2014A-2 Bonds

General

The following discussion is a summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of the Subseries 2014A-2 Bonds by original purchasers thereof who are U.S. Holders (as defined below). This summary is based on the Code, Treasury regulations, revenue rulings and court decisions, all as now in effect and all subject to change at any time, possibly with retroactive effect. This summary assumes that the Subseries 2014A-2 Bonds will be held as "capital assets" under the Code, and it does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding any Subseries 2014A-2 Bonds as a position in a "hedge" or "straddle" for United States Federal income tax purposes, holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, holders who acquire Subseries 2014A-2 Bonds in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code. Each prospective purchaser of Subseries 2014A-2 Bonds should consult with its own tax advisor concerning the United States Federal income tax and other tax consequences to it of the acquisition, ownership and disposition of Subseries 2014A-2 Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

As used herein, the term "U.S. Holder" means a beneficial owner of a Subseries 2014A-2 Bond that is for United States Federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

U.S. Holders – Interest Income

In the opinion of Bond Counsel, under existing statutes, interest and original issue discount (as defined below) on the Subseries 2014A-2 Bonds (i) are included in gross income for United States Federal income tax purposes and (ii) are exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including The City of New York.

Original Issue Discount

For United States Federal income tax purposes, a Subseries 2014A-2 Bond will be treated as issued with OID if the excess of a Subseries 2014A-2 Bond's "stated redemption price at maturity" over its "issue price" equals or exceeds a statutorily determined *de minimis* amount. The "issue price" of each Subseries 2014A-2 Bond in a particular issue equals the first price at which a substantial amount of such issue is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The "stated redemption price at maturity" of a Subseries 2014A-2 Bond is the sum of all payments provided by such Subseries 2014A-2 Bond other than "qualified stated interest" payments. The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate. In general, if the excess of a Subseries 2014A-2 Bond's stated redemption price at maturity over its issue price is less than 0.25 percent of the Subseries 2014A-2 Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity (the "*de minimis* amount"), then such excess, if any, constitutes *de minimis* OID, and the Subseries 2014A-2 Bond is not treated as being issued with OID and all payments of stated interest (including stated interest that would otherwise be characterized as OID) is treated as qualified stated interest, as described below.

Payments of qualified stated interest on a Subseries 2014A-2 Bond are taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received in accordance with the U.S. Holder's regular method of tax accounting. A U.S. Holder of a Subseries 2014A-2 Bond having a maturity of more than one year from its date of issue generally must include OID in income as ordinary interest as it accrues on a constant-yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder's regular method of tax accounting. The amount of OID included in income by the U.S. Holder of a Subseries 2014A-2 Bond is the sum of the daily portions of OID with respect to such Subseries 2014A-2 Bond for each day during the taxable year (or portion of the taxable year) on which such U.S. Holder held such Subseries 2014A-2 Bond. The daily portion of OID on any Subseries 2014A-2 Bond is determined by allocating to each day in any "accrual period" a ratable portion of the OID allocable to the accrual period. All accrual periods with respect to a Subseries 2014A-2 Bond may be of any length and the accrual periods may vary in length over the term of the Subseries 2014A-2 Bond, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first or final day of an accrual period. The amount of OID allocable to an accrual period is generally equal to the difference between (i) the product of the Subseries 2014A-2 Bond's "adjusted issue price" at the beginning of such accrual period and such Subseries 2014A-2 Bond's yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Subseries 2014A-2 Bond at the beginning of any accrual period is the issue price of the Subseries 2014A-2 Bond plus the amount of accrued OID includable in income for all prior accrual periods minus the amount of any prior payments on the Subseries 2014A-2 Bond other than qualified stated interest payments. The amount of OID allocable to an initial short accrual period may be computed using any reasonable method if all other accrual periods other than a final short accrual period are of equal length. The amount of OID allocable to the final accrual period is the difference between (i) the amount payable at the maturity of the Subseries 2014A-2 Bond (other than a payment of qualified stated interest) and (ii) the Subseries 2014A-2 Bond's adjusted issue price as of the beginning of the final accrual period. Under the OID rules, U.S. Holders generally will have to include in income increasingly greater amounts of OID in successive accrual periods.

A U.S. Holder may elect to include in gross income all interest that accrues on a Subseries 2014A-2 Bond using the constant-yield method described above under the heading "Original Issue Discount," with the modifications described below. For purposes of this election, interest includes, among other things, stated interest, OID and de minimis OID, as adjusted by any amortizable bond premium described below under the heading "Bond Premium." In applying the constant-yield method to a Subseries 2014A-2 Bond with respect to which this election has been made, the issue price of the Subseries 2014A-2 Bond will equal its cost to the electing U.S. Holder, the issue date of the Subseries 2014A-2 Bond will be the date of its acquisition by the electing U.S. Holder, and no payments on the Subseries 2014A-2 Bond will be treated as payments of qualified stated interest. The election will generally apply only to the Subseries 2014A-2 Bond with respect to which it is made and may not be revoked without the consent of the Internal Revenue Service. If this election is made with respect to a Subseries 2014A-2 Bond with amortizable bond premium, then the electing U.S. Holder will be deemed to have elected to apply amortizable bond premium against interest with respect to all debt instruments with amortizable bond premium (other than debt instruments the interest on which is excludable from gross income) held by the electing U.S. Holder as of the beginning of the taxable year in which the Subseries 2014A-2 Bond with respect to which the election is made is acquired or thereafter acquired. The deemed election with respect to amortizable bond premium may not be revoked without the consent of the Internal Revenue Service.

U.S. Holders of any Subseries 2014A-2 Bonds issued with OID should consult their own tax advisors with respect to the treatment of OID for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, and disposition of Subseries 2014A-2 Bonds.

Bond Premium

In general, if a U.S. Holder acquires a Subseries 2014A-2 Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Subseries 2014A-2 Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Subseries 2014A-2 Bond (a "Taxable Premium Bond"). In general, if a U.S. Holder of a Taxable Premium Bond elects to amortize the premium as "amortizable bond premium" over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond), the amortizable premium is treated as an offset to interest income; the U.S. Holder will make a corresponding adjustment to such holder's basis in the Taxable Premium Bond. Any such election applies to all debt instruments of the U.S. Holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired, and is irrevocable without the Internal Revenue Service's consent. A U.S. Holder of a Taxable Premium Bond that so elects to amortize bond premium does so by offsetting the qualified stated interest allocable to each interest accrual period under the U.S. Holder's regular method of Federal tax accounting against the bond premium allocable to that period. If the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is treated as a bond premium deduction under Section 171(a)(1) of the Code, subject to certain limitations. If a Taxable Premium Bond is optionally callable before maturity at a price in excess of its stated redemption price at maturity, special rules may apply with respect to the amortization of bond premium. Under certain circumstances, the U.S. Holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the U.S. Holder's original acquisition cost.

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

U.S. Holders – Disposition of Subseries 2014A-2 Bonds

Except as discussed above, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Subseries 2014A-2 Bond, a U.S. Holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such U.S. Holder's adjusted tax basis in the Subseries 2014A-2 Bond. A U.S. Holder's adjusted tax basis in a Subseries 2014A-2 Bond generally will equal such U.S. Holder's initial investment in the Subseries 2014A-2 Bond, increased by any OID included in the U.S. Holder's income with respect to the Subseries 2014A-2 Bond and decreased by the amount of any payments, other than qualified stated interest payments, received and bond premium amortized with respect to such Subseries 2014A-2 Bond. Such gain or loss generally will be long-term capital gain or loss if the Subseries 2014A-2 Bond was held for more than one year.

U.S. Holders – Defeasance

U.S. Holders of the Subseries 2014A-2 Bonds should be aware that, for Federal income tax purposes, the deposit of moneys or securities in escrow in such amount and manner as to cause the Subseries 2014A-2 Bonds to be deemed to be no longer outstanding under the Resolution (a "defeasance"), could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, for

Federal income tax purposes, the character and timing of receipt of payments on the Subseries 2014A-2 Bonds subsequent to any such defeasance could also be affected. U.S. Holders of the Subseries 2014A-2 Bonds are advised to consult with their own tax advisors regarding the consequences of a defeasance for Federal income tax purposes, and for state and local tax purposes.

U.S. Holders – Backup Withholding and Information Reporting

In general, information reporting requirements will apply to non-corporate U.S. Holders with respect to payments of principal, payments of interest, and the accrual of OID on a Subseries 2014A-2 Bond and the proceeds of the sale of a Subseries 2014A-2 Bond before maturity within the United States. Backup withholding at a rate provided in the Code will apply to such payments and to payments of OID unless the U.S. Holder (i) is a corporation or other exempt recipient and, when required, demonstrates that fact, or (ii) provides a correct taxpayer identification number, certifies under penalties of perjury, when required, that such U.S. Holder is not subject to backup withholding and has not been notified by the Internal Revenue Service that it has failed to report all interest and dividends required to be shown on its United States Federal income tax returns.

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

IRS Circular 230 Disclosure

The advice under the caption "Subseries 2014A-2 Bonds" concerning certain income tax consequences of the acquisition, ownership and disposition of the Subseries 2014A-2 Bonds, was written to support the marketing of the Subseries 2014A-2 Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, each prospective purchaser of the Subseries 2014A-2 Bonds is advised that (i) any Federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel to DASNY is not intended to be used, and cannot be used by any bondholder, for the purpose of avoiding penalties that may be imposed on the bondholder under the Code, and (ii) the bondholder should seek advice based on the bondholder's particular circumstances from an independent tax advisor.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Subseries 2014A-2 Bonds under state law and could affect the market price or marketability of the Taxable Bonds.

Prospective purchasers of the Subseries 2014A-2 Bonds should consult their own tax advisors regarding the foregoing matters.

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

PART 11 - BONDHOLDERS' RISKS

General

The Series 2014 Bonds involve a certain degree of risk. Prospective investors in the Series 2014 Bonds should review all of the information in this Official Statement and information pertaining to the Series 2014 Participants incorporated herein by reference carefully prior to purchasing any of the Series 2014 Bonds. This Official Statement contains only summaries of the Resolution, the Series 2014

Resolution, the Series 2014 Loan Agreements and the related documents. Prospective investors are urged to read such documents in their entirety prior to investing in the Series 2014 Bonds. Copies of such documents may be obtained from the Underwriter prior to the issuance of the Series 2014 Bonds. In addition, prospective investors should carefully review Appendix A for a discussion of the financial condition and results of operations of the Series 2014 Participants, Appendix B for copies of the audited financial statements of the Series 2014 Participants and Appendix C for copies of recent unaudited financial information for each of the Series 2014 Participants.

Set forth below are certain risk factors, among others, that could adversely affect a Series 2014 Participant's operation and revenues and expenses of its Series 2014 Facilities to an extent which cannot be determined at this time. Such risk factors should be considered before any investment in the Series 2014 Bonds is made. These risk factors should not be considered definitive or exhaustive.

Special, Limited Obligations of DASNY

The Series 2014 Bonds are special, limited obligations of DASNY payable solely from revenues to be received by DASNY from the Series 2014 Participants under the applicable Series 2014 Loan Agreement and from amounts held in the funds established pursuant to the Resolutions (other than the Arbitrage Rebate Fund). The Series 2014 Bonds will not be a debt of the State nor will the State be liable thereon. DASNY has no taxing power.

Several Obligations of Series 2014 Participants

The obligations of each Series 2014 Participant under its Series 2014 Loan Agreement are independent of the obligations of the other Series 2014 Participants under their Series 2014 Loan Agreements. A failure by a Series 2014 Participant to timely pay its obligations under its Series 2014 Loan Agreement might result in an event of default under the Resolutions with respect to such Series 2014 Participant's Allocable Portion of the Series 2014 Bonds. Upon the happening and continuance of an event of default affecting only a Defaulted Allocable Portion of the Series 2014 Bonds, payment on such Defaulted Allocable Portion of Series 2014 Bonds will be limited to amounts received from or payable by or on behalf of such Series 2014 Participant and amounts derived upon the realization of any security or collateral granted by such defaulting Series 2014 Participant. Holders of a Defaulted Allocable Portion of the Series 2014 Bonds will have no right to any other Revenues or any other funds held by the Trustee under the Resolution derived from payments made by or on behalf of any other Series 2014 Participant for the payment of the Series 2014 Bonds or any other security pledged by such other non-defaulting Series 2014 Participants as security for their loans. See "PART 1 - INTRODUCTION - Limitations on Payment and Security Upon the Occurrence of Certain Events of Default," "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2014 BONDS - Events of Default - Special Provisions Relating to Defaults," "PART 3 - THE SERIES 2014 BONDS - Redemption Provisions" and "Appendix F - Summary of Certain Provisions of the Resolutions."

Reliance on Credit of the Series 2014 Participants

The Series 2014 Bonds are being issued without credit enhancement in the form of a letter of credit, bond insurance or any other form. While the amounts payable to the Series 2014 Participants pursuant to their respective PPAs are calculated in a manner so as to provide moneys equal to debt service on their respective loans, there can be no assurance that the funds received by a particular Series 2014 Participant pursuant to its PPA or PPAs (or by DASNY or Trustee upon the intercept of such Intercept Funds) will be sufficient for the repayment of such Series 2014 Participant's Allocable Portion of the Series 2014 Bonds (whether because of non-appropriation of funds by the State, failure of a Series 2014

Participant to operate its Series 2014 Facility or Facilities in accordance with operational standards or otherwise). Moreover, the payment obligations of the Series 2014 Participants are several, not joint. The Holders of the Series 2014 Bonds must therefore rely upon the credit of each Series 2014 Participant for the payment of the Series 2014 Bonds (and not the credit of DASNY, the Trustee, the Underwriter, the State or any other municipality of the State). See "PART 1 - INTRODUCTION - Additional Security - Pledged Revenues and The Standby Intercepts," "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2014 BONDS - Security for the Series 2014 Bonds," and "PART 5 - SOURCES OF SERIES 2014 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities."

Each Series 2014 Participant covenants in its Series 2014 Loan Agreement that it has maintained in its current Fiscal Year and it will maintain in each Fiscal Year subsequent to the date of delivery of its Series 2014 Loan Agreement Total Net Revenues Available for Debt Service sufficient to produce in each Fiscal Year a Total Debt Service Coverage Ratio of not less than 1.00 to 1.00.

Revenues of Series 2014 Participants

Future revenues of each Series 2014 Participant are dependent upon, among other things, legislative appropriations, federal and State policy, the outcome of current and potential litigation and other conditions that are unpredictable, some of which are discussed below. The ability to pay principal of and interest on the Series 2014 Bonds depends upon the receipt by the Trustee of the Loan Repayments under the Series 2014 Loan Agreements. A number of risks that could affect the Series 2014 Participants' ability to pay such amounts are failure of (i) the State, various county and city legislature to approve sufficient appropriations for the purchase of services from the Series 2014 Participants; (ii) the State, various county and city departments to make timely payments to the Series 2014 Participants of appropriated amounts caused by revenue short falls or other State and local fiscal considerations; (iii) the Series 2014 Participants to fulfill their obligations which entitle them to receive payments; (iv) the Series 2014 Participants to receive the appropriate certifications from the required licensing or certifying entity(ies) to provide services as required; and/or (v) the Series 2014 Participants to obtain the renewal of their contracts. In addition, a Series 2014 Participant's license and/or certification may be revoked for failure to comply with standards of operation applicable to such Series 2014 Participant.

Payment Defaults May Affect More Than One Series of Bonds Issued Under the Resolution

Upon the issuance of any other Series of Bonds for the benefit of one or more of the Series 2014 Participants, the applicable Series 2014 Participant and DASNY shall enter into separate loan agreements. The Series 2014 Bonds are separately secured from all other Series of Bonds and the Holders of any Series of Bonds other than the Series 2014 Bonds are not entitled to the rights, benefits and security conferred upon the Holders of the Series 2014 Bonds. While an event of default with respect to another Series of Bonds will not necessarily result in an event of default with respect to the Series 2014 Bonds, an event of default by a Series 2014 Participant under a loan agreement entered into in connection with the issuance of another Series of Bonds will result in an "Event of Default" under such Series 2014 Participant's Series 2014 Loan Agreement. See "PART 1 - INTRODUCTION - Authorization of Issuance" and "- Security for the Series 2014 Bonds" and "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2014 BONDS."

Enforceability of Remedies; Effect of Bankruptcy of a Series 2014 Participant

The Series 2014 Bonds are payable from the sources and are secured as described in this Official Statement. The practical realization of value from the collateral for the Series 2014 Bonds described herein upon any default will depend upon the exercise of various remedies specified by the Resolutions, the respective Series 2014 Loan Agreements, the respective Mortgages or other security agreements and the then-value of the collateral and other regulatory approvals. These and other remedies may, in many respects, require judicial actions which are often subject to discretion and delay.

Under existing law, the remedies specified by the Resolutions, the Series 2014 Loan Agreements and the Mortgages may not be readily available or may be limited. A court may decide not to order the performance of the covenants contained in those documents. The legal opinions to be delivered concurrently with the delivery of the Series 2014 Bonds will be qualified as to the enforceability of the various agreements and other instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization or other laws affecting the enforcement of creditors' rights generally.

The rights and remedies of the Holders of the Series 2014 Bonds are subject to various provisions of Title 11 of the United States Code (the "Bankruptcy Code"). If a Series 2014 Participant were to file a petition for relief under the Bankruptcy Code, the filing would automatically stay the commencement or continuation of any judicial or other proceedings against such Series 2014 Participant and its property, including the commencement of foreclosure proceedings under its Mortgage, if applicable. Such Series 2014 Participant would not be permitted or required to make payments of principal or interest under its Series 2014 Loan Agreement, unless an order of the United States Bankruptcy Court were issued for such purpose. In addition, without an order of the United States Bankruptcy Court, the automatic stay may serve to prevent DASNY from intercepting the Series 2014 Participant's Intercept Funds pursuant to the applicable Intercept Agreement or the Trustee from applying amounts on deposit in the accounts established with respect to such Series 2014 Participant under the Resolutions from being applied in accordance with the provisions of the Resolutions and the application of such amounts to the payment of principal of, and interest on, such Series 2014 Participant's Allocable Portion of the Series 2014 Bonds. Moreover, any motion for an order canceling the automatic stay and permitting such intercept or accounts to be applied in accordance with the provisions of the Resolutions would be subject to the discretion of the United States Bankruptcy Court, and may be subject to objection and/or comment by other creditors of such Series 2014 Participant, which could affect the likelihood or timing of obtaining such relief. In addition, if the Mortgage of such defaulting Series 2014 Participant is assigned by DASNY to the Trustee as described herein and the value of the related Mortgaged Property is less than the principal amount of such Series 2014 Participant's total Loan Repayment obligation at the time of a bankruptcy proceeding, the security interest of the Trustee in such property is subject to the claims of creditors that the mortgaged indebtedness in excess of the fair market value of the Mortgaged Property is unsecured and, therefore, to the extent of such excess is not entitled to a secured priority position in the administration of the bankruptcy estate.

A Series 2014 Participant could file a plan for the adjustment of its debts in a proceeding under the Bankruptcy Code, which plan could include provisions modifying or altering the rights of creditors generally, or any class of them, whether secured or unsecured. The plan, when confirmed by the United States Bankruptcy Court, would bind all creditors who have notice or knowledge of the plan and would discharge all claims against such Series 2014 Participant provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

Mortgages

Mortgages Not Currently Security for Series 2014 Bonds

The Mortgages do not presently provide any security for the Series 2014 Bonds. However, under certain circumstances described herein, one or more of the Mortgages may be assigned to the Trustee. Prior to any assignment of a Mortgage to the Trustee, each Series 2014 Loan Agreement provides that DASNY, without the consent of the Trustee or the Holders of the Series 2014 Bonds, may consent to the amendment, modification, termination, subordination or satisfaction of such Mortgage and of any security interest in furniture, fixtures or equipment financed with the proceeds of the Series 2014 Bonds located in or on or used in connection therewith and the property subject to such Mortgage or security interest may be released from the lien thereof, all upon such terms and conditions as DASNY may reasonably require. Notwithstanding the foregoing, a Series 2014 Participant may remove such furniture, fixtures or equipment from the Mortgaged Property provided that such Series 2014 Participant shall replace such furniture, fixtures or equipment with furniture, fixtures or equipment having equivalent value and utility. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2014 BONDS - Security for the Series 2014 Bonds - Mortgages."

Pledge of Property Under Mortgages

The security interest in the Mortgaged Property granted under a Mortgage may be affected by various matters, including, (i) rights arising in favor of the United States of America or any agency thereof, (ii) present or future prohibitions against assignment in any applicable federal or state statutes or regulations, (iii) constructive trusts, equitable liens or other rights imposed or conferred by any state or federal court in the exercise of its equitable jurisdiction and rights of donors of property, (iv) claims that might obtain priority if continuation statements are not filed in accordance with applicable laws, (v) the rights of holders of prior perfected security interests in equipment and other goods owned by a Series 2014 Participant and included in the Mortgaged Property and the proceeds of sale of such property, (vi) statutory liens and other liens arising as a matter of law, (vii) the rights of parties secured by other liens or encumbrances permitted by the applicable Series 2014 Loan Agreements or the applicable Mortgages, and (viii) claims by creditors that the mortgaged indebtedness in excess of the fair market value of the Mortgaged Property is unsecured to the extent of such excess.

Insufficiency of Mortgage Foreclosure Proceeds; Environmental Impairment of Property

One of the options under each Series 2014 Participant's Series 2014 Loan Agreement, and one of the options under the Resolution, is to institute foreclosure proceedings to enforce the lien on and sell such Series 2014 Participant's Mortgaged Property in the event of a default under its Series 2014 Loan Agreement, its Mortgage(s) or the Resolutions. However, due to the limited uses for which a Series 2014 Participant's Mortgaged Property may be utilized, none of DASNY, the Program Facilitator, the Trustee, the applicable Series 2014 Participant, or the Underwriter makes any assurances or representations that a sale of a Series 2014 Participant's Mortgaged Property or, if such Mortgaged Property is sold, that the proceeds received upon a foreclosure or other sale, along with all moneys on deposit in the various funds of such Series 2014 Participant established under the Resolution, will be sufficient to pay in full the principal of, or interest on, the Allocable Portion of the Series 2014 Bonds attributable to such defaulting Series 2014 Participant.

In exercising the rights of foreclosure under a Mortgage, DASNY or the Trustee, as the case may be, in accordance with current commercial lending practices, may perform a Phase I Environmental Audit to determine the presence or likely presence of a release or a substantial threat of a release of any hazardous materials at, on, to, or from the Mortgaged Property. If the audit indicated the existence of hazardous materials with respect to the Mortgaged Property, the Trustee or DASNY, as applicable, may conclude that it is not in the best interests of the Bondholders to foreclose on such property due to liability for removal of hazardous materials. In such an event, the Trustee or DASNY may decline to exercise foreclosure rights with respect to Mortgaged Property under a Mortgage without specific instructions from Bondholders and receipt of funds, security and/or indemnity from the Bondholders reasonably satisfactory to such party to pay the costs, expenses, and liabilities which might be incurred by its compliance with such instructions. Consequently, the existence, post-acquisition, of hazardous materials with respect to any Mortgaged Property could severely limit the ability, due to the economic liability associated with removal of such materials, to foreclose on such property and/or obtain the market value for such property in security for the Series 2014 Bonds that would otherwise have been available absent the existence of such hazardous materials.

Another option under a Series 2014 Participant's Series 2014 Loan Agreement is to institute proceedings to enforce the lien on and sell the Series 2014 Participant's Equipment (as defined in each Mortgage) in the event of a default under its Series 2014 Loan Agreement, its Mortgage(s) or the Resolutions. However, due to the limited uses for which a Series 2014 Participant's Equipment may be utilized, none of DASNY, the Program Facilitator, the Trustee, the applicable Series 2014 Participant, or the Underwriter makes any assurances or representations that DASNY or the Trustee will be able to sell a Series 2014 Participant's Equipment or, if such Equipment is sold, that the proceeds received upon a sale, along with all moneys on deposit in the various funds of the Series 2014 Participant established under the Resolution, would be sufficient to pay in full the principal of, or interest on, the Series 2014 Bonds attributable to such defaulting Series 2014 Participant.

No Approval by New York State Supreme Court

Section 510 of the New York Not-For-Profit Corporation Law ("NFPCL") requires New York State Supreme Court approval of any "sale, lease, exchange or other disposition" of "all, or substantially all, the assets" of a not-for-profit corporation such as the Series 2014 Participants. Such approval was not sought in connection with the execution, delivery and performance by the Series 2014 Participants of the Mortgages or the pledges of assets and revenues that are contemplated by the Resolutions and the Series 2014 Loan Agreements. It is the opinion of counsel to the Series 2014 Participants that such actions do not require approval pursuant to NFPCL §510. However, absent court decisions definitively resolving this issue, it cannot be ruled out that a defendant in a foreclosure action may raise as an affirmative defense the failure to obtain NFPCL §510 court approval.

Release of Series 2014 Facilities from Lien of Mortgages

Each Series 2014 Loan Agreement, each Mortgage and the Resolutions provide a Series 2014 Participant the ability to prepay a portion of its loan attributable to a Series 2014 Facility and, upon the redemption or defeasance of the related Series 2014 Bonds to have such Series 2014 Facility released from the lien of the applicable Mortgage. There is no assurance that the security, if any, provided by the remaining Series 2014 Facilities subject to the lien of such Mortgage will be sufficient to pay the then outstanding principal and interest (or other amounts due) with respect to such Series 2014 Participant's Allocable Portion of the Series 2014 Bonds. In such event none of DASNY, the Trustee, the Program Facilitator or any Bondholder will have any recourse to, claim against or right of contribution from any other Series 2014 Participant.

In view of the foregoing, investors should rely on their own examination of the creditworthiness and financial condition of each of the Series 2014 Participants and the terms of this offering, including, without limitation, the merits and risks involved and the uncertainties associated with the possible limitations or inability to enforce the remedies set forth in the Mortgages, in the event that the Mortgages are assigned to the Trustee by DASNY.

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

The Series 2014 Participants are subject to Federal, State and local actions, including, among others, actions by the various State, county and city departments. The Series 2014 Bonds are payable from operating revenues of the Series 2014 Participants, which depend in large measure upon the appropriations of the State for the funds of the various State, county and city departments that have contracts with the Series 2014 Participants. HOWEVER, THE OBLIGATION OF THE VARIOUS STATE, COUNTY AND CITY DEPARTMENTS TO RENEW SUCH CONTRACTS IS SUBJECT TO ANNUAL REEVALUATION BY THE DEPARTMENT OBTAINING THE CONTRACT AS PART OF ITS ANNUAL BUDGET APPROPRIATION PROCESS. EACH YEAR THE STATE LEGISLATURE, WHICH HAS THE RESPONSIBILITY OF APPROPRIATING AND ALLOCATING STATE RESOURCES AMONG THE STATE'S VARIOUS DEPARTMENTS, HAS THE RIGHT, IN ITS SOLE DISCRETION, EITHER (I) TO APPROPRIATE SUFFICIENT FUNDS, FROM WHATEVER SOURCE, TO FUND IN WHOLE OR IN PART THE VARIOUS DEPARTMENTS' BUDGETS FROM WHICH THE CONTRACTS PROCURED FOR THE NEXT FISCAL YEAR ARE TO BE PAID, OR (II) TO APPROPRIATE INSUFFICIENT FUNDS TO MAKE SUCH PAYMENTS OR (III) NOT TO APPROPRIATE ANY FUNDS FOR THE VARIOUS DEPARTMENTS' BUDGETS FROM WHICH CONTRACTS ARE TO BE PROCURED AND PAID.

In particular, the ability of the State, county, and city departments to disburse Medicaid reimbursements, and other State, county and city departments to fund contracts of the Series 2014 Participants, is limited in part by the amount of revenues collected, as well as the amount of appropriations authorized, by the State for such fiscal year. Failure of the State to receive sufficient revenues to fund appropriations for such fiscal year and/or the failure of the Series 2014 Participants to generate sufficient revenues from other sources (or have access to sufficient fund balances) to make the scheduled Loan Repayments that are to be used by the Trustee to repay the Series 2014 Bonds, will materially adversely affect a Series 2014 Participant's ability to make its Loan Repayments and, consequently, the repayment of the Series 2014 Bonds attributable to such Series 2014 Participant.

Federal Medicaid Reform

A majority of the Public Funds (including the Intercept Funds) are received from Medicaid. Future Medicaid reform may materially adversely affect the Public Funds received by the Series 2014 Participants.

Completion of the Projects; Zoning; Certificate of Occupancy

The acquisition of all of the Series 2014 Facilities are complete. Each of the Series 2014 Facilities has received a Certificate of Occupancy, but many are seeking updated Certificates of Occupancy or Certificates of Completion that have not yet been issued. Updated certificates are required for (1) ABD's Series 2014 Facility located at 110 Howland Avenue, Beacon, New York, (2) Family Residences and Essential Enterprises, Inc.'s Series 2014 Facilities located at 176-09 133rd Avenue, Springfield Gardens, New York, 101-27th Place, Queens, New York, and 28 Eleanor Avenue, Mastic, New York; (3) Institute for Community Living Inc.'s Series 2014 Facility located at 614 East 228th Street, Bronx, New York; and (4) Ohel Children's Home and Family Services, Inc.'s Series 2014 Facilities located at 545 Arlington Road, Cedarhurst, New York and 257 East Broadway, New York, New York.

Each Series 2014 Facility may require special use permits or compliance or other zoning approval (each, a "Certificate") from the applicable municipality. Failure of a Series 2014 Participant to obtain an appropriate Certificate where the same is required could materially adversely affect the financial position of such Series 2014 Participant. Moreover, the failure of a Series 2014 Participant's Series 2014 Facilities to receive a Certificate when required could materially adversely impact either the Series 2014

Participant's, the Trustee's or another party's right to use or occupy the Series 2014 Facility, before or after the exercise of default remedies.

Operating Certificates, which permit the Series 2014 Participants to operate their Series 2014 Facilities have been issued by OPWDD for all of the Series 2014 Facilities, except Ohel Children's Home and Family Services, Inc.'s Series 2014 Facility located at 545 Arlington Road, Cedarhurst, New York as its construction and/or renovation are not yet completed.

Additional Indebtedness

Under its Series 2014 Loan Agreement, each Series 2014 Participant has the ability to incur additional debt. An event of default by a Series 2014 Participant under a loan agreement entered into in connection with the issuance of another Series of Bonds will result in an "Event of Default" under such Series 2014 Participant's Series 2014 Loan Agreement. See ""Appendix E - Summary of Certain Provisions of the Series 2014 Loan Agreements."

Prior Pledges of Pledged Revenues

The Series 2014 Bonds are secured by the pledge and assignment to the Trustee of DASNY's security interest in the Pledged Revenues granted by each of the Series 2014 Participants to DASNY pursuant to its Series 2014 Loan Agreement, subject to Prior Pledges. Certain of the Series 2014 Participants have previously pledged their Public Funds (a portion of which consists of the Pledged Revenues) to DASNY or an industrial development agency as security for their obligations in connection with bonds previously issued by DASNY or such industrial development agency. Certain of the Series 2014 Participants have pledged their accounts receivable, including Public Funds, to banks or other financial institutions as security for their obligations in connection with lines of credit. The pledge of the Pledged Revenues securing such Series 2014 Participant's Allocable Portion of the Series 2014 Bonds is subject, and subordinate, to such Prior Pledges in all respects. See "Appendix A - Description of Series 2014 Participants" for a description of which Series 2014 Participants have Prior Pledges of their respective Pledged Revenues.

Grant of Additional Security Interests

Subject to the limitations set forth in its Series 2014 Loan Agreement, a Series 2014 Participant may grant security interests in its Accounts Receivable, and the proceeds thereof, in favor of banks or other financial institutions in order to secure a line of credit for working capital purposes, whether by entering into a new credit facility or amending, modifying or extending an existing credit facility. The incurrence of such indebtedness and the granting of such security interests could materially adversely affect the financial position of a Series 2014 Participant and its ability to satisfy its Loan Repayment obligations. See "Appendix E - Summary of Certain Provisions of the Series 2014 Loan Agreements."

A Series 2014 Participant may also grant a subordinate mortgage as security for bonds issued by DASNY after the date of issuance of the Series 2014 Bonds, in an amount up to the amount approved by OPWDD pursuant to the PPA process, for the purpose of financing the cost of renovating, constructing, equipping or completing a Series 2014 Facility, and any loan agreement, or amendment to the applicable Series 2014 Loan Agreement, between DASNY and such Series 2014 Participant, in each case in connection with such financing.

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

As an entity qualified under Section 501(c)(3) of the Code, each Series 2014 Participant is subject to various requirements affecting its operation. The failure of a Series 2014 Participant to maintain its tax-exempt status may affect the Series 2014 Participant's ability to receive funds from State and federal sources, which could adversely affect its ability to pay its principal Loan Repayments under its Series 2014 Loan Agreement. Further, a loss of a Series 2014 Participant's status as a Section 501(c)(3) organization, failure of a Series 2014 Participant to comply with certain legal requirements of the Code, or adoption of amendments to the Code applicable to such Series 2014 Participant that restrict the use of tax-exempt bonds for facilities, such as one or more of its Series 2014 Facilities, could cause interest on the Subseries 2014A-1 Bonds to be included in the gross income of the Bondholders or former Bondholders for federal income tax purposes, and such inclusion could be retroactive to the date of issuance of the Subseries 2014A-1 Bonds. The opinion of Bond Counsel and the description of the tax law contained in this Official Statement are based on statutes, judicial decisions, regulations, rulings, and other official interpretations of law in existence on the date the Subseries 2014A-1 Bonds are issued. No assurance can be given that such laws or the interpretation thereof will not change or that new provisions of law will not be enacted or promulgated at any time while the Subseries 2014A-1 Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the Subseries 2014A-1 Bonds. See "PART 10 - TAX MATTERS" above. The Subseries 2014A-1 Bonds are not subject to redemption, nor will the interest rate on the Subseries 2014A-1 Bonds be changed, if interest on the Subseries 2014A-1 Bonds is included in the gross income of the Bondholders or former Bondholders.

Risk of Audit by Internal Revenue Service

The Internal Revenue Service has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Internal Revenue Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Subseries 2014A-1 Bonds.

Risk of Review by State and Federal Agencies

Various State and Federal agencies, including without limitation, OPWDD, the Office of Medicaid Inspector General, the New York State Office of State Controller, the New York State Department of Health, the United States Office of Inspector General, and the New York State Commission on Quality of Care, have ongoing programs of reviewing the services provided by, and the claims for payment submitted by, service provider agencies, such as the Series 2014 Participants, to determine compliance with State and/or federal laws and regulations. Such reviews, if adversely determined, may affect the ability of the service provider agency to provide its services and receive payments therefor. No assurances can be given as to whether or not any State or federal agency will commence a review of any Series 2014 Participant and the effect of any such review on such Series 2014 Participant's ability to make its payments under its Series 2014 Loan Agreement.

Specific Risks Related to Ohel Children's Home and Family Services, Inc.'s Series 2014 Leased Facilities

In order to secure its obligations under its Series 2014 Loan Agreement, Ohel Children's Home and Family Services, Inc. will collaterally assign to DASNY pursuant to a Collateral Assignment of Leases its right, title and interest (but not its obligations) in the leases for its Series 2014 Facilities located at 4224 12th Avenue, Brooklyn, New York and 1255 52nd Street, Brooklyn, New York (collectively, the "Leases"). The landlords under each of the Leases have each consented to such collateral assignment. Upon and during an uncured Event of Default under Ohel Children's Home and Family Services, Inc.'s Series 2014 Loan Agreement, DASNY may further assign a Lease to a financially sound New York State-approved not-for-profit corporation selection by DASNY (each a "Replacement Tenant") for purposes of operating a State-approved program within such Series 2014 Facility similar to the program currently operated therein by Ohel Children's Home and Family Services, Inc. The applicable Replacement Tenant would assume Ohel Children's Home and Family Services, Inc.'s liabilities and obligations under the applicable Lease on terms acceptable to the landlord. Notwithstanding the Collateral Assignment of Leases, Ohel Children's Home and Family Services, Inc. shall remain liable under the Leases to perform all of its obligations thereunder. Certain practical and legal considerations, however, including, but not limited to, bankruptcy risks, could inhibit or materially delay the ability to locate a Replacement Tenant for such Series 2014 Facilities, or otherwise preclude the receipt of sufficient revenues to repay Ohel Children's Home and Family Services, Inc.'s Allocable Portion of the Series 2014 Bonds.

PART 12 - STATE NOT LIABLE ON THE SERIES 2014 BONDS

The Act provides that notes and bonds of DASNY are not a debt of the State, that the State is not liable on them and that such notes or bonds are not payable out of any funds other than those of DASNY. The Resolution specifically provides that the Series 2014 Bonds are not a debt of the State and that the State is not liable on them.

PART 13 - COVENANT BY THE STATE

The Act states that the State pledges and agrees with the holders of DASNY's notes and bonds that the State will not limit or alter the rights vested in DASNY to provide projects, to establish and collect rentals therefrom and to fulfill agreements with the holders of DASNY's notes and bonds or in any way impair the rights and remedies of the holders of such notes or bonds until such notes or bonds and interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the holders of such notes or bonds are fully met and discharged. Notwithstanding the State's pledges and agreements contained in the Act, the State may in the exercise of its sovereign power enact or amend its laws which, if determined to be both reasonable and necessary to serve an important public purpose, could have the effect of impairing these pledges and agreements with DASNY and with the holders of DASNY's notes or bonds.

PART 14 - LEGAL MATTERS

Certain legal matters incidental to the authorization and issuance of the Series 2014 Bonds by DASNY are subject to the approval of Hawkins Delafield and Wood LLP, New York, New York, Bond Counsel to DASNY, whose approving opinion will be delivered with the Series 2014 Bonds. The proposed form of Bond Counsel's opinion is set forth in Appendix G hereto.

Certain legal matters will be passed upon for the Series 2014 Participants by Cullen and Dykman LLP, Albany, New York and for the Underwriter by McCarter & English, LLP, New York, New York and Newark, New Jersey.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2014 Bonds or questioning or affecting the validity of the Series 2014 Bonds or the proceedings and authority under which they are to be issued.

See "Appendix A - Description of Series 2014 Participants" for a description of any litigation which may have a material adverse effect on the Series 2014 Participants.

PART 15 - CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), each Series 2014 Participant has undertaken in a written agreement (collectively, the "Continuing Disclosure Agreements") for the benefit of the Holders of the Series 2014 Bonds to provide to Digital Assurance Certification LLC ("DAC"), on behalf of DASNY as

DASNY's disclosure dissemination agent, on or before 180 days after the end of each fiscal year, commencing with the fiscal year of the Series 2014 Participants ending June 30, 2014 or December 31, 2013, as applicable, for filing by DAC with the Municipal Securities Rulemaking Board (the "MSRB") and its Electronic Municipal Market Access System for municipal securities disclosure on an annual basis, operating data and financial information of the type hereinafter described which is included in this Official Statement (the "Annual Information"), together with each Series 2014 Participant's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America and audited by an independent firm of certified public accountants in accordance with auditing standards generally accepted in the United States of America; provided, however, that if the audited financial statements are not then available, unaudited financial statements shall be provided and such audited financial statements shall be delivered to DAC for delivery to the MSRB.

If, and only if, and to the extent that it receives the Annual Information and annual financial statements described above from the Series 2014 Participants, DAC has undertaken in each Continuing Disclosure Agreement, on behalf of and as agent for the applicable Series 2014 Participant and DASNY, to file such information and financial statements, as promptly as practicable, but no later than three business days after receipt of the information by DAC from the Series 2014 Participant, with the MSRB.

The Series 2014 Participants also will undertake in their respective Continuing Disclosure Agreements to provide to DASNY, the Trustee and DAC, in a timely manner not in excess of nine (9) Business Days after the occurrence of a Notice Event (as hereinafter defined), the notices required to be provided by Rule 15c2-12 and described below (the "Notices"). In addition, DASNY and the Trustee will undertake to provide such Notices to DAC, should they have actual knowledge of the occurrence of a Notice Event. Upon receipt of Notices from a Series 2014 Participant, the Trustee or DASNY, DAC will file the Notices with the MSRB in a timely manner. With respect to the Series 2014 Bonds, DAC has only the duties specifically set forth in the Continuing Disclosure Agreements. DAC's obligation to deliver the information at the times and with the contents described in the Continuing Disclosure Agreements is limited to the extent it has been provided such information pursuant to the Continuing Disclosure Agreements. DAC has no duty with respect to the content of any disclosure or Notices made pursuant to the terms of the Continuing Disclosure Agreements and DAC has no duty or obligation to review or verify any information contained in the Annual Information, Audited Financial Statements, Notices or any other information, disclosures or notices provided to it by a Series 2014 Participant, the Trustee or DASNY and shall not be deemed to be acting in any fiduciary capacity for DASNY, a Series 2014 Participant, the Trustee, the Owners of the Series 2014 Bonds or any other party. DAC has no responsibility for DASNY, any Series 2014 Participant or the Trustee's failure to provide to DAC a Notice required by the Continuing Disclosure Agreements or duty to determine the materiality thereof. DAC shall have no duty to determine or liability for failing to determine whether a Series 2014 Participant, the Trustee or DASNY has complied with the Continuing Disclosure Agreements and DAC may conclusively rely upon certifications of a Series 2014 Participant, the Trustee and DASNY with respect to their respective obligations under the Continuing Disclosure Agreements. In the event that the obligations of DAC as DASNY's disclosure dissemination agent terminate, DASNY will either appoint a successor disclosure dissemination agent or, alternatively, assume all responsibilities of the disclosure dissemination agent for the benefit of the Bondholders.

The Annual Information will consist of the funding sources of a Series 2014 Participant and the Debt Service Coverage calculation for a Series 2014 Participant.

The Notices include notice of any of the following events with respect to the Series 2014 Bonds (a "Notice Event"): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue

Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2014 Bonds, or other material events affecting the tax status of the Series 2014 Bonds; (7) modifications to rights of the Owners of the Series 2014 Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2014 Bonds, if material; (11) rating changes on the Series 2014 Bonds; (12) bankruptcy, insolvency, receivership or similar events of a Series 2014 Participant; (13) the consummation of a merger, consolidation, or acquisition involving a Series 2014 Participant or the sale of all or substantially all of the assets of such Series 2014 Participant, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional Trustee or the change of name of a Trustee, if material. In addition, DAC will undertake to provide to the MSRB, in a timely manner, notice of any failure by any of the Series 2014 Participants to provide the Annual Information and annual financial statements by the date required in the Series 2014 Participants' undertaking described above.

The sole and exclusive remedy for breach or default under any Continuing Disclosure Agreement is an action to compel specific performance of the undertakings of the defaulting Series 2014 Participant and/or DASNY or the Trustee, and no person, including any Holder of the Series 2014 Bonds, may recover monetary damages thereunder under any circumstances. DASNY or such defaulting Series 2014 Participant may be compelled to comply with their respective obligations under a Continuing Disclosure Agreement (i) in the case of enforcement of their obligations to provide information required thereunder, by any Holder of Outstanding Series 2014 Bonds or by the Trustee on behalf of the Owners of Outstanding Series 2014 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 2014 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 2014 Bonds. A breach or default under a Continuing Disclosure Agreement will not constitute an event of default under the Resolutions. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the Continuing Disclosure Agreements, insofar as the provisions of Rule 15c2-12 no longer in effect required the providing of such information, will no longer be required to be provided.

The foregoing undertakings are intended to set forth a general description of the type of financial information and operating data that will be provided; the descriptions are not intended to state more than general categories of financial information and operating data; and where an undertaking calls for information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. Any Continuing Disclosure Agreement, however, may under certain circumstances be amended or modified without the consent of Owners of the Series 2014 Bonds. Copies of all Continuing Disclosure Agreements when executed by the parties thereto upon the delivery of the Series 2014 Bonds will be on file at the principal office of DASNY.

For information about the Series 2014 Participants' compliance with their continuing disclosure undertakings made pursuant to Rule 15c2-12, see "Appendix A - Description of Series 2014 Participants."

PART 16 - UNDERWRITING

The Series 2014 Bonds are being purchased by Municipal Capital Markets Group, Inc. (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the Series 2014 Bonds from DASNY at a purchase price of $13,078,958.79 and to make a public offering of the Series 2014 Bonds at prices not in excess public offering prices set forth on the inside cover page of this Official

Statement. The Underwriter will be obligated to purchase all Series 2014 Bonds if any Series 2014 Bonds are purchased. The Series 2014 Bonds may be offered and sold to certain dealers (including dealers depositing such Series 2014 Bonds into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriter.

The Series 2014 Participants have agreed to indemnify the Underwriter and DASNY with respect to certain liabilities, including certain liabilities under the federal securities laws.

PART 17 - RATING

The Series 2014 Bonds have been rated "Aa3" by Moody's. The rating on the Series 2014 Bonds is based upon the obligation of the Series 2014 Participants under the Series 2014 Loan Agreements to make certain payments from the Revenues, and on the security interest in the Pledged Revenues granted by such Series 2014 Participants to DASNY under the Series 2014 Loan Agreements. An explanation of the significance of the rating should be obtained from Moody's. There is no assurance that such rating will prevail for any given period of time or that it will not be changed or withdrawn by Moody's if, in its judgment, circumstances so warrant. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the Series 2014 Bonds.

PART 18 - INDEPENDENT PUBLIC ACCOUNTANTS

Ability Beyond Disability, Inc. and Affiliates (including Ability Beyond Disability), Institute for Community Living Inc. and Ohel Children's Home and Family Services, Inc. have provided its financial statements as of and for the years ended June 30, 2013, June 30, 2012 and June 30, 2011 (the report for which, with respect to Ohel Children's Home and Family Services, Inc., includes audited financial statements for the year ended June 30, 2010) and Family Residences and Essential Enterprises, Inc. has provided its financial statements as of and for the years ended December 31, 2012, December 31, 2011 and December 31, 2010. These financial statements, included in Appendix B to this Official Statement, have been audited by independent certified public accounting firms, as stated in their respective reports appearing therein. Notwithstanding the receipt of any consents to append the financial statements to this Official Statement, none of the auditors performed any procedures relating to any of the information contained in this Official Statement.

PART 19 - MISCELLANEOUS

References in this Official Statement to the Act, the Resolutions, the Series 2014 Loan Agreements and the Mortgages do not purport to be complete. Refer to the Act, the Resolutions, the Series 2014 Loan Agreements and the Mortgages for full and complete details of their provisions. Copies of the Resolutions, the Series 2014 Loan Agreements and the Mortgages are on file with DASNY and the Trustee.

The agreements of DASNY with Holders of the Series 2014 Bonds are fully set forth in the Resolutions. Neither any advertisement of the Series 2014 Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2014 Bonds.

Any statements made in this Official Statement involving matters of opinion or estimates, whether or not expressly stated, are intended as such, and not as representations of facts. No representation is made that any of the opinions or estimates will be realized.

The information regarding the Series 2014 Participants contained in this Official Statement and information concerning the Series 2014 Facilities contained herein has, in each case, been furnished by the Series 2014 Participants. DASNY believes that this information is reliable, but DASNY makes no representations or warranties as to the accuracy or completeness of such information.

The information regarding DTC and DTC's book-entry only system has been furnished by DTC. DASNY believes that this information is reliable, but makes no representations or warranties whatsoever as to the accuracy or completeness of this information.

"Appendix A - Description of Series 2014 Participants," "Appendix B - Audited Financial Statements of Series 2014 Participants" and "Appendix C - Unaudited Financial Information of Series 2014 Participants" were supplied by the Series 2014 Participants.

"Appendix D - Certain Definitions," "Appendix E - Summary of Certain Provisions of the Series 2014 Loan Agreements," "Appendix F - Summary of Certain Provisions of the Resolutions" and "Appendix G - Form of Approving Opinion of Bond Counsel" have been prepared by Hawkins Delafield and Wood LLP, New York, New York, Bond Counsel to DASNY.

Each Series 2014 Participant has reviewed the parts of this Official Statement describing such Series 2014 Participant, its Series 2014 Facilities, its Mortgage, if any, "PART 1 – INTRODUCTION" (but solely with respect to the headings "The Series 2014 Participants," "Additional Security – Pledged Revenues and Standby Intercepts," "The Mortgages," and "Collateral Assignment of Leases"), "PART 2 – SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2014 BONDS – Security for the Series 2014 Bonds - Pledged Revenues – OPWDD Funds," "– Security for the Series 2014 Bonds – Mortgages," and "– Security for the Series 2014 Bonds – Collateral Assignment of Leases," "PART 3 – THE SERIES 2014 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2014 Bonds," "PART 4 - THE SERIES 2014 PARTICIPANTS," "PART 5 - SOURCES OF SERIES 2014 PARTICIPANT FUNDING," "PART 6 - ESTIMATED SOURCES AND USES OF FUNDS," "PART 11 - BONDHOLDERS' RISKS," and the information relating to it contained in Appendices A, B, and C. It is a condition to the sale and delivery of the Series 2014 Bonds that each Series 2014 Participant certify as of the dates of sale and delivery of the Series 2014 Bonds that such parts do not contain any untrue statement of a material fact and do not omit any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading.

Each Series 2014 Participant has agreed to indemnify DASNY and certain others against losses, claims, damages and liabilities arising out of any untrue statements or omissions of statements of any material fact as described in the preceding paragraph with respect to such Series 2014 Participant.

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

DORMITORY AUTHORITY OF THE STATE OF NEW YORK

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

APPENDIX A

DESCRIPTION OF SERIES 2014 PARTICIPANTS

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ABILITY BEYOND DISABILITY
AND
ABILITY BEYOND DISABILITY, INC.

General Operations. Ability Beyond Disability ("ABD"), originally incorporated under the name (Datahr Rehabilitation Institute (New York), is an affiliate of Ability Beyond Disability, Inc. ("ABD Inc."), which is one of Connecticut's largest private providers of residential services for people with disabilities. ABD Inc. opened its first group home in 1968, and began its Traumatic Brain Injury ("TBI") program in 1983. In the mid-1990s, ABD began the first program providing direct services for people with TBI in New York. ABD Inc. and ABD's services include residential group homes, occupational, speech and physical therapy, on-site nursing, dietary and behavioral services, and job placement services designed to enable disabled adults to find paid employment. ABD's primary funding source is the State of New York Office for People with Developmental Disabilities ("OPWDD"). ABD is a not-for-profit organization, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable New York State law. ABD Inc. is a not-for-profit organization, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

ABD and ABD Inc. will both receive the loan from the proceeds of the Series 2014 Bonds. Unless otherwise indicated, this Appendix includes financial information about ABD Inc. and its subsidiaries (collectively referred to herein as "ABD Inc. and Affiliates"), which include ABD as well as two other non-New York affiliates of ABD Inc. (Datahr Home Health Care, Inc. and Growing Possibilities, Inc.), notwithstanding that the Series 2014 Participants are only ABD and ABD Inc. The other affiliates of ABD Inc. will not have any obligations to make payments under the Loan Agreement for ABD and ABD Inc. The financial statements of ABD are prepared on a consolidated basis among ABD Inc. and affiliates.

Description of Facilities and Financing Plan. DASNY will lend ABD and ABD Inc. approximately $3,365,000 from the proceeds of the Series 2014 Bonds ("ABD and ABD Inc.'s Allocable Portion"), which will be used to finance or refinance debt incurred for the following project:

- 110 Howland Avenue, Beacon, New York (the "Facility"): approximately $3,109,705 to refinance an existing loan for the purchase, construction and equipping of an individualized residential alternative ("IRA") facility for fourteen developmentally disabled adults in an approximately 7,158 square foot, one-story (plus partial basement) residential building.

The remaining proceeds in the amount of approximately $255,295 will be used for legal fees, capitalized interest, costs of issuance and debt service reserve requirements.

The Facility is supported by a PPA, which ABD has received. This means the project is pre-approved by OPWDD for principal and interest reimbursement by OPWDD. The Facility has a temporary Operating Certificate dated December 18, 2013 and a temporary Certificate of Occupancy dated December 17, 2013 and expires March 17, 2014. The permanent Certificate of Occupancy is expected to be issued by September 1, 2014. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

ABD owns the Facility. ABD will grant DASNY a mortgage on the Facility and a lien on Public Funds attributable to the Facility.

Other Properties. ABD also owns 7 residences and leases 6 other residences and properties in New York. ABD Inc. and Affiliates (other than ABD) own 38 residences and lease 16 other residences and properties in Connecticut.

Description of Employees. ABD employs 171 full-time and 28 part-time employees in New York. The new residential Facility will require it to employ approximately 35 new employees.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement among DASNY, ABD and ABD Inc., the actual Debt Service Coverage for Fiscal Year 2013 and the Pro Forma Debt Service Coverage (which includes ABD and ADB Inc.'s estimated Allocable Portion of the Series 2014 Bonds) are as follows:

	2013 Actual	2013 Pro Forma
Revenues	65,027,144	65,027,144
Expenses	63,556,092	63,556,092
Total Net Revenue	1,471,052	1,471,052
Less Extraordinary Revenue Items	0	0
Plus Extraordinary Expense Items	0	0
Plus Depreciation and Amortization	2,310,560	2,310,560
Plus Current Interest Expense	872,016	872,016
New PPA Program Revenues (unaudited)		221,600
Total Net Revenues Available for Debt Service	4,653,628	4,875,228
Maximum Annual Debt Service (unaudited)	3,077,863	3,299,463
Total Debt Service Coverage	1.512	1.478

Financials.

The financial statements for ABD Inc. and Affiliates' fiscal years ending June 30, 2011 through June 30, 2013 were audited by O'Connor Davies, LLP (successor to O'Connor, Davies, Munns & Dobbins, LLP) and are attached as Appendix B-I. Interim unaudited financial information covering the period from July 1, 2013 through January 31, 2014, prepared by ABD Inc.'s Management and is attached as Appendix C-I. Significant accounting policies are contained in the audited financial statements.

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Summary of Financial Information and Result of Operations.

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

The following is a summary of financial information for ABD Inc. and Affiliates for the most recently ended five fiscal years for which audited financial statements were available and has been prepared by ABD Inc.'s management and derived from the audited financial statements of ABD Inc. and Affiliates for such periods. The data contained in the following table should be read in conjunction with the audited financial statements and related notes presented in Appendix B-I.

	Fiscal Year Ended June 30,				
	2009	**2010**	**2011**	**2012**	**2013**
Current Assets	$ 7,051,862	$ 8,189,056	$ 7,911,533	$ 9,601,166	$ 9,928,607
Net Fixed Assets	19,134,984	19,394,819	19,594,643	20,795,863	22,565,499
Other Assets	5,800,318	6,343,264	8,434,197	5,923,044	7,832,400
Total	31,987,164	33,927,139	35,940,373	36,320,073	40,326,506
Current Liabilities	5,406,219	6,132,177	9,228,978	10,320,784	11,853,370
Other Liabilities	15,181,036	16,159,794	11,400,588	10,631,147	11,633,942
Net Assets	11,399,909	11,635,168	15,310,807	15,368,142	16,839,194
Total	31,987,164	33,927,139	35,940,373	36,320,073	40,326,506
Operating Revenue:					
Program Revenue	46,789,030	49,649,648	50,821,472	54,654,101	58,504,014
Nonprogram Revenue	2,092,648	1,883,630	6,152,865	3,575,303	6,523,130
Total	48,881,678	51,533,278	56,974,337	58,229,404	65,027,144
Operating Expenses	47,910,666	51,606,058	53,298,698	58,172,069	63,556,092
Change in Restricted Net Assets	(816,873)	308,039	1,569,096	491,255	1,203,953
Change in Net Assets	154,139	235,259	3,675,639	57,335	1,471,052
Net Assets, Beginning of Year	11,245,770	11,399,909	11,635,168	15,310,807	15,368,142
Net Assets, End of Year	11,399,909	11,635,168	15,310,807	15,368,142	16,839,194
Cash & Equivalents	167,466	147,812	229,240	162,438	323,011

Management Discussion of Results of Operations.

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

(2) Sources of Liquidity: (a) Internal – Current assets of ABD Inc. and Affiliates were $9,928,607 and $9,601,166 at the end of the 2013 and 2012 fiscal years, respectively. (b) External – ABD has lines of credit from People's Bank in the aggregate amount of $4,500,000.

(3) Known Trends or Uncertainties Likely to Have an Impact on Revenue or Income: ABD and ABD Inc. are not aware of any trend or uncertainty which has had a material negative impact on net revenues. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS.")

(4) Income or Loss from Sources Other than Continuing Operations: No significant amounts of income or loss are derived from sources other than ABD's or ABD Inc.'s continuing operations.

(5) Causes for Changes in Financial Statements: Changes in the number of persons served in a particular program normally affect the revenue of the program. ABD's and ABD Inc's total operations have neither increased nor decreased materially since June 30, 2013.

Liquidity and Capital Resources. As of June 30, 2013, ABD Inc. and Affiliates had $323,011 in unrestricted cash and cash equivalents and $7,962,069 in net accounts receivable.

As of June 30, 2013, ABD Inc. and Affiliates had an aggregate outstanding balance of $4,253,423 on its lines of credit with People's Bank, carrying an interest rate of 3.5%. As of January 31, 2014 the aggregate outstanding balance was $3,537,801.80 of an available amount of $4,500,000. The lines of credit are secured by accounts receivable and other personal property of ABD Inc. and Affiliates. Other than as reflected in the audited financial statements of ABD Inc. and Affiliates, and other than the construction loan with respect to the Facility that is expected to be refinanced with proceeds of the Series 2014 Bonds, there were no other loans outstanding as of February 28, 2014.

Long-Term Debt. As of June 30, 2013, ABD Inc. and Affiliates have $12,269,580 in outstanding long-term indebtedness, of which approximately $7.6 million is secured by mortgages and $4.6 million is secured by other assets of ABD Inc. and/or Affiliates. Such long-term debt is not secured by a security interest in ABD's or ABD Inc.'s Public Funds. ABD Inc. and Affiliates have not incurred any long-term debt subsequent to June 30, 2013.

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

Management.

Directors and Officers: The affairs of ABD and ABD Inc. are each governed by a fourteen member Board of Directors. The officers of each Board of Directors are comprised of: Paul Hamilton, Chairman and Harvey M. Kramer, M.D., Vice-Chairman. The other members of each Board of Directors are: Robert Bedoukian, Megan Broderick, George Coleman, James Luciano, M.D., George Mulvaney, David Pearsall, Mark Principi, Arthur T. Rosenfeld, M.D., Candy Shaughnessy, Carol Steiner, Barbara Volz and Sigal Zarmi. Fred L. Baker serves as Board Secretary and Lori I. Pasqualini, CPA serves as Board Treasurer for both Boards, but such individuals are not Board members. Each Board of Directors meets at least two times a year. A majority of the members of each Board constitute a quorum. The members of each Board of Directors serve without compensation.

Executive and Administrative Officers: Thomas H. Fanning is the President and Chief Executive Officer of ABD and ABD Inc. He holds a Bachelor's degree in psychology and a Master of Science degree in rehabilitation from the University of Wisconsin. Mr. Fanning has served as Executive Director or President and CEO of ABD since 1974. ABD and ABD Inc. have several other key employees including Lori I. Pasqualini, CPA, Chief Financial and Administrative Officer, and Jane Davis-Bunt, Chief Operating Officer.

Continuing Disclosure.

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

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FAMILY RESIDENCES AND ESSENTIAL ENTERPRISES, INC.

General Operations. Family Residences and Essential Enterprises, Inc. ("FREE") was founded in 1977. FREE provides a wide range of day and residential services to the developmentally disabled in New York City and on Long Island. The mission of FREE is to help individuals of all abilities realize their full potential. FREE provides a diverse array of services including housing, recovery services, transition to work, employment, day, community and family service, respite, crisis services, education and after-school support, primary and specialty health care and advocacy. FREE is a not-for-profit organization, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable New York State law.

The primary funding sources for FREE and its subsidiaries are OPWDD (75%), the New York State Office of Mental Health ("OMH") (11%), the New York State Department of Education (8%), the New York State Department of Health ("NYSDOH") (4%), and various other sources (2%).

The financial statements of FREE are prepared on a consolidated basis among FREE and its subsidiaries. Unless otherwise indicated, the financial information contained in this Appendix includes FREE and its subsidiaries, notwithstanding that the Series 2014 Participant is only FREE. The subsidiaries of FREE will not have any obligations to make payments under the Loan Agreement.

Description of Facilities and Financing Plan. DASNY will lend FREE approximately $2,730,000 from the proceeds of the 2014 Bonds ("FREE's Allocable Portion"), which will be used to finance or refinance debt incurred for the following IRA projects:

- 176-09 133rd Avenue, Springfield Gardens, New York ("133rd Avenue"): approximately $917,251 to refinance existing loans for the acquisition and renovation of an approximately 2,448 square foot, two-story residential facility for six developmentally disabled individuals.

- 101-27 217th Place, Queens, New York ("217th Place"): approximately $1,143,492 to refinance existing loans for the acquisition and renovation of an approximately 2,428 square foot, two-story residential facility for seven developmentally disabled individuals.

- 28 Eleanor Avenue, Mastic, New York ("Eleanor Avenue" and together with 133rd Avenue and 217th Place, the "Facilities"): approximately $529,609 to refinance existing loans for the acquisition and renovation of an approximately 3,645 square foot, two-story residential facility for four developmentally disabled individuals.

The remaining proceeds in the amount of approximately $139,378 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facilities is OPWDD and the Facilities are supported by PPAs, which FREE has received. This means the Facilities are pre-approved by OPWDD for reimbursement by OPWDD for principal and interest costs incurred in connection with the construction and/or renovation and furnishing of the Facilities and financing or refinancing costs incurred in connection therewith.

133rd Avenue received a Certificate of Occupancy and FREE is expected to receive a new Certificate of Occupancy by November 1, 2014. 133rd Avenue has received an Operating Certificate.

217th Place received a Certificate of Occupancy and FREE is expected to receive a new Certificate of Occupancy by November 1, 2014. 217th Place has received an Operating Certificate. Eleanor Avenue received a Certificate of Occupancy and FREE is expected to receive a new Certificate of Occupancy by August 1, 2014. Eleanor Avenue has received an Operating Certificate. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

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

Other Properties. FREE also owns 71 properties and leases another 95 properties in New York State.

Description of Employees. FREE employs a total of approximately 1,655 employees, of which approximately 956 full-time employees are (or will be) employed at the Facilities. The operation of the Facilities has required FREE to employ approximately 46 additional personnel.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between DASNY and FREE, and based on financial data of FREE, exclusive of its subsidiaries, the actual Debt Service Coverage for Fiscal Year 2012 and the Pro Forma Debt Service Coverage (which includes FREE's estimated Allocable Portion of the Series 2014 Bonds) are as follows:

	2012 Actual	**2012 Pro Forma**
Revenues	79,983,915	79,983,915
Expenses	80,110,394	80,110,394
Total Net Revenue	(126,479)	(126,479)
Less Extraordinary Revenue Items	0	0
Plus Extraordinary Expense Items	0	0
Plus Depreciation and Amortization	3,566,141	3,566,141
Plus Current Interest Expense	1,837,473	1,837,473
Plus Non-Cash Amortization Charge due to Refinancing	381,393	381,393
Plus Non-Cash Loss on Interest Rate Swap	425,487	425,487
New PPA Program Revenues (unaudited)		250,000
Total Net Revenues Available for Debt Service	6,084,015	6,334,015
Maximum Annual Debt Service (unaudited)	5,292,473	5,542,473
Total Debt Service Coverage	1.15	1.14

<u>Financials</u>.

Audited financial statements for FREE and its subsidiaries for the fiscal years ended December 31, 2010, December 31, 2011 and December 31, 2012 were audited on a consolidated basis by Holtz Rubenstein Reminick LLP. Subsequent to the issuance of the audited financial statements for the years ended December 31, 2010, December 31, 2011, and December 31, 2012, Holtz Rubenstein Reminick LLP merged into Baker Tilly Virchow Krause, LLP. Such audited financial statements are attached as Appendix B-II. Interim unaudited financial information relating to FREE and subsidiaries, prepared by FREE's Management and covering the period from January 1, 2013 through January 31, 2014 is attached as Appendix C-II. Significant accounting policies are contained in the audited financial statements.

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

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

The following is a consolidated summary of financial information for FREE and subsidiaries for the most recently ended four fiscal years for which audited financial statements were available and the unaudited financial statements for the fiscal year ended December 31, 2013, and has been prepared by FREE's Management and derived from FREE and subsidiaries' audited and unaudited financial statements. The data contained in the following table should be read in conjunction with the audited financial statements and related notes presented in Appendix B-II and the unaudited financial statements presented in Appendix C-II.

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	Fiscal Year Ended December 31,				
	2009	**2010**	**2011**	**2012**	**2013 (unaudited)**
Current Assets	$16,902,323	$19,788,527	$24,156,421	$21,638,227	$17,192,346
Net Fixed Assets	29,920,095	32,368,226	33,736,986	32,593,651	35,696,864
Other	9,146,922	7,855,686	8,102,748	9,010,778	7,236,223
Total	55,969,340	60,012,439	65,996,155	63,242,656	60,125,433
Current Liabilities	16,210,685	21,212,939	21,496,206	21,397,825	17,914,484
Other Liabilities	34,355,470	32,750,194	37,092,171	34,540,082	33,295,810
Net Assets	5,403,185	6,049,306	7,407,778	7,304,749	8,915,140
Total	55,969,340	60,012,439	65,996,155	63,242,656	60,125,434
Operating Revenue:					
Program Revenue	74,646,665	79,417,839	83,394,175	84,777,823	86,784,112
Nonprogram Revenue	877,963	425,305	155,516	158,383	754,265
Total	75,524,628	79,843,144	83,549,691	84,936,206	87,145,909
Operating Expenses	74,577,944	80,287,827	82,981,117	84,232,355	87,145,909
Amortization Expense due to Extinguishment of Debt	0	0	0	(381,393)	0
Unrealized Loss on Interest Rate Swap	0	0	0	(425,487)	737,457
Change in Net Assets from Operations	946,684	(444,683)	568,574	(103,029)	1,129,925
Day Program Property Revenue	-	741,605	-	-	-
Increase in Unrestricted Net Assets	946,684	296,922	568,574	(103,029)	1,129,925
Net Assets, Beginning of Year	4,456,501	5,403,185	5,845,726	7,407,778	7,304,749
Transfer in of Unrestricted Net Assets	-	145,619	993,478	-	-
Net Assets, End of Year	5,403,185	5,845,726	7,407,778	7,304,749	8,434,674
Cash & Equivalents	3,765,854	1,860,681	797,915	2,693,819	2,775,485

Management Discussion of Results of Operations.

(1) Known Trends or Uncertainties Likely to have an Impact on Liquidity: FREE believes there are no trends or uncertainties which have had or are reasonably likely to have a material impact on its short-term or long-term liquidity.

(2) Sources of Liquidity: (a) Internal: FREE and subsidiaries had consolidated current assets of $21,638,227 and $17,192,346 at the end of the fiscal years of 2012 and 2013 (unaudited), respectively. (b) External: For the year ended December 31, 2012, FREE had available an aggregate amount of $8,000,000 under two lines of credit with TD Bank, N.A. and Citibank. As of December 31, 2013, FREE has available an aggregate amount of $10,000,000 under two lines of credit with TD Bank, N.A. and Valley National Bank.

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

(4) Income or Loss from Sources Other than Continuing Operations: Income from contributions, fund raising, and interest for fiscal years 2012 and 2013 (unaudited) were $116,488 and $250,000, respectively. See Appendix C-II for interim unaudited financial information through January 31, 2014.

(5) Causes for Changes in Financial Statements: No significant amounts of income or loss are derived from sources other than FREE's continuing operations.

Liquidity and Capital Resources. As of December 31, 2013 (unaudited), FREE had $2,775,485 in unrestricted cash and cash equivalents and $12,577,165 in net accounts receivable.

As of December 31, 2013 (unaudited), FREE has available an aggregate amount of $10,000,000 under two lines of credit with TD Bank, N.A. and Valley National Bank, with interest payable monthly at 3.25% with respect to each line of credit. The lines of credit are available through August 31, 2014, and are secured by accounts receivable. There was no balance outstanding at December 31, 2013.

Long-Term Debt. As of December 31, 2013 (unaudited), FREE had As of December 31, 2013 (unaudited), FREE had $27,348,506.48 in outstanding long-term indebtedness. Approximately $26,145,849.48 of this indebtedness is secured by mortgages and a security interest in FREE's gross revenues, including its Public Funds. The balance is secured by security interests in vehicles. FREE has not incurred any long-term debt subsequent to December 31, 2013.

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

Management.

Directors and Officers. The affairs of FREE are governed by a Board of Directors consisting of eight members. The officers of the Board of Directors are: David Sanders, President; Mark Preiser, Vice President; Alan Polacek, Secretary; and Michael Leahy, Treasurer. Other members of the Board of Directors include: Ellen Paige Nelson, Uma Ashok, Dr. Ira Sacker and Paulo Rodrigues. The Board meets at least five times per year; a majority of the members constitutes a quorum. The members of the Board serve without compensation.

Executive and Administrative Officers.

Robert S. Budd is the Chief Executive officer of FREE. Mr. Budd has held key operations positions at FREE since 1985. Mr. Budd holds a Bachelor of Arts degree in psychology from the State University of New York at Potsdam and a Master of Professional Studies in psychology from Long Island University, C.W. Post. Other key officers of FREE include Christopher Long, Ed.D., Chief Operations Officer, and Susan Dickinson, Chief Financial Officer.

Continuing Disclosure.

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

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INSTITUTE FOR COMMUNITY LIVING INC.

General Operations. Institute for Community Living Inc. ("ICL") began operation in 1986. ICL provides supportive housing, psychiatric and medical treatment, rehabilitation, skills training and support services to homeless individuals and those at risk of becoming homeless in New York City, including people with serious mental illness, those with intellectual and/or developmental disabilities and veterans. At its inception, ICL operated one residence for people with serious mental illness. ICL has grown to become one of the largest providers nationally of supportive housing with capacity to house over 1,500 individuals in transitional, rehabilitative and permanent housing ICL is a not-for-profit organization, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable New York State law.

ICL's funding sources for its 2013 Fiscal Year were OMH (approximately 58%), the New York City Department of Homeless Services (approximately 15%), OPWDD (approximately 12%), the New York City Department of Mental Health (approximately 8%), and miscellaneous other sources (approximately 7%).

The financial statements of ICL are prepared on a consolidated basis among ICL and its subsidiaries. Unless otherwise indicated, the financial information contained in this Appendix includes ICL and its subsidiaries, notwithstanding that the Series 2014 Participant is only ICL. The subsidiaries of ICL will not have any obligations to make payments under the Loan Agreement.

Description of Facility and Financing Plan. DASNY will lend ICL approximately $1,100,000 from the proceeds of the Series 2014 Bonds ("ICL's Allocable Portion"). Such amount will be used to finance or refinance debt incurred for the following IRA project (the "Facility"):

- 614 E. 228th Street, Bronx, New York - approximately $997,370 for the acquisition and renovation of an approximately 2,520 square foot, three-story residential facility for five developmentally disabled individuals.

The remaining proceeds in the amount of approximately $102,630 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding source for the Facility is OPWDD and the Facility is supported by a PPA, which ICL has received. This means the Facility is pre-approved by OPWDD for reimbursement by OPWDD for principal and interest costs incurred in connection with the construction and/or renovation and furnishing of the Facility and financing or refinancing costs incurred in connection therewith. The Facility has received a Certificate of Occupancy, but requires an updated Certificate of Occupancy, which is expected to be received by November 1, 2014. The Facility has not yet received its Operating Certificate, which is expected to be received by June 1, 2014. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

ICL owns the Facility. ICL will grant DASNY a mortgage on each of the Facility and a lien on Public Funds attributable to each of the Facility.

Other Properties. ICL also owns 27 other properties and leases over 750 supported housing units, one shelter and two administrative offices in New York City.

Employees. ICL employs a total of approximately 900 full-time and 300 part-time employees, of which approximately 12 full-time and 4 part time employees are expected to be employed at the Facility. ICL expects that the operation of the Facility will require it to add approximately 12 additional full-time employees and approximately 4 additional part-time employees.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between DASNY and ICL, the actual Debt Service Coverage for Fiscal Year 2013 and the Pro Forma Debt Service Coverage (which includes ICL's estimated Allocable Portion of the Series 2014 Bonds) are as follows:

	2013 Actual	2013 Pro Forma
Revenues	91,589,196	91,589,196
Expenses	90,900,480	90,900,480
Total Net Revenue	688,716	688,716
Less Extraordinary Revenue Items	0	0
Plus Extraordinary Expense Items	0	0
Plus Depreciation and Amortization	2,499,910	2,499,910
Plus Current Interest Expense	1,415,426	1,415,426
New PPA Program Revenues (unaudited)		104,150
Total Net Revenues Available for Debt Service	4,604,052	4,708,202
Maximum Annual Debt Service (unaudited)	3,927,885	4,032,035
Total Debt Service Coverage	1.1721	1.1677

Financials. Audited financial statements for ICL'S fiscal years ended June 30, 2012 and June 30, 2013 were prepared by Grassi & Co. Audited financial statements for ICL'S fiscal year ended June 30, 2010 were prepared by Loeb & Troper LLP. Such audited financial statements are attached as Appendix B-III. Interim unaudited financial information prepared by ICL'S Management covering the period from July 1, 2013 through January 31, 2014 is attached as Appendix C-III. Significant accounting policies are contained in the audited financial statements.

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

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

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

Fiscal Year Ended June 30,

	2009	**2010**	**2011**	**2012**	**2013**
Current Assets	$22,987,952	$22,489,854	$23,210,958	$23,136,518	$28,503,982
Net Fixed Assets	38,899,694	37,318,091	37,531,455	42,843,376	27,460,475
Other	8,718,879	8,286,855	8,344,774	8,364,955	8,223,285
Total	70,606,525	68,094,800	69,087,187	74,344,849	64,187,742
Current Liabilities	32,473,573	27,022,284	29,893,782	34,576,376	22,095,845
Other Liabilities	32,415,524	35,228,072	33,281,265	31,651,423	33,286,131
Net Assets	5,717,428	5,844,444	5,912,140	8,117,050	8,805,766
Total	70,606,525	68,094,800	69,087,187	74,344,849	64,187,742
Operating Revenue:					
Program Revenue	75,939,769	87,375,433	91,157,340	89,412,065	90,932,362
Nonprogram Revenue	143,491	67,247	111,795	140,915	176,017
Total	76,083,260	87,442,680	91,269,135	89,552,980	91,108,379
Operating Expenses	75,200,440	87,081,842	91,135,214	89,074,569	90,809,257
Gain/Loss on Swap Transaction	(219,383)	(233,822)	(19,854)	(452,296)	389,594
Change in Net Assets	663,437	127,016	67,696	26,115	688,716
Net Assets, Beginning of Year	5,053,991	5,717,428	5,844,444	8,090,935	8,117,050
Net Assets, End of Year	5,717,428	5,844,444	5,912,140	8,117,050	8,805,766
Cash & Equivalents	6,966,536	7,382,651	6,688,334	4,451,998	1,491,744

Management Discussion of Results of Operations.

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

(2) Sources of Liquidity: Internal – ICL had current assets of $28,503,982 and $23,136,518 at the end of the fiscal years of June 30, 2013 and 2012, respectively.

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

(4) Income or Loss from Sources Other than Continuing Operations: Income from contributions, fund raising, and interest for fiscal years 2012 and 2012 were $140,915 and $176,017, respectively. See Appendix C-III for interim unaudited financial information through January 31, 2014.

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

Liquidity and Capital Resources. As of June 30, 2013, ICL had $1,491,744 in unrestricted cash and cash equivalents and $23,933,856 in net accounts receivable.

As of June 30, 2013, ICL had an available line of credit of $5,000,000 with J.P. Morgan Chase bank carrying an interest rate equal to 30-day LIBOR plus 2.50%. The loan with respect to the line of credit is secured by a third mortgage on certain properties of ICL and a first lien on ICL's accounts receivable. As of June 30, 2013, the outstanding balance on the line of credit was $0.

Long-Term Debt. As of June 30, 2013, ICL had $33,736,598 in outstanding long-term indebtedness. Of this amount, approximately $25.4 million is secured by mortgages, approximately $7.3 million is secured by ICL's leasehold interest in certain property, and approximately $1 million is unsecured. See Note 14 of ICL'S Audited Financial Statements under title "Mortgages Payable," Note 16 of ICL'S Audited Financial Statements under title "Obligations under Capital Leases," and Note 17 of ICL'S Audited Financial Statements under title "Loan payable." ICL has not incurred any long-term debt subsequent to June 30, 2013.

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

Management.

Directors and Officers. The affairs of ICL are governed by a Board of Directors of no less than three and no more than twenty-one members. The officers of the Board of Directors are: Michael R. McGarvey, Chair, David Badal, Vice-Chair, Michael V. Ballasteri, Treasurer, and Humphrey A. Crookendale, Secretary. Other members of the Board of Directors are: Paul J. Brignola, Eleanor M. Bromberg, Marlene Calman, Matthew A. Cervino, Lisa A. Del Duke, Alden N. Haffner, Mary Harrison, Robert L. Jones, Michael A. Joseph, Brinda Kathju, Barbara Sass, Janese Thompson, Carter A. Weiss and Joy J. Wildes. The Board meets at least four times per year; a majority of the members constitute a quorum. The members of the Board serve without compensation.

Executive and Administrative Officers. David J. Woodlock is the President and Chief Executive Officer of ICL. He holds a Bachelor of Arts degree and a Master of Science in Education degree from Syracuse University. Prior to working at ICL, Mr. Woodlock was the Chief Executive Officer of Four Winds Hospital in Saratoga, New York. ICL's other key employees are Dewey H. Howard, CPA, Executive Vice President and Chief Financial Officer, and Christopher Copeland, Chief Operating Officer.

Continuing Disclosure.

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

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OHEL CHILDREN'S HOME AND FAMILY SERVICES, INC.

General Operations. Ohel Children's Home and Family Services, Inc. ("Ohel") was founded in 1969 as a foster care agency. In 2004, Ohel became the successor entity in a merger with Bais Ezra Inc. Today, Ohel is a large social service agency providing a range of services including foster care, day and residential mental health programs, employment training and placement services, community outreach, advocacy and a children's sleep-away camp. Ohel's primary funding sources are: OPWDD (approximately 66%) and OMH (approximately 25%). Ohel is a not-for-profit organization, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable New York State law.

The financial statements of Ohel are prepared on a consolidated basis among Ohel and its affiliates. Unless otherwise indicated, the financial information contained in this Appendix includes Ohel and its subsidiaries, notwithstanding that the Series 2014 Participant is only Ohel. The subsidiaries of Ohel will not have any obligations to make payments under the Loan Agreement.

Description of Facilities and Financing Plan. DASNY will lend Ohel approximately $5,775,000 from the proceeds of the Series 2014 Bonds ("Ohel's Allocable Portion"), which will be used to refinance debt incurred in connection with the following facilities (collectively, the "Facilities"):

- 257 East Broadway, New York, New York ("East Broadway") - approximately $2,377,825 for the acquisition, renovation and furnishing of an approximately 5,870 square-foot, four-story building to be used as an IRA for eleven developmentally disabled adults.

- 104 Cumberland Place; Lawrence, New York ("Cumberland Place") - approximately $965,421 for the acquisition, construction and furnishing of an approximately 2,415 square-foot, two-story building to be used as an IRA for seven developmentally disabled adults.

- 4224 12th Avenue, Brooklyn, New York ("12th Avenue") - approximately $1,013,684 for the renovation and furnishing of an approximately 4,380 square-foot, three-story building to be used as an intermediate care facility ("ICF") for ten developmentally disabled adults.

- 1255 52nd Street, Brooklyn, New York ("52nd Street") - approximately $120,191 for the renovation and furnishing of an approximately 4,850 square-foot, three-story building to be used as an ICF for ten developmentally disabled adults.

- 545 Arlington Road, Cedarhurst, New York ("Arlington Road") - approximately $823,588 for the construction, reconstruction, renovation and furnishing of an approximately 2,900 square-foot two-story building to be used as an IRA for five developmentally disabled adults.

The remaining Series 2014 Bond proceeds to be loaned in the amount of approximately $474,291 will be used for legal fees, costs of issuance and debt service reserve requirements.

The governmental funding for the Facilities is OPWDD and the Facilities are supported by PPAs, which Ohel has received.

East Broadway received a Certificate of Occupancy and Ohel expects to receive a new Certificate of Occupancy by November 1, 2014. East Broadway has an Operating Certificate. Cumberland Place has a Certificate of Occupancy, which expire May 17, 2015, and an Operating Certificate. 12th Avenue received a Certificate of Occupancy and an Operating Certificate. 52nd Street has received a Certificate of Occupancy and Operating Certificate. Arlington Road previously had received a Certificate of Occupancy and an Operating Certificate, but Ohel currently is seeking permits for the complete renovation of Arlington Road, and a new Certificate of Occupancy and Operating Certificate will be required, and are expected to be received by December 31, 2015. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

Ohel owns each of the Facilities other than 52nd Street and 12th Avenue, which are leased to Ohel. Ohel will grant DASNY a mortgage on the real property with respect to the Facilities other than 52nd Street and 12th Avenue, a subordinate security interest in the furniture, equipment and other assets constituting a portion of 52nd Street and 12th Avenue, and a lien on the Public Funds attributable to all of the facilities.

Other Properties. Ohel owns 19 other properties facilities and leases 126 other properties in New York City and Long Island.

Description of Employees. Ohel employs approximately 1,110 employees, including approximately 500 full-time and 600 part-time employees in the State of New York. Ohel does not expect that the project will require it to employ additional personnel.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between DASNY and Ohel, the actual Debt Service Coverage for Fiscal Year 2013 and the Pro Forma Debt Service Coverage (which includes Ohel's estimated Allocable Portion of the Series 2014 Bonds) are as follows:

	2013 Actual	**2013 Pro Forma**
Revenues	58,114,142	58,114,142
Expenses	55,942,974	55,942,974
Total Net Revenue	2,171,168	2,171,168
Less Extraordinary Revenue Items	1,750,627	1,750,627
Plus Extraordinary Expense Items	105,459	105,459
Plus Depreciation and Amortization	2,449,955	2,449,955
Plus Current Interest Expense	1,090,181	1,090,181
New PPA Program Revenues (unaudited)		
Total Net Revenues Available for Debt Service	4,066,136	4,066,136
Maximum Annual Debt Service (unaudited)	3,489,343	3,424,590
Debt Service Coverage	1.165	1.187

Financials. The financial statements for Ohel for the fiscal years ended June 30, 2011 (the report for which includes audited financial statements for the fiscal year ended June 30, 2010), June 30, 2012 and June 30, 2013 were audited by WeiserMazars LLP. Audited financial statements for Ohel's fiscal years ended June 30, 2011 (the report for which includes audited financial statements for the fiscal year ended June 30, 2010) through June 30, 2013 are attached as Appendix B-IV. Interim unaudited financial information covering the period from July 1, 2013 through January 31, 2014 is attached as Appendix C-IV. Significant accounting policies are contained in the audited financial statements.

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

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

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

Fiscal Year Ended June 30,

	2009	**2010**	**2011**	**2012**	**2013**
Current Assets	$12,162,857	$15,913,713	$16,782,824	$19,648,007	$21,249,644
Net Fixed Assets	28,151,553	33,262,241	32,281,041	36,186,033	37,993,096
Other	1,989,402	1,405,092	3,393,799	1,652,020	1,485,346
Total	42,303,812	50,581,046	52,457,664	57,486,060	60,728,085
Current Liabilities	8,865,543	13,675,826	11,691,749	18,772,355	19,340,757
Other Liabilities	23,601,693	22,775,567	22,366,188	20,271,843	20,774,299
Net Assets	9,836,576	14,129,653	18,399,727	18,441,862	20,613,030
Total	42,303,812	50,581,046	52,457,664	57,486,060	60,728,085
Operating Revenue:					
Program Revenue	43,743,417	48,006,913	47,918,532	45,761,848	48,330,593
Nonprogram Revenue	4,279,610	5,196,895	7,412,822	7,209,858	8,138,381
Total	48,023,027	53,203,808	55,331,354	52,971,706	56,468,974
Operating Expenses	47,524,627	53,413,974	52,625,354	51,475,963	55,942,974
Other Items, Net[1]	428,371	4,503,243	1,564,074	(1,453,608)	1,645,168
Change in Net Assets	926,771	4,293,077	4,270,074	42,135	2,171,168
Net Assets, Beginning of Year	8,339,589	9,836,576	14,129,653	18,399,727	18,441,862
Net Assets, End of Year	9,266,360	14,129,653	18,399,727	18,441,862	20,613,030
Cash & Equivalents	5,262,971	8,878,186	8,506,583	9,182,232	8,133,070

[1] Includes contributions and grants for summer camp acquisition, summer camp startup costs and pension related adjustments.

Management Discussion of Results of Operations.

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

(2) Sources of Liquidity: (a) Internal - Ohel had current assets of $20,428,651 and $19,226,445 at the end of the fiscal years ending June 30, 2013 and June 30, 2012 respectively. (b) External – Ohel has available a $3,000,000 line of credit with Sterling National Bank.

(3) Known Trends or Uncertainties Likely to Have Impact on Revenue or Income: Ohel does not know of or expect any trends or uncertainties that have had or that are reasonably expected to have a material impact on net revenues.

(4) Income or Loss from Sources Other than Continuing Operations: Income from contributions, fund raising, membership dues, and interest/investment for fiscal years 2013 and 2012 was $5,262,487 and $4,342,117, respectively.

(5) Causes for Changes in Financial Statements: Changes in the number of persons served in a particular program normally effects the revenue of this program. Total operations have not materially changed in recent years.

Liquidity and Capital Resources. As of June 30, 2013, Ohel had $8,133,070 in unrestricted cash and cash equivalents and $5,245,976 in net accounts receivable.

As of June 30, 2013, Ohel had an available line of credit of $3,000,000 with Sterling National Bank, carrying a rate of interest at the prime rate plus 0.5%. $2,500,000 was outstanding as of June 30, 2013 and $1,500,000 was outstanding as of February 28, 2014. The line of credit is secured by a security interest in all revenues, accounts and receipts of Ohel, other than certain receivables excluded pursuant to an Intercreditor agreement with HSBC Bank, which Intercreditor agreement will terminate upon the use of proceeds of the Series 2014 bonds to repay certain interim indebtedness of Ohel.

As of June 30, 2013, Ohel also had an available line of credit of $6,500,000 with Sterling National Bank, carrying a rate of interest at the prime rate plus 0.5%. This line of credit was repaid on July 1, 2013 and was not renewed.

Long-Term Debt. As of June 30, 2013, Ohel had $12,100,333 in outstanding long-term indebtedness, which is secured by mortgages and is not secured by a security interest in Ohel's Public Funds. Ohel has not incurred any long-term debt subsequent to June 30, 2013.

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

Management.

Directors and Officers: The affairs of Ohel are governed by a Board of Directors of 41 members. The officers of the Board of Directors are comprised of: Marvin Hellman and Mel Zachter, Co-Board

Presidents, Saul Friedman, Sol Mermelstein and Rabbi Harry Rieder, Vice Presidents, Harry Schlachter, Treasurer, and Jules (Yitzchok) Fleischer, Secretary. Other members of the Board of Directors are: Cindy Becker, Sendy Berger, Dr. Marcel Biberfeld, Shloime Dachs, Ben Englander, Barry Fleischmann, Dr. Jerald Friedman, Ira Ganger, Dr. Frank Goldberg, Moshe Haas, Reuven Hellman, Ronny Hersh, Marc Herskowitz, Moshe Hertz,Aryeh Jacobson, Danial Jacobson, Ari Jungreis, Jay Kestenbaum, Elly Kleinman, Andrew Krull, Irving Langer, Rachel Marks, Chaim Mermelstein, Mark Newman, Marc Pifko, Baila Sandhaus, Fred Schulman, Deenie Schuss, Jeffrey Schwartz, Barry Stern, Saul Wasser, and Moshe Zakheim. The Board of Directors meets at least four times a year. Twenty-five percent (25%) of the members of the Board constitute a quorum. The members of the Board serve without compensation.

Executive and Administrative Officers: David Mandel is the Chief Executive Officer of Ohel. He holds a Master of Business Administration and a Master of Arts in psychology from New York University and a Bachelor of Arts from Brooklyn College. Prior to working at Ohel, Mr. Mandel held senior management positions in the Manhattan, Queens and Long Island Regions of OPWDD.

Howard B. Lorch, CPA is the Chief Financial Officer of Ohel. Prior to joining Ohel, Mr. Lorch was a Partner of the accounting firm of Deloitte & Touche, LLP and held senior financial management positions at various publicly traded companies. Mr. Lorch holds a Masters in Business Administration from Columbia University and a Bachelor of Arts from Yeshiva University.

Continuing Disclosure.

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

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF SERIES 2014 PARTICIPANTS

APPENDIX B-I

ABILITY BEYOND DISABILITY, INC. AND AFFILIATES

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2013, JUNE 30, 2012 AND JUNE 30, 20110)

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O'CONNOR DAVIES

Ability Beyond Disability, Inc. and Affiliates

Consolidated Financial Statements

June 30, 2013

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O'CONNOR DAVIES

PKF

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Ability Beyond Disability, Inc. and Affiliates

We have audited the accompanying consolidated financial statements of Ability Beyond Disability, Inc. and Affiliates (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ability Beyond Disability, Inc. and Affiliates as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Ability Beyond Disability, Inc. and Affiliates' June 30, 2012 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 4, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

O'Connor Davies, LLP

October 1, 2013

O'CONNOR DAVIES, LLP
One Stamford Landing, 62 Southfield Ave., Stamford, CT 06902 I Tel: 203.323.2400 I Fax: 203.967.8733 I www.odpkf.com

Ability Beyond Disability, Inc.
and Affiliates

Consolidated Statement of Financial Position
Year Ended June 30, 2013
(With comparative totals for 2012)

	Year Ended June 30,	
	2013	2012
ASSETS		
Cash and cash equivalents	$ 323,011	$ 162,438
Accounts receivable, net	7,962,069	6,833,351
Pledges and other receivables, net	3,617,221	3,213,090
Prepaid expenses	731,958	533,592
Other assets, net	1,077,330	1,066,659
Investments	4,049,418	3,715,080
Property and equipment, net	22,565,499	20,795,863
	$ 40,326,506	$ 36,320,073
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 2,355,747	$ 1,542,258
Accrued expenses	4,046,955	3,756,517
Other liabilities	28,177	256,600
Revolving promissory notes	4,253,423	3,852,103
Long term debt	12,269,580	11,013,523
Deferred income	533,430	530,930
Total Liabilities	23,487,312	20,951,931
Net Assets		
Unrestricted		
Undesignated	7,181,021	7,190,808
Endowment fund - Board designated	5,582,469	5,305,583
Total Unrestricted	12,763,490	12,496,391
Temporarily Restricted	3,567,699	2,395,932
Permanently Restricted	508,005	475,819
Total Net Assets	16,839,194	15,368,142
	$ 40,326,506	$ 36,320,073

See notes to consolidated financial statements

Ability Beyond Disability, Inc.
and Affiliates

Consolidated Statement of Activities
Year Ended June 30, 2013
(With summarized totals for 2012)

	For the Year Ended June 30, 2013				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2012 Total
REVENUES					
Contracts/Fees for services	$ 57,420,062	$ -	$ -	$ 57,420,062	$53,791,875
Sales revenue from client based programs	1,083,952	-	-	1,083,952	862,226
Fundraising revenue	1,719,115	2,425,070	-	4,144,185	3,333,088
Other income	214,372	-	-	214,372	108,793
Net assets released from restrictions	1,253,303	(1,253,303)	-	-	-
Revenues	61,690,804	1,171,767	-	62,862,571	58,095,982
EXPENSES					
Program Services					
Residential Continuum of Care	40,929,197	-	-	40,929,197	38,238,934
Independent Living Support Network	14,732,760	-	-	14,732,760	12,770,755
Total Program Services	55,661,957	-	-	55,661,957	51,009,689
Supporting Services					
Management and General	6,528,975	-	-	6,528,975	5,842,350
Fundraising	1,365,160	-	-	1,365,160	1,320,030
Total Supporting Services	7,894,135	-	-	7,894,135	7,162,380
Total Expenses	63,556,092	-	-	63,556,092	58,172,069
Excess (Deficit) of Revenue over Expenses from Operations	(1,865,288)	1,171,767	-	(693,521)	(76,087)
OTHER ACTIVITIES					
Contribution from acquisition of Interlude, Inc.	1,773,511	-	-	1,773,511	-
Investment income	358,876	-	32,186	391,062	133,422
Change in Net Assets	267,099	1,171,767	32,186	1,471,052	57,335
NET ASSETS					
Beginning of year	12,496,391	2,395,932	475,819	15,368,142	15,310,807
End of year	$ 12,763,490	$ 3,567,699	$ 508,005	$ 16,839,194	$ 15,368,142

See notes to consolidated financial statements

Ability Beyond Disability, Inc.
and Affiliates

Consolidated Statement of Functional Expenses
Year Ended June 30, 2013
(With summarized totals for 2012)

	Year Ended June 30, 2013						
	Program Services						
	Residential Continuum of Care	Independent Living Support	Total Program Services	Management and General	Fundraising	Total Expenses	2012 Total Expenses
PERSONNEL COSTS							
Salaries	$ 24,537,407	$ 8,228,403	$ 32,765,810	$ 3,099,030	$ 586,416	$ 36,451,256	$ 33,903,131
Taxes and benefits	7,101,396	2,254,870	9,356,266	909,690	172,902	10,438,858	9,304,149
Total Personnel Costs	31,638,803	10,483,273	42,122,076	4,008,720	759,318	46,890,114	43,207,280
OTHER EXPENSES							
Facilities and equipment expenses	2,976,273	1,868,748	4,845,021	462,281	23,377	5,330,679	4,750,161
Program supplies and related expenses	2,832,543	1,368,280	4,200,823	411,021	2,901	4,614,745	4,315,051
Intermediate Care Facility (ICF) user fee	1,185,484	-	1,185,484			1,185,484	1,161,278
Other expenses	545,551	504,946	1,050,497	767,110	367,400	2,185,007	1,353,304
Special events	-	-	-	-	167,487	167,487	195,454
Interest expense	494,747	73,477	568,224	298,166	5,626	872,016	822,568
Total Other Expenses	8,034,598	3,815,451	11,850,049	1,938,578	566,791	14,355,418	12,597,816
Total Expenses before Depreciation	39,673,401	14,298,724	53,972,125	5,947,298	1,326,109	61,245,532	55,805,096
Depreciation and amortization	1,255,796	434,036	1,689,832	581,677	39,051	2,310,560	2,366,973
Total Functional Expense	$ 40,929,197	$ 14,732,760	$ 55,661,957	$ 6,528,975	$ 1,365,160	$ 63,556,092	$ 58,172,069

See notes to consolidated financial statements

Ability Beyond Disability, Inc.
and Affiliates

Consolidated Statements of Cash Flows
Year Ended June 30, 2013
(With comparative totals for 2012)

	Year Ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,471,052	$57,333
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	2,310,560	2,366,973
Unrealized and realized gains, net	(265,349)	(23,259)
Contribution from acquisition of Interlude, Inc., net of cash acquired	(1,624,282)	-
Contributions for capital	(1,744,021)	(769,000)
Provision for uncollectible accounts	840,075	200,000
Change in operating assets and liabilities		
Accounts receivable	(1,885,119)	(534,203)
Pledges and other receivables	287,008	46,841
Prepaid expenses	(184,431)	33,557
Other assets	(391,964)	(18,270)
Accounts payable and accrued expenses	1,017,527	1,194,376
Other liabilities	(354,485)	(262,287)
Deferred income	2,500	(393,227)
Net Cash from Operating Activities	(520,929)	1,898,834
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,114,818)	(1,565,219)
Sale of investments	1,298,158	2,736,514
Purchase of property and equipment	(1,936,373)	(3,223,000)
Net Cash from Investing Activities	(1,753,033)	(2,051,705)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for capital, net of change in pledges receivable	1,299,195	302,564
Proceeds from refinancing of long term debt, net of financing costs	1,097,831	-
Proceeds from long term debt	857,576	1,500,000
Payments on long term debt	(1,221,387)	(1,622,554)
Net proceeds (payments) from revolving promissory notes	401,320	(93,941)
Net Cash from Financing Activities	2,434,535	86,069
Net Change in Cash and Cash Equivalents	160,573	(66,802)
CASH AND CASH EQUIVALENTS		
Beginning of year	162,438	229,240
End of year	$ 323,011	$ 162,438
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 872,016	$ 822,568

Refer to Note 17 for non-cash financing and investing activities related to the acquisition of Interlude, Inc.

See notes to consolidated financial statements

1. Organization

Ability Beyond Disability, Inc. is a not-for-profit organization that provides comprehensive rehabilitation services to individuals whose independent living skills are impaired by disability, illness or injury. Ability Beyond Disability, Inc.'s mission calls for the delivery of such services so that individuals may achieve and maintain self-reliance, fulfillment and comfort at home, at work and in the community.

Ability Beyond Disability, Inc. is the sole member and has voting control of three other not-for-profit organizations, Ability Beyond Disability – a New York Corporation, Datahr Home Health Care, Inc., and Growing Possibilities, Inc., together referred to as Ability Beyond Disability, Inc. and Affiliates.

Ability Beyond Disability, Inc. and Affiliates (the "Agency") are exempt from income taxes as defined in Internal Revenue Code Section 501(c)(3) and, accordingly, the consolidated financial statements do not reflect a provision for income taxes.

Revenues earned from various departments of the States of Connecticut and New York were approximately 95% and 93% of total contracts and fees for services in 2013 and 2012.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net assets are classified as unrestricted, temporarily restricted or permanently restricted based upon the existence or absence of donor-imposed restrictions limiting the use of the contributed assets as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions, which includes assets set aside by the Agency's Board of Directors for specific purposes ("Board Designated Net Assets").

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that either expire by the passage of time or can be fulfilled or otherwise removed by actions of the Agency.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Agency.

Principles of Consolidation

GAAP requires consolidation when one entity in a group has a controlling financial interest in the other entities. Accordingly, the accompanying consolidated financial statements include Ability Beyond Disability, Inc. and its Affiliates. All material inter-organizational balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies *(continued)*

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and the 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. A few of the more significant estimates required to be made by management is the allowance for doubtful receivables and the allocation of functional expenses.

Cash and Cash Equivalents

The Agency considers all highly liquid debt instruments with a maturity of three months or less at the time of purchase that are utilized for operations to be cash equivalents.

Contributions

Contributions are recognized when the donor makes an unconditional promise to give to the Agency. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Agency uses the allowance method to determine uncollectible promises to give which is based on prior years' experience and management's analysis of specific receivables.

In determining the amount of revenue to be recognized for promises to give, the current portion is recorded at realizable value while the non-current portion is recorded at its net present value using a risk-adjusted interest rate. The discount is amortized to contribution revenue over the collection period.

Contributed Meals, Goods and Property

For the years ended June 30, 2013 and 2012, donated meals, goods and property were valued at $13,123 and $71,362 in the accompanying financial statements. In addition, a substantial number of volunteers have contributed their time to the Agency's programs and supporting services; however, none of these services meet the requirements for financial statement recognition.

2. Summary of Significant Accounting Policies *(continued)*

Fair Value of Financial Instruments

The Agency follows GAAP guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments Valuation

Investments are stated at fair value in the statement of financial position. Unrealized gains or losses are included in the change in net assets in the statement of activities.

Property and Equipment

Property and equipment are recorded at cost or in the case of donated assets at estimated fair value at date of gift, less accumulated depreciation. Buildings, improvements, furniture, fixtures, equipment and vehicles are being depreciated using the straight-line method over the estimated useful lives of the assets which range from 3 to 30 years. The title to certain equipment purchased with government grant funds is held by the grantor. Pursuant to prevailing accounting principles, the Agency has capitalized and depreciated such equipment in its financial statements over their estimated useful life or the program period.

Impairment or Disposal of Long-lived Assets

GAAP requires long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Recoverability of the long-lived assets is measured by a comparison of their carrying amount to market value or future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, their carrying amounts are reduced. There were no assets written down for impairment.

Deferred Income

Deferred income consists of government grants, for specified purposes, which the Agency has not received or expended as well as income received from others in advance of being earned.

2. Summary of Significant Accounting Policies *(continued)*

Revenue Recognition

Net service revenue is reported at the estimated net realizable amounts from consumers, third-party payors and others for services rendered. Revenue under third-party payor agreements is subject to governmental review and may require retroactive settlements based on the reporting of actual annual costs and other regulatory processes. Estimates of these adjustments are recorded on a current basis. To the extent that the subsequent actual adjustment is more or less than the estimate, such amounts are reflected in the operating results for the period in which the final adjustment becomes known.

Functional Expenses

The Agency allocates its expenses on a functional basis among its program and support services. Expenses that can be specifically identified with a program or support service are allocated directly. Other expenses that are common to several functions are allocated based on statistics as well as estimates made by management.

Accounting for Uncertainty in Income Taxes

Management recognizes the effects of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Agency had no uncertain tax positions that would require financial statement recognition. The Agency is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2009.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/ or recognition in the financial statements through the date that the financial statements were available to be issued, which is October 1, 2013.

3. Comparative Financial Information and Reclassifications

While comparative information is not required under GAAP, the Agency believes this information is useful and has included certain summarized financial information from its fiscal 2012 consolidated financial statements. Such summarized information is not intended to be a complete presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Agency's consolidated financial statements as of and for the year ended June 30, 2012, from which it was derived. Certain reclassifications have been made to the prior year summarized comparative information to conform to the June 30, 2013 presentation, with no effect on the Agency's total net assets.

4. Concentration of Credit Risk

Financial instruments that potentially subject the Agency to significant concentrations of credit risk consist principally of cash and investments. At times, cash balances may be in excess of balances insured by the Federal Deposit Insurance Corporation. The Agency has not experienced any losses in such accounts and management believes the Agency is not exposed to any significant credit risk.

4. Concentration of Credit Risk *(continued)*

A significant portion of the Agency's support and revenue is from government fees, contracts and grants in fiscal 2013. As with all government funding, grants and fees may be subject to reduction or termination in future years. Any significant reduction in these grants and fees could have a negative impact on the Agency's program services. Based upon the nature of these grants, management believes the Agency is not exposed to any significant credit risk.

5. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2013:

	2013			2012
	Accounts Receivable	Allowance for Doubtful Accounts	Accounts Receivable Net	Accounts Receivable Net
Ability Beyond Disability, Inc.	5,911,850	(1,889,929)	$ 4,021,921	$3,864,909
Ability Beyond Disability - a New York Corp.	5,799,606	(1,925,568)	3,874,038	2,927,605
Growing Possibilities, Inc.	35,960	-	35,960	10,687
Datahr Home Health Care, Inc.	30,150	-	30,150	30,150
Total accounts receivable, net	$ 11,777,566	$ (3,815,497)	$ 7,962,069	$ 6,833,351

Accounts receivable consist of amounts due from various third-party payers including Medicare, Medicaid, certain state agencies, insurance companies, and from individuals and corporations. Specific accounts determined to be uncollectible are written off in the period that such a determination is made. An allowance for doubtful accounts is determined based on management's review of all remaining accounts receivable.

As of June 30, 2013, accounts receivable of Ability Beyond Disability, Inc. and Ability Beyond Disability – A New York Corporation were used as collateral to secure the revolving promissory note with a bank.

6. Pledges and Other Receivables

Donors to the Agency have made written unconditional promises to give. The pledges are collectible over a period of time and donors may make payments at any time during such periods. Pledges receivable and other receivables are summarized as follows at June 30:

	2013	2012
Pledges receivable due in less than one year	$ 911,569	$ 1,501,785
Pledges receivable due in one to five years	2,596,473	1,250,396
Pledges receivable due in more than five years	379,267	60,000
Less unamortized discount on pledges receivables	(270,088)	(169,091)
Pledges Receivable, net of discount	3,617,221	2,643,090
Annuity, net of present value adjustments of $0 and $0	-	570,000
Pledges and Other Receivables, net	$ 3,617,221	$ 3,213,090

Pledges receivable that are expected to be received in more than one year are discounted at rates approximating 3.5%, based on the date the donor commitment was made. No allowance for doubtful accounts has been provided as management considers all pledges and other receivables to be collectible.

Approximately $2,400,000, or 68%, of gross outstanding pledges receivable are due from members of either the Agency's Board of Directors or the Board of Trustees (together the "Boards"). Two such members of the Boards represent approximately $1,900,000, or 54%, of the pledges receivable due at June 30, 2013. Fiscal year 2013 fund raising contributions from members of the Boards were approximately $2,200,000.

7. Other Assets

Other assets consisted of the following as of June 30:

	2013	2012
Security deposits	$ 133,106	$ 116,016
Deferred financing costs	248,855	250,755
Remainder interests in trusts	312,485	312,485
Cash surrender value of life insurance policies	70,491	68,808
Other	312,393	318,595
Total other assets, net	$ 1,077,330	$ 1,066,659

8. Investments

Investments categorized by the fair value hierarchy consisted of the following at June 30:

	2013	2012
Level 1 Inputs		
Cash equivalents	$ 410,401	$ 100,225
Equity securities	2,272,512	1,970,125
Fixed income exchange traded funds	316,794	668,649
United States Government obligations	266,399	290,444
Total Level 1 Inputs	3,266,106	3,029,443
Level 2 Inputs		
Corporate bonds and notes	783,312	685,637
Total Investments	$ 4,049,418	$ 3,715,080

Investments summarized above are part of a highly diversified portfolio covering various market sectors including consumer, energy, financials, health care, industrials, information technology, commodities, emerging market and international, among others.

Investment income for the years ended June 30 consisted of the following:

	2013	2012
Interest and dividend income	$ 153,965	$ 136,668
Realized gains on investments	65,653	913
Unrealized gains on investments	199,696	22,346
Less: investment fees	(28,252)	(26,505)
Investment income, net of fees	$ 391,062	$ 133,422

9. Property and Equipment

Property and equipment consisted of the following as of June 30:

	2013	2012
Land, buildings and improvements	$ 29,070,170	$ 26,576,920
Furniture, fixtures and other	7,421,208	5,830,712
Leasehold improvements	2,043,108	1,897,618
Transportation vehicles	2,533,506	2,531,198
Assets held under capital leases	2,860,205	2,728,022
	43,928,197	39,564,470
Less accumulated depreciation (including $1,316,095 and $687,074 for assets held under capital leases)	(22,500,024)	(20,413,949)
	21,428,173	19,150,521
Construction in progress	1,137,326	1,645,342
Net property and equipment	$ 22,565,499	$ 20,795,863

10. Revolving Promissory Notes

Revolving promissory notes consisted of the following as of June 30:

	2013	2012
People's United Bank working capital (WC) revolving line of credit note - maximum of $4,500,000 with interest rate at prime but no less than 3.5%, secured by all assets of the Agency, maturing on November 30, 2014. The rate of interest at June 30, 2013 was 3.5%	$ 4,253,423	$ 2,752,103
People's United Bank capital expenditure (Capex) revolving line of credit note - maximum of $1,100,000 with interest rate at prime but no less than 3.5%, secured by all assets of the Agency, maturing on November 30, 2012. The rate of interest at June 30, 2012 was 3.5%.	-	1,100,000
Total Revolving Promissory Notes	$ 4,253,423	$ 3,852,103

During the fiscal year ended June 30, 2013, the Agency paid in full the Capex revolving line of credit note and increased the WC line of credit note to $4,500,000 from $3,500,000.

The Agency is subject to certain covenants related to the above note as specified in the note agreements, including a requirement that certain financial ratios be maintained. The Agency believes it is in compliance with such covenants.

11. Long-Term Debt

Capital Leases

The Agency is the lessee of residential properties under capital leases expiring in various years through 2034. Assets and liabilities under capital leases are recorded at the fair value of the asset at lease inception. The buildings are depreciated over 30-year lives and any improvements are depreciated over their respective lives ranging from 5 to 25 years.

The Agency is also the lessee of motor vehicles under capital leases expiring in fiscal year 2017. The assets and liabilities under the capital leases are recorded at the fair value of the respective assets. The vehicles are depreciated over the lower of their related lease terms or their estimated useful lives.

Depreciation of assets under the capital leases described above is included in depreciation expense for 2013 and 2012.

Interest rates on capitalized leases vary from 3.99% to 9.60% and are imputed based on the lessor's implicit rate of return.

The following is a summary of all assets held under capital leases and the related liabilities at June 30, 2013:

	Residential Properties	Vehicles	Equipment	Total
2014	$ 127,230	$ 233,622	$ 43,711	$ 404,563
2015	127,230	124,230	30,275	281,735
2016	127,230	68,905	-	196,135
2017	127,230	2,912	-	130,142
2018	127,230	-	-	127,230
Subsequent to 2018	2,599,486	-	-	2,599,486
Total Minimum Future Lease Payments	3,235,636	429,669	73,986	3,739,291
Less amount representing interest	(1,726,750)	(29,804)	(4,513)	(1,761,067)
Net capital leases	$ 1,508,886	$ 399,865	$ 69,473	$ 1,978,224

11. Long-Term Debt *(continued)*

Notes Payable

Notes payable consisted of the following as of June 30:

	2013	2012
People's United Bank term loan note, payable in level principal payments of $29,483 per month with interest accruing on the unpaid balance at the prime rate but no less than 3.5%, secured by all assets of the Agency, maturing January 1, 2019. The rate of interest at June 30, 2012 was 3.5%.	$ 1,945,901	$ 2,299,701
Notes payable to various lending agencies for purchase of vehicles, secured by such vehicles - monthly payments on these notes include interest and principal ranging from $418 to $1,292 and mature through March 2017.	166,783	176,103
FJC Agency for construction financing - interest only payments at the Prime rate + 3%. The notes mature December 2014.	552,961	-
Total Notes Payable	$ 2,665,645	$ 2,475,804

Mortgages Payable

Mortgages payable consisted of the following as of June 30:

Lender/Collateral/Interest Rate/Maturity	2013	2012
Fairfield County Bank Corporation		
4 Berkshire Boulevard		
Fixed Rate - 5.375% Due 8/1/25	$ -	$ 1,491,835
Adjustable - 4% until 10/1/2014		
Due 10/1/2018	-	244,401
U.S. Dept. of Housing and Urban Development		
Dodgintown, Maple & Farview		
9.25%, Due 6/20/22	368,651	397,209
Bank of America Mortgage Center		
Pleasant Rise Circle		
Variable - 3.375% @ 6/30/13, due 2/1/18	38,394	45,842

11. Long-Term Debt *(continued)*

Mortgages Payable (continued)

Lender/Collateral/Interest Rate/Maturity	2013	2012
Peoples Bank		
Liberty Terrace		
Variable - 7.08% @ 6/30/13, Due 7/1/13	$ 968	$ 12,478
Secured by various properties.		
Variable - 3.98% @ 6/30/13, Due 9/26/16	1,440,181	1,476,617
Secured by various properties.		
Fixed - 3.5%, Due 2/26/2023	2,809,868	-
Union Savings Bank		
Grand Street		
Fixed - 5.375% @ 6/30/13, Due 9/26/16	388,900	-
Webster Bank		
West Street		
Fixed - 6.75%, Due 9/01/16	78,159	-
Community Preservation Corp Mortgage		
Lewisboro, Carpenter Ave. Millington		
Fixed - 7.29%, Due 9/01/17	600,495	700,563
Buchannan		
Fixed - 7.22%, Due 3/1/21	532,996	582,555
Yonkers		
Fixed - 4.86%, Due 3/1/26	938,909	990,842
Hudson Valley Bank, N.A. Mortgages		
Brookside Ave. Yorktown Heights		
Fixed - 8.61%, Due 3/1/20	428,190	474,536
Total mortgages payable	$ 7,625,711	$ 6,416,878

In February 2013, the Agency borrowed $2,850,000 under a mortgage note from People's Bank and used the proceeds to repay all outstanding debt that existed with Fairfield County Bank Corporation.

The Agency is subject to certain covenants related to the debt as specified in the loan agreements, including a requirement that certain financial ratios be maintained. The Agency believes it is in compliance with such covenants.

11. Long-Term Debt *(continued)*

A summary of long term debt is as follows as of June 30:

	2013	2012
Capital leases	$ 1,978,224	$ 2,120,841
Notes payable	2,665,645	2,475,804
Mortgages payable	7,625,711	6,416,878
Total long term debt	$ 12,269,580	$ 11,013,523

Following are maturities of long-term debt for the next five years and beyond at June 30:

	Capital Leases Payable	Notes Payable	Mortgages Payable	Total
2014	$ 274,482	$ 419,504	$ 503,259	$ 1,197,245
2015	166,093	397,744	530,869	1,094,706
2016	88,446	950,363	558,217	1,597,026
2017	31,170	367,317	1,838,530	2,237,017
2018	33,851	353,796	545,750	933,397
Subsequent to 2018	1,384,182	176,921	3,649,086	5,210,189
Total	$ 1,978,224	$ 2,665,645	$ 7,625,711	$ 12,269,580

12. Endowment

The Agency follows accounting guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). UPMIFA requires additional disclosures about an organization’s endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The Agency maintains various donor-restricted and board-designated funds whose purpose is to provide long-term support for its charitable programs. Net assets associated with endowment funds, including funds designated by the Board of Directors are classified and reported based upon the existence or absence of donor-imposed restrictions. In classifying such funds, the Board looked to the explicit directions of the donor where applicable and the provisions of the State of Connecticut.

12. Endowment *(continued)*

The Board of Directors and Trustees of the Agency has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act ("CUPMIFA") as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with CUPMIFA, the Agency considers the specified factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

Activity of funds held for endowment is as follows for the years ended June 30:

	Endowment Funds		
	Unrestricted Board Designated	Permanently Restricted	Total
Beginning balance			
July 1, 2011	$ 5,166,645	$ 464,807	$ 5,631,452
Contributions	16,528	-	16,528
Investment income, net	122,410	11,012	133,422
Ending balance			
June 30, 2012	5,305,583	475,819	5,781,402
Contributions	1,684	-	1,684
Investment income, net	358,876	32,186	391,062
Write-off of uncollectible pledges	(83,674)	-	(83,674)
Ending balance			
June 30, 2013	$ 5,582,469	$ 508,005	$ 6,090,474

Endowment funds have been pledged as collateral to secure the term loan payable to the bank (see Note 11).

Endowment assets consist of the following at June 30, 2013:

	2013	2012
Investments	$ 4,119,909	$ 3,783,888
Remainder interests in trusts	312,485	312,485
Pledges receivable, net of discount	2,869	86,543
Due from operations	1,655,211	1,598,486
Total Endowment	$ 6,090,474	$ 5,781,402

12. Endowment *(continued)*

Investment Return Objectives, Risk Parameters and Strategies: The Agency has adopted investment and spending policies, approved by the Board for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets. The Agency's investment goals are to meet payout requirements calculated in accordance with the established spending rule, to provide sufficient liquidity to meet distribution requirements and to achieve successful investment performance using "total return" as the accepted measurement. The Agency's investment strategy is to highly diversify its portfolio in order to minimize volatility and increase returns over time. The asset allocation seeks to balance the relative percentage invested in equity securities (25% to 65%), fixed income (35% to 75%), and money market instruments (0% to 25%).

Spending Policy: The Agency has a policy of approving for distribution each year 5% of its endowment fund's fair value using a 16 quarter trailing average for the period ending the prior December 31. The Agency expects the current spending policy to allow its endowment funds to grow at a nominal average rate approximating inflation. This is consistent with the Agency's objective of maintaining the purchasing power of the endowment assets as well as providing additional real growth through new gifts and investment return. The spending rule as established by the Board states that in no instance shall a distribution to the Agency for current operations cause an invasion of the Fund's original gift(s) value, adjusted for inflation. No distributions of endowment income were made during fiscal years 2013 or 2012.

During 2012, the Agency borrowed approximately $1,500,000 from the unrestricted Board designated portion of the endowment to fund current operations. As excess cash becomes available, the Agency is required to pay back the endowment in full plus interest, which accrues at an annual rate of 3.5%. At June 30, 2013 the total amount due to the endowment was $1,655,211. On June 29, 2013 the Board of Directors established a repayment date of no later than June 30, 2018.

13. Temporarily Restricted Net Assets

Temporarily restricted net assets, including unconditional promises to give, were available for the following purposes at June 30, 2013:

	2013	2012
Consumers needs	$ 25,433	$ 22,587
Roses for Autism Project	150,000	284,861
Transportation vehicles	199,000	-
Comprehensive Campaign (pledges due in future periods)	3,193,266	2,088,484
Total Temporarily Restricted Net Assets	$ 3,567,699	$ 2,395,932

14. Lease Expense

The Agency and Affiliates lease commercial space, vehicles and office equipment under operating leases expiring in various years through 2018. Rent expense for June 30, 2013 and 2012 was $1,253,352 and $994,348.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2013 and for each of next five fiscal years are:

2014	$ 1,038,083
2015	798,117
2016	251,110
2017	196,067
2018	134,900
Total	$ 2,418,277

15. Sale of Datahr Home Health Care, Inc.

On October 1, 2002, Datahr Home Health Care, Inc. ("DHH") entered into an Asset Purchase Agreement, a Consulting Services Agreement and a Management Contract with Family Aides Certified Services of Nassau/Suffolk, Inc. ("Family Care"). The agreements provide for Family Care to start up the operations of DHH, and for the sale of the assets of DHH to Family Care upon approval by New York State, for a purchase price of $350,000. All obligations of the seller will be transferred to the buyer with the sale of the corporation. On March 5, 2003, the New York Department of Health approved the Management Agreement between the two parties. On January 2, 2008, a second amendment to the purchase agreement was executed. The Public Health Council issued a letter dated August 16, 2011 approving the transfer of ownership. Payment of the full sale price is recorded as deferred income as of June 30, 2013 and 2012.

16. Acquisition of Interlude, Inc.

On July 1, 2012 Interlude, Inc. ("Interlude"), a Connecticut based non-for-profit corporation exempt from Federal income tax pursuant to Internal Revenue Code Section 501(c)(3), was acquired by the Agency. Interlude is a community-based mental health agency that was established exclusively for charitable, educational, and scientific purposes, and to operate facilities, including transitional residential facilities and related programs for persons with mental disabilities who may have substance abuse disabilities.

16. Acquisition of Interlude, Inc. *(continued)*

Major classes of assets and liabilities of Interlude at the time of acquisition were as follows (at fair value):

ASSETS	
Cash and cash equivalents	$ 149,229
Investments	183,521
Pledges and other receivables, net	17,502
Prepaid and other expenses	13,935
Land and buildings	2,143,823
	$ 2,508,010
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable and accrued expenses	$ 86,400
Other liabilities	126,062
Long term debt	522,037
Total Liabilities	734,499
Net contribution on acquistion	1,773,511
	$ 2,508,010

In accordance with GAAP, the excess fair value of assets acquired over liabilities assumed is recorded as an unrestricted contribution at the time of acquisition.

17. Contingencies

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Recently, government activity has increased with respect to investigations concerning possible violations by health care providers of fraud and abuse statutes and regulations. Compliance with such laws and regulations are subject to future government review and interpretations as well as potential regulatory actions. At this time the Agency is not aware nor have they been notified of any pending regulatory inquiries.

The Agency is undergoing a routine audit of Medicaid reimbursements by the New York State Office of Medicaid Inspector General (“OMIG”) for the period beginning April 1, 2004 through December 31, 2007 and the State of Connecticut Department of Social Services. Neither entity has yet to issue a final report on this matter. Management does not believe that the ultimate outcome of the audit will have a material adverse effect on the Agency’s financial position, results of operations or liquidity.

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Ability Beyond Disability, Inc.
and Affiliates

Consolidated Financial Statements

June 30, 2012

O'CONNOR DAVIES

PKF

Independent Auditors' Report

To the Boards of Directors
Ability Beyond Disability, Inc.

We have audited the accompanying consolidated statement of financial position of Ability Beyond Disability, Inc. and its' Affiliates (the "Agency") as of June 30, 2012, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Agency's June 30, 2011 consolidated financial statements and, in our report dated October 6, 2011, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated statements of financial position of Ability Beyond Disability, Inc. and Affiliates as of June 30, 2012, the changes in their consolidated net assets, and their consolidated cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

O'Connor Davies, LLP

Stamford, Connecticut
October 4, 2012

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Ability Beyond Disability, Inc.
and Affiliates

Consolidated Statement of Financial Position
Year Ended June 30, 2012
(With comparative totals for 2011)

	Year Ended June 30, 2012	2011
ASSETS		
Cash and cash equivalents	$ 162,438	$ 229,240
Accounts receivable, net	6,833,351	6,499,148
Pledges and other receivables, net	3,525,575	3,105,980
Prepaid expenses	533,592	567,149
Other assets, net	685,366	1,012,289
Investments	3,783,888	4,931,924
Property and equipment, net	20,795,863	19,594,643
	$ 36,320,073	$ 35,940,373
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 1,542,258	$ 1,100,083
Accrued expenses	3,756,517	3,004,318
Other liabilities	256,600	518,887
Revolving promissory notes	3,852,103	3,946,044
Long term debt	11,013,523	11,136,077
Deferred income	530,930	924,157
Total Liabilities	20,951,931	20,629,566
Net Assets		
Unrestricted		
Undesignated	7,190,808	7,773,686
Endowment fund - Board designated	5,305,583	5,166,645
Total Unrestricted	12,496,391	12,940,331
Temporarily Restricted	2,395,932	1,905,669
Permanently Restricted	475,819	464,807
Total Net Assets	15,368,142	15,310,807
	$ 36,320,073	$ 35,940,373

See notes to consolidated financial statements

Ability Beyond Disability, Inc.
and Affiliates

Consolidated Statement of Activities
Year Ended June 30, 2012
(With summarized totals for 2011)

	For the Year Ended June 30, 2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2011 Total
REVENUES					
Contracts/Fees for services	$ 53,791,875	$ -	$ -	$ 53,791,875	$ 49,956,931
Sales revenue from client based programs	862,226	-	-	862,226	864,541
Fundraising revenue	2,515,282	817,806	-	3,333,088	5,253,805
Other income	108,793	-	-	108,793	197,656
Net assets released from restrictions	327,543	(327,543)	-	-	-
Revenues	57,605,719	490,263	-	58,095,982	56,272,933
EXPENSES					
Program Services					
Residential Continuum of Care	38,238,934	-	-	38,238,934	35,024,147
Independent Living Support Network	12,770,755	-	-	12,770,755	11,527,988
Total Program Services	51,009,689	-	-	51,009,689	46,552,135
Supporting Services					
Management and General	5,842,350	-	-	5,842,350	5,534,455
Fundraising	1,320,030	-	-	1,320,030	1,212,108
Total Supporting Services	7,162,380	-	-	7,162,380	6,746,563
Total Expenses	58,172,069	-	-	58,172,069	53,298,698
Excess (Deficit) of Revenue over Expenses from Operations	(566,350)	490,263	-	(76,087)	2,974,235
OTHER ACTIVITIES					
Investment income	122,410	-	11,012	133,422	701,404
Change in Net Assets	(443,940)	490,263	11,012	57,335	3,675,639
NET ASSETS					
Beginning of year	12,940,331	1,905,669	464,807	15,310,807	11,635,168
End of year	$ 12,496,391	$ 2,395,932	$ 475,819	$ 15,368,142	$ 15,310,807

See notes to consolidated financial statements

Ability Beyond Disability, Inc.
and Affiliates

Consolidated Statement of Functional Expenses
Year Ended June 30, 2012
(With summarized totals for 2011)

	Year Ended June 30, 2012						
	Program Services						
	Residential Continuum of Care	Independent Living Support	Total Program Services	Management and General	Fundraising	Total Expenses	2011 Total Expenses
PERSONNEL COSTS							
Salaries	$ 23,025,331	$ 7,351,315	$ 30,376,646	$ 2,905,325	$ 621,160	$ 33,903,131	$ 31,531,526
Taxes and benefits	6,412,497	1,903,680	8,316,177	812,862	175,110	9,304,149	8,528,945
Total Personnel Costs	29,437,828	9,254,995	38,692,823	3,718,187	796,270	43,207,280	40,060,471
OTHER EXPENSES							
Facilities and equipment expenses	2,626,920	1,606,193	4,233,113	497,483	19,565	4,750,161	4,612,898
Program supplies and related expenses	2,809,609	1,180,769	3,990,378	322,170	2,503	4,315,051	3,906,645
Intermediate Care Facility (ICF) user fee	1,161,278	-	1,161,278	-	-	1,161,278	-
Other expenses	154,100	323,321	477,421	608,816	267,067	1,353,304	1,482,557
Special events	-	-	-	-	195,454	195,454	186,712
Interest expense	516,196	36,342	552,538	265,608	4,422	822,568	997,362
Total Other Expenses	7,268,103	3,146,625	10,414,728	1,694,077	489,011	12,597,816	11,186,174
Total Expenses before Depreciation	36,705,931	12,401,620	49,107,551	5,412,264	1,285,281	55,805,096	51,246,645
Depreciation and amortization	1,533,003	369,135	1,902,138	430,086	34,749	2,366,973	2,052,053
Total Functional Expense	$ 38,238,934	$ 12,770,755	$ 51,009,689	$ 5,842,350	$ 1,320,030	$ 58,172,069	$ 53,298,698

See notes to consolidated financial statements

Ability Beyond Disability, Inc.
and Affiliates

Consolidated Statements of Cash Flows
Year Ended June 30, 2012
(With comparative totals for 2011)

	Year Ended June 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 57,333	$ 3,675,637
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	2,366,973	2,052,053
Unrealized and realized gains, net	(23,259)	(587,296)
Donation of property through lease forgiveness	-	(1,700,916)
Provision for uncollectible accounts	200,000	92,444
Change in operating assets and liabilities		
Accounts receivable	(534,203)	286,449
Pledges and other receivables	(419,595)	(1,370,343)
Prepaid expenses	33,557	105,079
Other assets	(18,270)	(99,521)
Accounts payable and accrued expenses	1,194,376	(169,969)
Other liabilities	(262,287)	265,986
Deferred income	(393,227)	(149,957)
Net Cash from Operating Activities	2,201,398	2,399,646
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,565,219)	(4,849,827)
Sale of investments	2,736,514	4,691,033
Purchase of property and equipment	(3,223,000)	(2,251,877)
Net Cash from Investing Activities	(2,051,705)	(2,410,671)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (payments) proceeds from revolving promissory notes	(93,941)	1,050,044
Proceeds from long term debt	1,500,000	1,511,213
Payments on long term debt	(1,622,554)	(2,468,804)
Net Cash from Financing Activities	(216,495)	92,453
Net Change in Cash and Cash Equivalents	(66,802)	81,428
CASH AND CASH EQUIVALENTS		
Beginning of year	229,240	147,812
End of year	$ 162,438	$ 229,240
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 822,568	$ 997,362

See notes to consolidated financial statements

1. Organization

Ability Beyond Disability, Inc. is a not-for-profit organization that provides comprehensive rehabilitation services to individuals whose independent living skills are impaired by disability, illness or injury. Ability Beyond Disability, Inc.'s mission calls for the delivery of such services so that individuals may achieve and maintain self-reliance, fulfillment and comfort at home, at work and in the community.

Ability Beyond Disability, Inc. is related through common control to three other not-for-profit organizations, Ability Beyond Disability – a New York Corporation, Datahr Home Health Care, Inc., and Growing Possibilities, Inc., together referred to as Ability Beyond Disability, Inc. and Affiliates.

Ability Beyond Disability, Inc. and Affiliates (the "Agency") are exempt from income taxes as defined in Internal Revenue Code Section 501(c)(3) and, accordingly, the consolidated financial statements do not reflect a provision for income taxes.

Revenues earned from various departments of the States of Connecticut and New York were approximately 93% and 92% of total contracts and fees for services in 2012 and 2011, respectively.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net assets are classified as unrestricted, temporarily restricted or permanently restricted based upon the existence or absence of donor-imposed restrictions limiting the use of the contributed assets as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that either expire by the passage of time or can be fulfilled or otherwise removed by actions of the Agency.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Agency.

Principles of Consolidation

Accounting principles require consolidation for a fair presentation when one entity in a group has a controlling financial interest in the other entities. Accordingly, the accompanying consolidated financial statements include Ability Beyond Disability, Inc. and its' Affiliates. All material inter-organizational balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies *(continued)*

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and the 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. One of the more significant estimates required to be made by management is the allowance for doubtful receivables.

Endowments

The Agency follows accounting guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). UPMIFA requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

Cash and Cash Equivalents

The Agency considers all highly liquid debt instruments with a maturity of three months or less at the time of purchase that are utilized for operations to be cash equivalents.

Contributions

Contributions are recognized when the donor makes an unconditional promise to give to the Agency. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Agency uses the allowance method to determine uncollectible promises to give which is based on prior years' experience and management's analysis of specific receivables.

In determining the amount of revenue to be recognized for promises to give, the current portion is recorded at realizable value while the non-current portion is recorded at its net present value using a risk-adjusted interest rate. The discount is amortized to contribution revenue over the collection period.

2. Summary of Significant Accounting Policies *(continued)*

Contributed Meals, Goods and Property

For the years ended June 30, 2012 and 2011, donated meals, goods and property were valued at $71,362 and $84,662 in the accompanying financial statements. In addition, a substantial number of volunteers have contributed their time to the Agency's programs and supporting services; however, none of these services meet the requirements for financial statement recognition.

Fair Value of Financial Instruments

The Agency follows accounting guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist. At June 30, 2012 and 2011, no assets were measured using Level 3 inputs (see Note 7 for details of investments).

Investments Valuation

Investments are stated at fair value in the statement of financial position. Unrealized gains or losses are included in the change in net assets in the statement of activities.

Property and Equipment

Property and equipment are recorded at cost or in the case of donated assets at estimated fair value at date of gift, less accumulated depreciation. Buildings, improvements, furniture, fixtures, equipment and vehicles are being depreciated using the straight-line method over the estimated useful lives of the assets which range from 3 to 30 years. The title to certain equipment purchased with government grant funds is held by the grantor. Pursuant to prevailing accounting principles, the Agency has capitalized and depreciated such equipment in its financial statements over the life of their estimated life or the program period.

Impairment or Disposal of Long-lived Assets

Accounting guidance requires long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Recoverability of the long-lived assets is measured by a comparison of their carrying amount to market value or future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, their carrying amounts are reduced. There were no assets written down for impairment.

2. Summary of Significant Accounting Policies *(continued)*

Deferred Income

Deferred income consists of government grants, for specified purposes, which the Agency has not received or expended as well as income received from others in advance of being earned.

Revenue Recognition

Net service revenue is reported at the estimated net realizable amounts from consumers, third-party payors and others for services rendered. Revenue under third-party payor agreements is subject to governmental review and may require retroactive settlements based on the reporting of actual annual costs and other regulatory processes. Estimates of these adjustments are recorded on a current basis. To the extent that the subsequent actual adjustment is more or less than the estimate, such amounts are reflected in the operating results for the period in which the final adjustment becomes known.

Functional Expenses

The Agency allocates its expenses on a functional basis among its program and support services. Expenses that can be specifically identified with a program or support service are allocated directly. Other expenses that are common to several functions are allocated based on statistics as well as estimates made by management.

Accounting for Uncertainty in Income Taxes

Management recognizes the effects of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Agency had no uncertain tax positions that would require financial statement recognition. The Agency is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2008.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/ or recognition in the financial statements through the date that the financial statements were available to be issued, which is October 4, 2012.

3. Reclassifications

For purposes of comparison, certain reclassifications and other adjustments have been made to the accompanying June 30, 2011 comparative and summarized financial information to conform to the June 30, 2012 presentation, with no effect on the Agency's total net assets.

4. Concentration of Credit Risk

Financial instruments that potentially subject the Agency to significant concentrations of credit risk consist principally of cash and investments. At times, cash balances may be in excess of balances insured by the Federal Deposit Insurance Corporation. The Agency has not experienced any losses in such accounts and management believes the Agency is not exposed to any significant credit risk.

A significant portion of the Agency's support and revenue is from government fees, contracts and grants in fiscal 2012. As with all government funding, grants and fees may be subject to reduction or termination in future years. Any significant reduction in these grants and fees could have a negative impact on the Agency's program services. Based upon the nature of these grants, management believes the Agency is not exposed to any significant credit risk.

5. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2012:

	2012			2011
	Accounts Receivable	Allowance for Doubtful Accounts	Accounts Receivable Net	Accounts Receivable Net
Ability Beyond Disability, Inc.	$ 5,775,909	$ (1,911,000)	$ 3,864,909	$ 2,958,311
Ability Beyond Disability - a New York Corp.	4,088,605	(1,161,000)	2,927,605	3,496,969
Growing Possibilities, Inc.	10,687	-	10,687	13,718
Datahr Home Health Care, Inc.	30,150	-	30,150	30,150
Total accounts receivable, net	$ 9,905,351	$ (3,072,000)	$ 6,833,351	$ 6,499,148

Accounts receivable consist of amounts due from various third-party payers including Medicare, Medicaid, certain state agencies, insurance companies, and from individuals and corporations. Specific accounts determined to be uncollectible are written off in the period that such a determination is made. An allowance for doubtful accounts is determined based on management's review of all remaining accounts receivable.

As of June 30, 2012, accounts receivable of Ability Beyond Disability, Inc. and Ability Beyond Disability – A New York Corporation were used as collateral to secure the revolving promissory note with a bank.

6. Pledges and Other Receivables

Donors to the Agency have made written unconditional promises to give. The pledges are collectible over a period of time and donors may make payments at any time during such periods. Pledges receivable and other receivables are summarized as follows at June 30:

	2012	2011
Pledges receivable due in less than one year	$ 1,501,785	$ 1,003,039
Pledges receivable due in one to five years	1,986,358	2,117,962
Pledges receivable due in more than five years	60,000	70,000
Less unamortized discount on pledges receivables	(592,568)	(609,465)
Pledges receivable, net of discount	2,955,575	2,581,536
Annuity and other receivables, net of present value adjustments of $0 and $45,556	570,000	524,444
Pledges and other receivables, net	$ 3,525,575	$ 3,105,980

Pledges receivable that are expected to be received in more than one year are discounted at rates approximating 3.5%, based on the date the donor commitment was made. No allowance for doubtful accounts has been provided as management considers all pledges and other receivables to be collectible.

7. Investments

Investments consisted of the following at June 30:

	2012	2011
Investments	$ 3,715,080	$ 4,879,645
Cash surrender value of life insurance policies	68,808	52,279
Total investments	$ 3,783,888	$ 4,931,924

7. Investments *(continued)*

Investments categorized by the fair value hierarchy consisted of the following at June 30:

	2012	2011
Level 1 Inputs		
Equity securities		
Consumer	$ 234,296	$ 212,333
Energy	179,002	197,933
Financials	152,855	161,669
Health care	189,961	168,399
Industrials	131,754	147,346
Information technology	279,407	250,273
U.S. Government obligations	290,444	648,044
Mutual Funds		
Commodities	36,528	67,499
Emerging market	338,322	170,149
Fixed income diversified	-	368,456
Growth	29,586	128,638
High yield	150,162	-
International	105,512	436,563
Large cap	-	396,904
Mid cap	124,193	128,651
Small cap	85,602	316,061
TIPS	340,672	202,914
Other	269,703	176,087
Money market funds	40,549	76,289
Total Level 1 Inputs	2,978,548	4,254,208
Level 2 Inputs		
Corporate bonds and notes	685,637	576,048
Total Level 2 Inputs	685,637	576,048
Certificates of deposit	50,895	49,389
Total investments	$ 3,715,080	$ 4,879,645

7. Investments *(continued)*

Investment income for the years ended June 30 consisted of the following:

	2012	2011
Interest and dividend income	$ 136,668	$ 141,352
Realized gains on investments	913	158,473
Unrealized gains on investments	22,346	428,823
Less: investment fees	(26,505)	(27,244)
Investment income, net of fees	$ 133,422	$ 701,404

8. Other Assets

Other assets consisted of the following as of June 30:

	2012	2011
Security deposits	$ 116,016	$ 101,530
Deferred program costs, net of accumulated amortization of $427,068 and $94,580	-	332,488
Deferred financing cost	250,755	268,819
Other assets	318,595	309,452
Total other assets, net	$ 685,366	$ 1,012,289

Deferred program costs were costs incurred and capitalized by the Agency in the month preceding the opening of Office for People with Developmental Disabilities ("OPWDD") funded programs. The deferred program costs included the costs incurred and capitalized in establishing various State of New York Department of Health ("DOH"), funded apartments with offsetting advances received from DOH reported as deferred income.

During fiscal 2012, the Organization revised the useful life of these program costs from five years to two years. As a result, these costs became fully amortized during fiscal 2012.

9. Property and Equipment

Property and equipment consisted of the following as of June 30:

	2012	2011
Land, buildings and improvements	$ 26,576,920	$ 26,242,248
Furniture, fixtures and other	5,830,712	4,692,110
Leasehold improvements	1,897,618	1,401,908
Transportation vehicles	2,531,198	2,423,491
Assets held under capital leases	2,728,022	2,549,737
	39,564,470	37,309,494
Less accumulated depreciation	(20,413,949)	(18,419,100)
	19,150,521	18,890,394
Construction in progress	1,645,342	704,249
Net property and equipment	$ 20,795,863	$ 19,594,643

10. Revolving Promissory Notes

Revolving promissory notes consisted of the following as of June 30:

	2012	2011
People's United Bank WC revolving line of credit note - maximum of $3,500,000 with interest rate at prime but no less than 3.5%, secured by all assets of the Agency, maturing on November 30, 2012. The rate of interest at June 30, 2012 was 3.5%	$ 2,752,103	$ 3,248,749
People's United Bank Capex revolving line of credit note - maximum of $1,100,000 with interest rate at prime but no less than 3.5%, secured by all assets of the Agency, maturing on November 30, 2012. The rate of interest at June 30, 2012 was 3.5%.	1,100,000	697,295
Total revolving promissory notes	$ 3,852,103	$ 3,946,044

Payments on the above revolving promissory notes are due in fiscal 2013. Management anticipates the revolving promissory notes will be renewed or refinanced prior to expiration of the current terms.

11. Long-Term Debt

Capital Leases

The Agency is the lessee of residential properties under capital leases expiring in various years through 2034. These properties will be donated to the Agency by the lessor at the end of their respective lease terms or earlier. At June 30, 2011, the outstanding debt on certain residential properties was forgiven resulting in fundraising revenue totaling $1,700,916. Assets and liabilities under capital leases are recorded at the fair value of the asset at lease inception. The buildings are depreciated over 30-year lives and any improvements are depreciated over their respective lives ranging from 5 to 25 years.

The Agency is also the lessee of motor vehicles under capital leases expiring in fiscal year 2017. The assets and liabilities under the capital leases are recorded at the fair value of the respective assets. The vehicles are depreciated over the lower of their related lease terms or their estimated useful lives.

Depreciation of assets under the capital leases described above is included in depreciation expense for 2012 and 2011.

Interest rates on capitalized leases vary from 5.12% to 11.25% and are imputed based on the lessor's implicit rate of return.

Capital Leases (continued)

The following is a summary of all assets held under capital leases and the related liabilities at June 30, 2012:

	Residential Properties	Vehicles	Equipment	Total
2013	$ 127,302	$ 206,634	$ 59,315	$ 393,251
2014	127,302	191,171	43,351	361,824
2015	127,302	79,658	31,175	238,135
2016	127,302	39,923	-	167,225
2017	127,302	1,042	-	128,344
Subsequent to 2017	2,764,675	-	-	2,764,675
Total Minimum Future Lease Payments	3,401,185	518,428	133,841	4,053,454
Less amount representing interest	(1,872,412)	(48,735)	(11,466)	(1,932,613)
Net capital leases	$ 1,528,773	$ 469,693	$ 122,375	$ 2,120,841

11. Long-Term Debt *(continued)*

Notes Payable

Notes payable consisted of the following as of June 30:

	2012	2011
People's United Bank term loan note, payable in level principal payments of $29,483 per month with interest accruing on the unpaid balance at the prime rate but no less than 3.5%, secured by all assets of the Agency, maturing January 1, 2019. The rate of interest at June 30, 2012 was 3.5%.	$ 2,299,701	$ 2,653,501
Notes payable to GE Capital Finance for purchase of vehicles - monthly payment on these notes includes interest and principal from $357 to $1,252 and matures in May 2013.	176,103	353,472
Total notes payable	$ 2,475,804	$ 3,006,973

Mortgages Payable

Mortgages payable consisted of the following as of June 30:

Lender/Collateral/ Interest Rate/Maturity	2012	2011
Fairfield County Bank Corporation		
4 Berkshire Boulevard		
Fixed Rate - 5.375% Due 8/1/25	$ 1,491,835	$ 1,568,426
Adjustable - 4% until 10/1/2014 Due 10/1/2018	244,401	254,131
Wachovia / Wells Fargo Bank		
Secured by various properties.		
Interest varies from 3.53% to 9.00%,	-	618,652
U.S. Dept. of Housing and Urban Development		
Dodgintown, Maple & Farview		
9.25%, Due 6/20/22	397,209	423,263
Bank of America Mortgage Center		
Pleasant Rise Circle		
Variable - 3.375% @ 6/30/12 and 3.5% @ 6/30/11, Due 2/1/18	45,842	52,447

11. Long-Term Debt *(continued)*

Mortgages Payable (continued)

Lender/Collateral/ Interest Rate/Maturity	2012	2011
Peoples Bank		
Liberty Terrace		
Variable - 7.08% @ 6/30/12	$ 12,478	$ 23,896
Peoples Bank		
Secured by various properties.		
Variable - 3.98% @ 6/30/12		
Due 9/29/2016	1,476,617	-
Dormitory Authority of the State of New York		
Carmel		
Average rate per annum 5.98%. Due 8/15/11	-	6,260
Community Preservation Corp Mortgage		
Lewisboro, Carpenter Ave. Millington		
Fixed - 7.29%, Due 9/01/17	700,563	795,410
Buchannan		
Fixed - 7.22%, Due 3/1/21	582,555	628,673
Yonkers		
Fixed - 4.86%, Due 3/1/26	990,842	1,040,316
Hudson Valley Bank, N.A. Mortgages		
Brookside Ave. Yorktown Heights		
Fixed - 8.61%, Due 3/1/20	474,536	516,912
Total mortgages payable	$ 6,416,878	$ 5,928,386

The Agency is subject to certain covenants related to the debt as specified in the loan agreements, including a requirement that certain financial ratios be maintained. The Agency believes it is in compliance with such covenants.

A summary of long term debt is as follows as of June 30:

	2012	2011
Capital leases	$ 2,120,841	$ 2,200,718
Notes payable	2,475,804	3,006,973
Mortgages payable	6,416,878	5,928,386
Total long term debt	$ 11,013,523	$ 11,136,077

11. Long-Term Debt *(continued)*

Following are maturities of long-term debt for the next five years and beyond at June 30:

	Capital Leases Payable	Notes Payable	Mortgages Payable	Total
2013	$ 213,094	$ 529,899	$ 426,913	$ 1,169,906
2014	191,939	353,796	441,993	987,728
2015	82,696	353,796	466,464	902,956
2016	55,781	353,796	495,361	904,938
2017	26,607	353,796	1,799,748	2,180,151
Subsequent to 2017	1,550,724	530,721	2,786,399	4,867,844
Total	$ 2,120,841	$ 2,475,804	$ 6,416,878	$ 11,013,523

The above listed maturities assume that all mortgages maturing before the amortization term will be refinanced when due at terms comparable to present borrowing. Under the terms of a loan agreement with the consortium of banks, the Agency is required to satisfy certain measures of financial performance.

12. Deferred Income

DOH and OPWDD have provided certain funds for the start up operations, purchase of real property, and environmental modifications for long-term residential programs and clients. The balance of such funds related to DOH and OPWDD as of June 30, 2012 is $0.

The revenue is being organized over the term of assets life: 20 years for property purchase and environmental modifications, 10 years for property improvements and 5 years for development contracts.

The State of Connecticut Department of Development Services has provided revenue to cover the last month of service.

13. Endowment

The Agency maintains various donor-restricted and board-designated funds whose purpose is to provide long-term support for its charitable programs. Net assets associated with endowment funds, including funds designated by the Board of Trustees are classified and reported based upon the existence or absence of donor-imposed restrictions. In classifying such funds, the Board looked to the explicit directions of the donor where applicable and the provisions of the State of Connecticut.

13. Endowment *(continued)*

The Board of Directors and Trustees of the Agency has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act ("CUPMIFA") as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with CUPMIFA, the Agency considers the specified factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

Activity of funds held for endowment is as follows for the years ended June 30:

	Endowment Funds		
	Unrestricted Board Designated	Permanently Restricted	Total
Beginning balance			
July 1, 2010	$ 4,514,916	$ 414,382	$ 4,929,298
Contributions and designations	-	750	750
Investment income, net	651,729	49,675	701,404
Appropriations	-	-	-
Ending balance			
June 30, 2011	5,166,645	464,807	5,631,452
Contributions and designations	16,528	-	16,528
Investment income, net	122,410	11,012	133,422
Appropriations	-	-	-
Ending balance			
June 30, 2012	$ 5,305,583	$ 475,819	$ 5,781,402

Endowment funds have been pledged as collateral to secure the term loan payable to the bank (see Note 11).

Endowment assets consist of the following at June 30:

	2012	2011
Investments	$ 3,783,888	$ 4,931,924
Pledges receivable, net of discount	399,028	699,528
Due from operations	1,598,486	-
Total endowment	$ 5,781,402	$ 5,631,452

13. Endowment *(continued)*

Investment Return Objectives, Risk Parameters and Strategies: The Agency has adopted investment and spending policies, approved by the Board for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets. The Agency's investment goals are to meet payout requirements calculated in accordance with the established spending rule, to provide sufficient liquidity to meet distribution requirements and to achieve successful investment performance using "total return" as the accepted measurement. The Agency's investment strategy is to highly diversify its portfolio in order to minimize volatility and increase returns over time. The asset allocation seeks to balance the relative percentage invested in equity securities (25% to 65%), fixed income (35% to 75%), and money market instruments (0% to 25%).

Spending Policy: The Agency has a policy of approving for distribution each year 5% of its endowment fund's fair value using a 16 quarter trailing average for the period ending the prior December 31. The Agency expects the current spending policy to allow its endowment funds to grow at a nominal average rate equal to inflation. This is consistent with the Agency's objective of maintaining the purchasing power of the endowment assets as well as providing additional real growth through new gifts and investment return. The spending rule as established by the Board states that in no instance shall a distribution to the Agency for current operations cause an invasion of the Fund's original gift(s) value, adjusted for inflation. As of June 30, 2012 and 2011 the endowment fund balance was less than the original gift value, adjusted for inflation, by approximately $373,000 and $365,000. Accordingly, no distributions of endowment income were made during fiscal years 2012 or 2011.

During 2012, the Agency borrowed approximately $1,500,000 from the unrestricted Board designated portion of the endowment to fund current operations. As excess cash becomes available, the Agency is required to pay back the endowment in full plus interest, which accrues at an annual rate of 3.5%. At June 30, 2012 the total amount due to the endowment was $1,598,486. As of October 4, 2012 the anticipated date of repayment is not known.

14. Temporarily Restricted Net Assets

Temporarily restricted net assets, including unconditional promises to give, were available for the following purposes at June 30:

	2012	2011
Consumers needs	$ 22,587	$ 15,658
Roses for Autism Project	284,861	434,861
Comprehensive Campaign (pledges due in future periods)	2,088,484	1,455,150
Total temporarily restricted net assets	$ 2,395,932	$ 1,905,669

15. Lease Expense

The Agency and Affiliates lease commercial space, vehicles and office equipment under operating leases expiring in various years through 2017. Rent expense for June 30, 2012 and 2011 was $994,348 and $959,476.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2012 and for each of next five fiscal years are:

2013	$ 1,047,129
2014	748,885
2015	679,440
2016	190,500
2017	135,875
Total	$ 2,801,829

16. Contracted Future Services

In exchange for property valued at $157,000, the Agency has entered into a contract to provide future services, either directly or indirectly, to three individuals. Ability Beyond Disability, Inc. believes that the funding for these services will be provided by third-party sources and has recognized the full value of this contribution as revenue during the year ended June 30, 1999.

17. Sale of Datahr Home Health Care, Inc.

On October 1, 2002, Datahr Home Health Care, Inc. ("DHH") entered into an Asset Purchase Agreement, a Consulting Services Agreement and a Management Contract with Family Aides Certified Services of Nassau/Suffolk, Inc. ("Family Care"). The agreements provide for Family Care to start up the operations of DHH, and for the sale of the assets of DHH to Family Care upon approval by New York State, for a purchase price of $350,000. All obligations of the seller will be transferred to the buyer with the sale of the corporation. On March 5, 2003, the New York Department of Health approved the Management Agreement between the two parties. On January 2, 2008, a second amendment to the purchase agreement was executed. The Public Health Council issued a letter dated August 16, 2011 approving the transfer of ownership. Payment of the full sale price is recorded as deferred income as of June 30, 2012 and 2011.

18. Merger of Interlude, Inc.

On July 1, 2012 Interlude, Inc. ("Interlude"), a Connecticut based non-for-profit corporation exempt from Federal income tax pursuant to Internal Revenue Code Section 501(c)(3), merged into the Agency. Interlude is a community-based mental health agency that was established exclusively for charitable, educational, and scientific purposes, and to operate facilities, including transitional residential facilities and related programs for persons with mental disabilities who may have substance abuse disabilities.

18. Merger of Interlude, Inc. *(continued)*

Major classes of assets and liabilities of Interlude at July 1, 2012 are as follows (amounts are unaudited as of October 4, 2012):

ASSETS	
Cash and cash equivalents	$ 146,882
Pledges and other receivables, net	19,849
Prepaid expenses	1,035
Other assets	12,900
Investments	183,521
Property and equipment, net	776,083
	$ 1,140,270
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable and accrued expenses	$ 91,343
Other liabilities	35,134
Long term debt	522,037
Total Liabilities	648,514
Net Assets	
Unrestricted	491,756
Temporarily Restricted	-
Permanently Restricted	-
Total Net Assets	491,756
	$ 1,140,270

19. Contingencies

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Recently, government activity has increased with respect to investigations concerning possible violations by health care providers of fraud and abuse statutes and regulations. Compliance with such laws and regulations are subject to future government review and interpretations as well as potential regulatory actions. At this time the Agency is not aware nor have they been notified of any pending regulatory inquiries.

The Agency is undergoing a routine audit of Medicaid reimbursements by the New York State Office of Medicaid Inspector General ("OMIG") for the period beginning April 1, 2004 through December 31, 2007 and the State of Connecticut Department of Social Services. Neither entity has yet to issue a final report on this matter. Management does not believe that the ultimate outcome of the audit will have a material adverse effect on the Agency's financial position, results of operations or liquidity.

Ability Beyond Disability, Inc. and Affiliates

Consolidated Financial Statements

June 30, 2011

O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

Independent Auditors' Report

To the Boards of Directors
Ability Beyond Disability, Inc.

We have audited the accompanying consolidated statement of financial position of Ability Beyond Disability, Inc. (the "Agency") and its' Affiliates as of June 30, 2011, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Agency for the year ended June 30, 2010 were audited by other auditors whose report dated September 21, 2010 expressed an unqualified opinion on those financial statements before the restatement. The comparative totals as of and for the year ended June 30, 2010 included in this report have been derived from those statements.

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

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

We also audited the adjustment described in Note 3 that was applied to restate the 2010 financial statements. In our opinion, such adjustment is appropriate and has been properly applied.

O'Connor Davies Munns & Dobbins, LLP

Stamford, Connecticut
October 6, 2011

One Stamford Landing, Stamford, Connecticut 06902 203.323.2400 tel 203.967.8733 fax www.odmd.com

Ability Beyond Disability, Inc.
and Affiliates

Consolidated Statement of Financial Position

Year Ended June 30, 2011
(With comparative totals for 2010)

	2011	2010
ASSETS		
Cash and cash equivalents	$ 229,240	$ 147,812
Accounts receivable, net	6,499,148	6,878,041
Pledges and other receivables, net	2,406,452	992,173
Prepaid expenses	567,149	672,228
Other assets	1,012,289	912,768
Endowment funds	5,631,452	4,929,298
Property and equipment, net	19,594,643	19,394,819
	$ 35,940,373	$ 33,927,139
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 1,100,083	$ 624,546
Accrued expenses	3,004,318	3,649,826
Other liabilities	518,887	252,901
Revolving promissory notes	3,946,044	2,896,000
Long term debt	11,136,077	13,794,584
Deferred income	924,157	1,074,114
Total Liabilities	20,629,566	22,291,971
Net Assets		
Unrestricted		
Undesignated	7,763,666	6,308,852
Endowment fund - Board designated	5,166,645	4,514,916
Total Unrestricted	12,930,311	10,823,768
Temporarily Restricted	1,915,689	397,018
Permanently Restricted	464,807	414,382
Total Net Assets	15,310,807	11,635,168
	$ 35,940,373	$ 33,927,139

See notes to consolidated financial statements

Ability Beyond Disability, Inc.
and Affiliates

Consolidated Statement of Activities

Year Ended June 30, 2011
(With summarized totals for 2010)

	2011				2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUES					
Contracts/Fees for services	$ 49,956,931	$ -	$ -	$ 49,956,931	$ 49,005,645
Sales revenue from client based programs	864,541	-	-	864,541	644,003
Fund raising revenue	3,340,769	1,912,286	750	5,253,805	1,792,889
Other income	197,656	-	-	197,656	60,414
Net assets released from restrictions	403,635	(403,635)	-	-	-
Revenues	54,763,532	1,508,651	750	56,272,933	51,502,951
EXPENSES					
Program Services					
Residential Continuum of Care	35,024,147	-	-	35,024,147	33,581,195
Independent Living Support Network	11,527,988	-	-	11,527,988	11,700,261
Total Program Services	46,552,135	-	-	46,552,135	45,281,456
Supporting Services					
Management and General	5,534,455	-	-	5,534,455	5,117,746
Fundraising	1,212,108	-	-	1,212,108	1,206,856
Total Supporting Services	6,746,563	-	-	6,746,563	6,324,602
Total Expenses	53,298,698	-	-	53,298,698	51,606,058
Excess (Deficit) of Revenue over Expenses from Operations	1,464,834	1,508,651	750	2,974,235	(103,107)
OTHER ACTIVITIES					
Investment income	641,709	10,020	49,675	701,404	338,366
Change in Net Assets	2,106,543	1,518,671	50,425	3,675,639	235,259
NET ASSETS					
Beginning of year, as restated	10,823,768	397,018	414,382	11,635,168	11,399,909
End of year	$ 12,930,311	$ 1,915,689	$ 464,807	$ 15,310,807	$ 11,635,168

See notes to consolidated financial statements

Ability Beyond Disability, Inc.
and Affiliates

Consolidated Statement of Functional Expenses

Year Ended June 30, 2011
(With summarized totals for 2010)

	Program Services						
	Residential Continuum of Care	Independent Living Support	Total Program Services	Management and General	Fundraising	2011 Total Expenses	2010 Total Expenses
PERSONNEL COSTS							
Salaries	$ 21,683,568	$ 6,569,468	$ 28,253,036	$ 2,834,847	$ 443,643	$ 31,531,526	$ 30,987,783
Taxes and benefits	5,936,406	1,680,223	7,616,629	787,950	124,366	8,528,945	8,109,690
Total Personnel Costs	27,619,974	8,249,691	35,869,665	3,622,797	568,009	40,060,471	39,097,473
OTHER EXPENSES							
Facilities and equipment expenses	2,885,599	1,752,048	4,637,647	365,636	24,399	5,027,682	4,538,808
Program supplies and related expenses	2,661,597	942,927	3,604,524	298,151	3,970	3,906,645	3,819,801
Other expenses	207,859	289,249	497,108	576,812	408,637	1,482,557	1,223,010
Special events	-	-	-	-	186,712	186,712	159,486
Interest expense	649,739	62,845	712,584	278,868	5,910	997,362	979,595
Total Other Expenses	6,404,794	3,047,069	9,451,863	1,519,467	629,628	11,600,958	10,720,700
Total Expenses before Depreciation	34,024,768	11,296,760	45,321,528	5,142,264	1,197,637	51,661,429	49,818,173
Depreciation and amortization	999,379	231,228	1,230,607	392,191	14,471	1,637,269	1,787,885
Total Functional Expense	$ 35,024,147	$ 11,527,988	$ 46,552,135	$ 5,534,455	$ 1,212,108	$ 53,298,698	$ 51,606,058

See notes to consolidated financial statements

Ability Beyond Disability, Inc.
and Affiliates

Consolidated Statements of Cash Flows

Year Ended June 30, 2011
(With comparative totals for 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,675,637	$ 235,259
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	1,637,269	1,787,885
Unrealized and realized gains, net	(587,296)	(257,694)
Donation of property through lease forgiveness	(1,700,916)	(411,128)
Provision for uncollectible accounts	92,444	190,213
Change in operating assets and liabilities		
Accounts receivable	286,449	(1,547,251)
Pledges and other receivables	(1,370,343)	199,779
Prepaid expenses	105,079	(81,007)
Other assets	(99,521)	(127,910)
Accounts payable and accrued expenses	(169,969)	1,179,506
Other liabilities	265,986	64,352
Deferred income	(149,957)	(58,811)
Net Cash from Operating Activities	1,984,862	1,173,193
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(4,849,827)	(1,913,860)
Sale of investments	4,691,033	1,791,638
Purchase of property and equipment	(1,837,093)	(2,001,422)
Net Cash from Investing Activities	(1,995,887)	(2,123,644)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from revolving promissory notes	3,527,695	2,896,000
Payments on revolving promissory notes	(2,477,651)	(1,605,363)
Proceeds from long term debt	1,511,213	1,145,240
Payments on long term debt	(2,468,804)	(1,505,080)
Net Cash from Financing Activities	92,453	930,797
Net Change in Cash and Cash Equivalents	81,428	(19,654)
CASH AND CASH EQUIVALENTS		
Beginning of year	147,812	167,466
End of year	$ 229,240	$ 147,812
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 997,362	$ 979,595

See notes to consolidated financial statements

Ability Beyond Disability, Inc.
and Affiliates

Notes to Consolidated Financial Statements

1. Organization

Ability Beyond Disability, Inc. (the "Agency") is a not-for-profit organization that provides comprehensive rehabilitation services to individuals whose independent living skills are impaired by disability, illness or injury. The Agency's mission calls for the delivery of such services so that individuals may achieve and maintain self-reliance, fulfillment and comfort at home, at work and in the community.

Ability Beyond Disability, Inc. is related through common control to three other not-for-profit organizations, Ability Beyond Disability – a New York Corporation,. Datahr Home Health Care, Inc., and Growing Possibilities, Inc.

Ability Beyond Disability, Inc. and Affiliates are exempt from income taxes as defined in Internal Revenue Code Section 501(c)(3) and, accordingly, the consolidated financial statements do not reflect a provision for income taxes.

Revenues earned from various departments of the States of Connecticut and New York were approximately 92% and 93% of total contracts and fees for services in 2011 and 2010 respectively.

2. Summary of Significant Accounting Policies

Principles of Consolidation

Accounting principles require consolidation for a fair presentation when one entity in a group has a controlling financial interest in the other entities. Accordingly, the accompanying consolidated financial statements include the Agency and its' Affiliates. All material inter-organizational balances and transactions have been eliminated in consolidation.

Use of Estimates

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

2. Summary of Significant Accounting Policies

Basis of Presentation

Net assets are classified as unrestricted, temporarily restricted or permanently restricted based upon the existence or absence of donor-imposed restrictions limiting the use of the contributed assets as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that either expire by the passage of time or can be fulfilled or otherwise removed by actions of the Agency.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Agency.

Endowments

The Agency follows accounting guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). UPMIFA requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

Cash and Cash Equivalents

The Agency considers all highly liquid debt instruments with a maturity of three months or less at the time of purchase that are utilized for operations to be cash equivalents.

Contributions

Contributions are recognized when the donor makes an unconditional promise to give to the Agency. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

2. Summary of Significant Accounting Policies (*continued*)

Contributions (continued)

The Agency uses the allowance method to determine uncollectible promises to give which is based on prior years' experience and management's analysis of specific receivables.

In determining the amount of revenue to be recognized for promises to give, the current portion is recorded at realizable value while the non-current portion is recorded at its net present value using a risk-adjusted interest rate. The discount is amortized to contribution revenue over the collection period.

Contributed Meals, Goods and Property

For the years ended June 30, 2011 and 2010, donated meals, goods and property were valued at $84,662 and $53,467 in the accompanying financial statements. In addition, a substantial number of volunteers have contributed their time to the Agency's programs and supporting services; however, none of these services meet the requirements for financial statement recognition.

Fair Value of Financial Instruments

The Agency follows accounting guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist. At June 30, 2011 and 2010, no assets were measured using Level 3 inputs (see Note 7 for details of investments).

Investments Valuation

Investments are stated at fair value in the statement of financial position. Unrealized gains or losses are included in the change of net assets in the statement of activities.

2. Summary of Significant Accounting Policies *(continued)*

Property and Equipment

Property and equipment are recorded at cost or in the case of donated assets at estimated fair value at date of gift, less accumulated depreciation. Buildings, improvements, furniture, fixtures, equipment and vehicles are being depreciated using the straight-line method over the estimated useful lives of the assets which range from 3 to 30 years. The title to certain equipment purchased with government grant funds is held by the grantor. Pursuant to prevailing accounting principles, the Agency has capitalized and depreciated such equipment in its financial statements over the life of their estimated life or the program period.

Impairment or Disposal of Long-lived Assets

Accounting guidance requires long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Recoverability of the long-lived assets is measured by a comparison of their carrying amount to market value or future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, their carrying amounts are reduced.

Deferred Income

Deferred income consists of government grants, for specified purposes, which the Agency has not received or expended as well as income received from others in advance of being earned.

Revenue Recognition

Net service revenue is reported at the estimated net realizable amounts from consumers, third-party payors and others for services rendered. Revenue under third-party payor agreements is subject to governmental review and may require retroactive settlements based on the reporting of actual annual costs and other regulatory processes. Estimates of these adjustments are recorded on a current basis. To the extent that the subsequent actual adjustment is more or less than the estimate, such amounts are reflected in the operating results for the period in which the final adjustment becomes known.

Functional Expenses

The Agency allocates its expenses on a functional basis among its program and support services. Expenses that can be specifically identified with a program or support service are allocated directly. Other expenses that are common to several functions are allocated based on estimates made by management.

2. Summary of Significant Accounting Policies (*continued*)

Accounting for Uncertainty in Income Taxes

Management recognizes the effects of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Agency had no uncertain tax positions that would require financial statement recognition. The Agency is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2007.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/ or recognition in the financial statements through the date that the financial statements were available to be issued, which is October 6, 2011.

Reclassification

Certain June 30, 2010 amounts have been reclassified for comparative purposes to conform to the presentation in the June 30 2011 consolidated financial statements.

3. Restatement

The June 30 2010 net asset balances have been restated for the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at June 30, 2010 as previously reported	$ 6,308,852	$ 397,018	$ 4,929,298	$ 11,635,168
Reclass net assets per donor intent	4,514,916	-	(4,514,916)	-
Net assets at June 30, 2010 as restated	$ 10,823,768	$ 397,018	$ 414,382	$ 11,635,168

The restatement represents the reclassification of the Endowment Campaigns for the Support of the Agency as a whole from permanently restricted to unrestricted. The balance is reflected as Board designated in the Statement of Financial Position.

4. Concentration of Credit Risk

Financial instruments that potentially subject the Agency to significant concentrations of credit risk consist principally of cash and investments. At times, cash balances may be in excess of balances insured by the Federal Deposit Insurance Corporation. The Agency has not experienced any losses in such accounts and management believes the Agency is not exposed to any significant credit risk.

A significant portion of the Agency's support and revenue is from government fees, contracts and grants in fiscal 2011. As with all government funding, grants and fees may be subject to reduction or termination in future years. Any significant reduction in these grants and fees could have a negative impact on the Agency's program services. Based upon the nature of these grants, management believes the Agency is not exposed to any significant credit risk.

5. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2011:

	2011			2010
	Accounts Receivable	Allowance for Doubtful Accounts	Accounts Receivable Net	Accounts Receivable Net
Ability Beyond Disability, Inc.	$ 4,915,555	$ (1,957,244)	$ 2,958,311	$ 2,920,221
Ability Beyond Disability - a New York Corp.	4,081,513	(584,544)	3,496,969	3,920,425
Growing Possibilities, Inc.	13,718	-	13,718	7,245
Datahr Home Health Care, Inc.	30,150	-	30,150	30,150
Total Accounts Receivable, Net	$ 9,040,936	$ (2,541,788)	$ 6,499,148	$ 6,878,041

The total accounts receivable consists of amounts due from various third-party payers including Medicare, Medicaid, certain state agencies, insurance companies, and from individuals and corporations. Specific accounts determined to be uncollectible are written off in the period that such a determination is made. An allowance for doubtful accounts is determined based on management's review of all remaining accounts receivable.

As of June 20, 2011, accounts receivable of Ability Beyond Disability. Inc. and Ability Beyond Disability – A New York Corporation was used as collateral to secure the revolving promissory note with a bank.

6. Pledges and Other Receivables

Donors to the Agency have made written unconditional promises to give. The pledges are collectible over a period of time and donors may make payments at any time during such periods. Pledges receivable and other receivables are summarized as follows at June 30:

	2011	2010
Pledges receivable due in less than one year	$ 615,996	$ 497,431
Pledges receivable due in one to five years	1,382,000	-
Pledges receivable due in more than five years	70,000	-
Less unamortized discount on pledges receivables	(185,988)	(4,177)
Pledges Receivable, net of discount	1,882,008	493,254
Annuity receivables, net of present value adjustments of $45,556 and $71,081	524,444	498,919
	$ 2,406,452	$ 992,173

Pledges receivable that are expected to be received in more than one year are discounted at rates approximating 3.5%, based on the date the donor commitment was made. No allowance for doubtful accounts has been provided as management has deemed all receivables collectible.

7. Endowment Funds

The Agency maintains various donor-restricted and board-designated funds whose purpose is to provide long-term support for its charitable programs. Net assets associated with endowment funds, including funds designated by the Board of Trustees are classified and reported based upon the existence or absence of donor-imposed restrictions. In classifying such funds the Board looked to the explicit directions of the donor where applicable and the provisions of the State of Connecticut.

The Board of Directors and Trustees of the Agency has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act ("CUPMIFA") as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with CUPMIFA, the Agency considers the specified factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

7. Endowment Funds *(continued)*

Endowment fund assets consisted of the following at June 30:

	2011	2010
Investments	$ 4,879,645	$ 4,133,555
Pledges receivable	699,528	743,464
Cash surrender value of life insurance policies	52,279	52,279
	$ 5,631,452	$ 4,929,298

Investments categorized by the fair value hierarchy consisted of the following at June 30:

	2011	2010
Level 1 Inputs		
Equity securities		
Energy	$ 197,933	$ -
Financials	161,669	-
Health care	168,399	-
Information technology	250,273	-
Other	359,679	-
Mutual Funds		
Large cap value	659,523	688,960
Growth	527,200	747,590
Blend	220,097	284,903
Other	348,368	340,132
Fixed income	571,370	1,935,050
Money market funds	141,653	136,920
Total Level 1 Inputs	3,606,164	4,133,555
Level 2 Inputs		
U.S. Government obligations	648,044	-
Corporate bonds and notes	576,048	-
Total Level 2 Inputs	1,224,092	-
Certificates of deposit	49,389	-
Total Investments	$ 4,879,645	$ 4,133,555

Ability Beyond Disability, Inc.
and Affiliates

Notes to Consolidated Financial Statements

7. Endowment Funds *(continued)*

Endowment fund pledges receivable consisted of the following at June 30, 2011:

	2011	2010
Pledges receivable due in less than one year	$ 687,000	$ 201,619
Pledges receivable due in one to five years	387,000	916.317
Less unamortized discount on pledges receivables	(374,472)	(374,472)
Pledges Receivable, net of discount	$ 699,528	$ 743,464

Pledges receivable that are expected to be received in more than one year are discounted at rates approximating 3.5%, based on the date the donor commitment was made. Since the pledges receivable shown above are from companies and individuals who have long supported the Agency, it is management opinion that no allowance for uncollectible pledges is required.

Activity of funds held for endowment is as follows for the years ended June 30:

	Endowment Funds			
	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Beginning balance July 1, 2009	$ 4,146,603	$ -	$ 385,595	$ 4,532.198
Contributions and designations	58,733	-	-	58,733
Investment income, net	309,580	-	28,787	338,367
Appropriations	-	-	-	-
Ending balance June 30, 2010	4,514.916	-	414,382	4.929.298
Contributions and designations	-	-	750	750
Investment income, net	641,709	10,020	49,675	701,404
Appropriations	-	-	-	-
Ending balance June 30, 2011	$ 5,156,625	$ 10,020	$ 464,807	$ 5,631.452

Endowment funds have been pledged as collateral to secure the term loan payable to the bank (see Note 11).

7. Endowment Funds *(continued)*

Investment Return Objectives, Risk Parameters and Strategies: The Agency has adopted investment and spending policies, approved by the Board for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets. The Agency's investment goals are to meet payout requirements calculated in accordance with the established spending rule, to provide sufficient liquidity to meet distribution requirements and to achieve successful investment performance using "total return" as the accepted measurement. The Agency's investment strategy is to highly diversify its portfolio in order to minimize volatility and increase returns over time. The asset allocation seeks to balance the relative percentage invested in equity securities (25% to 65%), fixed income (35% to 75%), and money market instruments (0% to 25%).

Spending Policy: The Agency has a policy of approving for distribution each year 5% of its endowment fund's fair value using a 16 quarter trailing average for the period ending the prior December 31. The Agency expects the current spending policy to allow its endowment funds to grow at a nominal average rate equal to inflation. This is consistent with the Agency's objective of maintaining the purchasing power of the endowment assets as well as providing additional real growth through new gifts and investment return. The spending rule as established by the Board states that in no instance shall a distribution to the Agency for current operations cause an invasion of the Fund's original gift(s) value, adjusted for inflation.

8. Other Assets

Other assets consisted of the following as of June 30:

	2011	2010
Security deposits	$ 101,530	$ 150,693
Deferred program costs, net of accumulated amortization of $94,580 and $156,465	332,488	399,175
Deferred financing cost	268,819	272,775
Other assets	309,452	90,125
	$ 1,012,289	$ 912,768

Deferred program costs are costs incurred and capitalized by the Agency in the month preceding the opening of Office for People with Developmental Disabilities ("OPWDD") funded programs. The deferred program costs are amortized over a period of five years and include the costs incurred and capitalized in establishing various State of New York Department of Health ("DOH"), funded apartments with offsetting advances received from DOH reported as deferred income.

9. Property and Equipment

Property and equipment consisted of the following as of June 30:

	2011	2010
Land, buildings and improvements	$ 26,242,248	$ 17,154,096
Furniture, fixtures and other	4,692,110	4,405,854
Leasehold improvements	1,401,908	1,428,453
Transportation vehicles	2,423,491	2,821,723
Assets held under capital leases	2,549,737	10,607,146
	37,309,494	36,417,272
Less accumulated depreciation	(18,419,100)	(17,130,470)
	18,890,394	19,286,802
Construction in progress	704,249	108,017
	$ 19,594,643	$ 19,394,819

10. Revolving Promissory Note

Revolving promissory notes consisted of the following as of June 30:

	2011	2010
People's United Bank WC revolving line of credit note - maximum of $3,500,000 with interest rate at prime but no less than 3.5%, secured by all assets of the Agency, maturing on November 30, 2012. The rate of interest at June 30, 2011 was 3.5%	$ 3,248,749	$ -
People's United Bank Capex revolving line of credit note - maximum of $1,100,000 with interest rate at prime but no less than 3.5%, secured by all assets of the Agency, maturing on November 30, 2012. The rate of interest at June 30, 2011 was 3.5%.	697,295	-

10. Revolving Promissory Note *(continued)*

	2011	2010
Wachovia Bank, National Association revolving promisory note - maximum of \$3,000,000 with interest at a variable rate, secured by accounts receivable of the Agency and Ability Beyond Disability - A New York Corporation, maturing February 1, 2011. The rate of interest at June 30, 2010 was 3.3088%	-	2,896,000
	\$ 3,946,044	\$ 2,896,000

Future minimum payments on revolving promissory notes are due in fiscal 2013.

11. Long-Term Debt

Capital Leases

The Agency is the lessee of residential properties under capital leases expiring in various years through 2034. These properties will be donated to the Agency by the lessor at the end of their respective lease terms or earlier. In June 30, 2011 and 2010, the outstanding debt on certain residential properties was forgiven resulting in fundraising revenue totaling \$1,700,916 and \$411,128. Assets and liabilities under capital leases are recorded at the fair value of the asset at lease inception. The buildings are depreciated over 30-year lives and any improvements are depreciated over their respective lives ranging from 5 to 25 years.

The Agency is also the lessee of motor vehicles under capital leases expiring in fiscal year 2014. The assets and liabilities under the capital leases are recorded at the fair value of the respective assets. The vehicles are depreciated over the lower of their related lease terms or their estimated useful lives.

Depreciation of assets under the capital leases described above is included in depreciation expense for 2011 and 2010.

Interest rates on capitalized leases vary from 7.4% to 13.25% and are imputed based on the lessor's implicit rate of return.

11. Long-Term Debt *(continued)*

Capital Leases (continued)

The following is a summary of all assets held under capital leases and the related liabilities at June 30, 2011:

	Residential Properties	Vehicles	Equipment	Total
2012	$ 127,301	$ 186.084	$ 68,972	$ 382,357
2013	127.301	183,861	60,216	371.378
2014	127,301	126,371	44,221	297,893
2015	127.301	14,127	34,175	175,603
2016	127.301	-	-	127.301
Subsequent to 2016	2,745,187	-	-	2,745,187
Total Minimum Future Lease Payments	3,381,692	510,443	207,584	4,099,719
Less amount representing interest	(1,821,656)	(48,683)	(28,662)	(1,899,001)
Net Capital Leases	$ 1,560,036	$ 461,760	$ 178,922	$ 2,200,718

Notes Payable

Notes payable consisted of the following as of June 30:

	2011	2010
People's United Bank term loan note, payable in level principal payments of $29,483 per month with interest accruing on the unpaid balance at the prime rate but no less than 3.5%, secured by all assets of the Agency, maturing January 1, 2019. The rate of interest at June 30, 2011 was 3.5%.	$ 2,653,501	$ -

11. Long-Term Debt *(continued)*

Notes Payable (continued)

	2011	2010
Wachovia Bank, National Association term loan, payable in level principle payments of $29,167 per month with interest accruing on the unpaid balance at a variable rate. Secured by Endowment Fund assets, maturing January 15, 2014. The rate of interest at June 30, 2010 was 2.35%.	-	3,004,161
Notes payable to GE Capital Finance for purchase of vehicles - monthly payment on these notes includes interest and principal from $357 to $1,252 and matures in May 2013.	353,472	584,121
	$ 3,006,973	$ 3,588,282

Mortgages Payable

Mortgages payable consisted of the following as of June 30:

Lender/Collateral/ Interest Rate/Maturity	2011	2010
Fairfield County Bank Corporation		
4 Berkshire Boulevard		
Fixed Rate - 5.375% Due 8/1/25	$ 1,568,426	$ 1,640,810
Adjustable - 6.875% until 10/1/2011 Due 10/1/2018	254,131	261,167
Wachovia / Wells Fargo Bank		
Secured by various properties. Interest varies from 3.53% to 9.00%, due various dates through 2012.	618,652	1,071,683
Bridge Loan, North Broadway, Yonkers Variable - LIBOR Market Index plus 3.0% Due 6/30/11	-	590,000

Ability Beyond Disability, Inc.
and Affiliates

Notes to Consolidated Financial Statements

11. Long-Term Debt *(continued)*

Mortgages Payable (continued)

Lender/Collateral/ Interest Rate/Maturity	2011	2010
U.S. Dept. of Housing and Urban Development		
Dodgintown, Maple & Farview		
9.25%, Due 6/20/22	423,263	447,087
Bank of America Mortgage Center		
Pleasant Rise Circle		
Variable - 3.5% @ 6/30/11 and		
3.625% @ 6/30/10, Due 2/1/18	52,447	60,126
Peoples Bank		
Liberty Terrace		
Variable - 7.08% @ 6/30/11	23,896	33,482
Dormitory Authority of the State of New York		
Carmel		
Average rate per annum 5.98%, Due 8/15/11	6,260	52,998
Community Preservation Corp Mortgage		
Lewisboro, Carpenter Ave. Millington		
Fixed - 7.29%, Due 9/01/17	795,410	874,678
Buchannan		
Fixed - 7.22%, Due 3/1/21	628,673	671,631
Yonkers		
Fixed - 4.86%, Due 3/1/26	1,040,316	-
Hudson Valley Bank, N.A. Mortgages		
Brookside Ave. Yortown Heights		
Fixed - 8.61%, Due 3/1/20	516,912	555,856
Total Mortgages Payable	$ 5,928,386	$ 6,259,518

11. Long-Term Debt *(continued)*

The Agency is subject to certain covenants related to the debt as specified in the loan agreements, including a requirement that certain financial ratios be maintained. The Agency believes it is in compliance with such covenants.

A summary of long term debt is as follows as of June 30:

	2011	2010
Capital leases	$ 2,200,718	$ 3,946,784
Notes payable	3,006,973	3,588,282
Mortgages payable	5,928,386	6,259,518
	$ 11,136,077	$ 13,794,584

Following are maturities of long-term debt for the next five years and beyond at June 30:

	Capital Leases Payable	Notes Payable	Mortgages Payable	Total
2012	$ 231,763	$ 563,236	$ 383,534	$ 1,178,533
2013	241,053	478,644	714,895	1,434,592
2014	181,476	372,980	418,291	972,747
2015	69,853	353,796	446,267	869,916
2016	24,800	353,796	471,524	850,120
Subsequent to 2016	1,451,773	884,521	3,493,875	5,830,169
Total	$ 2,200,718	$ 3,006,973	$ 5,928,386	$ 11,136,077

The above listed maturities assume that all mortgages maturing before the amortization term will be refinanced when due at terms comparable to present borrowing. Under the terms of a loan agreement with the consortium of banks, the Agency is required to satisfy certain measures of financial performance.

12. Deferred Income

DOH and OPWDD have provided certain funds for the start up operations, purchase of real property, and environmental modifications for long-term residential programs and clients.

The revenue is being organized over the term of assets life: 20 years for property purchase and environmental modifications, 10 years for property improvements and 5 years for development contracts.

The State of Connecticut Department of Development Services ("DSS") has provided revenue to cover the last month of service.

13. Temporarily Restricted Net Assets

Temporarily restricted net assets, including unconditional promises to give, were available for the following purposes at June 30:

	2011	2010
Consumers needs	$ 15,658	$ 12,815
Roses for Autism Project	434,861	-
Endowment	10,020	-
Comprehensive Campaign (pledges due in future periods)	1,455,150	384,203
	$ 1,915,689	$ 397,018

14. Investment Income

Investment income for the years ended June 30 consisted of the following:

	2011	2010
Interest and dividend income	$ 141,352	$ 107,570
Realized gains on investments	158,473	74,110
Unrealized gains on investments	428,823	183,584
Less: investment fees	(27,244)	(26,898)
	$ 701,404	$ 338,366

15. Lease Expense

The Agency and Affiliates lease commercial space, vehicles and office equipment under operating leases expiring in various years through 2013. Rent expense for June 30, 2011 and 2010 was $959,476 and $1,157,056.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2011 and for each of the remaining years are:

2012	$ 297,966
2013	216,610
Total	$ 514,576

16. Contracted Future Services

In exchange for property valued at $157,000, the Agency has entered into a contract to provide future services, either directly or indirectly, to three individuals. Ability Beyond Disability, Inc. believes that the funding for these services will be provided by third-party sources and has recognized the full value of this contribution as revenue during the year ended June 30, 1999.

17. Sale of Datahr Home Health Care, Inc.

On October 1, 2002, Datahr Home Health Care, Inc. ("DHH") entered into an Asset Purchase Agreement, a Consulting Services Agreement and a Management Contract with Family Aides Certified Services of Nassau/Suffolk, Inc. ("Family Care"). The agreements provide for Family Care to start up the operations of DHH, and for the sale of the assets of DHH to Family Care upon approval by New York State, for a purchase price of $350,000. All obligations of the seller will be transferred to the buyer with the sale of the corporation. On March 5, 2003, the New York Department of Health approved the Management Agreement between the two parties. On January 2, 2008, a second amendment to the purchase agreement was executed. The Public Health Council issued a letter dated August 16, 2011 approving the transfer of ownership. Payment of the full sale price is recorded as deferred income as of June 30, 2011 and 2010.

18. Contingencies

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Recently, government activity has increased with respect to investigations concerning possible violations by health care providers of fraud and abuse statutes and regulations. Compliance with such laws and regulations are subject to future government review and interpretations as well as potential regulatory actions. At this time the Agency is not aware nor have they been notified of any pending regulatory inquiries.

The Agency is undergoing a routine audit of Medicaid reimbursements by the New York State Office of Medicaid Inspector General ("OMIG") for the period beginning April 1, 2004 through December 31, 2007. OMIG has not yet issued a final report on this matter. Management does not believe that the ultimate outcome of the audit will have a material adverse effect on the Agency's financial position, results of operations or liquidity.

APPENDIX B-II

FAMILY RESIDENCES AND ESSENTIAL ENTERPRISES, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2012, DECEMBER 31, 2011 AND DECEMBER 31, 2010)

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HOLTZ
RUBENSTEIN
REMINICK

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

REPORT ON AUDITS OF CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Years Ended December 31, 2012 and 2011

HOLTZ
RUBENSTEIN
REMINICK

Consolidated Financial Statements

HOLTZ
RUBENSTEIN
REMINICK
CERTIFIED PUBLIC ACCOUNTANTS.

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Independent Auditors' Report

Board of Directors
Family Residences & Essential
  Enterprises, Inc. and Subsidiaries
Old Bethpage, New York

We have audited the accompanying consolidated financial statements of Family Residences & Essential Enterprises, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities and change in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Family Residences & Essential Enterprises, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the change in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

HOLTZ
RUBENSTEIN
REMINICK

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 16 to 18 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Holtz Rubenstein Reminick LLP

Melville, New York
May 31, 2013

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Position

December 31,	2012	2011
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,693,819	$ 797,915
Accounts receivable, net of allowance for doubtful accounts of approximately $1,600,000 and $2,800,000, respectively	17,245,496	21,769,020
Related party receivables	896,488	894,060
Deposits and prepaid expenses	735,352	658,066
Investments	67,072	37,360
Total Current Assets	21,638,227	24,156,421
Property, Plant and Equipment, net	32,593,651	33,736,986
Construction in Progress	1,593,391	133,411
Other Assets, net	3,309,103	2,651,930
Other Investments	419,138	363,280
Assets with Limited Use:		
Funded depreciation cash	238,031	211,529
Restricted investments	3,002,596	4,103,694
Accrued Receivable - Unfunded Bond Principal	448,519	638,904
Total Plant and Other Long-Term Assets	41,604,429	41,839,734
Total Assets	$ 63,242,656	$ 65,996,155
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	$ 1,975,343	$ 2,097,441
Accrued expenses	8,643,574	9,395,003
Lines of credit	4,200,000	4,963,000
Due to New York State	831,262	831,262
Current maturities of long-term debt	4,020,972	2,441,308
Deferred revenue and recoveries	1,726,674	1,768,192
Total Current Liabilities	21,397,825	21,496,206
Long-Term Liabilities:		
Long-term debt, net of current maturities	26,503,370	26,828,375
Deferred revenue and recoveries	4,951,129	7,804,756
Other liabilities	1,593,423	1,423,030
Advanced funding - OMH	1,066,673	1,036,010
Interest rate swap agreement	425,487	-
Total Long-Term Liabilities	34,540,082	37,092,171
Total Liabilities	55,937,907	58,588,377
Commitments and Contingencies		
Net Assets - Unrestricted	7,304,749	7,407,778
Total Liabilities and Net Assets	$ 63,242,656	$ 65,996,155

See notes to consolidated financial statements.

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidated Statements of Activities and Changes in Net Assets

Years Ended December 31,	2012	2011
Unrestricted Revenues, Gains and Other Support:		
OMH residential	$ 7,591,051	$ 7,596,423
OPWDD residential	44,945,436	44,231,679
Day program operations	22,358,589	22,167,112
Clinic program	4,112,312	4,165,579
HHAP/HUD programs	122,828	162,870
Charter school revenue	3,342,938	2,891,499
Preschool revenue	1,445,615	1,429,279
CDCH Foundation	152,140	124,046
Other program revenue	706,914	625,688
Investment income	13,234	49,735
Other miscellaneous income	6,113	2,170
Contributions	103,254	107,067
Unrealized and realized gain (loss) in fair market value of investments	35,782	(3,456)
Total Unrestricted Revenues, Gains and Other Support	84,936,206	83,549,691
Expenses:		
OMH residential	6,687,024	6,558,567
OPWDD residential	40,393,116	40,096,930
Day program operations	18,453,672	18,202,351
Clinic program	4,132,307	4,568,161
HHAP/HUD programs	307,003	287,607
Charter School	2,658,617	2,307,762
Preschool	1,187,411	893,895
CDCH Foundation	143,858	142,187
Other program expenses	897,182	750,348
Total Program Expenses	74,860,190	73,807,808
Support Services and Administration	9,372,165	9,173,309
Total Expenses	84,232,355	82,981,117
Changes in Net Assets before Amortization Expense Due to Extinguishment of Debt and Unrealized Loss on Interest Rate Swap	703,851	568,574
Amortization Expense Due to Extinguishment of Debt	(381,393)	-
Unrealized Loss on Interest Rate Swap	(425,487)	-
Changes in Net Assets after Amortization Expense Due to Extinguishment of Debt and Unrealized Loss on Interest Rate Swap	(103,029)	568,574
Net Assets, beginning of year	7,407,778	5,845,726
Transfer In of Unrestricted Net Assets - Foundation	-	993,478
Net Assets, end of year	$ 7,304,749	$ 7,407,778

See notes to consolidated financial statements.

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31,	2012	2011
Cash Flows from Operating Activities:		
(Decrease) increase in unrestricted net assets	$ **(103,029)**	$ 568,574
Adjustments to reconcile (decrease) increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	**4,015,584**	3,299,950
(Decrease) increase in allowance for doubtful accounts	**(1,293,148)**	1,100,544
Unrealized and realized (gain) loss in fair value of investments	**(35,782)**	3,456
Unrealized loss on interest rate swap	**425,487**	-
(Increase) decrease in operating assets:		
Accounts receivable	**5,816,672**	(8,088,344)
Deposits and prepaid expenses	**(77,286)**	2,493,003
Related party receivable	**(2,428)**	(445,622)
Other assets	**(95,619)**	(86,612)
Funded depreciation cash	**(26,502)**	(528)
Accrued receivable - unfunded bond principal	**190,385**	112,658
Increase (decrease) in operating liabilities:		
Accounts payable	**(122,098)**	(1,997,020)
Accrued expenses	**(751,429)**	574,112
Due to New York State	**-**	(93,994)
Deferred revenue and recoveries	**(2,895,145)**	3,350,959
Other liabilities	**170,393**	129,123
Advance funding - OMH	**30,663**	93,994
Net Cash Provided by Operating Activities	**5,246,718**	1,014,253
Cash Flows from Investing Activities:		
Purchase of property, plant and equipment	**(3,270,192)**	(2,086,188)
Proceeds from the sale of investments	**6,070**	6,303
Increase in other investments	**(55,858)**	(60,518)
Increase in other assets	**(1,214,043)**	-
Net Cash Used in Investing Activities	**(4,534,023)**	(2,140,403)
Cash Flows from Financing Activities:		
Proceeds from lines of credit	**32,150,000**	44,808,000
Payments of lines of credit	**(32,913,000)**	(42,845,000)
Proceeds from long-term debt	**23,550,000**	710,000
Payments of long-term debt	**(22,704,889)**	(2,336,638)
Decrease (increase) in restricted investments	**1,101,098**	(272,978)
Net Cash Provided by Financing Activities	**1,183,209**	63,384
Net Increase (Decrease) in Cash and Cash Equivalents	**1,895,904**	(1,062,766)
Cash and Cash Equivalents, beginning of year	**797,915**	1,860,681
Cash and Cash Equivalents, end of year	$ **2,693,819**	$ 797,915
Supplemental Disclosures:		
Cash paid for interest	$ **1,843,688**	$ 2,226,048
Noncash Investing and Financing Activities:		
Assets purchased on capital lease	$ **409,548**	$ 632,123

See notes to consolidated financial statements.

1. Organization and Nature of Activities

Family Residences & Essential Enterprises, Inc. (the "Agency") is a non-profit corporation organized under the laws of the State of New York. Its primary purpose is to support, in specially designed facilities equipped and operated to meet physical, mental, emotional, and social needs, persons receiving services.

The Agency is the sole member of Child Development Center of the Hamptons Charter School ("Charter School"), Child Development Center of the Hamptons Preschool ("Preschool") and Child Development Center of the Hamptons Foundation ("Foundation"). Approximately $993,000, as restated, of unrestricted net assets were transferred from the Foundation during the year ended December 31, 2011.

The Charter School is a non-profit corporation organized under the laws of the State of New York. Its primary purpose is to provide support and related services to both general and special education students including counseling, occupational and physical therapy, speech therapy, social skills, and ABA (Applied Behavioral Analysis), with an emphasis on Character Education and empathic practices. The Agency obtained control on October 1, 2010, as the sole member of the Charter School.

The Preschool is a non-profit corporation organized under the laws of the State of New York. Its primary purpose is to provide related services in speech, occupational therapy, physical therapy, counseling, social skills, applied behavior analysis, and counseling for children qualifying under New York State regulations. The Agency obtained control on September 1, 2010, as the sole member of the Preschool.

The Foundation is an educational organization formed under the not-for-profit laws of New York in 1999. The Foundation raises funds to support the Preschool, the Charter School, and other not-for-profit organizations. Additionally, the Foundation also operates and maintains the facility in which the Preschool and Charter School reside. The Agency obtained control on January 1, 2011 as the sole member of the Foundation.

The Agency, Charter School, Preschool and the Foundation are classified as 501(c)(3) organizations, which are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code and a similar provision of the New York State income tax laws. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

2. Significant Accounting Policies

Basis of accounting - The accompanying consolidated financial statements include the accounts of the Agency and its sole membership subsidiaries Charter School, Preschool, and the Foundation (collectively referred to as the "Organization"), and have been prepared on the accrual basis of accounting. All inter-company transactions have been eliminated in consolidation.

Cash and cash equivalents - The Organization considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The Organization does not include funded depreciation cash within its cash and cash equivalents balance, due to its restricted use.

Fair value - Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the entity transacts. The Organization must determine whether its assets and liabilities recorded at fair value were based on Level 1 (valued based on quoted prices in an active market for identical assets), Level 2 (valued based on significant other observable inputs) or Level 3 (valued based on significant unobservable inputs) measurements within the fair value hierarchy.

Investments - Investments are recorded at their fair values. Fair values are determined using quoted prices in an active market and represent Level 1 inputs within the fair value hierarchy. Gains and losses on investments are reported in the consolidated statements of activities and changes in net assets as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulation or by law. Included in other investments in the accompanying consolidated statements of financial position are investments representing Level 1 inputs relating to a deferred compensation arrangement covering certain participating employees. These other investments are recorded using the same fair value measurement principles discussed above.

Property, plant and equipment, net - Property, plant and equipment are stated at cost or, in the case of donated items, at fair value on the date of donation, less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the assets' useful life and/or lease terms, as appropriate.

The Organization's policy is to capitalize all purchases in excess of $5,000. Depreciation is based on the month placed in service for all buildings and improvements and is calculated using the straight-line method over the estimated useful lives of the assets detailed below. The half-year convention is used in connection with the depreciation of all other assets. Leasehold improvements are depreciated over the lesser of the life of the lease or the asset's life. Property, plant and equipment are depreciated using the following lives:

Buildings and Improvements	2 to 26 years
Equipment, Furniture and Fixtures	2 to 10 years
Transportation Vehicles	3 to 7 years

Revenues - Revenues are recorded when earned as services are provided for residential care, day programs and clinical services. These programs are sponsored and funded by the Office for People With Developmental Disabilities ("OPWDD"), the Office of Mental Health ("OMH"), the Department of Health ("DOH"), the New York State Education Department ("SED") and Vocational and Educational Services for Individuals with Disabilities ("VESID"). Substantially all funding is through NYS reimbursement and Medicaid funding. Revenues are subject to audit and possible adjustment by third-party payers. The effects of any such adjustments are recorded when reasonably determinable. Management believes that the effect of audit adjustments, if any, will not have a material effect on the accompanying consolidated financial statements.

Functional allocation of expenses - Wages, taxes and benefits, food, utilities, repairs and maintenance, and other expenses are allocated among the programs and services benefited.

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

Allowance for doubtful accounts - Management must make estimates of the uncollectability of all accounts receivable. Management specifically analyzes receivables, historical bad debts and changes in circumstances when evaluating the adequacy of the allowance for doubtful accounts.

Interest rate swap - The Organization has entered into four interest rate swap agreements with two separate banks. One of the Organization's interest rate swap is traded within a market that uses an over the counter ("OTC") interest rate derivative based on the terms set forth in the 2012 SWAP Confirmation Agreements. This interest rate swap model uses a dual curve interest rate swap valuation model (London Interbank Offered Rate ("LIBOR") and Overnight Index Swap ("OIS") discount factor curve) to forecast future cash flows over the remaining life of the swap.

The second bank's interest rate swap uses a discounted cash flow model. This interest rate swap model uses a zero coupon curve derived from USD swap rates and discounted cash flow model to forecast future cash flows on.

Uncertain tax positions - Management evaluated the tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification No. 740. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for the years before 2009, which is the standard statute of limitations look-back period.

Reclassifications - Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current year consolidated financial statements. These reclassifications have no effect on previously reported change in net assets.

Evaluation of subsequent events - Management has evaluated subsequent events through May 31, 2013, the date the consolidated financial statements are available for issuance, for inclusion or disclosure in the consolidated financial statements.

3. Property, Plant and Equipment, Net

Property, plant and equipment, net, consist of the following:

December 31,	**2012**	2011
Land	**$ 6,859,263**	$ 6,859,263
Buildings	**25,991,966**	25,991,966
Building Improvements	**25,587,753**	24,569,972
Leasehold Improvements	**1,697,787**	1,697,787
Equipment, Furniture and Fixtures	**4,528,873**	4,133,525
Transportation - Vehicles	**2,574,021**	1,769,609
Total Property, Plant and Equipment	**67,239,663**	65,022,122
Less Accumulated Depreciation and Amortization	**34,646,012**	31,285,136
Property, Plant and Equipment, net	**$ 32,593,651**	$ 33,736,986

A portion of the Organization's property, plant and equipment was purchased with funding received from the Medical Care Facilities Finance Agency ("MCFFA"), as described in Note 6. Funding for these capital expenditures was provided with the stipulation that if the Organization ceases to operate the programs during the term of the bond for OPWDD and OMH purposes, the property, plant and equipment will revert to the funding source. Capital grants received by the Organization for the purchase of property and equipment are recognized as income in the year the asset has been put into use and are included as income from non-operating activities in the accompanying consolidated statements of activities and changes in net assets.

At December 31, 2012 and 2011, construction in progress, which consists of amounts incurred in advance for future projects, amounted to approximately $1,593,000 and $133,000, respectively. As of December 31, 2012, the aggregate estimated future commitment to complete the remaining construction is approximately $955,000.

4. Other Assets, Net

Other assets, net, consist of the following:

December 31,	**2012**	2011
Bond Issuance and Related Costs	$ **5,072,365**	$ 4,624,773
Less Accumulated Amortization	**2,987,518**	3,275,297
Bond Issuance and Related Costs, net	**2,084,847**	1,349,476
Investments - Cash Surrender Value	**813,152**	717,533
Investments Held by Trustee - Bond Reserve Fund	**411,104**	584,921
Total Other Assets, net	$ **3,309,103**	$ 2,651,930

As described in Note 6 below, the Organization refinanced $19,500,000 of existing debt in May 2012. Bond issue costs and accumulated amortization of $915,885 and $534,492, respectively, associated with this extinguishment of debt were written off. Bond issue costs associated with the Nassau County Local Economic Assistance Corporation Bonds and Suffolk County Economic Development Corporation Bonds acquired during the year ended December 31, 2012, amounted to approximately $1,365,000.

The book value associated with the write-off of bond issue costs amounted to $381,393. This write-off associated with the extinguishment of debt is reported as a non-operating expense in the statements of activities and changes in net assets.

5. Notes Payable - Lines of Credit

At December 31, 2012 and 2011, the Organization established $8,000,000 of lines of credit which were shared by two banks. The outstanding balance on the lines of credit is secured by the Organization's accounts receivable. The line of credit for $5,000,000 expires on May 31, 2013 and the remaining $3,000,000 on August 31, 2013. The lines of credit bear interest at the banks' prime rate (3.25% as of December 31, 2012 and 2011).

At December 31, 2012 and 2011, $4,200,000 and $4,963,000, respectively, were outstanding under these respective lines of credit.

Interest expense for the years ended December 31, 2012 and 2011 approximated $61,000 and $95,000, respectively.

6. Long-Term Debt

The Organization has mortgages, bonds, and loans payable on several of its facilities summarized as follows at December 31, 2012 and 2011:

Indebtedness	Creditor		Balance Outstanding 2012	Balance Outstanding 2011	Average Rate of Interest
Mortgages Payable	ABN-AMRO Mortgage Group, Inc.	(A)	$ -	$ 129,158	9.00%
	Community Preservation Corporation	(B)	-	104,593	5.96%
	TD Bank	(C)	-	1,477,947	7.19%
		(D)	-	967,443	7.19%
		(E)	-	967,443	7.19%
		(F)	-	694,934	5.70%
Notes Payable	Reese Michaels	(G)	**195,017**	210,017	Interest free
Bonds Payable	NYS Sponsored Medical Care Facilities Finance Agency	(H)	**3,211,467**	3,734,272	7.08%
	Suffolk County Industrial Development Agency Civic Facility Revenue Bonds	(I)	-	300,000	6.375%
		(J)	-	700,000	6.950%
		(K)	-	555,000	7.009% & 8.009%
		(L)	**60,000**	70,000	7.00% & 7.75%
		(M)	-	2,230,000	6.00% & 7.125%
		(N)	**280,000**	320,000	6.375%
		(O)	**1,075,000**	1,195,000	6.00% & 6.25%
		(P)	**70,000**	90,000	6.00% & 6.75%
		(Q)	**675,000**	730,000	5.95% & 7.25%
		(R)	-	1,657,000	5.95% & 7.08%
	Nassau County Industrial Development Agency Civic Facility Revenue Bonds	(S)	-	5,155,000	5.95% & 7.25%
		(T)	-	6,000,000	6.00%, 7.125% & 8.25%
	Suffolk County Industrial Development Agency Civic Facility Revenue Bonds: DASNY Bonds	(U)	**310,785**	320,475	5.0455%
	Capital Leases	(V)	**829,045**	595,528	5.75%
	Suffolk County National Bank	(W)	**1,008,028**	1,065,873	5.10%
	Nassau County Local Economic Assistance Corporation Bonds	(X)	**10,712,000**	-	3.709%
	Suffolk County Economic Development Corporation Bonds	(X)	**9,793,000**	-	3.709%
	TD Bank Bridge Loans	(Y)	**2,305,000**	-	3.25% & 3.75%
Total Mortgages, Notes, Bonds and Loans Payable			**30,524,342**	29,269,683	
Less Current Maturities			**4,020,972**	2,441,308	
Total Long-Term Debt			**$ 26,503,370**	$ 26,828,375	

(A) This mortgage is secured by an OMH Supported Housing Project located in Hicksville, New York. The mortgage was to mature on May 1, 2027. The mortgage has been paid in full in association with the bond refinancing on May 15, 2012.

(B) This mortgage is secured by an Individualized Residential Alternative ("IRA") located in Huntington, New York. This mortgage was to mature on June 1, 2018. This mortgage has been paid in full in association with the bond refinancing on May 15, 2012.

(C) This mortgage is secured by an OPWDD Day Habilitation project located in Middle Island, New York. This mortgage was to mature on January 1, 2025. This mortgage has been paid in full in association with the bond refinancing on May 15, 2012.

(D) This mortgage is secured by an OPWDD Housing project located in Coram, New York. This mortgage was to mature on January 1, 2025. This mortgage has been paid in full in association with the bond refinancing on May 15, 2012.

(E) This mortgage is secured by an OPWDD Housing project located in Lake Ronkonkoma, New York. This mortgage was to mature on January 1, 2025. This mortgage has been paid in full in association with the bond refinancing on May 15, 2012.

(F) This mortgage is secured by an OPWDD Housing project located in Port Jefferson, New York. This mortgage was to mature on April 1, 2026. This mortgage has been paid in full in association with the bond refinancing on May 15, 2012.

(G) This note payable is collateralized by the equestrian ranch and day program known as Saddlerock located in Middle Island, New York.

(H) The Organization recognizes revenue for both principal and interest reimbursed by NYS for all MCFFA bonds. These bonds are secured by either residences or day program facilities.

(I) This bond is secured by an IRA located in Central Islip, New York, a Respite facility located in Centereach, New York and a Supportive Residence located in Hauppauge, New York. This bond was to mature on June 1, 2014. This bind has been paid in full in association with the bond refinancing on May 15, 2012.

(J) This bond is secured by five IRAs located in Medford, Centereach, Kings Park, Huntington Station and Farmingville, New York. This bond was to mature on December 1, 2014. This bond has been paid in full in association with the bond refinancing on May 15, 2012.

(K) This bond is secured by two IRAs located in Patchogue, New York and one IRA located in Ridge, New York. $1,230,000 of the bond series was issued as tax-exempt with a fixed rate of interest of 7.009% for the 15 year term. The remaining $40,000 was issued as taxable with a fixed rate of interest of 8.009%. This bond was to mature on June 1, 2016. This bond has been paid in full in association with the bond refinancing on May 15, 2012.

(L) This bond is secured by two cooperative apartments located in Farmingdale, New York. $150,000 of the bond series was issued as tax-exempt with a fixed rate of interest of 7.00% for the 15 year term. The remaining $6,000 was issued as taxable with a fixed rate of interest of 7.75%. This bond matures on November 1, 2016.

(M) The Suffolk 2002 IDA Bond is secured by eight Intermediate Care Facilities ("ICFs"), nine IRAs, one Day Program, two OMH Community Residences and a parcel of land all located in Suffolk County. $5,110,000 of the bond series was issued as tax-exempt with a fixed rate of interest of 7.125% for the 15 year term. The remaining $167,000 was issued as taxable with a fixed rate of interest of 6.00% for the five year term. This IDA bond was to mature on June 1, 2017. This bond has been paid in full in association with the bond refinancing on May 15, 2012.

(N) The Suffolk County 2003 A-A Bond is being used to refinance an IRA located in Middle Island, New York. $575,000 of the bond series was issued as tax-exempt with a fixed interest rate of 6.375% for the term of 15 years. The remaining $20,000 was issued as taxable with a fixed interest rate of 6.375% for the term of five years. This bond matures on December 1, 2018.

(O) The Suffolk County 2004 A-C Bond is secured by three IRAs located in Huntington, Coram and Holbrook, New York. $1,925,000 of the bond series was issued as tax-exempt with a fixed interest rate of 6.00% for the 15 year term. The remaining $65,000 was issued as taxable with a fixed interest rate of 6.25% for the five year term. This bond matures on December 1, 2019.

(P) This Suffolk County 2005 IDA Bond is secured by an ICF located in Ridge, New York and a building used for program space located in Hauppauge, New York. $195,000 was issued as tax-exempt with a fixed rate of 6.00% for the ten year term. The remaining $14,000 was issued as taxable with a fixed rate of 6.75% for the five year term. This bond matures on October 1, 2015.

(Q) This Suffolk County 2006 IDA Bond is secured by an IRA located in Smithtown, New York. $965,000 was issued as tax-exempt with a fixed rate of 5.95% for the 15 year term. The remaining $33,000 was issued as taxable with a fixed rate of 7.25% for the five year term. This bond matures on October 1, 2021.

(R) This Suffolk County 2007 IDA Bond is secured by an IRA located in Coram, New York and an OPTS Program located in Middle Island, New York. $2,015,000 was issued as tax-exempt with a fixed rate of 5.95% for the 15 year term. The remaining $72,000 was issued as taxable with a fixed rate of 7.08% for the five year term. This bond was to mature on November 1, 2022. This bond has been paid in full in association with the bond refinancing on May 15, 2012.

(S) This bond is secured by a building located in Old Bethpage, New York to be used for program, clinical and administrative space, and an IRA located in Massapequa Park, New York. Under the terms of the bond, the interest rate will be fixed at 7.50% for the first 15 years of the bond, and then will increase to 8.15% for the remaining 15 year term. This bond was to mature on June 1, 2030. This bond has been paid in full in association with the bond refinancing on May 15, 2012.

(T) This Nassau County 2002 IDA Bond is secured by two OMH Community Residences, one Respite site and a building to be used for program, clinical, and administrative space located in Nassau County. $6,610,000 of the bond series was issued as tax-exempt with a fixed rate of 8.250% for the 30 year term. $430,000 of the bond series was issued as tax-exempt with a fixed rate of 7.125% for the ten year term. The remaining $272,000 was issued as taxable with a fixed rate of interest of 6.00% for the five year term. This IDA bond was to mature on June 1, 2012. This bond has been paid in full in association with the bond refinancing on May 15, 2012.

(U) This DASNY Bond is secured by an OMH Community Residence in Hauppauge, New York. The Agency recognizes revenue for both principal and interest reimbursed by NYS for the DASNY bond.

(V) The Agency has executed capital leases during 2012 related to vehicle purchases for various programs.

(W) On October 19, 2004, the Foundation entered into a mortgage agreement with the Suffolk County National Bank in the amount of $1,380,000. The initial interest rate on the mortgage was 6.46%. However, this interest rate was subsequently changed to 5.75% on October 19, 2009. According to the mortgage agreement, the interest rate the Foundation will pay may change every fifth year thereafter. The mortgage matures on October 19, 2024 and is secured by the Foundation's fixed assets. The Foundation was not in compliance with the annual debt service coverage ratio covenant for the year ended December 31, 2012 for which the Foundation obtained a waiver from the bank.

(X) On May 15, 2012, the Organization refinanced approximately $19,000,000 of existing debt and acquired approximately $1,900,000 for new projects through the issue of Nassau and Suffolk County IDA bonds. The bonds carry variable interest rates, and have a variable repayment schedule from 5 to 17 years. The Organization is required to comply with certain financial covenants on an annual basis throughout the life of the bonds.

In connection with the refinancing, the Organization also entered into two interest rate swap agreements with both TD Bank and Valley National Bank, to pay a fixed rate of interest and hedge its exposure for changes in interest rates over the term of the refinanced debt. The interest rates associated with the TD Bank swap agreements are 3.389% and 3.112%. The interest rates associated with the Valley National Bank swap agreements are 3.439% and 3.162%. All swap agreements match the terms of the bonds, with maturities between 5 and 17 years. The notional amount of the swap agreements decrease in accordance with principal payments. As of December 31, 2012, tbe notional amount and fair value liability were $9,070,000 and $203,063, respectively, for the TD Bank swap agreement and $9,070,000 and $222,424, respectively, for the Valley National Bank swap agreement.

The total fair value liability of the interest rate swaps was $425,487 at December 31, 2012, and is reflected within the accompanying consolidated statements of financial position. The unrealized charge for the valuation is shown as a non-operating expense on the consolidated statement of activities.

(Y) Throughout the year ended December 31, 2012, the Organization entered into three bridge loan agreements with TD Bank for the purchase of new IRA homes, two in Queens, New York, and one in Medford, New York. Two of the three loans are secured by the property associated with the loan and one loan is secured by the Organization's non real estate assets. These bridge loans mature at various times through September 2013 to March 2014. Subsequent to the year ended December 31, 2012, one of these bridge loans in the amount of $800,000 was satisfied utilizing funds from the Organization's refinancing noted within (X) above and is reflected as long-term debt on the Consolidated Statements of Financial Position.

Minimum principal payments for long-term debt for the next five years are approximately as follows:

Years Ending December 31,	
2013	$ 4,821,000
2014	3,455,000
2015	3,032,000
2016	2,464,000
2017	2,035,000
Thereafter	14,717,000
Total	$ 30,524,000

Interest expense on long-term debt for the years ended December 31, 2012 and 2011 approximated $1,751,000 and $2,088,000, respectively.

7. Pension Plan

The Organization has a variable defined contribution pension plan covering all of its eligible employees. The Internal Revenue Service has qualified the pension plan under its guidelines.

The annual cost of the pension plan for the years ended December 31, 2012 and 2011 was approximately $915,000 and $698,000, respectively. All of the 2011 pension costs were funded during 2012.

The Organization has a 401(k) plan available to all of its employees. The Organization's matching contribution is determined annually. The total employee and employer contributions for the plan year ended December 31, 2012 approximated $852,000, of which approximately $41,000 represents the amount matched by the Organization. The total contribution for the plan year ended December 31, 2011 was approximately $902,000, of which approximately $43,000 represents the amount matched by the Organization. As of the date of this report, the Organization's matching contributions were fully funded.

The Organization also has a retirement plan covering several employees. The plan includes a corporate-sponsored split dollar agreement to purchase life insurance. The cash surrender value of the policies at December 31, 2012 and 2011 approximated $813,000 and $718,000, respectively. The retirement plan includes a separate deferred compensation arrangement to be paid at retirement. The Organization has accrued a long-term liability for this obligation of approximately $1,094,000 and $923,000 at December 31, 2012 and 2011, respectively.

8. Related Party Transactions

The Organization currently transports individuals attending day programs via a transportation company operated by a related party, Rides Unlimited of New York, Inc. ("Rides"). Transportation fees charged for the years ended December 31, 2012 and 2011 were approximately $3,665,000 and $3,585,000, respectively. The Organization has a contract to supply management services to Rides. Fees charged for management services for the years ended December 31, 2012 and 2011 were approximately $1,200,000 and $1,175,000, respectively. The Organization leases a vehicle storage and repair facility located in Islandia, New York to Rides. Rent charges for the years ended December 31, 2012 and 2011 were approximately $277,000 and $267,000, respectively. The Organization also obtains vehicle repair services and fuel from Rides. The total amounts incurred for these services and for fuel for the years ended December 31, 2012 and 2011 were approximately $316,000 and $328,000, respectively. The amounts due from Rides at December 31, 2012 and 2011 of approximately $656,000 and $827,000, respectively, are included in related party receivables.

The Organization has an agreement with The Rehabilitation Institute, Inc. ("TRI"), a New York not-for-profit corporation. TRI provides habilitation, rehabilitation and vocational programs, training and services to persons with various physical and mental disabilities in Nassau County, New York. The Organization provides management services to TRI to assist in the planning, administration and delivery of these services. Total amounts charged to TRI for these services amounted to approximately $468,000 and $437,000 for the years ended December 31, 2012 and 2011, respectively. The Organization had receivables from TRI, which amounted to $56,000 and $3,000 at December 31, 2012 and 2011, respectively.

The National Foundation for Human Potential, Inc. (the "National Foundation"), a non-profit corporation organized under the laws of the State of New York, provides financial and other support to organizations that promote educational, residential, and support services for people in need. To meet that purpose, the National Foundation raises funds and provides contributions and grant awards to organizations that serve the developmentally disabled, including the Organization. The Organization leases office space located in Old Bethpage, New York to the National Foundation. Rent charges for the years ended December 31, 2012 and 2011 were approximately $35,000 and $34,000, respectively. The Organization had receivables from the National Foundation, which amounted to $46,000 and $16,000 at December 31, 2012 and 2011, respectively.

In 2008, the Organization had entered into a management agreement with Park House Inc., a New York non-profit corporation, to provide administrative and consulting services. Park House Inc. provides housing and supports the needs of persons with physical and mental disabilities. Total amounts charged to Park House Inc. for the management services amounted to approximately $231,000 and $207,000 for the years ended December 31, 2012 and 2011, respectively. The Organization had receivables from Park House Inc., which amounted to $8,000 and $1,000 at December 31, 2012 and 2011, respectively.

At December 31, 2012 and 2011, the amounts due from Homes Anew I and Homes Anew II of approximately $22,000 and $56,000, respectively, were included in related party receivables.

In 2012, the Organization had entered into a management agreement with Contemporary Guidance Services, ("CGS"), a New York non-profit corporation, to provide administrative services. CGS provides vocational training, supportive work, day habilitation, respite, Medicaid Service Coordination ("MSC") services, among others, to developmentally disabled individuals. Total amounts charged to CGS for the management services amounted to approximately $151,000 for the years ended December 31, 2012. The Organization had receivables from CGS, which amounted to $154,000 at December 31, 2012.

The Organization is related to the entities listed above through management agreements in place to provide supervisory and management functions to these entities.

9. Commitments

The Organization is a party to various lease commitments. Minimum payments under these lease commitments at December 31, 2012 are as follows:

Years Ending December 31,	
2013	$ 2,115,000
2014	1,117,000
2015	435,000
2016	204,000
2017	203,000
Thereafter	153,000
Total	$ 4,227,000

The amounts above reflect existing contractual agreements. Property leases are often limited to one and two year terms. The Organization anticipates renewal and/or replacement of all such agreements and these amounts are not reflected above. Rent expense for the years ended December 31, 2012 and 2011 approximated $1,784,000 and $1,749,000, respectively.

10. Contingencies

The Organization is subject to certain claims and pending litigation, which are covered by certain insurance policies. These claims and pending litigation are related to matters which have arisen in the ordinary course of the Organization's activities and are not expected to have a material adverse effect on the Organization's financial position or changes in net assets.

The Organization received a draft audit report from the Office of the Medicaid Inspector General ("OMIG") regarding an audit of the IRA programs for the period of May 1, 2004 to December 31, 2007 conducted during the year ended December 31, 2010. The draft report states that the Organization was overpaid for certain IRA services performed, which is based on OMIG's sampling methodology used for their audits. OMIG extrapolated the error noted in their sample population to be approximately $764,000 which has been offered to the Organization as settlement in full satisfaction of all claims covered by the OMIG audit. The Organization is contesting the proposed findings in the draft audit report. As of December 31, 2012 and 2011, the Organization has accrued the proposed settlement amount which is included in accrued expenses in the accompanying consolidated statements of financial position.

11. Off-Balance Sheet Risk and Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash, investments and accounts receivable from governmental agencies. The Organization places its cash and investments with various financial institutions. At times throughout the year, the Organization may have maintained cash balances, which exceed the limits insured by the FDIC. Accounts receivable from governmental agencies are from federal, state and county agencies.

Supplementary Information

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidating Statement of Financial Position

December 31, 2012

	Family Residences and Essential Enterprises, Inc.	Child Development Center of the Hamptons Charter School	Child Development Center of the Hamptons Preschool	Child Development Center of the Hamptons Foundation	Eliminations	Total
Assets						
Current Assets:						
Cash and cash equivalents	$ 1,942,481	$ 166,374	$ 375,244	$ 209,720	$ -	$ 2,693,819
Accounts receivable, net of allowance for doubtful accounts of approximately $1,600,000	15,300,409	1,096,166	848,921	-	-	17,245,496
Related party receivables	896,488	-	-	-	-	896,488
Deposits and prepaid expenses	732,392	2,960	-	-	-	735,352
Investments	66,775	-	297	-	-	67,072
Total Current Assets	18,938,545	1,265,500	1,224,462	209,720	-	21,638,227
Property, Plant and Equipment, net	29,700,233	890,622	38,442	1,964,354	-	32,593,651
Construction in Progress	1,593,391	-	-	-	-	1,593,391
Other Assets, net	3,309,103	-	-	-	-	3,309,103
Other Investments	419,138	-	-	-	-	419,138
Due from Affiliates	2,127,588	498,061	168,932	-	(2,794,581)	-
Assets with Limited Use:						
Funded depreciation cash	238,031	-	-	-	-	238,031
Restricted investments	3,002,596	-	-	-	-	3,002,596
Accrued Receivable - Unfunded Bond Principal	448,519	-	-	-	-	448,519
Total Plant and Other Long-Term Assets	40,838,599	1,388,683	207,374	1,964,354	(2,794,581)	41,604,429
Total Assets	$ 59,777,144	$ 2,654,183	$ 1,431,836	$ 2,174,074	$ (2,794,581)	$ 63,242,656
Liabilities and Net Assets						
Current Liabilities:						
Accounts payable	$ 1,825,615	$ 123,480	$ 18,248	$ 8,000	$ -	$ 1,975,343
Accrued expenses	8,016,580	230,640	396,354	-	-	8,643,574
Lines of credit	4,200,000	-	-	-	-	4,200,000
Due to New York State	831,262	-	-	-	-	831,262
Current maturities of long-term debt	3,959,712	-	-	61,260	-	4,020,972
Deferred revenue and recoveries	1,571,940	154,734	-	-	-	1,726,674
Total Current Liabilities	20,405,109	508,854	414,602	69,260	-	21,397,825
Long-Term Liabilities:						
Long-term debt, net of current maturities	25,556,602	-	-	946,768	-	26,503,370
Deferred revenue and recoveries	4,951,129	-	-	-	-	4,951,129
Other liabilities	1,593,423	-	-	-	-	1,593,423
Advanced funding - OMH	1,066,673	-	-	-	-	1,066,673
Interest rate swap agreement	425,487	-	-	-	-	425,487
Due to affiliates	-	1,489,575	1,130,579	174,427	(2,794,581)	-
Total Long-Term Liabilities	33,593,314	1,489,575	1,130,579	1,121,195	(2,794,581)	34,540,082
Total Liabilities	53,998,423	1,998,429	1,545,181	1,190,455	(2,794,581)	55,937,907
Commitments and Contingencies						
Net Assets - Unrestricted	5,778,721	655,754	(113,345)	983,619	-	7,304,749
Total Liabilities and Net Assets	$ 59,777,144	$ 2,654,183	$ 1,431,836	$ 2,174,074	$ (2,794,581)	$ 63,242,656

See independent auditors' report on supplementary information.

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidating Statement of Activities and Changes in Net Assets

Year Ended December 31, 2012

	Family Residences and Essential Enterprises, Inc.	Child Development Center of the Hamptons Charter School	Child Development Center of the Hamptons Preschool	Child Development Center of the Hamptons Foundation	Eliminations	Total
Unrestricted Revenues, Gains and Other Support:						
OMH residential	$ 7,591,051	$ -	$ -	$ -	$ -	$ 7,591,051
OPWDD residential	44,945,436	-	-	-	-	44,945,436
Day program operations	22,358,589	-	-	-	-	22,358,589
Clinic program	4,112,312	-	-	-	-	4,112,312
HHAP/HUD programs	122,828	-	-	-	-	122,828
Charter School revenue	-	3,342,938	-	-	-	3,342,938
Preschool revenue	-	-	1,445,615	-	-	1,445,615
CDCH Foundation	-	-	-	152,140	-	152,140
Other program revenue	706,914	-	-	-	-	706,914
Investment income	13,234	-	-	-	-	13,234
Other miscellaneous income	6,113	-	-	-	-	6,113
Contributions	91,656	11,598	-	-	-	103,254
Unrealized and realized gain in fair market value of investments	35,782	-	-	-	-	35,782
Total Unrestricted Revenues, Gains and Other Support	79,983,915	3,354,536	1,445,615	152,140	-	84,936,206
Expenses:						
OMH residential	6,687,024	-	-	-	-	6,687,024
OPWDD residential	40,393,116	-	-	-	-	40,393,116
Day program operations	18,453,672	-	-	-	-	18,453,672
Clinic program	4,132,307	-	-	-	-	4,132,307
HHAP/HUD programs	307,003	-	-	-	-	307,003
Charter School	-	2,658,617	-	-	-	2,658,617
Preschool	-	-	1,187,411	-	-	1,187,411
CDCH Foundation	-	-	-	143,858	-	143,858
Other program expenses	897,182	-	-	-	-	897,182
Total Program Expenses	70,870,304	2,658,617	1,187,411	143,858	-	74,860,190
Support Services and Administration	8,694,422	529,637	148,106	-	-	9,372,165
Management Fees	(261,212)	182,857	78,355	-	-	-
Total Expenses	79,303,514	3,371,111	1,413,872	143,858	-	84,232,355
Changes in Net Assets before Amortization Expense Due to Extinguishment of Debt and Unrealized Loss on Interest Rate Swap	680,401	(16,575)	31,743	8,282	-	703,851
Amortization Expense Due to Extinguishment of Debt	(381,393)	-	-	-	-	(381,393)
Unrealized Loss on Interest Rate Swap	(425,487)	-	-	-	-	(425,487)
Changes in Net Assets after Amortization Expense Due to Extinguishment of Debt and Unrealized Loss on Interest Rate Swap	(126,479)	(16,575)	31,743	8,282	-	(103,029)
Net Assets (Deficit), beginning of year	5,905,200	672,329	(145,088)	975,337	-	7,407,778
Net Assets (Deficit), end of year	$ 5,778,721	$ 655,754	$ (113,345)	$ 983,619	$ -	$ 7,304,749

See independent auditors' report on supplementary information.

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FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidated Statement of Functional Expenses

Year Ended December 31, 2012 (with comparative totals for 2011)

	OMH Residential	OPWDD Residential	Day Program Operations	Clinic Program	HHAP/HUD Programs	Charter and Preschool Expenses	CDCH Foundation	Other Program Expenses	Total Program Expenses	Support Services and Administration	**2012 Expenses**	2011 Expenses
Salaries	$ 2,653,105	$ 22,786,152	$ 8,077,570	$ 1,557,824	$ 125,361	$ 1,843,515	$ -	$ 287,329	$ 37,330,856	$ 3,400,078	**$ 40,730,934**	$ 41,042,626
Employee Benefits	888,418	7,592,349	2,727,339	511,366	41,991	696,617	-	223,231	12,681,311	1,716,322	**14,397,633**	13,949,633
Contracted Services	17,373	500,313	234,575	802,144	972	429,907	-	39,030	2,024,314	163,276	**2,187,590**	1,917,650
Client Transportation	-	-	3,626,871	38,662	-	-	-	-	3,665,533	-	**3,665,533**	3,585,005
Household Supplies/Food	390,601	1,981,515	347,716	101,169	5,033	94,076	-	127,122	3,047,232	179,356	**3,226,588**	2,981,958
Interest	117,971	664,265	327,377	27,629	-	-	-	28,058	1,165,300	672,173	**1,837,473**	2,190,839
Site Rental and Property Costs	1,278,014	509,674	108,424	5,840	59,077	148,544	59,779	24,362	2,193,714	24,185	**2,217,899**	2,119,364
Utilities	251,167	577,581	170,605	21,420	12,507	39,690	-	15,690	1,088,660	105,881	**1,194,541**	1,194,817
Repairs/Maintenance	297,429	1,516,983	527,254	83,308	31,825	137,840	-	42,179	2,636,818	347,416	**2,984,234**	2,258,346
Professional Fees	8,800	11,726	75,061	391,901	-	269,924	5,000	13,500	775,912	1,204,426	**1,980,338**	1,590,402
Insurance	170,631	493,829	287,115	76,327	6,045	37,805	1,507	19,170	1,092,429	177,001	**1,269,430**	1,230,966
Advertising/Recruitment	22,919	57,862	35,236	8,762	-	38,510	-	820	164,109	58,741	**222,850**	169,403
Equipment/Vehicle Rental	21,910	230,705	107,758	34,460	-	25,295	-	7,968	428,096	153,291	**581,387**	861,120
Telephone	75,298	234,721	167,194	16,445	1,692	13,828	170	9,652	519,000	60,461	**579,461**	573,724
Bad Debt Expense	32,076	174,972	98,381	215,029	-	-	-	-	520,458	35,340	**555,798**	1,166,759
Program/Recreation	2,087	14,550	40,394	-	-	10,034	-	(75)	66,990	7,618	**74,608**	90,711
Office Supplies	14,447	316,849	111,607	20,782	217	1,661	2,453	9,186	477,202	191,757	**668,959**	769,398
Computer Expense	124,655	330,617	395,456	70,031	-	39,418	-	1,501	961,678	112,279	**1,073,957**	963,973
Employee/Client Travel	36,026	267,358	87,368	3,164	2,651	12,027	-	2,803	411,397	33,512	**444,909**	366,307
Vehicle Gas	39,950	391,680	147,858	27,680	-	-	-	3,965	611,133	24,707	**635,840**	623,890
Conferences/Memberships	16,807	12,581	7,829	15,412	75	-	110	3,163	55,977	374,961	**430,938**	356,843
MCFFA Bond Fees Amortized	237	13,662	7,724	-	-	-	-	-	21,623	1,077	**22,700**	24,350
Depreciation/Amortization	227,103	1,713,172	736,960	102,952	19,557	3,922	64,128	38,528	2,906,322	705,169	**3,611,491**	3,275,600
Other	-	-	-	-	-	896	10,711	-	11,607	18,376	**29,983**	35,390
Rental Offset	-	-	-	-	-	2,519	-	-	2,519	(395,238)	**(392,719)**	(357,957)
Total Expenses	$ 6,687,024	$ 40,393,116	$ 18,453,672	$ 4,132,307	$ 307,003	$ 3,846,028	$ 143,858	$ 897,182	$ 74,860,190	$ 9,372,165	**$ 84,232,355**	$ 82,981,117

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FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

REPORT ON AUDITS OF CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Years Ended December 31, 2011 and 2010

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FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

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Independent Auditors' Report

Board of Directors
Family Residences & Essential
Enterprises, Inc. and Subsidiaries
Old Bethpage, New York

We have audited the accompanying consolidated statements of financial position of Family Residences & Essential Enterprises, Inc. and Subsidiaries (the "Organization") as of December 31, 2011 and 2010, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Family Residences & Essential Enterprises, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Holtz Rubenstein Reminick LLP

Melville, New York
June 29, 2012

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Position

December 31,	2011	2010
Assets		
Current Assets:		
Cash and cash equivalents	$ 797,915	$ 1,860,681
Accounts receivable, net of allowance for doubtful accounts of approximately $2,800,000 and $1,700,000, respectively	20,714,132	14,281,220
Related party receivables	894,060	448,438
Deposits and prepaid expenses	658,066	3,151,069
Investments	37,360	47,119
Total Current Assets	23,101,533	19,788,527
Property, Plant and Equipment, net	33,736,986	32,164,646
Construction in Progress	133,411	36,500
Other Assets, net	2,651,930	2,723,145
Other Investments	363,280	302,762
Assets with Limited Use:		
Funded depreciation cash	211,529	211,001
Restricted investments	4,103,694	3,830,716
Accrued Receivable - Unfunded Bond Principal	638,904	751,562
Total Plant and Other Long-Term Assets	41,839,734	40,020,332
Total Assets	$ 64,941,267	$ 59,808,859
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	$ 2,097,441	$ 4,061,203
Accrued expenses	10,128,745	9,554,633
Lines of credit	4,963,000	3,000,000
Due to New York State	831,262	737,267
Current maturities of long-term debt	2,441,308	2,234,312
Deferred revenue and recoveries	1,768,192	1,625,524
Total Current Liabilities	22,229,948	21,212,939
Long-Term Liabilities:		
Long-term debt, net of current maturities	26,828,375	26,963,560
Deferred revenue and recoveries	7,249,868	4,596,465
Other liabilities	923,030	793,907
Advanced funding - OMH	302,268	396,262
Total Long-Term Liabilities	35,303,541	32,750,194
Total Liabilities	57,533,489	53,963,133
Commitments and Contingencies		
Net Assets - Unrestricted	7,407,778	5,845,726
Total Liabilities and Net Assets	$ 64,941,267	$ 59,808,859

See notes to consolidated financial statements.

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FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidated Statements of Activities and Changes in Net Assets

Years Ended December 31,	2011	2010
Unrestricted Revenues, Gains and Other Support:		
OMH residential	$ 7,596,423	$ 7,172,821
OPWDD residential	44,231,679	43,940,253
Day program operations	22,167,112	22,100,691
Clinic program	4,165,579	4,164,838
HHAP/HUD programs	162,870	217,821
Charter school revenue	2,891,499	431,058
Preschool revenue	1,429,279	755,249
CDCH Foundation	124,046	-
Other program revenue	625,688	635,108
Investment income	49,735	55,356
Other miscellaneous income	2,170	270,694
Contributions	107,067	64,391
Unrealized and realized (loss) gain in fair market value of investments	(3,456)	34,864
Total Unrestricted Revenues, Gains and Other Support	83,549,691	79,843,144
Expenses:		
OMH residential	6,558,567	7,015,027
OPWDD residential	40,096,930	39,619,664
Day program operations	18,202,351	20,190,992
Clinic program	4,568,161	3,623,289
HHAP/HUD programs	287,607	291,589
Charter school	2,307,762	699,593
Preschool	893,895	542,620
CDCH Foundation	142,187	-
Other program expenses	750,348	803,305
Total Program Expenses	73,807,808	72,786,079
Support Services and Administration	9,173,309	7,501,748
Total Expenses	82,981,117	80,287,827
Increase (Decrease) in Net Assets from Operations	568,574	(444,683)
Day Program Property Revenue	-	741,605
Increase in Unrestricted Net Assets	568,574	296,922
Net Assets, beginning of year	5,845,726	5,403,185
Transfer In of Unrestricted Net Assets - Foundation	993,478	-
Transfer In of Unrestricted Net Assets - Charter and Preschool, restated	-	145,619
Net Assets, end of year	$ 7,407,778	$ 5,845,726

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31,	2011	2010
Cash Flows from Operating Activities:		
Increase in unrestricted net assets	$ 568,574	$ 296,922
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	3,299,950	2,823,275
Increase in allowance for doubtful accounts	1,100,544	287,224
Unrealized and realized gain in fair value of investments	(3,456)	(34,864)
Decrease in accrued receivable - unfunded bond principal	112,658	115,563
(Increase) decrease in operating assets:		
Accounts receivable	(7,533,456)	(2,158,917)
Deposits and prepaid expenses	2,493,003	(2,334,461)
Related party receivable	(445,622)	(448,438)
Other assets	(86,612)	(78,163)
Funded depreciation cash	(528)	(10,758)
Increase (decrease) in operating liabilities:		
Accounts payable	(1,997,020)	1,886,157
Accrued expenses	574,112	1,004,535
Due to New York State	(93,994)	(149,793)
Deferred revenue and recoveries	2,796,071	(182,367)
Other liabilities	129,123	156,372
Advance funding - OMH	93,994	-
Net Cash Provided by Operating Activities	1,007,341	1,172,287
Cash Flows from Investing Activities:		
Purchase of property, plant and equipment	(2,086,188)	(3,765,339)
Proceeds from the sale of investments	13,215	5,257
Decrease in other investments	(60,518)	(67,433)
Net Cash Used in Investing Activities	(2,133,491)	(3,827,515)
Cash Flows from Financing Activities:		
Proceeds from line of credit and long-term debt	45,518,000	6,000,000
Payments of line of credit and long-term debt	(45,181,638)	(5,242,400)
Increase in restricted investments	(272,978)	(7,545)
Net Cash Provided by Financing Activities	63,384	750,055
Net Decrease in Cash and Cash Equivalents	(1,062,766)	(1,905,173)
Cash and Cash Equivalents, beginning of year	1,860,681	3,765,854
Cash and Cash Equivalents, end of year	$ 797,915	$ 1,860,681
Supplemental Disclosures:		
Cash paid for interest	$ 2,226,048	$ 2,214,852
Non-cash Investing and Financing Activities:		
Assets purchased on capital lease	$ 632,123	$ -

1. Organization and Nature of Activities

Family Residences & Essential Enterprises, Inc. (the "Agency") is a non-profit corporation organized under the laws of the State of New York. Its primary purpose is to support, in specially designed facilities equipped and operated to meet physical, mental, emotional, and social needs, persons receiving services.

The Agency is the sole member of Child Development Center of the Hamptons Charter School ("Charter School"), Child Development Center of the Hamptons Preschool ("Preschool") and Child Development Center of the Hamptons Foundation ("Foundation"). The unrestricted net assets of the Charter School and Preschool as restated of approximately $146,000 were transferred in during the year ended December 31, 2010 and approximately $993,000 relating to the Foundation has been transferred in during the year ended December 31, 2011.

The Charter School is a non-profit corporation organized under the laws of the State of New York. Its primary purpose is to provide support and related services to both general and special education students including counseling, occupational and physical therapy, speech therapy, social skills, and ABA (Applied Behavioral Analysis), with an emphasis on Character Education and empathic practices. The Agency obtained control on October 1, 2010, as the sole member of the Charter School.

The Preschool is a non-profit corporation organized under the laws of the State of New York. Its primary purpose is to provide related services in speech, occupational therapy, physical therapy, counseling, social skills, applied behavior analysis, and counseling for children qualifying under New York State regulations. The Agency obtained control on September 1, 2010, as the sole member of the Preschool.

The Foundation is an educational organization formed under the not-for-profit laws of New York in 1999. The Foundation raises funds to support the Preschool, the Charter School, and other not-for-profit organizations. Additionally, the Foundation also operates and maintains the facility in which the Preschool and Charter School reside. The Agency obtained control on January 1, 2011 as the sole member of the Foundation.

The Agency, Charter School, Preschool and the Foundation are classified as 501(c)(3) organizations, which are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code and a similar provision of the New York State income tax laws. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

2. Significant Accounting Policies

Basis of accounting - The accompanying consolidated financial statements include the accounts of the Agency and its sole membership subsidiaries Charter School, Preschool, and the Foundation (collectively referred to as the "Organization"), and have been prepared on the accrual basis of accounting. All inter-company transactions have been eliminated in consolidation.

Cash and cash equivalents - The Organization considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The Organization does not include funded depreciation cash within its cash and cash equivalents balance, due to its restricted use.

Fair value - Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the entity transacts. The Organization must determine whether its assets and liabilities recorded at fair value were based on Level 1 (valued based on quoted prices in an active market for identical assets), Level 2 (valued based on significant other observable inputs) or Level 3 (valued based on significant unobservable inputs) measurements within the fair value hierarchy.

Investments - Investments are recorded at their fair values. Fair values are determined using quoted prices in an active market and represent Level 1 inputs within the fair value hierarchy. Gains and losses on investments are reported in the consolidated statements of activities and changes in net assets as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulation or by law. Included in other investments in the accompanying consolidated statements of financial position are investments representing Level 1 inputs relating to a deferred compensation arrangement covering certain participating employees. These other investments are recorded using the same fair value measurement principles discussed above.

Property, plant and equipment, net - Property, plant and equipment are stated at cost or, in the case of donated items, at fair value on the date of donation, less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the assets' useful life and/or lease terms, as appropriate.

The Organization's policy is to capitalize all purchases in excess of $1,000. Depreciation is based on the month placed in service for all buildings and improvements and is calculated using the straight-line method over the estimated useful lives of the assets detailed below. The half-year convention is used in connection with the depreciation of all other assets. Leasehold improvements are depreciated over the lesser of the life of the lease or the asset's life. Property, plant and equipment are depreciated using the following lives:

Buildings and Improvements	2 to 26 years
Equipment, Furniture and Fixtures	2 to 10 years
Transportation Vehicles	3 to 7 years

Construction in progress - At December 31, 2011 and 2010, construction in progress, which consists of amounts incurred in advance for future projects, amounted to approximately $133,000 and $37,000, respectively.

Other assets - bond issuance and related costs - Other assets include costs incurred in issuing bonds associated with implementing new programs. These costs are amortized using the straight-line method over the lives of the related bonds, which range from 5 to 26 years. Also included in this amount are investments held by the trustee in association with the bond issuances. These assets are to be used for the final payments on the outstanding debt.

Funded depreciation cash - Funded depreciation cash (savings accounts) is restricted in use by agreement with the State of New York ("NYS"). These funded depreciation accounts are to be used for early payment of outstanding mortgages or limited capital improvements.

Restricted investments - Restricted investments consist of mutual funds and U.S. Treasury notes and obligations and represent the unused balance of bond proceeds specifically designated for the rehabilitation of existing facilities at various locations throughout Nassau and Suffolk Counties.

Deferred revenue and recoveries - The Organization receives funding in advance of providing certain services, generally pursuant to contractual agreements. Deferred revenue represents amounts received for services to be provided subsequent to year end. Recoveries represent amounts to be recovered in future years by the appropriate state funding agencies.

Net asset classification - Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

> ***Unrestricted net assets*** - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization and/or the passage of time. As such restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities and changes in net assets as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions, which stipulate that the corpus be maintained permanently by the Organization, but permit the Organization to expend part or all of the income and gains derived there from based on the donors' intentions.

The Organization did not have any temporarily or permanently restricted net assets as of December 31, 2011 and 2010.

Advertising costs - Advertising costs are charged to operations when incurred. Advertising costs approximated $119,000 and $211,000 for the years ended December 31, 2011 and 2010, respectively.

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

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Revenues - Revenues are recorded when earned as services are provided for residential care, day programs and clinical services. These programs are sponsored and funded by the Office for People With Developmental Disabilities ("OPWDD"), the Office of Mental Health ("OMH"), the Department of Health ("DOH"), the New York State Education Department ("SED") and Vocational and Educational Services for Individuals with Disabilities ("VESID"). Substantially all funding is through NYS reimbursement and Medicaid funding. Revenues are subject to audit and possible adjustment by third-party payers. The effects of any such adjustments are recorded when reasonably determinable. Management believes that the effect of audit adjustments, if any, will not have a material effect on the accompanying consolidated financial statements.

Functional allocation of expenses - Wages, taxes and benefits, food, utilities, repairs and maintenance, and other expenses are allocated among the programs and services benefited.

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

Allowance for doubtful accounts - Management must make estimates of the uncollectability of all accounts receivable. Management specifically analyzes receivables, historical bad debts and changes in circumstances when evaluating the adequacy of the allowance for doubtful accounts.

Uncertain tax positions - Management evaluated the tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification No. 740. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S federal, state or local tax authorities for the years before 2008, which is the standard statute of limitations look-back period.

Reclassifications - Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current year consolidated financial statements. These reclassifications have no effect on previously reported income.

Evaluation of subsequent events - Management has evaluated subsequent events through June 29, 2012, the date the consolidated financial statements are available for issuance, for inclusion or disclosure in the consolidated financial statements.

3. Property, Plant and Equipment, Net

Property, plant and equipment, net, consist of the following:

December 31,	**2011**	2010
Land	**$ 6,859,263**	$ 6,774,263
Buildings	**25,991,966**	23,160,678
Building Improvements	**24,569,972**	23,511,509
Leasehold Improvements	**1,697,787**	1,656,002
Equipment, Furniture and Fixtures	**4,133,525**	3,718,051
Transportation - Vehicles	**1,769,609**	1,328,240
Total Property, Plant and Equipment	**65,022,122**	60,148,743
Less Accumulated Depreciation and Amortization	**31,285,136**	27,984,097
Property, Plant and Equipment, net	**$ 33,736,986**	$ 32,164,646

A portion of the Organization's property, plant and equipment was purchased with funding received from the Medical Care Facilities Finance Agency ("MCFFA"), as described in Note 6. Funding for these capital expenditures was provided with the stipulation that if the Organization ceases to operate the programs during the term of the bond for OPWDD and OMH purposes, the property, plant and equipment will revert to the funding source. Capital grants received by the Organization for the purchase of property and equipment are recognized as income in the year the asset has been put into use and are included as income from non-operating activities in the accompanying consolidated statements of activities and changes in net assets.

4. Other Assets, Net

Other assets, net, consist of the following:

December 31,	**2011**	2010
Bond Issuance and Related Costs	**$ 4,624,773**	$ 4,624,773
Less Accumulated Amortization	**3,275,297**	3,117,471
Bond Issuance and Related Costs, net	**1,349,476**	1,507,302
Investments - Cash Surrender Value	**717,533**	630,922
Investments Held by Trustee - Bond Reserve Fund	**584,921**	584,921
Total Other Assets, net	**$ 2,651,930**	$ 2,723,145

5. Notes Payable - Line of Credit

At December 31, 2011 and 2010, the Organization had an established $8,000,000 line of credit which was shared by two banks. The outstanding balance on the line of credit is secured by the Organization's accounts receivable. The line of credit for $3 million expires on August 31, 2012 and the remaining $5 million on May 31, 2013. The lines of credit bear interest at the banks' prime rate (3.25% as of December 31, 2011).

At December 31, 2011 and 2010, $4,963,000 and $3,000,000, respectively, were outstanding under these respective lines of credit.

Interest expense for the years ended December 31, 2011 and 2010 approximated $95,000 and $1,200, respectively.

6. Long-Term Debt

The Organization has mortgages, bonds, and loans payable on several of its facilities summarized as follows at December 31, 2011 and 2010:

Indebtedness	Creditor		Balance Outstanding 2011	Balance Outstanding 2010	Average Rate of Interest
Mortgages Payable	ABN-AMRO Mortgage Group, Inc.	(A)	$ 129,158	$ 132,885	9.00%
	Community Preservation Corporation	(B)	104,593	125,750	5.96%
	TD Bank	(C)	1,477,947	1,543,208	7.19%
		(D)	967,443	1,010,271	7.19%
		(E)	967,443	1,010,271	7.19%
		(F)	694,934	-	5.70%
Notes Payable	Reese Michaels	(G)	210,017	225,017	Interest free
Bonds Payable	NYS Sponsored Medical Care Facilities Finance Agency	(H)	3,734,272	4,310,708	7.08%
	Suffolk County Industrial Development Agency Civic Facility Revenue Bonds	(I)	300,000	390,000	6.375%
		(J)	700,000	905,000	6.950%
		(K)	555,000	645,000	7.009% & 8.009%
		(L)	70,000	80,000	7.00% & 7.75%
		(M)	2,230,000	2,600,000	6.00% & 7.125%
		(N)	320,000	355,000	6.375%
		(O)	1,195,000	1,310,000	6.00% & 6.25%
		(P)	90,000	110,000	6.00% & 6.75%
		(Q)	730,000	788,000	5.95% & 7.25%
		(R)	1,657,000	1,777,000	5.95% & 7.08%
	Nassau County Industrial Development Agency Civic Facility Revenue Bonds	(S)	5,155,000	5,390,000	5.95% & 7.25%
		(T)	6,000,000	6,160,000	6.00%, 7.125% & 8.25%
	Suffolk County Industrial Development Agency Civic Facility Revenue Bonds: DASNY Bonds	(U)	320,475	329,762	5.0455%
	Capital Leases	(V)	595,528	-	5.75%
	Suffolk Community Bank	(W)	1,065,873	-	5.10%
Total Mortgages, Notes, Bonds and Loans Payable			29,269,683	29,197,872	
Less Current Maturities			2,441,308	2,234,312	
Total Long-Term Debt			$ 26,828,375	$ 26,963,560	

(A) This mortgage is secured by an OMH Supported Housing Project located in Hicksville, New York. This mortgage matures on May 1, 2027.

(B) This mortgage is secured by an Individualized Residential Alternative ("IRA") located in Huntington, New York. The mortgage matnres on June 1, 2018.

(C) This mortgage is secured by an OPWDD Day Hab project located in Middle Island, New York. The mortgage matures on January 1, 2025.

(D) This mortgage is secured by an OPWDD Housing project located in Coram, New York. The mortgage matures on January 1, 2025.

(E) This mortgage is secured by an OPWDD Housing project located in Lake Ronkonkoma, New York. The mortgage matures on January 1, 2025.

(F) This mortgage is secured by an OPWDD Housing project located in Port Jefferson, New York. The mortgage matures on April, 1 2026.

(G) This note payable is collateralized by the equestrian ranch and day program known as Saddlerock located in Middle Island, New York.

(H) The Organization recognizes revenue for both principal and interest reimbursed by NYS for all MCFFA bonds. These bonds are secured by either residences or day program facilities.

(I) This bond is secured by an IRA located in Central Islip, New York, a Respite facility located in Centereach, New York and a Supportive Residence located in Hauppauge, New York. This bond matures on June 1, 2014.

(J) This bond is secured by five IRAs located in Medford, Centereach, Kings Park, Huntington Station and Farmingville, New York. This bond matures on December 1, 2014.

(K) This bond is secured by two IRAs located in Patchogue, New York and one IRA located in Ridge, New York. $1,230,000 of the bond series was issued as tax-exempt with a fixed rate of interest of 7.009% for the fifteen year term. The remaining $40,000 was issued as taxable with a fixed rate of interest of 8.009%. This bond matures on June 1, 2016.

(L) This bond is secured by two cooperative apartments located in Farmingdale, New York. $150,000 of the bond series was issued as tax-exempt with a fixed rate of interest of 7.00% for the fifteen year term. The remaining $6,000 was issued as taxable with a fixed rate of interest of 7.75%. This bond matures on November 1, 2016.

(M) The Suffolk 2002 IDA Bond is secured by eight Intermediate Care Facilities ("ICFs"), nine IRAs, one Day Program, two OMH Community Residences and a parcel of land all located in Suffolk County. $5,110,000 of the bond series was issued as tax-exempt with a fixed rate of interest of 7.125% for the fifteen year term. The remaining $167,000 was issued as taxable with a fixed rate of interest of 6.00% for the five year term. This IDA bond matures on June 1, 2017.

(N) The Suffolk County 2003 A-A Bond is being used to refinance an IRA located in Middle Island, New York. $575,000 of the bond series was issued as tax-exempt with a fixed interest rate of 6.375% for the term of fifteen years. The remaining $20,000 was issued as taxable with a fixed interest rate of 6.375% for the term of five years. This bond matures on December 1, 2018.

(O) The Suffolk County 2004 A-C Bond is secured by three IRAs located in Huntington, Coram and Holbrook, New York. $1,925,000 of the bond series was issued as tax-exempt with a fixed interest rate of 6.00% for the fifteen year term. The remaining $65,000 was issued as taxable with a fixed interest rate of 6.25% for tbe five year term. This bond matures on December 1, 2019.

(P) This Suffolk County 2005 IDA Bond is secured by an ICF located in Ridge, New York and a building used for program space located in Hauppauge, New York. $195,000 was issued as tax-exempt with a fixed rate of 6.00% for the ten year term. The remaining $14,000 was issued as taxable with a fixed rate of 6.75% for the five year term. This bond matures on October 1, 2015.

(Q) This Suffolk County 2006 IDA Bond is secured by an IRA located in Smithtown, New York. $965,000 was issued as tax-exempt with a fixed rate of 5.95% for the fifteen year term. The remaining $33,000 was issued as taxable with a fixed rate of 7.25% for the five year term. This bond matures on October 1, 2021.

(R) This Suffolk County 2007 IDA Bond is secured by an IRA located in Coram, New York and an OPTS Program located in Middle Island, New York. $2,015,000 was issued as tax-exempt with a fixed rate of 5.95% for the fifteen year term. The remaining $72,000 was issued as taxable with a fixed rate of 7.08% for the five year term. This bond matures on November 1, 2022.

(S) This bond is secured by a building located in Old Bethpage, New York to be used for program, clinical and administrative space, and an IRA located in Massapequa Park, New York. Under the terms of the bond, the interest rate will be fixed at 7.50% for the first fifteen years of the bond, and then will increase to 8.15% for the remaining fifteen year term. This bond matures on June 1, 2030.

(T) This Nassau County 2002 IDA Bond is secured by two OMH Community Residences, one Respite site and a building to be used for program, clinical, and administrative space located in Nassau County. $6,610,000 of the bond series was issued as tax-exempt with a fixed rate of 8.250% for the 30 year term. $430,000 of the bond series was issued as tax-exempt with a fixed rate of 7.125% for the ten year term. The remaining $272,000 was issued as taxable with a fixed rate of interest of 6.00% for the five year term. This IDA bond matures on June I, 2012.

(U) This DASNY Bond is secured by an OMH Community Residence in Hauppauge, New York. The Agency recognizes revenue for both principal and interest reimbursed by NYS for the DASNY bond.

(V) The Agency has executed capital leases during 2011 related to vehicle purchases for various programs.

(W) On October 19, 2004, the Foundation entered into a mortgage agreement with the Suffolk County National Bank in the amount of $1,380,000. The initial interest rate on the mortgage was 6.46%. However, this interest rate was subsequently changed to 5.75% on October 19, 2009. According to the mortgage agreement, the interest rate the Foundation will pay may change every fifth year thereafter. The mortgage matures on October 19, 2024 and is secured by the Foundation's fixed assets. The Foundation was not in compliance with the annual debt service coverage ratio covenant for the year ended December 31, 2011 for which the Foundation obtained a waiver from the bank.

Minimum principal payments for long-term debt for the next five years are approximately as follows:

Year Ending December 31,	
2012	$ 2,441,000
2013	2,528,000
2014	2,638,000
2015	2,424,000
2016	2,191,000
Thereafter	17,048,000
Total	$ 29,270,000

Interest expense on long-term debt for the years ended December 31, 2011 and 2010 approximated $2,088,000 and $2,201,000, respectively.

7. Pension Plan

The Organization has a variable defined contribution pension plan covering all of its eligible employees. The Internal Revenue Service has qualified the pension plan under its guidelines.

The annual cost of the pension plan for the years ended December 31, 2011 and 2010 was approximately $698,000 and $1,450,600, respectively. All of the 2010 pension costs were funded during 2011.

The Organization has a 401(k) plan available to all of its employees. The Organization's matching contribution is determined annually. The total employee and employer contributions for the plan year ended December 31, 2011 approximated $902,000, of which, approximately $43,000 represents the amount matched by the Organization. The total contribution for the plan year ended December 31, 2010 was approximately $900,000, of which, approximately $84,000 represents the amount matched by the Organization. As of the date of this report, the Organization's matching contributions were fully funded.

The Organization also has a retirement plan covering several employees. The plan includes a corporate-sponsored split dollar agreement to purchase life insurance. The cash surrender value of the policies at December 31, 2011 and 2010 approximated $718,000 and $631,000, respectively. The retirement plan includes a separate deferred compensation arrangement to be paid at retirement. The Organization has accrued a long-term liability for this obligation of approximately $923,000 and $794,000 at December 31, 2011 and 2010, respectively.

8. Related Party Transactions

The Organization currently transports individuals attending day programs via a transportation company operated by a related party, Rides Unlimited of New York, Inc. ("Rides"). Transportation fees charged for the years ended December 31, 2011 and 2010 were approximately $3,585,000 and $3,554,000, respectively. The Organization has a contract to supply management services to Rides. Fees charged for management services for the years ended December 31, 2011 and 2010 were approximately $1,175,000 and $1,358,000, respectively. The Organization leases a vehicle storage and repair facility located in Islandia, New York to Rides. Rent charges for the years ended December 31, 2011 and 2010 were approximately $267,000 and $256,000, respectively. The Organization also obtains vehicle repair services and fuel from Rides. The total amounts incurred for these services and for fuel for the years ended December 31, 2011 and 2010 were approximately $328,000 and $331,000, respectively. The amounts due from Rides at December 31, 2011 and 2010 of approximately $827,000 and $110,000, respectively, are included in related party receivables.

The Organization has an agreement with The Rehabilitation Institute, Inc. ("TRI"), a New York not-for-profit corporation. TRI provides habilitation, rehabilitation and vocational programs, training and services to persons with various physical and mental disabilities in Nassau County, New York. The Organization provides management services to TRI to assist in the planning, administration and delivery of these services. Total amounts charged to TRI for these services amounted to approximately $437,000 and $290,000 for the years ended December 31, 2011 and 2010, respectively. The Organization had receivables from TRI, which amounted to $3,000 and $10,000 at December 31, 2011 and 2010, respectively.

The National Foundation for Human Potential, Inc. (the "National Foundation"), a non-profit corporation organized under the laws of the State of New York, provides financial and other support to organizations that promote educational, residential, and support services for people in need. To meet that purpose, the National Foundation raises funds and provides contributions and grant awards to organizations that serve the developmentally disabled, including the Organization. The Organization leases office space located in Old Bethpage, New York to the National Foundation. Rent charges for the years ended December 31, 2011 and 2010 were approximately $34,000 and $33,000, respectively.

In 2008, the Organization had entered into a management agreement with Park House Inc., a New York non-profit corporation, to provide administrative services. Park House Inc. provides housing and supports the needs of persons with physical and mental disabilities. Total amounts charged to Park House Inc. for the management services amounted to approximately $207,000 and $193,000 for the years ended December 31, 2011 and 2010, respectively.

At December 31, 2011 and 2010 the amounts due from Homes Anew I and Homes Anew II of approximately $56,000 and $326,000, respectively, were included in related party receivables.

The Organization is related to the entities listed above through management agreements in place to provide supervisory and management functions to these entities.

9. Commitments

The Organization is a party to various lease commitments. Minimum payments under these lease commitments at December 31, 2011 are as follows:

Year Ending December 31,	
2012	$ 1,723,000
2013	649,000
2014	431,000
2015	212,000
2016	203,000
Thereafter	356,000
Total	$ 3,574,000

The amounts above reflect existing contractual agreements. Property leases are often limited to one and two year terms. The Organization anticipates renewal and/or replacement of all such agreements and these amounts are not reflected above. Rent expense for the years ended December 31, 2011 and 2010 approximated $1,749,000 and $1,708,000, respectively.

10. Contingencies

The Organization is subject to certain claims and pending litigation, which are covered by certain insurance policies. These claims and pending litigation are related to matters which have arisen in the ordinary course of the Organization's activities and are not expected to have a material adverse effect on the Organization's financial position or changes in net assets.

The Organization received a draft audit report from the Office of the Medicaid Inspector General ("OMIG") regarding an audit of the IRA programs for the period of May 1, 2004 to December 31, 2007 conducted during the year ended December 31, 2010. The draft report states that the Organization was overpaid for certain IRA services performed, which is based on OMIG's sampling methodology used for their audits. OMIG extrapolated the error noted in their sample population to be approximately $764,000 which has been offered to the Organization as settlement in full satisfaction of all claims covered by the OMIG audit. The Organization is contesting the proposed findings in the draft audit report. As of December 31, 2011 and 2010, the Organization has accrued the proposed settlement amount which is included in accrued expenses in the accompanying consolidated statements of financial position.

11. Subsequent Events

On May 15, 2012 the Organization refinanced approximately $21 million of the Nassau and Suffolk IDA bonds with two participating banks. The refinanced interest rate is fixed at approximately 3.348% for a term of ten years and will be re-assessed to either a floating rate or a fixed rate after the initial term of ten years based on the conditions as set forth in the agreement. The current stated interest rates on the IDA bonds range from 5.95% to 8%. The bond refinancing would subject the Organization to various financial and other covenants as defined in the agreement and further allow the Organization to increase its existing line of credit from $8 million to $10 million. In connection with the refinance, the Organization also entered into interest rate swap agreements with the participating banks to pay a fixed rate of interest and hedge its exposure for changes in interest rates over the term of the refinanced debt.

12. Off-Balance Sheet Risk and Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash, investments and accounts receivable from governmental agencies. The Organization places its cash and investments with various financial institutions. At times throughout the year, the Organization may have maintained cash balances, which exceed the limits insured by the FDIC. Accounts receivable from governmental agencies are from federal, state and county agencies.

Supplementary Information

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Independent Auditors' Report on Supplementary Information

Board of Directors
Family Residences & Essential
Enterprises, Inc. and Subsidiaries
Old Bethpage, New York

Our audits of the consolidated financial statements of Family Residences & Essential Enterprises, Inc. and Subsidiaries (the "Organization") for the years ended December 31, 2011 and 2010 were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The supplementary information presented on pages 16 to 18 is presented for the purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Holtz Rubenstein Reminick LLP

Melville, New York
June 29, 2012

HOLTZ
RUBENSTEIN
REMINICK

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidating Statement of Financial Position

December 31, 2011

	Family Residences and Essential Enterprises, Inc.	Child Development Center of the Hamptons Charter School	Child Development Center of the Hamptons Preschool	Child Development Center of the Hamptons Foundation	Eliminations	Total
Assets						
Current Assets:						
Cash and cash equivalents	$ 361,487	$ 18,127	$ 272,960	$ 145,341	$ -	$ 797,915
Accounts receivable, net of allowance for doubtful accounts of approximately $2,800,000	19,065,639	1,021,409	627,084	-	-	20,714,132
Deposits and prepaid expenses	626,082	27,761	4,223	-	-	658,066
Investments	37,063	-	297	-	-	37,360
Related party receivables	894,060	-	-	-	-	894,060
Total Current Assets	20,984,331	1,067,297	904,564	145,341	-	23,101,533
Property, Plant and Equipment, net	30,674,998	991,142	42,364	2,028,482	-	33,736,986
Construction in Progress	133,411	-	-	-	-	133,411
Other Assets, net	2,651,930	-	-	-	-	2,651,930
Other Investments	363,280	-	-	-	-	363,280
Due from Affiliates	1,362,749	281,547	105,115	-	(1,749,411)	-
Assets with Limited Use:						
Funded depreciation cash	211,529	-	-	-	-	211,529
Restricted investments	4,103,694	-	-	-	-	4,103,694
Accrued Receivable - Unfunded Bond Principal	638,904	-	-	-	-	638,904
Total Plant and Other Long-Term Assets	40,140,495	1,272,689	147,479	2,028,482	(1,749,411)	41,839,734
Total Assets	$ 61,124,826	$ 2,339,986	$ 1,052,043	$ 2,173,823	$ (1,749,411)	$ 64,941,267
Liabilities and Net Assets						
Current Liabilities:						
Accounts payable	$ 1,977,122	$ 62,989	$ 45,330	$ 12,000	$ -	$ 2,097,441
Accrued expenses	9,143,536	586,077	399,132	-	-	10,128,745
Lines of credit	4,963,000	-	-	-	-	4,963,000
Due to New York State	831,262	-	-	-	-	831,262
Current maturities of long-term debt	2,383,463	-	-	57,845	-	2,441,308
Deferred revenue and recoveries	1,625,730	142,462	-	-	-	1,768,192
Total Current Liabilities	20,924,113	791,528	444,462	69,845	-	22,229,948
Long-Term Liabilities:						
Long-term debt, net of current maturities	25,820,347	-	-	1,008,028	-	26,828,375
Deferred revenue and recoveries	7,249,868	-	-	-	-	7,249,868
Other liabilities	923,030	-	-	-	-	923,030
Advanced funding - OMH	302,268	-	-	-	-	302,268
Due to affiliates	-	876,129	752,669	120,613	(1,749,411)	-
Total Long-Term Liabilities	34,295,513	876,129	752,669	1,128,641	(1,749,411)	35,303,541
Total Liabilities	55,219,626	1,667,657	1,197,131	1,198,486	(1,749,411)	57,533,489
Commitments and Contingencies						
Net Assets - Unrestricted	5,905,200	672,329	(145,088)	975,337	-	7,407,778
Total Liabilities and Net Assets	$ 61,124,826	$ 2,339,986	$ 1,052,043	$ 2,173,823	$ (1,749,411)	$ 64,941,267

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidating Statement of Activities and Changes in Net Assets

Year Ended December 31, 2011

	Family Residences and Essential Enterprises, Inc.	Child Development Center of the Hamptons Charter School	Child Development Center of the Hamptons Preschool	Child Development Center of the Hamptons Foundation	Eliminations	Total
Unrestricted Revenues, Gains and Other Support:						
OMH residential	$ 7,596,423	$ -	$ -	$ -	$ -	$ 7,596,423
OPWDD residential	44,231,679	-	-	-	-	44,231,679
Day program operations	22,167,112	-	-	-	-	22,167,112
Clinic program	4,165,579	-	-	-	-	4,165,579
HHAP/HUD programs	162,870	-	-	-	-	162,870
Charter school revenue	-	2,891,499	-	-	-	2,891,499
Preschool revenue	-	-	1,429,279	-	-	1,429,279
CDCH Foundation	-	-	-	124,046	-	124,046
Other program revenue	625,688	-	-	-	-	625,688
Investment income	49,735	-	-	-	-	49,735
Other miscellaneous income	2,170	-	-	-	-	2,170
Contributions	57,244	48,823	1,000	-	-	107,067
Unrealized and realized loss in fair market value of investments	(3,456)	-	-	-	-	(3,456)
Total Unrestricted Revenues, Gains and Other Support	79,055,044	2,940,322	1,430,279	124,046	-	83,549,691
Expenses:						
OMH residential	6,558,567	-	-	-	-	6,558,567
OPWDD residential	40,096,930	-	-	-	-	40,096,930
Day program operations	18,202,351	-	-	-	-	18,202,351
Clinic program	4,568,161	-	-	-	-	4,568,161
HHAP/HUD programs	287,607	-	-	-	-	287,607
Charter School	-	2,307,762	-	-	-	2,307,762
Preschool	-	-	893,895	-	-	893,895
CDCH Foundation	-	-	-	142,187	-	142,187
Other program expenses	750,348	-	-	-	-	750,348
Total Program Expenses	70,463,964	2,307,762	893,895	142,187	-	73,807,808
Support Services and Administration	8,514,760	204,278	454,271	-	-	9,173,309
Management fees	(272,518)	97,451	175,067	-	-	-
Total Expenses	78,706,206	2,609,491	1,523,233	142,187	-	82,981,117
Increase (Decrease) in Unrestricted Net Assets	348,838	330,831	(92,954)	(18,141)	-	568,574
Net Assets, beginning of year	5,556,362	341,498	(52,134)	-	-	5,845,726
Transfer In of Unrestricted Net Assets - Foundation	-	-	-	993,478	-	993,478
Net Assets, end of year	$ 5,905,200	$ 672,329	$ (145,088)	$ 975,337	$ -	$ 7,407,778

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidated Statement of Functional Expenses

Year Ended December 31, 2011 (with comparative totals for 2010)

	OMH Residential	OMRDD Residential	Day Program Operations	Clinic Program	HHAP/HUD Programs	Charter and PreSchool Expenses	Foundation Expenses	Other Program Expenses	Total Program Expenses	Support Services and Administration	Total 2011 Expenses	Total 2010 Expenses
Salaries	$ 2,774,211	$ 23,278,674	$ 8,416,803	$ 1,224,172	$ 117,043	$ 1,693,545	$ -	$ 286,208	$ 37,790,656	$ 3,251,970	**$ 41,042,626**	$ 39,468,072
Employee Benefits	897,401	7,530,174	2,722,663	395,994	37,861	496,039	-	92,583	12,172,715	1,776,918	**13,949,633**	13,089,507
Contracted Services	10,468	506,151	144,560	717,862	-	31,760	-	18,909	1,429,710	487,940	**1,917,650**	2,388,495
Client Transportation	-	-	3,549,603	35,402	-	-	-	-	3,585,005	-	**3,585,005**	3,575,772
Household Supplies/Food	327,352	1,848,390	300,565	120,038	12,292	89,503	-	125,953	2,824,093	157,865	**2,981,958**	3,035,606
Interest	149,454	830,789	440,060	30,772	-	-	-	64,418	1,515,493	675,346	**2,190,839**	2,200,249
Site Rental and Property Costs	1,321,079	400,947	87,661	4,380	61,343	142,042	- 61,969	23,299	2,102,720	16,644	**2,119,364**	1,909,922
Utilities	191,996	590,672	188,195	24,038	11,439	48,569	-	16,662	1,071,571	123,246	**1,194,817**	1,295,957
Repairs/Maintenance	183,349	1,125,267	417,715	59,017	19,979	142,160	-	36,178	1,983,665	274,681	**2,258,346**	3,053,950
Professional Fees	-	2,910	8,931	195,001	-	349,657	8,000	13,969	578,468	1,011,934	**1,590,402**	1,094,433
Insurance	164,566	487,005	245,990	78,347	5,821	57,385	1,507	17,017	1,057,638	173,328	**1,230,966**	1,220,756
Administration	-	-	-	-	-	-	-	-	-	-	**-**	6,299
Advertising/Recruitment	14,459	39,903	22,526	10,924	-	37,437	-	202	125,451	43,952	**169,403**	211,372
Equipment/Vehicle Rental	46,807	358,611	228,696	23,127	1,010	38,738	-	4,398	701,387	159,733	**861,120**	696,332
Telephone	66,675	224,490	176,806	13,359	1,632	9,241	-	8,704	500,907	72,817	**573,724**	516,806
Bad Debt Expense	-	3,625	10,143	1,152,991	-	-	-	-	1,166,759	-	**1,166,759**	528,436
Program/Recreation	1,495	11,754	65,766	269	-	1,359	-	910	81,553	9,158	**90,711**	365,638
Office Supplies	11,949	393,317	106,774	43,924	343	22,072	-	9,149	587,528	181,870	**769,398**	841,297
Computer Expense	79,957	215,062	244,455	302,251	-	30,690	-	1,943	874,358	89,615	**963,973**	981,624
Employee/Client Travel	41,022	195,962	71,952	1,810	1,258	6,246	-	1,184	319,434	46,873	**366,307**	320,477
Vehicle Gas	34,931	444,956	104,314	15,128	-	-	-	616	599,945	23,945	**623,890**	474,041
Conferences/Memberships	14,501	13,928	9,445	12,522	-	-	-	1,087	51,483	305,360	**356,843**	369,123
MCFFA Bond Fees Amortized	241	13,974	9,041	-	-	-	-	-	23,256	1,094	**24,350**	31,603
Depreciation/Amortization	226,654	1,580,369	629,687	106,833	17,586	2,764	62,747	26,959	2,653,599	622,001	**3,275,600**	2,791,672
Other	-	-	-	-	-	(153)	7,964	-	7,811	27,579	**35,390**	173,651
Rental Offset	-	-	-	-	-	2,603	-	-	2,603	(360,560)	**(357,957)**	(353,263)
Total Expenses	$ 6,558,567	$ 40,096,930	$ 18,202,351	$ 4,568,161	$ 287,607	$ 3,201,657	$ 142,187	$ 750,348	$ 73,807,808	$ 9,173,309	**$ 82,981,117**	$ 80,287,827

HOLTZ
RUBENSTEIN
REMINICK

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

REPORT ON AUDITS OF CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Years Ended December 31, 2010 and 2009

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FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

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Independent Auditors' Report

Board of Directors
Family Residences & Essential
Enterprises, Inc. and Subsidiaries
Old Bethpage, New York

We have audited the accompanying consolidated statements of financial position of Family Residences & Essential Enterprises, Inc. and Subsidiaries (the "Organization") as of December 31, 2010 and 2009, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Family Residences & Essential Enterprises, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Holtz Rubenstein Reminick LLP

Melville, New York
May 31, 2011

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Position

December 31,	2010	2009
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,860,681	$ 3,765,854
Accounts receivable, net of allowance for doubtful accounts of approximately $1,700,000 and $1,410,000, respectively	14,729,658	12,310,998
Deposits and prepaid expenses	3,151,069	816,608
Investments	47,119	8,863
Total Current Assets	19,788,527	16,902,323
Property, Plant and Equipment, net	32,368,226	29,920,095
Construction in Progress	36,500	1,143,323
Other Assets, net	2,723,145	2,837,479
Other Investments	302,762	243,978
Assets with Limited Use:		
Funded depreciation cash	211,001	200,243
Restricted investments	3,830,716	3,823,171
Accrued Receivable - Unfunded Bond Principal	751,562	898,728
Total Plant and Other Long-Term Assets	40,223,912	39,067,017
Total Assets	$ 60,012,439	$ 55,969,340
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	$ 4,061,203	$ 2,175,046
Accrued expenses	9,554,633	8,625,624
Line of credit	3,000,000	-
Due to New York State	737,267	887,060
Current maturities of long-term debt	2,234,312	2,228,535
Deferred revenue and recoveries	1,625,524	2,294,420
Total Current Liabilities	21,212,939	16,210,685
Long-Term Liabilities:		
Long-term debt, net of current maturities	26,963,560	29,211,737
Deferred revenue and recoveries	4,596,465	4,109,936
Other liabilities	793,907	637,535
Advanced funding - OMH	396,262	396,262
Total Long-Term Liabilities	32,750,194	34,355,470
Total Liabilities	53,963,133	50,566,155
Commitments and Contingencies		
Net Assets - Unrestricted	6,049,306	5,403,185
Total Liabilities and Net Assets	$ 60,012,439	$ 55,969,340

See notes to consolidated financial statements.

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidated Statements of Activities and Changes in Net Assets

Years Ended December 31,	2010	2009
Unrestricted Revenues, Gains and Other Support:		
OMH residential	$ 7,172,821	$ 7,024,176
OPWDD residential	43,940,253	43,075,954
Day program operations	22,100,691	20,506,932
Clinic program	4,164,838	3,111,890
HHAP/HUD programs	217,821	214,775
Charter school revenue	755,249	-
Preschool revenue	431,058	-
Other program revenue	635,108	712,938
Investment income	55,356	70,179
Other miscellaneous income	270,694	6,537
Contributions	64,391	71,162
Unrealized and realized gain in fair market value of investments	34,864	24,544
Total Unrestricted Revenues, Gains and Other Support	79,843,144	74,819,087
Expenses:		
OMH residential	7,015,027	6,363,484
OPWDD residential	39,619,664	38,696,477
Day program operations	20,190,992	18,544,031
Clinic program	3,623,289	2,902,949
HHAP/HUD programs	291,589	264,161
School expenses	1,242,213	-
Other program expenses	803,305	822,301
Total Program Expenses	72,786,079	67,593,403
Support Services and Administration	7,501,748	6,984,541
Total Expenses	80,287,827	74,577,944
(Decrease) Increase in Net Assets from Operations	(444,683)	241,143
OMH Threshold	-	705,541
Day Program Property Revenue	741,605	-
Increase in Unrestricted Net Assets	296,922	946,684
Net Assets, beginning of year	5,403,185	4,456,501
Transfer In of Unrestricted Net Assets	349,199	-
Net Assets, end of year	$ 6,049,306	$ 5,403,185

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FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31,	2010	2009
Cash Flows from Operating Activities:		
Increase in unrestricted net assets	$ 296,922	$ 946,684
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	2,791,672	2,607,430
Increase in allowance for doubtful accounts	287,224	209,636
Unrealized and realized gain in fair value of investments	(34,864)	(24,544)
Decrease in accrued receivable - unfunded bond principal	147,166	110,182
(Increase) decrease in operating assets:		
Accounts receivable	(2,607,355)	(33,684)
Deposits and prepaid expenses	(2,334,461)	(363,734)
Funded depreciation cash	(10,758)	(19,179)
Other assets	(78,163)	(96,972)
Increase (decrease) in operating liabilities:		
Accounts payable	1,886,157	1,048,558
Accrued expenses	1,004,535	2,972,946
Deferred revenue and recoveries	(182,367)	(1,461,776)
Due to New York State	(149,793)	149,793
Other liabilities	156,372	26,224
Net Cash Provided by Operating Activities	1,172,287	6,071,564
Cash Flows from Investing Activities:		
Purchase of property, plant and equipment	(3,765,339)	(2,202,632)
Sale (purchase) of investments, net of sales proceeds	5,257	(48,561)
(Decrease) increase in other investments	(67,433)	71,219
Net Cash Used in Investing Activities	(3,827,515)	(2,179,974)
Cash Flows from Financing Activities:		
Proceeds from line of credit and long-term debt	6,000,000	36,200,000
Payments of line of credit and long-term debt	(5,242,400)	(37,874,714)
(Increase) decrease in restricted investments	(7,545)	626,151
Net Cash Provided by (Used in) Financing Activities	750,055	(1,048,563)
Net (Decrease) Increase in Cash and Cash Equivalents	(1,905,173)	2,843,027
Cash and Cash Equivalents, beginning of year	3,765,854	922,827
Cash and Cash Equivalents, end of year	$ 1,860,681	$ 3,765,854
Supplemental Disclosure:		
Cash paid for interest	$ 2,214,852	$ 2,235,378

See notes to consolidated financial statements.

1. Organization and Nature of Activities

Family Residences & Essential Enterprises, Inc. (the "Agency") is a non-profit corporation organized under the laws of the State of New York. Its primary purpose is to support, in specially designed facilities equipped and operated to meet physical, mental, emotional and social needs, persons receiving services.

The Agency entered into membership change agreements with Services for the Underserved, Inc. ("SUS") to obtain control as the sole member of Child Development Center of the Hamptons Charter School ("Charter School") and Child Development Center of the Hamptons Preschool ("Preschool"). The amounts due to SUS from the Charter School and Preschool of approximately $1,500,000 were settled in cash of approximately $1,000,000 and a note of $500,000 payable in ten years. The unrestricted net assets of the Charter School and Preschool was approximately $349,000 on the date control was obtained by the Agency and have been included in the consolidated net assets of the Organization.

The Charter School is a non-profit corporation organized under the laws of the State of New York. Its primary purpose is to provide support and related services to both general and special education students including counseling, occupational and physical therapy, speech therapy, social skills, and ABA (Applied Behavioral Analysis), with an emphasis on Character Education and empathic practices. The Agency obtained control on October 1, 2010, as the sole member of the Charter School.

The Preschool is a non-profit corporation organized under the laws of the State of New York. Its primary purpose is to provide related services in speech, occupational therapy, physical therapy, counseling, social skills, applied behavior analysis, and counseling for children qualifying under New York State regulations. The Agency obtained control on September 1, 2010, as the sole member of the Preschool.

The Agency, Charter School and Preschool are classified as 501(c)(3) organizations, which are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code and a similar provision of the New York State income tax laws. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

2. Significant Accounting Policies

Basis of accounting - The accompanying consolidated financial statements include the accounts of the Agency and its sole membership subsidiaries Charter School and Preschool (collectively referred to as the "Organization"), and have been prepared on the accrual basis of accounting. All inter-company transactions have been eliminated in consolidation.

Cash and cash equivalents - The Organization considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The Organization does not include funded depreciation cash within its cash and cash equivalents balance, due to its restricted use.

Fair market value - Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the entity transacts. The Organization must determine whether its assets and liabilities recorded at fair value were based on Level 1 (valued based on quoted prices in an active market for identical assets), Level 2 (valued based on significant other observable inputs) or Level 3 (valued based on significant unobservable inputs) measurements within the fair value hierarchy.

Investments - Investments are recorded at their fair market values. Fair values are determined using quoted prices in an active market and represent Level 1 inputs within the fair value hierarchy. Gains and losses on investments are reported in the consolidated statements of activities and change in net assets as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulation or by law. Included in other investments in the accompanying consolidated statements of financial position are investments representing Level 1 inputs relating to a deferred compensation arrangement covering certain participating employees. These other investments are recorded using the same fair value measurement principles discussed above.

Property, plant and equipment, net - Property, plant and equipment are stated at cost, or in the case of donated items, at fair market value at the date of donation, less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the assets' useful life and/or lease terms, as appropriate.

The Organization's policy is to capitalize all purchases in excess of $1,000. Depreciation is based on the month placed in service for all buildings and improvements and is calculated using the straight-line method over the estimated useful lives of the assets detailed below. The half-year convention is used in connection with the depreciation of all other assets. Leasehold improvements are depreciated over the lesser of the life of the lease or the asset's life. Property, plant and equipment are depreciated using the following lives:

Buildings and Improvements	2 to 26 years
Equipment, Furniture and Fixtures	2 to 10 years
Transportation Vehicles	3 to 7 years

Construction in progress - At December 31, 2010 and 2009, construction in progress, which consists of amounts incurred in advance for future projects, amounted to approximately $37,000 and $1,143,000, respectively. The December 31, 2010 amount consisted of costs associated with the Terryville Road residential facility located in Port Jefferson, New York.

Other assets - bond issuance and related costs - Other assets include costs incurred in issuing bonds associated with implementing new programs. These costs are amortized using the straight-line method over the lives of the related bonds, which range from 5 to 26 years. Also included in this amount are investments held by the trustee in association with the bond issuances. These assets are to be used for the final payments on the outstanding debt.

Funded depreciation cash - Funded depreciation cash (savings accounts) is restricted in use by agreement with the State of New York ("NYS"). These funded depreciation accounts are to be used for early payment of outstanding mortgages or limited capital improvements.

Restricted investments - Restricted investments consist of mutual funds and U.S. Treasury notes and obligations and represent the unused balance of bond proceeds specifically designated for the rehabilitation of existing facilities at various locations throughout Nassau and Suffolk Counties.

Deferred revenue and recoveries - The Organization receives funding in advance of providing certain services, generally pursuant to contractual agreements. Deferred revenue represents amounts received for services to be provided subsequent to year end. Recoveries represent amounts to be recovered in future years by the appropriate state funding agencies.

Net asset classification - Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization and/or the passage of time. As such restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions, which stipulate that the corpus be maintained permanently by the Organization, but permit the Organization to expend part or all of the income and gains derived there from based on the donors' intentions.

The Organization did not have any temporarily or permanently restricted net assets as of December 31, 2010 and 2009.

Advertising costs - Advertising costs are charged to operations when incurred. Advertising costs approximated $211,000 and $232,000 for the years ended December 31, 2010 and 2009, respectively.

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

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Revenues - Revenues are recorded when earned as services are provided for residential care, day programs and clinical services. These programs are sponsored and funded by the Office for People With Developmental Disabilities ("OPWDD"), the Office of Mental Health ("OMH"), the Department of Health ("DOH"), New York State Education Department ("SED") and Vocational and Educational Services for Individuals with Disabilities ("VESID"). Substantially all funding is through NYS reimbursement and Medicaid funding. Revenues are subject to audit and possible adjustment by third-party payers. The effects of any such adjustments are recorded when reasonably determinable. Management believes that the effect of audit adjustments, if any, will not have a material effect on the accompanying consolidated financial statements.

Functional allocation of expenses - Wages, taxes and benefits, food, utilities, repairs and maintenance, and other expenses are allocated among the programs and services benefited.

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

Allowance for doubtful accounts - Management must make estimates of the uncollectability of all accounts receivable. Management specifically analyzes receivables, historical bad debts and changes in circumstances when evaluating the adequacy of the allowance for doubtful accounts.

Uncertain tax positions - Management evaluated the tax positions and concluded that the Organization had taken no uncertain tax provisions that require adjustment to the consolidated financial statements to comply with the provisions of FASB Accounting Standards Codification No. 740. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S federal, state or local tax authorities for the years before 2007, which is the standard statute of limitations look-back period.

Reclassifications - Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications have no effect on previously reported income.

Evaluation of subsequent events - Management has evaluated subsequent events through May 26, 2011, the date the consolidated financial statements are available for issuance, for inclusion or disclosure in the consolidated financial statements.

3. Property, Plant And Equipment, Net

Property, plant and equipment, net, consisted of the following:

December 31,	2010	2009
Land	$ 6,774,263	$ 6,774,263
Buildings	23,160,678	23,160,678
Building Improvements	23,511,509	21,111,293
Leasehold Improvements	1,656,002	94,500
Equipment, Furniture and Fixtures	3,718,051	2,466,140
Transportation - Vehicles	1,328,240	1,012,555
Total Property, Plant and Equipment	60,148,743	54,619,429
Less Accumulated Depreciation and Amortization	27,780,517	24,699,334
Property, Plant and Equipment, net	$ 32,368,226	$ 29,920,095

A portion of the Organization's property, plant and equipment was purchased with funding received from the Medical Care Facilities Finance Agency ("MCFFA"), as described in Note 6. Funding for these capital expenditures was provided with the stipulation that if the Organization ceases to operate the programs during the term of the bond for OPWDD and OMH purposes, the property, plant and equipment will revert to the funding source. Capital grants received by the Organization for the purchase of property and equipment are recognized as income in the year the asset has been put into use and are included as income from non-operating activities in the accompanying consolidated statements of activities and changes in net assets.

4. Other Assets, Net

Other assets, net, consisted of the following:

December 31,	2010	2009
Bond Issuance and Related Costs	$ 4,624,773	$ 4,624,773
Less Accumulated Amortization	3,117,471	2,924,974
Bond Issuance and Related Costs, net	1,507,302	1,699,799
Investments - Cash Surrender Value	630,922	552,759
Investments Held by Trustee - Bond Reserve Fund	584,921	584,921
Total Other Assets, net	$ 2,723,145	$ 2,837,479

5. Notes Payable - Line of Credit

At December 31, 2010 and 2009, the Organization had an established $8,000,000 line of credit which was shared by two banks. The outstanding balance on the line of credit is secured by the Organization's accounts receivable and expires on August 31, 2011. The lines of credit bear interest at the bank's prime rate (3.25% as of December 31, 2010).

At December 31, 2010 and 2009, $3,000,000 and $0, respectively, were outstanding under these respective lines of credit.

Interest expense for the years ended December 31, 2010 and 2009 approximated $1,200 and $38,300, respectively.

6. Long-Term Debt

The Organization has mortgages, bonds, and loans payable on several of its facilities summarized as follows at December 31, 2010 and 2009:

Indebtedness	Creditor		Balance Outstanding 2010	2009	Average Rate of Interest
Mortgages Payable	ABN-AMRO Mortgage Group, Inc.	(A)	$ 132,885	$ 136,293	9.00%
	Community Preservation Corporation	(B)	125,750	145,670	5.96%
	TD Bank	(C)	1,543,208	1,600,000	7.19%
		(D)	1,010,271	1,050,000	7.19%
		(E)	1,010,271	1,050,000	7.19%
Notes Payable	Reese Michaels	(F)	225,017	240,017	Interest free
Bonds Payable	NYS Sponsored Medical Care Facilities Finance Agency	(G)	4,310,708	4,935,668	7.08%
	Suffolk County Industrial Development Agency Civic Facility Revenue Bonds	(H)	390,000	475,000	6.375%
		(I)	905,000	1,100,000	6.950%
		(J)	645,000	730,000	7.009% & 8.009%
		(K)	80,000	90,000	7.00% & 7.75%
		(L)	2,600,000	2,955,000	6.00% & 7.125%
		(M)	355,000	390,000	6.375%
		(N)	1,310,000	1,420,000	6.00% & 6.25%
		(O)	110,000	133,000	6.00% & 6.75%
		(P)	788,000	845,000	5.95% & 7.25%
		(Q)	1,777,000	1,886,000	5.95% & 7.08%
	Nassau County Industrial Development Agency Civic Facility Revenue Bonds	(R)	5,390,000	5,605,000	5.95% & 7.25%
		(S)	6,160,000	6,315,000	6.00%, 7.125% & 8.25%
	Suffolk County Industrial Development Agency Civic Facility Revenue Bonds: DASNY Bonds	(T)	329,762	338,624	5.0455%
Total Mortgages, Notes, Bonds and Loans Payable			29,197,872	31,440,272	
Less Current Maturities			2,234,312	2,228,535	
Total Long-Term Debt			$ 26,963,560	$ 29,211,737	

(A) This mortgage is secured by an OMH Supported Housing Project located in Hicksville, New York. This mortgage matures on May 1, 2027.

(B) This mortgage is secured by an Individualized Residential Alternative ("IRA") located in Huntington, New York. The mortgage matures on June 1, 2018.

(C) This mortgage is secured by an OPWDD Day Hab project located in Middle Island, New York. The mortgage matures on January 1, 2025.

(D) This mortgage is secured by an OPWDD Housing project located in Coram, New York. The mortgage matures on January 1, 2025.

(E) This mortgage is secured by an OPWDD Housing project located in Lake Ronkonkoma, New York. The mortgage matures on January 1, 2025.

(F) This note payable is collateralized by the equestrian ranch and day program known as Saddlerock located in Middle Island, New York.

(G) The Organization recognizes revenue for both principal and interest reimbursed by NYS for all MCFFA bonds. These bonds are secured by either residences or day program facilities.

(H) This bond is secured by an IRA located in Central Islip, New York, a Respite facility located in Centereach, New York and a Supportive Residence located in Hauppauge, New York. This bond matures on June 1, 2014.

(I) This bond is secured by five IRAs located in Medford, Centereach, Kings Park, Huntington Station and Farmingville, New York. This bond matures on December 1, 2014.

(J) This bond is secured by two IRAs located in Patchogue, New York and one IRA located in Ridge, New York. $1,230,000 of the bond series was issued as tax-exempt with a fixed rate of interest of 7.009% for the 15 year term. The remaining $40,000 was issued as taxable with a fixed rate of interest of 8.009%. This bond matures on June 1, 2016.

(K) This bond is secured by two cooperative apartments located in Farmingdale, New York. $150,000 of the bond series was issued as tax-exempt with a fixed rate of interest of 7.00% for the 15 year term. The remaining $6,000 was issued as taxable with a fixed rate of interest of 7.75%. This bond matures on November 1, 2016.

(L) The Suffolk 2002 IDA Bond is secured by eight Intermediate Care Facilities ("ICFs"), nine IRAs, one Day Program, two OMH Community Residences and a parcel of land all located in Suffolk County. $5,110,000 of the bond series was issued as tax-exempt with a fixed rate of interest of 7.125% for the 15 year term. The remaining $167,000 was issued as taxable with a fixed rate of interest of 6.00% for the five year term. This IDA bond matures on June 1, 2017.

(M) The Suffolk County 2003 A-A Bond is being used to refinance an IRA located in Middle Island, New York. $575,000 of the bond series was issued as tax-exempt with a fixed interest rate of 6.375% for the term of 15 years. The remaining $20,000 was issued as taxable with a fixed interest rate of 6.375% for the term of five years. This bond matures on December 1, 2018.

(N) The Suffolk County 2004 A-C Bond is secured by three IRAs located in Huntington, Coram and Holbrook, New York. $1,925,000 of the bond series was issued as tax-exempt with a fixed interest rate of 6.00% for the 15 year term. The remaining $65,000 was issued as taxable with a fixed interest rate of 6.25% for the five year term. This bond matures on December 1, 2019.

(O) This Suffolk County 2005 IDA Bond is secured by an ICF located in Ridge, New York and a building used for program space located in Hauppauge, New York. $195,000 was issued as tax-exempt with a fixed rate of 6.00% for the ten year term. The remaining $14,000 was issued as taxable with a fixed rate of 6.75% for the five year term. This bond matures on October 1, 2015.

(P) This Suffolk County 2006 IDA Bond is secured by an IRA located in Smithtown, New York. $965,000 was issued as tax-exempt with a fixed rate of 5.95% for the 15 year term. The remaining $33,000 was issued as taxable with a fixed rate of 7.25% for the five year term. This bond matures on October 1, 2021.

(Q) This Suffolk County 2007 IDA Bond is secured by an IRA located in Coram, New York and an OPTS Program located in Middle Island, New York. $2,015,000 was issued as tax-exempt with a fixed rate of 5.95% for the 15 year term. The remaining $72,000 was issued as taxable with a fixed rate of 7.08% for the five year term. This bond matures on November 1, 2022.

(R) This bond is secured by a building located in Old Bethpage, New York to be used for program, clinical and administrative space, and an IRA located in Massapequa Park, New York. Under the terms of the bond, the interest rate will be fixed at 7.50% for the first 15 years of the bond, and then will increase to 8.15% for the remaining 15 year term. This bond matures on June 1, 2030.

(S) This Nassau County 2002 IDA Bond is secured by two OMH Community Residences, one Respite site and a building to be used for program, clinical, and administrative space located in Nassau County. $6,610,000 of the bond series was issued as tax-exempt with a fixed rate of 8.250% for the 30 year term. $430,000 of the bond series was issued as tax-exempt with a fixed rate of 7.125% for the ten year term. The remaining $272,000 was issued as taxable with a fixed rate of interest of 6.00% for the five year term. This IDA bond matures on June 1, 2012.

(T) This DASNY Bond is secured by an OMH Community Residence in Hauppauge, New York. The Agency recognizes revenue for both principal and interest reimbursed by NYS for the DASNY bond.

Minimum principal payments for long-term debt for the next five years are approximately as follows:

Years Ending December 31,	
2011	$ 2,234,000
2012	2,353,000
2013	2,438,000
2014	2,541,000
2015	2,328,000
Thereafter	17,304,000
Total	$ 29,198,000

Interest expense on long-term debt for the years ended December 31, 2010 and 2009 approximated $2,201,000 and $2,125,000, respectively.

7. Pension Plan

The Organization has a variable defined contribution pension plan covering all of its eligible employees. The Internal Revenue Service has qualified the pension plan under its guidelines.

The annual cost of the pension plan for the years ended December 31, 2010 and 2009 was approximately $1,450,600 and $1,687,000, respectively. At December 31, 2010, $400,000 of the 2010 pension expense has been funded. In addition, all of the 2009 remaining pension costs were funded during 2010.

The Organization has a 401(k) plan available to all of its employees. The Organization's matching contribution is determined annually. The total employee and employer contributions for the plan year ended December 31, 2010 approximated $900,000, of which, approximately $84,000 represents the amount matched by the Organization. The total contribution for the plan year ended December 31, 2009 was approximately $693,000, of which, approximately $34,000 represents the amount matched by the Organization. As of the date of this report, the Organization's matching contributions were fully funded.

The Organization also has a retirement plan covering several employees. The plan includes a corporate-sponsored split dollar agreement to purchase life insurance. The cash surrender value of the policies at December 31, 2010 and 2009, approximated $631,000 and $553,000, respectively. The retirement plan includes a separate deferred compensation arrangement to be paid at retirement. The Organization has accrued a long-term liability for this obligation of approximately $794,000 and $638,000 at December 31, 2010 and 2009, respectively.

8. Related Party Transactions

The Organization currently transports individuals attending day programs via a transportation company operated by a related party, Rides Unlimited of New York, Inc. ("RUNY"). Transportation fees charged for the years ended December 31, 2010 and 2009 were approximately $3,554,000 and $3,426,000, respectively. The Organization has a contract to supply management services to RUNY. Fees charged for management services for the years ended December 31, 2010 and 2009 were approximately $1,358,000 and $1,273,000, respectively. The Organization leases a vehicle storage and repair facility located in Islandia, New York to RUNY. Rent charges for the years ended December 31, 2010 and 2009 were approximately $256,000 and $247,000, respectively. The Organization also obtains vehicle repair services and fuel from RUNY. The total amounts incurred for these services and for fuel for the years ended December 31, 2010 and 2009 were approximately $331,000 and $317,000, respectively.

The Organization has an agreement with The Rehabilitation Institute, Inc. ("TRI"), a New York not-for-profit corporation. TRI provides habilitation, rehabilitation and vocational programs, training and services to persons with various physical and mental disabilities in Nassau County, New York. The Organization provides management services to TRI to assist in the planning, administration and delivery of these services. Total amounts charged to TRI for these services amounted to approximately $290,000 and $240,000 for the years ended December 31, 2010 and 2009, respectively. The Organization had receivables from TRI, which amounted to $0 and $10,000 at December 31, 2010 and 2009, respectively.

The National Foundation for Human Potential, Inc. (the "Foundation"), a non-profit corporation organized under the laws of the State of New York, provides financial and other support to organizations that promote educational, residential, and support services for people in need. To meet that purpose, the Foundation raises funds and provides contributions and grant awards to organizations that serve the developmentally disabled, including the Organization. The Organization leases office space located in Bethpage, New York to the Foundation. Rent charges for the years ended December 31, 2010 and 2009 were approximately $33,000 and $32,000, respectively.

In 2008, the Organization had entered into a management agreement with Park House Inc., a New York non-profit corporation, to provide administrative services. Park House Inc. provides housing and supports the needs of persons with physical and mental disabilities. Total amount charged to Park House Inc. for the management services amounted to approximately $193,000 and $180,000 for the years ended December 31, 2010 and 2009, respectively.

9. Commitments

The Organization is a party to various lease commitments. Minimum payments under these lease commitments at December 31, 2010 are as follows:

Years Ending December 31,	
2011	$ 1,581,000
2012	619,000
2013	372,000
2014	277,000
2015	219,000
Thereafter	109,000
Total	$ 3,177,000

The amounts above reflect existing contractual agreements. Property leases are often limited to one and two year terms. The Organization anticipates renewal and/or replacement of all such agreements and these amounts are not reflected. Rent expense for the years ended December 31, 2010 and 2009 approximated $1,708,000 and $1,565,000, respectively.

10. Contingencies

The Organization is subject to certain claims and pending litigation, which are covered by certain insurance policies. These claims and pending litigation are related to matters which have arisen in the ordinary course of the Organization's activities and are not expected to have a material adverse effect on the Organization's financial position or changes in net assets.

The Organization received a draft audit report from the Office of the Medicaid Inspector General ("OMIG") regarding an audit of the IRA programs for the period of May 1, 2004 to December 31, 2007 conducted during the year ended December 31, 2010. The draft report states that the Organization was overpaid for certain IRA services performed, which is based on OMIG's sampling methodology used for their audits. OMIG extrapolated the error noted in their sample population to be approximately $764,000 which has been offered to the Organization as settlement in full satisfaction of all claims covered by the OMIG audit. The Organization is contesting the proposed findings in the draft audit report. As of December 31, 2010, the Organization has accrued the proposed settlement amount which is included in accrued expenses in the accompanying consolidated statements of financial position.

HOLTZ
RUBENSTEIN
REMINICK

Supplementary Information

HOLTZ
RUBENSTEIN
REMINICK

Independent Auditors' Report on Supplementary Information

Our audit for the year ended December 31, 2010 was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The information on pages 14 to 16 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied to the audit of the basic consolidated financial statements for the year ended December 31, 2010 and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Holtz Rubenstein Reminick LLP

Melville, New York
May 31, 2011

HOLTZ
RUBENSTEIN
REMINICK

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidating Statement of Financial Position

December 31, 2010

		Family Residences and Essential Enterprises, Inc.		Child Development Center of the Hamptons Charter School		Child Development Center of the Hamptons Preschool		Eliminations		Total
Assets										
Current Assets:										
Cash and cash equivalents	$	1,299,309	$	270,557	$	290,815	$	-	$	1,860,681
Accounts receivable, net of allowance for doubtful accounts of approximately $1,700,000 and $1,410,000, respectively		13,980,058		343,366		406,234		-		14,729,658
Deposits and prepaid expenses		3,138,149		4,076		8,844		-		3,151,069
Investments		46,822		-		297		-		47,119
Total Current Assets		18,464,338		617,999		706,190		-		19,788,527
Property, Plant and Equipment, net of accumulated depreciation		31,035,752		1,281,891		50,583		-		32,368,226
Construction in Progress		36,500		-		-		-		36,500
Other Assets, net of accumulated amortization		2,723,145		-		-		-		2,723,145
Other Investments		302,762		-		-		-		302,762
Due from Subsidiaries		1,027,049		-		-		(1,027,049)		-
Assets with Limited Use:										
Funded depreciation cash		211,001		-		-		-		211,001
Restricted investments		3,830,716		-		-		-		3,830,716
Accrued Receivable - Unfunded Bond Principal		751,562		-		-		-		751,562
Total Plant and Other Long-Term Assets		39,918,487		1,281,891		50,583		(1,027,049)		40,223,912
Total Assets	$	58,382,825	$	1,899,890	$	756,773	$	(1,027,049)	$	60,012,439
Liabilities and Net Assets										
Current Liabilities:										
Accounts payable	$	3,925,768	$	94,762	$	40,673	$	-	$	4,061,203
Accrued expenses		8,553,414		618,984		382,235		-		9,554,633
Line of credit		3,000,000		-		-		-		3,000,000
Due to New York State		737,267		-		-		-		737,267
Current maturities of long-term debt		2,234,312		-		-		-		2,234,312
Deferred revenue and recoveries		1,625,524		-		-		-		1,625,524
Total Current Liabilities		20,076,285		713,746		422,908		-		21,212,939
Long-Term Liabilities:										
Long-term debt, net of current maturities		26,963,560		-		-		-		26,963,560
Deferred revenue and recoveries		4,596,465		-		-		-		4,596,465
Other liabilities		793,907		-		-		-		793,907
Advanced funding - OMH		396,262		-		-		-		396,262
Due to parent		-		641,050		385,999		(1,027,049)		-
Total Long-Term Liabilities		32,750,194		641,050		385,999		(1,027,049)		32,750,194
Total Liabilities		52,826,479		1,354,796		808,907		(1,027,049)		53,963,133
Commitments and Contingencies										
Net Assets - Unrestricted		5,556,346		545,094		(52,134)		-		6,049,306
Total Liabilities and Net Assets	$	58,382,825	$	1,899,890	$	756,773	$	(1,027,049)	$	60,012,439

See independent auditors' report on supplementary information.

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidating Statement of Activities and Changes in Net Assets

Year Ended December 31, 2010

	Family Residences and Essential Enterprises, Inc.	Child Development Center of the Hamptons Charter School	Child Development Center of the Hamptons Preschool	Eliminations	Total
Unrestricted Revenues, Gains and Other Support:					
OMH residential	$ 7,172,821	$ -	$ -	$ -	$ 7,172,821
OPWDD residential	43,940,253	-	-	-	43,940,253
Day program operations	22,100,691	-	-	-	22,100,691
Clinic program	4,164,838	-	-	-	4,164,838
HHAP/HUD programs	217,821	-	-	-	217,821
Charter school revenue	-	755,249	-	-	755,249
Preschool revenue	-	-	431,058	-	431,058
Other program revenue	635,108	-	-	-	635,108
Investment income	55,356	-	-	-	55,356
Other miscellaneous income	7,690	93,741	169,263	-	270,694
Contributions	57,945	6,446	-	-	64,391
Unrealized and realized gain in fair market value of investments	34,864	-	-	-	34,864
Total Unrestricted Revenues, Gains and Other Support	78,387,387	855,436	600,321	-	79,843,144
Expenses:					
OMH residential	7,015,027	-	-	-	7,015,027
OPWDD residential	39,619,664	-	-	-	39,619,664
Day program operations	20,190,992	-	-	-	20,190,992
Clinic program	3,623,289	-	-	-	3,623,289
HHAP/HUD programs	291,589	-	-	-	291,589
School expenses	-	699,593	542,620	-	1,242,213
Other program expenses	803,305	-	-	-	803,305
Total Program Expenses	71,543,866	699,593	542,620	-	72,786,079
Support Services and Administration	7,431,965	37,835	31,948	-	7,501,748
Total Expenses	78,975,831	737,428	574,568	-	80,287,827
(Decrease) Increase in Net Assets from Operations before OMH Threshold and Saddle Rock Revenue	(588,444)	118,008	25,753	-	(444,683)
OMH Threshold	-	-	-	-	-
Saddle Rock Revenue	741,605	-	-	-	741,605
Increase in Unrestricted Net Assets	153,161	118,008	25,753	-	296,922
Net Assets, beginning of year	5,403,185	-	-	-	5,403,185
Transfer In of Unrestricted Net Assets	-	427,086	(77,887)	-	349,199
Net Assets, end of year	$ 5,556,346	$ 545,094	$ (52,134)	$ -	$ 6,049,306

APPENDIX B-III

INSTITUTE FOR COMMUNITY LIVING, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2013, JUNE 30, 2012 AND JUNE 30, 2011)

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

CONTENTS

GRASSI & CO.
Accountants and Success Consultants®
Accounting, Auditing, Tax, Litigation Support, Valuation, Management & Technology Consulting

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Institute for Community Living, Inc.
and Related Entities
New York, New York

We have audited the accompanying consolidated financial statements of Institute for Community Living, Inc. and Related Entities (the "Consolidated Group") which comprise the consolidated statements of financial position at June 30, 2013 and 2012, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated statements of financial position of Institute for Community Living, Inc. and Related Entities at June 30, 2013 and 2012, and the consolidated 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.

Grassi & Co, CPAs, P.C.

GRASSI & CO., CPAs, P.C.

Jericho, New York
December 12, 2013

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash and cash equivalents	$ 1,805,546	$ 4,451,998
Investments in mutual funds	1,249,715	1,165,358
Accounts receivable - government contracts	4,843,922	4,340,398
Accounts receivable - Medicaid/Medicare (net of allowance for bad debts of $2,579,000 in 2013 and $1,939,000 in 2012)	9,033,949	7,588,418
Accounts receivable - other (net of allowance for bad debts of $1,076,000 in 2013 and $902,000 in 2012)	7,272,378	4,589,382
Loan receivable	519,812	519,812
Prepaid expenses and other assets	785,799	481,152
Limited use assets		
Lease payment fund - cash	-	260,000
Debt service reserve fund - cash	1,318,577	1,075,781
Construction fund - cash	2,992,861	-
Fixed assets, net	27,460,475	42,843,376
Deferred charge	6,904,708	7,029,174
Total Assets	$ 64,187,742	$ 74,344,849
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 10,596,163	$ 7,120,069
Accrued salaries payable	1,490,144	1,449,700
Deferred compensation payable	1,351,998	1,249,355
Advances from government agencies	4,499,566	3,102,787
Due to New York State Office of Mental Health - capital advances	2,345,758	14,443,522
Due to New York State	1,812,216	6,246,943
Mortgages payable	25,431,693	24,584,491
Swap liability	827,338	1,216,932
Capital lease payable	5,405,000	5,850,000
Loan payable	990,100	-
Reserve for rate adjustments	632,000	964,000
Total Liabilities	55,381,976	66,227,799
Commitments and Contingencies		
Net assets		
Unrestricted - undesignated	5,955,813	5,251,288
Unrestricted - capital reserve	797,786	777,458
Unrestricted - depreciation	1,581,453	1,571,219
Total Unrestricted Net Assets	8,335,052	7,599,965
Temporarily restricted	470,714	517,085
Total Net Assets	8,805,766	8,117,050
Total Liabilities and Net Assets	$ 64,187,742	$ 74,344,849

The accompanying notes are an integral part of these consolidated financial statements.

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating revenues and other support:						
MH residential	$ 47,726,314	$ -	$ 47,726,314	$ 45,049,154	$ -	$ 45,049,154
Homeless services	13,008,641	-	13,008,641	13,108,359	-	13,108,359
MR residential services	12,290,395	-	12,290,395	13,431,858	-	13,431,858
Children and family services	8,923,278	-	8,923,278	9,488,778	-	9,488,778
Community support services	1,967,878	-	1,967,878	3,382,030	-	3,382,030
Veteran families services	555,610	-	555,610	-	-	-
Clinic	2,664,236	-	2,664,236	3,193,485	-	3,193,485
Other programs	3,796,010	-	3,796,010	1,758,401	-	1,758,401
Net assets released from restrictions	46,371	(46,371)	-	46,371	(46,371)	-
Total Operating Revenues and Other Support	90,978,733	(46,371)	90,932,362	89,458,436	(46,371)	89,412,065
Operating expenses:						
Program services						
MH residential services	41,634,876	-	41,634,876	38,874,845	-	38,874,845
Homeless services	11,866,437	-	11,866,437	11,956,126	-	11,956,126
MR residential services	9,924,221	-	9,924,221	11,104,180	-	11,104,180
Children and family services	7,898,620	-	7,898,620	9,077,716	-	9,077,716
Community support services	1,991,477	-	1,991,477	2,645,133	-	2,645,133
Veteran families services	495,626	-	495,626	-	-	-
Clinic programs	3,267,493	-	3,267,493	3,283,623	-	3,283,623
Other programs	4,772,449	-	4,772,449	2,749,108	-	2,749,108
Total Program Services	81,851,199	-	81,851,199	79,690,731	-	79,690,731
Supporting services						
Management and general	8,958,058	-	8,958,058	9,383,838	-	9,383,838
Total Operating Expenses	$ 90,809,257	$ -	$ 90,809,257	$ 89,074,569	$ -	$ 89,074,569

The accompanying notes are an integral part of these consolidated financial statements.

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF ACTIVITIES (CONT'D.)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013				2012			
		Unrestricted	Temporarily Restricted	Total		Unrestricted	Temporarily Restricted	Total
Change in net assets from operations		$ 169,476	$ (46,371)	$ 123,105		$ 383,867	$ (46,371)	$ 337,496
Nonoperating revenues								
Contributions		31,087	-	31,087		9,461	-	9,461
Special events revenue	$ 228,169				$ 224,540			
Cost of special events	(91,223)	136,946	-	136,946	(100,742)	123,798	-	123,798
Interest		7,984	-	7,984		7,656	-	7,656
Total Nonoperating Revenues		176,017	-	176,017		140,915	-	140,915
Change in Net Assets before Swap Transaction		345,493	(46,371)	299,122		524,782	(46,371)	478,411
Gain (Loss) on Swap Agreement		389,594	-	389,594		(452,296)	-	(452,296)
Change in Net Assets		735,087	(46,371)	688,716		72,486	(46,371)	26,115
Net Assets, Beginning of Year		7,599,965	517,085	8,117,050		7,527,479	563,456	8,090,935
Net Assets, End of Year		$ 8,335,052	$ 470,714	$ 8,805,766		$ 7,599,965	$ 517,085	$ 8,117,050

The accompanying notes are an integral part of these consolidated financial statements.

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	2013												
	Program Services									Supporting Services			
	MH Residential Services	Homeless Services	MR Residential Services	Children and Family Services	Community Support Services	Veteran Families Services	Clinic Programs	Other Programs	Total	Management and General	Cost of Special Events	Total	Total
Salaries	$ 16,276,975	$ 3,405,283	$ 5,124,405	$ 4,196,319	$ 1,286,673	$ 186,310	$ 1,570,369	$ 2,268,986	$ 34,315,320	$ 4,465,723	$ -	$ 4,465,723	$ 38,781,043
Fringe benefits	4,483,718	927,575	1,432,162	1,083,205	357,899	60,115	605,320	832,134	9,782,128	1,303,001	-	1,303,001	11,085,129
Total Salaries and Related Expenses	20,760,693	4,332,858	6,556,567	5,279,524	1,644,572	246,425	2,175,689	3,101,120	44,097,448	5,768,724	-	5,768,724	49,866,172
Professional fees and contract service payments	1,326,886	1,984,650	606,162	233,401	8,670	147,506	30,921	593,663	4,932,059	948,988	-	948,988	5,881,047
Data processing	222,822	82,162	51,991	67,378	24,313	2,292	-	150,995	601,953	380,241	-	380,241	982,194
Utilities	1,104,174	316,647	192,514	191,010	19,857	4,433	23,136	9,331	1,863,102	38,427	-	38,427	1,901,529
Rent	8,672,808	2,865,641	14,520	844,311	-	73,978	312,939	82,965	13,067,160	453,092	-	453,092	13,520,252
Maintenance, repairs and other property costs	1,068,078	265,570	144,544	290,024	1,154	1,922	5,239	177,095	1,951,626	174,854	-	174,854	2,126,480
Furniture and equipment	862,729	37,599	70,329	73,498	1,609	639	16,314	7,921	1,070,638	6,445	-	6,445	1,077,083
Equipment rental	135,635	24,323	43,531	41,862	12,529	-	7,824	7,642	273,346	43,904	-	43,904	317,250
Employee travel	73,393	378	15,428	20,047	20,170	1,040	2,989	27,320	160,765	65,045	57	65,102	225,867
Client travel	134,352	36,116	3,900	92,446	3,627	6,763	45,821	1,889	324,914	973	-	973	325,887
Telephone	483,476	69,181	56,517	117,068	35,734	1,821	42,388	58,833	865,018	250,279	-	250,279	1,115,297
Postage and printing	101,242	7,365	37,750	29,384	2,709	411	-	18,585	197,446	78,033	9,825	87,858	285,304
Supplies	735,855	316,078	343,175	66,095	15,639	6,135	17,543	82,818	1,583,338	94,392	-	94,392	1,677,730
Dues and subscriptions	9,120	1,290	740	570	-	-	9,909	80,210	101,839	183,604	-	183,604	285,443
Interest	1,226,550	-	95,107	75,040	17,650	-	-	160	1,414,507	919	-	919	1,415,426
Personnel recruitment	9,073	10,540	4,651	3,984	1,008	1,371	-	27,926	58,553	27,396	-	27,396	85,949
Conferences and meetings	5,709	820	1,956	1,019	777	49	-	7,625	17,955	40,894	60	40,954	58,909
Vehicle expense	172,238	25,706	128,588	3,847	12,532	-	-	19,646	362,557	77,355	-	77,355	439,912
Staff training	5,067	3,474	8,309	3,617	27	483		32,796	53,773	101,356	-	101,356	155,129
Insurance	758,476	160,295	164,092	83,961	67,239	-	6,848	24,149	1,265,060	104,949	-	104,949	1,370,009
Food	1,232,516	1,142,234	248,368	29,988	1,290	-	-	1,730	2,656,126	7,728	-	7,728	2,663,854
Clothing	12,350	-	18,002	640	297	-	-	-	31,289	-	-	-	31,289
Client activities	340,834	1,690	26,189	77,650	84,041	-	-	1,419	531,823	1,204	-	1,204	533,027
Subcontractor	277,731	179,732	-	-	-	-	-	-	457,463	-	-	-	457,463
New York State tax assessment	-	-	237,734	-	-	-	-	-	237,734	-	-	-	237,734
Day habilitation	-	-	613,580	-	-	-	-	-	613,580	-	-	-	613,580
Bad debt	-	-	-	-	-	-	531,520	60,000	591,520	-	-	-	591,520
Special event - catering	-	-	-	-	-	-	-	-	-	-	79,824	79,824	79,824
Depreciation and amortization	1,691,116	-	226,315	272,256	15,823	360	-	192,259	2,398,129	101,781	0	101,781	2,499,910
Miscellaneous	13,953	88	13,662	-	10	-	38,413	4,352	70,478	7,475	1,457	8,932	79,410
Total Expenses	41,634,876	11,866,437	9,924,221	7,898,620	1,991,477	495,626	3,267,493	4,772,449	81,851,199	8,958,058	91,223	9,049,281	90,900,480
Less: Cost of special events	-	-	-	-	-	-	-	-	-	-	(91,223)	(91,223)	(91,223)
Total Expenses Reported by Function on the Statement of Activities	$ 41,634,876	$ 11,866,437	$ 9,924,221	$ 7,898,620	$ 1,991,477	$ 495,626	$ 3,267,493	4,772,449	$ 81,851,199	$ 8,958,058	$ -	$ 8,958,058	$ 90,809,257

The accompanying notes are an integral part of these consolidated financial statements.

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	2012											
	Program Services								Supporting Services			
	MH Residential Services	Homeless Services	MR Residential Services	Children and Family Services	Community Support Services	Clinic Programs	Other Programs	Total	Management and General	Cost of Special Events	Total	Total
Salaries	$ 16,144,650	$ 3,684,628	$ 5,364,440	$ 4,665,581	$1,744,413	$ 2,015,039	$1,078,263	$ 34,697,014	$ 5,252,568	$ -	$ 5,252,568	$ 39,949,582
Fringe benefits	3,964,243	890,887	1,316,966	1,056,765	453,533	670,449	289,044	8,641,867	1,133,958	-	1,133,958	9,775,845
Total Salaries and Related Expenses	20,108,893	4,575,515	6,681,406	5,722,346	2,197,946	2,685,488	1,367,307	43,338,901	6,386,526	-	6,386,526	49,725,427
Rent	8,169,727	2,726,683	15,529	817,399	-	324,426		12,053,764	749,919	-	749,919	12,803,683
Professional fees and contract service payments	568,144	2,023,500	517,649	316,634	11,012	9,555	567,969	4,014,463	487,197	400	487,597	4,502,060
Depreciation and amortization	1,678,749	-	257,238	272,064	15,823	10,311	161,445	2,395,628	161,157	-	161,157	2,556,785
Interest	1,223,854	-	112,314	83,895	18,148	-	259,385	1,697,596	311	-	311	1,697,907
Utilities	1,049,824	287,941	191,416	219,087	25,294	30,109	-	1,803,671	61,080	-	61,080	1,864,751
Maintenance, repairs and other property costs	1,041,054	458,279	208,922	533,144	12,868	9,780	82,792	2,346,839	89,440	-	89,440	2,436,279
Food	1,328,573	1,143,823	249,167	54,951	2,106	-	-	2,778,620	11,462	-	11,462	2,790,082
Supplies	690,393	266,186	295,186	86,273	76,506	24,874	37,500	1,498,918	106,316	-	106,316	1,605,234
Furniture and equipment	442,160	38,725	76,520	56,190	11,066	426	-	625,087	17,138	-	17,138	642,225
Insurance	485,455	114,511	97,672	57,330	44,773	3,526	-	803,267	82,969	-	82,969	886,236
Client activities	343,121	1,455	20,832	115,581	93,306	-	76	574,371	-	-	-	574,371
Data processing	139,375	89,152	34,387	72,652	32,638	19,894	7,202	395,500	320,259	-	320,259	715,759
Telephone	375,369	71,204	49,519	106,355	42,200	67,275	16,239	728,161	231,263	-	231,263	959,424
Clothing	146,908	-	18,619	7,938	200	-	-	173,665	-	-	-	173,665
Vehicle expense	102,711	44,655	113,977	5,647	12,414	-	22,570	301,974	80,243	-	80,243	382,217
New York State tax assessment	-	-	204,396	-	-	-	-	204,396	-	-	-	204,396
Day habilitation	-	-	1,838,444	-	-	-	-	1,838,444	-	-	-	1,838,444
Equipment rental	134,196	22,268	41,342	39,836	13,352	12,941	11,831	275,766	62,534	-	62,534	338,300
Postage and printing	98,917	7,684	39,025	31,613	3,880	-	3,564	184,703	74,439	17,699	92,138	276,841
Client travel	108,335	37,000	6,635	81,956	3,949	50,243	-	288,118	-	-	-	288,118
Special events - catering	-	-	-	-	-	-	-	-	-	81,947	81,947	81,947
Employee travel	63,120	884	10,367	29,480	26,821	3,347	11,273	145,292	90,171	-	90,171	235,463
Dues and subscriptions	-	8,625	880	696	-	11,715	1,417	23,333	167,710	-	167,710	191,043
Conferences and meetings	4,963	1,318	3,052	1,812	99	-	-	11,244	45,218	406	45,624	56,868
Staff training	7,431	2,107	5,510	9,941	264	-	108	25,361	99,572	-	99,572	124,933
Personnel recruitment	9,214	14,570	5,089	2,305	400	-	8,670	40,248	47,100	-	47,100	87,348
Miscellaneous	7,643	41	9,089	391	68	19,713	9,740	46,685	11,814	290	12,104	58,789
Subcontractor	546,716	-	-	-	-	-	-	546,716	-	-	-	546,716
Bad debt	-	-	-	350,000	-	-	180,000	530,000	-	-	-	530,000
Total Expenses	38,874,845	11,956,126	11,104,180	9,077,716	2,645,133	3,283,623	2,749,108	79,690,731	9,383,838	100,742	9,484,580	89,175,311
Less: Cost of special events	-	-	-	-	-	-	-	-	-	(100,742)	(100,742)	(100,742)
Total Expenses Reported by Function on the Statement of Activities	$ 38,874,845	$ 11,956,126	$ 11,104,180	$ 9,077,716	$2,645,133	$ 3,283,623	$2,749,108	$ 79,690,731	$ 9,383,838	$ -	$ 9,383,838	$ 89,074,569

The accompanying notes are an integral part of these consolidated financial statements.

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash flows from operating activities		
Change in net assets	$ 688,716	$ 26,115
Adjustments to reconcile change in net assets to net cash provided by operating activities		
(Gain) loss on swap agreement	(389,594)	452,296
Depreciation and amortization	2,499,910	2,556,785
Bad debts	591,520	530,000
Deferred charge	124,466	(56,578)
Decrease (increase) in assets		
Accounts receivable	(5,223,571)	(1,741,273)
Prepaid expenses and other assets	(304,647)	103,214
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	3,476,094	(120,309)
Accrued salaries payable	40,444	178,497
Deferred compensation payable	102,643	(1,287,100)
Advances from government agencies	1,396,779	(692,284)
Due to New York State	(4,434,727)	1,166,308
Reserve for rate adjustments	(332,000)	(393,000)
Net cash provided by operating activities	(1,763,967)	722,671
Cash flows from investing activities		
Deconsolidation of ICL Healthcare Choices, Inc. - cash	-	(118,670)
Fixed asset acquisitions	(982,394)	(8,183,403)
Purchase of investments	(261,382)	(181,104)
Sales of investments	177,025	1,460,216
(Increase) decrease in limited use assets	(2,975,657)	36,397
Net cash used in investing activities	(4,042,408)	(6,986,564)
Cash flows from financing activities		
Proceeds from New York State OMH - capital advances	-	6,109,695
Proceeds from mortgage payable	2,600,000	-
Principal payments on capital lease payable	(445,000)	(430,000)
Principal payments on mortgages payable	(1,752,798)	(1,652,138)
Proceeds from loans	2,757,721	-
Net cash provided by financing activities	3,159,923	4,027,557
Net decrease in cash and cash equivalents	(2,646,452)	(2,236,336)
Cash and cash equivalents, beginning of year	4,451,998	6,688,334
Cash and cash equivalents, end of year	$ 1,805,546	$ 4,451,998
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 1,415,426	$ 1,697,907
Non-cash Investing and Financing Activities		
Fixed asset transfer to Livonia Apartments, LP	$ 15,105,292	$ -
New York State capital advance transfer to Livonia Apartments, LP	$ 12,625,437	$ -

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 - Nature of Entities and Principles of Consolidation

Institute for Community Living, Inc. ("ICL"), located in New York City, was incorporated under New York State Law in 1986. Its mission is to assist people with mental and developmental disabilities who need opportunities to improve their quality of life and to participate in community living by providing high-quality services and support. ICL is funded primarily by fees paid by the New York State Office of Mental Health ("OMH"), Office for People with Developmental Disabilities ("OPWDD") and Medicaid.

ICL Joselow House, Inc. ("Joselow"), located in New York City, was incorporated in 1999 under the New York State Not-for-Profit Corporation Law. Joselow began operations on May 3, 1999. Its mission is to provide residential services to developmentally disabled people. Joselow is supported primarily by service fees paid by Medicaid.

The Guidance Center of Brooklyn, Inc. ("GCB") was incorporated under New York State Law in 1970. GCB maintains and operates a mental health treatment program, a substance abuse treatment program and a substance abuse prevention program. GCB is supported primarily by service fees paid by Medicaid. Effective January 29, 1999, OMH approved a change in sponsorship whereby ICL was named the new sponsor of services provided by GCB. On February 8, 1999, the Board of Directors of ICL accepted the resignation of the former Board of Directors of GCB and appointed a new Board of Directors for GCB.

ICL Real Property Holding Corporation ("ICLRPHC"), located in New York City, was incorporated under New York State Law in 1994. Its mission is to own, purchase, acquire, lease and/or mortgage real property and premises thereon to further the exempt purpose of ICL. Its primary source of funding is rental income from ICL.

Phoenix Recycling and Maintenance, Inc. ("Phoenix") is a for-profit organization that was incorporated under the New York State Business Corporation Law in 1998. Phoenix is a full-service cleaning, maintenance and waste management company. Its purpose is to provide training and opportunities for persons who are disabled or who have histories of homelessness or welfare. Phoenix is supported primarily by revenue received from cleaning, maintenance and waste management services.

Note 1 - Nature of Entities and Principles of Consolidation (cont'd.)

Pennsylvania Institute for Community Living, Inc. ("PICL") is a not-for-profit corporation formed in the Commonwealth of Pennsylvania that has been established to develop and operate residential and outpatient treatment, rehabilitation and support services for individuals with mental disabilities. Its mission is to assist people with mental and developmental disabilities who need opportunities to improve their quality of life and to participate in community living by providing high-quality services and support. PICL is funded primarily through the Montgomery County Office of Mental Health.

ICL is the sole member of ICLRPHC, Joselow, GCB, PICL and Phoenix and appoints the various boards of directors.

ICL, Joselow, GCB, and PICL are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code ("IRC"). ICLRPHC is a tax-exempt organization under Section 501(c)(2) of the IRC.

Consolidated Financial Statements

During 2013 and 2012, the consolidated financial statements include the financial position, changes in net assets and cash flows of ICL, Joselow, GCB, ICLRPHC, PICL, and Phoenix (the "Consolidated Group"). All intercompany transactions have been eliminated.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

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

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 - Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Valuations based on unobservable inputs reflecting the Consolidated Group's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

At June 30, 2013 and 2012, the fair value of the Consolidated Group's financial instruments including cash and cash equivalents, certificates of deposit, accounts receivable, loan receivable, limited use assets, accounts payable and accrued expenses, and accrued salaries payable, approximated book value due to the short maturity of these instruments.

Refer to Note 7 - Fair Value Measurements for assets measured at fair value.

Cash and Cash Equivalents

The Consolidated Group classifies as cash and cash equivalents all highly liquid investments with initial maturities of three months or less when purchased which are not deemed to be assets limited as to use.

Investments

Investments are stated at the readily determinable fair market value in accordance with the Not-for-Profit Entities topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). All interest, dividends and realized and unrealized gains and losses are reported in the statement of activities as increases or decreases in unrestricted net assets.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Accounts Receivable, Allowance for Doubtful Accounts and Revenue Recognition

The Consolidated Group records receivables and revenue based on established third-party reimbursement rates for services provided. Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed the amounts spent, the Consolidated Group establishes advances from government funders. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include management's assessment of the creditworthiness of its funders, the age of the receivable, a review of payments subsequent to year-end as well as current economic conditions and historical information. Interest income is not accrued or recorded on outstanding receivables. The Consolidated Group has established an allowance for doubtful accounts of $3,655,000 and $2,841,000 for June 30, 2013 and 2012, respectively.

Limited Use Assets

These amounts represent cash which is set aside under the terms of the mortgage, loan or bond agreements.

Property and Equipment

Property and equipment is recorded at cost. The Consolidated Group capitalizes all purchases of property and equipment equal to or in excess of $5,000 and an estimated useful life of more than one year. Repairs and maintenance are charged to expense in the period incurred. Depreciation of property and equipment is provided utilizing the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of the remaining term of the lease or the useful life of the improvement utilizing the straight-line method.

Useful lives are as follows:

Land	
Building and	5 to 25 years
Leasehold improvements	5 to 25 years
Vehicles and equipment	3 to 5 years
Furniture and equipment	3 to 15 years

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Deferred Charge

OMH and OPWDD include in the reimbursement rate paid to service providers interest and principal amortization on loans from the Dormitory Authority of the State of New York ("DASNY"). The Consolidated Group recognizes revenues, however, based upon interest and depreciation of the facility. The difference between the revenues recognized and the reimbursement from OMH and OPWDD is reflected as a deferred charge on the statement of financial position. This deferred charge represents a timing difference which will accumulate over the early periods of the loan repayments and will reverse during the latter periods of the loan repayments.

Derivative Financial Instruments

ICL entered into an interest rate swap agreement relating to financing from the Industrial Development Agency ("IDA") (see Note 6). ICL accounts for and discloses this interest rate swap agreement in accordance with FASB ASC Subtopic 815-10, *Derivatives and Hedging*. In accordance with FASB ASC Subtopic 815-10, ICL has determined that the interest rate swap is a derivative instrument, and therefore the gain or loss in the fair value of the derivative is recognized in the statement of activities.

Net Assets

Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Board designated funds (capital reserve and depreciation) are resources restricted by the board for the future purchase of capital assets.

Contributions

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

Functional Expenses

The costs of providing the Consolidated Group's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Rental Property Revenue

ICLRPHC recognized rental property revenue based on lease agreements. ICLRPHC leases space to tenants under cancelable leases that expire in 2013 and are renewable each year thereafter.

Measure of Operations

Changes in net assets from operations include all revenues and expenses relating to consumer care, including management fee revenue. Contributions, special events, interest income and gain or loss on swap agreement are considered nonoperating.

Credit Quality of Receivables

ICL carries its loan receivable at the principal amount due reduced by a loan loss allowance. ICL evaluates its loan receivable based on past payment history and the creditworthiness of the borrower, and establishes, as necessary, a loan loss allowance during the year, when it determines that contractual payments of interest and principal on the loan will not be collected in accordance with terms of the loan agreement. Amounts receivable will be charged off against the allowance only if all reasonable attempts at collection fail. At June 30, 2013 and 2012, ICL has determined that no loan loss allowance is necessary.

Accounting for Uncertainty in Income Taxes

The Consolidated Group has adopted the provisions pertaining to uncertain tax provisions (FASB ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. The Consolidated Group is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Consolidated Group believes it is no longer subject to income tax examinations prior to 2009.

Note 3 - Concentration of Credit Risk

The Consolidated Group maintains cash balances in several financial institutions, which are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to $250,000 per institution. From time to time, the Consolidated Group's balances may exceed these limits.

A significant portion of ICL's operating revenues are paid by Medicaid and the New York State OMH.

	2013	2012
New York State OMH	27%	24%
Medicaid	23%	30%

Note 4 - Loan Receivable

During 2005, ICL loaned $1,561,173 to ICL Healthcare Choices ("ICLHCC") for real property acquisition and the refinancing of existing debt. At June 30, 2013 and 2012, the balance due is $519,812. Principal is scheduled to be paid annually. During 2013, ICLHCC did not make any principal payments. Interest is paid monthly at a variable interest rate ranging from 4.09% to 4.23%. The loan matures November 2014.

Note 5 - Property and Equipment

Property and equipment, net is summarized as follows:

	2013	2012
Land	$ 1,270,355	$ 1,270,355
Building and improvements	53,556,333	67,291,121
Leasehold improvements	2,427,605	2,427,605
Vehicles and equipment	2,490,764	1,646,967
Furniture and equipment	40,956	32,956
	59,786,013	72,669,004
Less: Accumulated depreciation and amortization	32,325,538	29,825,628
	$ 27,460,475	$ 42,843,376

Depreciation and amortization expense related to property and equipment amounted to $2,499,910 and $2,556,785 for the years ended June 30, 2013 and 2012, respectively. In September 2006, ICLRPHC received a donated building from OMH to operate one of its programs. The building was recorded at fair value at the date of donation. OMH has stipulated that if the program is not operated for a period of twenty years, the building will revert to OMH. During 2013, fixed assets totaling $15,105,292 relating to the Livonia Avenue, Brooklyn, NY residence were transferred to Livonia Apartments, LP. (see Notes 12 and 22).

ICL reviews the carrying value of the long-lived assets to determine if any facts and circumstances exist, which would suggest that the assets might be impaired. If impairment is indicated, an adjustment will be made to reduce the carrying amount of the long-lived asset to its fair value. Based on ICL's review at June 30, 2013, no impairment of long-lived assets was evident.

Note 6 - Derivative Financial Instruments

On September 14, 2004, ICL, in conjunction with securing financing from the IDA, entered into an interest-rate swap agreement with HBSC Bank, USA in order to convert the interest rate on its tax-exempt Series A Bond to a fixed rate of 4.09%. Under the swap contract, ICL pays interest at 4.09% and receives interest at varying rates. The swap is designated to hedge the risk of changes in interest payments on the note caused by changes in the Bond Market Association ("BMA"). The notional amounts do not represent actual amounts exchanged by the parties, but instead represent the amounts on which the contracts are based. On December 30, 2010, ICL entered into an agreement with JP Morgan Chase for a swap agreement whereby ICL will pay JP Morgan Chase 4.34% annual interest on the outstanding balance of the bond issued under the IDA and JP Morgan Chase will assume all responsibility for the swap agreement from HSBC Bank.

The swap was issued at market terms so that it had no fair value or carrying value at its inception. The carrying amount of the swap has been adjusted to its fair value at the end of the year which, because of changes in forecasted levels of BMA, resulted in reporting a liability for the fair value of the future net payments forecasted under the swap. The swap contract permits settlement prior to maturity only through termination by ICL. The settlement amount is determined based on forecasted changes in interest rates required under fixed and variable legs of the swap. ICL believes the settlement amount is the best representation of the fair value of the swap and has adjusted its carrying amount to the settlement amount at the end of the year.

Since the critical terms of the swap and the capital lease are approximately the same, the swap is assumed to be effective as a hedge, and the changes in fair values are included as an "other change in net assets." If the swap is terminated early, the corresponding carrying amount would be reclassified into revenues and gains or expenses before other changes. The swap agreement resulted in a market-to-market unrestricted gain of $389,594 and loss of $452,296 in 2013 and 2012, respectively. At June 30, 2013 and 2012, the fair value of the swap agreement was a liability of $827,338 and $1,216,932, respectively.

Note 7 - Fair Value Measurements

The Consolidated Group measures its marketable securities at fair value. Fair value is an exit price, representing the amount that would be received on the sale of an asset or that would be paid to transfer a liability in an orderly transaction between market participants. As a basis for considering such assumptions, a three-tier fair value hierarchy is used which prioritizes the inputs in the valuation methodologies in measuring fair value.

Fair Value Hierarchy

The methodology for measuring fair value specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect the Consolidated Group's own assumptions of market participant valuation (unobservable inputs).

Note 7 - Fair Value Measurements (cont'd.)

Fair Value Hierarchy (cont'd.)

The pricing model for the swap agreement used inputs that are observed from actively quoted markets such as issuer details, indices, spreads, interest rates, yield curves, dividends and exchange rates. Financial derivatives that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Items Measured at Fair Value on a Recurring Basis

The following tables present the Consolidated Group's assets and liabilities that are measured at fair value on a recurring basis at June 30, 2013 and 2012:

	2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 38,366	$ -	$ -	$ 38,366
Mutual funds:				
Equities	831,826	-	-	831,826
Fixed income	379,523	-	-	379,523
Total	$ 1,249,715	$ -	$ -	$ 1,249,715
Liabilities:				
Swap agreements	$ -	$ 827,338	$ -	$ 827,338

	2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 16,099	$ -	$ -	$ 16,099
Mutual funds:				
Equities	624,089	-	-	624,089
Fixed income	525,170	-	-	525,170
Total	$ 1,165,358	$ -	$ -	$ 1,165,358
Liabilities:				
Swap agreements	$ -	$ 1,216,932	$ -	$ 1,216,932

Note 8 - Limited Use Assets

Under the terms of the DASNY mortgage, the Consolidated Group was required to deposit with the DASNY bond trustee amounts to be held in a debt service reserve fund, which will be withdrawn to satisfy the last installments on the DASNY mortgages. Interest earned on this reserve fund will be used to reduce Consolidated Group's payment obligation under the mortgages. The balance of the reserve fund at June 30, 2013 and 2012 is $1,075,781.

Note 8 - Limited Use Assets (cont'd.)

During 2013, under terms of the Build NYC mortgage, the Consolidated Group was required to deposit with the trustee amounts to be held in a construction reserve, which will be used for renovations and amounts to be held in a debt service reserve fund, which will be withdrawn to satisfy the last installments of the mortgage. The balances of these funds at June 2013 are $2,002,761 and $242,796, respectively.

On June 3, 2013, ICL entered into a loan agreement with an unrelated organization to receive funding for the acquisition and renovation of a new residence for developmentally disabled individuals. At June 2013, $990,100 of the loan proceeds were held in an escrow account.

Note 9 - Escrow Funds Held on Behalf of ICL

On March 30, 2005, ICL began operations of an OMH-funded program (known as "Milestone Residence") on the grounds of Creedmoor Psychiatric Center ("Center"). This program was previously operated by a nonrelated not-for-profit organization. ICL entered into a revocable permit agreement with the Center, effective March 30, 2005. The agreement allows ICL to use and occupy the premises and operate the program in accordance with the provisions of a license issued by OMH. The agreement stipulates responsibility of facility-related costs between the parties. ICL is granted exclusive permission to use and occupy the premises from the effective date, continuing through (1) the expiration date of the OMH license, or (2) the effective date of a long-term lease of the premises between ICL and DASNY, as landlord. There is no payment of rent, permit fees, license fees or any other amounts between the Center and ICL.

On the same date, ICL and OMH entered into an escrow agreement. The agreement stipulates that monies will be held by an escrow agent who will be required to receive, disburse and account for such monies. The escrow agent is required to establish a bank account to which the agent is the signatory. The escrow agent is also required to receive written consent to disburse such monies from both ICL and OMH. These monies are for facility-related expenditures of the Milestone Residence. The initial deposit was $2,321,942. At June 30, 2013 and 2012, $658,891 and $987,480, respectively, remained with the escrow agent, and is not recorded in these financial statements.

Note 10 - Due To New York State

The Consolidated Group has entered into contracts with The New York State OPWDD for the operation of two intermediate care facilities ("ICFs") and six individualized residential alternatives ("IRAs"). As part of the agreement, OPWDD advanced funds to the Consolidated Group and expended funds on the Consolidated Group's behalf for pre-operational start-up costs, buildings, equipment, renovations, lease costs, real estate taxes and operations. The Consolidated Group has agreed to pay back to OPWDD all of the above funds to the extent that such costs are reimbursed by Medicaid.

Note 10 - Due To New York State (cont'd.)

Medicaid payments for these costs are withheld from remittances. The amounts due to OPWDD at June 30, 2013 and 2012 are $635,243 and $2,402,648, respectively.

ICL and GCB receive additional Medicaid funding for its clinic services in the form of a Comprehensive Outpatient Provider System ("COPS") and CSP add-on. The COPS and CSP add-ons are derived from a formula calculated by OMH. After certain thresholds are met, a COPS and CSP Medicaid liability becomes due. ICL and GCB have estimated the potential liability; however, the estimate may change based upon final settlement. The amount due is withheld from Medicaid remittances in increments of 10% of the total Medicaid payment. The amounts due to OMH at June 30, 2013 and 2012 are $1,176,973 and $3,844,295, respectively.

Note 11 - Advances from Government Agencies

Advances from government agencies represent funds advanced by the New York State OMH and Medicaid through the New York State OMH for the Consolidated Group's future OMH contracts.

Note 12 - New York State Office of Mental Health - Capital Advance

ICL has been advanced funds by OMH under a contract for the construction and rehabilitation of two residences. These residences are located at Livonia Avenue, Brooklyn, New York, and West 37th Street, Brooklyn, New York. These advances bear no interest and will not be repaid until they are replaced with long-term mortgages financed through DASNY. During 2013, the capital advance of $12,625,437 relating to the Livonia Avenue, Brooklyn, New York residence was transferred to Livonia Apartments, LP.

Note 13 - Line of Credit

ICL maintains a $5,000,000 revolving line of credit payable with interest, which at June 30, 2013 was the higher of prime or the one-month LIBOR rate plus 2.50%. The line of credit expires on December 30, 2013. There is no outstanding balance at June 30, 2013 and 2012. The line is secured by Medicaid receivables.

Note 14 - Mortgages Payable

	2013	2012
Dormitory Authority of the State of New York ("DASNY")		
ICL entered into loan agreements with DASNY, a body corporate and public of the State of New York, constituting a public benefit corporation of the New York State Office of Mental Health and the Office of People with Developmental Disabilities.		
1. The principal amount shall bear interest at the rate of 6.19% per annum and shall be payable to DASNY in semiannual installments until December 2018. The property secured is the land and building located at Washington Avenue, Brooklyn, New York, with a net book value of $274,503.	$ 300,847	$ 346,406
2. The principal amount shall bear interest at the rate of 6.87% per annum and shall be payable to DASNY in semiannual installments until November 2017. The property secured is the land and building located at State Street, Brooklyn, New York, with a net book value of $734,064.	1,071,024	1,285,021
3. The principal amount shall bear interest at the rate of 6.73% per annum and shall be payable to DASNY in semiannual installments until December 2015. The property secured is the land and building located at Halsey Street, Brooklyn, New York, with a net book value of $231,475.	242,800	345,374
4. The principal amount shall bear interest at the rate of 6.36% per annum and shall be payable to DASNY in semiannual installments until August 2018. The property secured is the land and building located at Avenue K, Brooklyn, New York, with a net book value of $176,518.	246,450	285,950
Subtotal Carried Forward	$ 1,861,121	$ 2,262,751

Note 14 - Mortgages Payable (cont'd.)

	2013	2012
Dormitory Authority of the State of New York (DASNY) (cont'd.)		
Subtotal Brought Forward	$ 1,861,121	$ 2,262,751
5. The principal amount shall bear interest at the rate of 6.42% per annum and shall be payable to DASNY in semiannual installments until August 2018. The property secured is the land and building located at Rugby Road, Brooklyn, New York, with a net book value of $249,789.	331,500	385,250
6. The principal amount shall bear interest at the rate of 6.41% per annum and shall be payable to DASNY in semiannual installments until February 2019. The property secured is the land and building located at West 12th Street, Brooklyn, New York, with net book value of $269,730.	263,000	303,000
7. The principal amount shall bear interest at the rate of 6.42% per annum and shall be payable to DASNY in semiannual installments until February 2019. The property secured is the land and building located at Avenue D, Brooklyn, New York, with a net book value of $480,473.	528,500	608,500
8. The principal amount shall bear interest at the rate of 6.19% per annum and shall be payable to DASNY in semiannual installments until June 2019. The property secured is the land and building located at Emerson Place, Brooklyn, New York, with a net book value of $1,012,669.	1,098,560	1,248,190
9. The principal amount shall bear interest at the rate of 4.91% per annum and shall be payable to DASNY in semiannual installments until December 2027. The property secured is the land and building located at First Street, Brooklyn, New York, with a net book value of $ 488,054.	1,577,339	1,650,528
Subtotal Carried Forward	$ 5,660,020	$ 6,458,219

Note 14 - Mortgages Payable (cont'd.)

	2013	2012
Dormitory Authority of the State of New York ("DASNY") (cont'd.)		
Subtotal Brought Forward	$ 5,660,020	$ 6,458,219
10. The principal amount shall bear interest at the rate of 5.01% per annum and shall be payable to DASNY in semiannual installments until December 2032. The property secured is the land and building located at First Street, Brooklyn, New York, with a net book value of $288,757.	345,646	355,922
11. The principal amount shall bear interest at the rate of 5.66% and shall be payable by ICL to DASNY in semiannual installments until June 2022. The property secured is the building located at 25-29 Lawton Street, Brooklyn, New York, with a net book value of $1,057,824.	1,673,691	1,811,258
12. The principal amount shall bear interest at the rate of 5.60% and shall be payable to DASNY in semiannual installments until December 2022. The property secured is the building located at 948 Eastern Parkway, Brooklyn, New York, with a net book value of $818,531.	1,286,868	1,385,632
13. The principal amount shall bear interest at the rate of 5.44% and shall be payable to DASNY in semiannual installments until December 2023. The property secured is the building located at 50 Nevins Street, Brooklyn, New York, with a net book value of $3,729,633.	4,864,048	5,203,397
Subtotal Carried Forward	$ 13,830,273	$ 15,214,428

Note 14 - Mortgages Payable (cont'd.)

	2013	2012
Dormitory Authority of the State of New York ("DASNY") (cont'd.)		
Subtotal Brought Forward	$ 13,830,273	$ 15,214,428
14. The principal amount shall bear interest at the rate of 6.07% and shall be payable to DASNY in semiannual installments until June 2026. The property secured is the building located at 839 St. Marks Avenue, Brooklyn, New York, with a net book value of $2,209,602.	2,879,323	3,021,510
15. The principal amount shall bear interest at the rate of 5.15% and shall be payable to DASNY in semiannual installments until December 2029. The property secured is the building located at 518 Flatbush Avenue, Brooklyn, New York, with a net book value of $866,112.	1,380,408	1,432,502
16. The principal amount shall bear interest at the rate of 5.15% and shall be payable by ICL to DASNY in semiannual installments until December 2031. The property secured is the building located at 198 Linden Boulevard, Brooklyn, New York, with a net book value of $1,224,431.	866,112	894,221
17. The principal amount shall bear interest at the rate of 5.15% and shall be payable by ICL to DASNY in semiannual installments until December 2029. The property secured is the building located at 44 Lewis Avenue, Brooklyn, New York, with a net book value of $3,237,103.	3,875,577	4,021,830
Build NYC Resource Corporation ("Build NYC")		
18. The principal amount shall bear interest at the rate of 5% and shall be payable by ICL to Build NYC in annual installments until June 2028. The property secured is the building located at 125 Broad Street, New York, with a net book value of $523,902.	2,600,000	-
	25,431,693	24,584,491
Less: Current portion	1,979,260	1,752,798
	$23,452,433	$22,831,693

Note 14 - Mortgages Payable (cont'd.)

Aggregate maturities of mortgages payable are as follows:

Years Ending June 30:		
2014	$	1,979,260
2015		2,097,459
2016		2,132,150
2017		2,211,601
2018		2,123,458
Thereafter		14,887,765
	$	25,431,693

Note 15 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the future periods:

	2013	2012
For the periods after June 30	$ 470,714	$ 517,085

Temporarily restricted net assets were released from restriction as follows:

	2013	2012
Expiration of time restriction	$ 46,371	$ 46,371

Note 16 - Obligations Under Capital Leases

On September 14, 2004, in order to finance the acquisition of an Intermediate Care Facility ("ICF") and refinance existing debt, ICL secured financing of $8,380,000 from the IDA. The financing consists of a Series A tax-exempt bond of $7,980,000 and a Series B taxable bond of $400,000 at variable interest rates. As part of the agreement with IDA, ICL leased or subleased four properties to IDA. IDA has sold its leasehold interest in these facilities back to ICL pursuant to an installment sale agreement for a term concurrent with the bond repayment schedule. During the term of the installment sale agreement, ICL is responsible for maintaining the property.

Note 16 - Obligations Under Capital Leases (cont'd.)

The bonds are issued by IDA as a conduit issuer. ICL has the obligation under the installment sale agreement to make payments to the Bond Trustee equal to the amounts payable as principal and interest on the outstanding bonds. Interest on the bonds varies and is calculated weekly. ICL entered into an interest-rate swap on the Series A tax-exempt bond (see Note 6). Interest on the Series A bond at June 30, 2013 is 4.34%. Interest on the Series B bond, which is based on the one-month LIBOR at June 30, 2013 is .44%. The average interest rate during the year was 4.13%. Principal and interest are due annually and every 35 days, respectively. The final payment is due November 1, 2033. The payment of the bonds is secured by a direct pay letter of credit issued by JP Morgan Chase and payments of obligations due to JP Morgan Chase under the letter of credit reimbursement agreement are secured by a mortgage, security agreement and property with a cost basis of $6,126,496 and accumulated amortization of $2,641,696 at June 30, 2013. ICL, as well as ICLHCC, Joselow, ICLRPHC and GCB have unconditionally guaranteed payment of the bonds. In conjunction with this financing, ICL is required to maintain and have available for use a lease payment fund.

Future minimum lease payments under the capital leases at June 30, 2013 are as follows:

Years Ending June 30:	
2014	$ 680,244
2015	690,264
2016	518,755
2017	528,394
2018	528,146
Thereafter	4,369,002
	7,314,805
Less: Amount representing interest	1,909,805
Present value of minimum lease payments	$ 5,405,000

Note 17 - Loan Payable

ICL has a loan payable to a third party that is unsecured and bears interest at prime plus 3%, which at June 30, 2013 is 6.25%. Interest accrues and is due on a quarterly basis. The obligation matures in June 2015. The amount outstanding at June 30, 2013 is $990,100.

Note 18 - Revenues from Government Agencies and Contingencies

The Consolidated Group is responsible for reporting to and is regulated by various governmental third parties, among which are the Centers for Medicare and Medicaid Services ("CMS"), OMH, OPWDD and the New York State Department of Health ("DOH"). These agencies, as well as the New York State Office of Attorney General's Medicaid Fraud Control Unit ("MFCU"), the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the Office of Inspector General ("OIG") and the New York State Department of Health's Independent Office of Medicaid Inspector General ("OMIG"), and other agencies have the right to audit fiscal as well as programmatic compliance, i.e., clinical documentation and physician certifications, amongst other compliance requirements. Revenues and receivables arising from programs funded by government agencies are dependent upon final audit and negotiations between the Consolidated Group and the various government agencies. At June 30, 2013 and 2012, management has estimated that the reserve for potential rate adjustments is $632,000 and $964,000, respectively. Estimates may change based on final audit results.

Note 19 - Leases

The Consolidated Group leases various buildings under operating leases. The leases terminate between 2013 and 2024. Rent is recorded monthly based on signed lease agreements. Rent expense for the years ended June 30, 2013 and 2012 was $13,520,252 and $12,803,683, respectively. The commitments under these leases are as follows:

Years Ending June 30:	
2014	$ 2,574,437
2015	1,493,107
2016	1,489,251
2017	1,506,532
2018	639,151
Thereafter	6,783,219
	$ 14,485,697

Note 20 - Retirement Plans

The Consolidated Group's employees are covered under a noncontributory defined contribution pension plan. Contributions to the plan for 2013 and 20112 were based on 1.5% and 2% of each covered employee's salary, respectively. In addition, the Consolidated Group makes additional contributions to the plan for various cabinet members and key employees ranging from 1% to 9% based on their respective length of employment and/or their employed position. Pension expense for the years ended June 30, 2013 and 2012 was $942,137 and $319,569, respectively.

Union employees of GCB are covered by an employer contributory pension plan administered by the union. Union pension expense for the years ended June 30, 2013 and 2012 was $75,510 and $88,621, respectively.

Note 20 - Retirement Plans (cont'd.)

GCB make contributions to a multiemployer defined benefit pension plan under a collectively bargained agreement. If GCB were to withdraw from this plan or should the plan be terminated, GCB could be liable for a proportionate share of the unfunded actuarial present value of plan benefits at the date of withdrawal or termination. The amount of the potential impact to GCB of such unfunded liability is not known.

During 2005 and 2004, ICL's Board of Directors approved two nonqualified deferred compensation plans established under IRC Section 457(f). The plans are subject to a substantial risk of forfeiture and provide for benefits to be paid upon retirement or the occurrence of other specified events. During 2005 and 2004, the Board of Directors also approved two nonqualified deferred compensation plans under IRC Section 457(b). During 2013, ICL made a contribution of $151,796. During 2012, ICL made a contribution of $225,000 and made distributions of $1,460,000 to eligible employees.

Note 21 - Multiemployer Plans

GCB contributes to a multiemployer defined benefit pension plan under the terms of a collective-bargaining agreement that covers its union-represented employees. The risks of participating in this multiemployer plan are different from single-employer plans in the following aspects:

a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
c. If GCB chooses to stop participating in some of its multiemployer plans, GCB may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

GCB's participation in the plan for the annual period ended June 30, 2013, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number ("EIN") and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act ("PPA") zone status available in 2013 is for the plan's year-end at December 31, 2012. The zone status is based on information that GCB received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreement to which the plan is subject.

Note 21 - Multiemployer Plans (cont'd.)

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status	FIP/RP Status Pending / Implemented	Contributions for the Year Ended June 30, 2013	Surcharge Imposed	Expiration Date of Collective - Bargaining Agreement
1199SEIU Health Care Employees Pension Fund	133604862 001	Green	No	$ 75,510	No	April 2015

Note 22 - Livonia Avenue Residence

ICL is the sponsor of an 82-bed apartment house which was awarded Federal Low Income Housing Tax Credits. The project is organized as limited liability partnership. As part of the tax credit structure, a number of new entities were established. Livonia Apartments Housing Development Fund Corporation ("LAHDFC"), a nonprofit affiliate of ICL, wholly owns Livonia Apartments GP, a general partner of the limited partnership. The project is funded with DASNY and OMH loan proceeds and the equity contributions of the tax credit provider who is a limited partner.

During 2013, ICL transferred to LAHDFC fixed assets totaling $15,105,292 relating to the Livonia Avenue residence. In addition, amounts underlying liabilities due to OMH totaling $12,625,437 and limited partner contributions totaling $1,560,157 were also transferred to LAHDFC. The net amount of this transfer totaling $919,698 is included in accounts receivable - other on the statement of financial position at June 30, 2013. This amount will be repaid to ICL as tax credits become available in the LP. There is no specific repayment term and the amount due is noninterest-bearing. There were no other transactions between ICL and LAHDFC.

Note 23 - Subsequent Events

The Consolidated Group has evaluated all events or transactions that occurred after June 30, 2013 through the date of these consolidated financial statements, which is the date that the consolidated financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure.

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Institute for Community Living, Inc.
and Related Entities
New York, New York

We have audited the accompanying consolidated statement of financial position of The Institute for Community Living, Inc. and Related Entities (the "Consolidated Group") at June 30, 2012, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Consolidated Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements as of June 30, 2011, were audited by other auditors whose report dated November 11, 2011, 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Institute for Community Living, Inc. and Related Entities at June 30, 2012, and the consolidated 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.

Grassi & Co, CPAs, P.C.

GRASSI & CO., CPAs, P.C.

Jericho, New York
November 29, 2012

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 4,451,998	$ 6,688,334
Investments in mutual funds	1,165,358	2,444,470
Accounts receivable - government contracts	4,340,398	5,022,823
Accounts receivable - Medicaid/Medicare, net	7,588,418	7,813,241
Accounts receivable - other (net of allowance for bad debt of $902,000)	4,589,382	647,651
Loan Receivable	519,812	
Prepaid expenses and other assets	481,152	594,439
Limited use assets		
Lease payment fund - cash	260,000	296,397
Debt service reserve fund - cash	1,075,781	1,075,781
Fixed assets, net	42,843,376	37,531,455
Deferred charge	7,029,174	6,972,596
Total Assets	$ 74,344,849	$ 69,087,187
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 7,120,069	$ 7,445,591
Accrued salaries payable	1,449,700	1,271,203
Deferred compensation payable	1,249,355	2,536,455
Advances from government agencies	3,102,787	3,795,071
Due to New York State Office of Mental Health - capital advances	14,443,522	8,333,827
Due to New York State	6,246,943	5,080,635
Mortgages payable	24,584,491	26,236,629
Swap liability	1,216,932	764,636
Capital lease payable	5,850,000	6,280,000
Reserve for rate adjustments	964,000	1,431,000
Total Liabilities	66,227,799	63,175,047
Commitments and Contingencies		
Net assets		
Unrestricted - undesignated	5,251,288	2,969,445
Unrestricted - capital reserve	777,458	797,786
Unrestricted - depreciation	1,571,219	1,581,453
Total Unrestricted Net Assets	7,599,965	5,348,684
Temporarily Restricted	517,085	563,456
Total Net Assets	8,117,050	5,912,140
Total Liabilities and Net Assets	$ 74,344,849	$ 69,087,187

The accompanying notes are an integral part of these consolidated financial statements.

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2012 AND 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating revenues and other support:						
MH residential	$ 45,049,154	$ -	$ 45,049,154	$ 43,754,726	$ -	$ 43,754,726
Homeless services	13,108,359	-	13,108,359	14,275,332	-	14,275,332
MR residential services	13,431,858	-	13,431,858	12,088,678	-	12,088,678
Children and family services	9,488,778	-	9,488,778	9,767,314	-	9,767,314
Community support services	3,382,030	-	3,382,030	3,419,383	-	3,419,383
Continuing day treatment		-	-	211,891	-	211,891
Clinic	3,193,485	-	3,193,485	7,058,647	-	7,058,647
Other programs	1,758,401	-	1,758,401	534,998	-	534,998
Net assets released from restrictions	46,371	(46,371)	-	46,371	(46,371)	-
Total Operating Revenues and Other Support	89,458,436	(46,371)	89,412,065	91,157,340	(46,371)	91,110,969
Operating expenses:						
Program services						
MH residential services	38,874,845	-	38,874,845	38,247,938	-	38,247,938
Homeless services	11,956,126	-	11,956,126	12,384,220	-	12,384,220
MR residential services	11,104,180	-	11,104,180	9,702,458	-	9,702,458
Children and family services	9,077,716	-	9,077,716	8,652,918	-	8,652,918
Community support services	2,645,133	-	2,645,133	3,316,974	-	3,316,974
Continuing day treatment		-	-	293,716	-	293,716
Clinic programs	3,283,623	-	3,283,623	6,898,668	-	6,898,668
Other programs	2,749,108	-	2,749,108	2,017,868	-	2,017,868
Total Program Services	79,690,731	-	79,690,731	81,514,760	-	81,514,760
Supporting services						
Management and general	9,383,838	-	9,383,838	9,620,454	-	9,620,454
Total Operating Expenses	$ 89,074,569	$ -	$ 89,074,569	$ 91,135,214	$ -	$ 91,135,214

The accompanying notes are an integral part of these consolidated financial statements.

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2012 AND 2011

		2012				2011		
		Unrestricted	Temporarily Restricted	Total		Unrestricted	Temporarily Restricted	Total
Change in net assets from operations		$ 383,867	$ (46,371)	$ 337,496		$ 22,126	$ (46,371)	$ (24,245)
Nonoperating revenues								
Contributions		9,461	-	9,461		19,823	-	19,823
Special events revenue	$ 224,540				$ 259,099			
Cost of special events	(100,742)	123,798	-	123,798	(178,443)	80,656	-	80,656
Interest		7,656	-	7,656		11,316	-	11,316
Total Nonoperating Revenues		140,915	-	140,915		111,795	-	111,795
Change in Net Assets before Swap Transaction		524,782	(46,371)	478,411		133,921	(46,371)	87,550
Loss on Swap Agreement		(452,296)	-	(452,296)		(19,854)	-	(19,854)
Change in Net Assets		72,486	(46,371)	26,115		114,067	(46,371)	67,696
Net Assets - Beginning of Year- deconsolidated		7,527,479	563,456	8,090,935		5,234,617	609,827	5,844,444
Net Assets - End of Year		$ 7,599,965	$ 517,085	$ 8,117,050		$ 5,348,684	$ 563,456	$ 5,912,140

The accompanying notes are an integral part of these consolidated financial statements.

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES
STATEMENT OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2012 AND 2011

	2012											
	Program Services								Supporting Services			
	MH Residential Services	Homeless Services	MR Residential Services	Children and Family Services	Community Support Services	Clinic Programs	Other Programs	Total	Management and General	Costs of Special Events	Total	Total
Salaries	$ 18,144,650	$ 3,684,628	$ 5,364,440	$ 4,665,581	$ 1,744,413	$ 2,015,039	$ 1,078,263	$ 34,697,014	$ 5,252,568	$ -	$ 5,252,568	$ 39,949,582
Fringe benefits	3,964,243	890,887	1,318,966	1,056,765	453,533	670,449	289,044	8,641,887	1,133,958	-	1,133,958	9,775,845
Total Salaries and Related Expenses	20,108,893	4,575,515	6,681,406	5,722,346	2,197,946	2,685,488	1,367,307	43,338,901	6,386,526	-	6,386,526	49,725,427
Rent	8,169,727	2,726,683	15,529	817,399	-	324,426		12,053,764	749,919	-	749,919	12,803,683
Professional fees and contract service payments	568,144	2,023,500	517,649	318,634	11,012	9,555	567,969	4,014,463	487,197	400	487,597	4,502,060
Depreciation and amortization	1,678,749	-	257,236	272,064	15,823	10,311	161,445	2,395,628	161,157	-	161,157	2,556,785
Interest	1,223,854	-	112,314	83,895	18,148	-	259,385	1,697,596	311	-	311	1,697,907
Utilities	1,049,824	287,941	191,418	219,087	25,294	30,109	-	1,803,671	61,080	-	61,080	1,864,751
Maintenance, repairs and other property costs	1,041,054	458,279	208,922	533,144	12,868	9,780	82,792	2,346,839	89,440	-	89,440	2,436,279
Food	1,328,573	1,143,823	249,167	54,951	2,106	-	-	2,778,620	11,462	-	11,462	2,790,082
Supplies	690,393	286,186	295,186	88,273	76,506	24,874	37,500	1,498,918	106,318	-	106,318	1,605,234
Furniture and equipment	442,160	38,725	76,520	56,190	11,066	426	-	625,087	17,138	-	17,138	642,225
Insurance	485,455	114,511	97,672	57,330	44,773	3,526	-	803,267	82,969	-	82,969	886,236
Client activities	343,121	1,455	20,832	115,581	93,306	-	76	574,371	-	-	-	574,371
Data processing	139,375	89,152	34,387	72,852	32,638	19,894	7,202	395,500	320,259	-	320,259	715,759
Telephone	375,369	71,204	49,519	106,355	42,200	67,275	16,239	728,181	231,263	-	231,263	959,424
Clothing	146,908	-	18,619	7,938	200	-	-	173,665	-	-	-	173,665
Vehicle expense	102,711	44,655	113,977	5,647	12,414	-	22,570	301,974	80,243	-	80,243	382,217
New York State tax assessment	-	-	204,396	-	-	-	-	204,396	-	-	-	204,396
Day habilitation	-	-	1,838,444	-	-	-	-	1,838,444	-	-	-	1,838,444
Equipment rental	134,196	22,268	41,342	39,836	13,352	12,941	11,831	275,768	62,534	-	62,534	338,300
Postage and printing	98,917	7,684	39,025	31,613	3,880	-	3,584	164,703	74,439	17,699	92,138	276,841
Client travel	108,335	37,000	8,635	81,956	3,949	50,243	-	288,118	-	-	-	288,118
Special events - catering	-	-	-	-	-	-	-	-	-	61,947	61,947	61,947
Employee travel	63,120	884	10,367	29,480	26,821	3,347	11,273	145,292	90,171	-	90,171	235,463
Dues and subscriptions	-	8,625	880	696	-	11,715	1,417	23,333	167,710	-	167,710	191,043
Conferences and meetings	4,963	1,318	3,052	1,812	99	-	-	11,244	45,218	406	45,624	56,868
Staff training	7,431	2,107	5,510	9,941	264	-	108	25,361	99,572	-	99,572	124,933
Personnel recruitment	9,214	14,570	5,089	2,305	400	-	8,670	40,248	47,100	-	47,100	87,348
Miscellaneous	7,643	41	9,089	391	68	19,713	9,740	46,685	11,614	290	12,104	58,789
Subcontractor	546,718	-	-		-	-	-	546,718	-	-	-	546,716
Bad debt	-	-	-	350,000	-	-	180,000	530,000	-	-	-	530,000
Total Expenses	38,874,845	11,956,126	11,104,180	9,077,718	2,645,133	3,283,623	2,749,108	79,690,731	9,383,838	100,742	9,484,580	89,175,311
Less cost of special events	-	-	-	-	-	-	-	-	-	(100,742)	(100,742)	(100,742)
Total Expenses Reported by Function on the Statement of Activities	$ 38,874,845	$ 11,956,126	$ 11,104,180	$ 9,077,718	$ 2,645,133	$ 3,283,623	$ 2,749,108	$ 79,690,731	$ 9,383,838	$ -	$ 9,383,838	$ 89,074,569

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES
STATEMENT OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2012 AND 2011

	2011												
	Program Services									Supporting Services			
	MH Residential Services	Homeless Services	MR Residential Services	Children and Family Services	Community Support Services	Continuing Day Treatment	Clinic Programs	Other Programs	Total	Management and General	Costs of Special Events	Total	Total
Salaries	$ 15,502,860	$ 3,631,517	$ 5,274,095	$ 4,759,531	$ 1,915,231	$ 182,718	$ 3,982,849	$ 846,910	$ 36,095,711	$ 4,951,015	$ -	$ 4,951,015	$ 41,046,726
Fringe benefits	4,093,531	957,991	1,401,475	1,184,651	505,236	48,201	1,019,237	294,146	9,504,468	1,089,824	-	1,089,824	10,594,292
Total Salaries and Related Expenses	19,596,391	4,589,508	6,675,570	5,944,182	2,420,467	230,919	5,002,086	1,141,056	45,600,179	6,040,839	-	6,040,839	51,641,018
Rent	7,597,345	2,765,318	19,332	794,736	4,161	934	459,193	-	11,641,019	745,192	-	745,192	12,386,211
Professional fees and contract service payments	486,067	1,580,875	465,361	412,769	28,536	9,838	531,287	87,850	3,602,603	1,252,213	14,383	1,266,596	4,869,199
Depreciation and amortization	1,763,650	-	268,142	218,568	-	450	165,331	150,846	2,565,007	169,142	-	169,142	2,734,149
Interest	1,319,277	-	124,931	92,227	-	-	-	268,639	1,805,074	-	-	-	1,805,074
Utilities	1,085,105	320,409	195,768	167,613	37,615	8,702	46,627	-	1,862,039	73,981	-	73,981	1,936,020
Maintenance, repairs and other property costs	1,131,354	1,336,233	102,048	211,263	24,632	6,387	54,807	69,049	2,935,773	123,158	-	123,158	3,058,931
Food	1,304,306	1,151,621	235,832	51,160	7,798	4,238		-	2,754,955	11,252	-	11,252	2,766,207
Supplies	694,934	265,335	270,961	65,396	462,384	1,705	129,774	-	1,910,489	102,980	-	102,980	2,013,469
Furniture and equipment	329,579	25,771	67,240	72,143	14,629		9,405	5,696	524,463	9,236	-	9,236	533,699
Insurance	356,491	83,335	72,370	53,363	38,122	8,636	6,464	2,217	620,998	45,386	-	45,386	666,384
Client activities	354,853	1,426	12,935	134,965	116,921		-	224,420	845,540	1,207	-	1,207	846,747
Data processing	235,567	68,194	84,209	84,110	38,947	2,531	73,820	6,884	594,262	339,351	-	339,351	933,813
Telephone	375,326	72,140	57,645	107,291	52,069	3,067	100,859	9,485	777,882	185,154	-	185,154	963,036
Clothing	298,799	-	17,390	15,196	1,767		-	-	333,174	-	-	-	333,174
Vehicle expense	80,974	65,393	118,872	5,819	13,335	70	-	6,199	290,462	88,255	-	88,255	378,717
New York State tax assessment	-	-	218,372	-	-		-	-	218,372	-	-	-	218,372
Day habilitation	-	-	592,560	-	-		-	-	592,560	-	-	-	592,560
Equipment rental	122,515	18,986	36,590	38,890	20,540	7,173	24,740	4,431	274,865	56,314	-	56,314	331,179
Postage and printing	124,572	4,093	30,817	28,758	4,457	528	-	3,670	196,695	104,718	18,501	123,219	319,914
Client travel	81,797	25,630	4,523	86,252	1,817	10,350	56,532	-	277,001	-	-	-	277,001
Special events - catering	-	-				-	-	-		-	138,184	138,184	138,184
Employee travel	62,616	3,872	8,993	26,260	26,225	21	5,513	8,697	140,199	52,479	-	52,479	192,678
Dues and subscriptions	33,196	1,000	14,000	3,994	-	-	7,881	-	60,071	103,849	-	103,849	163,920
Conferences and meetings	3,576	1,137	528	1,115	1,541	-	-	500	8,397	19,198	7,125	26,323	34,720
Staff training	3,471	1,478	981	8,708	544	-	-	9,672	25,854	62,955	-	62,955	88,809
Personnel recruitment	8,965	1,450	2,813	2,305	293	107	2,417		18,350	21,875	-	21,875	40,225
Miscellaneous	14,710	18	7,875	459	54	60	22,955	16,557	62,686	11,720	250	11,970	74,656
Subcontractor	772,480	-	-	-	-	-	-	-	772,480	-	-	-	772,480
Bad debt	-	-	-	6,334	-	-	196,977	-	203,311	-	-	-	203,311
Total Expenses	38,247,938	12,384,220	9,702,458	8,652,918	3,316,974	293,718	8,898,668	2,017,868	81,514,760	9,620,454	178,443	9,798,897	91,313,657
Less cost of special events	-	-	-	-	-	-	-	-	-	-	(178,443)	(178,443)	(178,443)
Total Expenses Reported by Function on the Statement of Activities	$ 38,247,938	$ 12,384,220	$ 9,702,458	$ 8,652,918	$ 3,316,974	$ 293,716	$ 8,898,668	$ 2,017,868	$ 81,514,760	$ 9,620,454	$ -	$ 9,620,454	$ 91,135,214

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	$ 26,115	$ 67,696
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss on swap agreement	452,296	19,854
Depreciation and amortization	2,556,785	2,734,149
Bad debts	530,000	203,311
Deferred charge	(56,578)	(73,063)
Decrease (increase) in assets		
Accounts receivable	(1,741,273)	(1,436,355)
Prepaid expenses and other assets	103,214	(39,481)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(120,309)	1,534,850
Accrued salaries payable	178,497	(33,299)
Deferred compensation payable	(1,287,100)	(236,957)
Advances from government agencies	(692,284)	(328,734)
Due to New York State	1,166,308	185,228
Reserve for rate adjustments	(393,000)	(194,000)
Net cash provided by operating activities	722,671	2,403,199
Cash flows from investing activities		
Deconsolidation of ICL Healthcare Choices, Inc. - cash	(118,670)	
Fixed asset acquisitions	(8,183,403)	(2,947,513)
Purchase of investments	(181,104)	(1,279,766)
Sales of investments	1,460,216	1,352,646
Decrease in limited use assets	36,397	15,144
Net cash used in investing activities	(6,986,564)	(2,859,489)
Cash flows from financing activities		
Proceeds from New York State OMH - capital advances	6,109,695	1,944,410
Principal payments on capital lease payable	(430,000)	(405,000)
Principal payments on mortgages payable	(1,652,138)	(1,561,661)
Net cash provided by (used in) financing activities	4,027,557	(22,251)
Net decrease in cash and cash equivalents	(2,236,336)	(478,541)
Cash and cash equivalents - beginning of year	6,688,334	7,166,875
Cash and cash equivalents - end of year	$ 4,451,998	$ 6,688,334
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 1,697,907	$ 1,805,074

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 - Nature of Entities and Principles of Consolidation

Institute for Community Living, Inc. ("ICL"), located in New York City, was incorporated under New York State Law in 1986. Its mission is to assist people with mental and developmental disabilities who need opportunities to improve their quality of life and to participate in community living by providing high-quality services and support. ICL is funded primarily by fees paid by the New York State Office of Mental Health ("OMH"), Office for People with Developmental Disabilities ("OPWDD") and Medicaid.

ICL Joselow House, Inc. ("Joselow"), located in New York City, was incorporated in 1999 under the New York State Not-for-Profit Corporation Law. Joselow began operations on May 3, 1999. Its mission is to provide residential services to developmentally disabled people. Joselow is supported primarily by service fees paid by Medicaid.

The Guidance Center of Brooklyn, Inc. ("GCB") was incorporated under New York State Law in 1970. GCB maintains and operates a mental health treatment program, a substance abuse treatment program and a substance abuse prevention program. GCB is supported primarily by service fees paid by Medicaid. Effective January 29, 1999, OMH approved a change in sponsorship whereby ICL was named the new sponsor of services provided by GCB. On February 8, 1999, the Board of Directors of ICL accepted the resignation of the former Board of GCB and appointed a new Board of Directors for GCB.

ICL Real Property Holding Corporation ("ICLRPHC"), located in New York City, was incorporated under New York State Law in 1994. Its mission is to own, purchase, acquire, lease and/or mortgage real property and premises thereon to further the exempt purpose of ICL. Its primary source of funding is rental income from ICL.

Phoenix Recycling and Maintenance, Inc. ("Phoenix") is a for-profit organization that was incorporated under the New York State Business Corporation Law in 1998. Phoenix is a full-service cleaning, maintenance and waste management company. Its purpose is to provide training and opportunities for persons who are disabled or who have histories of homelessness or welfare. Phoenix is supported primarily by revenue received from cleaning, maintenance and waste management services.

ICL HealthCare Choices, Inc. ("ICLHCC") locate in New York City, was incorporated in 2001 under New York State Not-for-Profit Corporation Law. ICLHCC began operations on July 9, 2001. Its mission is to assist people with mental and developmental disabilities by providing an Article 28 medical clinic. Its primary source of revenues is clinic fees paid by Medicaid.

Note 1 - Nature of Entities (cont'd.)

Pennsylvania Institute for Community Living, Inc. ("PICL") is a not-for-profit corporation formed in the Commonwealth of Pennsylvania that has been established to develop and operate residential and outpatient treatment, rehabilitation and support services for individuals with mental disabilities. Its mission is to assist people with mental and developmental disabilities who need opportunities to improve their quality of life and to participate in community living by providing high-quality services and support. PICL is funded primarily through the Montgomery County Office of Mental Health.

During 2012, ICL is the sole member of ICL Real Property Holding Corporation, ICL Joselow House, Inc., The Guidance Center of Brooklyn, Inc., Pennsylvania Institute for Community Living, Inc. and Phoenix Recycling and Maintenance, Inc. and appoints the various boards of directors. During 2011, ICL was also the sole member of ICLHCC and appointed their board of directors. During 2012, the corporate structure changed and ICL is no longer the sole member of ICLHCC and does not appoint their board of directors.

ICL, Joselow, GCB, and PICL are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code ("IRC"). ICLRPHC is a tax-exempt organization under Section 501(c)(2) of the IRC.

Consolidated Financial Statements

During 2011, the consolidated financial statements include the financial position, changes in net assets and cash flows of ICL, Joselow, GCB, ICLRPHC, ICLHCC, PICL, and Phoenix (the "Consolidated Group"). In 2012, ICLHCC was deconsolidated, therefore are not included. Intercompany transactions and balances have been eliminated.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

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

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 - Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Valuations based on unobservable inputs reflecting the Consolidated Group's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

At June 30, 2012, the fair value of the Consolidated Group's financial instruments including cash and cash equivalents, certificates of deposit, accounts receivable, loan receivable, limited use assets, accounts payable and accrued expenses, and accrued salaries payable, approximated book value due to the short maturity of these instruments.

Refer to Note 7 - Fair Value Measurements for assets measured at fair value.

Cash and Cash Equivalents

The Consolidated Group classifies as cash and cash equivalents all highly liquid investments with initial maturities of three months or less when purchased which are not deemed to be assets limited as to use.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Investments

Investments are stated at the readily determinable fair market value in accordance with the Not-for-Profit Entities topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). All interest, dividends and realized and unrealized gains and losses are reported in the statement of activities as increases or decreases in unrestricted net assets.

Accounts Receivable, Allowance for Doubtful Accounts and Revenue Recognition

The Consolidated Group records receivables and revenue based on established third-party reimbursement rates for services provided. Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed the amounts spent, The Consolidated Group establishes advances from government funders. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include management's assessments of the creditworthiness of its funders, the age of the receivable, a review of payments subsequent to year end as well as current economic conditions and historical information. Interest income is not accrued or recorded on outstanding receivables. The Consolidated Group has established an allowance for doubtful accounts of $2,842,000 and $3,287,000 for June 30, 2012 and 2011, respectively.

Limited Use Assets

These amounts represent cash which is set aside under the terms of the mortgage or bond agreements.

Property and Equipment

Property and equipment is recorded at cost. The Consolidated Group capitalizes all purchases of property and equipment equal to or in excess of $5,000 and an estimated useful life of more than one year. Repairs and maintenance are charged to expense in the period incurred. Depreciation of property and equipment is provided utilizing the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the term of the lease.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Property and Equipment (cont'd.)

Useful lives are as follows:

Land	
Building and improvements	5-25 years
Leasehold improvements	5-25 years
Vehicles and equipment	3-5 years
Furniture and equipment	3-15 years

Deferred Charge

OMH and OPWDD include in the reimbursement rate paid to service providers interest and principal amortization on loans from the Dormitory Authority of the State of New York ("DASNY"). The Consolidated Group recognizes revenues, however, based upon interest and depreciation of the facility. The difference between the revenues recognized and the reimbursement from OMH and OPWDD is reflected as a deferred charge on the statement of financial position. This deferred charge represents a timing difference which will accumulate over the early periods of the loan repayments and will reverse during the latter periods of the loan repayments.

Derivative Financial Instruments

ICL entered into an interest rate swap agreement relating to financing from the Industrial Development Agency ("IDA") (see Note 6). ICL accounts for and discloses this interest rate swap agreement in accordance with FASB ASC Subtopic 815-10, *Derivatives and Hedging*. In accordance with FASB ASC Subtopic 815-10, ICL has determined that the interest rate swap is a derivative instrument, and therefore the gain or loss in the fair value of the derivative is recognized as a gain or loss.

Net Assets

Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Board designated funds (capital reserve and depreciation) are resources restricted by the board for the future purchase of capital assets.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Contributions

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

Functional Expenses

The costs of providing the Consolidated Group's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefits.

Rental Property Revenue

ICLRPHC recognized rental property revenue based on lease agreements. ICLRPHC leases space to tenants under cancelable leases that expire in 2013.
Measure of Operations

Changes in net assets from operations include all revenues and expenses relating to consumer care, including management fee revenue. Contributions, special events, interest income and gain or loss on swap agreement are considered nonoperating.

Credit Quality of Receivables

ICL carries its loan receivable at the principal amount due reduced by a loan loss allowance. ICL evaluates its loan receivable based on past payment history and the creditworthiness of the borrower, and establishes, as necessary, a loan loss allowance during the year, when it determines that contractual payments of interest and principal on the loan will not be collected in accordance with terms of the loan agreement. Amounts receivable will be charged off against the allowance only if all reasonable attempts at collection fail. At June 30, 2012, ICL has determined that no loan loss allowance is necessary.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Uncertainty in Income Taxes

The Consolidated Group has adopted the provisions pertaining to certain tax provisions (FASB ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Note 3 - Concentration of Credit Risk

The Consolidated Group maintains cash balances in several financial institutions. Interest-bearing balances are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to $250,000 per institution. In addition, all funds in noninterest-bearing accounts are insured by the FDIC through December 31, 2012. From time to time, the Consolidated Group's balances may exceed these limits.

A significant portion of ICL's operating revenues are paid by Medicaid and the New York State Office of Mental Health.

	2012	2011
New York State Office of Mental Health	24%	25%
Medicaid	30%	31%

Note 4 - Loan Receivable

During 2005, ICL loaned $1,561,173 to ICL Healthcare Choices for real property acquisition and the refinancing of existing debt. At June 30, 2012 and 2011, the balance due is $519,812, respectively. Principal is paid annually. Interest is paid monthly at a variable interest rate between the ranges of 4.09% and 4.23%. The loan matures November 2014. Principal payment of $155,000, $165,000 and $199,812 are due in fiscal years 2013, 2014 and 2015, respectively.

Note 5 - Property and Equipment

Property and equipment, net is summarized as follows:

	2012	2011
Land	$ 1,270,355	$ 1,270,355
Building and improvements	67,291,121	59,273,902
Leasehold improvements	2,427,605	3,856,337
Vehicles and equipment	1,646,967	1,442,389
Furniture and equipment	32,956	533,494
	72,669,004	66,376,477
Less: Accumulated depreciation and amortization	(29,825,628)	(28,845,022)
	$ 42,843,376	$ 37,531,455

Depreciation and amortization expense related to property and equipment amounted to $2,556,785 and $2,734,149 for the years ended June 30, 2012 and 2011, respectively. In September 2006, ICLRPHC received a donated building from OMH to operate one of its programs. The building was recorded at fair value at the date of donation. OMH has stipulated that if the program is not operated for a period of twenty years, the building will revert to OMH.

ICL reviews the carry value of the long-lived assets to determine if any facts and circumstances exist, which would suggest that the assets might be impaired. If impairment is indicated, an adjustment will be made to reduce the carry amount of the long-lived asset to their fair value. Based on ICL's review at June 30, 2012, no impairment of long-lived assets was evident.

Note 6 - Derivative Financial Instruments

On September 14, 2004, ICL, in conjunction with securing financing from the IDA, entered into an interest-rate swap agreement with HBSC Bank, USA in order to convert the interest rate on its tax-exempt Series A Bond to a fixed rate of 4.09%.Under the swap contract, ICL pays interest at 4.09% and receives interest at varying rates. The swap is designated to hedge the risk of changes in interest payments on the note caused by changes in the Bond Market Association ("BMA"). The notional amounts do not represent actual amounts exchanged by the parties, but instead represent the amounts on which the contracts are based. On December 30, 2010, ICL entered into an agreement with JP Morgan Chase for a swap agreement whereby ICL will pay JP Morgan Chase 4.34% annual interest on the outstanding balance of the bond issued under the IDA and JP Morgan Chase will assume all responsibility for the swap agreement from HSBC Bank.

Note 6 - Derivative Financial Instruments (cont'd.)

The swap was issued at market terms so that it had no fair value or carrying value at its inception. The carrying amount of the swap has been adjusted to its fair value at the end of the year which, because of changes in forecasted levels of BMA, resulted in reporting a liability for the fair value of the future net payments forecasted under the swap. The swap contract permits settlement prior to maturity only through termination by ICL. The settlement amount is determined based on forecasted changes in interest rates required under fixed and variable legs of the swap. ICL believes the settlement amount is the best representation of the fair value of the swap and has adjusted its carrying amount to the settlement amount at the end of the year.

Since the critical terms of the swap and the capital lease is approximately the same, the swap is assumed to be effective as a hedge, and the changes in fair values are included as an "other change in net assets." If the swap is terminated early, the corresponding carrying amount would be reclassified into revenues and gains or expenses before other changes. The swap agreement resulted in a market-to-market unrestricted loss of $452,296 and $19,854 in 2012 and 2011, respectively. At June 30, 2012 and 2011, the fair value of the swap agreement was a liability of $1,216,932 and $764,636, respectively.

Note 7 - Fair Value Measurements

The Consolidated Group measures its marketable securities at fair value. Fair value is an exit price, representing the amount that would be received on the sale of an asset or that would be paid to transfer a liability in an orderly transaction between market participants. As a basis for considering such assumptions, a three-tier fair value hierarchy is used which prioritizes the inputs in the valuation methodologies in measuring fair value.

Fair Value Hierarchy

The methodology for measuring fair value specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect the Consolidated Group's own assumptions of market participant valuation (unobservable inputs).

Note 7 - Fair Value Measurements (cont'd.)

Items Measured at Fair Value on a Recurring Basis

The following tables present the Consolidated Group's assets and liabilities that are measured at fair value on a recurring basis at June 30, 2012 and 2011:

2012	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 16,099	$ -0-	$ -0-	$ 16,099
Mutual funds:				
Equities	624,089	-0-	-0-	624,089
Fixed income	525,170	-0-	-0-	525,170
Total	$ 1,165,358	$ -0-	$ -0-	$ 1,165,358
Liabilities:				
Swap agreements	$ -0-	$ 1,216,932	$ -0-	$ 1,216,932

2011	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 31,045	$ -0-	$ -0-	$ 31,045
Mutual funds:				
Equities	1,291,169	-0-	-0-	1,291,169
Fixed income	1,122,256	-0-	-0-	1,122,256
Total	$ 2,444,470	$ -0-	$ -0-	$ 2,444,470
Liabilities:				
Swap agreements	$ -0-	$ 764,636	$ -0-	$ 764,636

Note 8 - Debt Service Reserve

Under the terms of the DASNY mortgage, the Consolidated Group was required to deposit with the DASNY bond trustee amounts to be held in reserve, which will be withdrawn to satisfy the last installments on the DASNY mortgages. Interest earned on this reserve fund will be used to reduce the Consolidated Group's payment obligation under the mortgages. The balance of the reserve fund at June 30, 2012 and 2011 is $1,075,781.

Note 9 - Escrow Funds Held on Behalf of ICL

On March 30, 2005, ICL began operations of an OMH-funded program (known as "Milestone Residence") on the grounds of Creedmoor Psychiatric Center ("Center"). This program was previously operated by a nonrelated not-for-profit organization. ICL entered into a revocable permit agreement with the Center, effective March 30, 2005. The agreement allows ICL to use and occupy the premises and operate the program in accordance with the provisions of a license issued by OMH. The agreement stipulates responsibility of facility-related costs between the parties. ICL is granted exclusive permission to use and occupy the premises from the effective date, continuing through (1) the expiration date of the OMH license, or (2) the effective date of a long-term lease of the premises between ICL and DASNY, as landlord. There is no payment of rent, permit fees, license fees or any other amounts between the Center and ICL.

On the same date, ICL and OMH entered into an escrow agreement. The agreement stipulates that monies will be held by an escrow agent who will be required to receive, disburse and account for such monies. The escrow agent is required to establish a bank account to which the agent is the signatory. The escrow agent is also required to receive written consent to disburse such monies from both ICL and OMH. These monies are for facility-related expenditures of the Milestone Residence. The initial deposit was $2,321,942. At June 30, 2012 and 2011, $987,480 and $1,026,824, respectively, remained with the escrow agent, and is not recorded in these financial statements.

Note 10 - Due To New York State

The Consolidated Group has entered into contracts with The New York State OPWDD for the operation of two intermediate care facilities ("ICFs") and six individualized residential alternatives ("IRAs"). As part of the agreement, OPWDD advanced funds to the Consolidated Group and expended funds on the Consolidated Group's behalf for preoperational start-up costs, buildings, equipment, renovations, lease costs, real estate taxes and operations. The Consolidated Group has agreed to pay back to OPWDD all of the above funds to the extent that such costs are reimbursed by Medicaid.

Note 10 - Due To New York State (cont'd.)

Medicaid payments for these costs are withheld from remittances. The amounts due to OPWDD at June 30, 2012 and 2011 are $2,402,648 and $1,173,542, respectively.

ICL and GCB receives additional Medicaid funding for its clinic services in the form of a Comprehensive Outpatient Provider System ("COPS") and CSP add-on. The COPS and CSP add-ons are derived from a formula calculated by OMH. After certain thresholds are met, a COPS and CSP Medicaid liability becomes due. ICL and GCB have estimated the potential liability however the estimate may change based upon final settlement. The amount due is withheld from Medicaid remittances in increments of 10% of the total Medicaid payment. The amounts due to OMH at June 30, 2012 and 2011 are $3,844,295 and $3,907,093, respectively.

Note 11 - Advances from Government Agencies

Advances from government agencies represent funds advanced by the New York State OMH and Medicaid through the New York State OMH for the Institute's future OMH contracts.

Note 12 - New York State Office of Mental Health - Capital Advance

ICL has been advanced funds by OMH under a contract for the construction and rehabilitation of two residences. These residences are located at Livonia Avenue, Brooklyn, New York, and West 37th Street, Brooklyn, New York. These advances bear no interest and will not be repaid until they are replaced with long-term mortgages financed through the Dormitory Authority of the State of New York ("DASNY").

Note 13 - Line of Credit

ICL maintains a $5,000,000 revolving line of credit payable with interest, which at June 30, 2012 was the higher of prime or the one month LIBOR rate plus 2.50%. The line of credit expires on December 30, 2012. There is no outstanding balance at June 30, 2012 and 2011. The line is secured by Medicaid receivables.

Note 14 - Mortgages Payable

	2012	2011
Dormitory Authority of the State of New York ("DASNY")		
ICL entered into loan agreements with DASNY, a body corporate and public of the State of New York, constituting a public benefit corporation of the New York State Office of Mental Health and the Office of People with Developmental Disabilities.		
1. The principal amount shall bear interest at the rate of 6.19% per annum and shall be payable to DASNY in semiannual installments until December 2018. The property secured is the land and building located at Washington Avenue, Brooklyn, New York, with a net book value of $304,222.	$ 346,406	$ 389,270
2. The principal amount shall bear interest at the rate of 6.87% per annum and shall be payable to DASNY in semiannual installments until November 2017. The property secured is the land and building located at State Street, Brooklyn, New York, with a net book value of $839,449.	1,285,021	1,484,660
3. The principal amount shall bear interest at the rate of 6.73% per annum and shall be payable to DASNY in semiannual installments until December 2015. The property secured is the land and building located at Halsey Street, Brooklyn, New York, with a net book value of $338,067.	345,374	441,268
4. The principal amount shall bear interest at the rate of 6.36% per annum and shall be payable to DSANY in semiannual installments until August 2018. The property secured is the land and building located at Avenue K, Brooklyn, New York, with a net book value of $211,306.	285,950	323,075

Note 14 - Mortgages Payable (cont'd.)

	2012	2011
Dormitory Authority of the State of New York (DASNY) (cont'd.)		
5. The principal amount shall bear interest at the rate of 6.42% per annum and shall be payable to DASNY in semiannual installments until August 2018. The property secured is the land and building located at Rugby Road, Brooklyn, New York, with a net book value of $329,385.	$ 385,250	$ 435,250
6. The principal amount shall bear interest at the rate of 6.41% per annum and shall be payable to DASNY in semiannual installments until February 2019. The property secured is the land and building located at West 12th Street, Brooklyn, New York, with net book value of $297,858.	303,000	343,000
7. The principal amount shall bear interest at the rate of 6.42% per annum and shall be payable to DASNY in semiannual installments until February 2019. The property secured is the land and building located at Avenue D, Brooklyn, New York, with a net book value of $519,886.	608,500	682,250
8. The principal amount shall bear interest at the rate of 6.19% per annum and shall be payable to DASNY in semiannual installments until June 2019. The property secured is the land and building located at Emerson Place, Brooklyn, New York, with a net book value of $1,149,263.	1,248,190	1,388,965
9. The principal amount shall bear interest at the rate of 4.91% per annum and shall be payable to DASNY in semiannual installments until December 2027. The property secured is the land and building located at First Street, Brooklyn, New York, with a net book value of $558,050.	1,650,528	1,720,253

Note 14 - Mortgages Payable (cont'd.)

	2012	2011
Dormitory Authority of the State of New York ("DASNY") (cont'd.)		
10. The principal amount shall bear interest at the rate of 5.01% per annum and shall be payable to DASNY in semiannual installments until December 2032. The property secured is the land and building located at First Street, Brooklyn, New York, with a net book value of $304,582.	$ 355,922	$ 365,702
11. The principal amount shall bear interest at the rate of 5.66% and shall be payable by ICL to DASNY in semiannual installments until June 2022. The property secured is the building located at 25-29 Lawton Street, Brooklyn, New York, with a net book value of $1,192,126.	1,811,258	1,940,231
12. The principal amount shall bear interest at the rate of 5.60% and shall be payable to DASNY in semiannual installments until December 2022. The property secured is the building located at 948 Eastern Parkway, Brooklyn, New York, with a net book value of $908,657.	1,385,632	1,478,415
13. The principal amount shall bear interest at the rate of 5.44% and shall be payable to DASNY in semiannual installments until December 2023. The property secured is the building located at 50 Nevins Street, Brooklyn, New York, with a net book value of $4,068,690.	5,203,397	5,525,002

Note 14 - Mortgages Payable (cont'd.)

	2012	2011
Dormitory Authority of the State of New York ("DASNY") (cont'd.)		
14. The principal amount shall bear interest at the rate of 6.07% and shall be payable to DASNY in semiannual installments until June 2026. The property secured is the building located at 839 St. Marks Avenue, Brooklyn, New York, with a net book value of $2,360,462.	$ 3,021,510	$ 3,155,449
15. The principal amount shall bear interest at the rate of 5.15% and shall be payable to DASNY in semiannual installments until December 2029. The property secured is the building located at 518 Flatbush Avenue, Brooklyn, New York, with a net book value of $1,129,622.	1,432,502	1,482,014
16. The principal amount shall bear interest at the rate of 5.15% and shall be payable by ICL to DASNY in semiannual installments until December 2031. The property secured is the building located at 198 Linden Boulevard, Brooklyn, New York, with a net book value of $1,300,081.	894,221	920,989
17. The principal amount shall bear interest at the rate of 5.15% and shall be payable by ICL to DASNY in semiannual installments until December 2029. The property secured is the building located at 44 Lewis Avenue, Brooklyn, New York, with a net book value of $3,449,096.	4,021,830	4,160,836
	24,584,491	26,236,629
Less current portion	(1,752,798)	(1,652,138)
	$22,831,693	$24,584,491

Note 14 - Mortgages Payable (cont'd.)

Aggregate maturities of mortgages payable are as follows:

Years Ending June 30:	
2013	1,752,798
2014	1,859,060
2015	1,970,038
2016	1,998,910
2017	2,069,655
Thereafter	14,934,030
	$24,584,491

Note 15 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the future periods:

	2012	2011
For the periods after June 30	$ 517,085	$ 563,456

Temporarily restricted net assets were released from restriction as follows:

	2012	2011
Expiration of time restriction	$ 46,371	$ 46,371

Note 16 - Obligations Under Capital Leases

On September 14, 2004, in order to finance the acquisition of an Intermediate Care Facility ("ICF") and refinance existing debt, ICL secured financing of $8,380,000 from the IDA. The financing consists of a Series A tax-exempt bond of $7,980,000 and a Series B taxable bond of $400,000 at variable interest rates. As part of the agreement with IDA, ICL leased or subleased four properties to IDA. IDA has sold its leasehold interest in these facilities back to ICL pursuant to an installment sale agreement for a term concurrent with the bond repayment schedule. During the term of the installment sale agreement, ICL is responsible for maintaining the property.

Note 16 - Obligations Under Capital Leases (cont'd.)

The bonds are issued by IDA as a conduit issuer. ICL has the obligation under the installment sale agreement to make payments to the Bond Trustee equal to the amounts payable as principal and interest on the outstanding bonds. Interest on the bonds vary and is calculated weekly. ICL entered into an interest-rate swap on the Series A tax-exempt bond (see Note 5). Interest on the Series A bond at June 30, 2012 is 4.34%. Interest on the Series B bond, which is based on the one-month LIBOR at June 30, 2012 is .44%. The average interest rate during the year was 4.33%. Principal and interest are due annually and every 35 days, respectively. The final payment is due November 1, 2033. The payment of the bonds is secured by a direct pay letter of credit issued by JP Morgan Chase Bank and payments of obligations due to JP Morgan Chase under the letter of credit reimbursement agreement are secured by a mortgage, security agreement and property with a net book value of $4,053,234. ICL as well as ICL Healthcare Choices, Inc., ICL Joselow House, Inc., ICL Real Property Holding Corporation, Inc. and The Guidance Center at Brooklyn, Inc. have unconditionally guaranteed payment of the bonds. In conjunction with this financing, ICL is required to maintain and have available for use a lease payments fund.

Future minimum lease payments under the capital leases at June 30, 2012 are as follows:

Years Ending June 30:	
2013	$ 673,652
2014	680,244
2015	690,264
2016	518,755
2017	528,394
Thereafter	4,897,148
	7,988,457
Less amount representing interest	(2,138,457)
Present value of minimum lease payments	$ 5,850,000

Note 17 - Revenues from Government Agencies and Contingencies

The Consolidated Group is responsible for reporting to and is regulated by various governmental third parties, among which are the Centers for Medicare and Medicaid Services ("CMS"), OMH, OPWDD and the New York State Department of Health ("DOH"). These agencies, as well as the New York State Office of Attorney General's Medicaid Fraud Control Unit ("MFCU"), the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the Office of Inspector General ("OIG") and the New York State Department of Health's Independent Office of Medicaid Inspector General ("OMIG"), and other agencies have the right to audit fiscal as well as programmatic compliance, i.e., clinical documentation and physician certifications, amongst other compliance requirements. Revenues and receivables arising from programs funded by government agencies are dependent upon final audit and negotiations between ICL and the various government agencies. At June 30, 2012 and 2011, management has estimated that the reserve for potential rate adjustments is $964,000 and $1,431,000 respectively. Estimates may change based on final audit results.

Note 18 - Leases

ICL and related entities lease various buildings under operating leases. The leases terminate between 2013 and 2024. Rent is recorded monthly based on signed lease agreements. Rent expense for the years ended June 30, 2012 and 2011 was $12,803,683 and $12,386,211 respectively. The commitments under these leases are as follows:

Years Ending June 30:	
2013	$ 13,938,438
2014	2,881,603
2015	164,301
2016	131,911
2017	130,749
Thereafter	404,109
Total	$ 17,651,111

Note 19 - Retirement Plans

The Consolidated Groups' employees are covered under a noncontributory defined contribution pension plan. Contributions to the plan for 2012 and 2011 were based on 1.5% and 2% of each covered employee's salary, respectively. In addition, ICL makes additional contributions to the plan for various cabinet members and key employees ranging from 1% to 9% based on their respective length of employment and/or their employed position. Pension expense for the years ended June 30, 2012 and 2011 was $319,569 and $762,230, respectively.

Union employees of GCB are covered by an employer contributory pension plan administered by the union. Union pension expense for the years ended June 30, 2012 and 2011 was $88,621 and $82,215, respectively.

GCB make contributions to multiemployer defined benefit pension plan under a collectively bargained agreement. If GCB were to withdraw from this plan or should the plan be terminated, GCB could be liable for a proportionate share of the unfunded actuarial present value of plan benefits at the date of withdrawal or termination. The amount of such unfunded liability is not known.

During 2005 and 2004, ICL's Board of Directors approved two nonqualified deferred compensation plans established under IRC Section 457(f). The plans are subject to a substantial risk of forfeiture and provide for benefits to be paid upon retirement or the occurrence of other specified events. During 2005 and 2004, the Board of Directors also approved two nonqualified deferred compensation plans under IRC Section 457(b). During 2012, ICL made a contribution of $225,000 and made distributions of $1,460,000 to eligible employees.

Note 20 - Net Assets - Beginning of Year - Deconsolidated

During 2012, ICLHCC was approved to become a Federally Qualified Community Health Center ("FQHC"). As such, they were required to amend their governing documents and create an independent governing board. This was done during 2012. The creation of an independent governing board resulting in the deconsolidation of ICLHCC from the Consolidated Group. Accordingly, net assets at the beginning of the year have been adjusted to reflect the deconsolidation, as follows:

	Unrestricted	Temporarily Restricted	Total
Net assets - beginning of year before adjustment	$ 5,348,684	$ 563,456	$ 5,912,140
ICL Healthcare Choices deconsolidation	2,178,795	-0-	2,178,795
Net assets - beginning of year after adjustments	$ 7,527,479	$ 563,456	$ 8,090,935

Note 21 - Subsequent Events

The Consolidated Group has evaluated all events or transactions that occurred after June 30, 2012 through the date of these financial statements, which is the date that the financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure.

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2011 AND 2010

LOEB & TROPER LLP

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

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Independent Auditor's Report

Board of Directors
Institute for Community Living, Inc.

We have audited the accompanying consolidated balance sheet of Institute for Community Living, Inc. and related entities as of June 30, 2011 and 2010, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Institute for Community Living, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Pennsylvania Institute for Community Living, Inc., which statements reflect revenues and assets constituting 1 percent of the respective related totals. These statements were audited by another auditor, whose report has been furnished to us and, in our opinion, insofar as it relates to the amounts included for Pennsylvania Institute for Community Living, Inc., is based solely upon the report of the other auditor.

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 Institute for Community Living, Inc. and related entities' 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, based upon our audits and the report of the other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Institute for Community Living, Inc. and related entities as of June 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Loeb & Troper LLP

November 11, 2011

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

CONSOLIDATED BALANCE SHEET

JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Cash and cash equivalents	$ 6,688,334	$ 7,166,875
Investments in mutual funds (Note 2)	2,444,470	2,517,350
Accounts receivable - government contracts	5,022,823	3,670,637
Accounts receivable - Medicaid/Medicare (net of allowance for bad debts of $3,287,000 in 2011 and $3,109,000 in 2010)	7,813,241	8,008,509
Accounts receivable - other	647,651	571,525
Prepaid expenses and other assets	594,439	554,958
Limited use assets		
Lease payment fund - cash (Note 15)	296,397	311,541
Debt service reserve fund - cash (Note 4)	1,075,781	1,075,781
Fixed assets - net (Note 3)	37,531,455	37,318,091
Deferred charge (Note 2)	6,972,596	6,899,533
Total assets	$ 69,087,187	$ 68,094,800
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 7,445,591	$ 5,910,741
Accrued salaries payable	1,271,203	1,304,502
Deferred compensation payable (Note 14)	2,536,455	2,773,412
Advances from government agencies (Note 9)	3,795,071	4,123,805
Due to New York State Office of Mental Health - capital advances (Note 13)	8,333,827	6,389,417
Due to New York State (Note 8)	5,080,635	4,895,407
Reserve for rate adjustments (Note 5)	1,431,000	1,625,000
Mortgages payable (Note 6)	26,236,629	27,798,290
Swap liability (Note 17)	764,636	744,782
Capital lease payable (Note 15)	6,280,000	6,685,000
Total liabilities	63,175,047	62,250,356
Net assets (Exhibit B)		
Unrestricted - undesignated	2,969,445	2,884,829
Unrestricted - capital reserve	797,786	792,830
Unrestricted - depreciation	1,581,453	1,556,958
Total unrestricted net assets	5,348,684	5,234,617
Temporarily restricted (Note 10)	563,456	609,827
Total net assets	5,912,140	5,844,444
Total liabilities and net assets	$ 69,087,187	$ 68,094,800

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES** **EXHIBIT B**

CONSOLIDATED STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2011 AND 2010

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating revenues and other support						
MH residential	$ 43,754,726		$ 43,754,726	$ 41,568,153		$ 41,568,153
Homeless services	14,275,332		14,275,332	12,860,391		12,860,391
MR residential services	12,088,678		12,088,678	11,649,278		11,649,278
Children and family services	9,767,314		9,767,314	9,428,759		9,428,759
Community support services	3,419,383		3,419,383	3,995,549		3,995,549
Continuing day treatment	211,891		211,891	1,036,717		1,036,717
Clinic	7,058,647		7,058,647	6,551,312		6,551,312
Other programs	534,998		534,998	285,274		285,274
Net assets released from restrictions (Note 10)	46,371	$ (46,371)		46,371	$ (46,371)	
Total operating revenues and other support	91,157,340	(46,371)	91,110,969	87,421,804	(46,371)	87,375,433
Operating expenses (Exhibit C)						
Program services						
MH residential services	38,247,938		38,247,938	35,910,339		35,910,339
Homeless services	12,384,220		12,384,220	11,096,407		11,096,407
MR residential services	9,702,458		9,702,458	9,136,806		9,136,806
Children and family services	8,652,918		8,652,918	8,657,074		8,657,074
Community support services	3,316,974		3,316,974	3,480,248		3,480,248
Continuing day treatment	293,716		293,716	966,610		966,610
Clinic programs	6,898,668		6,898,668	6,248,570		6,248,570
Other programs	2,017,868		2,017,868	1,717,764		1,717,764
Total program services	81,514,760		81,514,760	77,213,818		77,213,818
Supporting services						
Management and general	9,620,454		9,620,454	9,868,024		9,868,024
Total operating expenses	91,135,214		91,135,214	87,081,842		87,081,842

-continued-

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2011 AND 2010

	2011				2010			
		Unrestricted	Temporarily Restricted	Total		Unrestricted	Temporarily Restricted	Total
Change in net assets from operations		$ 22,126	$ (46,371)	$ (24,245)		$ 339,962	$ (46,371)	$ 293,591
Nonoperating revenues								
Contributions		19,823		19,823		7,727		7,727
Special events revenue	$ 259,099				$ 142,736			
Cost of special events	(178,443)	80,656		80,656	(92,984)	49,752		49,752
Interest		11,316		11,316		9,768		9,768
Total nonoperating revenues		111,795		111,795		67,247		67,247
Change in net assets before swap transaction		133,921	(46,371)	87,550		407,209	(46,371)	360,838
Loss on swap agreement (Note 17)		(19,854)		(19,854)		(233,822)		(233,822)
Change in net assets (Exhibit D)		114,067	(46,371)	67,696		173,387	(46,371)	127,016
Net assets - beginning of year		5,234,617	609,827	5,844,444		5,061,230	656,198	5,717,428
Net assets - end of year (Exhibit A)		$ 5,348,684	$ 563,456	$ 5,912,140		$ 5,234,617	$ 609,827	$ 5,844,444

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LOEB & TROPER LLP

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2011 AND 2010

	2011												
	Program Services									Supporting Services			
	MH Residential Services	Homeless Service	MR Residential Services	Children and Family Services	Community Support Services	Continuing Day Treatment	Clinic Programs	Other Programs	Total	Management and General	Costs of Special Events	Total	Total
Salaries	$ 15,502,860	$ 3,631,517	$ 5,274,095	$ 4,759,531	$ 1,915,231	$ 182,718	$ 3,982,849	$ 846,910	$ 36,095,711	$ 4,951,015		$ 4,951,015	$ 41,046,726
Fringe benefits	4,093,531	957,991	1,401,475	1,184,651	505,236	48,201	1,019,237	294,146	9,504,468	1,089,824		1,089,824	10,594,292
Total salaries and related expenses	19,596,391	4,589,508	6,675,570	5,944,182	2,420,467	230,919	5,002,086	1,141,056	45,600,179	6,040,839		6,040,839	51,641,018
Rent (Note 11)	7,597,345	2,765,318	19,332	794,736	4,161	934	459,193		11,641,019	745,192		745,192	12,386,211
Professional fees and contract service payments	486,087	1,580,875	465,361	412,769	28,536	9,838	531,287	87,850	3,602,603	1,252,213	$ 14,383	1,266,596	4,869,199
Depreciation and amortization	1,763,650		268,142	216,588		450	165,331	150,846	2,565,007	169,142		169,142	2,734,149
Interest	1,319,277		124,931	92,227				268,639	1,805,074				1,805,074
Utilities	1,085,105	320,409	195,768	167,813	37,615	8,702	46,627		1,862,039	73,981		73,981	1,936,020
Maintenance, repairs and other property costs	1,131,354	1,336,233	102,048	211,263	24,632	6,387	54,807	69,049	2,935,773	123,158		123,158	3,058,931
Food	1,304,306	1,151,621	235,832	51,160	7,798	4,238			2,754,955	11,252		11,252	2,766,207
Supplies	694,934	265,335	270,961	85,396	462,384	1,705	129,774		1,910,489	102,980		102,980	2,013,469
Furniture and equipment	329,579	25,771	67,240	72,143	14,629		9,405	5,696	524,463	9,236		9,236	533,699
Insurance	356,491	83,335	72,370	53,363	38,122	6,636	8,464	2,217	620,998	45,386		45,386	666,384
Client activities	354,853	1,426	12,935	134,985	116,921			224,420	845,540	1,207		1,207	846,747
Data processing	235,567	68,194	84,209	84,110	38,947	2,531	73,820	6,884	594,262	339,351		339,351	933,613
Telephone	375,326	72,140	57,645	107,291	52,069	3,067	100,859	9,485	777,882	185,154		185,154	963,036
Clothing	298,799		17,390	15,198	1,787				333,174				333,174
Vehicle expense	80,974	65,393	116,872	5,619	13,335	70		8,199	290,462	88,255		88,255	378,717
New York State tax assessment			218,372						218,372				218,372
Day Habilitation			592,560						592,560				592,560
Equipment rental	122,515	19,986	36,590	38,890	20,540	7,173	24,740	4,431	274,865	56,314		56,314	331,179
Postage and printing	124,572	4,093	30,617	28,758	4,457	528		3,670	196,695	104,718	18,501	123,219	319,914
Client travel	91,797	25,630	4,523	86,252	1,917	10,350	56,532		277,001				277,001
Special events - catering											138,184	138,184	138,184
Employee travel	62,618	3,872	6,993	26,260	26,225	21	5,513	8,697	140,199	52,479		52,479	192,678
Dues and subscriptions	33,196	1,000	14,000	3,994			7,881		60,071	103,849		103,849	163,920
Conferences and meetings	3,576	1,137	528	1,115	1,541			500	8,397	19,198	7,125	26,323	34,720
Staff training	3,471	1,478	981	9,708	544			9,672	25,854	62,955		62,955	88,809
Personnel recruitment	8,965	1,450	2,813	2,305	293	107	2,417		18,350	21,875		21,875	40,225
Miscellaneous	14,710	16	7,875	459	54	60	22,955	16,557	62,686	11,720	250	11,970	74,656
Subcontractor	772,480								772,480				772,480
Bad debt				6,334			196,977		203,311				203,311
Total expenses	38,247,938	12,384,220	9,702,458	8,652,918	3,316,974	293,716	6,898,668	2,017,868	81,514,760	9,620,454	178,443	9,798,897	91,313,657
Less cost of special events											(178,443)	(178,443)	(178,443)
Total expenses reported by function on the statement of activities (Exhibit B)	$ 38,247,938	$ 12,384,220	$ 9,702,458	$ 8,652,918	$ 3,316,974	$ 293,716	$ 6,898,668	$ 2,017,868	$ 81,514,760	$ 9,620,454	$ -	$ 9,620,454	$ 91,135,214

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2011 AND 2010

	2010												
	Program Services									Supporting Services			
	MH Residential Services	Homeless Service	MR Residential Services	Children and Family Services	Community Support Services	Continuing Day Treatment	Clinic Programs	Other Programs	Total	Management and General	Costs of Special Events	Total	Total
Salaries	$ 14,421,294	$ 3,540,149	$ 5,302,895	$ 4,507,073	$ 2,181,459	$ 579,358	$ 3,507,203	$ 851,224	$ 34,890,655	$ 4,951,580		$ 4,951,580	$ 39,842,235
Fringe benefits	3,780,819	919,514	1,384,506	1,053,826	566,616	144,010	862,108	217,175	8,928,574	1,184,720		1,184,720	10,113,294
Total salaries and related expenses	18,202,113	4,459,663	6,687,401	5,560,899	2,748,075	723,368	4,369,311	1,068,399	43,819,229	6,136,300		6,136,300	49,955,529
Rent (Note 11)	7,136,230	2,650,978	19,207	750,523	3,692	5,604	491,264		11,057,498	708,530		708,530	11,766,028
Professional fees and contract service payments	442,373	1,591,751	552,142	511,425	36,244	23,860	385,193	63,669	3,606,657	1,491,243		1,491,243	5,097,900
Depreciation and amortization	1,745,778		259,402	164,240		450	152,303	124,864	2,447,037	139,375		139,375	2,586,412
Interest	1,392,195		136,439	100,065				279,632	1,908,331	6,501		6,501	1,914,832
Utilities	965,658	283,471	180,671	191,159	47,080	37,342	41,828	535	1,747,744	79,550		79,550	1,827,294
Maintenance, repairs and other property costs	1,010,417	255,509	128,818	442,746	43,630	23,894	75,139	113,530	2,093,683	111,444		111,444	2,205,127
Food	1,253,711	1,150,416	225,469	46,836	38,784	21,541		729	2,737,486	11,480		11,480	2,748,966
Supplies	617,808	262,485	275,477	129,351	214,556	14,014	143,516	48	1,657,255	105,900		105,900	1,763,155
Furniture and equipment	642,438	108,265	23,713	80,753	19,093	69	10,771	3,325	888,427	16,782		16,782	905,209
Insurance	362,648	53,128	66,559	40,175	29,776	10,707	12,562	3,604	579,159	82,050		82,050	661,209
Client activities	329,860	2,864	19,181	77,571	122,850	23,214		6,748	582,288	1,080		1,080	583,368
Data processing	163,782	93,156	80,606	73,635	29,597	8,650	70,273	6,333	526,032	305,655		305,655	831,687
Telephone	382,207	83,984	60,117	111,307	72,757	13,083	98,432	12,909	834,796	152,696		152,696	987,492
Clothing	304,300	89	18,326	14,342					337,057				337,057
Vehicle expense	91,275	21,740	141,414	7,664	14,290	734	145	9,130	286,392	93,389		93,389	379,781
New York State tax assessment			179,267						179,267				179,267
Equipment rental	113,621	23,960	39,683	35,182	18,857	6,474	27,983	4,160	269,920	51,837		51,837	321,757
Postage and printing	127,702	1,934	19,955	26,813	2,507	907		1,337	181,155	69,228		69,228	250,383
Client travel	19,403	35,320	2,102	92,341	14,994	51,525	65,921	223	281,829	54		54	281,883
Special events - catering											$ 92,984	92,984	92,984
Employee travel	55,010	2,571	9,639	25,215	21,682	255	2,253	6,257	122,882	64,669		64,669	187,551
Dues and subscriptions		9,675	300	2,918			4,029		16,922	101,189		101,189	118,111
Conferences and meetings	3,907	2,148	1,406	1,153	462	55		141	9,272	14,184		14,184	23,456
Staff training	16,840	1,795	88	6,623	1,215	807		1,074	28,442	89,662		89,662	118,104
Personnel recruitment	1,860	1,392	807	418	49		2,220		6,746	21,481		21,481	28,227
Miscellaneous	3,650	113	3,385	1,028	58	57	21,461	11,117	40,869	13,745		13,745	54,614
Subcontractor	525,553		5,232						530,785				530,785
Bad debt				162,692			273,966		436,658				436,658
Total expenses	35,910,339	11,096,407	9,136,806	8,657,074	3,480,248	966,610	6,248,570	1,717,764	77,213,818	9,868,024	92,984	9,961,008	87,174,826
Less cost of special events											(92,984)	(92,984)	(92,984)
Total expenses reported by function on the statement of activities (Exhibit B)	$ 35,910,339	$ 11,096,407	$ 9,136,806	$ 8,657,074	$ 3,480,248	$ 966,610	$ 6,248,570	$ 1,717,764	$ 77,213,818	$ 9,868,024	$ -	$ 9,868,024	$ 87,081,842

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT D

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash flows from operating activities		
Change in net assets (Exhibit B)	$ 67,696	$ 127,016
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss on swap agreement	19,854	233,822
Depreciation and amortization	2,734,149	2,586,412
Decrease (increase) in assets		
Accounts receivable	(1,233,044)	574,773
Prepaid expenses and other assets	(39,481)	842,328
Deferred charge	(73,063)	463,061
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	1,534,850	(844,400)
Accrued salaries payable	(33,299)	(1,397,396)
Deferred compensation payable	(236,957)	816,241
Advances from government agencies	(328,734)	33,248
Due to New York State	185,228	263,464
Reserve for rate adjustments	(194,000)	61,000
Net cash provided by operating activities	2,403,199	3,759,569
Cash flows from investing activities		
Fixed asset acquisitions	(2,947,513)	(1,004,809)
Purchase of investments	(1,279,766)	(718,664)
Sales of investments	1,352,646	
Increase in limited use assets	15,144	(31,037)
Net cash used by investing activities	(2,859,489)	(1,754,510)
Cash flows from financing activities		
Proceeds from New York State OMH - capital advances	1,944,410	477,472
Proceeds from mortgages payable		4,811,000
Principal payments to New York State OMH - capital advances		(4,860,918)
Principal payments on capital lease payable	(405,000)	(380,000)
Principal payments on mortgages payable	(1,561,661)	(1,852,274)
Net cash used by financing activities	(22,251)	(1,804,720)
Net change in cash and cash equivalents	(478,541)	200,339
Cash and cash equivalents - beginning of year	7,166,875	6,966,536
Cash and cash equivalents - end of year	$ 6,688,334	$ 7,166,875
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 1,805,074	$ 1,914,832

See independent auditor's report.

The accompanying notes are an integral part of these statements.

NOTE 1 - NATURE OF ENTITY

Institute for Community Living, Inc. (ICL), located in New York City, was incorporated under New York State Law in 1986. Its mission is to assist people with mental and developmental disabilities who need opportunities to improve their quality of life and to participate in community living by providing high-quality services and support. ICL is funded primarily by fees paid by the New York State Office of Mental Health (OMH), Office for People with Developmental Disabilities (OPWDD) and Medicaid.

ICL is the sole member of ICL Real Property Holding Corporation, ICL Joselow House, Inc., The Guidance Center of Brooklyn, Inc., Pennsylvania Institute for Community Living, Inc., ICL HealthCare Choices, Inc. and Phoenix Recycling and Maintenance, Inc. and appoints the various boards of directors.

ICL Joselow House, Inc. (Joselow), located in New York City, was incorporated in 1999 under the New York State Not-for-Profit Corporation Law. Joselow began operations May 3, 1999. Its mission is to provide residential services to developmentally disabled people. Joselow is supported primarily by service fees paid by Medicaid.

The Guidance Center of Brooklyn, Inc. (GCB) was incorporated under New York State Law in 1970. GCB maintains and operates a mental health treatment program, a substance abuse treatment program and a substance abuse prevention program. GCB is supported primarily by service fees paid by Medicaid. Effective January 29, 1999, OMH approved a change in sponsorship whereby ICL was named the new sponsor of services provided by GCB. On February 8, 1999, the Board of Directors of ICL accepted the resignation of the former Board of GCB and appointed a new Board of Directors for GCB.

ICL Real Property Holding Corporation (ICLRPHC), located in New York City, was incorporated under New York State Law in 1994. Its mission is to own, purchase, acquire, lease and/or mortgage real property and premises thereon to further the exempt purpose of ICL. Its primary source of funding is rental income from ICL.

Phoenix Recycling and Maintenance, Inc. (Phoenix) is a for-profit organization that was incorporated under the New York State Business Corporation Law in 1998. Phoenix is a full-service cleaning, maintenance and waste management company. Its purpose is to provide training and opportunities for persons who are disabled or who have histories of homelessness or welfare. Phoenix is supported primarily by revenue received from cleaning, maintenance and waste management services.

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 1 - NATURE OF ENTITY (continued)

Pennsylvania Institute for Community Living, Inc. (PICL) is a not-for-profit corporation formed in the Commonwealth of Pennsylvania that has been established to develop and operate residential and outpatient treatment, rehabilitation and support services for individuals with mental disabilities. Its mission is to assist people with mental and developmental disabilities who need opportunities to improve their quality of life and to participate in community living by providing high-quality services and support. PICL is funded primarily through the Montgomery County Office of Mental Health.

ICL HealthCare Choices, Inc. (ICLHCC), located in New York City, was incorporated in 2001 under the New York State Not-for-Profit Corporation Law. ICLHCC began operations July 9, 2001. Its mission is to assist people with mental and developmental disabilities by providing an Article 28 medical clinic. Its primary source of revenues is clinic fees paid by Medicaid.

ICL, Joselow, GCB, ICLHCC and PICL are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. ICLRPHC is a tax-exempt organization under Section 501(c)(2) of the Internal Revenue Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements - The consolidated financial statements include the financial position, changes in net assets and cash flows of ICL, Joselow, GCB, ICLRPHC, PICL, ICLHCC and Phoenix (the Consolidated Group). Intercompany transactions and balances have been eliminated.

Basis of accounting - The financial statements are prepared on the accrual basis.

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

Reclassification - Certain mutual funds which have previously been combined with cash and cash equivalents are now being combined with investments.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Receivables, advances and revenue - Receivables and revenue are recorded when earned based on established rates multiplied by the number of units of service provided. Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed amounts spent, the Consolidated Group establishes advances from government funders. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. Interest income is not accrued or recorded on accounts receivable. Laws and regulations related to government programs are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from the government programs.

Allowance for doubtful accounts - The Consolidated Group has determined that an allowance for uncollectible accounts for certain receivables is necessary as of June 30, 2011 and 2010. Such estimate is based on management's assessments of the creditworthiness of its funders, the aged basis of its receivables, subsequent collections as well as current economic conditions and historical information.

Limited use assets - These amounts represent cash which is set aside under the terms of the mortgage or bond agreements to be used to satisfy the last installment of the mortgage or bond.

Fixed assets - Fixed assets are recorded at cost. Individual items with a cost in excess of $5,000 and a useful life of greater than one year are capitalized. Depreciation and amortization of fixed assets are recorded on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is recorded on the straight-line method over the term of the lease or its estimated useful life.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred charge - OMH and OPWDD include in reimbursement rate paid to service providers interest and principal amortization on loans from the Dormitory Authority of the State of New York (DASNY). ICL recognizes revenues, however, based upon interest and depreciation of the facility. The difference between the revenues recognized and the reimbursement from OMH and OPWDD is reflected as a deferred charge on the consolidated balance sheet. This deferred charge represents a timing difference which will accumulate over the early periods of the loan repayments and will reverse during the latter periods of the loan repayments.

GCB records a deferred charge that represents the difference between reimbursement and recording of start-up expenses. Start-up expenses are recorded in the period incurred and reimbursement of start-up expenses is recorded over an approved period by the funder.

Derivative financial instruments - ICL's interest rate swap agreement qualifies as a derivative financial instrument. The swap asset or liability is recognized at its fair value. The change in fair value during the year is recognized as a gain or loss.

Contributions - ICL 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 consolidated statement of activities as net assets released from restrictions.

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

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

Temporarily restricted net assets - Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose.

Measure of operations - Operations include all revenues and expenses relating to consumer care. Contributions, special events and interest income are considered nonoperating.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements and Disclosures

In accordance with generally accepted accounting principles, ICL adopted provisions of *Fair Value Measurements and Disclosures* (ACS 820), which establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that ICL has the ability to access. Level 2 inputs to the valuation methodology include:

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

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2011 and 2010.

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

Swap agreements - ICL recognizes the fair value of the difference between the interest payments due on its mortgage agreement and the present value of the estimated interest payments on its swap agreement, discounted to present value as either an asset or liability based on the calculated value.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements and Disclosures (continued)

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

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

	Level 1	Level 2	Total
Assets			
Mutual funds	$ 2,444,470	$ -	$ 2,444,470
Liabilities			
Swap agreements	$ -	$ 764,636	$ 764,636

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

	Level 1	Level 2	Total
Assets			
Mutual funds	$ 2,517,350	$ -	$ 2,517,350
Liabilities			
Swap agreements	$ -	$ 744,872	$ 744,872

Uncertainty in income taxes - ICL has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2008 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through November 11, 2011, which is the date the financial statements were available to be issued.

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NOTE 3 - FIXED ASSETS

2011

	Cost	Accumulated Depreciation and Amortization	Net	Estimated Useful Lives
Land	$ 1,270,355		$ 1,270,355	
Building and improvements	59,273,902	$ 24,507,215	34,766,687	5 - 25 years
Leasehold improvements	3,856,337	3,095,236	761,101	5 - 25 years
Vehicles and equipment	1,442,389	853,412	588,977	3 - 5 years
Furniture and equipment	533,494	389,159	144,335	3 - 15 years
	$ 66,376,477	$ 28,845,022	$ 37,531,455	

2010

	Cost	Accumulated Depreciation and Amortization	Net	Estimated Useful Lives
Land	$ 1,270,355		$ 1,270,355	
Building and improvements	57,054,445	$ 22,366,172	34,688,273	5 - 25 years
Leasehold improvements	3,660,734	2,791,752	868,982	5 - 25 years
Vehicles and equipment	1,018,146	584,545	433,601	3 - 5 years
Furniture and equipment	411,587	354,707	56,880	3 - 15 years
	$ 63,415,267	$ 26,097,176	$ 37,318,091	

In September 2006, ICLRPHC received a donated building from OMH to operate one of its programs. The building was recorded at fair value at the date of donation. OMH has stipulated that if the program is not operated for a period of twenty years, the building will revert to OMH.

-continued-

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 4 - DEBT SERVICE RESERVE

Under the terms of the Dormitory Authority of the State of New York (DASNY) mortgage, ICL was required to deposit with the MCFFA bond trustee amounts to be held in reserve which will be withdrawn to satisfy the last installments on the DASNY mortgages. Interest earned on this reserve fund will be used to reduce ICL's payment obligation under the mortgages. The balance of the reserve fund as of June 30, 2011 and 2010 is $1,075,781.

NOTE 5 - REVENUES FROM GOVERNMENT AGENCIES

Revenues and receivables arising from programs funded by government agencies are dependent upon final audit and negotiations between the entities and the various government agencies. As of June 30, 2011 and 2010, management has estimated that the reserve for potential rate adjustments is $1,431,000 and $1,625,000, respectively.

NOTE 6 - MORTGAGES PAYABLE

	2011	2010
Dormitory Authority of the State of New York (DASNY)		
ICL entered into loan agreements with DASNY, a body corporate and public of the State of New York, constituting a public benefit corporation of the New York State Office of Mental Health and the Office for People with Developmental Disabilities.		
1. The principal amount shall bear interest at the rate of 6.19% per annum and shall be payable by ICL to DASNY in semiannual installments until December 2018. The property secured is the land and building located at Washington Avenue, Brooklyn, New York.	$ 389,270	$ 429,597
2. The principal amount shall bear interest at the rate of 6.87% per annum and shall be payable by ICL to DASNY in semiannual installments until November 2017. The property secured is the land and building located at State Street, Brooklyn, New York.	1,484,660	1,670,904

-continued-

NOTE 6 - MORTGAGES PAYABLE (continued)

	2011	2010
Dormitory Authority of the State of New York (DASNY) *(continued)*		
3. The principal amount shall bear interest at the rate of 6.73% per annum and shall be payable by ICL to DASNY in semiannual installments until December 2015. The property secured is the land and building located at Halsey Street, Brooklyn, New York.	$ 441,268	$ 530,916
4. The principal amount shall bear interest at the rate of 6.36% per annum and shall be payable by ICL to DASNY in semiannual installments until August 2018. The property secured is the land and building located at Avenue K, Brooklyn, New York.	323,075	358,000
5. The principal amount shall bear interest at the rate of 6.42% per annum and shall be payable by ICL to DASNY in semiannual installments until August 2018. The property secured is the land and building located at Rugby Road, Brooklyn, New York.	435,250	485,250
6. The principal amount shall bear interest at the rate of 6.41% per annum and shall be payable by ICL to DASNY in semiannual installments until February 2019. The property secured is the land and building located at West 12th Street, Brooklyn, New York.	343,000	381,750
7. The principal amount shall bear interest at the rate of 6.42% per annum and shall be payable by ICL to DASNY in semiannual installments until February 2019. The property secured is the land and building located at Avenue D, Brooklyn, New York.	682,250	752,250

-continued-

NOTE 6 - MORTGAGES PAYABLE (continued)

	2011	2010
Dormitory Authority of the State of New York (DASNY) (continued)		
8. The principal amount shall bear interest at the rate of 6.19% per annum and shall be payable by ICL to DASNY in semiannual installments until June 2019. The property secured is the land and building located at Emerson Place, Brooklyn, New York.	$ 1,388,965	$ 1,521,407
9. The principal amount shall bear interest at the rate of 4.91% per annum and shall be payable by ICL to DASNY in semiannual installments until December 2027. The property secured is the land and building located at First Street, Brooklyn, New York.	1,720,253	1,786,676
10. The principal amount shall bear interest at the rate of 5.01% per annum and shall be payable by ICL to DASNY in semiannual installments until December 2032. The property secured is the land and building located at First Street, Brooklyn, New York.	365,702	375,010
11. The principal amount shall bear interest at the rate of 5.66% and shall be payable by ICL to DASNY in semiannual installments until June 2022. The property secured is the building located at 25-29 Lawton Street, Brooklyn, New York.	1,940,231	2,061,077
12. The principal amount shall bear interest at the rate of 5.60% and shall be payable by ICL to DASNY in semiannual installments until December 2022. The property secured is the building located at 948 Eastern Parkway, Brooklyn, New York.	1,478,415	1,565,539

-continued-

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 6 - MORTGAGES PAYABLE (continued)

	2011	2010
Dormitory Authority of the State of New York (DASNY) (continued)		
13. The principal amount shall bear interest at the rate of 5.44% and shall be payable to DASNY in semiannual installments until December 2023. The property secured is the building located at 50 Nevins Street, Brooklyn, New York.	$ 5,525,002	$ 5,829,790
14. The principal amount shall bear interest at the rate of 6.07% and shall be payable to DASNY in semiannual installments until June 2026. The property secured is the building located at 839 St. Marks Avenue, Brooklyn, New York.	3,155,449	3,281,617
15. The principal amount shall bear interest at the rate of 5.15% and shall be payable to DASNY in semiannual installments until December 2029. The property secured is the building located at 518 Flatbush Avenue, Brooklyn, New York.	1,482,014	1,529,074
16. The principal amount shall bear interest at the rate of 5.15% and shall be payable by ICL to DASNY in semiannual installments until December 2031. The property secured is the building located at 198 Linden Boulevard, Brooklyn, New York.	920,989	946,480
17. The principal amount shall bear interest at the rate of 5.15% and shall be payable by ICL to DASNY in semiannual installments until December 2029. The property secured is the building located at 44 Lewis Avenue, Brooklyn, New York.	4,160,836	4,292,953
	26,236,629	27,798,290
Less current portion	(1,652,138)	(1,561,661)
	$ 24,584,491	$ 26,236,629

-continued-

NOTE 6 - MORTGAGES PAYABLE (continued)

Combined payments of principal are as follows:

2012	$ 1,652,138
2013	1,752,798
2014	1,859,060
2015	1,970,037
2016	1,998,910
Thereafter	17,003,686
	$ 26,236,629

NOTE 7 - LOAN PAYABLE

ICL maintains a revolving line of credit payable with interest at the higher of the prime rate or the LIBOR rate plus 2.5%, which at June 30, 2011 was 5.75%. The line of credit matures December 2011. There is no outstanding balance as of June 30, 2011 and 2010.

NOTE 8 - DUE TO NEW YORK STATE

ICL and Joselow have entered into contracts with OPWDD. As part of the agreement, OPWDD advanced funds to ICL and Joselow and expended funds on their behalf for preoperational start-up costs, buildings, equipment, renovations, lease costs, real estate taxes and operations. ICL and Joselow have agreed to pay back to OPWDD all of the above funds to the extent that such costs are reimbursed by Medicaid. Medicaid payments for these costs are withheld from remittances. The amounts due to OPWDD as of June 30, 2011 and 2010 are $1,173,542 and $1,027,915, respectively.

ICL and GCB receive additional Medicaid funding for their clinic services in the form of a Comprehensive Outpatient Provider System (COPS) and CSP add-on. The COPS and CSP add-ons are derived from a formula calculated by OMH. After certain thresholds are met, a COPS and CSP Medicaid liability becomes due. The amount due is withheld from Medicaid remittances in amounts equal to 10% of the total Medicaid payment. The amounts due to OMH as of both June 30, 2011 and 2010 are $3,907,093 and $3,867,492, respectively.

-continued-

NOTE 9 - ADVANCES FROM GOVERNMENT AGENCIES

Advances from government agencies represent funds advanced by the New York State Office of Mental Health and Medicaid through the New York State Office of Mental Health for ICL's future OMH contracts.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following periods:

	2011	2010
For the periods after June 30	$ 563,456	$ 609,827

Temporarily restricted net assets were released from restriction as follows:

	2011	2010
Expiration of time restriction	$ 46,371	$ 46,371

NOTE 11 - LEASES

ICL and related entities lease various buildings under operating leases. The leases terminate between 2011 and 2021. Rent is recorded monthly based on signed lease agreements. Rent expense for the years ended June 30, 2011 and 2010 was $12,386,211 and $11,766,028, respectively. The commitments under these leases are as follows:

2012	$ 13,389,122
2013	8,794,567
2014	1,750,201
2015	202,069
2016	96,103
Thereafter	505,018

-continued-

NOTE 12 - PENSION PLANS

ICL and related entities' employees are covered under a noncontributory defined contribution pension plan. Contributions to the plan for 2011 and 2010 were based on 2% and 4% of each covered employee's salary, respectively. In addition, ICL makes additional contributions to the plan for various cabinet members and key employees ranging from 1% to 9% based on their respective length of employment and/or their employed position. Pension expense for the years ended June 30, 2011 and 2010 was $762,230 and $1,317,963, respectively.

Union employees of GCB are covered by an employer contributory pension plan administered by the union. Union pension expense for the years ended June 30, 2011 and 2010 was $82,215 and $74,667, respectively.

NOTE 13 - NEW YORK STATE OFFICE OF MENTAL HEALTH - CAPITAL ADVANCE

ICL and ICLRPHC have been advanced funds by OMH under a contract for the construction and rehabilitation of various residences. The advances will be replaced with a long-term mortgage financed through DASNY.

NOTE 14 - DEFERRED COMPENSATION PLANS

During 2005 and 2004, ICL's Board of Directors approved two nonqualified deferred compensation plans established under Internal Revenue Code Section 457(f). The plans are subject to a substantial risk of forfeiture and provide for benefits to be paid upon retirement or the occurrence of other specified events. The Board of Directors also approved two nonqualified deferred compensation plans under Internal Revenue Code Section 457(b). Supplemental retirement expense for the years' ended June 30, 2011 and 2010 was $844,197 and $640,976, respectively.

-continued-

NOTE 15 - CAPITAL LEASES PAYABLE

On September 14, 2004, in order to finance the acquisition of an Intermediate Care Facility (ICF) and refinance existing debt, ICL secured financing of $8,380,000 from the Industrial Development Agency of New York (IDA). The financing consists of a Series A tax-exempt bond of $7,980,000 and a Series B taxable bond of $400,000 at variable interest rates. As part of the agreement with IDA, ICL leased or subleased four properties to IDA. IDA has sold its leasehold interest in these facilities back to ICL pursuant to an installment sale agreement for a term concurrent with the bond repayment schedule. During the term of the installment sale agreement, ICL is responsible for maintaining the property.

The bonds are issued by IDA as a conduit issuer. ICL has the obligation under the installment sale agreement to make payments to the Bond Trustee equal to the amounts payable as principal and interest on the outstanding bonds. Interest on the bonds vary and is calculated weekly. ICL entered into an interest rate swap on the Series A tax-exempt bond (see Note 17). Interest on the Series A bond as of June 30, 2011 is 4.34%. Interest on the Series B bond, which is based on the one-month LIBOR as of June 30, 2011 is .44%. The average interest rate during the year was 4.18%. Principal and interest are due annually and every 35 days, respectively. The final payment is due November 1, 2033. The payment of the bonds is secured by a direct pay letter of credit issued by JPMorgan Chase, and payment of obligations due to JPMorgan Chase under the letter of credit reimbursement agreement are secured by a mortgage and security agreement. ICL, as well as ICL HealthCare Choices, Inc., ICL Joselow House, Inc., ICL Real Property Holding Corporation, Inc. and The Guidance Center of Brooklyn, Inc. have unconditionally guaranteed payment of the bonds. In conjunction with this financing, ICL is required to maintain and have available for use a lease payment fund.

Annual payments of principal and interest are as follows:

2012	$ 677,501
2013	673,652
2014	680,244
2015	690,264
2016	518,755
Thereafter	5,425,542
	8,665,958
Less amount representing interest	(2,385,958)
Present value of minimum lease payments	$ 6,280,000

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NOTE 16 - ESCROW FUNDS HELD ON BEHALF OF ICL

On March 30, 2005, ICL began operations of an OMH funded program (known as "Milestone Residence") on the grounds of Creedmoor Psychiatric Center ("Center"). This program was previously operated by a non-related not-for-profit organization. ICL entered into a revocable permit agreement with the Center, effective March 30, 2005. The agreement allows ICL to use and occupy the premises and operate the program in accordance with the provisions of a license issued by OMH. The agreement stipulates responsibility for facility-related costs between the parties. ICL is granted exclusive permission to use and occupy the premises from the effective date, continuing through (1) the expiration date of the OMH license, or (2) the effective date of a long-term lease of the premises between ICL and DASNY, as landlord. There is no payment of rent, permit fees, license fees or any other amounts between the Center and ICL.

On the same date, ICL and OMH entered into an escrow agreement. The agreement stipulates that monies will be held by an escrow agent who will be required to receive, disburse and account for such monies. The escrow agent is required to establish a bank account to which the agent is the signatory. The escrow agent is also required to receive written consent to disburse such monies from both ICL and OMH. These monies are for facility-related expenditures of the Milestone Residence. The initial deposit was $2,321,942. As of June 30, 2011 and 2010, $1,026,824 and $1,490,375, respectively, remained with the escrow agent and is not recorded in these financial statements.

NOTE 17 - DERIVATIVE FINANCIAL INSTRUMENTS

On September 14, 2004, ICL, in conjunction with securing financing from the IDA, entered into an interest rate swap agreement with HBSC Bank, USA in order to convert the interest rate on its Series A tax-exempt bond to a fixed rate of 4.09%. On December 30, 2010, ICL entered into an agreement with JPMorgan Chase for a swap agreement whereby ICL will pay JPMorgan Chase Bank 4.34% annual interest on the outstanding balance of the bond issued under the Industrial Development Agency and JPMorgan Chase will assume all responsibility for the SWAP agreement with HSBC bank.

The swap agreement resulted in a market-to-market unrestricted loss of $19,854 and $233,822 in 2011 and 2010, respectively. At June 30, 2011 and 2010, the fair value of the swap agreement was a liability of $764,636 and $744,782, respectively.

Under the swap contract, ICL pays interest at 4.34% and receives interest at varying rates. The swap is designated to hedge the risk of changes in interest payments on the note caused by changes in the Bond Market Association (BMA). The notional amounts do not represent actual amounts exchanged by the parties, but instead represent the amounts on which the contracts are based.

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NOTE 17 - DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The swap was issued at market terms so that it had no fair value or carrying value at its inception. The carrying amount of the swap has been adjusted to its fair value at the end of the year which, because of changes in forecasted levels of BMA, resulted in reporting a liability for the fair value of the future net payments forecasted under the swap. The swap contract permits settlement prior to maturity only through termination by ICL. The settlement amount is determined based on forecasted changes in interest rates required under fixed and variable legs of the swap. ICL believes the settlement amount is the best representation of the fair value of the swap and has adjusted its carrying amount to the settlement amount at the end of the year.

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reported on the balance sheet approximate their fair value.

NOTE 19 - CONCENTRATIONS

Financial instruments which potentially subject the Consolidated Group to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.

A significant portion of the Consolidated Group's operating revenues are paid by Medicaid and the New York State Office of Mental Health.

	2011	2010
New York State Office of Mental Health	25%	28%
Medicaid	31%	32%

NOTE 20 - CONTINGENCIES

ICL is responsible to report to and is regulated by various governmental third parties, among which are the Centers for Medicare and Medicaid Services (CMS), the New York State Office of Mental Health (OMH) and the Office for People with Development Disabilities (OPWDD). These agencies as well as the New York State Office of the Attorney General's Medicaid Fraud Control Unit (MFCU), the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the New York State Department of Health's Independent Office of Medicaid Inspector General (OMIG), and other agencies have the right to audit fiscal as well as programmatic compliance.

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APPENDIX B-IV

OHEL CHILDREN'S HOME AND FAMILY SERVICES, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2013, JUNE 30, 2012 AND JUNE 30, 2011)

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WeiserMazars LLP

Ohel Children's Home and Family Services, Inc. and Affiliates

Consolidated Financial Statements
June 30, 2013 and 2012

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WeiserMazars

Independent Auditors' Report

To the Board of Directors
Ohel Children's Home and Family Services, Inc. and Affiliates

We have audited the accompanying consolidated financial statements of Ohel Children's Home and Family Services, Inc. and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ohel Children's Home and Family Services, Inc. and Affiliates as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

WeiserMazars LLP

November 27, 2013

WeiserMazars LLP
135 West 50th Street – New York, New York – 10020
Tel: 212.812.7000 – Fax: 212.375.6888 – www.weisermazars.com

Ohel Children's Home and Family Services, Inc. and Affiliates

Consolidated Statements of Financial Position

June 30, 2013 and 2012

	2013	2012
Assets		
Cash and cash equivalents	$ 8,133,070	$ 9,182,232
Program receivables	5,245,976	3,827,468
Pledges receivable	2,918,566	2,976,245
Grants receivable	3,286,188	2,376,732
Investments	701,559	627,983
Other receivables	143,292	235,785
Property and equipment, net of accumulated depreciation	37,993,096	36,186,033
Property held for sale	1,114,468	225,000
Client custodial funds	456,545	464,547
Prepaid expenses and other assets	436,166	353,341
Debt reserve funds	299,159	1,030,694
Total assets	$ 60,728,085	$ 57,486,060
Liabilities and Net Assets		
Bank lines of credit payable	$ 9,000,000	$ 8,768,000
Accounts payable and accrued expenses	4,024,466	2,356,227
Accrued salaries and fringes	2,719,569	3,472,180
Mortgages and bonds payable	12,100,333	11,888,457
Notes payable	5,498,212	5,722,218
Capital lease obligations payable	204,098	33,764
Due to governmental agencies	1,187,793	1,224,256
Client custodial funds	456,545	464,547
Deferred revenue	987,151	543,268
Compensated absences payable	1,138,110	1,102,177
Unfunded pension obligation	2,798,778	3,469,104
Total liabilities	40,115,055	39,044,198
Commitments and contingencies		
Unrestricted net assets:		
Undesignated	7,965,584	5,438,754
Board designated	10,483,771	11,081,281
Temporarily restricted	1,606,565	1,391,299
Permanently restricted	557,110	530,528
Total net assets	20,613,030	18,441,862
Total liabilities and net assets	$ 60,728,085	$ 57,486,060

The accompanying notes are an integral part of these financial statements.

Ohel Children's Home and Family Services, Inc. and Affiliates

Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Program service fees	$ 48,330,593	$ -	$ -	$ 48,330,593
Contributions and operating grants	5,262,487	1,100,356	-	6,362,843
Special events (less direct costs of $758,833)	1,478,951	-	-	1,478,951
Actuarial loss	-	(26,571)	-	(26,571)
Rental and other income, net	296,576	-	26,582	323,158
Net assets released from restrictions	1,802,026	(1,802,026)	-	-
Total revenue	57,170,633	(728,241)	26,582	56,468,974
Expenses				
Program	46,754,887	-	-	46,754,887
Fund raising	1,436,219	-	-	1,436,219
General and administrative	7,751,868	-	-	7,751,868
Total operating expenses	55,942,974	-	-	55,942,974
Change in net assets before other items	1,227,659	(728,241)	26,582	526,000
Other items				
Hurricane Sandy	(455,459)	350,000	-	(105,459)
Assets acquired over liabilities assumed	623,872	593,507	-	1,217,379
Pension related credits, other than net periodic costs	533,248	-	-	533,248
Increase in net assets	1,929,320	215,266	26,582	2,171,168
Net assets				
Beginning of year	16,520,035	1,391,299	530,528	18,441,862
End of year	$ 18,449,355	$ 1,606,565	$ 557,110	$ 20,613,030

The accompanying notes are an integral part of these financial statements.

Ohel Children's Home and Family Services, Inc. and Affiliates

Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Program service fees	$ 45,761,848	$ -	$ -	$ 45,761,848
Contributions and operating grants	4,342,117	1,318,844	5,085	5,666,046
Special events (less direct costs of $769,539)	1,054,298	-	-	1,054,298
Actuarial loss	-	(24,548)	-	(24,548)
Rental and other income, net	512,161	-	1,901	514,062
Net assets released from restrictions	2,147,700	(2,147,700)	-	-
Total revenue	53,818,124	(853,404)	6,986	52,971,706
Expenses				
Program	43,831,052	-	-	43,831,052
Fund raising	1,458,511	-	-	1,458,511
General and administrative	6,186,400	-	-	6,186,400
Total operating expenses	51,475,963	-	-	51,475,963
Change in net assets before other items	2,342,161	(853,404)	6,986	1,495,743
Other items				
Pension related charges, other than net periodic costs	(1,453,608)	-	-	(1,453,608)
Increase (decrease) in net assets	888,553	(853,404)	6,986	42,135
Net assets				
Beginning of year	15,631,482	2,244,703	523,542	18,399,727
End of year	$ 16,520,035	$ 1,391,299	$ 530,528	$ 18,441,862

The accompanying notes are an integral part of these financial statements.

Ohel Children's Home and Family Services, Inc. and Affiliates
Consolidated Statements of Functional Expenses
Years Ended June 30, 2013 and 2012

	Program	Fundraising	General and Administrative	2013 Total	2012 Total
Personal services	$ 25,394,849	$ 786,884	$ 3,550,271	$ 29,732,004	$ 28,186,341
Payroll taxes and benefits	5,605,660	152,505	830,076	6,588,241	6,911,314
Rent	2,731,529	-	115,398	2,846,927	3,005,286
Depreciation	1,546,837	6,201	764,421	2,317,459	2,097,732
Food	1,647,163	12,076	31,865	1,691,104	1,464,778
Client expenses	2,365,574	-	2,574	2,368,148	1,191,341
Office expenses	629,677	306,297	368,487	1,304,461	1,142,184
Interest	727,151	-	363,030	1,090,181	1,000,708
Professional fees	203,833	61,266	590,452	855,551	682,063
Transportation	353,322	10,949	32,639	396,910	414,507
Utilities	693,466	2,455	134,042	829,963	741,717
Supplies	652,809	6,359	75,533	734,701	583,305
Communication	541,024	15,771	467,365	1,024,160	717,961
Equipment leasing	459,938	21,306	56,729	537,973	567,136
Repairs and maintenance	745,974	5,919	61,935	813,828	528,533
Medical expenses	285,635	-	50,040	335,675	294,720
Foster boarding fees	501,128	-	-	501,128	426,162
Grants	69,860	-	-	69,860	-
Facility assessment	618,634	-	-	618,634	533,859
Insurance	511,496	2,741	135,714	649,951	522,370
Advertising	211,436	45,490	121,297	378,223	313,240
School expenses	257,892	-	-	257,892	150,706
Total expenses	$ 46,754,887	$ 1,436,219	$ 7,751,868	$ 55,942,974	$ 51,475,963

The accompanying notes are an integral part of these financial statments.

Ohel Children's Home and Family Services, Inc.
Consolidated Statement of Functional Expenses
Year Ended June 30, 2012

	Program	Fund Raising	General and Administrative	2012 Total
Personal services	$ 24,698,196	$ 804,339	$ 2,683,806	$ 28,186,341
Payroll taxes and benefits	5,746,248	179,114	985,952	6,911,314
Rent	2,931,399	6,217	67,670	3,005,286
Depreciation	1,763,329	5,994	328,409	2,097,732
Food	1,438,124	8,545	18,109	1,464,778
Client expenses	1,181,534	9,187	620	1,191,341
Office expenses	485,091	347,671	309,422	1,142,184
Interest	685,428	-	315,280	1,000,708
Professional fees	253,692	23,071	405,300	682,063
Transportation	371,296	8,222	34,989	414,507
Utilities	616,031	401	125,285	741,717
Supplies	524,332	4,503	54,470	583,305
Communication	319,184	14,810	383,967	717,961
Equipment leasing	480,496	20,006	66,634	567,136
Repairs and maintenance	464,817	2,598	61,118	528,533
Medical expenses	294,720	-	-	294,720
Foster boarding fees	426,162	-	-	426,162
Facility assessment	533,859	-	-	533,859
Insurance	352,195	-	170,175	522,370
Advertising	164,392	23,833	125,015	313,240
School expenses	100,527	-	50,179	150,706
Total expenses	$ 43,831,052	$ 1,458,511	$ 6,186,400	$ 51,475,963

The accompanying notes are an integral part of these financial statements.

Ohel Children's Home and Family Services, Inc. and Affiliates

Consolidated Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Change in net assets	$ 2,171,168	$ 42,135
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	2,449,955	2,224,722
Assets acquired over liabilities assumed	(1,143,121)	
Pension related (credits) charges, other than net periodic costs	(533,248)	1,453,608
Impairment on property Hurricane Sandy	957,369	
Unrealized (gain) loss on investments	(20,284)	19,463
Gain on sale of property	-	(2,550)
Contributions and investment income, permanently restricted	-	(6,986)
Increase (decrease) in cash resulting from changes in operating assets and liabilities		
Program receivables	(1,348,257)	1,147,927
Pledges receivable	124,384	319,750
Grants receivable	(701,455)	(1,928,851)
Other receivables	83,002	(184,028)
Prepaid expenses and other assets	(27,686)	15,333
Accounts payable and accrued expenses	1,587,085	184,053
Accrued salaries and fringes	(752,611)	353,922
Deferred revenue	428,183	112,226
Compensated absences payable	51,633	(385,372)
Net proceeds from governmental agencies	(36,463)	(263,599)
Unfunded pension liability	(137,078)	(313,234)
Net cash provided by operating activities	3,152,576	2,788,519
Cash flows from investing activities		
Property and equipment acquisitions	(3,933,815)	(6,129,714)
Property held for resale	225,000	73,800
Purchase of investments	(53,292)	(25,000)
Net cash used in investing activities	(3,762,107)	(6,080,914)
Cash flows from financing activities		
Utilization of debt reserve funds	731,535	134,572
Proceeds from bank line of credit - net	232,000	1,368,000
Proceeds refinanced mortgage	3,100,000	-
Repayment of mortgages payable	(4,059,238)	(1,082,493)
Proceeds from notes payable	86,522	3,630,551
Repayment of notes payable	(700,784)	-
Repayments of capital lease obligations	170,334	(87,671)
Proceeds of endowment contributions	-	5,085
Net cash (used in) provided by financing activities	(439,631)	3,968,044
Net (decrease) increase in cash and cash equivalents	(1,049,162)	675,649
Cash and cash equivalents		
Beginning	9,182,232	8,506,583
Ending	$ 8,133,070	$ 9,182,232
Supplementary disclosure of cash flow information		
Cash paid during the year for interest	$ 1,177,439	$ 1,087,185
Supplementary disclosure of noncash activities		
Net assets acquired through the Etta acquisition		
Cash and cash equivalents	$ 74,258	
Program receivables	70,250	
Pledges receivable	289,705	
Grants receivable	210,000	
Property and equipment	2,395,011	
Prepaid expenses and other assets	35,758	
Accounts payable and accrued expenses	(296,233)	
Mortgages payable	(1,171,114)	
Notes payable	(390,256)	
	1,143,121	
Assets acquired over liabilities assumed	$ 1,217,379	

The accompanying notes are an integral part of these financial statements.

1. Organization and Purpose

The accompanying consolidated financial statements include the accounts of Ohel Children's Home and Family Services, Inc. ("Ohel"), and its member companies; Camp Ohel, Inc. d.b.a. Camp Kaylie ("Camp Ohel" or "Camp Kaylie") and The Tikvah Etta and Lazear Israel Center for the Developmentally Disabled, d.b.a Etta Israel Center ("Etta"), collectively, the "Agency".

Ohel is organized under the not-for-profit corporation law of the State of New York. Ohel was established to provide services for the care of destitute, abandoned, dependent, neglected and emotionally disturbed children and adults, and has been granted an exemption from Federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code.

In the ensuing years, Ohel has significantly expanded and operated residential facilities to provide care and treatment for developmentally and physically disabled children and adults in the metropolitan New York area. In addition, Ohel operates other non-residential programs such as outpatient clinics, day programs, family support camp, specialized treatment services, and crisis intervention. Ohel receives its support predominantly from Federal, New York State and City governmental sources as well as from private contributions.

In March 2010, Ohel expanded its services when the Board of Directors approved the purchase of a camp site in the Sullivan County area of New York. The purchase price and subsequent renovations to existing buildings and the construction of a gym, activities center and additional housing in the amount of approximately $11,500,000 were fully funded via grants and charitable contributions. Approximately $853,000 of improvements have been funded by Ohel through earned surplus. The camp grounds and respective buildings are currently owned by Ohel.

Camp Ohel was incorporated July 16, 2008 as a New York not-for-profit corporation for the primary objective of developing and operating a fully integrated summer camp for children with and without developmental disabilities, and has been granted an exemption from Federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. Ohel is the sole member of Camp Ohel. Camp Kaylie also is utilized to provide respite opportunities to parents and family members with children who have disabilities. It is also available for rental to community groups.

Camp Ohel Realty Corporation ("Realty") was incorporated July 24, 2008 as a New York not-for-profit corporation for the sole purpose of holding title to real property to be used exclusively to support the charitable and education purposes of its sole member, Camp Ohel, and has been granted an exemption from federal income tax pursuant to Section 501(c)(2) of the Internal Revenue Code. It is anticipated that Ohel will transfer all camp real estate to Realty during fiscal year ending June 30, 2014. Realty had no operations during the fiscal years ended June 30, 2013 and 2012.

On September 18, 2012, Ohel, with the approval of each agency's respective Board of Directors, and the California Secretary of State, became the sole member of Etta. Etta is organized under Section 23701(d) of the California Revenue and Taxation Code and has been granted exemption from Federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code.

The acquisition of Etta is reflected in the consolidated statement of activities and changes in net assets as assets acquired over liabilities assumed. The fair market value of Etta's net assets acquired at the date of acquisition was approximately $1.2 million. No cash or other consideration was transferred in the transaction. Etta's revenues and expenses from the date of acquisition through June 30, 2013 are consolidated with the results of operations of Ohel and Camp Ohel.

Ohel provides:

- Outpatient and residential services for children, adolescents and adults with developmental and psychiatric disabilities;
- Day habilitation services as well as comprehensive outpatient programs including respite, in home services and family support;
- Outpatient psychological and psychiatric evaluations and treatment for children, adults and families (treatment is also available for homebound individuals);
- Psychiatric day programs in a beautiful environment for adults with mental illness to socialize, work, study or have lunch with friends;
- In-home crisis assessment and referrals to individuals and families experiencing psychiatric, psychological or behavioral crisis;
- Foster care programs and caring for children suffering from abuse or neglect by placing them with loving and caring certified foster families;
- Day camps and overnight camps for children and young adults with psychiatric and developmental disabilities;
- The Mel & Phyllis Zachter OHEL Institute for Training provides dynamic trainings for the professional and lay communities featuring world-renowned experts. It offers cutting edge, problem-solving approaches to address a broad range of current mental health, education and social service concerns;
- Domestic Violence Program providing individualized counseling and support groups for women and children as well as temporary safe housing for victims of domestic violence, education to the community about this issue and the importance of providing options for women who are in abusive relationships;
- A program offering job preparation and placement for people with psychiatric and developmental disabilities;
- Confidential treatment by specially trained professionals for drug, alcohol, gambling and other addictions;
- Comprehensive preventive care services for families in need of crisis intervention and counseling.

Camp Kaylie's programs are specifically designed to address the unique and special needs and barriers that children with disabilities routinely encounter in a mainstream environment. Camp Kaylie's programs and specially trained staff focus on addressing the physical, emotional, and social skills, limitations and special needs of these children. The goals for Camp Kaylie are aimed at fostering skills development, self-confidence, socialization, independence, leadership and community responsibilities among children with disabilities.

A relatively unique but important aspect of Camp Kaylie's programs is the camper populate designed to include typically developing children (i.e., children without disabilities). The objective for integrating typically developing children with children with disability is aimed at enhancing the ability of children with disabilities to learn and develop skills and confidence in the least restrictive setting. Camp Kaylie's inclusion and integration concept will permit disabled and non-disabled siblings to attend camp together.

Etta serves the Los Angeles Community by offering direct care programs, such as group home residential facilities, supported living case management and coaching, social and recreational activities, Special Education classes, and counseling. Etta remains a California not-for-profit corporation with IRS 501(c)(3) status.

2. Summary of Significant Accounting Policies

Basis of Accounting
The consolidated financial statements of the Agency have been prepared on the accrual basis.

Revenue
Program service fees represent the estimated net realizable amounts from third-party payors, clients and others for services rendered. Revenues derived under the third-party reimbursement programs are based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustment.

There are occasions when funding source reimbursements for prior years are adjusted in the current year. Such adjustments may be due to funding source audit findings, additional monies available over and above original contract amounts and rate appeal results. Government funding source contracts may be subject to change during the course of a contract year. Additionally, contracts might be assigned to another government provider within a contract year. Some contracts provide for quarterly advances and upon finalization may require a repayment by the Agency or provide for a receivable from the funding source.

Receivables are evaluated periodically for collectability. Changes in the estimated collectability of the receivables are recorded in the statement of activities in the period in which the estimate is revised.

Contributions and Net Assets
Contributions are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Unrestricted net assets are resources that are undesignated, available for general purposes and are used for the general activities. Temporarily restricted net assets consist of resources, the use of which has been restricted by donors for specific purposes or the passage of time. Permanently restricted net assets consist of amounts which must be maintained by the Agency in perpetuity as stipulated by the donor. The release of net assets from temporary restrictions results from either the satisfaction of the restricted purposes specified by the donors, or from the passage of time. It is the Agency's policy to report as unrestricted support, donor-restricted contributions whose restrictions are met in the same reporting period. Board designated net assets represent unrestricted net assets used for capital acquisitions that have been set aside for future use.

Contributions receivable due in more than one year are discounted to their present value (estimated fair value) using a rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue. Management determines an allowance for unredeemed promises by considering such factors as prior collection history with the donor, type of contribution and type of fund-raising event.

The Agency's permanently restricted net assets at June 30, consist of the following:

	2013	2012
Robert and Roselin Vegh Preventive Care Program	$ 70,300	$ 70,279
Harry S. Gindea Memorial Fund	57,220	57,203
Mel and Phyllis Zachter Ohel Endowment Fund	429,590	403,046
	$ 557,110	$ 530,528

The Agency's temporarily restricted net assets at June 30, consist of the following:

	2013	2012
Equipment, construction and renovations	$ 569,863	$ 592,313
Summer camp scholarships and recreation	300,561	177,151
Community awareness	253,748	120,000
Foster care	46,605	30,980
Charitable gift annuity trust	45,883	72,455
Residential and employment	379,560	59,400
Domestic violence	10,345	10,000
Camp Ohel, Inc.	-	329,000
	$ 1,606,565	$ 1,391,299

Deferred Revenue
Revenue is recognized as services are provided. Deferred revenue in the amount of approximately $429,000 and $435,000 at June 30, 2013 and 2012, respectively, represents money received in advance for summer camp tuition. The balance of approximately $558,000 at June 30, 2013 consists of other program advances of approximately $417,000 received for the fiscal year ending June 30, 2014 and approximately $141,000 and $108,000 at June 30, 2013 and 2012, respectively, of deferred rental income accrued. Revenue is recognized as services are provided.

Depreciation
Property and equipment are capitalized by Ohel and Camp Ohel, provided their costs are $5,000 or more and their useful lives is two years or more. Property and equipment are capitalized by Etta provided their costs are $1,000 or more. Maintenance and repairs are charged to expense as incurred.

No depreciation is recognized on construction-in-progress. Depreciation of buildings and improvements, leasehold improvements and furniture and fixtures are provided on the straight-line basis at various rates calculated to recognize the cost of the respective assets over their estimated useful lives (or, in the case of leasehold improvements, the lease term, if shorter) are as follows:

Building and improvement	25-30 years
Leasehold improvements	20 years
Furniture and fixtures	3-10 years

Depreciation expense amounted to $2,449,955 and $2,224,722 for the years ended June 30, 2013 and 2012, respectively. For the years ended June 30, 2013 and 2012, depreciation expense included in the statements of functional expenses is $2,317,459 and $2,097,732, respectively; and $132,496 and $126,990, respectively, is reflected as an offset to rental and other income.

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

Risks and Uncertainties
The Agency has various investments that are exposed to various risks, such as interest rate, market and credit risks. Due to the risk associated with such investments and the uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks or investment values in the near term could affect the amounts reported in the statements of financial position and statements of activities and changes in net assets.

Cash and Cash Equivalents
The Agency considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. At certain times during the year and at June 30, 2013, cash and cash equivalent balances with financial institutions exceeded Federal Deposit Insurance Corporation limits. The Agency believes it mitigates its risks by banking with major financial institutions.

Investments
Investments are reported at fair value in accordance with the current accounting standard, "Accounting for Certain Investments Held by Not-for-Profit Organizations". Generally, fair value is determined by reference to quoted market prices.

Real Estate Held for Sale
Real estate held for sale at June 30, 2013 in the amount of $1,114,468 represents the net book value of one property which was sold in August 2013 in the amount of $2,400,000. A gain after closing costs of approximately $1.2 million will be recognized in the fiscal year ending June 30, 2014.

The property in the amount of $225,000 at June 30, 2012 was sold in December 2012. No gain or loss was recognized on the transaction.

Debt Reserve Funds
Debt reserve funds represent amounts held by a financial institution in the name of the Agency to pay the debt service on various bond obligations. Monies are deposited monthly with the trustee based on debt and interest amortization schedules. Principal and interest payments to bondholders are made by the trustee on a semi-annual basis. The reserve earns interest, which is used to offset the Agency's interest payment obligations under the mortgages.

Client Custodial Funds
The Agency has signature authority over client custodial funds of approximately $457,000 and $465,000 at June 30, 2013 and June 30, 2012, respectively. These monies are available and used for authorized purchases of client personal needs.

Construction and Property Acquisition Grants
The Agency capitalizes costs of construction and property acquisitions as incurred and accrues income upon reimbursement by the grantor for amounts paid by the Agency.

Advertising
The Agency's policy is to expense advertising costs as incurred. Advertising expense included in program, fund raising and general and administrative expenses were $378,000 and $313,240 for the years ended June 30, 2013 and 2012, respectively.

Compensated Absences Payable
Compensated absences payable represents amounts accrued for vacation pay. Vacation time that has not been used by an employee is paid out upon termination of employment.

Reclassifications
Reclassifications were made to the 2012 consolidated financial statements to conform to the 2013 presentation.

Intercompany Balances and Transactions
All significant intercompany balances and transactions have been eliminated in consolidation.

3. Program Receivables

At June 30, 2013 and 2012, program receivables amounted to $5,245,976 and $3,827,468 (net of allowance for uncollectible amounts of $67,147).

4. Pledges Receivable

Pledges receivable at June 30, 2013 are $2,918,566 (net of allowance for uncollectible amounts of $423,249); and $2,976,245 (net of allowance for uncollectible amounts of $305,042) at June 30, 2012. Approximately $1,924,000 is expected to be collected in less than one year and approximately $995,000 is expected to be collected within one to five years.

5. Grants Receivable

At June 30, 2013 and 2012, grants receivable amounted to $3,286,188 and $2,376,732. No allowance for doubtful accounts is required.

6. Investments

Authoritative guidance clarifies the definition of fair value, prescribes methods for measuring fair value, expands disclosure about the use of fair value measurements and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three levels. The following table presents the financial assets of the Agency that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy's three levels based on the reliability of the inputs used to determine fair value are as follows: Level 1 consisting of quoted prices in active markets for identical assets; Level 2 consisting of significant other observable inputs; and Level 3 consisting of significant unobservable inputs.

Investments consist of the following:

		Fair Value Measurements at June 30, 2013		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds - equities	$ 158,324	$ 158,324	$ -	$ -
U.S. Government and agency debt securities	187,971	187,971	-	-
Investments - private company	98,565	-	-	98,565
Bank money market funds	256,699	256,699	-	-
	$ 701,559	$ 602,994	$ -	$ 98,565

	Fair Value Measurements at June 30, 2012			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds - equities	$ 138,373	$ 138,373	$ -	$ -
U.S. Government and agency debt securities	186,525	186,525	-	-
Investments - private company	25,000	-	-	25,000
Bank money market funds	278,085	278,085	-	-
	$ 627,983	$ 602,983	$ -	$ 25,000

Investments in private companies which are classified as Level 3 assets represent Ohel's minority investment in two managed care companies.

Changes in Level 3 assets using significant unobservable inputs measured at fair value are as follows:

	Alternative Marketable Investments
Beginning balance - June 30, 2012	$ 25,000
Additions	73,565
Ending balance - June 30, 2013	$ 98,565

7. Property and Equipment

Property and equipment consists of the following as of June 30:

	2013	2012
Land	$ 5,173,198	$ 4,583,116
Building and improvements	39,443,267	39,045,543
Leasehold improvements	5,550,274	3,962,107
Furniture and fixtures	7,307,313	5,590,744
Construction-in-progress	197,642	1,473,765
	57,671,694	54,655,275
Less: accumulated depreciation	19,678,598	18,469,242
	$ 37,993,096	$ 36,186,033

Construction-in-progress in the amount of $197,642 at June 30, 2013 represents amounts incurred for renovations for new projects and locations that will be put in service during the fiscal year ending June 30, 2014. The Agency capitalized preliminary costs associated with the renovation of an individualized residential facility in the amount of $1,473,765 at June 30, 2012. Construction was completed and the residence was opened to residents during the fiscal year ended June 30, 2013.

8. Charitable Gift Annuity Trust

The Agency is identified as a beneficiary in two $100,000 annuity trusts as of June 30, 2013. Under conditions of the trust agreement, the donor retains the right to receive annuity distributions during the donor's lifetime. The liability to the donor is included in accounts payable and accrued expenses and is measured at the present value of the expected future cash flows to be paid to the donor, amounting to approximately $63,000. An actuarial loss of approximately $27,000 and $25,000 was incurred during the years ended June 30, 2013 and 2012, respectively, as the actual cash payments to the donor have exceeded $63,000. The present value of the liability was calculated using a discount rate of 8% and applicable mortality table.

9. Bank Lines of Credit Payable

The Agency has a bank revolving line of credit agreement expiring December 31, 2014, under the terms of which it may borrow up to $3,000,000 with interest at 0.5% above the bank's prime rate (prime was 3.25% at June 30, 2013) with a minimum rate of 5.0%. The Agency had outstanding $2,500,000 of the line at June 30, 2013 of which $500,000 was repaid on July 1, 2013 and an additional $800,000 on July 11, 2013.

The Agency had a bank revolving line of credit agreement which expired on July 3, 2013, under the terms of which it may borrow up to $6,500,000 with interest at 0.5% above the bank's prime rate (prime was 3.25% at June 30, 2013) with a minimum rate of 5.5%. The Agency had outstanding $6,500,000 of the line at June 30, 2013. On July 1, 2013, $6,500,000 was repaid. The line of credit was not renewed.

10. Mortgages and Bonds Payable

Unless otherwise specified, mortgages and bonds payable are secured by property and security interests in all fixtures, furnishings and equipment. Mortgages and bonds payable consist of the following as of June 30,:

	2013	2012
IDA Bond Payable – Series 1999A consists of annual installments including interest at 6.25% through 2022.	$ -	$ 2,790,000
IDA Bond Payable – Series 2004 A-1 consists of annual installments including interest at an average coupon rate of 4.05% through 2016.	340,000	453,000
Mortgage payable - Facilities Development Corporation ("FDC") consists of semi-annual installments of $63,700 including interest at 8.9% through 2017.	432,284	515,609
Mortgage payable - Dormitory Authority of the State of New York ("DASNY") consists of semi-annual installments of $74,032 including interest at 5.23% through 2022.	1,097,528	1,184,766
Bank mortgages payable held by affiliate (Etta) consists of monthly installments with fixed interest rates of 3.0% through May 2022.	419,506	-
Bank mortgage payable held by affiliate (Etta) consists of monthly installments with fixed interest rates of 6.0% through January 2015, then 5 year LIBOR swap +3.25% with a 6.0% floor due January 2040.	701,347	-
Bank mortgages payable – consists of monthly installments with fixed interest rates ranging from 4.875% to 8.5% through September 2024.	9,109,668	6,945,082
	$ 12,100,333	$ 11,888,457

The annual maturities of mortgages and bonds payable for each of the next five years and thereafter are approximately as follows:

Years Ending June 30,	
2014	$ 1,114,002
2015	1,157,728
2016	2,136,141
2017	1,004,597
2018	879,754
Thereafter	5,808,111
Total	$ 12,100,333

The mortgages with the FDC and DASNY effectively assign or collateralize the revenue of the underlying property as well as the property and all equipment or improvements made and restrict the use of property.

11. Notes Payable

Notes payable represent general operational loans.

Notes payable consist of the following as of June 30,:

	2013	2012
Note payable – with an individual payable due December 31, 2012 at the rate of 0.25% per annum.	$ -	$ 2,000,000
Note payable – with an individual payable due October 31, 2013 at the rate of 0.25% per annum (repaid in full September 10, 2013).	1,000,000	1,000,000
Note payable – third party, interest only payable semiannually at 6.5% with principal due February 28, 2015.	650,000	650,000
Note payable – finance company, interest only payable in monthly installments at 3% above prime (prime was 3.25% at June 30, 2013) with principal due on March 31, 2015. (repaid in full August 31, 2013).	500,000	500,000
Note payable – third party, interest only payable semiannually at 4.25% with principal due June 20, 2016.	500,000	500,000

Note payable – bank construction loan due January 5, 2014 at prime plus 1.5% but not lower than 4.75% which will convert to a long-term mortgage upon completion of construction.	859,612	814,718
Note payable – bank acquisition loan for equipment secured by receivable for equipment acquisition grant consists of interest payments only at 5.50% per annum due January 31, 2014.	582,321	-
Note payable – bank acquisition loan for property secured by receivable for property acquisition grant consists of interest payments only at 5.50% per annum due January 31, 2014.	672,000	-
Note payable – bank acquisition loan consists of equal monthly principal installments of $4,722 interest at 5.25% maturing March 1, 2016.	155,834	-
Note payable – bank acquisition loan consists of monthly principal installments of $5,833 plus interest at 8% maturing July 31, 2013.	8,334	100,000
Note payable – bank acquisition loan consists of monthly principal installments of $8,334 plus interest at 7% maturing September 30, 2014.	93,333	157,500
Loan payable to a related party, 0% interest, unsecured, payable in installments of $2,000 until paid, due August 2015.	100,000	-
Loans payable to related parties, no interest, unsecured, due on demand.	50,000	-
Loan payable to private party, no interest, unsecured, due on demand.	35,000	-
Loan payable to a related party, 0% interest, unsecured, payable in installments of $3,000, due December 2015.	90,000	-
Loan payable to a related party, 0% interest, unsecured, payable in a single balloon payment October 2014.	101,239	-
Loan payable to a related party, 0% interest, payable in semi-annual installments of $1,500 commencing December 2012 through June 2016, final installment of $2,000 in December 2016.	12,500	-

Loan payable to Disability Opportunity Fund, fixed rate installment note, 6.5% interest, unsecured, guaranteed by third party, payable in interest-only installments through January 2012, and installments of $373 from February 2012 through December 2014, and a balloon payment of $46,342 in January 2015.	48,190	-
Loan payable to Honda Financial Services, financing installment note, 1.9% interest, secured by an automobile costing $37,819 payable in installments of $662 until paid, due May 2017.	29,398	-
Loan payable to Honda Financial Services, financing installment note, 0.9% interest, secured by an automobile costing $38,005, payable in installments of $222 until paid, due June 2017.	10,451	-
Total Notes Payable	$ 5,498,212	$ 5,722,218

The annual maturities of notes payable for each of the next five years are as follows:

Years Ending June 30,	
2014	$ 4,079,147
2015	179,363
2016	1,202,291
2017	33,175
2018	4,236
Total	$ 5,498,212

12. Capital Lease Obligations Payable

Furniture and equipment capitalized pursuant to capital lease agreements amounted to $204,098 and $33,765 at June 30, 2013 and 2012, respectively. The related future minimum annual lease payments at June 30, 2013 are approximately as follows:

Years Ending June 30,	Total Amount	Principal Portion of Future Lease Payments
2014	$ 49,990	$ 44,015
2015	49,990	45,546
2016	49,990	47,131
2017	49,990	48,771
2018	4,138	4,138
Total payments	204,098	
Less amounts representing interest (with imputed rates of approximately 3.425%)	14,497	
Principal portion of future lease payments	$ 189,601	

13. Due to Governmental Agencies

Due to governmental agencies in the amount of $1,187,793 and $1,224,256 at June 30, 2013 and 2012, respectively, consists of the following:

Amounts due to the Office of Mental Health from excess Medicaid and contract revenue at June 30, 2013 and 2012 were approximately $969,000 and $1,109,000, respectively. Approximately, $269,000 and $466,000 at June 30, 2013 and 2012, respectively, relates to an industry issue that has been litigated and the Office of Mental Health is being repaid via monthly withholds through the normal course of contract reconciliations for amounts paid to providers in prior years. The balance of $700,000 and $643,000 at June 30, 2013 and 2012, respectively, represents advances and payments that will be repaid through the normal course of contract reconciliations.

At June 30, 2013 and 2012, amounts due to the Office for People with Developmental Disabilities ("OPWDD") of approximately $219,000 and $115,000, respectively, consist of advances to fund program services, renovation, construction and periodic maintenance. The amounts will be repaid through rate recoupment.

14. Related Parties

The Lifetime Care Foundation for Jewish Disabled, Inc. ("Lifetime"), a related party, prepaid expenses for services rendered by Ohel to Lifetime Care in the ordinary course of business, of approximately $50,000 and $46,000 at June 30, 2013 and 2012, respectively, which is included in other payables. Ohel and Lifetime are related due to overlapping board members and management.

15. Commitments and Contingencies

Government Funding

Pursuant to the Agency's contractual relationships with certain governmental funding sources, outside governmental agencies have the right to examine the books and records of the Agency involving transactions relating to these contracts. The accompanying consolidated financial statements make no provisions for possible disallowance.

In addition, certain agreements provide that some property and equipment owned by the Agency must be utilized by the Agency to continue owning these assets.

Real Property and Equipment Leases

The Agency is obligated, pursuant to various operating lease agreements for future minimum annual real property and equipment lease payments for the years ending, as indicated below. Rent and equipment lease expense for the years ended June 30, 2013 and 2012 amounted to approximately $2,800,000 and $3,005,000, respectively.

The Agency rents certain property to tenants on a month-to-month basis. For the years ended June 30, 2013 and 2012, rental income was approximately $451,000 and $299,000, respectively, and is included in other income in the statement of activities.

Rent commitments for the next five years and thereafter are as follows:

Years Ending June 30,	Total	Real Property	Equipment
2014	$ 1,798,022	$ 1,619,499	$ 178,523
2015	1,210,014	1,119,497	90,517
2016	935,519	900,905	34,614
2017	808,329	805,515	2,814
2018	569,939	569,939	-
Thereafter	1,198,440	1,198,440	-
Total	$ 6,520,263	$ 6,213,795	$ 306,468

16. Endowment

The Agency's endowment consists of one individual fund established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees has interpreted the New York Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agency in a manner consistent with the standard of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, the Agency considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purpose of the Agency and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Agency
(7) Where appropriate and circumstances would otherwise allow alternatives to expending of the endowment fund, given due consideration for the effect that such alternatives may have on the Agency; and
(8) The investment policies of the Agency.

Board designated net assets are designated for future capital expenses incurred with respect to the properties and improvements purchased with construction and capital grants earned during the current year.

Changes in Endowment Net Assets for the Year Ended June 30, 2013 were approximately as follows:

	Donor-Restricted Endowment Funds	Board Designated Endowment Funds	Total
Endowment net assets, beginning of year	$ 530,528	$ 11,081,821	$ 11,612,349
Contributions to endowment	-	-	-
Investment return:			
Interest and dividend income	10,418	-	10,418
Capital gains	-	-	-
Unrealized losses	16,164	-	16,164
Appropriation of endowment assets for expenditure	-	(597,510)	(597,510)
Endowment net assets, end of year	$ 557,110	$ 10,484,311	$ 11,041,421

Changes in Endowment Net Assets for the Year Ended June 30, 2012 were approximately as follows:

	Donor-Restricted Endowment Funds	Board Designated Endowment Funds	Total
Endowment net assets, beginning of year	$ 523,542	$ 9,846,000	$ 10,369,542
Contributions to endowment	5,085	1,522,000	1,527,085
Investment return:			
Interest and dividend income	8,174	-	8,174
Capital gains	2,696	-	2,696
Unrealized losses	(8,969)	-	(8,969)
Appropriation of endowment assets for expenditure	-	(286,179)	(286,179)
Endowment net assets, end of year	$ 530,528	$ 11,081,821	$ 11,612,349

17. Pension Plan

Ohel has a noncontributory defined benefit plan for all eligible employees. Benefits are based upon years of service and compensation. Prior to the June 30, 2007 fiscal year end, the Board of Directors adopted a resolution to curtail benefit accruals as of December 31, 2007.

A summary of Ohel's pension plan cost, employer contributions and benefits paid for the years ended June 30, is as follows:

	2013	2012
Net periodic pension costs	$ 213,839	$ 72,766
Employer contributions	$ 350,917	$ 386,000
Benefits paid	$ 369,421	$ 395,733

The measurement of the net periodic pension cost for the years ended June 30 is based on the following assumptions:

	2013	2012
Weighted-average discount rate	4.25%	5.00%
Weighted-average expected long-term rate of return on plan assets	7.50%	7.50%

The measurement of the benefit obligation at June 30, 2013 is based on the following assumptions:

	2013	2012
Discount rate	4.00%	4.25%
Rate of compensation increase	N/A	N/A

The Expected Long-Term Rate of Return on Plan Assets Assumption of 7.50% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 – Selection of Economic Assumptions for Measuring Pension Obligations. Based on Ohel's investment allocation for the pension plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30 year period rolling averages. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at a best estimate range of 6.40%-8.63%. A rate of 7.50% which is within the best estimate range was selected.

The funded status of Ohel's pension plan and the amounts reflected in the accompanying statement of financial position are as follows:

	2013	2012
Benefit obligation	$ 13,510,508	$ 13,262,195
Fair value of plan assets (primarily consisting of debt and equity securities)	10,711,730	9,793,091
Unfunded pension obligation	$ 2,798,778	$ 3,469,104
Accumulated benefit obligation	$ 13,510,508	$ 13,262,195

Benefit payments are expected to be paid as follows:

Years Ending June 30,	
2014	$ 2,953,000
2015	793,000
2016	664,000
2017	946,000
2018	1,023,000
2019-2023	3,417,000
	$ 9,796,000

Ohel's best estimate of their expected contribution to the plan for the year ending June 30, 2014 is $350,000.

The amounts represented on the line, pension related credits, other than net periodic costs within the statement of activities for the years ended June 30, 2013 and 2012 is comprised of assumption changes, actuarial losses and investment return adjustments. These amounts are not yet reflected in net periodic benefit cost.

The composition of Plan assets at June 30 is as follows:

	2013	2012
Equity	50.50%	49.50%
Fixed income	16.50%	17.00%
Cash and cash equivalents	33.00%	33.50%
	100.00%	100.00%

Pension plan assets are managed and invested by Mutual of America Capital Management Corporation. Contributions are invested predominantly in pooled investment funds, which offer the advantages of diversification and economics of scale. The investment guidelines allow for two asset classes, common stock and fixed income. The allowable range for each asset class is 40%-60%.

Fair Value Measurement

The Plan's investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques need to maximize the use of observable inputs and minimize the use of unobservable inputs. Valuation techniques used to measure fair value are defined as follows:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

- Level 2 - Inputs to the valuation methodology include: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in inactive markets; (c) inputs other than quoted prices that are observable for the assets or liabilities; and (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full-term of the asset or liability.

- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2013 and 2012:

- General Interest Accumulation Account: Valued at fair market value.
- Pooled Separate Accounts: Valued at fair market value of the underlying assets which represent the pooled accounts.

Assets at fair value as of June 30, 2013 are as follows:

	Level 1	Level 2	Level 3	Total
General interest accumulated account	$ -	$ 3,537,579	$ -	$ 3,537,579
Pooled separate accounts	-	7,174,151	-	7,174,151
Totaled assets at fair value	$ -	$10,711,730	$ -	$10,711,730

Assets at fair value as of June 30, 2012 are as follows:

	Level 1	Level 2	Level 3	Total
General interest accumulated account	$ -	$ 3,278,280	$ -	$ 3,278,280
Pooled separate accounts	-	6,514,811	-	6,514,811
Totaled assets at fair value	$ -	$ 9,793,091	$ -	$ 9,793,091

Voluntary Tax Deferred Retirement Savings

Ohel and Camp Ohel have established a voluntary tax deferred retirement savings plan available for their employees under Section 403(b) of the Internal Revenue Code. All employees of Ohel and Camp Ohel are eligible to participate and contribute a portion of their gross salaries up to the federal limit of $16,500 annually. Employer matching contributions are not provided for under this plan; however, eligible employees receive employer base contributions. There is no minimum age requirement to receive employer base contributions, however, employees must complete at least one year of service (a minimum of 1,000 hours of service in a twelve month period) to receive employer base contributions under this plan. Once eligible, an employee remains eligible.

Ohel contributes 2% of salary for all eligible employees with less than fifteen years of service and 3% of salary for employees with fifteen years or more of service. The value of an individual's account attributable to employer contributions vests as follows:

- Less than two years of service 0%
- 2 years of service 20%
- 3 years of service 40%
- 4 years of service 60%
- 5 or more years of service 100%

No contributions to the plan were made by Ohel or Camp Ohel for the years ended June 30, 2013 and 2012. Employer contributions were suspended for the period April 1, 2011 through June 30, 2013.

18. Income Taxes

Ohel and Camp Ohel are organized under the not-for-profit corporation law of the State of New York, and both have been granted their respective exemption from Federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. Ohel and Camp Ohel are each current with respect to their Federal and State income tax filing requirements. Etta is organized under Section 237019(d) of the California Revenue and Taxation Code and has been granted exemption from Federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any issues or circumstances that would unfavorably impact the tax exempt status of either of the three entities. Management has determined that the Agency had no uncertain tax positions that would require financial statement recognition. The Agency is no longer subject to audits by the applicable taxing jurisdictions for the periods prior to June 30, 2010.

19. Super Storm Sandy

Various Ohel residential homes suffered damages as a result of Super Storm Sandy. The net losses incurred to date after insurance, FEMA recoveries and fundraising grants is approximately $105,000. The Agency has applied for additional available grants to recover the balance of these costs, but is unable to determine if it will be successful in such endeavors.

20. Subsequent Events

The Agency has evaluated subsequent events through November 27, 2013, the date the consolidated financial statements were available for issuance and determined that there are no significant events other than those disclosed elsewhere in these consolidated financial statements.

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WeiserMazars LLP

Ohel Children's Home and Family Services, Inc. and Affiliate

Consolidated Financial Statements
June 30, 2012 and 2011

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Independent Auditors' Report

To the Board of Directors
Ohel Children's Home and Family Services, Inc. and Affiliate

We have audited the accompanying consolidated statements of financial position of Ohel Children's Home and Family Services, Inc. and Affiliate ("Ohel") as of June 30, 2012 and 2011, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of Ohel's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ohel Children's Home and Family Services, Inc. and Affiliate as of June 30, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

WeiserMazars LLP

December 6, 2012

WeiserMazars LLP
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Ohel Children's Home and Family Services, Inc. and Affiliate

Consolidated Statements of Financial Position

June 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	$ 9,182,232	$ 8,506,583
Program receivables	3,827,468	4,975,395
Pledges receivable	2,976,245	3,295,995
Grants receivable	2,376,732	447,881
Investments	627,983	620,545
Other receivables	235,785	51,757
Property and equipment, at cost, net of accumulated depreciation	36,186,033	32,281,041
Property held for sale	225,000	296,250
Client custodial funds	464,547	448,277
Prepaid expenses and other assets	353,341	368,674
Debt reserve funds	1,030,694	1,165,266
Total assets	$ 57,486,060	$ 52,457,664
Liabilities and Net Assets		
Bank lines of credit payable	$ 8,768,000	$ 7,400,000
Accounts payable and accrued expenses	2,356,227	2,172,174
Accrued salaries and fringes	3,472,180	3,118,258
Mortgages and bonds payable	11,888,457	12,970,950
Notes payable	5,722,218	2,091,667
Capital lease obligations payable	33,764	121,435
Due to governmental agencies	1,224,256	1,487,855
Client custodial funds	464,547	448,277
Deferred revenue	543,268	431,042
Compensated absences payable	1,102,177	1,487,549
Unfunded pension obligation	3,469,104	2,328,730
Total liabilities	39,044,198	34,057,937
Commitments and contingencies		
Unrestricted net assets:		
Undesignated	5,438,754	5,785,610
Board designated	11,081,281	9,845,872
Temporarily restricted	1,391,299	2,244,703
Permanently restricted	530,528	523,542
Total net assets	18,441,862	18,399,727
Total liabilities and net assets	$ 57,486,060	$ 52,457,664

The accompanying notes are an integral part of these financial statements.

Ohel Children's Home and Family Services, Inc. and Affiliate

Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Program service fees	$ 45,761,848	$ -	$ -	$ 45,761,848
Contributions and operating grants	4,342,117	1,318,844	5,085	5,666,046
Special events (less direct costs of $769,539)	1,054,298	-	-	1,054,298
Actuarial loss	-	(24,548)	-	(24,548)
Rental and other income, net	512,161	-	1,901	514,062
Net assets released from restrictions	2,147,700	(2,147,700)	-	-
Total revenue	53,818,124	(853,404)	6,986	52,971,706
Expenses				
Program	43,831,052	-	-	43,831,052
Fund raising	1,458,511	-	-	1,458,511
General and administrative	6,186,400	-	-	6,186,400
Total operating expenses	51,475,963	-	-	51,475,963
Change in net assets before other items	2,342,161	(853,404)	6,986	1,495,743
Other items				
Pension related charges, other than net periodic costs	(1,453,608)	-	-	(1,453,608)
Increase (decrease) in net assets	888,553	(853,404)	6,986	42,135
Net assets				
Beginning of year	15,631,482	2,244,703	523,542	18,399,727
End of year	$ 16,520,035	$ 1,391,299	$ 530,528	$ 18,441,862

The accompanying notes are an integral part of these financial statements.

Ohel Children's Home and Family Services, Inc. and Affiliate
Consolidated Statement of Activities and Changes in Net Assets
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Program service fees	$ 47,918,532	$ -	$ -	$ 47,918,532
Contributions and operating grants	4,016,193	2,147,700	-	6,163,893
Special events (less direct costs of $922,681)	1,018,166	-	-	1,018,166
Actuarial loss	-	(24,706)	-	(24,706)
Rental and other income, net	210,983	-	44,486	255,469
Net assets released from restrictions	71,545	(71,545)	-	-
Total revenue	53,235,419	2,051,449	44,486	55,331,354
Expenses				
Program	44,994,106	-	-	44,994,106
Fund raising	1,274,036	-	-	1,274,036
General and administrative	6,357,212	-	-	6,357,212
Total operating expenses	52,625,354	-	-	52,625,354
Change in net assets before other items	610,065	2,051,449	44,486	2,706,000
Other items				
Contribution received for camp acquisition	2,500,000	-	-	2,500,000
Camp Kaylie startup costs	(819,643)	-	-	(819,643)
Impairment on property held for resale	(726,273)	-	-	(726,273)
Discontinued operations	(721,925)	-	-	(721,925)
Construction grants - net	128,342	-	-	128,342
Pension related credits, other than net periodic costs	1,203,573	-	-	1,203,573
Increase in net assets	2,174,139	2,051,449	44,486	4,270,074
Net assets				
Beginning of year	13,457,343	193,254	479,056	14,129,653
End of year	$ 15,631,482	$ 2,244,703	$ 523,542	$ 18,399,727

The accompanying notes are an integral part of these financial statements.

Ohel Children's Home and Family Services, Inc. and Affiliate
Consolidated Statements of Functional Expenses
Years Ended June 30, 2012 and 2011

	Program	Fund Raising	General and Administrative	2012 Total	2011 Total
Personal services	$ 24,698,196	$ 804,339	$ 2,683,806	$ 28,186,341	$ 28,638,667
Payroll taxes and benefits	5,746,248	179,114	985,952	6,911,314	8,120,530
Rent	2,931,399	6,217	67,670	3,005,286	2,632,243
Depreciation	1,763,329	5,994	328,409	2,097,732	1,706,704
Food	1,438,124	8,545	18,109	1,464,778	1,519,003
Client expenses	1,181,534	9,187	620	1,191,341	1,066,767
Office expenses	485,091	347,671	309,422	1,142,184	1,160,060
Interest	685,428	-	315,280	1,000,708	1,020,629
Professional fees	253,692	23,071	405,300	682,063	799,573
Transportation	371,296	8,222	34,989	414,507	653,139
Utilities	616,031	401	125,285	741,717	686,781
Supplies	524,332	4,503	54,470	583,305	598,323
Communication	319,184	14,810	383,967	717,961	598,343
Equipment leasing	480,496	20,006	66,634	567,136	660,711
Repairs and maintenance	464,817	2,598	61,118	528,533	448,931
Medical expenses	294,720	-	-	294,720	357,872
Foster boarding fees	426,162	-	-	426,162	422,151
Facility assessment	533,859	-	-	533,859	767,298
Insurance	352,195	-	170,175	522,370	411,149
Advertising	164,392	23,833	125,015	313,240	223,451
School expenses	100,527	-	50,179	150,706	133,029
Total expenses	$ 43,831,052	$ 1,458,511	$ 6,186,400	$ 51,475,963	$ 52,625,354

The accompanying notes are an integral part of these financial statements.

Ohel Children's Home and Family Services, Inc. and Affiliate
Consolidated Statement of Functional Expenses
Year Ended June 30, 2011

	Program	Fund Raising	General and Administrative	2011 Total
Personal services	$ 25,286,817	$ 688,064	$ 2,663,786	$ 28,638,667
Payroll taxes and benefits	6,794,395	196,296	1,129,839	8,120,530
Rent	2,515,907	1,850	114,486	2,632,243
Depreciation	1,363,503	5,994	337,207	1,706,704
Food	1,488,792	10,503	19,708	1,519,003
Client expenses	1,047,939	17,981	847	1,066,767
Office expenses	554,968	251,829	353,263	1,160,060
Interest	720,864	-	299,765	1,020,629
Professional fees	309,287	4,847	485,439	799,573
Transportation	621,194	3,398	28,547	653,139
Utilities	554,424	142	132,215	686,781
Supplies	524,169	18,761	55,393	598,323
Communication	306,583	8,618	283,142	598,343
Equipment leasing	519,155	32,150	109,406	660,711
Repairs and maintenance	390,292	9,363	49,276	448,931
Medical expenses	320,203	-	37,669	357,872
Foster boarding fees	422,151	-	-	422,151
Facility assessment	767,298	-	-	767,298
Insurance	278,092	-	133,057	411,149
Advertising	88,544	24,240	110,667	223,451
School expenses	119,529	-	13,500	133,029
Total expenses	$ 44,994,106	$ 1,274,036	$ 6,357,212	$ 52,625,354

The accompanying notes are an integral part of these financial statments.

Ohel Children's Home and Family Services, Inc. and Affiliate
Consolidated Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	$ 42,135	$ 4,270,074
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,224,722	1,895,501
Pension related charges (credits) other than net periodic costs	1,453,608	(1,203,573)
Impairment on property held for resale	-	726,273
Unrealized losses on investments	19,463	11,236
Gain on sale of property	(2,550)	-
Contributions and investment income, permanently restricted	(6,986)	(44,486)
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Program receivables	1,147,927	(757,944)
Pledges receivable	319,750	(2,293,832)
Grants receivable	(1,928,851)	169,475
Other receivables	(184,028)	228,780
Prepaid expenses and other assets	15,333	120,028
Accounts payable and accrued expenses	184,053	338,893
Accrued salaries and fringes	353,922	58,676
Deferred revenue	112,226	222,626
Compensated absences payable	(385,372)	(184,813)
Net proceeds (to) from governmental agencies	(263,599)	27,404
Unfunded pension liability	(313,234)	131,735
Net cash provided by operating activities	2,788,519	3,716,053
Cash flows from investing activities		
Property and equipment acquisitions	(6,129,714)	(1,936,824)
Proceeds from sale of property	73,800	-
(Purchase) sale of investments	(25,000)	85,015
Net cash used in investing activities	(6,080,914)	(1,851,809)
Cash flows from financing activities		
Utilization of debt reserve funds	134,572	(3,166)
Proceeds from bank line of credit - net	1,368,000	1,100,000
Repayment of mortgages and bonds payable	(1,082,493)	(3,571,345)
Proceeds from notes payable	3,630,551	500,000
Repayment of notes payable	-	(172,500)
Repayments of capital lease obligations	(87,671)	(88,836)
Proceeds of endowment contributions	5,085	-
Net cash provided by (used in) financing activities	3,968,044	(2,235,847)
Net increase (decrease) in cash and cash equivalents	675,649	(371,603)
Cash and cash equivalents		
Beginning	8,506,583	8,878,186
Ending	$ 9,182,232	$ 8,506,583
Supplementary disclosure of cash flow information		
Cash paid during the year for interest	$ 1,087,185	$ 1,147,717

The accompanying notes are an integral part of these financial statements.

1. Organization and Purpose

The accompanying consolidated financial statements include the accounts of Ohel Children's Home and Family Services, Inc. ("Ohel"), and its member company Camp Ohel, Inc. d.b.a. Camp Kaylie ("Camp Ohel" or "Camp Kaylie"). Camp Ohel began operations in July 2011. The year ended June 30, 2012 consolidated financial statements include and present the results of Camp Ohel.

Ohel is organized under the not-for-profit corporation law of the State of New York. Ohel was established to provide services for the care of destitute, abandoned, dependent, neglected and emotionally disturbed children and adults, and has been granted an exemption from Federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code.

In the ensuing years, Ohel has significantly expanded and operated residential facilities to provide care and treatment for developmentally and physically disabled children and adults in the metropolitan New York area. In addition, Ohel operates other non-residential programs such as outpatient clinics, day programs, family support camp, specialized treatment services, and crisis intervention. Ohel receives its support predominantly from Federal, New York State and City governmental sources as well as from private contributions.

In March 2010, Ohel expanded its services when the Board of Directors approved the purchase of a camp site in the Sullivan County area of New York in the amount of approximately $5,502,000 of which approximately $2,895,000 was allocated to land and $2,607,000 to buildings. The purchase price and subsequent renovations to existing buildings and the construction of a gym, activities center and additional housing in the amount of approximately $5,800,000 were fully funded via grants and charitable contributions. The camp grounds and respective buildings are currently owned by Ohel. The fiscal year June 30, 2011 results of operations of Ohel include approximately $400,000 of expense to run a trial program during August 2010 and $420,000 of expense to prepare the camp for summer 2011 operations. The August 2010 program was operated free of charge to parents.

Camp Ohel was incorporated July 16, 2008 as a New York not-for-profit corporation for the primary objective of developing and operating a fully integrated summer camp for children with and without developmental disabilities, and has been granted an exemption from Federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. Ohel is the sole member of Camp Ohel.

Camp Ohel Realty Corporation ("Realty") was incorporated July 24, 2008 as a New York not-for-profit corporation for the sole purpose of holding title to real property to be used exclusively to support the charitable and education purposes of its sole member Camp Ohel, and has been granted an exemption from federal income tax pursuant to Section 501(c)(2) of the Internal Revenue Code. It is anticipated that Ohel will transfer all camp real estate to Realty during fiscal year ending June 30, 2013. Realty had no operations during the fiscal years ended June 30, 2012 and 2011.

Ohel provides:

- Outpatient and residential services for children, adolescents and adults with developmental and psychiatric disabilities;
- Day habilitation services as well as comprehensive outpatient programs including respite, in home services and family support;
- Outpatient psychological and psychiatric evaluations and treatment for children, adults and families (treatment is also available for homebound individuals);
- Psychiatric day programs in a beautiful environment for adults with mental illness to socialize, work, study or have lunch with friends;
- In-home crisis assessment and referrals to individuals and families experiencing psychiatric, psychological or behavioral crisis;
- Foster care programs and caring for children suffering from abuse or neglect by placing them with loving and caring certified foster families;
- Day camps and overnight camps for children and young adults with psychiatric and developmental disabilities;
- The Mel & Phyllis Zachter OHEL Institute for Training provides dynamic trainings for the professional and lay communities featuring world-renowned experts. It offers cutting edge, problem-solving approaches to address a broad range of current mental health, education and social service concerns;
- Domestic Violence Program providing individualized counseling and support groups for women and children as well as temporary safe housing for victims of domestic violence, education to the community about this issue and the importance of providing options for women who are in abusive relationships;
- A program offering job preparation and placement for people with psychiatric and developmental disabilities;
- Confidential treatment by specially trained professionals for drug, alcohol, gambling and other addictions;
- Comprehensive preventive care services for families in need of crisis intervention and counseling.

Camp Kaylie's programs are specifically designed to address the unique and special needs and barriers that children with disabilities routinely encounter in a mainstream environment. Camp Kaylie's programs and specially trained staff focus on addressing the physical, emotional, and social skills, limitations and special needs of these children. The goals for Camp Kaylie are aimed at fostering skills development, self confidence, socialization, independence, leadership and community responsibilities among children with disabilities.

A relatively unique but important aspect of Camp Kaylie's programs is the camper populate designed to include typically developing children (i.e., children without disabilities). The objective for integrating typically developing children with children with disability is aimed at enhancing the ability of children with disabilities to learn and develop skills and confidence in the least restrictive setting. Camp Kaylie's integration concept will permit disabled and non-disabled siblings to attend camp together.

2. Summary of Significant Accounting Policies

Basis of Accounting

The consolidated financial statements of Ohel have been prepared on the accrual basis.

Revenue

Program service fees represent the estimated net realizable amounts from third-party payors, clients and others for services rendered. Revenues derived under the third-party reimbursement programs are based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustment.

There are occasions when funding source reimbursements for prior years are adjusted in the current year. Such adjustments may be due to funding source audit findings, additional monies available over and above original contract amounts and rate appeal results. Government funding source contracts may be subject to change during the course of a contract year. Additionally, contracts might be assigned to another government provider within a contract year. Some contracts provide for quarterly advances and upon finalization may require a repayment by Ohel or provide for a receivable from the funding source.

Receivables are evaluated periodically for collectability. Changes in the estimated collectability of the receivables are recorded in the statement of activities in the period in which the estimate is revised.

Contributions and Net Assets

Contributions are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Unrestricted net assets are resources that are undesignated, available for general purposes and are used for the general activities. Temporarily restricted net assets consist of resources, the use of which has been restricted by donors for specific purposes or the passage of time. Permanently restricted net assets consist of amounts which must be maintained by Ohel in perpetuity as stipulated by the donor. The release of net assets from temporary restrictions results from either the satisfaction of the restricted purposes specified by the donors, or from the passage of time. It is Ohel's policy to report as unrestricted support, donor-restricted contributions whose restrictions are met in the same reporting period. Board designated net assets represent unrestricted net assets used for capital acquisitions that have been set aside for future use.

Contributions receivable due in more than one year are discounted to their present value (estimated fair value) using a rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue. Management determines an allowance for unredeemed promises by considering such factors as prior collection history with the donor, type of contribution and type of fund-raising event.

Ohel's permanently restricted net assets at June 30, consist of the following:

	2012	2011
Robert and Roselin Vegh Preventive Care Program	$ 70,279	$ 70,257
Harry S. Gindea Memorial Fund	57,203	57,187
Mel and Phyllis Zachter Ohel Endowment Fund	403,046	396,098
	$ 530,528	$ 523,542

Ohel's temporarily restricted net assets at June 30, consist of the following:

	2012	2011
Camp Ohel, Inc.	$ 329,000	$ 2,147,700
Construction and renovations	592,313	-
Summer camp scholarships and recreation	177,151	-
Community awareness	120,000	-
Charitable gift annuity trust	72,455	97,003
Residential and employment	59,400	-
Foster care	30,980	-
Domestic violence	10,000	-
	$ 1,391,299	$ 2,244,703

Deferred Revenue
Revenue is recognized as services are provided. Deferred revenue in the amount of $435,061 and $315,608 at June 30, 2012 and 2011, respectively, represents money received in advance for summer camp tuition. The balance of $108,207 and $115,434 at June 30, 2012 and 2011, respectively, represents deferred rental income accrued. Revenue is recognized as services are provided.

Depreciation
Property and equipment are capitalized by Ohel and Camp Ohel, provided their costs are $5,000 or more and their useful lives is two years or more. Maintenance and repairs are charged to expense as incurred.

No depreciation is recognized on construction-in-progress. Depreciation of buildings and improvements, leasehold improvements and furniture and fixtures are provided on the straight-line basis at various rates calculated to recognize the cost of the respective assets over their estimated useful lives (or, in the case of leasehold improvements, the lease term, if shorter) are as follows:

Building and improvement	25 years
Leasehold improvements	20 years
Furniture and fixtures	10 years

Depreciation expense amounted to $2,224,722 and $1,895,501 for the years ended June 30, 2012 and 2011, respectively. For the years ended June 30, 2012 and 2011, depreciation expense included in the Ohel statements of functional expenses in the amount of $2,097,732 and $1,706,704, respectively; in the Ohel statements of activities in the amount of $126,990 and $132,388, respectively, as an offset to rental and other income; $55,194 included within loss on discontinued operations for the year ended June 30, 2011; and as part of Camp Kaylie start-up costs in the amount of $1,215 for the year ended June 30, 2011.

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

Risks and Uncertainties
Ohel has various investments that are exposed to various risks, such as interest rate, market and credit risks. Due to the risk associated with such investments and the uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks or investment values in the near term could affect the amounts reported in the statements of financial position and statements of activities and changes in net assets.

Cash and Cash Equivalents
Ohel considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. At certain times during the year and at June 30, 2012, cash and cash equivalent balances with financial institutions exceeded Federal Deposit Insurance Corporation limits. Ohel believes it mitigates its risks by banking with major financial institutions.

Investments
Investments are reported at fair value in accordance with the current accounting standard, "Accounting for Certain Investments Held by Not-for-Profit Organizations". Generally, fair value is determined by reference to quoted market prices.

Real Estate Held for Sale
Ohel as of June 30, 2012 owns one property for which a contract of sale in the amount of $425,000 was executed in July 2012. The sale has not closed, consequently the carrying value of $225,000 as of June 30, 2011 which was based on an independent appraisal has not been adjusted. The additional property held at June 30, 2011 in the amount of $71,250, was sold during fiscal 2012 and a gain of approximately $2,500 was recognized.

Debt Reserve Funds
Debt reserve funds represent amounts held by a financial institution in the name of Ohel to pay the debt service on various bond obligations. Monies are deposited monthly with the trustee based on debt and interest amortization schedules. Principal and interest payments to bondholders are made by the trustee on a semi-annual basis. The reserve earns interest, which is used to offset Ohel's interest payment obligations under the mortgages.

Client Custodial Funds
Ohel has signature authority over client custodial funds of approximately $465,000 and $448,000 at June 30, 2012 and June 30, 2011, respectively. These monies are available and used for authorized purchases of client personal needs.

Discontinued Operations
Ohel ceased operations with respect to various children's residential programs and recorded a deficit of approximately $722,000, for the year ended June 30, 2011, as government funding combined with public contributions were no longer sufficient to cover projected expenditures. Revenues of approximately $587,000 and operating expenses of $1,038,000 for the fiscal year 2011, relate to the loss from discontinued operations. Approximately $271,000 was related to lease settlement and discarded assets and leasehold improvements.

Impairment on Property Held for Resale
In conjunction with the decision to cancel a children's residential program, the residential property that was purchased to expand that program is being held for resale, as the program is no longer viable. Ohel in 2011 incurred an impairment loss on this property of approximately $726,000.

Construction and Property Acquisition Grants
Ohel capitalizes costs of construction and property acquisitions as incurred and accrues income upon reimbursement by the grantor for amounts paid by Ohel. Fiscal June 30, 2011 construction grants are net of an amount of approximately $225,000, for the revocation of a grant previously earned on a property being held for resale.

Advertising
Ohel's policy is to expense advertising costs as incurred. Advertising expense included in program, fund raising and general and administrative expenses were $313,240 and $223,541 for the years ended June 30, 2012 and 2011, respectively.

Compensated Absences Payable
Compensated absences payable represents amounts accrued for vacation pay. Vacation time that has not been used by an employee is paid out upon termination of employment.

Reclassifications
Reclassifications were made to the 2011 consolidated financial statements to conform to the 2012 presentation.

Intercompany Balances and Transactions
All significant intercompany balances and transactions have been eliminated in consolidation.

3. Program Receivables

At June 30, 2012 and 2011, program receivables amounted to $3,827,468 and $4,975,395 (net of allowance for uncollectible amounts of $67,147 and $50,000).

4. Pledges Receivable

Pledges receivable at June 30, 2012 are $2,976,245 (net of allowance for uncollectible amounts of $305,042); and $3,295,995 (net of allowance for uncollectible amounts of $287,935) at June 30, 2011. Approximately $1,600,000 is expected to be collected in less than one year and approximately $1,400,000 is expected to be collected within one to five years.

5. Grants Receivable

At June 30, 2012 and 2011, grants receivable amounted to $2,376,732 and $447,881. No allowance for doubtful accounts is required.

6. Investments

Authoritative guidance clarifies the definition of fair value, prescribes methods for measuring fair value, expands disclosure about the use of fair value measurements and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three levels. The following table presents the financial assets of Ohel that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy's three levels based on the reliability of the inputs used to determine fair value are as follows: Level 1 consisting of quoted prices in active markets for identical assets; Level 2 consisting of significant other observable inputs; and Level 3 consisting of significant unobservable inputs.

Investments consist of the following:

	Total	Fair Value Measurements at June 30, 2012 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds - equities	$ 138,373	$ 138,373	$ -	$ -
U.S. Government and agency debt securities	186,525	186,525	-	-
Investments other companies	25,000		25,000	
Bank money market funds	278,085	278,085	-	-
	$ 627,983	$ 602,983	$ 25,000	$ -

	Total	Fair Value Measurements at June 30, 2011 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds - equities	$ 142,589	$ 142,589	$ -	$ -
U.S. Government and agency debt securities	253,509	253,509	-	-
Bank money market funds	224,447	224,447	-	-
	$ 620,545	$ 620,545	$ -	$ -

7. Property and Equipment

Property and equipment consists of the following as of June 30:

	2012	2011
Land	$ 4,583,116	$ 4,583,116
Building and improvements	39,045,543	34,577,907
Leasehold improvements	3,962,107	3,837,747
Furniture and fixtures	5,590,744	6,463,437
Construction-in-progress	1,473,765	172,053
	54,655,275	49,634,260
Less: accumulated depreciation	18,469,242	17,353,219
	$ 36,186,033	$ 32,281,041

Ohel capitalized preliminary costs associated with the renovation of an individualized residential facility in the amount of $1,473,766 and $172,053 at June 30, 2012 and 2011, respectively (reflected as construction-in-progress). The estimated total cost of this project at completion is estimated to be approximately $1,500,000. Depreciation will commence when the home is opened to residents.

8. Charitable Gift Annuity Trust

Ohel is identified as a beneficiary in two $100,000 annuity trusts as of June 30, 2012. Under conditions of the trust agreement, the donor retains the right to receive annuity distributions during the donor's lifetime. The liability to the donor is included in accounts payable and accrued expenses and is measured at the present value of the expected future cash flows to be paid to the donor, amounting to approximately $63,000. An actuarial loss of approximately $25,000 was incurred during the years ended June 30, 2012 and 2011, respectively, as the actual cash payments to the donor exceeded $63,000. The present value of the liability was calculated using a discount rate of 8% and applicable mortality table.

9. Bank Lines of Credit Payable

Ohel has a bank revolving line of credit agreement expiring December 31, 2013, under the terms of which it may borrow up to $3,000,000 with interest at 0.5% above the bank's prime rate (prime was 3.25% at June 30, 2012) with a minimum rate of 5.0%. Ohel had outstanding $2,268,000 of the line at June 30, 2012 and $768,000 of the balance was repaid on July 2, 2012.

Ohel has a bank revolving line of credit agreement expiring July 31, 2012, under the terms of which it may borrow up to $6,500,000 with interest at 0.5% above the bank's prime rate (prime was 3.25% at June 30, 2012) with a minimum rate of 5.5%. Ohel had outstanding $6,500,000 of the line at June 30, 2012. On July 2, 2012, $6,500,000 was repaid. The line of credit was not renewed.

10. Mortgages and Bonds Payable

Unless otherwise specified, mortgages and bonds payable are secured by property and security interests in all fixtures, furnishings and equipment. Mortgages and bonds payable consist of the following as of June 30,:

	2012	2011
IDA Bond Payable – Series 1999A consists of annual installments including interest at 6.25% through 2022. (A)	$ 2,790,000	$ 3,000,000
IDA Bond Payable – Series 2004 A-1 consists of annual installments including interest at an average coupon rate of 4.05% through 2016.	453,000	610,000
Mortgage payable - Facilities Development Corporation ("FDC") consists of semi-annual installments of $63,700 including interest at 8.9% through 2017.	515,609	591,985
Mortgage payable - Dormitory Authority of the State of New York ("DASNY") consists of semi-annual installments of $74,032 including interest at 5.23% through 2022.	1,184,766	1,267,615
Bank mortgages payable – consists of monthly installments with fixed interest rates ranging from 6.12% to 8.5% through September 2024.	6,945,082	7,501,350
	$ 11,888,457	$ 12,970,950

The annual maturities of mortgages and bonds payable for each of the next five years are approximately as follows:

Years Ending June 30,	
2013	$ 1,093,000
2014	1,083,000
2015	1,133,000
2016	1,325,000
2017	1,124,000
Thereafter	6,131,000
Total	$ 11,889,000

The mortgages with the FDC and DASNY effectively assign or collateralize the revenue of the underlying property as well as the property and all equipment or improvements made and restrict the use of property.

(A) The IDA bond payable contains various financial covenants that require Ohel to, among other matters, maintain a minimum current ratio, minimum debt service coverage ratio and minimum days cash on hand. The IDA bond was paid on August 15, 2012 with proceeds from a new commercial bank mortgage, bearing interest at 4.875% and maturing on September 1, 2017.

11. Notes Payable

Notes payable represent general operational loans.

Notes payable consist of the following as of June 30,:

	2012	2011
Note payable – with an individual payable due December 31, 2012 at the rate of 0.25% per annum.	$ 2,000,000	$ -
Note payable – with an individual payable due December 31, 2012 at the rate of 0.20% per annum.	1,000,000	-
Note payable – third party, interest only payable semiannually at 6.5% with principal due February 28, 2015.	650,000	650,000
Note payable – finance company, interest only payable in monthly installments at 3% above prime (prime was 3.25% at June 30, 2012) with principal due on March 31, 2015.	500,000	500,000
Note payable – third party, interest only payable semiannually at 4.25% with principal due June 20, 2016.	500,000	500,000
Note payable – bank construction loan due February 1, 2013 at prime plus 1.5% but not lower than 4.75% which will convert to a long-term mortgage upon completion of construction.	814,718	-
Note payable – bank acquisition loan consists of monthly principal installments of $5,833 plus interest at 8% maturing September 30, 2014.	100,000	208,333
Note payable – bank acquisition loan consists of monthly principal installments of $8,334 plus interest at 7% maturing July 31, 2013.	157,500	233,334
	$ 5,722,218	$ 2,091,667

The annual maturities of notes payable for each of the next five years are as follows:

Years Ending June 30,	
2013	$ 4,490,551
2014	75,833
2015	655,834
2016	500,000
Total	$ 5,722,218

12. Capital Lease Obligations Payable

Furniture and equipment capitalized pursuant to capital lease agreements amounted to $33,765 and $121,435 at June 30, 2012 and 2011, respectively. The related future minimum annual lease payments at June 30, 2012 are approximately as follows:

Years Ending June 30,	Total Amount	Principal Portion of Future Lease Payments
2013	$ 33,765	$ 31,182
Total payments	33,765	
Less amounts representing interest (with imputed rates of approximately 10%)	2,583	
Principal portion of future lease payments	$ 31,182	

13. Due to Governmental Agencies

Amounts due to the Office of Mental Health from excess Medicaid and contract revenue at June 30, 2012 and 2011 were approximately $1,109,000 and $1,339,000, respectively. Approximately, $466,000 and $713,000 at June 30, 2012 and 2011, respectively, relates to an industry issue that has been litigated and the Office of Mental Health is being repaid via monthly withholds through the normal course of contract reconciliations for amounts paid to providers in prior years. The balance of $643,000 and $627,000 at June 30, 2012 and 2011, respectively, represents advances and payments that will be repaid through the normal course of contract reconciliations.

At June 30, 2012 and 2011, amounts due to the Office for People with Developmental Disabilities ("OPWDD") of approximately $115,000 and $149,000, respectively, consist of advances to fund program services, renovation, construction and periodic maintenance. The amounts will be repaid through rate recoupment.

14. Related Parties

The Lifetime Care Foundation for Jewish Disabled, Inc. ("Lifetime"), a related party, owed Ohel approximately $43,000 for operating expenses which are included in other receivables, as of June 30, 2012. At June 30, 2012, Lifetime had prepaid approximately $46,000 to Ohel which is included in other payables. Ohel and Lifetime are related due to overlapping board members and management.

15. Commitments and Contingencies

Government Funding
Pursuant to Ohel's contractual relationships with certain governmental funding sources, outside governmental agencies have the right to examine the books and records of Ohel involving transactions relating to these contracts. The accompanying consolidated financial statements make no provisions for possible disallowance.

In addition, certain agreements provide that some property and equipment owned by Ohel must be utilized by Ohel to continue owning these assets.

Real Property and Equipment Leases
Ohel is obligated, pursuant to various operating lease agreements for future minimum annual real property and equipment lease payments for the years ending, as indicated below. Rent and equipment lease expense for the years ended June 30, 2012 and 2011 amounted to approximately $2,795,000 and $3,041,000, respectively.

Ohel rents certain property to tenants on a month-to-month basis. For the years ended June 30, 2012 and 2011, rental income was approximately $299,000 and $277,000, respectively, and is included in other income in the statement of activities.

Years Ending June 30,	Total	Real Property	Equipment
2013	$ 2,014,000	$ 1,691,000	$ 323,000
2014	1,447,000	1,005,000	442,000
2015	698,000	667,000	31,000
2016	671,000	665,000	6,000
2017	637,000	634,000	3,000
Thereafter	1,326,000	1,326,000	-
Total	$ 6,793,000	$ 5,988,000	$ 805,000

16. Endowment

Ohel's endowment consists of one individual fund established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees has interpreted the New York Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Ohel classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Ohel in a manner consistent with the standard of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, Ohel considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purpose of Ohel and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of Ohel
(7) Where appropriate and circumstances would otherwise allow alternatives to expending of the endowment fund, given due consideration for the effect that such alternatives may have on Ohel; and
(8) The investment policies of Ohel.

Board designated net assets are designated for future capital expenses incurred with respect to the properties and improvements purchased with construction and capital grants earned during the current year.

Changes in Endowment Net Assets for the Year Ended June 30, 2012 were approximately as follows:

	Donor-Restricted Endowment Funds	Board Designated Endowment Funds	Total
Endowment net assets, beginning of year	$ 523,542	$ 9,846,000	$ 10,369,542
Contributions to endowment	5,085	1,522,000	1,527,085
Investment return:			
Interest and dividend income	8,174		8,174
Capital gains	2,696		2,696
Unrealized losses	(8,969)		(8,969)
Appropriation of endowment assets for expenditure		(287,000)	(287,000)
Endowment net assets, end of year	$ 530,528	$ 11,081,000	$ 11,611,528

Changes in Endowment Net Assets for the Year Ended June 30, 2011 were approximately as follows:

	Donor-Restricted Endowment Funds	Board Designated Endowment Funds	Total
Endowment net assets, beginning of year	$ 479,000	$ 7,871,000	$ 8,350,000
Contributions to endowment	-	2,500,000	2,500,000
Investment return:			
Interest and dividend income	44,542	-	44,542
Appropriation of endowment assets for expenditure	-	(525,000)	(525,000)
Endowment net assets, end of year	$ 523,542	$ 9,846,000	$ 10,369,542

17. Pension Plan

Ohel has a noncontributory defined benefit plan for all eligible employees. Benefits are based upon years of service and compensation. Prior to the June 30, 2007 fiscal year end, the Board of Directors adopted a resolution to curtail benefit accruals as of December 31, 2007.

A summary of Ohel's pension plan cost, employer contributions and benefits paid for the years ended June 30, is as follows:

	2012	2011
Net periodic pension costs	$ 72,766	$ 289,477
Employer contributions	$ 386,000	$ 157,742
Benefits paid	$ 395,733	$ 306,159

The measurement of the net periodic pension cost for the years ended June 30 is based on the following assumptions:

	2012	2011
Weighted-average discount rate	5.00%	5.00%
Weighted-average expected long-term rate of return on plan assets	7.50%	7.50%

The measurement of the benefit obligation at June 30, 2012 is based on the following assumptions:

	2012	2011
Discount rate	4.25%	5.00%
Rate of compensation increase	N/A	N/A

The Expected Long-Term Rate of Return on Plan Assets Assumption of 7.50% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 – Selection of Economic Assumptions for Measuring Pension Obligations. Based on Ohel's investment allocation for the pension plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30 year period rolling averages. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at a best estimate range of 6.52%-8.59%. A rate of 7.50% which is within the best estimate range was selected.

The funded status of Ohel's pension plan and the amounts reflected in the accompanying statement of financial position are as follows:

	2012	2011
Benefit obligation	$ 13,262,195	$ 12,065,001
Fair value of plan assets (primarily consisting of debt and equity securities)	9,793,091	9,736,271
Unfunded pension obligation	$ 3,469,104	$ 2,328,730
Accumulated benefit obligation	$ 13,262,195	$ 12,065,001

Benefit payments are expected to be paid as follows:

Years Ending June 30,	
2013	$ 3,572,000
2014	880,000
2015	712,000
2016	628,000
2017	904,000
2018-2022	3,627,000
	$ 10,323,000

Ohel's best estimate of their expected contribution to the plan for the year ending June 30, 2013 is $350,000.

The amounts represented on the line, pension related credits, other than net periodic costs within the statement of activities for the years ended June 30, 2012 and 2011 is comprised of assumption changes, actuarial losses and investment return adjustments. These amounts are not yet reflected in net periodic benefit cost.

The composition of Plan assets at June 30 is as follows:

	2012	2011
Equity	49.50%	50.50%
Fixed income	17.00%	16.00%
Cash and cash equivalents	33.50%	33.50%
	100.00%	100.00%

Pension plan assets are managed and invested by Mutual of America Capital Management Corporation. Contributions are invested predominantly in pooled investment funds, which offer the advantages of diversification and economics of scale. The investment guidelines allow for two asset classes, common stock and fixed income. The allowable range for each asset class is 40%-60%.

Fair Value Measurement

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies used for the pension plan assets are as follows:

- General Interest Accumulation Account: Valued at fair market value.
- Pooled Separate Accounts: Valued at fair market value of the underlying assets which represent the pooled accounts.

Assets at fair value as of June 30, 2012 are as follows:

	Level 1	Level 2	Level 3	Total
General interest accumulated account	$ -	$ 3,278,280	$ -	$ 3,278,280
Pooled separate accounts	-	6,514,811	-	6,514,811
Totaled assets at fair value	$ -	$ 9,793,091	$ -	$ 9,793,091

Assets at fair value as of June 30, 2011 are as follows:

	Level 1	Level 2	Level 3	Total
General interest accumulated account	$ -	$ 3,259,652	$ -	$ 3,259,652
Pooled separate accounts	-	6,476,619	-	6,476,619
Totaled assets at fair value	$ -	$ 9,736,271	$ -	$ 9,736,271

Voluntary Tax Deferred Retirement Savings
Ohel has established a voluntary tax deferred retirement savings plan available for its employees under Section 403(b) of the Internal Revenue Code. All employees of Ohel are eligible to participate and contribute a portion of their gross salaries up to the federal limit of $16,500 annually. Employer matching contributions are not provided for under this plan; however, eligible employees receive employer base contributions. There is no minimum age requirement to receive employer base contributions, however, employees must complete at least one year of service (a minimum of 1,000 hours of service in a twelve month period) to receive employer base contributions under this plan. Once eligible, an employee remains eligible.

Ohel contributes 2% of salary for all eligible employees with less than fifteen years of service and 3% of salary for employees with fifteen years or more of service. The value of an individual's account attributable to employer contributions vests as follows:

- Less than two years of service 0%
- 2 years of service 20%
- 3 years of service 40%
- 4 years of service 60%
- 5 or more years of service 100%

Contributions to the plan by Ohel for the years ended June 30, 2012 and 2011 were approximately $0 and $272,000, respectively. Employer contributions were suspended for the period April 1, 2011 through June 30, 2012.

18. Income Taxes

Ohel is organized under the not-for-profit corporation law of the State of New York. Ohel has been granted exemption from Federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. Ohel is current with respect to its Federal and State income tax filing requirements. Management is not aware of any issues or circumstances that would unfavorably impact its tax exempt status. Management has determined that Ohel had no uncertain tax positions that would require financial statement recognition. Ohel is no longer subject to audits by the applicable taxing jurisdictions for the periods prior to June 30, 2008.

19. Subsequent Events

Storm Losses
Subsequent to year end, several of Ohel's residential homes suffered damages as a result of Superstorm Sandy. As of the date of issuance of the consolidated financial statements, Ohel cannot estimate the value of anticipated losses.

Combination
On September 18, 2012, Ohel Children's Home and family Services, Inc., with the approval of each agency's respective Board of Directors, and the California Secretary of State became the sole member of the Tikvah Etta and Lazear Israel center for the Developmentally Disabled, d.b.a. Etta Israel Center.

Etta serves the Los Angeles Community by offering direct care programs, such as group home residential facilities, supported living case management and coaching, social and recreational activities, special education classes and counseling. Etta remains a California not-for-profit corporation with IRS 501(c)(3) status.

Other
Ohel has evaluated subsequent events through December 6, 2012, the date the consolidated financial statements were available for issuance and determined that there are no significant events other than those disclosed elsewhere in these consolidated financial statements.

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WeiserMazars LLP

Ohel Children's Home and Family Services, Inc.

Financial Statements
June 30, 2011 and 2010

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Independent Auditors' Report

To the Board of Directors
Ohel Children's Home and Family Services, Inc.

We have audited the accompanying statements of financial position of Ohel Children's Home and Family Services, Inc. ("Ohel") as of June 30, 2011 and 2010, 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 Ohel'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 Ohel Children's Home and Family Services, Inc. as of June 30, 2011 and 2010, 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.

WeiserMazars LLP

November 30, 2011

WeiserMazars LLP
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Ohel Children's Home and Family Services, Inc.

Statements of Financial Position

June 30, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents	$ 8,506,583	$ 8,878,186
Program receivables	4,975,395	4,217,451
Pledges receivable	3,295,995	1,002,163
Grants receivable	447,881	617,356
Investments	620,545	672,310
Other receivables	51,757	280,537
Property and equipment, at cost, net of accumulated depreciation	32,281,041	33,262,241
Property held for sale	296,250	-
Client custodial funds	448,277	428,701
Prepaid expenses and other assets	368,674	488,702
Debt reserve funds	1,165,266	1,162,100
Total assets	$ 52,457,664	$ 51,009,747
Liabilities and Net Assets		
Bank lines of credit payable	$ 7,400,000	$ 6,300,000
Accounts payable and accrued expenses	2,172,174	1,833,282
Accrued salaries and fringes	3,118,258	3,059,582
Mortgages and bonds payable	12,970,950	16,542,295
Notes payable	2,091,667	1,764,167
Capital lease obligations payable	121,435	210,270
Due to governmental agencies	1,487,855	1,460,451
Client custodial funds	448,277	428,701
Deferred revenue	431,042	208,416
Compensated absences payable	1,487,549	1,672,362
Unfunded pension obligation	2,328,730	3,400,568
Total liabilities	34,057,937	36,880,094
Commitments and contingencies		
Unrestricted net assets:		
Undesignated	5,785,610	5,586,116
Board designated	9,845,872	7,871,227
Temporarily restricted	2,244,703	193,254
Permanently restricted	523,542	479,056
Total net assets	18,399,727	14,129,653
Total liabilities and net assets	$ 52,457,664	$ 51,009,747

The accompanying notes are an integral part of these financial statements.

Ohel Children's Home and Family Services, Inc.

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Program service fees	$ 47,918,532	$ -	$ -	$ 47,918,532
Contributions and operating grants	4,016,193	2,147,700	-	6,163,893
Special events (less direct costs of $922,681)	1,018,166	-	-	1,018,166
Actuarial loss	-	(24,706)	-	(24,706)
Rental and other income, net	210,983	-	44,486	255,469
Net assets released from restrictions	71,545	(71,545)	-	-
Total revenue	53,235,419	2,051,449	44,486	55,331,354
Expenses				
Program	44,994,106	-	-	44,994,106
Fund raising	1,274,036	-	-	1,274,036
General and administrative	6,357,212	-	-	6,357,212
Total operating expenses	52,625,354	-	-	52,625,354
Change in net assets before other items	610,065	2,051,449	44,486	2,706,000
Other items				
Contribution received for camp acquisition	2,500,000	-	-	2,500,000
Camp Kaylie startup costs	(819,643)	-	-	(819,643)
Impairment on property held for resale	(726,273)	-	-	(726,273)
Discontinued operations	(721,925)	-	-	(721,925)
Construction grants - net	128,342	-	-	128,342
Pension related credits, other than net periodic costs	1,203,573	-	-	1,203,573
Increase in net assets	2,174,139	2,051,449	44,486	4,270,074
Net assets				
Beginning of year	13,457,343	193,254	479,056	14,129,653
End of year	$ 15,631,482	$ 2,244,703	$ 523,542	$ 18,399,727

The accompanying notes are an integral part of these financial statements.

Ohel Children's Home and Family Services, Inc.

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Program service fees	$ 47,299,061	$ -	$ -	$ 47,299,061
Contributions and operating grants	3,562,454	-	101,280	3,663,734
Special events (less direct costs of $1,068,039)	1,272,028	-	-	1,272,028
Actuarial loss	-	(15,755)	-	(15,755)
Rental and other income, net	260,319	-	16,569	276,888
Total revenue	52,393,862	(15,755)	117,849	52,495,956
Expenses				
Program	44,002,246	-	-	44,002,246
Fund raising	1,110,110	-	-	1,110,110
General and administrative	7,056,730	-	-	7,056,730
Total operating expenses	52,169,086	-	-	52,169,086
Change in net assets before other items	224,776	(15,755)	117,849	326,870
Other items				
Contribution received for camp acquisition	4,000,000	-	-	4,000,000
Construction grants	606,074	-	-	606,074
Discontinued operations	(537,036)			(537,036)
Pension related charges, other than net periodic costs	(102,831)	-	-	(102,831)
Increase (decrease) in net assets	4,190,983	(15,755)	117,849	4,293,077
Net assets				
Beginning of year	9,266,360	209,009	361,207	9,836,576
End of year	$ 13,457,343	$ 193,254	$ 479,056	$ 14,129,653

The accompanying notes are an integral part of these financial statements.

Ohel Children's Home and Family Services, Inc.
Statements of Functional Expenses
Years Ended June 30, 2011 and 2010

	Program	Fund Raising	General and Administrative	2011 Total	2010 Total
Personal services	$ 25,286,817	$ 688,064	$ 2,663,786	$ 28,638,667	$ 29,015,179
Payroll taxes and benefits	6,794,395	196,296	1,129,839	8,120,530	7,389,686
Rent	2,515,907	1,850	114,486	2,632,243	2,333,182
Depreciation	1,363,503	5,994	337,207	1,706,704	1,634,464
Food	1,488,792	10,503	19,708	1,519,003	1,620,581
Client expenses	1,047,939	17,981	847	1,066,767	1,232,813
Office expenses	554,968	251,829	353,263	1,160,060	1,085,143
Interest	720,864	-	299,765	1,020,629	974,179
Professional fees	309,287	4,847	485,439	799,573	986,121
Transportation	621,194	3,398	28,547	653,139	939,542
Utilities	554,424	142	132,215	686,781	729,500
Supplies	524,169	18,761	55,393	598,323	594,126
Communication	306,583	8,618	283,142	598,343	577,840
Equipment leasing	519,155	32,150	109,406	660,711	567,276
Repairs and maintenance	390,292	9,363	49,276	448,931	468,603
Medical expenses	320,203	-	37,669	357,872	394,098
Foster boarding fees	422,151	-	-	422,151	384,425
Facility assessment	767,298	-	-	767,298	366,802
Insurance	278,092	-	133,057	411,149	338,564
Advertising	88,544	24,240	110,667	223,451	315,648
School expenses	119,529	-	13,500	133,029	221,314
Total expenses	$ 44,994,106	$ 1,274,036	$ 6,357,212	$ 52,625,354	$ 52,169,086

The accompanying notes are an integral part of these financial statements.

Ohel Children's Home and Family Services, Inc.
Statement of Functional Expenses
Year Ended June 30, 2010

	Program	Fund Raising	General and Administrative	2010 Total
Personal services	$ 25,347,813	$ 639,112	$ 3,028,254	$ 29,015,179
Payroll taxes and benefits	6,239,553	148,566	1,001,567	7,389,686
Rent	2,250,294	-	82,888	2,333,182
Depreciation	1,276,618	5,994	351,852	1,634,464
Food	1,491,839	13,596	115,146	1,620,581
Client expenses	1,182,190	-	50,623	1,232,813
Office expenses	453,235	210,687	421,221	1,085,143
Interest	724,919	-	249,260	974,179
Professional fees	326,500	5,016	654,605	986,121
Transportation	871,454	4,890	63,198	939,542
Utilities	571,398	-	158,102	729,500
Supplies	523,167	6,994	63,965	594,126
Communication	317,031	6,655	254,154	577,840
Equipment leasing	448,017	18,662	100,597	567,276
Repairs and maintenance	333,145	15,851	119,607	468,603
Medical expenses	348,420	3,952	41,726	394,098
Foster boarding fees	384,425	-	-	384,425
Facility assessment	366,802	-	-	366,802
Insurance	236,725	4,133	97,706	338,564
Advertising	87,387	26,002	202,259	315,648
School expenses	221,314	-	-	221,314
Total expenses	$ 44,002,246	$ 1,110,110	$ 7,056,730	$ 52,169,086

Ohel Children's Home and Family Services, Inc.

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Change in net assets	$ 4,270,074	$ 4,293,077
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,895,501	1,842,275
Pension related (credits) charges, other than net periodic costs	(1,203,573)	102,831
Impairment on property held for resale	726,273	-
Unrealized gains on investments	(33,250)	-
Contributions and investment income, permanently restricted	-	(117,849)
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Program receivables	(757,944)	635,905
Pledges receivable	(2,293,832)	(477,777)
Grants receivable	169,475	128,077
Other receivables	228,780	(156,037)
Prepaid expenses and other assets	120,028	(113,834)
Accounts payable and accrued expenses	338,893	56,925
Accrued salaries and fringes	58,676	854,646
Deferred revenue	222,626	(250,980)
Compensated absences payable	(184,813)	123,892
Net proceeds from governmental agencies	27,404	279,738
Unfunded pension liability	131,735	256,426
Net cash provided by operating activities	3,716,053	7,457,315
Cash flows from investing activities		
Property and equipment acquisitions	(1,936,824)	(6,952,962)
Sale (purchase) of investments	85,015	(85,526)
Net cash used in investing activities	(1,851,809)	(7,038,488)
Cash flows from financing activities		
Utilization of debt reserve funds	(3,166)	534,429
Proceeds from bank line of credit - net	1,100,000	1,300,000
Proceeds from mortgages payable	-	3,596,321
Repayment of mortgages payable	(3,571,345)	(2,307,355)
Proceeds from notes payable	500,000	550,075
Repayment of notes payable	(172,500)	(376,741)
Repayments of capital lease obligations	(88,836)	(109,953)
Proceeds of endowment contributions	-	101,280
Net cash (used in) provided by financing activities	(2,235,847)	3,288,056
Net (decrease) increase in cash and cash equivalents	(371,603)	3,706,883
Cash and cash equivalents		
Beginning	8,878,186	5,171,303
Ending	$ 8,506,583	$ 8,878,186
Supplementary disclosure of cash flow information		
Cash paid during the year for interest	$ 1,147,717	$ 1,111,318
Non cash financing activities		
Note payable converted to long-term mortgage payable	$ -	$ 4,999,925

The accompanying notes are an integral part of these financial statements.

1. Organization and Purpose

Ohel Children's Home and Family Services, Inc. ("Ohel"), is organized under the not-for-profit corporation law of the State of New York. Ohel was established to provide services for the care of destitute, abandoned, dependent, neglected and emotionally disturbed children and adults, and has been granted an exemption from Federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code.

In the ensuing years, Ohel has significantly expanded and operates residential facilities to provide care and treatment for developmentally and physically disabled children and adults in the metropolitan New York area. In addition, Ohel operates other non-residential programs such as outpatient clinics, day programs, family support camp, specialized treatment services, and crisis intervention. Ohel receives its support predominantly from Federal, New York State and City governmental sources as well as from private contributions.

Ohel recently expanded its services when the Board of Directors approved the purchase of a camp site in the Sullivan County area of New York. Ohel purchased a camp site in March 2010, "Camp Kaylie", for approximately $5,502,000 of which approximately $2,895,000 was allocated to land and $2,607,000 to buildings. Camp Kaylie is a fully integrated camp for children with and without developmental disabilities. The fiscal year June 30, 2011 results of operations include approximately $400,000 of expense to run a trial program during August 2010 and $420,000 of expense to prepare the camp for summer 2011 operations. The August 2010 program was operated free of charge to parents. Camp Kaylie was fully operational during July and August 2011.

Charitable contributions in the amount of $4,000,000 were received in the fiscal year ended June 30, 2010 to purchase the camp and bank financing was obtained to fund the balance of the purchase price. Results of operations for the fiscal year ended June 30, 2011 include a contribution in the amount of $2,500,000 received in September 2010 which was used to repay the bank financed amount at that time.

Ohel provides:

- Outpatient and residential services for children, adolescents and adults with developmental and psychiatric disabilities;
- Day habilitation services as well as comprehensive outpatient programs including respite, in home services and family support;
- Outpatient psychological and psychiatric evaluations and treatment for children, adults and families (treatment also is available for homebound individuals);
- Psychiatric day programs in a beautiful environment for adults with mental illness to socialize, work, study or have lunch with friends;
- In-home crisis assessment and referrals to individuals and families experiencing psychiatric, psychological or behavioral crisis;
- Foster care programs and caring for children suffering from abuse or neglect by placing them with loving and caring certified foster families;
- Day camps and overnight camps for children and young adults with psychiatric and developmental disabilities;

- The Mel & Phyllis Zachter OHEL Institute for Training provides dynamic trainings for the professional and lay communities featuring world-renowned experts. It offers cutting edge, problem-solving approaches to address a broad range of current mental health, education and social service concerns;
- Domestic Violence Program providing individualized counseling and support groups for women and children as well as temporary safe housing for victims of domestic violence, education to the community about this issue and the importance of providing options for women who are in abusive relationships;
- A program offering job preparation and placement for people with psychiatric and developmental disabilities;
- Confidential treatment by specially trained professionals for drug, alcohol, gambling and other addictions;
- Comprehensive preventive care services for families in need of crisis intervention and counseling.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of Ohel have been prepared on the accrual basis.

Revenue

Program service fees represent the estimated net realizable amounts from third-party payors, clients and others for services rendered. Revenues derived under the third-party reimbursement programs are based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustment.

There are occasions when funding source reimbursements for prior years are adjusted in the current year. Such adjustments may be due to funding source audit findings, additional monies available over and above original contract amounts and rate appeal results. Government funding source contracts may be subject to change during the course of a contract year. Additionally, contracts might be assigned to another government provider within a contract year. Some contracts provide for quarterly advances and upon finalization may require a repayment by Ohel or provide for a receivable from the funding source.

Receivables are evaluated periodically for collectability. Changes in the estimated collectability of the receivables are recorded in the statement of activities in the period in which the estimate is revised.

Contributions and Net Assets

Contributions are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Unrestricted net assets are resources that are undesignated, available for general purposes and are used for the general activities. Temporarily restricted net assets consist of resources, the use of which has been restricted by donors for specific purposes or the passage of time. Permanently restricted net assets consist of amounts which must be maintained by Ohel in perpetuity as stipulated by the donor. The release of net assets from temporary restrictions results from either the satisfaction of the restricted purposes specified by the donors, or from the passage of time. It is Ohel's policy to report as unrestricted support, donor-restricted contributions whose restrictions are met in the same reporting period. Board designated net assets represent unrestricted net assets used for capital acquisitions that have been set aside for future use.

Contributions receivable due in more than one year are discounted to their present value (estimated fair value) using a rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue. Management determines an allowance for unredeemed promises by considering such factors as prior collection history with the donor, type of contribution and type of fund-raising event.

Ohel's temporarily restricted net assets at June 30, consist of the following:

	2011	2010
Camp Kaylie contributions	$ 2,147,700	$ -
Charitable gift annuity trust	97,003	121,709
Remainder interest in real property	-	71,545
	$ 2,244,703	$ 193,254

The remainder trust in real property's temporary restriction expired and the asset is now unrestricted and classified as real estate held for sale.

Ohel's permanently restricted net assets at June 30, consist of the following:

	2011	2010
Robert and Roselin Vegh Preventive Care Program	$ 70,257	$ 70,237
Harry S. Gindea Memorial Fund	57,187	57,169
Mel and Phyllis Zachter OHEL Endowment Fund	396,098	351,650
	$ 523,542	$ 479,056

Deferred Revenue
Deferred revenue represents money received in advance from various regulatory agencies to finance property acquisitions and renovations. Revenue is recognized as the funds are expended.

Depreciation
Property and equipment are capitalized by Ohel, provided their costs are $5,000 or more and their useful life is two years or more. Maintenance and repairs are charged to expense as incurred. No depreciation is recognized on construction-in-progress. Depreciation of buildings and improvements, leasehold improvements and furniture and fixtures are provided on the straight-line

basis at various rates calculated to recognize the cost of the respective assets over their estimated useful lives (or, in the case of leasehold improvements, the lease term, if shorter) as follows:

Building and improvement	25 years
Leasehold improvements	20 years
Furniture and fixtures	10 years

Depreciation expense amounted to $1,895,501 and $1,842,275 for the years ended June 30, 2011 and 2010, respectively. For the years ended June 30, 2011 and 2010, depreciation expense is included in the statements of functional expenses in the amount of $1,761,898 and $1,695,052, respectively; in the statements of activities in the amount of $132,388 and $147,223, respectively, as an offset to rental and other income; and as part of Camp Kaylie start-up costs in the amount of $1,215 and $0, respectively.

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

Risks and Uncertainties
Ohel has various investments that are exposed to various risks, such as interest rate, market and credit risks. Due to the risk associated with such investments and the uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks or investment values in the near term could affect the amounts reported in the statements of financial position and statements of activities and changes in net assets.

Cash and Cash Equivalents
Ohel considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. At certain times during the year and at June 30, 2011, cash and cash equivalent balances with financial institutions exceeded Federal Deposit Insurance Corporation limits. Ohel believes it mitigates its risks by banking with major financial institutions.

Investments
Investments are reported at fair value in accordance with the current accounting standard, "Accounting for Certain Investments Held by Not-for-Profit Organizations". Generally, fair value is determined by reference to quoted market prices.

Real Estate Held for Sale
Ohel as of June 30, 2011 owns two properties that are being held for sale and are expected to be sold in the next fiscal year. No depreciation was claimed on either of these properties in fiscal 2011 or prior years. Management has recorded one property at estimated fair market value based on an independent appraisal in the amount of $225,000, and the second property at the lower of cost or market value in the amount of $71,250.

Debt Reserve Funds
Debt reserve funds represent amounts held by a financial institution in the name of Ohel to pay the debt service on various bond obligations. Monies are deposited monthly with the trustee based on

debt and interest amortization schedules. Principal and interest payments to bondholders are made by the trustee on a semi-annual basis. The reserve earns interest, which is used to offset Ohel's interest payment obligations under the mortgages.

Client Custodial Funds
Ohel has signature authority over client custodial funds of approximately $448,000 and $428,000 at June 30, 2011 and June 30, 2010, respectively. These monies are available and used for authorized purchases of client personal needs.

Discontinued Operations
Ohel ceased operations with respect to various children's residential programs and recorded a deficit of approximately $722,000 and $537,000, for the years ended June 30, 2011 and 2010, respectively, as government funding combined with public contributions are no longer sufficient to cover projected expenditures. Revenues of approximately $587,000 and $708,000 and operating expenses of $1,038,000 and $1,245,000 for the fiscal years 2011 and 2010, respectively, relate to the loss from discontinued operations. Approximately $271,000 in 2011 related to lease settlement and discarded assets and leasehold improvements.

Impairment on Property Held for Resale
In conjunction with the decision to cancel a children's residential program, the residential property that was purchased to expand that program is being held for resale, as the program is no longer viable. Ohel has incurred an impairment loss on this property of approximately $726,000.

Construction and Property Acquisition Grants
Ohel capitalizes costs of construction and property acquisitions as incurred and accrues income upon reimbursement by the grantor for amounts paid by Ohel. Fiscal June 30, 2011 construction grants are net of an amount of approximately $225,000, for the revocation of a grant previously earned on a property being held for resale.

Advertising
Ohel's policy is to expense advertising costs as incurred. Advertising expense included in program, fund raising and general and administrative expenses was $276,640 and $315,890 for the years ended June 30, 2011 and 2010, respectively.

Compensated Absences Payable
Compensated absences payable represents amounts accrued for vacation pay. Vacation time that has not been used by an employee is paid out upon termination of employment.

Reclassifications
Reclassifications were made to the 2010 financial statements to conform to the 2011 presentation.

3. Program Receivables

At June 30, 2011 and 2010, program receivables amounted to $4,975,395 and $4,217,451 (net of allowance for uncollectible amounts of $50,000 and $155,000), respectively.

4. Pledges Receivable

Contributions receivable at June 30, 2011 and 2010, respectively, are $3,295,995 (net of allowance for uncollectible amounts of $287,935) and $1,002,163 (net of allowance for uncollectible amounts of $168,706). Approximately $2,000,000 are expected to be collected in less than one year and approximately $1,300,000 are expected to be collected within one to five years.

5. Grants Receivable

At June 30, 2011 and 2010, grants receivable amounted to $447,881 and $617,356. No allowance for doubtful accounts is required.

6. Investments

Authoritative guidance clarifies the definition of fair value, prescribes methods for measuring fair value, expands disclosure about the use of fair value measurements and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three levels. The following table presents the financial assets of Ohel that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy's three levels based on the reliability of the inputs used to determine fair value are as follows: Level 1 consisting of quoted prices in active markets for identical assets; Level 2 consisting of significant other observable inputs; and Level 3 consisting of significant unobservable inputs.

Investments consist of the following:

		Fair Value Measurements at June 30, 2011		
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds - equities	$ 142,589	$ 142,589	$ -	$ -
U.S. Government and agency debt securities	253,509	253,509	-	-
Bank money market funds	224,447	224,447	-	-
	$ 620,545	$ 620,545	$ -	$ -

	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value Measurements at June 30, 2010			
Mutual funds - equity	$ 119,415	$ 119,415	$ -	$ -
U.S. Government and agency debt securities	348,097	348,097	-	-
Bank money market funds	121,709	121,709	-	-
Real property	71,545	-		71,545
Cash reserve funds	11,544	11,544	-	-
	$ 672,310	$ 600,765	$ -	$ 71,545

Changes in Level 3 assets using significant unobservable inputs measured at fair value are as follows:

	Real Property
Beginning balance - June 30, 2010	$ 71,545
Re-categorize as property held for sale	(71,545)
Ending balance - June 30, 2011	$ -

7. Property and Equipment

Property and equipment consists of the following as of June 30:

	2011	2010
Land	$ 4,583,116	$ 4,778,116
Buildings and improvements	34,577,907	33,246,477
Leasehold improvements	3,837,747	4,022,517
Furniture and fixtures	6,463,437	6,420,982
Construction-in-progress	172,053	457,869
	49,634,260	48,925,961
Less accumulated depreciation	17,353,219	15,663,720
	$ 32,281,041	$ 33,262,241

Ohel capitalized preliminary costs associated with the renovation of individualized residential facilities in the amount of $172,053 and $457,869 at June 30, 2011 and 2010, respectively, (reflected as construction-in-progress). The estimated total cost of these projects at completion is estimated to be approximately $1,188,000. Depreciation will commence when the homes are opened to residents.

8. Charitable Gift Annuity Trust

Ohel is identified as a beneficiary in two $100,000 annuity trusts as of June 30, 2011. Under conditions of the trust agreement, the donor retains the right to receive annuity distributions during the donor's lifetime. The liability to the donor is included in accounts payable and accrued expenses and is measured at the present value of the expected future cash flows to be paid to the donor, amounting to approximately $63,000. An actuarial loss of approximately $25,000 and $16,000 was incurred during the years ended June 30, 2011 and 2010, respectively, as the actual cash payments to the donor exceeded $63,000. The present value of the liability was calculated using a discount rate of 8% and applicable mortality table.

9. Bank Lines of Credit Payable

Ohel has a bank revolving line of credit agreement expiring December 31, 2012, under the terms of which it may borrow up to $3,000,000 with interest at 0.5% above the bank's prime rate (prime was 3.25% at June 30, 2011) with a minimum rate of 5.0%. Ohel had outstanding $2,900,000 of the line at June 30, 2011 and $1,700,000 of the balance was repaid on July 1, 2011. Ohel had outstanding $2,800,000 of the line at June 30, 2010 and $2,200,000 of the balance was repaid on July 1, 2010.

Ohel has a bank revolving line of credit agreement expiring July 31, 2011, under the terms of which it may borrow up to $4,500,000 with interest at 0.5% above the bank's prime rate (prime was 3.25% at June 30, 2011) with a minimum rate of 5.5%. Ohel had outstanding $4,500,000 of the line at June 30, 2011. On July 1, 2011, $4,500,000 was repaid. The line of credit was not renewed.

Ohel had a bank revolving line of credit agreement expiring July 6, 2010, under the terms of which it may borrow up to $3,500,000 with interest at 0.5% above the bank's prime rate (prime was 3.25% at June 30, 2010) with a minimum rate of 5%. Ohel had outstanding $3,500,000 of the line at June 30, 2010. On July 2, 2010, $3,500,000 was repaid. The line of credit was not renewed.

10. Mortgages and Bonds Payable

Unless otherwise specified, mortgages and bonds payable are secured by property and security interests in all fixtures, furnishings and equipment. Mortgages and bonds payable consist of the following as of June 30,

	2011	2010
IDA Bond Payable – Series 1999A consists of annual installments including interest at 6.25% through 2022. (A)	$ 3,000,000	$ 3,195,000
IDA Bond Payable – Series 2004 A-1 consists of annual installments including interest at an average coupon rate of 4.05% through 2016.	610,000	775,000
Mortgage payable - Facilities Development Corporation ("FDC") consists of semi-annual installments of $63,700 including interest at 8.9% through 2017.	591,985	661,991
Mortgage payable - Dormitory Authority of the State of New York ("DASNY") consists of semi-annual installments of $74,032 including interest at 5.23% through 2022.	1,267,615	1,346,297
Bank mortgage payable – payable September 30, 2010 with a renewal option to December 31, 2010 at prime plus one-half percent (prime was 3.25% at June 30, 2011) with a minimum rate of 5.5%. Repaid in full September 2010.	-	2,500,000
Bank mortgages payable – consists of monthly installments with fixed interest rates ranging from 6.12% to 8.5% through September 2024.	7,501,350	8,064,007
	$ 12,970,950	$ 16,542,295

The annual maturities of mortgages and bonds payable for each of the next five years are approximately as follows:

Years Ending June 30,	
2012	$ 1,096,000
2013	1,078,000
2014	1,083,000
2015	1,122,000
2016	1,319,000
Thereafter	7,273,000
Total	$ 12,971,000

The mortgages with the FDC and DASNY effectively assign or collateralize the revenue of the underlying property as well as the property and all equipment or improvements made and restricts the use of property.

(A) The IDA bond payable contains various financial covenants that require Ohel to, among other matters, maintain a minimum current ratio, minimum debt service coverage ratio and a minimum days cash on hand.

11. Notes Payable

Notes payable represent general operational loans.

Notes payable consist of the following as of June 30,

	2011	2010
Note payable – bank, payable in monthly installments of $2,500, interest at 6.25% through July 1, 2010.	$ -	$ 2,500
Note payable – third party, interest only payable semiannually at 6.5% with principal due February 28, 2015.	650,000	650,000
Note payable – finance company, interest only payable in monthly installments at 3% above prime (prime was 3.25% at June 30, 2010) with principal due on March 31, 2015.	500,000	500,000
Note payable – third party, interest only payable semiannually at 4.25% with principal due June 20, 2016.	500,000	-
Note payable – Bank acquisition loan consists of monthly principal installments of $5,833 plus interest at 8% maturing September 30, 2014.	208,333	308,333
Note payable – Bank acquisition loan consists of monthly principal installments of $8,334 plus interest at 7% maturing July 31, 2013.	233,334	303,334
	$ 2,091,667	$ 1,764,167

The annual maturities of notes payable for each of the next five years are as follows:

Years Ending June 30,	
2012	$ 670,000
2013	170,000
2014	78,333
2015	673,334
2016	500,000
Total	$ 2,091,667

12. Capital Lease Obligations Payable

Furniture and equipment capitalized pursuant to capital lease agreements amounted to $121,435 and $210,270 at June 30, 2011 and 2010, respectively. The related future minimum annual lease payments at June 30, 2011 are approximately as follows:

Years Ending June 30,	Total Amount	Principal Portion of Future Lease Payments
2012	$ 87,670	$ 80,966
2013	33,765	31,182
Total payments	121,435	
Less amounts representing interest (with imputed rates of approximately 10%)	9,287	
Principal portion of future lease payments	$ 112,148	

13. Due to Governmental Agencies

Amounts due to the Office of Mental Health from excess Medicaid and contract revenue at June 30, 2011 and 2010 were approximately $1,339,000 and $1,005,000, respectively. Approximately, $713,000 and $665,000 at June 30, 2011 and 2010, respectively, relates to an industry issue that has been litigated and the Office of Mental Health is being repaid via monthly withholds through the normal course of contract reconciliations for amounts paid to providers in prior years. The balance of $627,000 and $340,000 at June 30, 2011 and 2010, respectively, represents advances and payments that will be repaid through the normal course of contract reconciliations.

At June 30, 2011 and 2010, amounts due to the Office For People With Developmental Disabilities ("OPWDD") of approximately $149,000 and $401,000, respectively, consist of advances to fund program services, renovation, construction and periodic maintenance. The amounts will be repaid through rate recoupment.

Amounts due at June 30, 2011 and 2010 to The City of New York Department of Mental Health from excess Medicaid and contract revenue were approximately $0 and $55,000, respectively. These funds will be repaid through the normal course of contract reconciliations.

14. Related Parties

The Lifetime Care Foundation for Jewish Disabled, Inc. ("Lifetime"), a related party, owes Ohel approximately $43,000 and $242,000 for operating expenses which are included in other receivables, as of June 30, 2011 and 2010, respectively. Ohel and Lifetime are related due to overlapping board members and management.

15. Commitments and Contingencies

Government Funding
Pursuant to Ohel's contractual relationships with certain governmental funding sources, outside governmental agencies have the right to examine the books and records of Ohel involving transactions relating to these contracts. The accompanying financial statements make no provisions for possible disallowance.

In addition, certain agreements provide that some property and equipment owned by Ohel must be utilized by Ohel to continue owning these assets.

Real Property and Equipment Leases
Ohel is obligated, pursuant to various operating lease agreements for future minimum annual real property and equipment lease payments for the years ending June 30, as indicated below. Rent and equipment lease expense for the years ended June 30, 2011 and 2010 amounted to approximately $3,041,000 and $2,808,000, respectively.

Years Ending June 30,	Total	Real Property	Equipment
2012	$ 1,655,000	$ 1,220,000	$ 435,000
2013	848,000	546,000	302,000
2014	526,000	474,000	52,000
2015	364,000	354,000	10,000
2016	354,000	354,000	-
Thereafter	1,057,000	1,057,000	-
Total	$ 4,804,000	$ 4,005,000	$ 799,000

Ohel rents certain property to tenants on a month-to-month basis. For the years ended June 30, 2011 and 2010, rental income was approximately $277,000 and $318,000, respectively, and is included in other income in the statement of activities.

16. Endowment

Ohel's endowment consists of one individual fund established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees has interpreted the New York Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Ohel classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Ohel in a manner consistent with the standard of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, Ohel considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purpose of Ohel and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of Ohel
(7) Where appropriate and circumstances would otherwise allow alternatives to expending of the endowment fund, given due consideration for the effect that such alternatives may have on Ohel; and
(8) The investment policies of Ohel.

Board designated net assets are designated for future capital expenses incurred with respect to the properties and improvements purchased with construction and capital grants earned during the current year.

Changes in Endowment Net Assets for the Year Ended June 30, 2011 were approximately as follows:

	Donor-Restricted Endowment Funds	Board Designated Endowment Funds	Total
Endowment net assets, beginning of year	$ 479,000	$ 7,871,000	$ 8,350,000
Contributions to endowment		2,500,000	2,500,000
Investment return:			
Interest and dividend income	44,500	-	44,500
Appropriation of endowment assets for expenditure	-	(525,000)	(525,000)
Endowment net assets, end of year	$ 523,500	$ 9,846,000	$ 10,369,500

Changes in Endowment Net Assets for the Year Ended June 30, 2010 were approximately as follows:

	Donor-Restricted Endowment Funds	Board Designated Endowment Funds	Total
Endowment net assets, beginning of year	$ 361,000	$ 3,403,000	$ 3,764,000
Contributions to endowment	101,000	4,606,000	4,707,000
Investment return:			
Interest and dividend income	17,000	-	17,000
Appropriation of endowment assets for expenditure	-	(138,000)	(138,000)
Endowment net assets, end of year	$ 479,000	$ 7,871,000	$ 8,350,000

17. Pension Plan

Ohel has a noncontributory defined benefit plan for all eligible employees. Benefits are based upon years of service and compensation. Prior to the June 30, 2007 fiscal year end, the Board of Directors adopted a resolution to curtail benefit accruals as of December 31, 2007.

A summary of Ohel's pension plan cost, employer contributions and benefits paid for the years ended June 30, is as follows:

	2011	2010
Net periodic pension costs	$ 289,477	$ 366,426
Employer contributions	$ 157,742	$ 110,000
Benefits paid	$ 306,159	$ 184,908

The measurement of the net periodic pension cost for the year ended June 30 is based on the following assumptions:

	2011	2010
Weighted-average discount rate	5.00%	6.00%
Weighted-average expected long-term rate of return on plan assets	7.50%	7.75%

The measurement of the benefit obligation at June 30, 2011 is based on the following assumptions:

	2011	2010
Discount rate	5.0 %	5.0%
Rate of compensation increase	N/A	4.0%

The Expected Long-Term Rate of Return on Plan Assets Assumption of 7.50% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 – Selection of Economic Assumptions for Measuring Pension Obligations. Based on Ohel's investment allocation for the pension plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30 year period rolling averages. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at a best estimate range of 6.45%-8.73%. A rate of 7.50% which is within the best estimate range was selected.

The funded status of Ohel's pension plan and the amounts reflected in the accompanying statement of financial position are as follows:

	2011	2010
Benefit obligation	$ 12,065,001	$ 11,827,497
Fair value of plan assets (primarily consisting of debt and equity securities)	9,736,271	8,426,929
Unfunded pension obligation	$ 2,328,730	$ 3,400,568
Accumulated benefit obligation	$ 12,065,001	$ 11,827,497

Benefit payments are expected to be paid as follows:

Years Ending June 30,	
2012	$ 2,588,000
2013	751,000
2014	879,000
2015	710,000
2016	570,000
2017–2021	3,880,000

Ohel's best estimate of their expected contribution to the plan for the year ending June 30, 2012 is $325,000.

The amounts represented on the line, pension related credits, other than net periodic costs within the statement of activities for the years ended June 30, 2011 and 2010 is comprised of assumption changes, actuarial losses and investment return adjustments. These amounts are not yet reflected in net periodic benefit cost.

The composition of Plan assets at June 30 is as follows:

	2011	2010
Equity	50.5%	48.9%
Fixed income	16.0	32.6
Cash and cash equivalents	33.5	18.5
	100.0%	100.0%

Pension plan assets are managed and invested by Mutual of America Capital Management Corporation. Contributions are invested predominantly in pooled investment funds, which offer the advantages of diversification and economics of scale. The investment guidelines allow for two asset classes, common stock and fixed income. The allowable range for each asset class is 40%-60%.

Fair Value Measurement

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies used for the pension plan assets are as follows:

- General Interest Accumulation Account: Valued at fair market value.
- Pooled Separate Accounts: Valued at fair market value of the underlying assets which represent the pooled accounts.

Assets at fair value as of June 30, 2011 are as follows:

	Level 1	Level 2	Level 3	Total
General interest accumulation account	$ -	$ 3,259,652	$ -	$ 3,259,652
Pooled separate accounts	-	6,476,619	-	6,476,619
Total assets at fair value	$ -	$ 9,736,271	$ -	$ 9,736,271

Assets at fair value as of June 30, 2010 are as follows:

	Level 1	Level 2	Level 3	Total
General interest accumulation account	$ -	$ 1,556,935	$ -	$ 1,556,935
Pooled separate accounts	-	6,869,994	-	6,869,994
Total assets at fair value	$ -	$ 8,426,929	$ -	$ 8,426,929

Voluntary Tax Deferred Retirement Savings

Ohel has established a voluntary tax deferred retirement savings plan available for its employees under Section 403(b) of the Internal Revenue Code. All employees of Ohel are eligible to participate and contribute a portion of their gross salaries up to the federal limit of $16,500 annually. Employer matching contributions are not provided for under this plan, however, eligible employees receive employer base contributions. There is no minimum age requirement to receive employer base contributions, however, employees must complete at least one year of service (a minimum of 1,000 hours of service in a twelve month period) to receive employer base contributions under this plan. Once eligible an employee remains eligible.

Ohel contributes 2% of salary for all eligible employees with less than fifteen years of service and 3% of salary for employees with fifteen years or more of service. The value of an individual's account attributable to employer contributions vests as follows:

- Less than two years of service 0%
- 2 years of service 20%
- 3 years of service 40%
- 4 years of service 60%
- 5 or more years 100%

Contributions to the plan by Ohel for the years ended June 30, 2011 and 2010 were approximately $272,000 and $186,000, respectively. Employer contributions were suspended for the period April 1, 2011 through June 30, 2011.

Employer contributions were suspended for the period July 1, 2009 through December 31, 2009 and were reinstated for the period January 1, 2010 through June 30, 2010.

18. Income Taxes

Ohel is organized under the not-for-profit corporation law of the State of New York. Ohel has been granted exemption from Federal income tax pursuant to Section 501 (c)(3) of the Internal Revenue Code. Ohel is current with respect to its Federal and State income tax filing requirements. Management is not aware of any issues or circumstances that would unfavorably impact its tax exempt status. Management has determined that Ohel had no uncertain tax positions that would require financial statement recognition. Ohel is no longer subject to audits by the applicable taxing jurisdictions for the periods prior to June 30, 2007.

19. Subsequent Events

Ohel has evaluated subsequent events through November 30, 2011, the date the financial statements were available for issuance.

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APPENDIX C

UNAUDITED FINANCIAL STATEMENTS OF SERIES 2014 PARTICIPANTS

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APPENDIX C-I

ABILITY BEYOND DISABILITY, INC. AND AFFILIATES

UNAUDITED FINANCIAL INFORMATION

(FOR THE PERIOD ENDED JANUARY 31, 2014)

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ABILITY BEYOND DISABILITY, INC. AND AFFILIATES

JANUARY 31, 2014 FINANCIAL RESULTS

	Programs and Services		Fundraising		Administrative & Indirect		Total		Growing Possibilities		Total	
	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Program Revenue	34,443,765	35,685,479					34,443,765	35,685,479	71,730	231,910	34,515,495	35,917,389
Sales RFA							-	-	184,612	244,250	184,612	244,250
Fundraising Revenue			921,875	914,250			921,875	914,250	35,096	156,000	956,971	1,070,250
Endowment Earnings - net			284,756	122,500	-	-	284,756	122,500			284,756	122,500
Direct Expense	27,451,397	28,581,468	703,465	675,577	8,193,400	8,438,308	36,348,262	37,695,353	893,854	825,975	37,242,116	38,521,328
Indirect Expense	4,105,064	4,336,690	82,234	82,234	(4,187,298)	(4,418,924)	-	-	-	-	-	-
Subtotal Expenses	31,556,460	32,918,158	785,699	757,811	4,006,102	4,019,384	36,348,262	37,695,353	893,854	825,975	37,242,116	38,521,328
Contribution Margin	2,887,305	2,767,321	420,932	278,939	(4,006,102)	(4,019,384)	(697,865)	(973,124)	(602,417)	(193,815)	(1,300,282)	(1,166,939)
Special Purpose Funds	-	-	(14,155)	(12,060)	-	-	(14,155)	(12,060)			(14,155)	(12,060)
Administrative Allocation	(3,830,236)	(3,850,247)	(95,366)	(88,637)	4,006,102	4,019,384	80,500	80,500	(80,500)	(80,500)	(0)	(0)
Assets Released from Restriction	327,069	367,875	-				327,069	367,875	145,833	145,833	472,902	513,708
Net Rev (Exp) after Admin	(615,862)	(715,052)	311,411	178,242	-	-	(304,451)	(536,810)	(537,084)	(128,482)	(841,535)	(665,291)

Ability Beyond Disability, Inc.
and Affiliates
Consolidated Statement of Financial Position

	Total as of 1/31/14
Current Assets:	
Cash and Cash Equivalents	314,075
Accounts Receivable - Net	5,349,773
Pledges Receivable - Unrestr	3,386,404
Inventory	8,315
Prepaid Expenses	662,278
Deferred Expenses	2,124
Deferred Financing Costs	34,150
Total Current Assets	9,757,118
Property and Equipment:	
Construction in Progress	3,455,709
Land and Buildings	22,434,292
Building Improvements	7,004,141
Transportation Vehicles	2,950,155
Furniture, Fixtures and Equip	7,640,743
Plants	95,853
Leasehold Improvements	2,049,508
Assets Held Under Capital Leases	2,679,663
Total	48,310,064
Less: Accum. Depreciation	(23,909,306)
Total Property and Equipment	24,400,758
Endowment Funds	4,542,560
Other Assets:	
Other Receivables - Unrestr	2,302
Due from State	23,414
Security Deposits	135,848
Deferred Financing Costs	187,937
Other Assets	213,620
Total Other Assets	563,121
Total Assets	39,263,557

Ability Beyond Disability, Inc.
and Affiliates
Consolidated Statement of Financial Position

	Total as of 1/31/14
Current Liabilities:	
Accounts Payable	2,493,721
Due to State	20,678
Due to MedComp	1,485
Other Accrued Expense	2,986,298
Notes Payable - Vehicles	65,708
Term Loans Payable - Current	353,800
Mortgage Payable - Current	489,674
Capital Leases Payable - Current	232,807
Deferred Income	60,520
Total Current Liabilities	6,704,692
Other Liabilities:	
Working Capital Line of Credit	3,935,992
Long Term Liabilities:	
Notes Payable - Vehicles - Net of Current	405,239
Term Loans Payable - Net of	1,385,717
Mortgages Payable - Net of	9,458,586
Capital Leases Payable - Net	1,567,814
Deferred Income	160,919
Total Long Term Liabilities	12,978,275
Total Liabilities	23,618,959
Net Assets:	
Unrestricted	11,848,482
Temporarily Restricted	3,244,697
Permanently Restricted	551,419
Total Net Assets	15,644,598
Total Liabilities and Net Assets	39,263,557

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APPENDIX C-II

FAMILY RESIDENCES AND ESSENTIAL ENTERPRISES, INC.

UNAUDITED FINANCIAL INFORMATION

(FOR THE PERIOD ENDED JANUARY 31, 2014)

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Family Residences and Essential Enterprises, Inc.
Statement of Financial Position
As of January 31, 2014 and December 31, 2013

	January 31, 2014	December 31, 2013
Current Assets:		
Cash and cash equivalents	$ 1,040,520	$ 2,090,997
Accounts receivable, net of allowance for doubtful accounts	13,452,124	11,581,099
Related party receivables	1,180,166	1,225,520
Deposits and prepaid expenses	1,125,591	915,591
Investments	110,553	66,775
Total Current Assets	16,908,954	15,879,982
Property, Plant and Equipment, net	31,102,131	31,400,991
Construction in Progress	1,484,410	1,484,410
Other Assets,	3,052,188	2,804,828
Other Investments	508,165	427,909
Due from Affiliates	928,560	901,521
Assets with Limited Use:		
Funded depreciation cash	187,528	238,612
Restricted investments	2,637,792	2,543,450
Accrued Receivable -Unfunded Bond Principal	304,826	319,903
Interest Rate Swap Agreements	311,970	311,970
Total Plant and Other Long-Term Assets	40,517,570	40,433,594
Total Assets	$ 57,426,524	$ 56,313,576
Liabilities and Net Assets:		
Current Liabilities:		
Accounts payable	$ 3,198,090	$ 2,163,324
Accrued expenses	8,073,073	8,654,158
Lines of credit	500,000	-
Due to New York State	428,735	831,262
Current maturities of long-term debt	2,709,636	3,062,512
Deferred revenue and recoveries	1,571,940	1,571,940
Total Current Liabilities	16,481,474	16,283,196
Long-Term Liabilities:		
Long-term debt, net of current maturities	25,022,847	24,751,845
Deferred revenue and recoveries	7,177,944	6,868,846
Other liabilities	1,797,092	1,602,321
Advanced funding - OMH	124,882	-
Total Long-Term Liabilities	34,122,765	33,223,012
Total Liabilities	50,604,239	49,506,208
Commitments and Contingencies	-	-
Net Assets- Unrestricted	6,822,285	6,807,368
Total Liabilities and Net Assets	$ 57,426,524	$ 56,313,576

Family Residences & Essential Enterprises, Inc.
Statement of Financial Position
For the Month and Year ended January 31, 2014

	Actual Results Jan-14	Budget Jan-14	Variance to Budget
Revenues	6,922,719	6,971,408	(48,690)
Salaries and Contracted Labor:			
Direct Care - Salaries	2,448,938	2,474,079	25,142
Direct Care - Contracted	-		-
Total Direct Care	2,448,938	2,474,079	25,142
Support - Salaries	311,270	276,776	(34,493)
Support - Contracted	928	21,883	20,955
Total Support	312,198	298,659	(13,539)
Clinical - Salaries	411,577	432,187	20,611
Clinical - Contracted	58,714	91,059	32,345
Total Clinical	470,290	523,246	52,956
Total Salaries and Contracted	3,231,425	3,295,984	64,559
Fringe Benefits	951,696	903,209	(48,487)
Utilities	127,776	100,212	(27,564)
Food and Supplies	184,794	228,335	43,541
Vehicle Expense	67,410	108,604	41,194
Telephone	39,504	62,089	22,585
Computer Expense	191,841	133,456	(58,385)
Client Transportation	340,895	334,786	(6,110)
Maintenance	167,483	189,481	21,998
Furniture and Equipment	37,090	52,996	15,906
Miscellaneous & Other Exp	61,721	65,877	4,156
Program Administration	238,410	208,276	(30,135)
Agency Administration	724,625	702,875	(21,750)
Property Expenses	497,774	481,957	(15,816)
Total Operating Expenses	6,862,444	6,868,136	5,692
Net Excess\(Deficit) from Operations	60,275	103,273	(42,998)
Non-Allowable Revenue	-		
Non-Allowable Expenses	45,357	39,201	(6,156)
YTD Net Excess\(Deficit) Total	**14,918**	**64,072**	**(49,154)**

Family Residences & Essential Enterprises, Inc. and Subsidiaries

End of FY 2013 Balance Sheet & Statement of Activities

	Borrower:	Subsidiaries			
	FREE	CDCH Charter	CDCH Pre	CDCH Foundation	Draft f/s
Cash & Equivalents	2,090,997	284,554	312,867	87,097	2,775,515
Accounts receivable, net of allowance for doubtful accounts	11,581,099	813,377	182,690		12,577,166
Other Current Assets	1,707,886	14,282,051	127,302	535,762	27,301
Net F/A	32,885,401	911,237		1,900,226	35,696,864
Other	7,236,223				7,236,223
Total	55,501,606	16,291,219	622,859	2,523,085	58,313,069
Current Liabilities	16,283,196	1,496,668	1,097,147	134,620	19,011,631
Other Liabilities	32,411,042			884,768	33,295,810
Net Assets	6,807,368	1,139,837	(474,289)	967,935	8,440,851
Total	55,501,606	2,636,505	622,858	1,987,323	60,748,292
Operating Revenue					
Program	82,541,139	3,266,606	854,712	123,129	86,785,586
Non-program	609,398	144,867			754,265
Total	83,150,537	3,411,473	854,712	123,129	87,539,851
Total Expenses	82,859,347	2,927,390	1,215,656	138,813	87,141,206
Unrealized Gain(Loss) on Swap	737,457				737,457
Change in Net Assets	1,028,647	484,083	(360,944)	(15,684)	1,136,102
Net Assets, BOY	5,778,721	655,754	(113,345)	983,619	7,304,749
Net Assets, EOY	6,807,368	1,139,837	(474,289)	967,935	8,440,851

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APPENDIX C-III

INSTITUTE FOR COMMUNITY LIVING, INC.

UNAUDITED FINANCIAL INFORMATION

(FOR THE PERIOD ENDED JANUARY 31, 2014)

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INSTITUTE FOR COMMUNITY LIVING, INC.
SUMMARY OF OPERATIONS
JANUARY 2014

UNAUDITED

	FOR THE SEVEN MONTHS ENDED JANUARY 2014		
			FAVORABLE (UNFAVORABLE)
ICL:	**ACTUAL**	**BUDGET**	**VARIANCE**
REVENUE	48,643,470	49,789,018	(1,145,550)
EXPENSES	48,270,298	49,267,195	996,896
NET GAIN (LOSS) - ICL BEFORE SWAP TRANSACTION	**373,172**	**521,824**	**(148,652)**
SUBSIDIARIES NET GAIN/(LOSS):			
PHOENIX RECYCLING AND MAINTENANCE	(14,350)	1,314	(15,664)
THE GUIDANCE CENTER OF BROOKLYN	(153,056)	11,140	(164,197)
ICL JOSELOW HOUSE	4,045	27,252	(23,207)
PENNSYLVANIA ICL	26,926	-	26,926
ICL REAL PROPERTY HOLDING CORP.	(197,877)	(146,428)	(51,449)
NET GAIN (LOSS) - SUBSIDIARIES	**(334,312)**	**(106,721)**	**(227,591)**
NET GAIN (LOSS) - ALL COMPANIES BEFORE SWAP	**38,860**	**415,103**	**(376,244)**
UNREALIZED GAIN (LOSS) ON SWAP AGREEMENT	105,715	105,715	-
NET GAIN (LOSS) - ALL COMPANIES [NOTES #1 - 3]	**144,575**	**520,818**	**(376,244)**

NOTE #1: THERE ARE AVAILABLE OMH FUNDS OF $ 0 RECOGNIZED AS REVENUE IN THIS FINANCIAL STATEMENT.

NOTE #2: Non GAAP Financial Summary (cash basis)

Adjust for non cash transactions	
Depreciation/amortization (all)	1,491,583
Swap Agreement	(105,715)
Adjusted net gain/(loss) - All compnies after non cash transactions	1,385,868
Adjust for cash transactions not yet reflected in statements	
NYS OMH Advance - unspent	(69,278)
Total Cash Impact for period	**1,316,590**

Institute for Community Living, Inc.
Statement of Financial Position
As of January 31, 2014

	Final 1/31/2014
Cash	3,378,591
Accounts Receivable	26,934,754
Debt Service Reserve	699,152
Deferred Charges	2,348,627
Escrow	2,629,290
Investments in Mutual Funds	1,360,669
Prepaid and Other Assets	730,263
PPE	12,184,490
Total Assets	50,265,835
Accounts Payable & Accrued Expense	5,562,739
Accrued Salaries Payable	4,151,949
Advances from Government Agencis	12,580,804
Deferred Compensation	1,516,808
Due to Affiliates	-
Due to NYS	1,434,074
Due to NYS OMH	2,215,484
Mortgage and Loans Payable	14,862,614
Reserve for Rate Adjustment	631,824
SWAP Liability	721,623
Total Liabilities	43,677,918
Net Assets	6,587,917
Total Liabilities and Net Assets	50,265,835

APPENDIX C-IV

OHEL CHILDREN’S HOME AND FAMILY SERVICES, INC.

UNAUDITED FINANCIAL INFORMATION

(FOR THE PERIOD ENDED JANUARY 31, 2014)

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OHEL CHILDREN'S HOME AND FAMILY SERVICES, INC.
CONSOLIDATED STATEMENT OF REVENUES AND EXPENSES (UNAUDITED)
FOR THE SEVEN MONTHS ENDED JANUARY 31, 2014

		January 31, 2014
Revenue:		
Gov't /Program revenue	$	31,343,609
Grants		946,576
Other		285,018
Fundrasing		3,629,171
		-
Total revenue	$	36,204,374
Expenses:		
Salaries	$	18,159,537
Fringe benefits		4,304,312
Total personal services		22,463,849
OTPS		6,741,619
IT		441,991
Property		5,093,302
Total expenses		34,740,761
Surplus (Deficit)	$	1,463,613
GAIN ON SALE OF PROPERTY		1,192,741
Total Surplus (Deficit)	$	2,656,354

Ohel Children's Home and Family Services, Inc. and Affiliates

Consolidated Statement of Financial Position

		January 31, 2014
Assets		
Cash and cash equivalents	$	2,217,043
Program receivables		4,984,198
Pledges receivable		2,844,626
Grants receivable		2,625,797
Investments		729,833
Property and equipment, at cost, net of accumulated depreciation		37,101,418
Client custodial funds		447,024
Prepaid expenses and other assets		319,133
Debt reserve funds		303,047
Total assets	$	51,572,119
Liabilities and Net Assets		
Bank lines of credit payable	$	1,500,000
Accounts payable and accrued expenses		1,915,729
Accrued salaries and fringes		2,739,672
Mortgages and bonds payable		12,073,383
Notes payable		3,776,936
Capital lease obligations payable		213,090
Due to governmental agencies		1,096,858
Client custodial funds		456,545
Deferred revenue		720,218
Compensated absences payable		1,016,526
Unfunded pension obligation		2,793,778
Total liabilities	$	28,302,735
Commitments and contingencies		
Unrestricted net assets:		
Undesignated		9,508,263
Etta		843,587
Board designated		10,483,771
Temporarily restricted		1,876,653
Permanently restricted		557,110
Total net assets		23,269,384
Total liabilities and net assets	$	51,572,119

APPENDIX D

CERTAIN DEFINITIONS

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CERTAIN DEFINITIONS

The following are definitions of certain of the terms defined in the Resolution, the Series 20141A Resolution or the Loan Agreements and used in this Official Statement.

Account means each account created and established in any fund under the Resolution as created and established pursuant to the Applicable Series Resolution, including each Project Loan Account and each Debt Service Account.

Accounts Receivable means all of a Participant's accounts receivable derived from the use or operation of any of its properties, including the Project Property, but excluding Pledged Revenues.

Act means the Dormitory Authority Act (being Chapter 524 of the Laws of 1944 of the State, as amended, and constituting Title 4 of Article 8 of the Public Authorities Law), as amended from time to time, including, but not limited to, Chapter 471 of the Laws of 2009, the Health Care Financing Consolidation Act and as incorporated thereby the New York State Medical Care Facilities Finance Act, being Chapter 392 of the Laws of New York 1973, as amended, McKinney's Unconsolidated Laws, Sections 7411 to 7432, inclusive.

Administration Agreement means the Administration Agreement, dated as of April 1, 2014, among the Authority, the Program Facilitator and the Participants.

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

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

Applicable means

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

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

(iii) with respect to any Series Resolution, the Series Resolution relating to a particular Projects or Projects and/or a particular Series of Bonds;

(iv) with respect to any Series of Bonds, the Series of Bonds issued under a Series Resolution for a particular Project or Projects for the particular Participant or Participants;

(v) with respect to any Loan Agreement, the Loan Agreement entered into by and between a particular Participant and the Authority, relating to a particular Project or Projects for such Participant financed or refinanced with such Participant's Allocable Portion of a particular Series of Bonds;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Debt Service Reserve Fund Requirement means the amount of moneys required to be deposited in the Debt Service Reserve Fund, if any, established with respect to a Series of Bonds as determined in accordance with the Applicable Series Resolution or Applicable Bond Series Certificate.

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

Defeasance Security means

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

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

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

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

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

Exempt Obligation means:

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

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

Facility Provider means the issuer of a Reserve Fund Facility.

Federal Agency Obligation means:

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

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

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

(iv) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, wholly comprised of any of the foregoing obligations and whose objective is to maintain a constant share value of $1.00.

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

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

Government Obligation means:

(i) a direct obligation of the United States of America;

(ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by the United States of America;

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

(iv) a share or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, wholly comprised of any of the foregoing obligations and whose objective is to maintain a constant share value of $1.00.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OPWDD means the New York State Office for People with Developmental Disabilities (formerly known as the New York State Office of Mental Retardation and Developmental Disabilities).

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

Participant or **Participants** collectively means each or all of the not-for-profit members of the Program Facilitator for whose benefit the Authority shall have issued Bonds under the Resolution and with whom the Authority shall have executed one or more Loan Agreements as particularly defined in the Applicable Series Resolution.

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

Permitted Collateral means:

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

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

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

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

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

Permitted Encumbrances means with respect to a Participant, (i) the Applicable Loan Agreement; (ii) the Resolutions; (iii) the Mortgage, if any; (iv) any instrument recorded pursuant to the Loan Agreement; (v) any encumbrances or matters set forth in the Applicable Loan Agreement, including matters referred to in any title insurance policy described in the Loan Agreement and accepted by the Authority; (vi) any mortgage or other lien or encumbrance in connection with any additional Bonds issued under the Resolution approved in writing by the Authority; (vii) liens for real estate taxes, assessments, levies and other governmental charges, the payment of which is not in default; (viii) utility, access and other easements and rights-of-way, restrictions and exceptions that will not interfere with or impair the Participant's use of its Project Property; (ix) such minor defects, irregularities, encumbrances, easements, rights-of-way (including agreements with any railroad the purpose of which is to service a railroad siding) and clouds on title as normally exist with respect to property similar in character to the Project Property and as do not, in the opinion of counsel acceptable to the Authority, either singly or in the aggregate, materially impair the property affected thereby for the purpose for which it was acquired and operated under this Loan Agreement; (x) any mechanics', workmen's, repairmen's, materialmen's, contractors', warehousemen's, carriers', suppliers' or vendors' lien or right in respect thereof if payment is not yet due and payable, all if and to the extent permitted by the Mortgage, if any; (xi) any subordinate mortgage granted as security for bonds issued by the Authority or another issuer of bonds after the date of issuance of the Bonds, up to an amount approved by OPWDD pursuant to the PPA process, for the purpose of financing the cost of renovating, constructing, equipping or completing a Project of a Project Property, and any loan agreement, or any related company lease and installment sale agreement between the Participant and the issuer of such bonds leasing or selling such Project Property, any indenture of trust between such issuer and a trustee with respect to such bonds, or any building loan agreement among such the Participant and a trustee, in each case in connection with such financing; and (xii) any other encumbrances or matters approved in writing by the Authority after the date of delivery of the Bonds.

Permitted Investments means:

(i) Government Obligations;

(ii) Federal Agency Obligations;

(iii) Exempt Obligations;

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

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

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

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

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

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

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

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

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

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

Program Facilitator means Interagency Council of Developmental Disabilities Agencies, Inc., as program facilitator under the Administration Agreement, and its successors in such capacity.

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

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

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

Project Property or **Series 2014A Facility** means the administrative, educational and residential facilities owned or leased by a Participant including real and personal property located thereat, as more particularly described in the Applicable Loan Agreement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Revenues mean, with respect to a particular Series of Bonds, all payments received or receivable by the Authority (including Contribution Amounts and Public Funds) pursuant to each of the Applicable Loan Agreements, which payments are to be paid to the Trustee, except (i) payments to such Trustee for the administrative costs and expenses or fees of such Trustee, (ii) payments to such Trustee for deposit to the Arbitrage Rebate Fund, and (iii) the Annual Administrative Fee.

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

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

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

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

Series 2014A Resolution means the Authority's Series Resolution Authorizing Up to $24,000,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2014A adopted by the Authority on March 12, 2014, as the same may be amended, supplemented or otherwise modified pursuant to the terms thereof.

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

State means the State of New York.

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

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

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

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

Total Maximum Annual Debt Service means with respect to a Participant, the greatest amount required in the then current or any future Fiscal Year to pay the debt service on any outstanding Indebtedness of such Participant; *provided, however*, that any Indebtedness secured solely by a security interest in its Accounts Receivable in accordance with such Participant's rate covenant set forth in the Applicable Loan Agreement shall not be included in "Indebtedness" for the purposes of this definition; *provided further* that the debt service for the final year of amortization of any Indebtedness shall not be included for purposes of this definition to the extent that such debt service is payable from any funded reserve(s) established with and held by a Person other than such Participant.

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

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

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APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2014 LOAN AGREEMENTS

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SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2014 LOAN AGREEMENTS

The following is a brief summary of certain provisions of one Series 2014 Loan Agreement (or "Loan Agreement"), and the summarized provisions are identical to each Loan Agreement. This summary does not purport to be complete and reference is made to the Loan Agreements for full and complete statements of such and all provisions. Defined terms used herein shall have the meaning ascribed to them in Appendix D.

Duration of the Loan Agreement

The Loan Agreement shall remain in full force and effect until the Participant's Allocable Portion of the Bonds is no longer Outstanding, the Applicable Loan made under the Loan Agreement is no longer outstanding and until all other payments, expenses and fees payable under the Loan Agreement by the Participant shall have been made or provision made for the payment thereof; provided, however, that the liabilities and the obligations of the Participant under the Loan Agreement shall nevertheless survive any such termination. Upon such termination, the Authority shall promptly deliver such documents as may be reasonably requested by the Participant to evidence such termination and the discharge of the Participant's duties under the Loan Agreement, including the release or surrender of any security interests granted by the Participant to the Authority pursuant to the Loan Agreement.

(Section 48)

Construction of the Project

The Participant agrees that, if the Project has not been completed, whether or not there are sufficient moneys available to it under the provisions of the Resolution and the Series Resolution and under the Loan Agreement, the Participant shall complete the acquisition, design, construction, reconstruction, rehabilitation, renovation and improving or otherwise providing and furnishing and equipping of the Project, substantially in accordance with the Contract Documents related to such Project. Subject to the conditions of the Loan Agreement, the Authority will, to the extent of moneys available in the Applicable Project Loan Account of the Project Loan Fund, cause the Participant to be reimbursed for, or pay, any costs and expenses incurred by the Participant which constitute Costs of the Project, provided such costs and expenses are approved by the Authority, which approval shall not be unreasonably withheld.

(Section 5)

Amendment of Project; Sale or Conveyance of Project; Assignment of Loan Agreement; Cost Increases; Additional Bonds

The Project may be amended by agreements supplementing the Loan Agreement by and between the Authority and the Participant, to decrease, increase or otherwise modify the scope thereof. Any such increase may provide for the addition of any further acquisition, design, construction, reconstruction, rehabilitation, renovation, improving, or otherwise providing, furnishing and equipping of the Project which the Authority is authorized to undertake.

Except for Permitted Encumbrances, the Participant covenants that it shall not (nor permit any other Person to) transfer, sell, encumber or convey any interest in the Project or the Project Property or any part thereof or interest therein, including development rights, without the prior written consent of the Authority, which consent shall be accompanied by (i) an agreement by the Participant to comply with all terms and conditions of such consent and (ii) an opinion of Bond Counsel stating that the change will not have an effect on the tax-exempt status with respect to interest on the Subseries 2014A-1 Bonds or any portion thereof the proceeds of which have been applied to make the Applicable Loan under the Loan Agreement for federal income taxation purposes. As a condition to such approval, the Authority may require that the Participant pay to the Trustee for deposit in the Applicable Debt Service Account of the Debt Service Fund an amount not to exceed the principal amount of the Applicable Loan outstanding relating to a Project Property at the date of such transfer, sale or conveyance, as such amount is determined by the Authority based upon the applicable amortization schedule set forth in the Loan Agreement. Notwithstanding the foregoing, the Participant may remove equipment, furniture or fixtures in the Project or which comprise a part of the Project provided that the Participant substitutes equipment, furniture or fixtures having a value and utility at least equal to the equipment, furniture or fixtures removed or replaced.

The Participant covenants that it shall not sell, assign or transfer, nor shall it be released from, any of its obligations under the Loan Agreement without the prior written consent of the Authority, which consent shall be accompanied by (i) an agreement by the Participant and the assignee to comply with all terms and conditions of such consent and (ii) an opinion of Bond Counsel stating that the assignment will not have an effect on the tax-exempt status with respect to interest on the Subseries 2014A-1 Bonds or any portion thereof the proceeds of which have been applied to make the Applicable Loan under the Loan Agreement for federal income taxation purposes. In connection with any such assignment and assumption, the Participant and assignee shall execute and deliver such documents, certificates and agreements as may be required by the Authority, including but not limited to documents, certificates and agreements regarding the deduction, withholding and/or payment of Pledged Revenues in the amount required by the Loan Agreement.

Notwithstanding any other provision of the Loan Agreement, so long as there exists no Event of Default under the Loan Agreement, nor any event which upon the giving of notice or the passage of time or both, would constitute an Event of Default, in the event that the Project Property consists of two or more separate and distinct facilities, the Participant may, upon written notice to the Authority and the Trustee and compliance with the following, effect the release of a Project Property from the Loan Agreement and, if a Mortgaged Property, the lien of the Mortgage. Upon receipt of such notice, the Authority and the Trustee shall, at the sole cost and expense of the Participant, execute and deliver any and all instruments necessary or appropriate to so release and remove such Project Property from the Loan Agreement and if a Mortgaged Property, the lien of the Mortgage; provided, that, no such release shall be effected unless (i) the Participant shall cause Bonds allocable to such Project Property to cease to be Outstanding (either through the redemption or the defeasance provisions of the Resolution) and (ii) there shall be delivered to the Authority an opinion of Bond Counsel stating that such release will not have an effect on the tax-exempt status with respect to interest on the Subseries 2014A-1 Bonds or any portion thereof the proceeds of which have been applied to make the Applicable Loan under the Loan Agreement for federal income taxation purposes.

Notwithstanding any other provision of the Loan Agreement, so long as there exists no Event of Default under the Loan Agreement, nor any event which upon the giving of notice or the passage of time or both, would constitute an Event of Default, in the event that (y) the Project Property consists of two or more separate and distinct facilities, and (z) the Participant shall have paid in full the Bonds allocable to a Project Property according to the applicable amortization schedule attached to the Loan Agreement, the Participant may, upon written notice to the Authority and the Trustee, effect the release of such fully amortized Project Property from the Loan Agreement and, if a Mortgaged Property, the lien of the Mortgage. Upon receipt of such notice, the Authority and the Trustee shall, at the sole cost and expense of the Participant, execute and deliver any and all instruments necessary or appropriate to so release and remove such Project Property from the Loan Agreement and if a Mortgaged Property, the lien of the Mortgage.

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

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

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

Bonds shall be deposited and applied as specified in the Series Resolution authorizing such Bonds or the Bond Series Certificate relating to such Bonds.

(Section 6)

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

Except to the extent that moneys are available therefor under the Resolution or the Series Resolution or under the Loan Agreement, including, without limitation, moneys in the Applicable Debt Service Account of the Debt Service Fund, but excluding moneys from the Participant's Allocable Portion of the Debt Service Reserve Fund (except as set forth in the Loan Agreement) and excluding interest accrued but unpaid on investments held in the Applicable Debt Service Account of the Debt Service Fund, the Participant unconditionally agrees to pay, so long as the Loan is outstanding, to or upon the order of the Authority or, with respect to paragraph (d) below, the Program Facilitator from its general funds or any other moneys legally available to it:

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

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

(c) The Participant shall make Loan Repayments on the dates and in the amounts as set forth in the Loan Agreement; provided, however, if moneys on deposit in the Participant's Applicable Debt Service Account of the Debt Service Fund and in the Participant's Allocable Portion of the Debt Service Reserve Fund are in an amount sufficient to pay the principal of and interest on the Participant's Allocable Portion of the Bonds Outstanding, no further Loan Repayments need be made by the Participant;

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

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

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

(g) Promptly after notice from the Authority, but in any event not later than fifteen (15) days after such notice is given, the amount set forth in such notice as payable to the Authority (i) for the Participant's Allocable Portion of the Authority Fee then unpaid, (ii) to reimburse the Authority for payments made by it pursuant to the penultimate paragraph under this heading and any expenses or liabilities incurred by the Authority pursuant to provisions of the Loan Agreement as described under the headings "Covenant as to Insurance" and "Taxes and Assessments" below and other provisions of the Loan Agreement relating to indemnity by the Participant, (iii) to reimburse the Authority for the Participant's Allocable Portion of any external costs or expenses incurred by it attributable to the issuance of the Bonds of a Series, (iv) to reimburse the Authority for any external costs or expenses incurred by it attributable to the financing or construction of the Project, including, but not limited to, costs and expenses of insurance and auditing, (v) for the costs and expenses incurred by the Authority to compel full and punctual performance by the Participant of all the provisions of the Loan Agreement, of the Intercept Agreement, of the Resolution or of the Series Resolution in accordance with the terms of the Loan Agreement and thereof, and (vi) for the Participant's Allocable Portion of the fees and expenses of the Trustee and any Paying Agent in connection with performance of their duties under the Resolution or the Series Resolution;

(h) Promptly upon demand by the Authority (a copy of which demand shall be furnished to the Trustee), all amounts required to be paid by the Participant as a result of an acceleration pursuant to the Loan Agreement; and

(i) Promptly upon demand by the Authority, the difference between the amount on deposit in the Participant's Allocable Portion of the Arbitrage Rebate Fund or otherwise available therefor under the Resolution for the payment of any rebate required by the Code to be made and the Participant's Allocable Portion of the amount required to be rebated to the Department of the Treasury of the United States of America in accordance with the Code in connection with the Bonds, and any fees or expenses incurred by the Authority in connection therewith including those of any rebate analyst or consultant engaged by the Authority.

Subject to the provisions of the Loan Agreement and of the Resolution or the Series Resolution, the Participant shall receive a credit against the amount required to be paid by the Participant during a Bond Year pursuant to paragraph (c) above on account of a Sinking Fund Installment if, prior to the date notice of redemption is given pursuant to the Resolution with respect to Bonds to be redeemed through a Sinking Fund Installment payable on the next succeeding July 1, the Participant delivers to the Trustee for cancellation one or more Bonds of the Series and maturity to be so redeemed on such July 1. The amount of the credit shall be equal to the principal amount of the Bonds so delivered.

The Authority directs the Participant, and the Participant agrees, to make the payments required by paragraphs (c), (e) and (h) above directly to the Trustee for deposit in the Applicable Debt Service Account of the Debt Service Fund and application in accordance with the Resolution or the Series Resolution, the payments required by paragraph (b) above directly to the Trustee for deposit in the Applicable Project Loan Account of the Project Loan Fund or other fund established under the Resolution or the Series Resolution, as directed by the Authority, the payments required by paragraph (i) above directly to the Trustee for deposit in the Arbitrage Rebate Fund, and the payments required by paragraphs (a), (f) and (g) above directly to the Authority.

Notwithstanding the foregoing, to the extent the Authority shall have received payment of Pledged Revenues on account of the payments required by paragraphs (c), (e), (h) and (i) above, such amounts received shall be credited against any payments due from the Participant with respect to its obligations under the Loan Agreement and are Revenues which shall be paid by the Authority to the Trustee. To the extent the Authority shall have received Pledged Revenues on account of the payments required by paragraphs (a), (f) and (g) above, such amounts received shall be credited against any payments due from the Participant with respect to its obligations under the Loan Agreement, and shall be retained by the Authority.

Notwithstanding any provision in the Loan Agreement or in the Resolution or the Series Resolution to the contrary (except as otherwise specifically provided for in provisions described under this heading), (i) all moneys paid by the Participant to the Trustee pursuant to paragraphs (c), (e) and (h) above (other than moneys received by the Trustee pursuant to the Resolution which shall be retained and applied by the Trustee for its own account) shall be received by the Trustee as agent for the Authority in satisfaction of the Participant's indebtedness to the Authority with respect to the interest on and principal or Redemption Price of the Bonds to the extent of such payment and (ii) the transfer by the Trustee of any moneys (other than moneys described in clause (i) of this subdivision) held by it in the Applicable Project Loan Account of the Project Loan Fund to the Applicable Debt Service Account of the Debt Service Fund in accordance with the applicable provisions of the Loan Agreement or of the Resolution shall be deemed, upon such transfer, receipt by the Authority from the Participant of a payment in satisfaction of the Participant's indebtedness to the Authority with respect to the Participant's Applicable Portion of the Redemption Price of the Bonds to the extent of the amount of moneys transferred. Immediately after receipt or transfer of such moneys, as the case may be, by the Trustee, the Trustee shall hold such moneys in trust in accordance with the applicable provisions of the Resolution for the sole and exclusive benefit of the Bondholders, regardless of the actual due date or payment date of any payment to the Bondholders, except in respect to the payment to the Participant by the Trustee as provided for in the Resolution.

The obligations of the Participant to make payments or cause the same to be made under the Loan Agreement shall be absolute and unconditional and the amount, manner and time of making such payments shall not be decreased, abated, postponed or delayed for any cause or by reason of the happening or non-happening of any event, irrespective of any defense or any right of set-off, recoupment or counterclaim which the Participant may otherwise have against the Authority, the Trustee or any Bondholder for any cause whatsoever including, without limiting the generality of the foregoing, failure of the Participant to complete the Project or the completion thereof with defects, failure of the Participant to occupy or use the Project, any declaration or finding that the Bonds of any Series are or the Resolution or the Series Resolution is invalid or unenforceable or any other failure or default by the Authority or the Trustee; provided, however, that nothing in the Loan Agreement shall be construed to release the

Authority from the performance of any agreements on its part therein contained or any of its other duties or obligations, and in the event the Authority shall fail to perform any such agreement, duty or obligation, the Participant may institute such action as it may deem necessary to compel performance or recover damages for non-performance. Notwithstanding the foregoing, the Authority shall have no obligation to perform its obligations under the Loan Agreement to cause advances to be made to reimburse the Participant for, or to pay, the Costs of the Project beyond the extent of moneys in the Applicable Project Loan Account of the Project Loan Fund established for such Project.

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

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

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

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

Notwithstanding anything in the Loan Agreement or in the Resolution to the contrary, the Participant's Loan Repayment schedule set forth in the Loan Agreement may be amended from time to time by the Participant and the Authority to reflect changes in the Participant's Allocable Portion of the Bonds Outstanding caused by voluntary payments by the Participant, early redemptions, legal defeasances or otherwise. At the time of any such amendment, the Participant's Loan Repayments set forth in the amended schedule will be recalculated in the same manner as when the Bonds were originally issued while accounting for the change to the Participant's Allocable Portion of the Bonds Outstanding.

(Section 9)

Debt Service Reserve Fund

The Participant agrees that it will at all times maintain on deposit in the Debt Service Reserve Fund an amount at least equal to the Participant's Allocable Portion of the Debt Service Reserve Fund Requirement as set forth in the Loan Agreement, provided that the Participant shall be required to deliver moneys or Permitted Investments to the Trustee for deposit in the Debt Service Reserve Fund as a result of a deficiency in such Fund within (5) days after the notice required by the Series Resolution is received.

The Participant may deliver to the Trustee a Reserve Fund Facility for all or any part of the Participant's Allocable Portion of the Debt Service Reserve Fund Requirement in accordance with and to the extent permitted by the Series Resolution. Whenever a Reserve Fund Facility has been delivered to the Trustee and the Participant is required to restore the Participant's Allocable Portion of the Debt Service Reserve Fund Requirement, it shall reimburse directly, or pay to the Authority an amount sufficient to reimburse, the Facility Provider in order to cause the Reserve Fund Facility provided by the Participant or Participant's Allocable Portion of the Reserve Fund Facility to be restored to the amount of the Participant's Allocable Portion of the Debt Service Reserve Fund Requirement or shall then deliver additional moneys or Permitted Investments necessary to restore the Debt Service Reserve Fund to the Participant's Allocable Portion of the Debt Service Reserve Fund Requirement.

The delivery to the Trustee of Permitted Investments or Reserve Fund Facility from time to time made by the Participant pursuant to the Loan Agreement as described under this heading shall constitute a pledge thereof, and shall create a security interest therein, for the benefit of the Authority to secure performance of the Participant's obligations under the Loan Agreement and for the benefit of the Trustee to secure the performance of the obligations of the Authority under the Resolution. The Participant authorizes the Authority pursuant to the Resolution to pledge such Permitted Investments or Reserve Fund Facility to secure payment of the principal, Sinking Fund Installments, if any, and Redemption Price of, and interest on, the Bonds, whether at maturity, upon acceleration or otherwise, and the fees and expenses of the Trustee, and to make provision for and give directions with respect to the custody, reinvestment and disposition thereof in any manner not inconsistent with the terms of the Loan Agreement and of the Resolution or the Series Resolution.

All Permitted Investments deposited with the Trustee pursuant to the Loan Agreement as described under this heading, other than United States Treasury Certificates of Indebtedness State and Local Government Series ("SLGs") (subject to provisions for registration thereof), and the principal thereof and the interest, dividends or other income payable with respect thereto shall be payable to bearer or to the registered owner. All such Permitted Investments in registered form shall be registered in the name of the Trustee (in its fiduciary capacity) or its nominee. Record ownership of all such Permitted Investments shall be transferred promptly following their delivery to the Trustee into the name of the Trustee (in its fiduciary capacity) or its nominee. The Participant appoints the Trustee its lawful attorney-in-fact for the purpose of effecting such registrations and transfers.

The Participant agrees that upon each delivery to the Trustee of Permitted Investments, whether initially or upon later delivery or substitution, the Participant shall deliver to the Authority and the Trustee a certificate of an Authorized Officer of the Participant to the effect that the Participant warrants and represents that the Permitted Investments delivered by the Participant (i) are on the date of delivery thereof free and clear of any lien, pledge, charge, security interest or other encumbrance or any statutory, contractual or other restriction that would be inconsistent with or interfere with or prohibit the pledge, application or disposition thereof as contemplated by the Loan Agreement, by the Series Resolution or by the Resolution and (ii) are pledged under the Loan Agreement pursuant to appropriate corporate action of the Participant duly had and taken.

Prior to the initial delivery of Permitted Investments (other than moneys) to the Trustee pursuant to the Loan Agreement as described under this heading, and upon any later delivery or substitution, the Participant will, at its cost and expense, provide to the Authority and the Trustee a written opinion of counsel satisfactory to the Authority to the effect that the Participant has full corporate power and authority to pledge such Permitted Investments as security in accordance with the Loan Agreement, such Permitted Investments have been duly delivered by the Participant to the Trustee, such delivery creates a valid and binding pledge and security interest therein in accordance with the terms thereof and of the Resolution, and nothing has come to the attention of such counsel that would lead it to believe that the Permitted Investments delivered by the Participant are not free and clear of all liens, pledges, encumbrances and security interests or are subject to any statutory, contractual or other restriction which would invalidate or render unenforceable the pledge and security interest therein, or the application or disposition thereof, contemplated by the Loan Agreement or by the Resolution.

(Section 10)

Security Interest in Pledged Revenues

As security for the payment of all liabilities and the performance of all obligations of the Participant pursuant to the Loan Agreement, the Participant does continuously pledge, grant a security interest in, and assign to the Authority the Pledged Revenues, together with the Participant's right to receive and collect the Pledged Revenues and the proceeds of the Pledged Revenues. This pledge, grant of a security interest in and assignment of the Pledged Revenues shall be subordinate only to the Prior Pledges.

The Participant represents and warrants that no part of the Pledged Revenues or any right to receive or collect the same or the proceeds thereof is subject to any lien, pledge, security interest or assignment, other than the Prior Pledges, and that the Pledged Revenues assigned pursuant to the Loan Agreement are legally available to provide security for the Participant's performance thereunder. The Participant agrees that it shall not hereafter create or permit the creation of any pledge, assignment, encumbrance, restriction, security interest in or other commitment of or with respect to the Pledged Revenues which is prior or equal to the pledge made by the Loan Agreement as described under this heading.

(Section 11)

Collection of Pledged Revenues

Commencing on the date on which the Bonds are first issued and continuing until the Loan is no longer outstanding, the Participant shall deliver (or cause to be delivered) to the Trustee for deposit in the Applicable Debt Service Account of the Debt Service Fund all Pledged Revenues (other than the amounts subject to the Prior Pledges) within ten (10) days following the Participant's receipt thereof unless and until there is on deposit in the Applicable Debt Service Account of the Debt Service Fund an amount at least equal to the Participant's Loan Repayment in the amount and on the date set forth in the Loan Agreement. In the event that, pursuant to remedies provision of the Loan Agreement, the Authority notifies the Participant that account debtors are to make payments directly to the Authority or to the Trustee such payments shall be so made notwithstanding anything contained in the Loan Agreement as described in this paragraph, but the Participant shall continue to deliver to the Trustee for deposit in the Applicable Debt Service Account of the Debt Service Fund any payments received by the Participant with respect to the Pledged Revenues (other than such amounts as are subject to the Prior Pledges).

Notwithstanding anything to the contrary in the paragraph above, in the event that, on or prior to the tenth (10th) day of any month, the Participant makes a payment to or upon the order of the Trustee, from its general funds or from any other money legally available to it for such purpose, for deposit in Applicable Debt Service Account of the Debt Service Fund in the amount which the Participant is required to pay to the Trustee pursuant to the Loan Agreement regarding Loan Repayments, the Participant shall not be required solely by virtue of the Loan Agreement as described in the paragraph above, to deliver Pledged Revenues to the Trustee for deposit in the Applicable Debt Service Account of the Debt Service Fund with respect to the amount due to be paid on the tenth (10th) day of such month; provided that, nothing contained in this paragraph shall abrogate the obligations of the Participant under the Loan Agreement as described in the last two paragraphs under this heading.

Any Pledged Revenues collected by the Participant that are not required to be paid to the Trustee pursuant to the Loan Agreement as described under this heading or under the remedies provisions of the Loan Agreement, including any amounts to make up any deficiencies in any funds or accounts established pursuant to the Resolution or the Series Resolution, shall be free and clear of the security interest granted by the Loan Agreement and may be disposed of by the Participant for any of its corporate purposes provided that (a) no Event of Default, or event which with the passage of time or giving of notice, or both, would become an Event of Default, has occurred and is continuing or (b) there has not occurred a drawing of funds from the Debt Service Reserve Fund that has not been repaid by the Participant as required by the Loan Agreement or the Series Resolution.

The Participant agrees to direct the payment of Pledged Revenues, otherwise payable to the Participant, to the Authority for deposit in the Debt Service Fund. Pursuant to the Act and the Intercept Agreement, the Participant has assigned and pledged to the Authority the Pledged Revenues subject to the Prior Pledges. In addition to the Intercept Agreement, the Participant agrees to execute and deliver, from time to time, such additional documents as may be required by the Authority, the Trustee, OPWDD, the State, a political subdivision (as defined in Section 100 of the General Municipal Law), or any social services district in the State, to authorize or implement such payment of Pledged Revenues to the Authority or the Trustee in an amount sufficient to pay all amounts required to be paid under the Loan Agreement. The Participant further acknowledges that OPWDD and all State and local officers are authorized and required to pay any such Pledged Revenues so assigned and pledged to the Authority in accordance with the Loan Agreement. The Authority may periodically file a certificate with OPWDD, the State, a political subdivision (as defined in Section 100 of the General Municipal Law), or any social services district in the State setting forth the amount of Pledged Revenues required to be paid to satisfy the obligations of the Participant under the Loan Agreement, which certificate may be amended by the Authority from time to time. Copies of said certificate and any amendments thereto filed pursuant to this paragraph shall be delivered to the Trustee and the Participant.

Unless and until an event described in the Loan Agreement as described in the second paragraph above shall have occurred, the Authority waives its right to collect those amounts payable to the Authority pursuant to the Loan Agreement as described in the paragraph above. Upon the occurrence of an event described in Loan Agreement as described in the second paragraph above, the Authority may, in addition to all other remedies available to it pursuant to the Loan Agreement, cause the Pledged Revenues (subject to the Prior Pledges) to be deducted, withheld or paid directly to the Authority or the Trustee, as appropriate, in an amount sufficient to make all payments required to be made by the Participant under the Loan Agreement.

(Section 12)

Mortgage; Lien on Fixtures and Equipment

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

With respect to each Project Property which is leased by the Participant, the Participant grants by the Loan Agreement the Authority a security interest in all furnishings and equipment located in or on or used or to be used in connection with the Project Property, excepting and excluding therefrom any furnishings and equipment held or used by the Participant as a lessee and any furnishings and equipment during the time when such furnishings and equipment are covered by perfected purchase money security interests in third parties. With respect to such furnishings and equipment in which a security interest is granted by the Loan Agreement, the Loan Agreement constitutes a "security agreement" within the meaning of the Uniform Commercial Code. Upon the occurrence of an Event of Default under the Loan Agreement, the Authority, in addition to any other rights and remedies which it may have, shall have and may exercise immediately and without demand, any and all rights and remedies granted to a secured party upon default under the Uniform Commercial Code.

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

(Section 13)

Warranty as to Title; Encumbrances; Title Insurance

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

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

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

(Section 14)

Consent to Pledge and Assignment by the Authority

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

The Participant covenants, warrants and represents that it is duly authorized by all applicable laws, its charter or certificate of incorporation and by-laws to enter into the Loan Agreement, to incur the indebtedness contemplated by the Loan Agreement, to pledge, grant a security interest in and assign to the Authority and the Trustee, for the benefit of the Bondholders, the Pledged Revenues and the Permitted Investments delivered pursuant to the Loan Agreement in the manner and to the extent provided therein and in the Resolution. The Participant further covenants, warrants and represents that any and all pledges, security interests in and assignments to the Authority and the Trustee for the benefit of the Bondholders, granted or made pursuant to the Loan Agreement are and shall be free and clear of any pledge, lien, charge, security interest or encumbrance prior thereto, or of equal rank therewith, other than the Prior Pledges and the Permitted Encumbrances, and that all corporate action on the part of the Participant and any parties related thereto, to that end has been duly and validly taken. The Participant further covenants that the provisions of the Loan Agreement are and shall be valid and legally enforceable obligations of the Participant in accordance with their terms. The Participant further covenants that it shall at all times, to the extent permitted by law, defend, preserve and protect the pledge, security interest in and assignment of the Pledged Revenues, Permitted Investments and Reserve Fund Facility delivered pursuant to the Loan Agreement and all of the rights of the Authority and Trustee for the benefit of the Bondholders under the Loan Agreement, under the Series Resolution, under the Resolution and under the Intercept Agreement against all claims and demands of all persons whomsoever. The Participant further covenants, warrants and represents that the execution and delivery of the Loan Agreement and of the Intercept Agreement, and the consummation of the transactions contemplated and compliance with the provisions thereof, including, but not limited to, the assignment as security or the granting of a security interest in the Permitted Investments delivered to the Trustee pursuant to the Loan Agreement, do not violate, conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the charter or certificate of incorporation or by-laws of the Participant (or any party related thereto) or any indenture or mortgage, or any trusts, endowments or other commitments or agreements to which the Participant (or any party related thereto) is party or by which it or any of its or their properties are bound, or any existing law, rule, regulation, judgment, order, writ, injunction or decree of any governmental authority, body, agency or other instrumentality or court having jurisdiction over the Participant, any party related thereto or any of its or their properties.

(Section 15)

Tax-Exempt Status

The Participant represents that (i) it is an organization described in Section 501(c)(3) of the Code, or corresponding provisions of prior law, and is not a "private foundation," as such term is defined under Section 509(a) of the Code, (ii) it has received a letter or other notification from the Internal Revenue Service to that effect, (iii) such letter or other notification has not been modified, limited or revoked, (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification, (v) the facts and circumstances which form the basis of such letter or other notification as represented to the Internal Revenue Service continue to exist, and (vi) it is exempt from federal income taxes under Section 501(a) of the Code. The Participant agrees that (a) it shall not perform any act or enter into any agreement which shall adversely affect such federal income tax status and shall conduct its operations in the manner which will conform to the standards necessary to qualify the Participant as an organization within the meaning of Section 501(c)(3) of the Code or any successor provision of federal income tax law and (b) it shall not perform any act, enter into any agreement or use or permit the Project and the Project Property to be used in any manner, or for any trade or business or other non-exempt use unrelated to the purposes of the Participant, which could adversely affect the exclusion of interest on the Subseries 2014A-1 Bonds from federal gross income pursuant to Section 103 of the Code.

(Section 16)

Use of the Project; Restrictions on Religious Use

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

Subject to the rights, duties and remedies of the Authority under the Loan Agreement, the Participant shall have sole and exclusive control of, possession of and responsibility for (i) the Project and all Project Property, (ii) the operation of the Project and all Project Property and supervision of the activities conducted therein or in connection with any part thereof, and (iii) the maintenance, repair and replacement of the Project and all Project Property.

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

(Sections 20 and 21)

Covenant as to Insurance

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

(Section 23)

Damage or Condemnation

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

(a) if within 120 days from the receipt by the Authority of actual notice or knowledge of such occurrence, the Participant and the Authority agree in writing that the Project, the Project Property or the affected portion thereof shall be repaired, replaced or restored, the Participant shall proceed to repair, replace or restore the Project, the Project Property or the affected portion thereof, including all fixtures, furniture, equipment and effects, to its original condition insofar as possible with such changes and additions as shall be appropriate to the needs of the Participant and approved in writing by the Authority. The funds required for such repair, replacement or restoration shall be paid from time to time as the work progresses, subject to such conditions and limitations as the Authority may reasonably impose, from the proceeds of insurance, condemnation or eminent domain awards received by reason of such occurrence or from funds to be provided by the Participant; or

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

(Section 24)

Taxes and Assessments

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

(Section 25)

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

The Participant shall, if and when requested by the Authority, render to the Authority and the Trustee reports with respect to all repairs, replacements, renovations, and maintenance made to the Project or the Project Property. In addition, the Participant shall, if and when requested by the Authority, render such other reports concerning the condition of the Project or the Project Property as the Authority may request. The Participant shall also furnish annually, not later than one hundred and eighty (180) days after the end of the Participant's Fiscal Year, to the Trustee, the Program Facilitator, the Underwriter, the Authority and to such other parties as the Authority may reasonably designate, including rating services, copies of its financial statements audited by an independent public accountant selected by the Participant and acceptable to the Authority and prepared in conformity with generally accepted accounting principles applied on a consistent basis, except that such audited financial statements may contain such changes as are concurred in by such accountants, and such other statements, reports and schedules describing the finances, operation and management of the Participant and such other information as may be reasonably required by the Authority. The Trustee shall have no obligation or duty to review any financial statements (audited or otherwise) filed with it and shall not be deemed to have notice of the content of such statements or a default based on such content and shall have no obligation or duty to verify the accuracy of such statements.

Furthermore, the Participant shall also furnish annually, not later than one hundred and eighty (180) days after the end of the Participant's Fiscal Year, to the Authority, the Underwriter and the Trustee a certificate of an Authorized Officer of the Participant stating whether the Participant is in compliance with the provisions the Loan Agreement.

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

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

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

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

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

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

(e) Indebtedness to finance a PPA Facility, and

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

(Section 26)

Defaults and Remedies

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

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

(b) the Participant shall default in the due and punctual performance of any other covenant contained in the Loan Agreement (except as set forth in paragraph (d) below) and such default continues for thirty (30) days after written notice requiring the same to be remedied shall have been given to the Participant by the Authority or the Trustee;

(c) as a result of any default in payment or performance required of the Participant under the Loan Agreement or any Event of Default under the Loan Agreement, whether or not declared, continuing or cured, the Authority shall be in default in the payment or performance of any of its obligations under the Resolution or an "event of default" (as defined in the Resolution) shall have been declared under the Resolution so long as such default or event of default shall remain uncured or the Trustee or Holders of the Bonds shall be seeking the enforcement of any remedy under the Resolution as a result thereof;

(d) the Participant shall have violated the applicable provisions of regulations or the covenants set forth in the Loan Agreement with respect to compliance with all Government Requirements or shall fail to continue to operate the Project Property as a certified program for the developmentally disabled in accordance with a valid operating certificate duly issued by OPWDD, and the Participant, subsequent to 15 days after written notice shall have been given to the Participant by OPWDD or the Authority requiring the same to be remedied, fails to remedy such violation or such failure to operate such certified program;

(e) the Participant shall (i) be generally not paying its debts as they become due, (ii) file, or consent by answer or otherwise to the filing against it of, a petition under the United States Bankruptcy Code or under any other bankruptcy or insolvency law of any jurisdiction, (iii) make a general assignment for the benefit of its creditors, (iv) consent to the appointment of a custodian, receiver, trustee or other officer with similar powers of itself or of any substantial part of its property, (v) be adjudicated insolvent or be liquidated or (vi) take corporate action for the purpose of any of the foregoing;

(f) a court or governmental authority of competent jurisdiction shall enter an order appointing, without consent by the Participant, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or an order for relief shall be entered in any case or proceeding for liquidation or reorganization or otherwise to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Participant, or any petition for any such relief shall be filed against the Participant and such petition shall not be dismissed within ninety (90) days;

(g) the charter or certificate of incorporation of the Participant shall be suspended or revoked;

(h) a petition to dissolve the Participant shall be filed by the Participant with the legislature of the State or other governmental authority having jurisdiction over the Participant;

(i) an order of dissolution of the Participant shall be made by the legislature of the State or other governmental authority having jurisdiction over the Participant, which order shall remain undismissed or unstayed for an aggregate of thirty (30) days;

(j) a petition shall be filed with a court having jurisdiction for an order directing the sale, disposition or distribution of all or substantially all of the property belonging to the Participant which petition shall remain undismissed or unstayed for an aggregate of ninety (90) days;

(k) an order of a court having jurisdiction shall be made directing the sale, disposition or distribution of all or substantially all of the property belonging to the Participant, which order shall remain undismissed or unstayed for an aggregate of thirty (30) days;

(l) a final judgment for the payment of money, which in the judgment of the Authority will adversely affect the rights of the Bondholders, shall be rendered against the Participant and at any time after forty-five (45) days from the entry thereof, (i) such judgment shall not have been discharged or (ii) the Participant shall not have taken and be diligently prosecuting an appeal therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, and shall not have caused, within thirty (30) days, the execution of or levy under such judgment, order, decree or process for the enforcement thereof, to have been stayed pending determination of such appeal; or

(m) the Participant shall default in the payment of any indebtedness or guaranty aggregating at least $500,000 when due, or shall default in the performance of any other obligations in connection with any indebtedness or guaranty aggregating at least $500,000 which default entitles the holder of such indebtedness or guaranty to accelerate the Participant's obligations thereunder.

Upon the occurrence of an Event of Default the Authority may take any one or more of the following actions:

(a) declare all sums payable by the Participant under the Loan Agreement immediately due and payable;

(b) direct the Trustee to withhold any and all payments, advances and reimbursements from the proceeds of the Loan or the Applicable Project Loan Account of the Project Loan Fund or otherwise to which the

Participant may otherwise be entitled under the Loan Agreement and in the Authority's sole discretion, apply any such proceeds or moneys for such purposes as are authorized by the Resolution;

(c) withhold any or all further performance under the Loan Agreement;

(d) maintain an action against the Participant under the Loan Agreement to recover any sums payable by the Participant or to require its compliance with the terms of the Loan Agreement;

(e) permit, direct or request the Trustee to liquidate all or any portion of the assets comprising the Participant's Allocable Portion of the Debt Service Reserve Fund by selling the same at public or private sale in any commercially reasonable manner and apply the proceeds thereof and any dividends or interest received on investments thereof to the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of and interest on the Participant's Allocable Portion of the Bonds, or any other obligation or liability of the Participant or the Authority arising herefrom, from the Series Resolution or from the Resolution;

(f) realize upon any security interest which the Authority may then have in the pledge and assignment of the Pledged Revenues and the rights to receive the same, whether pursuant to the Intercept Agreement or otherwise, all to the extent provided in the Loan Agreement as described under the headings "Security Interest in Pledged Revenues" and "Collection of Pledged Revenues" above, by any one or more of the following actions: (i) enter the Project or the property of the Participant and examine and make copies of the financial books and records of the Participant relating to the Pledged Revenues and, to the extent of the assigned Pledged Revenues, take possession of all checks or other orders for payment of money and moneys in the possession of the Participant representing Pledged Revenues or proceeds thereof; (ii) [Reserved]; (iii) [Reserved]; (iv) require the Participant to deposit all moneys, checks or other orders for the payment of money which represent Pledged Revenues in an amount equal to the Pledged Revenues assigned under the Loan Agreement within five (5) Business Days after receipt of written notice of such requirement, and thereafter as received, into a fund or account to be established for such purpose by the Authority, provided that the moneys in such fund or account shall be applied by the Authority to the payment of any of the obligations of the Participant under the Loan Agreement including the fees and expenses of the Authority; and provided further that the Authority in its sole discretion may authorize the Participant to make withdrawals from such fund or account for its corporate purposes; and provided further that the requirement to make such deposits shall cease and the balance of such fund or account shall be paid to the Participant when all Events of Default under the Loan Agreement by the Participant have been cured; (v) forbid the Participant to extend, compromise, compound or settle any accounts receivable or contract rights which represent any unpaid assigned Pledged Revenues, or release, wholly or partly, any Person liable for the payment thereof (except upon receipt of the full amount due) or allow any credit or discount thereon; (vi) endorse in the name of the Participant any checks or other orders for the payment of money representing any unpaid assigned Pledged Revenues or the proceeds thereof; and (vii) follow the procedures for the collection of Pledged Revenues as provided in the Act and in the Loan Agreement as described under the heading "Collection of Pledged Revenues" above;

(g) if applicable and to the extent permitted by law, (i) enter upon the Project and complete the construction of such Project in accordance with the plans and specifications with such changes therein as the Authority may deem appropriate and employ watchmen to protect such Project, all at the risk, cost and expense of the Participant, consent to such entry being given by the Participant; (ii) at any time discontinue any work commenced in respect of the construction of the Project or change any course of action undertaken by the Participant and not be bound by any limitations or requirements of time whether set forth in the Loan Agreement or otherwise; (iii) assume any construction contract made by the Participant in any way relating to the construction of the Project and take over and use all or any part of the labor, materials, supplies and equipment contracted for by the Participant, whether or not previously incorporated into the construction of the Project; and (iv) in connection with the construction of the Project undertaken by the Authority pursuant to the provisions of this paragraph (g), (x) engage builders, contractors, architects, engineers and others for the purpose of furnishing labor, materials and equipment in connection with the construction of the Project, (y) pay, settle or compromise all bills or claims which may become liens against the Project or against any moneys of the Authority applicable to the construction of the Project, or which have been or may be incurred in any manner in connection with completing the construction of the Project or for the discharge of liens, encumbrances or defects in the title to the Project or against any moneys of the Authority applicable to the construction of the Project, and (z) take or refrain from taking such action under the Loan Agreement as the Authority may from time to time determine. The Participant shall be liable to the Authority for all sums paid or incurred for construction of the Project whether the same shall be paid or incurred pursuant to the provisions of this paragraph (g) or otherwise, and all payments made or liabilities incurred by the Authority under the Loan Agreement of any kind whatsoever shall be paid by the Participant to the Authority upon demand. The Participant irrevocably constitutes and appoints the Authority its true and lawful attorney-in-fact to execute, acknowledge and deliver any instruments and to do and perform any acts in the name and on behalf of the Participant for the purpose of exercising the rights granted to the Authority by this subparagraph during the term of the Loan Agreement;

(h) request OPWDD, in accordance with applicable statutes and regulations, to enter the Project, or replace the Participant with another operator, to take possession without judicial action of all real property contained in such Project and all personal property located in or on or used in connection with the Project, including furnishings and equipment thereon, and further including Pledged Revenues and cause to be operated thereon a certified program for the developmentally disabled within the Project Property in accordance with a valid operating certificate duly issued by OPWDD;

(i) require the Participant to engage, at the Participant's expense, a Management Consultant to review the rates, operations and management of the Participant and any other matter deemed appropriate by the Authority and make recommendations with respect to such rates, operations, management and other matters; and

(j) take any legal or equitable action necessary to enable the Authority to realize on its liens under the Loan Agreement, under the Mortgage, or by law, including foreclosure of the Mortgage, and any other action or proceeding permitted by the terms of the Loan Agreement, by the Mortgage or by law.

All rights and remedies in the Loan Agreement given or granted to the Authority are, to the extent permitted by law, cumulative, non-exclusive and in addition to any and all rights and remedies that the Authority may have or may be given by reason of any law, statute, ordinance or otherwise, and no failure to exercise or delay in exercising any remedy shall effect a waiver of the Authority's right to exercise such remedy thereafter.

At any time before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of any Event of Default or before the completion of the enforcement of any other remedies under the Loan Agreement, the Authority may annul any declaration made pursuant to paragraph (a) above and its consequences if such Events of Default shall be cured. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereto.

In the event of an Event of Default under the Loan Agreement as described in paragraph (d), (e), (f), (g), (h), (i), (j), (k) or (l) above shall have occurred and be continuing with respect to the Participant, or in the event that OPWDD shall have revoked the Participant's license to operate as a qualified operator, the Participant shall exercise best efforts in accordance with all applicable laws and regulations, to facilitate the continued availability of its respective facilities for the benefit of its clients and patients including but not limited to cooperating with any OPWDD qualified service provider in order to permit such service provider to assume the Participant's liabilities and obligations to provide benefits to such clients and patients. In furtherance of such purposes the Participant agrees to cooperate with all State regulatory agencies and acknowledges that the Authority's enforcement of such cooperation constitutes an exercise of the police powers of the State for the public good of the citizens of the State.

(Section 29)

Arbitrage

The Participant covenants that it shall take no action, nor shall it consent to the taking of any action, nor shall it fail to take any action or consent to the failure to take any action, the making of any investment or the use of the Loan, which would cause the Subseries 2014A-1 Bonds of any Series to be "arbitrage bonds" within the meaning of Section 148(a) of the Code, and any proposed or final regulations thereunder as are applicable to the Subseries 2014A-1 Bonds at the time of such action, investment or use. The Participant (or any related person, as defined for purposes of Section 148 of the Code) shall not, pursuant to an arrangement, formal or informal, purchase Subseries 2014A-1 Bonds in an amount related to the amount of any obligation to be acquired from the Participant by the Authority, unless the Authority and the Trustee shall receive an opinion of Bond Counsel to the effect that the purchase by the Participant or by a related person of Subseries 2014A-1 Bonds will not cause interest on the Subseries 2014A-1 Bonds to be included in the gross income of the owners of such Subseries 2014A-1 Bonds for purposes of federal income taxation. The Participant will, on a timely basis, provide the Authority with all necessary information and funds not in the Authority's possession, to enable the Authority to comply with the arbitrage and rebate requirements of the Code as identified in the Resolution. The Participant shall be required to pay for any consultant or report necessary to satisfy any such arbitrage and rebate requirement. The Participant covenants that it will not take any action or fail to take any action which would cause any representation or warranty of the Participant contained in the tax certificate then to be untrue and shall comply with all covenants and agreements of the Participant contained in the tax certificate, in each case to the extent required by and otherwise in compliance with such tax certificate. In the event that the Authority is notified in writing that the Subseries 2014A-1 Bonds or any transaction pertaining thereto is the subject of any Internal Revenue Service or Securities and Exchange Commission investigation, suit or order, it shall promptly give notice thereof to the Participant. In the event that the Participant is notified in writing that the Subseries 2014A-1 Bonds or any transaction pertaining thereto is the subject of any Internal Revenue Service or Securities and Exchange Commission investigation, suit or order, it shall promptly give notice thereof to the Authority. Upon the occurrence of such an event, the Participant and the Authority shall fully cooperate with one another and participate in all aspects of the conduct of the response thereto.

(Section 40)

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APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

The following is a brief summary of certain provisions of the Resolution and the Series 2014A Resolution (collectively, the "Resolutions"). This summary does not purport to be complete and reference is made to the Resolutions for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A or in the body of this Official Statement.

Resolution and Bonds Constitute a Contract

It is the intent of the Resolution to authorize the issuance by the Authority, from time to time, of its InterAgency Council Pooled Loan Program Revenue Bonds in one or more Series, each such Series to be authorized by a separate Series Resolution and, inter alia, to be separately secured from each other Series of Bonds. Each such Series of Bonds shall be separate and apart from any other Series of Bonds authorized by a different Series Resolution and the Holders of Bonds of such Series shall not be entitled to the rights and benefits conferred upon the Holders of Bonds of any other Series of Bonds by the respective Series Resolution authorizing such Series of Bonds. With respect to each Series of Bonds, in consideration of the purchase and acceptance of any and all of the Bonds of a Series authorized to be issued under the Resolution and under a Series Resolution by those who shall hold or own the same from time to time, the Resolution and any Applicable Series Resolution shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Holders from time to time of the Bonds of such Series, and the pledge and assignment made in the Resolution and the covenants and agreements set forth to be performed by or on behalf of the Authority shall be for the equal and ratable benefit, protection and security of the Holders of any and all of the Bonds of such Series, all of which, regardless of the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any Bonds of such Series over any other Bonds of such Series except as expressly provided in the Resolution or permitted by the Resolution or by a Series Resolution.

(Section 1.03)

Assignment of Certain Rights and Remedies to the Trustee: Assignment of Mortgages

With respect to each Series of Bonds, as security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of, and interest on, the Outstanding Bonds of such Series and for the performance of each other obligation of the Authority under the Resolution and under an Applicable Series Resolution, the Authority may grant, pledge and assign to the Trustee all of the Authority's estate, right, title, interest and claim in, to and under any and all of the Applicable Loan Agreements and any Applicable Mortgage, together with all rights, powers, security interests, privileges, options and other benefits of the Authority under any such Loan Agreement and such Mortgage, including, without limitation, the immediate and continuing right to receive, enforce and collect (and to apply the same in accordance herewith and with the Applicable Series Resolution) all Revenues, insurance proceeds, sales proceeds and other payments and other security now or hereafter payable to or receivable by the Authority under any such Loan Agreement or Mortgage, and the right to make all waivers and agreements in the name and on behalf of the Authority, as agent and attorney-in-fact, and to perform all other necessary and appropriate acts under any such Loan Agreement or Mortgage, subject to the following conditions: (a) that the Holders of such Bonds shall not be responsible or liable in any manner or to any extent for the performance of any of the covenants or provisions thereof to be performed by the Authority; (b) that, unless and until the Trustee is assigned such Loan Agreement or Mortgage, and further, unless and until (i) an "Event of Default" (as defined in such Loan Agreement) shall have occurred and be continuing under such Loan Agreement, and (ii) the Trustee in its discretion shall so elect by instrument in writing delivered to the Authority and the Applicable Participant, the Trustee shall not be responsible or liable in any manner or to any extent for the performance of any of the covenants or provisions contained in such Loan Agreement or Mortgage to be performed by the Authority (except to the extent of actions undertaken by the Trustee in the course of its performance of any such covenant or provision); and (c) that such Mortgage may not be assigned by any party thereto without the written consent of the other parties thereto except to such Trustee as permitted by the Resolution; *provided, however,* that any grant, pledge and assignment of moneys, revenues, accounts, rights or other property of a Participant made with respect to such Loan Agreement or Mortgage pursuant to this paragraph shall secure only the payment of the amounts payable under such Loan Agreement and Mortgage. Until such time as such Loan Agreement and Mortgage are assigned to the Trustee and the Trustee shall make the election provided for in this paragraph, the Authority shall remain liable to observe and perform all the conditions and covenants in such Loan Agreement or Mortgge to be observed and performed by it.

Upon the happening of (a) any withdrawal from any Participant's Allocable Portion of the Debt Service Reserve Fund, if any, securing such Participant's Allocable Portion of the Applicable Series of Bonds which has not been restored to such Participant's Allocable Portion of the Debt Service Reserve Fund Requirement within thirty (30) days after notice given in accordance with the Applicable Series Resolution has been received by the Authority, or (b) the occurrence of an event of default specified in paragraph (d) of under the caption "*Events of Default*" in this Appendix F, the Authority shall assign to the Trustee for the benefit of the Bondholders of the Applicable Series all of its right, title and interest in and to the Mortgage, if any, of said non-performing Participant and in and to the rights of the Authority under the Applicable Loan Agreement to exercise any of the remedies provided thereby for the enforcement of the obligations of such Participant to make the payments thereunder, including the right to declare the indebtedness and all Loan Repayments thereunder immediately due and payable and to foreclose the lien of such Mortgage, as applicable; *provided, however,* that the Authority may retain the right to the payment of the fees, costs and expenses of the Authority payable pursuant to the Applicable Loan Agreement, the right to the indemnities provided thereby, the right to the payments, if any, required to be made pursuant to such indemnities and the right to exercise any of the remedies available thereunder for the enforcement of the obligations of such Participant, the rights to which have been retained by the Authority. Such assignment shall be made by the execution and delivery to the Trustee of documents of assignment in form and substance reasonably acceptable to the Trustee. If prior to the foreclosure of any such Mortgage, such Debt Service Reserve Fund has been restored to its Debt Service Reserve Fund Requirement, the Trustee shall, upon the request of the Authority, reassign to the Authority all right, title and interest in and to such Loan Agreement and said Mortgage assigned to it pursuant to this paragraph. Any such reassignment shall be made by the execution and delivery to the Authority of documents of reassignment in form and substance reasonably acceptable to the Authority.

In the event the Authority grants, pledges and assigns to the Trustee any of its rights as provided in above, the Trustee shall accept such grant, pledge and assignment, which acceptance shall be evidenced in writing and signed by an Authorized Officer of the Trustee..

(Section 1.04)

Additional Obligations

The Authority reserves the right to issue bonds, notes or any other obligations or otherwise incur indebtedness pursuant to other and separate resolutions or agreements of the Authority, so long as such bonds, notes or other obligations are not, or such other indebtedness is not, except as provided in the Resolution, entitled to a charge, lien or right prior or equal to the charge or lien created by the Resolution and pursuant to a Series Resolution, or prior or equal to the rights of the Authority and Holders of Bonds of the Applicable Series of Bonds provided by the Resolution or with respect to the moneys pledged under the Resolution or pursuant to a Series Resolution.

(Section 2.05)

Pledge of Revenues

Subject to the provisions of the first paragraph under the caption "*Limitation on Revenues and Security Available for Payments After Certain Defaults; Priority of Payments After Default; Cancellation and Replacement of Certain Bonds"* in this Appendix F, the proceeds from the sale of a Series of Bonds, the Applicable Revenues, the Authority's security interest in the Applicable Pledged Revenues and all funds and accounts authorized by the Resolution and established pursuant to an Applicable Series Resolution, other than the Arbitrage Rebate Fund, are by the Resolution, subject to the terms of the Applicable Series Resolution, pledged and assigned to the Trustee as security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on such Series of Bonds and as security for the performance of any other obligation of the Authority under the Resolution and under the Applicable Series Resolution, all in accordance with the provisions of the Resolution and the terms of the Applicable Series Resolution. Unless otherwise provided in the Applicable Series Resolution, the pledge made by the Resolution shall relate only to the Bonds of a Series authorized by the Applicable Series

Resolution and no other Series of Bonds and such pledge shall not secure any other Series of Bonds. The pledge made by the Resolution is valid, binding and perfected from the time when the pledge attaches and the proceeds of the sale of such Series of Bonds, the Applicable Revenues, the Authority's security interest in the Applicable Pledged Revenues and all funds and accounts authorized by the Resolution and established pursuant to the Applicable Series Resolution which are pledged by the Resolution shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid, binding and perfected as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof. No instrument by which such pledge is created nor any financing statement need be recorded or filed. Subject to the provisions of the first paragraph under the caption "*Limitation on Revenues and Security Available for Payments After Certain Defaults; Priority of Payments After Default; Cancellation and Replacement of Certain Bonds"* in this Appendix F, each Series of Bonds shall be special obligations of the Authority payable solely from and secured by a pledge of the proceeds from the sale of such Series of Bonds, the Applicable Revenues, the Authority's security interest in the Applicable Pledged Revenues and the funds and accounts established by the Resolution and pursuant to the Applicable Series Resolution, which pledge shall constitute a first lien thereon, subject only, with respect to such Applicable Pledged Revenues, to the Prior Pledges.

(Section 5.01)

Establishment of Funds and Accounts

Unless otherwise provided by the Applicable Series Resolution, the following funds are authorized to be established and shall be held and maintained for each Series of Bonds by the Trustee separate and apart from any other funds and accounts established and maintained pursuant to any other Series Resolution:

Project Loan Fund;
Debt Service Fund; and
Arbitrage Rebate Fund.

In addition to the funds and accounts listed above, the Series 2014A Resolution establishes a Debt Service Reserve Fund to be held and maintained by the Trustee with respect to the Series 2014A Bonds.

Accounts and subaccounts within each of the foregoing funds may from time to time be established in accordance with an Applicable Series Resolution, an Applicable Bond Series Certificate or upon the direction of the Authority, including in the Project Loan Fund, separate Project Loan Accounts, and in the Debt Service Fund, separate Debt Service Accounts, in each case, for each Applicable Participant and Loan. All moneys at any time deposited in any fund, account or subaccount created and pledged by the Resolution or by a Series Resolution or required by the Resolution or thereby to be created shall be held in trust for the benefit of the Holders of the Applicable Series of Bonds, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes provided herein, unless otherwise provided in the Applicable Series Resolution.

All references in the Resolution to the Project Loan Fund, the Debt Service Fund, the Arbitrage Rebate Fund or the Debt Service Reserve Fund shall mean the particular Project Loan Fund, Debt Service Fund, Arbitrage Rebate Fund or Debt Service Reserve Fund designated and established by the Authority with respect to a particular Series of Bonds in the Applicable Series Resolution or in the Applicable Bond Series Certificate as authorized by the Resolution.

(Section 5.02 of the Resolution and Section 5.01 of the Series 2014A Resolution)

Application of Bond Proceeds and Allocation Thereof.

Upon the receipt of proceeds from the sale of a Series of Bonds, the Authority shall apply such proceeds as specified herein and in the Applicable Series Resolution or the Applicable Bond Series Certificate.

Accrued interest, if any, received upon the delivery of a Series of Bonds shall be deposited in the Applicable Debt Service Account in Debt Service Fund unless all or any portion of such amount is to be otherwise applied as specified in the Applicable Series Resolution or the Applicable Bond Series Certificate.

(Section 5.03)

Application of Moneys in the Project Loan Fund

The Authority shall apply moneys in each of the Project Loan Accounts established in the Project Loan Fund for the purpose of making Loans to the Participants in accordance with the Loan Agreements. Proceeds of each such Loan shall be held in a separate Project Loan Account established with respect to each Applicable Participant and shall be disbursed for the purposes as set forth in the Applicable Series Resolution, the Applicable Bond Series Certificate or Applicable Loan Agreement. The Allocable Portion of the Debt Service Reserve Fund Requirement, if any, and of the Costs of Issuance funded from proceeds of a Series of Bonds shall be accounted for separately for each Participant, and the total amount of the Loan to each Participant shall include such Allocable Portions. In addition, the Authority shall remit to the Trustee and the Trustee shall deposit in the Applicable Project Loan Account in the Project Loan Fund any moneys paid or instruments payable to the Authority derived from insurance proceeds or condemnation awards from any Applicable Project.

Except as otherwise provided in the Resolution and the Applicable Series Resolution or the Applicable Bond Series Certificate, moneys deposited in a Project Loan Account in the Project Loan Fund shall be used only to pay the Costs of Issuance of the Applicable Series of Bonds and the Costs of the Project or Projects with respect to which such Applicable Series of Bonds were issued.

Payments for Costs of a Project shall be made by the Trustee upon receipt of, and in accordance with, a certificate or certificates of the Authority stating the names of the payees, the purpose of each payment in terms sufficient for identification and the respective amounts of each such payment. Such certificate or certificates shall be substantiated by a certificate filed with the Authority signed by an Authorized Officer of the Applicable Participant, describing in reasonable detail the purpose for which moneys were used and the amount thereof, and further stating that such purpose constitutes a necessary part of the Costs of such Project except that payments to pay interest on an Applicable Series of Bonds shall be made by the Trustee upon receipt of, and in accordance with, the direction of an Authorized Officer of the Authority directing the Trustee to transfer such amount from the Applicable Project Loan Account in the Project Loan Fund to the Applicable Debt Service Account in the Debt Service Fund.

Any proceeds of insurance, condemnation or eminent domain awards received by the Trustee, the Authority or a Participant with respect to a particular Project or the Mortgaged Property shall be deposited in the Applicable Project Loan Account in the Project Loan Fund and, if necessary, such fund may be reestablished for such purpose and, if such proceeds are not used to repair, restore or replace such Project, transferred to the Applicable Debt Service Account of the Debt Service Fund for the redemption of the Applicable Series of Bonds or such portion thereof which corresponds to the Allocable Portion of the principal of and interest on the Loan made to fund such Project.

Each Project shall be deemed to be complete (a) upon delivery to the Authority and the Trustee of a certificate signed by an Authorized Officer of the Applicable Participant, which certificate shall be delivered as soon as practicable after the date of completion of such Project or (b) upon delivery to the Applicable Participant and the Trustee of a certificate of the Authority, which certificate may be delivered at any time after completion of such related Project. Each such certificate shall state that such Project has been completed substantially in accordance with the plans and specifications, if any, applicable to such Project and that such Project is ready for occupancy, and, in the case of a certificate of an Authorized Officer of such Applicable Participant, shall specify the date of completion.

Upon receipt by the Trustee of the certificate relating to the completion of a Project, the moneys, if any, then remaining in the Applicable Project Loan Account, after making provision in accordance with the direction of the Authority for the payment of the Allocable Portion of the Costs of Issuance of the Applicable Series of Bonds and Costs of a Project then unpaid with respect to the Applicable Loan, shall be paid by the Trustee as follows and in the following order of priority:

> FIRST: Upon the direction of the Authority, to the Arbitrage Rebate Fund, the amount set forth in such direction which shall be an amount equal to such Participant's Allocable Portion of Arbitrage Rebate due to the United States Federal Government with respect to such Loan and the Applicable Series of Bonds;
>
> SECOND: To the Debt Service Reserve Fund, if any, established in connection with the Applicable Series of Bonds, such amount as shall be necessary to make the amount on deposit in such Fund equal to such Participant's Allocable Portion of the Debt Service Reserve Fund Requirement established therefor; and
>
> THIRD: Any balance remaining, to the Applicable Debt Service Account in the Debt Service Fund for the redemption or purchase, in accordance with this Resolution and the Applicable Series Resolution or Applicable Bond Series Certificate, of the Bonds of the Applicable Series or any portion thereof which corresponds to such Participant's Allocable Portion of the principal and interest on such Bonds.

(Section 5.04)

Deposit of Revenues and Allocation Thereof.

The Revenues and any other moneys which, by the provisions of each of the Loan Agreements are required to be deposited in separate Debt Service Accounts established in the Debt Service Fund with respect to each Loan made to a Participant, shall be deposited to the credit of the Applicable Debt Service Account of the Debt Service Fund.

To the extent not required to pay an Applicable Participant's Allocable Portion with respect to its Loan of (a) the interest becoming due on the Outstanding Bonds of the Applicable Series on the next succeeding interest payment date of such Bonds; (b)(i) in the case of amounts deposited in the respective Debt Service Account during the period from the beginning of each Bond Year until December 31 thereof, the amount necessary to pay one-half (1/2) of the principal and Sinking Fund Installments becoming due on the Outstanding Bonds of the Applicable Series on the next succeeding July 1; and (ii) in the case of amounts deposited in the respective Debt Service Accounts after December 31 in a Bond Year and until the end of such Bond Year, the amount necessary to pay the principal and Sinking Fund Installments becoming due on the Outstanding Bonds of the Applicable Series on such July 1; and (c) moneys which are required or have been set aside for the redemption of Bonds of the Applicable Series, then moneys (other than Contribution Amounts) in each of the respective Debt Service Accounts of the Debt Service Fund shall, with respect to each Applicable Participant and Applicable Loan, be paid by the Trustee, on or before the Business Day preceding each interest payment date for the Applicable Series of Bonds, as follows and in the following order of priority:

> FIRST: To reimburse, *pro rata*, each Applicable Facility Provider which has issued a Reserve Fund Facility for moneys advanced thereunder relating to such Participant's Allocable Portion of the Debt Service Reserve Fund, if any, established with respect to such Applicable Series of Bonds, including interest thereon, in proportion to the respective amounts advanced by each such Facility Provider;
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> SECOND: To the Debt Service Reserve Fund, if any, (i) the amount, if any, necessary to make such Participant's Allocable Portion with respect to the Applicable Loan of the amount on deposit therein

equal to the Debt Service Reserve Fund Requirement established with respect to the Applicable Series of Bonds, and (ii) a portion of earnings accruing on amounts held in the Debt Service Fund as the Authority shall determine to be necessary together with other amounts and investments held in the Debt Service Reserve Fund to amortize the portion of the Applicable Series of Bonds, the proceeds of which have been credited to the Debt Service Reserve Fund; and

THIRD: To the Authority, unless otherwise paid, such amounts as are payable to the Authority relating to such Participant's Allocable Portion with respect to the Applicable Loan of: (i) expenditures of the Authority for fees and expenses of auditing, and fees and expenses of the Trustee and Applicable Paying Agent, all as required hereby, (ii) all other expenditures reasonably and necessarily incurred by the Authority in connection with the financing of the particular Project relating to such Loan, including expenses incurred by the Authority to compel full and punctual performance of all the provisions of the Applicable Loan Agreement or Mortgage in accordance with the terms thereof, and (iii) the Annual Administrative Fee of the Authority; but only upon receipt by the Trustee of a certificate of the Authority, stating in reasonable detail the amounts payable to the Authority pursuant to this paragraph THIRD.

After making the above required payments with respect to each Applicable Participant and Applicable Loan, any balance remaining in each of the respective Debt Service Accounts (except for Contribution Amounts which shall remain in such accounts) on the immediately succeeding July 1 shall be paid by the Trustee upon and in accordance with the direction of the Authority to the Applicable Participants in the respective amounts set forth in such direction, free and clear of any pledge, lien, encumbrance or security interest created hereby or by the Applicable Loan Agreements. The Trustee shall notify the Authority and such Participants promptly after making the payments required above of any balance remaining in the Debt Service Fund on the immediately succeeding July 1.

Notwithstanding the above provisions under this caption "*Deposit of Revenues and Allocation Thereof*" or of the provisions under the caption "*Debt Service Fund*" below in this Appendix F, the Authority may, at any time subsequent to July 1 of any Bond Year but in no event less than forty-five (45) days prior to the succeeding July 1 on which a Sinking Fund Installment is scheduled to be due, direct the Trustee to purchase, with moneys on deposit in the Debt Service Fund, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Term Bonds of an Applicable Series to be redeemed from such Sinking Fund Installment. Any such Term Bond so purchased and any Term Bonds purchased by any Applicable Participant and delivered to the Trustee in accordance with any Loan Agreement shall be cancelled upon receipt thereof by the Trustee and evidence of such cancellation shall be given to the Authority. The principal amount of such Term Bond so cancelled shall be credited against the principal payment due on the Applicable Loan with respect to such Sinking Fund Installment on such first day of July; provided that such Term Bond is cancelled by the Trustee prior to the date on which notice of redemption is given.

(Section 5.05)

Debt Service Fund

(a) The Trustee shall on or before the Business Day preceding each interest payment date for Bonds of an Applicable Series pay, from each of the respective Debt Service Accounts of the Debt Service Fund, to itself and any other Paying Agent for the benefit of the Bondholders:

(i) the interest due on all Outstanding Bonds of an Applicable Series on such interest payment date;

(ii) the principal amount due on all Outstanding Bonds of an Applicable Series on such interest payment date;

(iii) the Sinking Fund Installments, if any, due on all Outstanding Bonds of an Applicable Series on such interest payment date; and

(iv) moneys required for the redemption of Bonds of an Applicable Series in accordance with the Resolution.

The amounts paid out pursuant to the provisions of the Resolution summarized herein shall be irrevocably pledged to and applied to such payments. Contribution Amounts with respect to an Applicable Participant and Applicable Loan shall be applied only to the payment of such Participant's Allocable Portion of the principal and Sinking Fund Installments due on Outstanding Bonds of an Applicable Series pursuant to subdivision (ii), (iii) and (iv) above.

(Section 5.06)

Application of Moneys in the Debt Service Fund for Redemption of Bonds.

Moneys delivered to the Trustee, which by the provisions of the Applicable Loan Agreement, the Applicable Series Resolution or the Resolution are to be applied to the redemption of a Participant's Allocable Portion of a Series of Bonds, shall upon receipt by the Trustee be deposited to the credit of the Applicable Debt Service Account in the Debt Service Fund for such purpose.

In accordance with the Resolution, in the event that on any interest payment date the amount in any Debt Service Account of the Debt Service Fund, exclusive of amounts therein deposited for the redemption of the Applicable Series of Bonds, shall be less than the amounts respectively required for payment of an Applicable Participant's Allocable Portion of interest on such Outstanding Bonds, for the payment of an Applicable Participant's Allocable Portion of principal of such Outstanding Bonds or for the payment of Sinking Fund Installments of such Outstanding Bonds due and payable on such interest payment date, the Trustee shall apply moneys in the Applicable Debt Service Account of the Debt Service Fund deposited therein for the redemption of such Bonds (other than moneys required to pay the Redemption Price of any such Outstanding Bonds theretofore called for redemption or to pay the purchase price of such Outstanding Bonds theretofore contracted to be purchased, including in both cases accrued interest on such Bonds to the date of redemption or purchase) *first*, to the payment of interest on such Bonds, and, *second*, to the payment of the principal or Sinking Fund Installments of such Bonds, respectively.

Subject to the provisions of the preceding paragraph, moneys in the Debt Service Fund to be used for redemption of Bonds of an Applicable Series shall be applied by the Trustee to the purchase of such Outstanding Bonds at purchase prices not exceeding the Redemption Price applicable on the next interest payment date on which such Bonds are redeemable, plus accrued interest to such date, at such times, at such purchase prices and in such manner as the Authority shall direct.

Notwithstanding the provisions of the preceding paragraph, if the amount in a Debt Service Account (other than moneys on deposit therein required to pay the Applicable Participant's Allocable Portion of the Redemption Price of any Outstanding Bonds of the Applicable Series theretofore called for redemption or to pay such Applicable Participant's Allocable Portion of the purchase price of such Outstanding Bonds theretofore contracted to be purchased, including in both cases accrued interest on such Bonds to the date of redemption or purchase) shall at any time be sufficient to make provision for the payment of the Allocable Portion of the Outstanding Bonds of an Applicable Series relating to such Applicable Participant's Loan at the maturity or redemption date thereof, the Authority may request the Trustee to take such action as is required by the Resolution to deem certain of such Bonds or portions thereof to have been paid within the meaning of the Resolution. The Trustee, upon receipt of such request, the irrevocable instructions required by the Resolution and irrevocable instructions of the Authority to purchase Defeasance Obligations sufficient to make any deposit required thereby, shall comply with such request.

(Section 5.07)

Debt Service Reserve Fund

(a) The Debt Service Reserve Fund shall be maintained at an amount equal to the Debt Service Reserve Fund Requirement established therefor in the Bond Series Certificate. The Trustee shall deposit to the credit of each account established in the Debt Service Reserve Fund such proceeds of the sale of the Series 2014A Bonds or Permitted Investments in an amount sufficient to satisfy each Applicable Series 2014A Participant's Allocable Portion of the Debt Service Reserve Fund Requirement as set forth in the Applicable Bond Series Certificate. An Applicable Series 2014A Participant's Allocable Portion of a Debt Service Reserve Fund, together with any interest thereon, shall be replenished in accordance with the Applicable Loan Agreement following application thereof pursuant to paragraph (b) below.

In lieu of or in substitution for moneys or Permitted Investments otherwise required to be deposited in the Debt Service Reserve Fund, the Authority may deposit or cause to be deposited with the Trustee a Reserve Fund Facility for the benefit of the Holders of the Series 2014A Bonds for all or any part of the Debt Service Reserve Fund Requirement or any Applicable Series 2014A Participant's Allocable Portion thereof; provided that if such Reserve Fund Facility consists of a surety bond or insurance policy, any such Reserve Fund Facility shall be issued by an insurance company or association duly authorized to do business in the State (i) the claims paying ability of which is rated the highest rating accorded by a nationally recognized insurance rating agency or (ii) obligations supported by a Reserve Fund Facility issued by such company or association are rated at the time such Reserve Fund Facility is delivered, without regard to qualification of such rating by symbols such as "+" or "-" or numerical notation, in the highest rating category by Moody's and S&P or, if Outstanding Bonds of a Series are not rated by Moody's and S&P by whichever of said rating services that then rates Outstanding Bonds; and provided, further, that if the Reserve Fund Facility consists of a Letter of Credit, such Letter of Credit shall be issued by a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provision of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provision of law or a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, the unsecured or uncollateralized long term debt obligations of which, or long term obligations secured or supported by a Letter of Credit issued by such person, are rated at the time such Letter of Credit is delivered, without regard to qualification of such rating by symbols such as "+" or "-" or numerical notation, in at least the second highest rating category by Moody's and S&P or, if the Outstanding Series 2014A are not rated by Moody's and S&P by whichever of said rating services that then rates the Outstanding Series 2014A Bonds..

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

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

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

Except as otherwise provided in the Resolutions, moneys and investments held for the credit of the Debt Service Reserve Fund in excess of the Debt Service Reserve Fund Requirement shall be transferred to the Applicable Debt Service Account of the Debt Service Fund and applied in accordance with the Resolution.

If, upon a valuation, the value of all moneys, Permitted Investments and Reserve Fund Facilities held for the credit of an Applicable Series 2014A Participant's Allocable Portion of a Debt Service Reserve Fund is less than such Applicable Series 2014A Participant's Allocable Portion of the Debt Service Reserve Fund Requirement, the Trustee shall immediately notify the Authority, each Applicable Facility Provider and the Applicable Series 2014A Participant of such deficiency. Such Applicable Series 2014A Participant shall, as soon as practicable, but in no event later than five (5) days after receipt of such notice, deliver to the Trustee money or Permitted Investments the value of which is sufficient to increase the Applicable Series 2014A Participant's Allocable Portion of the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement.

(b) In the event that on the fourth (4th) Business Day preceding any interest payment date the amount on deposit in an Applicable Debt Service Account of a Debt Service Fund shall be insufficient to pay the Applicable Series 2014A Participant's Allocable Portion of, respectively, interest on the Outstanding Series 2014A Bonds, principal of such Outstanding Bonds, Sinking Fund Installments of such Outstanding Bonds due and payable on such interest payment date or the purchase price or Redemption Price of such Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, the Trustee shall transfer funds from the Applicable Debt Service Reserve Account of the Debt Service Reserve Fund to the Applicable Debt Service Account of the Debt Service Fund in such amounts as shall be necessary to provide for such payments. The Trustee shall notify each Applicable Facility Provider, if any, of any withdrawal from the Debt Service Reserve Fund.

A Series 2014A Participant's Allocable Portion of the Debt Service Reserve Fund shall also be applied to the extraordinary mandatory redemption of the Allocable Portion of the Series 2014A Bonds upon the acceleration of such Series 2014A Participant's Loan pursuant to the Applicable Loan Agreement.

Upon the exercise by a Series 2014A Participant of its option to prepay its Loan under the Applicable Loan Agreement and upon final maturity of a Participant's Allocable Portion of the Series 2014A Bonds, the Trustee shall transfer such Applicable Participant's Allocable Portion of the Debt Service Reserve Fund to the Applicable Debt Service Account of the Debt Service Fund for application to payment of the portion of principal of and interest on the Applicable Subseries of Series 2014A Bonds which (i) which correspond to the principal of and interest on the Loan so prepaid or (ii) so maturing.

(c) The Trustee, as promptly as practicable (i) after the end of each calendar month, (ii) upon the request of the Authority, (iii) upon the request of a Series 2014A Participant, but not more frequently than once a calendar month, and (iv) at such other times as may be necessary in connection with a withdrawal and deposit made pursuant to the Series 2014A Resolution or the Resolution, shall compute the value of the assets in the Debt Service Reserve Fund, in the case of the requirement under (i) above, on the last day of each such month, in the case of a request pursuant to (ii) or (iii) above, at the date of such request, or, in the case of a withdrawal and deposit, at the date of such withdrawal and deposit, and notify the Authority and such Series 2014A Participant as to the results of such computation and the amount by which the value of the assets in the Debt Service Reserve Fund exceeds or is less than the Debt Service Reserve Fund Requirement.

(Sections 5.03, 5.04 and 5.05 of the Series 2014A Resolution)

Arbitrage Rebate Fund

The Trustee shall deposit to the Applicable Account in the Arbitrage Rebate Fund any moneys delivered to it by each of the Applicable Participants for deposit therein and, notwithstanding any other provisions of the Resolution, shall transfer to the Arbitrage Rebate Fund, in accordance with the directions of the Authority, moneys on deposit in any other funds held by such Trustee under the Resolution at such times and in such amounts as shall be set forth in such directions.

Moneys on deposit in the Arbitrage Rebate Fund shall be applied by the Trustee in accordance with the direction of the Authority to make payments to the Department of the Treasury of the United States of America at such times and in such amounts as the Authority shall determine to be required by the Code to be rebated to the Department of the Treasury of the United States of America. Moneys which the Authority determines to be in excess of the amount required to be so rebated shall be deposited to the Debt Service Fund in accordance with the directions of the Authority..

If and to the extent required by the Code, the Authority shall periodically, at such times as may be required to comply with the Code, determine the amount of Excess Earnings with respect to an Applicable Series of Bonds and direct the Trustee to (i) transfer from the Applicable Account of any other of the funds held by the Trustee under and deposit to the Arbitrage Rebate Fund, all or a portion of the Excess Earnings with respect to such Series of Bonds and (ii) pay out of the Arbitrage Rebate Fund to the Department of the Treasury of the United States or America the amount, if any, required by the Code to be rebated thereto.

(Section 5.08)

Application of Moneys in Certain Funds for Retirement of Bonds

Notwithstanding any other provisions of the Resolution, if, upon the computation of assets in the Applicable Debt Service Account of the Debt Service Fund, the Applicable Project Loan Account of the Project Loan Fund and of an Applicable Participant's Allocable Portion of the Debt Service Reserve Fund, if applicable, the amounts held therein are sufficient to pay the principal or Redemption Price of a Participant's Allocable Portion of all Outstanding Bonds of the Applicable Series and the interest accrued and to accrue on such Bonds to the next date of redemption when all such Bonds shall be redeemable, the Trustee shall so notify the Authority and the Applicable Participant. Upon receipt of such notice, the Authority may request the Trustee to redeem Outstanding Bonds of the Applicable Series in an amount which corresponds to such Participant's Allocable Portion thereof. The Trustee shall, upon receipt of such request in writing by the Authority, proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds hereby and by the Applicable Series Resolution as provided in Article IV hereof.

(Section 5.09)

Security for Deposits

All moneys held under the Resolution by the Trustee shall be continuously and fully secured, for the benefit of the Authority and the Holders of a Series of Bonds, by direct obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America of a market value equal at all times to the amount of the deposit so held by the Trustee; *provided, however*, (a) that if the securing of such moneys is not permitted by applicable law, then in such other manner as may then be required or permitted by applicable State or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds, and (b) that it shall not be necessary for the Trustee or any Paying Agent to give security for the deposit of any moneys with it or them pursuant to the Resolution and held in trust for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of or interest on a Series of Bonds, or for the Trustee to give security for any moneys which shall be represented by obligations purchased or other investments made under the provisions hereof as an investment of such moneys.

(Section 6.01)

Investment of Funds and Accounts

(a) Money held under the Resolution by the Trustee, and, if there is an Event of Default, under an Applicable Loan Agreement, if permitted by law, shall, as nearly as may be practicable, be invested by the Trustee, upon direction of the Authority given or confirmed in writing (which direction shall specify the amount thereof to be so invested), in Government Obligations, Federal Agency Obligations or Exempt Obligations; *provided, however*, that each such investment shall permit the money so deposited or invested to be available for use at the times at which the Authority reasonably believes such money will be required for the purposes hereof.

(b) Except as may be otherwise provided in a Series Resolution, in lieu of the investment of moneys in obligations authorized in paragraph (a) above, the Trustee shall, to the extent permitted by law, upon direction of the Authority given or confirmed in writing, invest moneys in the Project Loan Fund and the Debt Service Reserve Fund, if applicable, and any account held therein in any Permitted Investment; *provided, however,* that each such investment shall permit the money so deposited or invested to be available for use at the times at which the Authority reasonably believes such money will be required for the purposes hereof, *provided, further*, that (a) any Permitted Collateral required to secure any Permitted Investment shall have a market value, determined by the Trustee or its agent periodically, but no less frequently than weekly, at least equal to the amount deposited or invested including interest accrued thereon, (b) the Permitted Collateral shall be deposited with and held by the Trustee or an agent of the Trustee approved by an Authorized Officer of the Authority, and (c) the Permitted Collateral shall be free and clear of claims of any other person.

(c) Permitted Investments purchased as an investment of money in any fund or account held by the Trustee under the provisions of the Resolution shall be deemed at all times to be a part of such fund or account and the income or interest earned, profits realized or losses suffered by a fund or account due to the investment thereof shall be retained in, credited or charged, as the case may be, to such fund or account.

(d) Except as may otherwise be provided in a Series Resolution, in computing the amount in any fund or account held by the Trustee under the provisions of the Resolution, each Permitted Investment shall be valued at par or the market value thereof, plus accrued interest, whichever is lower, except that investments held in the Debt Service Reserve Fund, if any, shall be valued at par or the cost thereof, plus accrued interest, whichever is lower.

(e) Notwithstanding anything in the Resolution to the contrary, the Authority, in its discretion, may direct the Trustee to, and the Trustee shall, sell, present for redemption or exchange any investment held by the Trustee pursuant the Resolution and the proceeds thereof may be reinvested as provided in the Resolution summarized herein. Except as otherwise provided in the Resolution, the Trustee shall sell at the best price obtainable, or present for redemption or exchange, any investment held by it pursuant to the Resolution whenever it shall be necessary in order to provide money to meet any payment or transfer from the fund or account in which such investment is held. The Trustee shall advise the Authority and the Applicable Participants in writing, on or before the fifteenth (15th) day of each calendar month, of the amounts required to be on deposit in each fund and account hereunder and of the details of all investments held for the credit of each fund and account in its custody under the provisions of the Resolution as of the end of the preceding month and as to whether such investments comply with the provisions of paragraphs (a), (b) and (c) above. The details of such investments shall include the par value, if any, the cost and the current market value of such investments as of the end of the preceding month. The Trustee shall also describe all withdrawals, substitutions and other transactions occurring in each such fund and account in the previous month.

(f) Except with respect to Bonds the interest on which was intended to be included in gross income under Section 103 of the Code, no part of the proceeds of a Series of Bonds or any other funds or accounts of the Authority shall be used directly or indirectly to acquire any securities or investments the acquisition of which would cause any Bond to be an "arbitrage bond" within the meaning of Section 148(a) of the Code.

(Section 6.02)

Creation of Liens

Except as may otherwise be provided in the Resolution or in an Applicable Series Resolution, the Authority shall not create or cause to be created any lien or charge prior or equal to that of the Bonds of a Series on the proceeds from the sale of such Series of Bonds, the Revenues pledged for such Series of Bonds, the rights of the Authority to receive payments to be made under the Applicable Loan Agreement that are to be deposited with the Trustee, the Applicable Pledged Revenues (subject to Prior Pledges) or the funds and accounts established by the Resolution and pursuant to the Applicable Series Resolution which are pledged by the Resolution; *provided, however*, that nothing contained in the Resolution shall prevent the Authority from issuing bonds, notes or other obligations under other and separate resolutions so long as the charge or lien created by such resolution is not prior or equal to the charge or lien created by the Resolution.

(Section 7.06)

Enforcement of Duties and Obligations of the Participants

The Authority shall take all legally available action to cause each of the Participants to perform fully all duties and acts and comply fully with the covenants of such Participant required by the respective Loan Agreements in the manner and at the times provided in such Loan Agreements; *provided, however*, that the Authority may delay, defer or waive enforcement of one or more provisions of said Loan Agreements (other than provisions requiring the payment of moneys or the delivery of securities to the Trustee for deposit to any fund or account established under the Resolutions) if the Authority determines such delay, deferment or waiver will not materially adversely affect the interests of the Holders of the Bonds of a Series.

(Section 7.07)

Amendment of Loan Agreements

A Loan Agreement may not be amended, changed, modified, altered or terminated nor may any provision thereof be waived if any such amendment, change, modification, alteration, termination or waiver would adversely affect the interest of the Holders of Outstanding Bonds of the Applicable Series in any material respect without the prior written consent of the Holders of at least a majority in aggregate principal amount of the Bonds of such Applicable Series then Outstanding; *provided, however,* that if such modification or amendment will, by its terms, not take effect so long as any Bonds of the Applicable Series remain Outstanding the consent of the Holders of such Bonds shall not be required; and *provided, further*, that no such amendment, change, modification, alteration, or termination will reduce the percentage of the aggregate principal amount of Outstanding Bonds of a Series the consent of the Holders of which is a requirement for any such amendment, change, modification, alteration or termination, or decrease the amount of any payment required to be made by the Applicable Participant under such Loan Agreement that is to be deposited with the Trustee or extend the time of payment thereof. Any consent given pursuant to this paragraph by the Holders of Bonds shall, except as otherwise provided in the paragraphs summarized herein, be given in the same manner required by for amendments to the Resolution.

Except as otherwise provided in under this heading "*Amendment of Loan Agreements,*" a Loan Agreement may be amended, changed, modified or altered without the consent of the Holders of Outstanding Bonds of the Applicable Series or the Trustee. Specifically, and without limiting the generality of the foregoing, a Loan Agreement may be amended, changed, modified or altered without the consent of the Trustee and the Holders of Outstanding Bonds of the Applicable Series (i) to provide changes in connection with the acquisition, construction, reconstruction, rehabilitation, renovation and improvement or otherwise, the providing, furnishing and equipping of any facilities constituting a part of a Project or which may be added to such Project or the issuance of Bonds, or (ii) with the consent of the Trustee, to cure any ambiguity, or to correct or supplement any provisions contained in any Loan Agreement, which may be defective or inconsistent with any other provisions contained in the Resolution or in such Loan Agreement. Upon execution by the Authority of any amendment, a copy thereof certified by the Authority shall be filed with the Trustee.

For the purposes of this section entitled "*Amendment of Loan Agreements,*" Outstanding Bonds of the Applicable Series shall be deemed to be adversely affected by an amendment, change, modification or alteration of the Applicable Loan Agreement if the same adversely affects or diminishes the rights of the Holders of such Bonds. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Bonds of the Applicable Series would be adversely affected by any amendment, change, modification or alteration, and any such determination shall be binding and conclusive on the Authority and all Holders of such Bonds. For all purposes of this section entitled "*Amendment of Loan Agreements,*" the Trustee shall be entitled to rely upon an opinion of counsel, which counsel shall be satisfactory to the Trustee with respect to whether any amendment, change, modification or alteration adversely affects the interests of any Holders of Bonds of the Applicable Series then Outstanding.

(Section 7.11)

Modification and Amendment without Consent

Notwithstanding any other provisions of the Resolution, the Authority may adopt at any time or from time to time a Supplemental Resolution for any one or more of the following purposes, and any such Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority:

(a) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds of Series, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution or in the Applicable Series Resolution;

(b) To prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(c) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Resolution, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

(d) To confirm, as further assurance, any pledge under, and the subjection to any lien, claim or pledge created or to be created by the provisions of, the Resolution, or any Series Resolution, the Revenues, or any pledge of any other moneys, securities or funds;

(e) To modify any of the provisions of the Resolution or of any previously adopted Series Resolution or Supplemental Resolution in any other respects, provided that such modifications shall not be effective until after all Bonds of an Applicable Series Outstanding as of the date of adoption of such Supplemental Resolution and affected thereby shall cease to be Outstanding, and all Bonds of such Series issued under such resolutions shall contain a specific reference to the modifications contained in such subsequent resolutions; or

(f) With the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision in the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable, provided that any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect, or to modify any of the provisions of the Resolution or of any previously adopted Series Resolution or Supplemental Resolution in any other respect, provided that such modification shall not adversely affect the interests of the Holders of Bonds of a Series in any material respect.

(Section 9.01)

Supplemental Resolutions Effective With Consent

The provisions of the Resolution and of a Series Resolution may also be modified or amended at any time or from time to time by a Supplemental Resolution, subject to the consent of the Holders of the affected Series of Bonds in accordance with and subject to the provisions of the Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority.

(Section 9.02)

Powers of Amendment

Any modification or amendment of the Resolution or of any Series Resolution that modifies or amends the rights and obligations of the Authority and the Holders of the Bonds of a Series under the Resolution, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in the Resolution and summarized in the following paragraph, (i) of the Holders of at least a majority in principal amount of the Bonds Outstanding of such Series affected thereby at the time such consent is given, or (ii) in case the modification or amendment changes the amount or date of any Sinking Fund Installment, of the Holders of at least a majority in principal amount of the Bonds of the Series, maturity and interest rate entitled to such Sinking Fund Installment, Outstanding at the time such consent is given; *provided, however*, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of the Applicable Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this paragraph. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond of a Series or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds of a Series the consent of the Holders of which is required to effect any such modification or amendment. For the purposes of the Resolution summarized in this paragraph, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, the Bonds of a particular Series or maturity would be affected by any modification or amendment of the Resolution and any such determination shall be binding and conclusive on the Authority and all Holders of the Bonds of such Series. The Trustee may receive an opinion of counsel, including an opinion of Bond Counsel, as conclusive evidence as to whether the Bonds of a particular Series or maturity would be so affected by any such modification or amendment of the Resolution.

(Section 10.01)

Consent of Bondholders

The Authority may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of the Resolution summarized in the preceding paragraph to take effect when and as provided in the Resolution. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the Trustee) together with a request to the Holders of the Series of Bonds affected thereby for their consent thereto in form satisfactory to the Trustee, shall promptly after adoption be mailed or caused to be mailed by the Trustee at the direction of the Authority to such Bondholders (but failure to mail such copy to any particular Bondholder shall not affect the validity of such Supplemental Resolution when consented to as provided in the Resolution). Such Supplemental Resolution shall not be effective unless and until (i) there shall have been filed with the Trustee (a) the written consent of the Holders of the percentages of Outstanding Bonds of the Series specified in the provisions of the Resolution and (b) an opinion of Bond Counsel stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the Authority in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the Authority and enforceable in accordance with its terms, and (ii) a notice shall have been mailed as provided in the Resolution. Each such consent shall be effective only if accompanied by proof of the holding or owning at the date of such consent of the Bonds of a Series with respect to which such consent is given, which proof shall be such as is permitted by the Resolution. A certificate or certificates by the Trustee filed with the Authority that it has examined such proof and that such proof is sufficient in accordance with the Resolution shall be conclusive proof that the consents have been given by the Holders of the Bonds of a Series described in the certificate or certificates of the Trustee. Any consent given by and a Holder of Bonds of a Series shall be binding upon such Holder giving such consent and, anything in the Resolution hereof to the contrary notwithstanding, upon any such subsequent Holder of such Bond and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by such Bondholder giving such consent or such subsequent Holder thereof by filing such revocation with the Trustee, prior to the time when the written statement of the Trustee provided for in the Resolution is filed. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Authority to the effect that no revocation thereof is on file with the Trustee. At any time after such Holders of the required percentages of Bonds shall have filed their consents to such Supplemental Resolution, the Trustee shall make and file with the Authority a written statement that such Holders have filed such consents. Such written statement shall be conclusive evidence that such consents have been so filed. At any time thereafter notice, stating in substance that such Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by the Authority on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Bonds of the Applicable Series and will be effective as provided in the Resolution, shall be given to such Bondholders by the Trustee at the direction of the Authority by mailing or causing the mailing of such notice to the Bondholders (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding) and, in the sole discretion of the Authority, by publishing the same at least once not more than ninety (90) days after the Holders of the required percentages of such Bonds shall have filed their consents to such Supplemental Resolution and the written statement of the Trustee provided for in the Resolution is filed (but failure to publish such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in the Resolution). If such notice is published, the Trustee shall file with the Authority proof of the publication thereof, and, if the same shall have been mailed to the Holders of such Bonds, of the mailing thereof. A transcript, consisting of the papers required or permitted by the Resolution to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the Authority, the Trustee, the Applicable Paying Agent, the Holders of such Series of Bonds upon the filing with the Trustee of proof of the mailing of such notice or at the expiration of thirty (30) days after the filing with the Trustee of the proof of the first publication of such last mentioned notice, if such notice is published, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such thirty (30) day period; *provided, however*, that the Authority, the Trustee and the Applicable Paying Agent during such thirty (30) day period and any such further period during which any such action or proceeding may be pending shall be entitled in their reasonable discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

For the purposes of these provisions of the Resolution, the purchasers of the Bonds of a Series, whether purchasing as underwriters or remarketing agent for resale or otherwise, upon such purchase, may consent to a modification or amendment permitted by the Resolution in the manner provided in the Resolution, except that no proof of ownership shall be required, and with the same effect as a consent given by the Holder of such Bonds; *provided, however*, that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the modification or amendment and the provisions for the purchaser consenting thereto shall be described in the official statement, prospectus, offering memorandum or other offering document prepared in connection with the primary offering of the Bonds of such Series.

(Section 10.02)

Events of Default

An event of default shall exist under the Resolution and under a Series Resolution (referred to in the Resolution as an "Event of Default") if:

(a) with respect to a Series of Bonds, payment of (i) an installment of interest on any Bond shall not be made by the Authority when the same shall become due and payable; or (ii) the principal, Sinking Fund Installments or Redemption Price of any Bond shall not be made by the Authority when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; *provided, however,* if the failure to make any such payment is caused by a failure of an Applicable Participant to timely pay its Allocable Portion of the principal, Sinking Fund Installments or Redemption Price of or interest on the Bonds pursuant to the terms of the Allocable Loan Agreement, then it shall be an event of default under the Resolution only with respect to the Defaulted Allocable Portion of such Series of Bonds Outstanding, as identified by the Trustee using the method for selection of Bonds upon an extraordinary mandatory redemption thereof set forth in the Resolution; or

(b) with respect to a Series of Bonds, the Authority shall default in the due and punctual performance of its tax covenants contained in the Resolutions with the result that the interest on the a result thereof, the interest on the Bonds of such Series shall no longer be excludable from gross income under Section 103 of the Code; or

(c) with respect to a Series of Bonds, the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions for the benefit of the Holders of such Bonds contained in the Resolution or in the Bonds of such Series or in the Applicable Series Resolution on the part of the Authority to be performed and such default shall continue for thirty

(30) days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of such Series, or if such default is not capable of being cured within thirty (30) days, if the Authority fails to commence within said thirty (30) days and diligently prosecute the cure thereof; or

(d) with respect to a Series of Bonds, an "Event or Default" (as defined in each Loan Agreement), shall have occurred and is continuing under an Applicable Loan Agreement and all sums payable by the Applicable Participant under the Applicable Loan shall have been declared to be immediately due and payable, which declaration shall not have been annulled; *provided, however*, that such "Event of Default" under an Applicable Loan Agreement shall constitute an event of default under the Resolution only with respect to the Defaulted Allocable Portion of such Series of Bonds Outstanding, as identified by the Trustee using the method for selection of Bonds upon an extraordinary mandatory redemption thereof set forth in the Resolution.

An event of default under the Resolution in respect of a Series of Bonds shall not in and of itself be or constitute an event of default in respect of any other Series of Bonds.

An event of default shall not be deemed to have occurred pursuant to paragraph (a) under the caption "*Events of Default*" above solely as a result of (i) payments made to Bondholders from draws under a Reserve Fund Facility, which draws remain unreimbursed, or (ii) payments made to Bondholders of less than all of the principal of and interest on the Defaulted Allocable Portion of the Outstanding Bonds of an Applicable Series following (A) an acceleration of such Defaulted Allocable Portion of the Applicable Series of Bonds pursuant to the Resolution or (B) the extraordinary mandatory redemption of such Defaulted Allocable Portion of the Applicable Series of Bonds pursuant to the Resolution, and, in each case, the application by the Trustee of all funds available for the payment thereof pursuant to the provisions summarized below under the caption *"Limitation on Revenues and Security Available for Payments After Certain Defaults; Priority of Payments After Default; Cancellation and Replacement of Certain Bonds."*

(Section 11.02)

Acceleration of Maturity

Upon the happening and continuance of any event of default specified in the Resolution, other than an event of default specified in paragraph (a) under the caption "Events of Default" above resulting from an Applicable Participant's failure to timely pay its Allocable Portion of the Bonds of the Applicable Series pursuant to the Applicable Loan Agreement, or an event of default specified in paragraphs (b) or (d) under the caption "Events of Default" above, then and in every such case the Trustee shall, upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Applicable Series, by a notice in writing to the Authority, declare the principal of and interest on the Outstanding Bonds of such Applicable Series to be due and payable immediately. At the expiration of thirty (30) days after notice of such declaration has been given, such principal and interest shall become and be immediately due and payable, anything in the Resolution or in the Applicable Series Resolution or in the Bonds of such Applicable Series to the contrary notwithstanding. At any time after the principal of the Bonds of such Applicable Series shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Resolution, the Trustee may, with the written consent of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Applicable Series, by written notice to the Authority, annul such declaration and its consequences if: (i) moneys shall have accumulated in the Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Outstanding Bonds of such Applicable Series (except the interest accrued on such Bonds since the last interest payment date); (ii) moneys shall have accumulated and be available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and Applicable Paying Agent incurred in connection with such Applicable Series of Bonds; (iii) all other amounts then payable by the Authority under the Resolution in connection with such Applicable Series of Bonds and under the Applicable Series Resolution shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and

(iv) every other default known to the Trustee in the observance or performance of such covenant, condition or agreement contained in the Resolution or in the Applicable Series Resolution or in such Bonds (other than a default in the payment of the principal of such Bonds then due only because of a declaration made under the provisions summarized in this paragraph) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

Upon the happening and continuance of an event of default specified in paragraph (a) under the caption "Events of Default" above resulting from a failure of an Applicable Participant to timely pay its Allocable Portion of the Bonds of the Applicable Series pursuant to the Applicable Loan Agreement, or upon the happening and continuance of an event of default specified in paragraph (d) under the caption "Events of Default" above, then and in every such case the Trustee shall, upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Defaulted Allocable Portion of the Outstanding Bonds of the Applicable Series, by a notice in writing to the Authority, declare the principal of and interest on the Defaulted Allocable Portion of the Outstanding Bonds of such Applicable Series to be due and payable immediately. At the expiration of thirty (30) days after notice of such declaration has been given, such principal and interest shall become and be immediately due and payable, anything in the Resolution or in the Applicable Series Resolution or in the Bonds of such Applicable Series to the contrary notwithstanding. At any time after the Defaulted Allocable Portion of the principal of the Bonds of such Applicable Series shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Resolution, the Trustee may, with the written consent of the Holders of not less than twenty-five per centum (25%) in principal amount of the Defaulted Allocable Portion of the Outstanding Bonds of the Applicable Series, by written notice to the Authority, annul such declaration and its consequences if: (i) moneys shall have accumulated in the Applicable Debt Service Account or Accounts of the Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Defaulted Allocable Portion of the Outstanding Bonds of such Applicable Series (except the interest accrued on such Bonds since the last interest payment date); (ii) moneys shall have accumulated and be available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and Applicable Paying Agent incurred in connection with such Defaulted Allocable Portion of such Applicable Series of Bonds; (iii) all other amounts then payable by the Authority under the Resolution in connection with such Defaulted Allocable Portion of the Applicable Series of Bonds and under the Applicable Series Resolution shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of such covenant, condition or agreement contained in the Resolution or in the Applicable Series Resolution or in such Bonds (other than a default in the payment of the principal of such Bonds then due only because of a declaration made under the provisions summarized in this paragraph) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

(Section 11.03)

Enforcement of Remedies

Upon the happening and continuance of any event of default specified in the Resolution, then and in every such case, the Trustee may proceed, and (i) upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of an Applicable Series, or principal amount of the Defaulted Allocable Portion of the Outstanding Bonds of an Applicable Series, as applicable, or (ii) in the case of an event of default specified in paragraph (b) under the caption "*Events of Defaults*" above, upon the written request of the Holders of not less than a majority in principal amount of the Outstanding Bonds of an Applicable Series affected thereby, the Trustee shall proceed (subject to the provisions of the Resolution), to protect and enforce its rights and the rights of the Holders of Bonds of such Applicable Series under the Resolution or under the Applicable Series Resolution or under the laws of the State by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the Resolution or under such Applicable Series Resolution or in aid or execution of any power in the Resolution or in the Applicable Series Resolution granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce such rights, including the foreclosure of any Applicable Mortgage assigned to the Trustee pursuant to the provisions of the Resolution summarized herein.

In the enforcement of any remedy under the Resolution and under an Applicable Series Resolution, the Trustee shall be entitled to sue for, enforce payment of, and receive any and all amounts then, or during any default becoming, and at any time remaining, due from the Authority for principal or interest or otherwise under any of the provisions of the Resolution or of an Applicable Series Resolution or of an Applicable Series of Bonds, with interest or overdue payment of the principal of and interest on such Bonds at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under the Resolution and under any Applicable Series Resolution and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders of such Bonds, and to recover and enforce judgment or decree against the Authority but solely as provided in the Resolution, in the Applicable Series Resolution and in such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in the manner provided by law, the moneys adjudged or decreed to be payable.

(Section 11.04)

Limitation on Revenues and Security Available for Payments After Certain Defaults; Priority of Payments After Default; Cancellation and Replacement of Certain Bonds

(a) Notwithstanding any provision of the Resolution to the contrary, upon the happening and continuance of an event of default specified in paragraph (a) under the caption "*Events of Defaults*" above resulting from a failure of an Applicable Participant to timely pay its Allocable Portion of the Applicable Series of Bonds pursuant to the Applicable Loan Agreement, or upon the happening and continuance of an event of default specified in paragraph (d) under the caption "*Events of Defaults*" above, then and in every such case, payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Defaulted Allocable Portion of the Applicable Series of Bonds (either by their terms, by acceleration of maturity or by the extraordinary mandatory redemption thereof) shall be limited solely to (i) the Revenues received or receivable by the Authority pursuant the defaulting Participant's Applicable Loan Agreement, including the such Participant's Pledged Revenues and other amounts derived from the exercise of any remedies under the Applicable Loan Agreement and the realization of any security or collateral granted by such defaulting Participant as security for its Applicable Loan, and (ii) moneys and securities on deposit in the Applicable Accounts of the funds authorized hereby and established pursuant to the Applicable Series Resolution for the payment of such defaulting Participant's Allocable Portion of the Applicable Series of Bonds (other than any Account in the Arbitrage Rebate Fund), and the Holders of such Defaulted Allocable Portion of the Applicable Series of Bonds shall have no right to any payments from any other Revenues or any other funds held by the Trustee hereunder for the payment of such Series of Bonds.

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

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

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

SECOND: To the payment to the persons entitled thereto of the unpaid principal, Sinking Fund Installments or Redemption Price of any Bonds of such Series which shall have become due whether at maturity or by call for redemption in the order of their due dates and, if the amount available shall not be sufficient to pay in full all of such Bonds due on any date, then to the payment thereof ratably, according to the amount of principal, Sinking Fund Installments or

Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

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

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

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

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

(Section 11.05)

Bondholders' Direction of Proceedings.

Anything in the Resolution to the contrary notwithstanding, the Holders of (i) not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of a Series or the principal amount of the Defaulted Allocable Portion of the Outstanding Bonds of a Series, as applicable, in the case of an event of default specified in paragraphs (a), (c) or (d) under the caption *"Events of Default"* above, or (ii) a majority in principal amount of the

Outstanding Bonds of a Series affected thereby, in the case of an event of default specified in paragraph (b) under the caption *"Events of Default"* above, shall have the right by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Resolution and under Applicable Series Resolution, provided, such direction shall not be otherwise than in accordance with law or the provisions of the Resolution and of Applicable Series Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

(Section 11.07)

Limitation of Rights of Individual Bondholders

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

(Section 11.08)

Defeasance

(a) If the Authority shall pay or cause to be paid to the Holders of the Bonds of a Series or any portion thereof the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, thereof and interest thereon, at the times and in the manner stipulated therein, in the Resolution, and in the Applicable Series Resolution and Applicable Bond Series Certificate, then the pledge of the Revenues or other moneys and securities pledged to such Series of Bonds or any portion thereof and all other rights granted by the Resolution to such Series of Bonds or any portion thereof shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver such documents to evidence such discharge and satisfaction as may be reasonably required by the Authority, and all moneys or other securities held by it pursuant to the Resolution and to the Applicable Series Resolution which are not required for the payment or redemption of Bonds of such Series or any portion thereof not theretofore surrendered for such payment or redemption shall be paid or delivered by the Trustee as follows: *first*, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; *second*, to each Applicable Facility Provider which has certified to the Trustee and the

Authority that moneys advanced under a Reserve Fund Facility together with any interest thereon have not been repaid, *pro rata*, based upon the respective amounts certified by each such Applicable Facility Provider; *third*, to the Authority the amount certified by the Authority to be then due or past due pursuant to an Applicable Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, *fourth*, the balance thereof to the Applicable Participants, as directed in writing by the Authority. Such moneys or securities so paid or delivered shall be released from any trust, pledge, lien, encumbrance or security interest created by the Resolution, by the Applicable Series Resolution or by an Applicable Loan Agreement.

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

(c) Bonds of a Series or any portion thereof for which moneys shall have been set aside and shall be held in trust by the Trustee for the payment or redemption thereof (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in paragraphs (a) or (b) above. All Outstanding Bonds of a Series or portions thereof or any maturity within such Series or a portion of a maturity within such Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in paragraphs (a) or (b) above if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to give as provided in the Resolution notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities, the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, any moneys or securities deposited pursuant to the provisions of this paragraph (c) shall be held by the Trustee in separate trust accounts established with respect to each Applicable Loan prepaid under the Resolution, (iii) the Trustee shall have received the consent to each deposit of each Applicable Facility Provider which has issued a Reserve Fund Facility which constitutes any part of such Participant's Allocable Portion of the related Debt Service Reserve Fund, if any, and which has given written notice to the Authority that amounts advanced thereunder or the interest thereon have not been paid to such Applicable Facility Provider, and (iv) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee, in form satisfactory to it, irrevocable instructions to give, as soon as practicable, by first class mail, postage prepaid, to the Holders of such Bonds at their respective last known addresses, if any, appearing on the registration books, and, if directed by an Authorized Officer of the Authority, by publication, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized Newspaper, a notice to the Holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this paragraph (c) and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds. The Authority shall give written notice to the Trustee of its selection of the maturity for which payment shall be made in accordance with the Resolution. The Trustee shall select which Bonds of such Series and which maturity thereof shall be paid in accordance with the Resolution in the manner provided therein. Neither the Defeasance Securities nor moneys deposited with the Trustee pursuant to the Resolution nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds; *provided, however*, that any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on such Bonds on and prior to such redemption date or maturity date thereof, as the case may be; *provided, further*, that money and Defeasance Securities may be withdrawn and used by the Authority for any purpose upon (i) the simultaneous substitution therefor of either money in an amount which shall be sufficient, or Defeasance Securities the principal of and interest on which when due will provide money which without regard to reinvestment, together with the money, if any, held by or deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (ii) receipt by the Trustee of a letter or other written report of a firm of independent certified public accountants verifying the accuracy of the arithmetical computations which establish the adequacy of such money and Defeasance Securities for such purpose. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, shall, to the extent certified by the Trustee to be in excess of the amount required hereinabove to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: *first*, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; *second*, to each Applicable Facility Provider who has certified to the Trustee and the Authority that moneys advanced under a Reserve Fund Facility issued by it which constitutes any part of such Participant's Allocable Portion of the related Debt Service Reserve Fund, if any, together with any interest thereon, have not been repaid, *pro rata*, based upon the respective amounts certified by each such Facility Provider; *third,* to the Authority the amount certified by the Authority to be then due or past due pursuant to the Applicable Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, *fourth*, the balance thereof to the Applicable Participants, and any such moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Applicable Loan Agreement.

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

(Section 12.01)

APPENDIX G

FORM OF APPROVING OPINION OF BOND COUNSEL

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PROPOSED FORM OF APPROVING OPINION
OF BOND COUNSEL

Upon delivery of the Series 2014A Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, proposes to issue its legal opinion in substantially the following form:

HAWKINS DELAFIELD & WOOD LLP
ONE CHASE MANHATTAN PLAZA
NEW YORK, NEW YORK 10005

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

Ladies and Gentlemen:

We, as Bond Counsel to the Dormitory Authority of the State of New York (the "Authority"), a body corporate and politic of the State of New York (the "State"), constituting a public benefit corporation created and existing under the Dormitory Authority Act, being Chapter 524 of the Laws of New York of 1944, as amended (the "Act"), have examined a record of proceedings relating to the issuance of $12,970,000 aggregate principal amount of InterAgency Council Pooled Loan Program Revenue Bonds, Series 2014A, consisting of two subseries: $12,385,000 Subseries 2014A-1 (the "Subseries 2014A-1 Bonds") and $585,000 Subseries 2014A-2 (Federally Taxable) (the "Subseries 2014A-2 Bonds" and together with the Subseries 2014A-1 Bonds, the "Series 2014A Bonds").

The Series 2014A Bonds are issued under and pursuant to the Act, the InterAgency Council Pooled Loan Program Revenue Bond Resolution adopted by the Authority on March 31, 2010 (the "Bond Resolution") and the series resolution adopted by the Authority on March 12, 2014 (the "Series 2014A Resolution"). The Bond Resolution and the Series 2014A Resolution are herein collectively referred to as the "Resolutions."

The Series 2014A Bonds are dated, mature, are payable, bear interest and are subject to redemption as provided in the Resolutions and the Bond Series Certificate (as defined in the Resolutions) of the Authority fixing the terms and details of the Series 2014A Bonds.

We are of the opinion that:

1. The Authority has been duly created and is validly existing under the Act and has the right, power and authority to adopt the Resolutions and the Resolutions have been duly and lawfully adopted by the Authority, are in full force and effect and are valid and binding upon the Authority and enforceable in accordance with their terms.

2. The Resolutions create the valid pledge which they purport to create of the proceeds of the sale of the Series 2014A Bonds, the Revenues and all funds and accounts established by the Series 2014A Resolution other than the Arbitrage Rebate Fund (as such terms are defined in the Resolutions), including the investments thereof and the proceeds of such investments, if any, subject only to the provisions of the Resolutions permitting the application thereof to the purposes and on the terms and conditions set forth in the Resolutions.

3. The Series 2014A Bonds have been duly and validly authorized and issued by the Authority and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Resolutions.

4. The Series 2014A Bonds are not a debt of the State of New York, and the State of New York is not liable thereon, nor shall the Series 2014A Bonds be payable out of funds of the Authority other than those pledged for the payment of the Series 2014A Bonds.

5. The Loan Agreements between the Authority and, respectively, Ability Beyond Disability and Ability Beyond Disability, Inc., Family Residences and Essential Enterprises, Inc., Institute for Community Living Inc. and Ohel Children's Home and Family Services, Inc. (collectively, the "Series 2014A Participants"), each dated as of March 12, 2014 (collectively, the "Loan Agreements"), have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery thereof by each of the Series 2014A Participants, constitute legal, valid and binding obligations of the Authority enforceable in accordance with their terms.

6. Under existing statutes and court decisions, (i) interest on the Subseries 2014A-1 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Subseries 2014A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering this opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, each of the Series 2014A Participants, as applicable, the Interagency Council of Developmental Disabilities Agencies, Inc. and others, and we have assumed compliance by Authority and each of the Series 2014A Participants, as applicable, with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Subseries 2014A-1 Bonds from gross income under Section 103 of the Code. In addition, we have relied on the opinion of counsel to the Series 2014A Participants regarding, among other matters, the current qualifications of the Series 2014A Participants as organizations described in Section 501(c)(3) of the Code. For any Subseries 2014A-1 Bonds having original issue discount ("OID"), OID that has accrued and is properly allocable to the owners of such Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Subseries 2014A-1 Bonds.

7. Interest on the Subseries 2014A-2 Bonds is included in gross income for Federal income tax purposes pursuant to the Code. The opinion in this paragraph is not intended or provided by Bond Counsel to be used and cannot be used by an owner of the Subseries 2014A-2 Bonds for the purpose of avoiding Federal taxpayer penalties that may be imposed on such owner. The opinion in this paragraph is provided to support the promotion or marketing of the Subseries 2014A-2 Bonds. Each owner of the Subseries 2014A-2 Bonds should seek advice based on its particular circumstances from an independent tax advisor.

8. Under existing statutes, interest on the Series 2014A Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

Except as stated in paragraphs 6, 7 and 8 above, we express no opinion as to any Federal or state tax consequences with respect to the Series 2014A Bonds. We render this opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update, revise or supplement this opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Subseries 2014A-1 Bonds, or the exemption from personal income taxes of interest on the Series 2014A Bonds under state and local tax law.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Series 2014A Bonds, the Resolutions and the Loan Agreements may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have examined an executed Subseries 2014A-1 Bond and a Subseries 2014A-2 Bond and, in our opinion, the form of said Series 2014A Bonds and their execution are regular and proper.

Very truly yours,

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DORMITORY AUTHORITY OF THE STATE OF NEW YORK • INTERAGENCY COUNCIL POOLED LOAN PROGRAM REVENUE BONDS, SERIES 2014A

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