NEW ISSUE – BOOK-ENTRY ONLY

Moody's: Aa2
(See "RATING" herein)

DASNY

DAC Bond

$16,435,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
INTERAGENCY COUNCIL POOLED LOAN PROGRAM REVENUE BONDS, SERIES 2016A

Consisting of:

$15,665,000 Subseries 2016A-1 **$770,000 Subseries 2016A-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 2016A consisting of Subseries 2016A-1 (the "Subseries 2016A-1 Bonds") and Subseries 2016A-2 (Federally Taxable) (the "Subseries 2016A-2 Bonds;" and together with the Subseries 2016A-1 Bonds, the "Series 2016 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 2016 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 2016 Bonds by the Series 2016A Resolution Authorizing Up To $24,000,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2016A, adopted November 10, 2015 (the "Series 2016 Resolution"), including a Debt Service Reserve Fund.

The Revenues pledged to the payment of the Series 2016 Bonds are comprised of certain payments to be made under separate Loan Agreements dated as of November 10, 2015 (each a "Series 2016 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: Family Residences and Essential Enterprises, Inc., Lifespire, Inc., Little Flower Children and Family Services of New York, Special Citizens Futures Unlimited, Inc. and Young Adult Institute, Inc. (each a "Series 2016 Participant" and collectively, the "Series 2016 Participants").

Each Series 2016 Loan Agreement is a general obligation of the respective Series 2016 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 2016 Bonds corresponding to such Series 2016 Participant's proportionate share of the proceeds of the Series 2016 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 2016 Loan Agreements are several and not joint obligations of the Series 2016 Participants. Each of the Series 2016 Participant's obligations under its respective Series 2016 Loan Agreement will be secured by a security interest in certain revenues of such Series 2016 Participant granted to DASNY and pledged and assigned to the Trustee.

A DEFAULT BY ANY ONE OR MORE OF THE SERIES 2016 PARTICIPANTS UNDER THEIR RESPECTIVE SERIES 2016 LOAN AGREEMENTS MAY RESULT IN A DEFAULT UNDER THE RESOLUTION AND THE SERIES 2016 RESOLUTION WITH RESPECT TO SUCH SERIES 2016 PARTICIPANT'S ALLOCABLE PORTION OF THE SERIES 2016 BONDS; HOWEVER, ANY LIABILITY WITH RESPECT TO SUCH DEFAULT IS LIMITED SOLELY TO THE SERIES 2016 PARTICIPANT OR SERIES 2016 PARTICIPANTS THAT ARE IN DEFAULT, WITHOUT RIGHT OF CONTRIBUTION FROM THE NON-DEFAULTING SERIES 2016 PARTICIPANTS. ANY SUCH DEFAULT, HOWEVER, COULD RESULT IN A DEFAULT IN PAYMENT OF THE SERIES 2016 BONDS.

The Series 2016 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 2016 Bonds will be issued as fully registered bonds in denominations of $5,000 or any integral multiple in excess thereof. Interest (due July 1, 2016 and each January 1 and July 1 thereafter) on the Series 2016 Bonds will be payable by check mailed to the registered owners thereof and principal and Redemption Price of the Series 2016 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 2016 Bonds by wire transfer, as more fully described herein.

The Series 2016 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 2016 Bonds. Purchases of beneficial ownership interests in the Series 2016 Bonds may be made only through the DTC book-entry system. Beneficial Owners (as defined herein) of the Series 2016 Bonds will not receive certificates representing their interests in the Series 2016 Bonds. See "PART 3 - THE SERIES 2016 BONDS – Book-Entry-Only System" herein.

Redemption and Purchase in Lieu of Redemption: The Series 2016 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 Barclay Damon, LLP, Co-Bond Counsel, under existing law and assuming compliance with the certain covenants described herein and the accuracy and completeness of certain representations, certifications of fact and statements of reasonable expectations by DASNY, the Series 2016 Participants, as applicable, and others, interest on the Subseries 2016A-1 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"). Interest on the Subseries 2016A-1 Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code; provided, however, that such interest on the Subseries 2016A-1 Bonds is taken into account in determining adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Barclay Damon, LLP is further of the opinion that interest on the Series 2016 Bonds is exempt from personal income taxes imposed by New York State or any political subdivision thereof (including The City of New York and the City of Yonkers). IN THE OPINION OF BARCLAY DAMON, LLP, INTEREST ON THE SUBSERIES 2016A-2 BONDS IS NOT EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER SECTION 103 OF THE CODE. See "PART 10 – TAX MATTERS" herein regarding certain other tax considerations.

The Series 2016 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 Barclay Damon, LLP, Albany, New York, and Marous Law Group, P.C., New York, New York, Co-Bond Counsel to DASNY. Certain legal matters will be passed upon for the Series 2016 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 2016 Bonds in definitive form in New York, New York on or about February 10, 2016.

MUNICIPAL CAPITAL MARKETS GROUP, INC.

January 21, 2016

$16,435,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
INTERAGENCY COUNCIL POOLED LOAN PROGRAM
REVENUE BONDS, SERIES 2016A

Consisting of:

$15,665,000 Subseries 2016A-1

Consisting of:

$7,985,000 Serial Bonds

Maturing July 1	Principal Amount	Coupon	Yield	CUSIP[1]
2017	$260,000	2.00%	0.75%	64990B VC4
2018	775,000	3.00	1.05	64990B VD2
2019	780,000	4.00	1.20	64990B VE0
2020	830,000	4.00	1.35	64990B VF7
2021	880,000	4.00	1.50	64990B VG5
2022	895,000	4.00	1.65	64990B VH3
2023	940,000	4.00	1.85	64990B VJ9
2024	900,000	4.00	2.00	64990B VK6
2025	850,000	4.00	2.20	64990B VL4
2026	875,000	4.00	2.35	64990B VM2

$3,240,000 3.00% Term Bond due July 1, 2030 to Yield 3.00% CUSIP[1] 64990B VN0

$2,260,000 3.00% Term Bond due July 1, 2035 to Yield 3.20% CUSIP[1] 64990B VP5

$2,180,000 3.25% Term Bond due July 1, 2040 to Yield 3.45% CUSIP[1] 64990B VQ3

$770,000
Subseries 2016A-2
(Federally Taxable)

$770,000 1.50% Term Bond due July 1, 2017 to Yield 1.50% CUSIP[1] 64990B VR1

No dealer, broker, salesman or other person has been authorized by DASNY, the Series 2016 Participants or the Underwriter to give any information or to make any representations with respect to the Series 2016 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 2016 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 2016 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 2016 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 2016 Participant has reviewed the portions of this Official Statement describing such Series 2016 Participant, its Series 2016 Facilities, its Mortgages, if any, "PART 1 – INTRODUCTION" (but solely with respect to the headings "The Series 2016 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 2016 BONDS – Security for the Series 2016 Bonds - Pledged Revenues – OPWDD Funds," " – Security for the Series 2016 Bonds – Mortgages" and " – Security for the Series 2016 Bonds – Collateral Assignment of Leases," "PART 3 – THE SERIES 2016 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2016 Bonds," "PART 4 - THE SERIES 2016 PARTICIPANTS," "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING," "PART 6 - ESTIMATED SOURCES AND USES OF FUNDS," "PART 11 - BONDHOLDERS' RISKS," PART 15 – CONTINUING DISCLOSURE," 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 2016 Bonds that each Series 2016 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 2016 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 2016 Resolution and the Series 2016 Loan Agreements do not purport to be complete. Refer to the Act, the Resolution, the Series 2016 Resolution and the Series 2016 Loan Agreements for full and complete details of their provisions. Copies of the Resolution, the Series 2016 Resolution and the Series 2016 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 2016 Participants have remained unchanged after the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2016 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2016 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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DASNY

DORMITORY AUTHORITY - STATE OF NEW YORK **515 BROADWAY, ALBANY, N.Y. 12207**
GERRARD P. BUSHELL - PRESIDENT **ALFONSO L. CARNEY, JR. – CHAIR**

OFFICIAL STATEMENT
relating to
$16,435,000
INTERAGENCY COUNCIL POOLED LOAN PROGRAM
REVENUE BONDS, SERIES 2016A
Consisting of:

$15,665,000 Subseries 2016A-1 **$770,000 Subseries 2016A-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"), Family Residences and Essential Enterprises, Inc., Lifespire, Inc., Little Flower Children and Family Services of New York, Special Citizens Futures Unlimited, Inc. and Young Adult Institute, Inc. (collectively, the "Series 2016 Participants"), in connection with the offering by DASNY of the $16,435,000 aggregate principal amount of InterAgency Council Pooled Loan Program Revenue Bonds, Series 2016A, consisting of $15,665,000 Subseries 2016A-1 Bonds and $770,000 Subseries 2016A-2 Bonds (Federally Taxable) (collectively, the "Series 2016 Bonds").

The following is a brief description of certain information concerning the Series 2016 Bonds, DASNY and the Series 2016 Participants. A more complete description of such information and additional information that may affect decisions to invest in the Series 2016 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 2016 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 2016 Facilities") of the Series 2016 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 2016 Facilities (collectively, the "Series 2016 Project"), (ii) making a deposit to each account of the Debt Service Reserve Fund securing the Series 2016 Bonds (the "Series 2016 Debt Service Reserve Fund") in an amount equal to each Series 2016 Participant's Allocable Portion of the Series 2016 Debt Service Reserve Fund Requirement (defined herein) and (iii) paying certain costs of issuance of the Series 2016 Bonds. The Loan Agreements entered into with DASNY by the Series 2016 Participants (the "Series 2016 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 2016 Bonds as the same become due. See "PART 6 – ESTIMATED SOURCES AND USES OF FUNDS." For a description of the Series 2016 Facilities being financed or refinanced with proceeds of the Series 2016 Bonds, see "Appendix A - Description of Series 2016 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 2016 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 2016 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 2016 Bonds will be issued pursuant to the Act, the Resolution and the Series 2016 Resolution. The term "Resolutions" shall mean the Resolution and the Series 2016 Resolution. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2016 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 2016 Participants. See "PART 4 - THE SERIES 2016 PARTICIPANTS."

The Series 2016 Participants

Each of the Series 2016 Participants is a not-for-profit corporation organized and existing under the laws of the State. See "PART 4 - THE SERIES 2016 PARTICIPANTS," "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING," "Appendix A - Description of Series 2016 Participants," "Appendix B - Audited Financial Statements of Series 2016 Participants," and "Appendix C - Unaudited Financial Information of Series 2016 Participants."

Upon delivery of the Series 2016 Bonds, the Series 2016 Participants will receive loans from DASNY from the proceeds thereof in the following principal amounts, representing each Series 2016 Participant's Allocable Portion of each Subseries of the Series 2016 Bonds:

Series 2016 Participant	Subseries 2016A-1	Subseries 2016A-2	Total
Family Residences and Essential Enterprises, Inc.	$4,640,000	$225,000	$4,865,000
Lifespire, Inc.	560,000	45,000	605,000
Little Flower Children and Family Services of New York	690,000	55,000	745,000
Special Citizens Futures Unlimited, Inc.	870,000	55,000	925,000
Young Adult Institute, Inc.	8,905,000	390,000	9,295,000

No Series 2016 Participant is responsible for the payment obligations of any other Series 2016 Participant. If a Series 2016 Participant fails to pay amounts due under its Series 2016 Loan Agreement in respect of its Allocable Portion of the Series 2016 Bonds, DASNY's sole remedy will be against the defaulting Series 2016 Participant and no other Series 2016 Participant.

See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2016 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 2016 BONDS - Redemption Provisions - Extraordinary Mandatory Redemption."

The Series 2016 Bonds

The Series 2016 Bonds are dated their date of delivery and bear interest from such date (payable July 1, 2016, 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 2016 BONDS - Description of the Series 2016 Bonds."

Payment of the Series 2016 Bonds

The Series 2016 Bonds are special obligations of DASNY payable from the applicable Revenues, which consist of certain payments required to be made by the Series 2016 Participants pursuant to their respective Series 2016 Loan Agreements on account of the principal, Sinking Fund Installments and Redemption Price, if any, of and interest due on the Outstanding Series 2016 Bonds. The Revenues are pledged and assigned to the Trustee.

Pursuant to its Series 2016 Loan Agreement, each Series 2016 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 2016 Bonds, in each case corresponding to the proceeds of each maturity of each Subseries of the Series 2016 Bonds loaned to it by DASNY. The obligation of each Series 2016 Participant to make payments under its Series 2016 Loan Agreement constitutes a general obligation of such Series 2016 Participant. The payment obligations of the Series 2016 Participants are several, not joint and are not cross-collateralized with the obligations of any other Series 2016 Participant. For a listing of each Series 2016 Participant's Allocable Portion of the principal and Sinking Fund Installments of and interest on the Series 2016 Bonds, see "PART 3 – THE SERIES

2016 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2016 Bonds."

Security for the Series 2016 Bonds

The Series 2016 Bonds will be secured by the pledge and assignment to the Trustee of the Revenues, the proceeds from the sale of the Series 2016 Bonds (until disbursed as provided by the Resolution) and all funds and accounts authorized by the Resolution and established by the Series 2016 Resolution (with the exception of the Arbitrage Rebate Fund), including the Series 2016 Debt Service Reserve Fund, which will be funded at its requirement with proceeds of the Series 2016 Bonds. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2016 BONDS - Security for the Series 2016 Bonds."

The Series 2016 Bonds are separately secured from all other Series of Bonds. The Holders of any Series of Bonds other than the Series 2016 Bonds are not entitled to the rights, benefits and security conferred upon the Holders of the Series 2016 Bonds.

The Series 2016 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 2016 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 2016 Participants to DASNY pursuant to its Series 2016 Loan Agreement, subject to Prior Pledges. Certain of the Series 2016 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 2016 Participant is subject, and subordinate, to such Prior Pledges in all respects. See "Appendix A - Description of Series 2016 Participants" for a description of which Series 2016 Participants have Prior Pledges of their respective Pledged Revenues.

Pledged Revenues are all Public Funds payable to a Series 2016 Participant with respect to its Series 2016 Facilities. In the case of each Series 2016 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 2016 Facilities.

With respect to each Series 2016 Facility (other than Family Residences and Essential Enterprises, Inc.'s Series 2016 Facility located at 3 Thornwood Road, Centereach, New York (the "Centereach Facility"), pursuant to separate Prior Property Approvals (each a "PPA"), OPWDD has pre-approved the applicable Series 2016 Facility for reimbursement of amounts calculated to be sufficient to pay the principal and interest costs incurred by the related Series 2016 Participant in connection with its financing or refinancing of the acquisition, renovation and furnishing, as applicable, of such Series 2016 Facility, in each case subject to annual appropriation by the State Legislature and so long as such Series 2016 Participant operates the applicable Series 2016 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 2016 Participants pursuant to their respective PPAs will be sufficient to pay the principal of and interest on their respective Allocable Portions of the

Series 2016 Bonds (other than the Allocable Portion of the Series 2016 Bonds of Family Residences and Essential Enterprises ("FREE") related to the Centereach Facility). The principal of and interest on the Allocable Portion of the Series 2016 Bonds of FREE related to the Centereach Facility is expected by FREE to be paid from its operating revenues. See "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities."

The Pledged Revenues will be paid directly to each Series 2016 Participant and may be disposed of by such Series 2016 Participant for any of its corporate purposes. However, pursuant to the Act, the respective Series 2016 Loan Agreements and certain agreements entered into by DASNY, OPWDD and the respective Series 2016 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 2016 Participant pursuant to its PPA or PPAs or otherwise in the case of the Centereach Facility (the "Intercept Funds") directly to DASNY or the Trustee for application to the payment of such Series 2016 Participant's Allocable Portion of the Outstanding Series 2016 Bonds.

Pledged Revenues of one Series 2016 Participant will not be available to satisfy the obligations of any other Series 2016 Participant. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2016 BONDS - Security for the Series 2016 Bonds - Pledged Revenues - OPWDD Funds" and "- Standby Intercepts." See also, "Appendix A - Description of Series 2016 Participants" and "Appendix E - Summary of Certain Provisions of the Series 2016 Loan Agreements."

The ability of the Series 2016 Participants to satisfy their payment obligations under the respective Loan Agreements with respect to the Series 2016 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 2016 Participants of their respective Series 2016 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 2016 Participants and their ability to continue to generate sufficient revenues to support all of their respective facilities, including their Series 2016 Facilities, (ii) the continued compliance by the Series 2016 Participants with State and local operational standards with respect to their Series 2016 Facilities, and (iii) the continued commitment of public funds to support the programs and facilities operated by the Series 2016 Participants, particularly with respect to the Series 2016 Facilities, the continued appropriations by the State in amounts sufficient for OPWDD to make payments to the Series 2016 Participants pursuant to their respective PPAs or otherwise. For a more detailed discussion of risk factors affecting the ability of the Series 2016 Participants to pay amounts owed under their Loan Agreements and the Pledged Revenues, as well as other risk factors affecting payment on the Series 2016 Bonds, see "PART 11 - BONDHOLDERS' RISKS." See also, "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING."

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

A failure by a Series 2016 Participant to timely pay its obligations under its Series 2016 Loan Agreement might result in an event of default under the Resolutions if either (a) such Series 2016 Participant's loan is accelerated in accordance with the provisions of its Series 2016 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 2016 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 2016 Bonds that corresponds to a principal installment on the defaulting Series 2016 Participant's loan under the terms of its Series 2016 Loan Agreement (referred to as the "Defaulted Allocable Portion"). The funds available for the payment of a Defaulted Allocable Portion of the Series 2016 Bonds are limited by the Resolution to only those Revenues payable by or on behalf of such defaulting Series 2016 Participant pursuant to its Series 2016 Loan Agreement, funds on deposit with the Trustee attributable to such Series 2016 Participant and amounts recovered upon the realization on any collateral granted to DASNY as security for such Series 2016 Participant's obligations under its Series 2016 Loan Agreement and pledged to the payment of the Series 2016 Bonds.

After the application of all such amounts to the payment of the Defaulted Allocable Portion of the Series 2016 Bonds following the acceleration or extraordinary mandatory redemption thereof in accordance with the Resolutions, such Defaulted Allocable Portion of the Series 2016 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 2016 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 2016 BONDS - Redemption Provisions - Extraordinary Mandatory Redemption."

NO SERIES 2016 PARTICIPANT IS RESPONSIBLE FOR THE PAYMENT OBLIGATIONS OF ANY OTHER SERIES 2016 PARTICIPANT. IF A SERIES 2016 PARTICIPANT FAILS TO PAY AMOUNTS DUE UNDER ITS SERIES 2016 LOAN AGREEMENT IN RESPECT OF ITS ALLOCABLE PORTION OF THE SERIES 2016 BONDS, DASNY'S SOLE REMEDY WILL BE AGAINST THE DEFAULTING SERIES 2016 PARTICIPANT AND NO OTHER SERIES 2016 PARTICIPANT.

The Mortgages

In the event that a Series 2016 Participant owns its Series 2016 Facilities, such Series 2016 Participant's obligations under its Series 2016 Loan Agreement will be additionally secured by one or more mortgages (each a "Mortgage") from such Series 2016 Participant to DASNY, granting a mortgage lien on such owned Series 2016 Facilities, and by a security interest in the fixtures, furniture and equipment financed with the proceeds of the Series 2016 Bonds located therein or used in connection therewith, such liens and security interests subject to applicable Permitted Encumbrances.

The Mortgages do not presently provide any security for the Series 2016 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 2016 Loan Agreement provides that DASNY, without the consent of the Trustee or the Holders of the applicable Series 2016 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 2016 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 require. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2016 BONDS - Security for the Series 2016 Bonds - Mortgages."

The Series 2016 Facilities of Little Flower Children and Family Services of New York ("Little Flower"), which consist of a residential facility building, parking lot and other improvements, are situated on approximately 2.317 acres of an approximately 15.687 acre parcel. Little Flower's Mortgage provides that if a subdivision of the approximately 15.687 acre parcel is approved and certain other conditions are satisfied, DASNY will approve a release of approximately 13.55 acres of the unimproved land from the Little Flower Mortgage. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2016 BONDS - Security for the Series 2016 Bonds - Mortgages."

In the event that a Series 2016 Participant does not own its Series 2016 Facilities, such Series 2016 Participant's obligations under its Series 2016 Loan Agreement will not be secured by any mortgage or real property security interest.

See "Appendix A - Description of Series 2016 Participants" for a description of which Series 2016 Participants (i) own or lease their respective Series 2016 Facilities and (ii) will grant mortgages (and the nature of such mortgages) on their respective Series 2016 Facilities.

Collateral Assignment of Leases

Young Adult Institute, Inc. ("YAI") leases its Series 2016 Facilities located at 416 Grant Avenue, Brooklyn, New York, 361 83rd Street, Brooklyn, New York, 290 Madison Avenue, New York, New York and 94-17 84th Street, Ozone Park, Queens, New York. In order to secure its obligations under its Series 2016 Loan Agreement, YAI 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 such Series 2016 Facilities. Each landlord under the leases has consented to such collateral assignment.

PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2016 BONDS

Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2016 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 2016 Resolution and the Series 2016 Loan Agreements, copies of which are on file with DASNY and the Trustee. See also "Appendix E - Summary of Certain Provisions of the Series 2016 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 2016 Bonds

The Series 2016 Bonds are special obligations of DASNY. The principal, Sinking Fund Installments, and Redemption Price of and interest on the Series 2016 Bonds are payable solely from the Revenues. With respect to the Series 2016 Participants, the Revenues consist of the payments required to be made by each of the Series 2016 Participants under its respective Series 2016 Loan Agreement on account of such Series 2016 Participant's Allocable Portion of (i) the principal, Sinking Fund Installments, and Redemption Price of and interest due on the Series 2016 Bonds, and (ii) the Series 2016 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 2016 Bonds. The aggregate of payments due and payable to DASNY under all of the Series 2016 Loan Agreements will be sufficient to pay (i) the principal, Sinking Fund Installments and Redemption Price of and interest on the Series 2016 Bonds when due, (ii) amounts necessary to maintain the Series 2016 Debt Service Reserve Fund at its required level, and (iii) the annual fees of DASNY and the Trustee.

Each Series 2016 Loan Agreement is a general obligation of the respective Series 2016 Participant, pursuant to which such Series 2016 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 2016 Bonds as reflected in the debt service table set forth in "PART 3 – THE SERIES 2016 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2016 Bonds." The payment obligations of the Series 2016 Participants with respect to the Series 2016 Bonds are several, not joint. Each Series 2016 Participant is obligated to repay only its Allocable Portion of the Series 2016 Bonds. Each Series 2016 Participant's payments under its respective Series 2016 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 2016 Bonds.

Payments under each of the Series 2016 Loan Agreements are to be made monthly on the 10th day of each month. Each payment under the Series 2016 Loan Agreements is to be equal to one-sixth of the respective Series 2016 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 2016 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2016 Bonds." Each of the Series 2016 Loan Agreements also obligates the respective Series 2016 Participant to pay, at least 45 days prior to a redemption date of Series 2016 Bonds called for redemption, its Allocable Portion of the amount, if any, required to pay the Redemption Price of such Series 2016 Bonds. See "PART 3 – THE SERIES 2016 BONDS – Redemption Provisions."

Security for the Series 2016 Bonds

General

The Series 2016 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 2016 Participants" for a description of which Series 2016 Participants have Prior Pledges of their respective Pledged Revenues.

The Series 2016 Bonds will also be secured by the proceeds from the sale of such Series 2016 Bonds (until disbursed as provided in the Resolutions) and all funds and accounts authorized by the Resolution and established by the Series 2016 Resolution (with the exception of the Arbitrage Rebate Fund), including the Series 2016 Debt Service Reserve Fund.

Pursuant to the terms of the Resolution, the Series 2016 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 2016 Loan Agreements, each Series 2016 Participant has pledged and assigned to DASNY its Pledged Revenues in an amount sufficient to satisfy its payment obligations under its Series 2016 Loan Agreement, subject to any Prior Pledges. With respect to each Series 2016 Participant, the Pledged Revenues are all Public Funds payable to a Series 2016 Participant with respect to its Series 2016 Facilities, including any Intercept Funds. See "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities."

Other than FREE's Centereach Facility, each Series 2016 Facility is supported by an OPWDD PPA, which the applicable Series 2016 Participant has received. The PPA represents OPWDD's pre-approval of the applicable Series 2016 Facility for reimbursement of amounts calculated to be sufficient to pay the principal and interest costs incurred by the related Series 2016 Participant in connection with its financing or refinancing of the acquisition, renovation and furnishing, as applicable, of such Series 2016 Facility, in each case subject to annual appropriation by the State Legislature and so long as such Series 2016 Participant operates the applicable Series 2016 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 2016 Participants that the amounts received by the Series 2016

Participants pursuant to their respective PPAs will be sufficient to pay the principal of and interest on their respective Allocable Portions of the Series 2016 Bonds (except for FREE's Allocable Portion of the Series 2016 Bonds related to the Centereach Facility). It is expected by FREE that the principal of and interest on FREE's Allocable Portion of the Series 2016 Bonds related to the Centereach Facility will be paid from operating revenues of FREE. See "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities." Certain of the Series 2016 Facilities may also be supported by additional OPWDD PPAs, but such other OPWDD PPAs were issued with respect to other projects at such Series 2016 Facilities and not those being financed with the Series 2016 Bonds.

Standby Intercepts

The Act authorizes, and each Series 2016 Loan Agreement and Intercept Agreement establishes, an intercept mechanism whereby OPWDD officials are authorized and required to pay a Series 2016 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 2016 Participant described in clause (a) or (b) below, a Series 2016 Participant's Intercept Funds will be paid directly to such Series 2016 Participant and applied towards any of its corporate purposes. However, pursuant to the respective Series 2016 Loan Agreements and Intercept Agreements, upon the occurrence of (a) an event of default under a Series 2016 Participant's Series 2016 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 2016 Participant's Series 2016 Loan Agreement, or (b) a drawing of funds from the Series 2016 Debt Service Reserve Fund for the benefit of such Series 2016 Participant that has not been repaid by such Series 2016 Participant as required by its Series 2016 Loan Agreement and the Resolutions, DASNY may, in addition to all other remedies available pursuant to such Series 2016 Participant's Series 2016 Loan Agreement, cause such Series 2016 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 2016 Participant pursuant to its Series 2016 Loan Agreement. See "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities." Intercept Funds of one Series 2016 Participant will not be available to satisfy the payment obligations of any other Series 2016 Participant.

There can be no assurance that the amount of a Series 2016 Participant's Intercept Funds will be sufficient to satisfy its payment obligations with respect to its Allocable Portion of the Series 2016 Bonds. In the event that amounts received from OPWDD upon the intercept of a Series 2016 Participant's Intercept Funds are insufficient to pay all of a Series 2016 Participant's Allocable Portion of the principal of and interest on the Series 2016 Bonds when due, such amounts received will be applied pro rata to such Series 2016 Participant's Allocable Portion of each Subseries of the Series 2016 Bonds.

The ability of the Series 2016 Participants to satisfy their payment obligations under the respective Series 2016 Loan Agreements with respect to the Series 2016 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 2016 Participants of their respective Series 2016 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 2016 Participants and their ability to continue to generate sufficient revenues to support all of their respective facilities, including their Series 2016 Facilities, (ii) the continued compliance by the Series 2016 Participants with State and local operational standards with respect to their Series 2016 Facilities, and (iii) the continued commitment of Public Funds to support the programs and facilities operated by the Series 2016 Participants, particularly with respect to the Series 2016 Facilities, the continued appropriations by the State in amounts sufficient for OPWDD to make payments to the Series 2016 Participants pursuant to their respective PPAs or otherwise. For a more detailed discussion of risk factors affecting the ability of the Series 2016 Participants to pay amounts owed under their Series 2016 Loan Agreements and the Pledged Revenues, as well as other risk factors affecting payment on the Series 2016 Bonds, see "PART 11 - BONDHOLDERS' RISKS." See also, "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING" and "Appendix A - Description of the Series 2016 Participants" for a description of which Series 2016 Participants have Prior Pledges of their respective Pledged Revenues.

Debt Service Reserve Fund

The Resolution authorizes, and the Series 2016 Resolution establishes, the Series 2016 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 2016 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 2016 Bonds (the "Series 2016 Debt Service Reserve Fund Requirement").

Proceeds of the Series 2016 Bonds will be deposited in separate accounts established in the Series 2016 Debt Service Reserve Fund for each Series 2016 Participant in amounts equal to the respective Series 2016 Participant's Allocable Portion of the Series 2016 Debt Service Reserve Fund Requirement. If, on the fourth Business Day preceding an interest payment date for the Series 2016 Bonds, the amount on deposit in the account established for a Series 2016 Participant in the Debt Service Fund is less than the amount necessary to pay such Series 2016 Participant's Allocable Portion of the principal or Sinking Fund Installments of and interest on the Outstanding Series 2016 Bonds payable on such interest payment date, the Trustee is required to transfer moneys from the applicable account of the Series 2016 Debt Service Reserve Fund to the corresponding account of the Debt Service Fund in an amount sufficient to provide for such payment. Each Series 2016 Loan Agreement requires the respective Series 2016 Participant to restore in full any amount withdrawn from the Series 2016 Debt Service Reserve Fund for its benefit within five days after receiving notice of a withdrawal. Each Series 2016 Loan Agreement also requires the respective Series 2016 Participant to restore in full its Allocable Portion of the Series 2016 Debt Service Reserve Fund Requirement within five days after receiving notice of a deficiency in the Series 2016 Debt Service Reserve Fund resulting from a devaluation of the investments held therein. Each Series 2016 Participant is responsible for only its Allocable Portion of the Series 2016 Debt Service Reserve Fund Requirement. Moneys in the Series 2016 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 2016 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 2016 Debt Service Reserve Fund Requirement or any Series 2016 Participant's Allocable Portion thereof. See "Appendix F - Summary of Certain Provisions of the Resolutions."

Mortgages

In the event that a Series 2016 Participant owns its Series 2016 Facilities, such Series 2016 Participant's obligations to DASNY under its Series 2016 Loan Agreement will be additionally secured by its Mortgage granting a mortgage lien on such owned Series 2016 Facilities to DASNY, and by a security interest granted to DASNY in the fixtures, furnishings and equipment financed with the proceeds of the Series 2016 Bonds now or hereafter located on the property subject to such Mortgage, such mortgage liens and security interests subject to applicable Permitted Encumbrances. See "Appendix A -

Description of Series 2016 Participants" for a description of which Series 2016 Facilities are owned by a Series 2016 Participant.

The Series 2016 Facilities of Little Flower, which consist of a residential facility building, parking lot and other improvements, are situated on approximately 2.317 acres of an approximately 15.687 acre parcel. Little Flower's Mortgage provides that if a subdivision of the approximately 15.687 acre parcel is approved and certain other conditions are satisfied, DASNY will approve a release of approximately 13.55 acres of the unimproved land from the Little Flower Mortgage. See "PART 11-BONDHOLDERS' RISKS" and "Appendix A – Description of Series 2016 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 2016 Debt Service Reserve Fund, which has not been restored by the respective Series 2016 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 2016 Participant's Series 2016 Loan Agreement and the acceleration of the loan thereunder, DASNY is required to assign such Series 2016 Participant's Mortgage and the related security interest in the fixtures, furnishings and equipment financed with the proceeds of the Series 2016 Bonds to the Trustee for the benefit of the Holders of such Series 2016 Participant's Allocable Portion of the Outstanding Series 2016 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 for the benefit of the Holders of the Series 2016 Bonds. **Each Mortgage secures only the obligations of the Series 2016 Participant granting the Mortgage, and, in the event of a default by a Series 2016 Participant which may lead to the assignment of its Mortgage, only the Mortgage of that defaulting Series 2016 Participant may be assigned**.

Prior to any assignment of a Mortgage to the Trustee, each Series 2016 Loan Agreement provides that DASNY, without the consent of the Trustee or the Holders of the applicable Series 2016 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 2016 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 require. Notwithstanding the foregoing, a Series 2016 Participant may remove such furniture, fixtures or equipment from the Mortgaged Property provided that such Series 2016 Participant shall replace such furniture, fixtures or equipment with furniture, fixtures or equipment having equivalent value and utility.

Each Series 2016 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 Permitted Encumbrances. The lien of and security interest in each Series 2016 Participant's owned Series 2016 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 2016 Participants."

Collateral Assignment of Leases

In order to secure its obligations under its Series 2016 Loan Agreement, YAI 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 2016 Facilities located at located at 416 Grant Avenue, Brooklyn, New York, 361 83rd Street, Brooklyn, New York, 290 Madison Avenue, New York, New York and 94-17

84th Street, Ozone Park, Queens, New York. Each landlord under the leases has consented to such collateral assignment.

Events of Default

Events of Default

The Resolutions provide that events of default thereunder constitute events of default with respect to the Series 2016 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 2016 Bonds of any Subseries; *provided, however,* if the failure to make any such payment is caused by a failure of a Series 2016 Participant to timely pay its Allocable Portion of the principal, Sinking Fund Installments or Redemption Price of or interest on the Series 2016 Bonds pursuant to the terms of its Series 2016 Loan Agreement, then it shall be an event of default under the Resolutions only with respect to the Defaulted Allocable Portion of the Series 2016 Bonds Outstanding, as identified by the Trustee using the method for selection of Bonds upon an extraordinary mandatory redemption thereof as set forth in the Resolution;

(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 2016A-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 2016 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 2016 Bonds); or

(iv) an event of default under a Series 2016 Loan Agreement shall have occurred and is continuing and, as a result thereof, all sums payable by a Series 2016 Participant under such Series 2016 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 2016 Loan Agreement shall constitute an event of default under the Resolutions only with respect to the Defaulted Allocable Portion of the Series 2016 Bonds.

With respect to an event of default affecting only the Defaulted Allocable Portion of the Series 2016 Bonds and not any other portion of the Series 2016 Bonds, the Trustee will determine such Defaulted Allocable Portion in the manner described in "PART 3 - THE SERIES 2016 BONDS - Redemption Provisions - Extraordinary Mandatory Redemption."

The Series 2016 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 2016 Bonds, an event of default by a Series 2016 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 2016 Participant's Series 2016 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 2016 Participant's failure to timely pay its Allocable Portion of the Series 2016 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 2016 Bonds, by a notice in writing to DASNY, declare the principal of and interest on all of the Outstanding Series 2016 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 2016 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 2016 Participant to timely pay its Allocable Portion of the Series 2016 Bonds pursuant to its Series 2016 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 Series 2016 Bonds then Outstanding declare the principal of and interest on the Defaulted Allocable Portion of the Series 2016 Bonds then Outstanding 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 2016 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 2016 Bonds, the Holders of not less than 25% in principal amount of the Outstanding Series 2016 Bonds or 25% in principal amount of Defaulted Allocable Portion of the Series 2016 Bonds then Outstanding, 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 2016 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 2016 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 2016 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 2016 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 2016 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 2016 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 2016 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 2016 Participant's Series 2016 Loan Agreement, including such Series 2016 Participant's Pledged Revenues and other amounts derived from the exercise of any remedies under such Series 2016 Loan Agreement and the realization of any security or collateral granted by such defaulting Series 2016 Participant as security for its loan, and (ii) the moneys and securities on deposit in only those accounts established pursuant to the Series 2016 Resolution for the payment of such defaulting Series 2016 Participant's Allocable Portion of the Series 2016 Bonds. Holders of a Defaulted Allocable Portion of the Series 2016 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 2016 Participant for the payment of the Series 2016 Bonds or any other security pledged by such other non-defaulting Series 2016 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 2016 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 2016 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 2016 Bonds on a pro rata basis in accordance with the Resolution, (i) the remaining Defaulted Allocable Portion of the Series 2016 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 2016 Bonds shall be deemed to have been discharged and satisfied, and (iii) the Holders of the Defaulted Allocable Portion of the Series 2016 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 2016 Bonds. Upon such payment and/or cancellation of a Defaulted Allocable Portion of the Outstanding Series 2016 Bonds, DASNY shall execute and the Trustee shall authenticate a new Series 2016 Bond or Series 2016 Bonds in a principal amount equal to the Outstanding principal amount of the Series 2016 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 2016 Bonds of less than all of the principal of and interest on a Defaulted Allocable Portion of the Series 2016 Bonds then Outstanding following an acceleration or extraordinary mandatory redemption of such Defaulted Allocable Portion of the Series 2016 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 2016 Bonds under the Resolutions.

General

The Series 2016 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 2016 BONDS

Set forth below is a narrative description of certain provisions relating to the Series 2016 Bonds. These provisions have been summarized, and this description does not purport to be complete. Reference should be made to the Resolution, the Series 2016 Resolution and the Series 2016 Loan Agreements, copies of which are on file with DASNY and the Trustee. See also "Appendix E - Summary of Certain Provisions of the Series 2016 Loan Agreements" and "Appendix F - Summary of Certain Provisions of the Resolutions," for a more complete description of certain provisions of the Series 2016 Bonds.

General

The Series 2016 Bonds will be issued pursuant to the Resolutions. The Series 2016 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 2016 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 2016 Bonds, payments of principal, Sinking Fund Installments, Redemption Price and interest on the Series 2016 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 2016 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 2016 Bonds, the Series 2016 Bonds will be exchangeable for fully registered Series 2016 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" and "Appendix F - Summary of Certain Provisions of the Resolutions."

Description of the Series 2016 Bonds

The Series 2016 Bonds will be dated their date of delivery and will bear interest from such date (payable on July 1, 2016 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 2016 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 2016 Bonds may be exchanged for other Series 2016 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 2016A-1 Bonds maturing after July 1, 2026 are subject to redemption, on or after July 1, 2026, as a whole or in part at any time at the option of DASNY, at a Redemption Price of 100% of the unpaid principal amount of the Subseries 2016A-1 Bonds to be redeemed, plus accrued interest to the redemption date.

The Subseries 2016A-2 Bonds are not subject to optional redemption.

Extraordinary Mandatory Redemption

Each Defaulted Allocable Portion of the Series 2016 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 2016 Participant as security for its loan upon an acceleration of such loan under its Series 2016 Loan Agreement. The Series 2016 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 2016 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 2016 Bonds on the redemption date less the amount of accrued interest to be paid on such Defaulted Allocable Portion of the Series 2016 Bonds on such date, by (B) the principal amount of the Defaulted Allocable Portion of the Series 2016 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 2016 Bonds to be redeemed based upon the schedule of amortization of the defaulting Series 2016 Participant's loan which has been accelerated. All Series 2016 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 2016 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 2016 Bond by the total principal scheduled to be paid in the year of maturity of such Series 2016 Bond on all loans made with the proceeds of the Series 2016 Bonds, including the defaulted loan.

The particular Series 2016 Bonds of each affected maturity to be redeemed will be selected in the manner described below under "- Selection of Series 2016 Bonds to be Redeemed."

Special Redemption

The Series 2016 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 proceeds are not to be used to repair, restore or replace a Series 2016 Facility of a Series 2016 Participant, (b) from unexpended proceeds of the Series 2016 Bonds upon abandonment of all or a portion of a Series 2016 Facility due to a legal or regulatory impediment and (c) the proceeds of the sale of a Series 2016 Facility.

Mandatory Sinking Fund Redemption

The Subseries 2016A-1 Bonds maturing on July 1, 2030, July 1, 2035 and July 1, 2040 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 2016A-1 Bonds specified for each such year below:

Subseries 2016A-1 Bonds Maturing July 1, 2030		Subseries 2016A-1 Bonds Maturing July 1, 2035		Subseries 2016A-1 Bonds Maturing July 1, 2040	
Year	Sinking Fund Installment	Year	Sinking Fund Installment	Year	Sinking Fund Installment
2027	$805,000	2031	$480,000	2036	$405,000
2028	830,000	2032	425,000	2037	425,000
2029	790,000	2033	445,000	2038	435,000
2030†	815,000	2034	450,000	2039	445,000
		2035†	460,000	2040†	470,000

†Final maturity.

The Subseries 2016A-2 Bonds maturing on July 1, 2017 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 2016A-2 Bonds specified for each such year below:

Year	Sinking Fund Installment
2016	$260,000
2017†	510,000

†Final maturity.

The Series 2016 Participants may elect to have the Series 2016 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 2016 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 2016 Bonds of the Subseries and maturity so purchased will be reduced for such year.

Selection of Series 2016 Bonds to be Redeemed

In the case of redemptions of Subseries 2016A-1 Bonds described above under " - Optional Redemption," DASNY will select the maturities of the Allocable Portion of the Subseries 2016A-1 Bonds to be redeemed. In the case of redemption of Series 2016 Bonds described above under " - Special Redemption," Series 2016 Bonds will be redeemed to the extent practicable pro rata among maturities of the Allocable Portion of the Series 2016 Bonds, but only in integral multiples of $5,000 within each maturity. If less than all of the Series 2016 Bonds of a maturity are to be redeemed (pursuant to an optional, special, extraordinary mandatory or mandatory sinking fund redemption), the Series 2016 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 2016 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 2016 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 2016 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 2016 Bond to be redeemed to receive notice of redemption thereof will not affect the validity of the proceedings for the redemption of such Series 2016 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 2016 Bonds.

If, on the redemption date, moneys for the redemption of the Series 2016 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 2016 Bonds of such Subseries and maturity will cease to accrue from and after the redemption date and such Series 2016 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 2016 Bonds, see "Appendix F - Summary of Certain Provisions of the Resolutions."

Purchase in Lieu of Optional Redemption

The Subseries 2016A-1 Bonds maturing after July 1, 2026 are also subject to purchase prior to maturity, at the election of DASNY, on or after July 1, 2026, in any order, in whole or in part at any time, at the price set forth under " - 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 2016A-1 Bonds to be so purchased.

Notice of Purchase and its Effect

Notice of the purchase of Subseries 2016A-1 Bonds will be given by DASNY in the name of one or more of the Series 2016 Participants to the registered owners of the Subseries 2016A-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 2016A-1 Bonds to be purchased are required to be tendered on the applicable Purchase Date to the Trustee. Subseries 2016A-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 2016A-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 2016A-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 2016A-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 2016A-1 Bonds to be purchased, the former registered owners of such Subseries 2016A-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 2016A-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 2016A-1 Bonds in accordance with their terms.

In the event not all of the Outstanding Subseries 2016A-1 of a maturity are to be purchased, the Subseries 2016A-1 Bonds of such maturity to be purchased will be selected by lot in the same manner as Subseries 2016A-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 2016 Bonds. The Series 2016 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 2016 Bond certificate will be issued for each maturity of the respective Subseries of Series 2016 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 Participants 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 2016 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2016 Bond ("Beneficial Owner") is in turn to be recorded on the Direct Participants' 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 Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016 Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners.

Beneficial Owners will not receive certificates representing their ownership interests in Series 2016 Bonds, except in the event that use of the book-entry system for the Series 2016 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016 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 2016 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 2016 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016 Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants 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 2016 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 2016 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 2016 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 2016 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 Participants 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 Participant 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 Participants and Indirect Participants.

DASNY and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 2016 Bonds registered in its name for the purposes of payment of the principal and redemption premium, if any, of, or interest on, the Series 2016 Bonds, giving any notice permitted or required to be given to registered owners under the Resolutions, registering the transfer of the Series 2016 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 Participant or Indirect Participant or any person claiming a beneficial ownership interest in the Series 2016 Bonds under or through DTC or any Direct Participant 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 Participant or Indirect Participant; the payment by DTC or any Direct Participant or Indirect Participant of any amount in respect of the principal, redemption premium, if any, or interest on the Series 2016 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 2016 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 2016 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 2016 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 2016 Bonds may thereafter be exchanged for an equal aggregate principal amount of Series 2016 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 2016 Bonds

The following table sets forth the amounts required to be paid by each of the Series 2016 Participants during each twelve-month period ending June 30 of the Bond Years shown for the payment of the interest on the Series 2016 Bonds payable on January 1 of such year and the principal and Sinking Fund Installments of and interest on the Series 2016 Bonds payable on the succeeding July 1 and the aggregate payments to be made by the Series 2016 Participants during each such period with respect to the Series 2016 Bonds.

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Total Debt Service by Series 2016 Participant

FY Ending	Family Residences and Essential Enterprises, Inc.		Lifespire, Inc.		Little Flower Children and Family Services of New York		Special Citizens Futures Unlimited, Inc.		Young Adult Institute, Inc.	
	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest
6/30/2016	$ 65,000	$ 62,608	$20,000	$ 7,613	$15,000	$10,311	$ 20,000	$13,326	$140,000	$123,067
6/30/2017	170,000	158,875	25,000	19,138	50,000	26,100	75,000	33,725	450,000	312,113
6/30/2018	160,000	156,275	15,000	18,763	50,000	25,300	80,000	32,400	470,000	304,363
6/30/2019	160,000	151,475	15,000	18,313	50,000	23,800	80,000	30,000	475,000	290,263
6/30/2020	170,000	145,075	20,000	17,713	55,000	21,800	85,000	26,800	500,000	271,263
6/30/2021	175,000	138,275	20,000	16,913	60,000	19,600	90,000	23,400	535,000	251,263
6/30/2022	175,000	131,275	20,000	16,113	60,000	17,200	90,000	19,800	550,000	229,863
6/30/2023	185,000	124,275	20,000	15,313	65,000	14,800	95,000	16,200	575,000	207,863
6/30/2024	200,000	116,875	20,000	14,513	65,000	12,200	100,000	12,400	515,000	184,863
6/30/2025	200,000	108,875	20,000	13,713	65,000	9,600	105,000	8,400	460,000	164,263
6/30/2026	200,000	100,875	20,000	12,913	70,000	7,000	105,000	4,200	480,000	145,863
6/30/2027	215,000	92,875	20,000	12,113	70,000	4,200			500,000	126,663
6/30/2028	225,000	86,425	20,000	11,513	70,000	2,100			515,000	111,663
6/30/2029	235,000	79,675	25,000	10,913					530,000	96,213
6/30/2030	245,000	72,625	25,000	10,163					545,000	80,313
6/30/2031	245,000	65,275	25,000	9,413					210,000	63,963
6/30/2032	180,000	57,925	25,000	8,663					220,000	57,663
6/30/2033	190,000	52,525	25,000	7,913					230,000	51,063
6/30/2034	190,000	46,825	30,000	7,163					230,000	44,163
6/30/2035	190,000	41,125	30,000	6,263					240,000	37,263
6/30/2036	205,000	35,425	30,000	5,363					170,000	30,063
6/30/2037	215,000	28,763	30,000	4,388					180,000	24,538
6/30/2038	215,000	21,775	35,000	3,413					185,000	18,688
6/30/2039	220,000	14,788	35,000	2,275					190,000	12,675
6/30/2040	235,000	7,638	35,000	1,138					200,000	6,500

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PART 4 - THE SERIES 2016 PARTICIPANTS

Descriptions of the Series 2016 Participants, their operations and the Series 2016 Facilities they will finance or refinance with the proceeds of the Series 2016 Bonds are set forth in Appendix A hereto. Copies of the most recent audited financial statements for each of the Series 2016 Participants are set forth in Appendix B hereto and copies of recent unaudited financial information for each of the Series 2016 Participants are set forth in Appendix C. Prospective purchasers of the Series 2016 Bonds should carefully review Appendix A, Appendix B and Appendix C.

The Series 2016 Participants are not-for-profit corporations, organized and existing under the laws of the State. All of the Series 2016 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 2016 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 2016 Participant's charitable purposes. When revenues are not sufficient to cover expenses, the Series 2016 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 2016 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 2016 Participants owns and/or leases and operates one or more facilities, including the Series 2016 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 2016 Participants has represented that it has the appropriate licenses and authority to provide its services under State statutes. The Series 2016 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. The reimbursement rates for the Series 2016 Participants for such contracts or arrangements are adjusted annually according to a standardized formula set by the State and are subject to annual appropriation by the State Legislature. *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 2016 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 2016 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 2016 Participants**. See "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING."

The Series 2016 Participants have engaged the Program Facilitator to act as the facilitator for the InterAgency Council Pooled Loan Program. For its services, the Series 2016 Participants will pay the Program Facilitator a fee of .25% of the principal amount of the Series 2016 Bonds at closing for new money loans and an annual fee of .125% of all outstanding Series 2016 Bonds. The Program Facilitator fee will not exceed $15,000 per year for any Series 2016 Participant. Each of the Series 2016 Participants are members of the Program Facilitator.

Except for FREE's Centereach Facility, all of the Series 2016 Facilities financed by the Series 2016 Bonds are covered by PPAs funded by OPWDD. FREE expects that the principal of and interest on the Allocable Portion of the Series 2016 Bonds of FREE related to the Centereach Facility to be paid from operating revenues of FREE. All of the Series 2016 Participants have over 35 years of experience providing services. See "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING."

Also see “Appendix A - Description of Series 2016 Participants” for a description of which Series 2016 Participants (i) have Prior Pledges of their respective Pledged Revenues, (ii) own or lease their respective Series 2016 Facilities and (iii) will grant mortgages (and the nature of such mortgages) on their respective Series 2016 Facilities.

PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING

General

OPWDD provides a portion of the revenues of the Series 2016 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 2016 Participants for provision of services is set forth below. Other government funding sources for one or more of the Series 2016 Participants are described in “Appendix A - Description of Series 2016 Participants.”

New York State Office for People with Developmental Disabilities

OPWDD is responsible for coordinating services for more than 130,000 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.

OPWDD’s community services system continues to grow reflective of the needs of the State’s residents, subject to the funds available in the OPWDD budget. For example, the residential program has grown from 9,000 community beds in 1980 to over 41,000 community beds in 2015. Additional development of community services will be required to serve individuals needing out-of-home placement who cannot be served within the existing capacity. In State Fiscal Year 2015-16, residential capacity expansion has focused on several priority groups, including (1) people considered emergencies such as people in abusive or neglectful situations, homeless or in imminent danger of being so, (2) people living in state-operated campus programs or nursing homes (when appropriate), and (3) people aging out of residential schools. Regarding this latter group, OPWDD is under legislative mandate to develop community residential placements for approximately 533 young adults who will be transferring from in-state and out-of-state “residential schools” over the next three years. Additionally, OPWDD, in response to a legislative requirement, is surveying families in the State who have a family member who will need an out-of-home placement in the next few years. A report to the State Legislature on the results of this survey is due in February 2016. The current “waiting list” for people currently living with their families is approximately 6,000 statewide.

Funding for new services is awarded through a Request for Services process, and is targeted to the locally identified and State-wide 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 has five regional offices specifically dedicated to overseeing non-profit agency operations and six regional offices dedicated to the operation and oversight of State provided services. Additionally, families who care for nearly 65,000 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 under the supervision of OPWDD.

In connection with the foregoing, OPWDD is responsible for, among other things, the regulation and certification of the Series 2016 Facilities expected to be financed or refinanced with the proceeds of the Series 2016 Bonds. Such regulation and certification includes, among other things, participation in the determination as to the need for such Series 2016 Facilities, review of plans and specifications for construction/rehabilitation of such Series 2016 Facilities, the right to conduct inspections and program audits, and the establishment of a reimbursement rate for an individual's care.

Effective July 1, 2014, OPWDD, in conjunction with the New York State Department of Health ("DOH"), implemented a new reimbursement methodology for Intermediate Care Facilities, Supervised and Supportive Community Residences (including Individualized Residential Alternatives) and Day Habilitation programs. The development of a new methodology was initiated at the request of the Federal Centers for Medicare and Medicaid Services ("CMS") to establish a more rational system that would result in uniformity, transparency, predictability and stability. The process of creating the new methodology was the result of a two-year collaborative effort among representatives of OPWDD, DOH, and provider associations, and with the oversight of CMS. The outcome of the new methodology potentially results in varying degrees of either a positive or negative change in reimbursement for individual agencies. As a safety net for providers for whom the transition to a lower reimbursement would be difficult to manage, OPWDD and DOH issued a Request for Proposals called the "People First Waiver Community Service Funds" to provide financial support to assist such providers in creating efficiencies in their operations. However, funding for the capital portion of PPA projects will not change as a result of the new rate methodology. The new rates will be phased in over four years, and included an adjustment in July 2015 based upon the 2013 Consolidated Fiscal Reports cost reports. Additionally, the 2015-16 budget for OPWDD increased by 3.2% including $124 million for new community services plus an additional $42 million for new integrated residential settings. For a description of the impact of the new methodology on each of the Series 2016 Participants, see "Appendix A - Description of Series 2016 Participants."

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 services system provides residential care and habilitative services to consumers at four remaining developmental centers and related special population units located in Brooklyn, Queens, Broome and Franklin County. 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 the State's obligations under a 1999 United States Supreme Court decision (Olmstead v. L.C.). 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. As of October 2015, approximately 400 people remained living in four OPWDD developmental centers: 23 in Brooklyn, which facility is scheduled to close in December 2015; 112 in Queens, which facility is scheduled to close by March 2017; 112 in Broome County, which is scheduled to close by March 2016; and 169 in Sunmount Developmental Center in Tupper Lake, which facility is scheduled to remain open.

Additionally, during 2013-14 OPWDD initiated a "system transformation" to address the principles of the Olmstead decision, as well as the guidance of the CMS. The CMS guidance and subsequent OPWDD regulations set standards for increased community integration and individuals' rights.

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 October 1, 2015 was 405. (Source: OPWDD):

Year (as of 3/31)	State-Operated Development Centers	Community Residences
2010	1,300	37,500
2011	1,300	39,000
2012	1,300	40,000
2013	1,100	41,077
2014	800	41,334
2015	500	41,000

The actual expenditures made for the operations and costs of OPWDD for State Fiscal Years 2010-11 through 2014-15 and the projected expenditures for the operations and costs of OPWDD for State Fiscal Year 2015-16 are as follows. (Source: OPWDD):

Year	State Operations	Aid to Localities	Total Operations	Capital
2010-11	2,130,407,000	2,179,873,000	4,310,280,000	24,369,000
2011-12	2,009,106,000	2,320,147,000	4,329,253,000	41,719,000
2012-13	2,052,554,000	2,204,415,000	4,256,969,000	38,710,000
2013-14	2,038,125,000	2,102,972,000	4,141,097,000	39,486,000
2014-15	2,004,535,000	2,176,427,000	4,180,962,000	47,952,000
2015-16	1,967,330,000	2,352,124,000	4,319,454,000	43,099,000

The funding received by the Series 2016 Participants from OPWDD is appropriated through Aid to Localities appropriations.

Prior Property Approval Process

Prior to initiating the development of a capital project to serve intellectually and developmentally disabled 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 application is reviewed by the OPWDD Developmental Disabilities Services Office in the provider's region 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 the approval process of capital costs for program sites for the New York State Division of the Budget and to facilitate the capital financing of such sites. This regulatory requirement is incorporated in Title 14, New York State Codes, Rules and

Regulations Parts 635, 641, 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 within the approved budget in conformance with the PPA, subject to annual appropriation of sufficient moneys by the State Legislature. For intermediate care facilities, individualized residential alternatives, day habilitation, prevocational and community residences, OPWDD will reimburse a provider for all capital costs approved in the PPA at the daily rate/price. As long as the provider continues to meet the requirements of the operating certificate, the provider is eligible for such reimbursement.

Certain capital costs are not subject to the PPA process. In 2010, the costs associated with equipment depreciation and interest were transferred by OPWDD to a separate operating cost category and are included with operational program costs. Since 2010, OPWDD has funded renovation costs associated with existing certified residential programs with a Residential Replacement Reserve ("RRR") rate component. The RRR is a prospective per person amounted added to each program's rate. In the event that repair and renovation costs exceed the RRR capacity of a provider, OPWDD does have a process that allows the provider to receive additional funding on a project specific basis. For intermediate care facilities, the RRR funding is no longer included as an operating component of the rate and since July 1, 2014 has once again become a property component which is funded through the PPA process.

PPA Regulatory Compliance Process

OPWDD has expanded restrictions related to certain projects that had not yet received a PPA as of February 2015, but would otherwise require such a document under applicable regulations. These projects (the "Applicable Projects") are sites for which OPWDD funding is sought for (a) new acquisition, renovation and development, or (2) "substantial renovation" of an existing OPWDD-regulated site, with "substantial renovation" defined as renovation expenses that exceed 75% of the fair market value of the site as determined from the applicable municipal assessment rolls. Other than FREE's Centereach Facility, each Series 2016 Facility is supported by an OPWDD PPA, which the applicable Series 2016 Participant has received. For a description of which Series 2016 Facilities are Applicable Projects, see "Appendix A - Description of Series 2016 Participants."

For Applicable Projects, OPWDD will require that the provider applicant execute a Regulatory Compliance Contract and a Capital Component Security and Lien Agreement. The Regulatory Compliance Contract requires that the provider will operate an OPWDD-regulated program at the site for 40 years, and that the provider will otherwise comply with all applicable OPWDD regulations.

The Capital Component Security Agreement requires the provider to comply with the Regulatory Compliance Contract. In order to secure performance of the Regulatory Compliance Contract, the Capital Component Security Agreement grants OPWDD a first lien on the Facility (as defined therein) and the furniture, fixtures and equipment thereon, which lien also secures any amounts in the future paid by OPWDD to satisfy any mortgage, capital expenditures or operating and maintenance expenses, and professional services and other expenses, incurred by OPWDD.

The Capital Component Security Agreement also requires the provider to covenant to operate its program, comply with all laws, maintain insurance, construct, renovate and maintain the Facility, and comply with certain other covenants and conditions. The Capital Component Security Agreement restricts transfer and mortgaging of the Facility, and contains a Purchase Option, exercisable by OPWDD, in the amount of the principal balance of any Approved Mortgage (as defined therein).

Finally, for Applicable Projects, OPWDD has approved a form of Subordination Agreement in which the rights of OPWDD under the Regulatory Compliance Contract and the Capital Component Security Agreement are subordinate to the lien of any Approved Mortgage (as approved in writing by OPWDD).

The Series 2016 Facilities with existing PPAs could potentially become "Applicable Projects," subject to the above procedures, if a future renovation is so significant as to qualify it as a "substantial renovation" (as defined above).

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 2016 Facilities, are required to have an operating certificate (an "Operating Certificate") issued by the New York State Commissioner of OPWDD (the "Commissioner"). The Commissioner, upon issuing a notice that he or she will revoke or suspend an operating certificate of a residential 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 2016 Facilities

In addition to the statutory receivership remedy described above, each Series 2016 Loan Agreement provides for a contractual remedy upon the failure of a Series 2016 Participant to operate its Series 2016 Facilities in accordance with regulatory standards. Each Series 2016 Participant has covenanted and agreed in its Series 2016 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 2016 Facilities in accordance with the valid operating certificate issued by OPWDD for such Series 2016 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 2016 Facility for the remaining term during which such Series 2016 Participant has agreed to operate such certified program at the Series 2016 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 2016 Participant under its Series 2016 Loan Agreement with respect to such Series 2016 Facility as they become due and owing. See "Appendix D - Summary of Certain Provisions of the Series 2016 Loan Agreements" for further details of OPWDD's rights with respect to the Series 2016 Facilities and DASNY's remedy upon an event of default by a Series 2016 Participant under its Series 2016 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 2016 Bonds:

	Subseries 2016A-1 Bonds	**Subseries 2016A-2 Bonds**
Estimated Sources of Funds		
Proceeds of Series 2016 Bonds	$15,665,000	$770,000
Net Original Issue Premium	848,907	0
Total Sources of Funds	$16,513,907	$770,000
Estimated Uses of Funds		
Deposit to Project Loan Fund	$15,467,964	$ 0
Deposit to Series 2016 Debt Service Reserve Fund	644,179	32,059
Underwriter's Discount	330,278	153,671
Costs of Issuance	71,486	584,270
Total Uses of Funds	$16,513,907	$770,000

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"), The 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 September 30, 2015, DASNY had approximately

$47.3 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 490 employees located in three main offices (Albany, New York City and Buffalo) and at approximately 45 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. One of the appointments to the Board by the Governor is 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.

SANDRA M. SHAPARD, *Secretary*, 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.

JONATHAN H. GARDNER, Esq., Buffalo.

Jonathan H. Gardner was appointed as a Member of DASNY by the Governor on June 17, 2014. Mr. Gardner is a partner of the law firm Kavinoky Cook, LLP in Buffalo, New York. His practice areas include corporate and securities law, commercial transactions, private placements, venture capital financing and business combinations representing private and public companies. Mr. Gardner is also an adjunct professor at the University of Buffalo Law School. He holds a Bachelor of Arts degree from Brown University and a Juris Doctor degree from the University of Chicago Law School. Mr. Gardner's term expired on March 31, 2015 and by law he continues to serve until a successor shall be chosen and qualified.

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.

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.

MARYELLEN ELIA, *Commissioner of Education of the State of New York,* Loudonville; *ex-officio.*

MaryEllen Elia was appointed by the Board of Regents to serve as Commissioner of Education and President of the University of the State of New York effective July 6, 2015. As Commissioner of Education, Ms. Elia 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. Prior to her appointment in New York, Ms. Elia served as Superintendent of Schools in Hillsborough County, Florida for 10 years. She began her career in education in 1970 as a social studies teacher in Buffalo's Sweet Home Central School District and taught for 19 years before becoming an administrator. She holds a Bachelor of Arts degree in History from Daemen College in Buffalo, a Master of Education from the University at Buffalo and a Master of Professional Studies from SUNY Buffalo.

HOWARD A. ZUCKER, M.D., J.D., *Commissioner of Health of the State of New York*, Albany; *ex-officio*.

Howard A. Zucker, M.D., J.D., was appointed Commissioner of Health on May 5, 2015 after serving as Acting Commissioner of Health since May 5, 2014. Prior to that he served as First Deputy Commissioner leading the state Department of Health's preparedness and response initiatives in natural disasters and emergencies. Before joining the state Department of Health, Dr. Zucker was professor of

Clinical Anesthesiology at Albert Einstein College of Medicine of Yeshiva University and a pediatric cardiac anesthesiologist at Montefiore Medical Center. He was also an adjunct professor at Georgetown University Law School where he taught biosecurity law. Dr. Zucker earned his medical degree from George Washington University School of Medicine. He also holds a J.D. from Fordham University School of Law and a LL.M. from Columbia Law School.

ROBERT F. MUJICA, JR., *Budget Director of the State of New York; ex-officio.*

Robert F. Mujica, Jr. was appointed Budget Director on January 14, 2016. 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.

The principal staff of DASNY is as follows:

GERRARD P. BUSHELL is the President and chief executive officer of DASNY. Mr. Bushell is responsible for the overall management of DASNY's administration and operations. Prior to joining DASNY, Mr. Bushell was Director, Senior Institutional Advisor of BNY Mellon's alternative and traditional investment management businesses. Prior thereto, he held a number of senior advisory roles, including Director, Client Partner Group at Kohlberg Kravis Roberts & Co. (KKR), Managing Director, Institutional Sales at Arden Asset Management LLC and Head of Institutional Sales at ClearBridge: a Legg Mason Company (formerly Citi Asset Management). Mr. Bushell previously served as Director of Intergovernmental Affairs for New York State Comptroller H. Carl McCall. Mr. Bushell holds a Bachelor of Arts degree, Master of Arts degree and Ph.D. in Political Science from Columbia University.

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 of Arts degree in Economics from the State University of New York at Plattsburgh and a Master of Arts degree in Business Administration from the University of Massachusetts.

KIMBERLY J. NADEAU, CPA, J.D. is the Chief Financial Officer and Treasurer of DASNY. As Chief Financial Officer and Treasurer, Ms. Nadeau 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. She previously was Vice President-Accounting and Controller for US Light Energy. Prior to that she was Vice President-Accounting and Controller for CH Energy Group, Inc. and held various positions culminating in a director level position at Northeast Utilities. Ms. Nadeau also held various positions with increasing responsibility at Coopers & Lybrand LLP. She holds a Bachelor of Science degree in Accounting, a Master of Business Administration with a concentration in Management and a Juris Doctor degree from the University of Connecticut. She is licensed to practice law in New York and Connecticut.

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.

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 of Arts degree from the State University of New York at Albany.

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 30 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.

CAROLINE V. GRIFFIN is the Chief of Staff of DASNY. She is responsible for overseeing intergovernmental relations and managing the Communications + Marketing Department, as well as coordinating policy and operations across DASNY's multiple business lines. Ms. Griffin most recently served as the Director of Intergovernmental Affairs for Governor Andrew M. Cuomo where she worked as the Governor's liaison with federal, state and local elected officials and managed staff serving in various capacities in the Governor's Office. Prior to that she served as the Assistant Executive Deputy Secretary for Governor Andrew M. Cuomo overseeing the operations staff and Assistant Secretary for Intergovernmental Affairs for both Governor David A. Paterson and Governor Eliot Spitzer. She holds a Bachelor of Arts degree in Communications from Boston College.

CAPRICE G. SPANN is the Managing Director of the Office of Executive Initiatives. Ms. Spann is responsible for strategic efforts in program development, including the utilization of Minority and Women-Owned Businesses and Service-Disabled Veteran-Owned ("SDVO") Business Enterprises, Information Services and the integration of Sustainability Programs with respect to DASNY's projects and in its business processes. She holds a Bachelor of Arts degree from the University of Wisconsin and a Master of Business Administration from Fordham University.

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, 2015. Copies of the most recent audited financial statements are available upon request at the offices of DASNY.

PART 8 - LEGALITY OF THE SERIES 2016 BONDS FOR INVESTMENT AND DEPOSIT

Under State law, the Series 2016 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 2016 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 2016 Bonds are negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution, the Series 2016 Resolution and in the Series 2016 Bonds.

PART 10 - TAX MATTERS

Subseries 2016A-1 Bonds

In the opinion of Barclay Damon, LLP, Co-Bond Counsel, under existing law and assuming compliance with the certain covenants described herein and the accuracy and completeness of certain representations, certifications of fact and statements of reasonable expectations by DASNY, the Series 2016 Participants, as applicable, and others, interest on the Subseries 2016A-1 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"). Interest on the Subseries 2016A-1 Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code; provided, however, that such interest on the Subseries 2016A-1 Bonds is taken into account in determining adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

The Code imposes various requirements that must be met in order that interest on the Subseries 2016A-1 Bonds will be and remain excluded from gross income for federal income tax purposes. Included among these requirements are restrictions on the investment and use of proceeds of the Subseries 2016A-1 Bonds and the rebate of certain earnings in respect of such investments to the United States. DASNY, each of the Series 2016 Participants, as applicable, and others have made certain representations, certifications of fact, and statements of reasonable expectations and DASNY and each of the Series 2016 Participants, as applicable, have given certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Subseries 2016A-1 Bonds from gross income under Section 103 of the Code. The opinion of Barclay Damon, LLP assumes continuing compliance with such covenants as well as the accuracy and completeness of such representations, certifications of fact, and statements of reasonable expectations.

In the event of the inaccuracy or incompleteness of any such representation, certification or statement, or of the failure by DASNY or the Series 2016 Participants to comply with any such covenant, the interest on the Subseries 2016A-1 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of original execution and delivery of the Subseries 2016A-1 Bonds, regardless of the date on which the event causing such inclusion occurs. Further, although the interest on the Subseries 2016A-1 Bonds is excludable from gross income for federal income tax purposes, receipt or accrual of the interest may otherwise affect the tax liability of a holder of a Subseries 2016A-1 Bond. The tax effect of receipt or accrual of the interest will depend upon the tax status of a holder of a Subseries 2016A-1 Bond and such holder's other items of income, deduction or credit. The opinion of Barclay Damon, LLP expresses no opinion with respect to any such effect.

The Subseries 2016A-1 Bonds maturing July 1 in the years 2035 through 2040, inclusive (the "Discount Bonds") are being sold to the initial purchasers at prices less than the stated principal amounts thereof. The difference between the stated principal amount of the Discount Bonds and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity were sold constitutes original issue discount that is excluded from gross income for federal income tax purposes to the same extent as interest on the Subseries 2016A-1 Bonds. Further, such original issue discount accrues actuarially on a constant yield basis over the term of each Discount Bond and the basis of such Discount Bond acquired at such initial offering price by an initial purchaser of each Discount Bond will be increased by the amount of such accrued discount.

The Subseries 2016A-1 Bonds maturing July 1 in the years 2017 through 2026, inclusive (the "Premium Bonds") are being sold to the initial purchasers at prices greater than the stated principal amount thereof. The Premium Bonds will be subject to requirements under the Code relating to tax cost reduction associated with the amortization of bond premium and, under certain circumstances, the initial owner of a Premium Bond may realize taxable gain upon disposition of Premium Bonds even though sold or redeemed for an amount less than or equal to such owner's original cost of acquiring Premium Bonds. The amortization requirements may also result in the reduction of the amount of stated interest that an owner of Premium Bonds is treated as having received for federal tax purposes (and an adjustment to basis). Owners of Premium Bonds are advised to consult with their own tax advisors with respect to the tax consequences of owning such Premium Bonds.

Prospective purchasers of the Subseries 2016A-1 Bonds should be aware that ownership of, accrual or receipt of interest on, or disposition of the Subseries 2016A-1 Bonds may have collateral federal income tax consequences for certain taxpayers, including financial corporations, insurance companies, Subchapter S corporations, certain foreign corporations, individual recipients of social security or railroad retirement benefits, individuals benefiting from the earned income credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry such obligations. Prospective purchasers should consult their own tax advisors as to any possible collateral consequences of their ownership of, accrual or receipt of interest on, or disposition of the Subseries 2016A-1 Bonds. Barclay Damon, LLP expresses no opinion regarding any such collateral federal income tax consequences.

Interest paid on tax-exempt obligations is subject to information reporting to the Internal Revenue Service ("IRS") in a manner similar to interest paid on taxable obligations. Interest on the Subseries 2016A-1 Bonds may be subject to backup withholding if such interest is paid to a registered owner who or which (i) fails to provide certain identifying information (such as the registered owners taxpayer identification number) in the manner required by the IRS, or (ii) has been identified by the IRS as being subject to backup withholding. Amounts withheld under the backup withholding rules will be paid to the IRS as federal income tax withheld on behalf of the registered owner of the Subseries 2016A-1 Bonds and would be allowed as a refund or credit against such owner's federal income tax liability (or the federal income tax liability of the beneficial owner of the Subseries 2016A-1 Bonds, if other than the registered owner).

Barclay Damon, LLP is further of the opinion that interest on the Subseries 2016A-1 Bonds is exempt from personal income taxes imposed by New York State or any political subdivision thereof (including The City of New York and the City of Yonkers). *See* "Appendix H – Forms of Approving Opinions of Co-Bond Counsel."

Current and future legislative proposals, if enacted into law, administrative actions or court decisions, at either the federal or state level, may cause interest on the Subseries 2016A-1 Bonds to be subject, directly or indirectly, to federal income taxation or to be subjected to state income taxation, or otherwise have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Subseries 2016A-1 Bonds for federal or state income tax purposes. The introduction or enactment of any such legislative proposals, administrative actions or court decisions may also affect, perhaps significantly, the value or marketability of the Subseries 2016A-1 Bonds. For example, proposals have been made that could limit the exclusion from gross income of interest on obligations like the Subseries 2016A-1 Bonds for taxpayers who are individuals and whose income is subject to higher marginal tax rates or that could otherwise significantly reduce the benefit of the exclusion from gross income of interest on obligations like the Subseries 2016A-1 Bonds. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the Federal or state income tax treatment of holders of the Subseries 2016A-1 Bonds may occur. Prospective purchasers of the Subseries 2016A-1 Bonds should consult their own advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Co-Bond Counsel expresses no opinion.

Barclay Damon, LLP's engagement with respect to the Subseries 2016A-1 Bonds ends with the issuance of the Subseries 2016A-1 Bonds and, unless separately engaged, Barclay Damon, LLP is not obligated to defend DASNY or the Bondholders regarding the tax-exempt status of interest on the Subseries 2016A-1 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than DASNY and its appointed counsel, including the Bondholders, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which DASNY legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Subseries 2016A-1 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Subseries 2016A-1 Bonds, and may cause DASNY, the Series 2016 Participants, as applicable, or the Bondholders to incur significant expense.

Subseries 2016A-2 Bonds

In the opinion of Barclay Damon, LLP, interest on the Subseries 2016A-2 Bonds is not excluded from the gross income of the owners thereof for purposes of federal income taxation. Interest on the Subseries 2016A-2 Bonds is exempt from existing personal income taxes of the State of New York and its political subdivisions, including The City of New York and the City of Yonkers. Holders of the Subseries 2016A-2 Bonds should consult their own tax advisors with respect to their particular circumstances.

The following discussion is a brief summary of the principal federal income tax consequences of the acquisition, ownership and disposition of Subseries 2016A-2 Bonds by original purchasers of the Subseries 2016A-2 Bonds who are "U.S. Holders", as defined herein. This summary (i) is based on the Code, Treasury regulations, revenue rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect; (ii) assumes that the Subseries 2016A-2 Bonds will be held as "capital assets:" and (iii) does not discuss all of the 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 the Subseries 2016A-2 Bonds as a position in a "hedge" or "straddle," holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, holders who acquire Subseries 2016A-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.

Holders of Subseries 2016A-2 Bonds should consult with their own tax advisors concerning the federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Subseries 2016A-2 Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

<u>Disposition and Defeasance</u>

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Subseries 2016A-2 Bond, a 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 holder's adjusted tax basis in the Subseries 2016A-2 Bond.

For federal income tax purposes, the defeasance of Subseries 2016A-2 Bonds pursuant to the Resolution 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, the character and timing of receipt of payments on the Subseries 2016A-2 Bonds subsequent to any such defeasance could also be affected.

Backup Withholding and Information Reporting

In general, interest paid on taxable obligations is subject to information reporting to the IRS. Interest on the Subseries 2016A-2 Bonds may be subject to backup withholding if such interest is paid to a registered owner who or which (i) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS, or (ii) has been identified by the IRS as being subject to backup withholding. Amounts withheld under the backup withholding rules will be paid to the IRS as federal income tax withheld on behalf of the registered owner of the Subseries 2016A-2 Bonds and will be allowed as a refund or credit against such owner's federal income tax liability (or the federal income tax liability of the beneficial owner of the Subseries 2016A-2 Bonds, if other than the registered owner).

U.S. Holders

The term "U.S. Holder" means a beneficial owner of a Subseries 2016A-2 Bond that is: (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.

PART 11 - BONDHOLDERS' RISKS

General

The Series 2016 Bonds involve a certain degree of risk. Prospective investors in the Series 2016 Bonds should review all of the information in this Official Statement and information pertaining to the Series 2016 Participants incorporated herein by reference carefully prior to purchasing any of the Series 2016 Bonds. This Official Statement contains only summaries of the Resolution, the Series 2016 Resolution, the Series 2016 Loan Agreements and the related documents. Prospective investors are urged to read such documents in their entirety prior to investing in the Series 2016 Bonds. Copies of such documents may be obtained from the Underwriter prior to the issuance of the Series 2016 Bonds. In addition, prospective investors should carefully review Appendix A for a discussion of the financial condition and results of operations of the Series 2016 Participants, Appendix B for copies of the audited financial statements of the Series 2016 Participants and Appendix C for copies of recent unaudited financial information for each of the Series 2016 Participants.

Set forth below are certain risk factors, among others, that could adversely affect a Series 2016 Participant's operation and revenues and expenses of its Series 2016 Facilities to an extent which cannot be determined at this time. Such risk factors should be considered before any investment in the Series 2016 Bonds is made. These risk factors should not be considered definitive or exhaustive.

Special, Limited Obligations of DASNY

The Series 2016 Bonds are special, limited obligations of DASNY payable solely from revenues to be received by DASNY from the Series 2016 Participants under the applicable Series 2016 Loan Agreement and from amounts held in the funds established pursuant to the Resolutions (other than the Arbitrage Rebate Fund). The Series 2016 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 2016 Participants

The obligations of each Series 2016 Participant under its Series 2016 Loan Agreement are independent of the obligations of the other Series 2016 Participants under their Series 2016 Loan Agreements. A failure by a Series 2016 Participant to timely pay its obligations under its Series 2016 Loan Agreement might result in an event of default under the Resolutions with respect to such Series 2016 Participant's Allocable Portion of the Series 2016 Bonds. Upon the happening and continuance of an event of default affecting only a Defaulted Allocable Portion of the Series 2016 Bonds, payment on such Defaulted Allocable Portion of Series 2016 Bonds will be limited to amounts received from or payable by or on behalf of such Series 2016 Participant and amounts derived upon the realization of any security or collateral granted by such defaulting Series 2016 Participant. With respect to Series 2016 Bonds comprising part of a Defaulted Allocable Portion of the Series 2016 Bonds, Holders of such Series 2016 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 2016 Participant for the payment of other Series 2016 Bonds or any other security pledged by such other non-defaulting Series 2016 Participants as security for their loans. The Series 2016 Bonds that comprise a Defaulted Portion of the Series 2016 Bonds will be selected by the Trustee in the same manner as Series 2016 Bonds selected for extraordinary mandatory redemption as described in the Resolution. 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 2016 BONDS - Events of Default - Special Provisions Relating to Defaults," "PART 3 - THE SERIES 2016 BONDS - Redemption Provisions" and "Appendix F - Summary of Certain Provisions of the Resolutions."

Reliance on Credit of the Series 2016 Participants

The Series 2016 Bonds are being issued without credit enhancement in the form of a letter of credit or bond insurance. While the amounts payable to the Series 2016 Participants pursuant to their respective PPAs are calculated in a manner so as to provide moneys equal to debt service on their respective loans, except as set forth in the next sentence, there can be no assurance that the funds received by a particular Series 2016 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 2016 Participant's Allocable Portion of the Series 2016 Bonds (whether because of non-appropriation of funds by the State, failure of a Series 2016 Participant to operate its Series 2016 Facility or Facilities in accordance with operational standards or otherwise). The portion of FREE's loan related to the Centereach Facility is not supported by a PPA and there can be no assurance that FREE's revenues will be sufficient for the repayment of the portion of FREE's Allocable Portion of the Series 2016 Bonds attributable to the Centereach Facility. Moreover, the payment obligations of the Series 2016 Participants are several, not joint. The Holders of the Series 2016 Bonds must therefore rely upon the credit of each Series 2016 Participant for the payment of the Series 2016 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 2016 BONDS - Security for the Series 2016 Bonds," and "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities."

Each Series 2016 Participant covenants in its Series 2016 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 2016 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; provided, however, that failure by a Series 2016 Participant in any Fiscal Year to demonstrate compliance with the Total Debt Service Coverage Ratio shall not constitute an Event of Default under the Series 2016 Loan Agreement if such Series 2016 Participant delivers to DASNY, the Underwriter and the Trustee, by the last day of the next succeeding Fiscal Year, a certificate of an Authorized Officer of such Series 2016 Participant along with a schedule or schedules demonstrating compliance with the Total Debt Service Coverage Ratio for a rolling 12-month period ending no earlier than 90 days after the end of the Fiscal Year for which such Series 2016 Participant is unable to demonstrate compliance.

Revenues of Series 2016 Participants

Future revenues of each Series 2016 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 2016 Bonds depends upon the receipt by the Trustee of the Loan Repayments under the Series 2016 Loan Agreements. A number of risks that could affect the Series 2016 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 2016 Participants; (ii) the State, various county and city departments to make timely payments to the Series 2016 Participants of appropriated amounts caused by revenue short falls or other State and local fiscal considerations; (iii) the Series 2016 Participants to fulfill their obligations which entitle them to receive payments, including payments under their respective PPAs; (iv) the Series 2016 Participants to maintain the appropriate certifications from the required licensing or certifying entity(ies) to provide services as required; and/or (v) the Series 2016 Participants to obtain the renewal of their contracts to provide services. In addition, a Series 2016 Participant's license and/or certification may be revoked for failure to comply with standards of operation applicable to such Series 2016 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 2016 Participants, the applicable Series 2016 Participant and DASNY shall enter into one or more separate loan agreements. The Series 2016 Bonds are separately secured from all other Series of Bonds and the Holders of any Series of Bonds other than the Series 2016 Bonds are not entitled to the rights, benefits and security conferred upon the Holders of the Series 2016 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 2016 Bonds, an event of default by a Series 2016 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 2016 Participant's Series 2016 Loan Agreement. See "PART 1 - INTRODUCTION - Authorization of Issuance" and "- Security for the Series 2016 Bonds" and "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2016 BONDS."

Enforceability of Remedies; Effect of Bankruptcy of a Series 2016 Participant

The Series 2016 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 2016 Bonds described herein upon any default will depend upon the exercise of various remedies specified by the Resolutions, the respective Series 2016 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 2016 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 2016 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 2016 Bonds are subject to various provisions of Title 11 of the United States Code (the "Bankruptcy Code"). If a Series 2016 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 2016 Participant and its property, including the commencement of foreclosure proceedings under its Mortgage, if applicable. Such Series 2016 Participant would not be permitted or required to make payments of principal or interest under its Series 2016 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 2016 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 2016 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 2016 Participant's Allocable Portion of the Series 2016 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 2016 Participant, which could affect the likelihood or timing of obtaining such relief. In addition, if the Mortgage of such defaulting Series 2016 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 2016 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 then-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 2016 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 2016 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 2016 Bonds

The Mortgages do not presently provide any security for the Series 2016 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 2016 Loan Agreement provides that (a) DASNY, without the consent of the Trustee or the Holders of the Series 2016 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 2016 Bonds located in or on or used in connection therewith and (b) 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 2016 Participant may remove such furniture, fixtures or equipment from the Mortgaged Property provided that such Series 2016 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 2016 BONDS - Security for the Series 2016 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 2016 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 2016 Loan Agreements or the applicable Mortgages, and (viii) claims by creditors that the mortgaged indebtedness in excess of the then-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 2016 Participant’s Series 2016 Loan Agreement, and one of the options under the Resolution, is to institute foreclosure proceedings to enforce the lien on and sell such Series 2016 Participant’s Mortgaged Property in the event of a default under its Series 2016 Loan Agreement, its Mortgage(s) or the Resolutions. However, due to the limited uses for which a Series 2016 Participant’s Mortgaged Property may be utilized, none of DASNY, the Program Facilitator, the Trustee, the applicable Series 2016 Participant, or the Underwriter makes any assurances or representations that DASNY or the Trustee will be able to effect a sale of a Series 2016 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 of such Series 2016 Participant on deposit in the various funds established under the Resolution, will be sufficient to pay in full the principal of, or interest on, the Allocable Portion of the Series 2016 Bonds attributable to such defaulting Series 2016 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 2016 Bonds that would otherwise have been available absent the existence of such hazardous materials.

Another option under a Series 2016 Participant's Series 2016 Loan Agreement is to institute proceedings to enforce the lien on and sell the Series 2016 Participant's Equipment (as defined in each Mortgage) in the event of a default under its Series 2016 Loan Agreement, its Mortgage(s) or the Resolutions. However, due to the limited uses for which a Series 2016 Participant's Equipment may be utilized, none of DASNY, the Program Facilitator, the Trustee, the applicable Series 2016 Participant, or the Underwriter makes any assurances or representations that DASNY or the Trustee will be able to sell a Series 2016 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 2016 Participant established under the Resolution, would be sufficient to pay in full the principal of, or interest on, the Series 2016 Bonds attributable to such defaulting Series 2016 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 2016 Participants. Such approval was not sought in connection with the execution, delivery and performance by the Series 2016 Participants of the Mortgages or the pledges of assets and revenues that are contemplated by the Resolutions and the Series 2016 Loan Agreements. It is the opinion of counsel to the Series 2016 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 2016 Facilities from Lien of Mortgages

Each Series 2016 Loan Agreement, each Mortgage and the Resolutions provide a Series 2016 Participant the ability to prepay a portion of its loan attributable to a Series 2016 Facility and, upon the redemption or defeasance of the related Series 2016 Bonds to have such Series 2016 Facility released from the lien of the applicable Mortgage. There is no assurance that the security, if any, provided by the remaining Series 2016 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 2016 Participant's Allocable Portion of the Series 2016 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 2016 Participant.

The Series 2016 Facilities of Little Flower, which consist of a residential facility building, parking lot and other improvements, are situated on approximately 2.317 acres of an approximately 15.687 acre parcel. Little Flower's Mortgage provides that if a subdivision of the approximately 15.687 acre parcel is approved and certain other conditions are satisfied, DASNY will approve a release of approximately 13.55 acres of the unimproved land from the Little Flower Mortgage. See "Appendix A – Description of Series 2016 Participants."

In view of the foregoing, investors should rely on their own examination of the creditworthiness and financial condition of each of the Series 2016 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 2016 Participants are subject to Federal, State and local actions, including, among others, actions by the various State, county and city departments. The Series 2016 Bonds are payable from operating revenues of the Series 2016 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 2016 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 2016 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 2016 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 2016 Bonds, will materially adversely affect a Series 2016 Participant's ability to make its Loan Repayments and, consequently, the repayment of the Series 2016 Bonds attributable to such Series 2016 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 2016 Participants.

Completion of the Projects; Zoning; Certificate of Occupancy

The acquisition of all of the Series 2016 Facilities are complete. Each of the Series 2016 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 of Occupancy or Certificates of Completion are required for (i) FREE's Series 2016 Facilities located at 7 Dogwood Lane, Westbury, New York, 4 White Pine Way, Medford, New York, 28 Schleigel Boulevard, North Amityville, New York, 14 Hawser Place, Coram, New York, 17 Somerset Street, Centereach, New York and 105-09 170th Street, Jamaica, New York and (ii) YAI's Series 2016 Facilities located at 416 Grant Avenue, Brooklyn, New York, 361 83rd Street, Brooklyn, New York and 198 Lake Avenue, Deer Park, New York.

Each Series 2016 Facility may require special use permits or compliance or other zoning approval (each, a "Certificate") from the applicable municipality. Failure of a Series 2016 Participant to obtain an appropriate Certificate where the same is required could materially adversely affect the financial position of such Series 2016 Participant. Moreover, the failure of a Series 2016 Participant's Series 2016 Facilities to receive a Certificate when required could materially adversely impact either the Series 2016 Participant's, the Trustee's or another party's right to use or occupy the Series 2016 Facility, before or after the exercise of default remedies.

Operating Certificates, which permit the Series 2016 Participants to operate their Series 2016 Facilities, have been issued by OPWDD for all of the Series 2016 Facilities, except for (i) FREE's Series 2016 Facilities located at 7 Dogwood Lane, Westbury, New York, 4 White Pine Way, Medford, New York, 28 Schleigel Boulevard, North Amityville, New York, 14 Hawser Place, Coram, New York, 17 Somerset Street, Centereach, New York and 3 Thornwood Road, Centereach, New York (no Operating Certificate is required for 3 Thornwood Road), (ii) Lifespire Inc.'s Series 2016 Facilities located at 4 Corriedale Lane, Cottekill, New York and (iii) YAI's Series 2016 Facilities located at 416 Grant Avenue, Brooklyn, New York and 198 Lake Avenue, Deer Park, New York, as their construction and/or renovation are not yet completed.

Additional Indebtedness

Under its Series 2016 Loan Agreement, each Series 2016 Participant has the ability to incur additional debt. An event of default by a Series 2016 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 2016 Participant's Series 2016 Loan Agreement. See "Appendix E - Summary of Certain Provisions of the Series 2016 Loan Agreements."

Prior Pledges of Pledged Revenues

The Series 2016 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 2016 Participants to DASNY pursuant to its Series 2016 Loan Agreement, subject to Prior Pledges. Certain of the Series 2016 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 2016 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 2016 Participant's Allocable Portion of the Series 2016 Bonds is subject, and subordinate, to such Prior Pledges in all respects. In addition, DASNY has agreed in the Little Flower's Series 2016 Loan Agreement to allow Little Flower to secure a working capital line of credit with a lien on receivables, including Public Funds, prior to the lien on Pledged Revenues created by Little Flower's Series 2016 Loan Agreement. See "Appendix A - Description of Series 2016 Participants" for a description of which Series 2016 Participants have Prior Pledges of their respective Pledged Revenues.

Grant of Additional Security Interests

Subject to the limitations set forth in its Series 2016 Loan Agreement, a Series 2016 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 2016 Participant and its ability to satisfy its Loan Repayment obligations. See "Appendix E - Summary of Certain Provisions of the Series 2016 Loan Agreements."

A Series 2016 Participant may also grant a subordinate mortgage as security for bonds issued by DASNY after the date of issuance of the Series 2016 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 2016 Facility, and any loan agreement, or amendment to the applicable Series 2016 Loan Agreement, between DASNY and such Series 2016 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 2016 Participant is subject to various requirements affecting its operation. The failure of a Series 2016 Participant to maintain its tax-exempt status may affect the Series 2016 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 2016 Loan Agreement. Further, a loss of a Series 2016 Participant's status as a Section 501(c)(3) organization, failure of a Series 2016 Participant to comply with certain legal requirements of the Code, or adoption of amendments to the Code applicable to such Series 2016 Participant that restrict the use of tax-exempt bonds for facilities, such as one or more of its Series 2016 Facilities, could cause interest on the Subseries 2016A-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 2016A-1 Bonds. The opinion of Barclay Damon, LLP, Co-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 2016A-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 2016A-1 Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the Subseries 2016A-1 Bonds. See "PART 10 - TAX MATTERS." The Subseries 2016A-1 Bonds are not subject to redemption, nor will the interest rate on the Subseries 2016A-1 Bonds be changed, if interest on the Subseries 2016A-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 2016A-1 Bonds.

The Internal Revenue Service notified YAI, which is expected to receive a loan of approximately $9,805,000 from the proceeds of the Series 2016 Bonds, of an examination of its executive compensation and possible unrelated business income in May 2013, which examination remains ongoing. For more information related to this examination, see "Appendix A - Description of Series 2016 Participants – Young Adult Institute – Internal Revenue Service Examination."

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 New York State Attorney General, the United States Attorney's Office, 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 2016 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 2016 Participant and the effect of any such review on such Series 2016 Participant's ability to make its payments under its Series 2016 Loan Agreement.

Specific Risks Related to Series 2016 Leased Facilities

In order to secure its obligations under its Series 2016 Loan Agreement, YAI 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 2016 Facilities located at 416 Grant Avenue, Brooklyn, New York, 361 83rd Street, Brooklyn, New York, 290 Madison Avenue, New York, New York and 94-17 84th Street, Ozone Park, Queens, 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 YAI’s Series 2016 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 2016 Facility similar to the program currently operated therein by YAI. The applicable Replacement Tenant would assume YAI’s liabilities and obligations under the applicable Lease on terms acceptable to the landlord. Notwithstanding the Collateral Assignment of Leases, YAI 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 2016 Facilities, or otherwise preclude the receipt of sufficient revenues to repay YAI’s Allocable Portion of the Series 2016 Bonds.

PART 12 - STATE NOT LIABLE ON THE SERIES 2016 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 2016 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 2016 Bonds by DASNY are subject to the approval of Barclay Damon, LLP, Albany, New York, and Marous Law Group, P.C., New York, New York, Co-Bond Counsel to DASNY, whose approving opinions will be delivered with the Series 2016 Bonds; provided, however, that certain legal matters with respect to the tax status of interest on the Series 2016A-1 Bonds is subject to the approval of only Barclay Damon, LLP. The proposed forms of Co-Bond Counsel’s opinions are set forth in Appendix H hereto.

Certain legal matters will be passed upon for the Series 2016 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 2016 Bonds or questioning or affecting the validity of the Series 2016 Bonds or the proceedings and authority under which they are to be issued.

See “Appendix A - Description of Series 2016 Participants” for a description of any litigation which may have a material adverse effect on the Series 2016 Participants.

PART 15 - CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”), each Series 2016 Participant will enter into a written agreement (collectively, the “Continuing Disclosure Agreements”) for the benefit of the Holders of the Series 2016 Bonds with Digital Assurance Certification L.L.C. (“DAC”), as disclosure dissemination agent, the Trustee, and DASNY. The proposed form of the Continuing Disclosure Agreement is attached as Appendix G hereto.

For information about the Series 2016 Participants’ compliance with their continuing disclosure undertakings made pursuant to Rule 15c2-12, see “Appendix A - Description of Series 2016 Participants.”

PART 16 - UNDERWRITING

The Series 2016 Bonds are being purchased by Municipal Capital Markets Group, Inc. (the “Underwriter”). The Underwriter has agreed, subject to certain conditions, to purchase the Series 2016 Bonds from DASNY at a purchase price of $16,799,957.65 and to make a public offering of the Series 2016 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 2016 Bonds if any Series 2016 Bonds are purchased. The Series 2016 Bonds may be offered and sold to certain dealers (including dealers depositing such Series 2016 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 2016 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 2016 Bonds have been rated “Aa2” by Moody’s. The rating on the Series 2016 Bonds is based upon the obligation of the Series 2016 Participants under the Series 2016 Loan Agreements to make certain payments from the Revenues, and on the security interest in the Pledged Revenues granted by such Series 2016 Participants to DASNY under the Series 2016 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 2016 Bonds.

PART 18 - INDEPENDENT PUBLIC ACCOUNTANTS

The Series 2016 Participants (other than FREE) have provided their respective financial statements as of and for the years ended June 30, 2015, June 30, 2014 and June 30, 2013 and FREE has provided their financial statements as of and for the years ended December 31, 2014, December 31, 2013 and December 31, 2012. 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 2016 Loan Agreements and the Mortgages do not purport to be complete. Refer to the Act, the Resolutions, the Series 2016 Loan Agreements and the Mortgages for full and complete details of their provisions. Copies of the Resolutions, the Series 2016 Loan Agreements and the Mortgages are on file with DASNY and the Trustee.

The agreements of DASNY with Holders of the Series 2016 Bonds are fully set forth in the Resolutions. Neither any advertisement of the Series 2016 Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2016 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 2016 Participants contained in this Official Statement and information concerning the Series 2016 Facilities contained herein has, in each case, been furnished by the Series 2016 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 2016 Participants," "Appendix B - Audited Financial Statements of Series 2016 Participants" and "Appendix C - Unaudited Financial Information of Series 2016 Participants" were supplied by the Series 2016 Participants.

"Appendix D - Certain Definitions," "Appendix E - Summary of Certain Provisions of the Series 2016 Loan Agreements," "Appendix F - Summary of Certain Provisions of the Resolutions," "Appendix G – Form of Continuing Disclosure Agreement" and "Appendix H - Forms of Approving Opinion of Co-Bond Counsel" have been prepared by Barclay Damon, LLP, Albany, New York, and Marous Law Group, P.C., New York, New York, Co-Bond Counsel to DASNY.

Appendix G – Form of Continuing Disclosure Agreement" has been prepared by DASNY.

Each Series 2016 Participant has reviewed the parts of this Official Statement describing such Series 2016 Participant, its Series 2016 Facilities, its Mortgage, if any, "PART 1 – INTRODUCTION" (but solely with respect to the headings "The Series 2016 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 2016 BONDS – Security for the Series 2016 Bonds - Pledged Revenues – OPWDD Funds," "– Security for the Series 2016 Bonds – Mortgages," and "– Security for the Series 2016 Bonds – Collateral Assignment of Leases," "PART 3 – THE SERIES 2016 BONDS – Principal, Sinking Fund Installment and Interest Requirements for the Series 2016 Bonds," "PART 4 - THE SERIES 2016 PARTICIPANTS," "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING," "PART 6 – ESTIMATED SOURCES AND USES OF FUNDS," "PART 11 - BONDHOLDERS' RISKS," "PART 15 – CONTINUING DISCLOSURE," 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 2016 Bonds that each Series 2016 Participant certify as of the dates of sale and delivery of the Series 2016 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 2016 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 2016 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/ Gerrard P. Bushell
Authorized Officer

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APPENDIX A

DESCRIPTION OF SERIES 2016 PARTICIPANTS

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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 the New York State Office for People with Developmental Disabilities ("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 2016 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 $4,865,000 from the proceeds of the 2016 Bonds ("FREE's Allocable Portion"). Such amount will be used for legal fees, capitalized interest, costs of issuance, debt service reserve requirements and to finance or refinance debt incurred in connection with projects at the following facilities (collectively, the "Facilities"):

- 7 Dogwood Lane, Westbury, New York ("Dogwood Lane"): to refinance existing loans for the acquisition and renovation of an approximately 2,407 square foot, two-story residential facility for five developmentally disabled individuals.

- 4 White Pine Way, Medford, New York ("White Pine Way"): to refinance existing loans for the acquisition and renovation of an approximately 2,300 square foot, two-story residential facility for three developmentally disabled individuals.

- 28 Schleigel Boulevard, North Amityville, New York ("Schleigel Boulevard"): to refinance existing loans for the acquisition and renovation of an approximately 3,260 square foot, two-story residential facility for four developmentally disabled individuals.

- 14 Hawser Place, Coram, New York ("Hawser Place"): to refinance existing loans for the acquisition and renovation of an approximately 2,387 square foot, one-story residential facility for five developmentally disabled individuals.

- 17 Somerset Street, Centereach, New York ("Somerset Street"): to refinance existing loans for the acquisition and renovation of an approximately 1,652 square foot, two-story residential facility for four developmentally disabled individuals.

- 105-09 170th Street, Jamaica, New York ("170th Street"): to refinance existing loans for the acquisition and renovation of an approximately 1,952 square foot, three-story residential facility for six developmentally disabled individuals.

- 3 Thornwood Road, Centereach, New York ("Thornwood Road"): to refinance existing loans for the acquisition and renovation of an approximately 2,066 square foot, one-story independent living facility for two developmentally disabled individuals.

The governmental funding source for the Facilities is OPWDD and the Facilities, other than Thornwood Road, are supported by OPWDD Prior Property Approvals ("PPAs"), which FREE has received. This means the Facilities, other than Thornwood Road, are or will be 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. The principal of and interest on FREE's Allocable Portion of the Series 2016 Bonds related to Thornwood Road is expected by FREE to be paid from its operating revenues.

Dogwood Lane, White Pine Way, Schleigel Boulevard, Hawser Place and Somerset Street are Applicable Projects. See the information in this Official Statement entitled "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities - PPA Regulatory Compliance Process" for further information concerning Applicable Projects.

Each of the Facilities has a Certificate of Occupancy. However, FREE is in the process of obtaining updated Certificates of Occupancy or Completion at Dogwood Lane, White Pine Way, Schleigel Boulevard, Hawser Place, 170th Street and Somerset Street. FREE has obtained an Operating Certificate for 170th Street. FREE is in the process of obtaining Operating Certificates for Dogwood Lane, White Pine Way, Schleigel Boulevard, Hawser Place and Somerset Street. Because Thornwood Road does not have a PPA, an Operating Certificate is not required. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

FREE owns each of the Facilities. FREE will grant DASNY a real property mortgage on the Facilities, a subordinate security interest in the furniture, equipment and other assets financed with bond proceeds and constituting a portion of the Facilities, and a lien on the Public Funds attributable to all of the Facilities.

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

In 2015, FREE was selected by OPWDD to assume control and operation of two properties (the "FEGS Properties") that previously were owned and operated by Federation Employment and Guidance Service, Inc. ("FEGS"). FEGS voluntarily surrendered operation of its OPWDD programs, including, but not limited to, the FEGS Properties, as a result of bankruptcy. The FEGS Properties consist of (i) a supervised Individualized Residential Alternative facility located at 332 Commack Road, Deer Park, New York, and (ii) a residential facility located at 920 Fulton Street, Farmingdale, New York that includes one Supportive Individualized Residential Alternative apartment and one Individualized Support Services apartment. The property located at 332 Commack Road was the subject of a prior financing by DASNY.

FREE has received new OPWDD Operating Certificates for the FEGS Properties, and FREE currently leases the FEGS Properties from FEGS. A portion of the lease payments made by FREE are paid directly to the respective trustees for the outstanding bonds issued to finance loans to FEGS in connection with the FEGS Properties. Such payments are sufficient to pay the portion of the debt service on such bonds allocable to the FEGS Properties. It is expected that once the fair market value of the FEGS Properties is established, FREE will purchase the FEGS Properties.

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 definition set forth in the Loan Agreement between DASNY and FREE, and based on financial data of FREE, exclusive of its subsidiaries, the actual Total Debt Service Coverage for Fiscal Year 2014 and the Pro Forma Total Debt Service Coverage (which includes FREE's estimated Allocable Portion of the Series 2016 Bonds) are as follows:

	2014 Actual	**2014 Pro Forma**
Revenues	$88,609,297	$88,609,297
Expenses	88,178,162	88,178,162
Total Net Revenue	431,135	431,135
Less Extraordinary Revenue Items	0	0
Plus Extraordinary Expense Items	376,159	376,159
Plus Depreciation and Amortization	3,628,816	3,628,816
Plus Current Interest Expense	980,893	980,893
New PPA Program Revenues (unaudited)	0	307,755
Total Net Revenues Available for Debt Service	5,417,003	5,724,758
Maximum Annual Debt Service (unaudited)	4,239,624	4,547,379
Total Debt Service Coverage	1.28	1.26

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<u>Financials</u>. Financial statements for FREE and its subsidiaries for the fiscal years ended December 31, 2012, December 31, 2013 and December 31, 2014 were audited on a consolidated basis by Baker Tilly Virchow Krause, LLP, or its predecessor, Holtz Rubenstein Reminick LLP. Such audited financial statements are attached as Appendix B-I. Interim unaudited financial information relating to FREE and subsidiaries, prepared by FREE's Management and covering the period from January 1, 2015 through October 31, 2015 is attached as Appendix C-I. 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 five fiscal years for which audited financial statements were available, 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-I and the unaudited financial statements presented in Appendix C-I.

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	Fiscal Year Ended December 31,				
	2010	**2011**	**2012**	**2013**	**2014**
Current Assets	$19,788,527	$24,156,421	$21,638,227	$18,631,219	$19,339,147
Net Fixed Assets	32,368,226	33,736,986	32,593,651	35,663,922	38,869,260
Other	7,855,686	8,102,748	9,010,778	5,439,832	5,099,108
Total	60,012,439	65,996,155	63,242,656	59,734,973	63,307,515
Current Liabilities	21,212,939	21,496,206	21,397,825	20,019,776	24,711,473
Other Liabilities	32,750,194	37,092,171	34,540,082	31,067,745	30,101,772
Net Assets	6,049,306	7,407,778	7,304,749	8,647,452	8,494,270
Total	60,012,439	65,996,155	63,242,656	59,734,973	63,307,515
Operating Revenue:					
Program Revenue	79,417,839	83,394,175	84,777,823	87,884,893	91,117,578
Nonprogram Revenue	425,305	155,516	158,383	1,006,237	938,826
Total	79,843,144	83,549,691	84,936,206	88,891,130	92,056,404
Operating Expenses	80,287,827	82,981,117	84,232,355	88,285,883	91,833,427
Amortization Expense due to Extinguishment of Debt	0	0	(381,393)	0	0
Unrealized Loss on Interest Rate Swap	0	0	(425,487)	737,456	(376,159)
Change in Net Assets from Operations	(444,683)	568,574	(103,029)	1,342,703	(153,182)
Day Program Property Revenue	741,605	-	-	-	-
Increase in Unrestricted Net Assets	296,922	568,574	(103,029)	1,342,703	(153,182)
Net Assets, Beginning of Year	5,403,185	5,845,726	7,407,778	7,304,749	8,647,452
Transfer in of Unrestricted Net Assets	145,619	993,478	-	-	-
Net Assets, End of Year	5,845,726	7,407,778	7,304,749	8,647,452	8,494,270
Cash & Equivalents	1,860,681	797,915	2,693,819	2,902,989	1,195,756

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 $18,631,219 and $19,339,147 at the end of the fiscal years of 2013 and 2014, respectively. (b) External: For the year ended December 31, 2014, FREE had available an aggregate amount of $10,000,000 under two lines of credit with TD Bank, N.A. and Valley National Bank, of which $2,000,000 was outstanding.

(3) Known Trends or Uncertainties Likely to Have an Impact on Revenue or Income: As a result of the new reimbursement methodology being implemented by OPWDD, in conjunction with the NYSDOH, described in this Official Statement under the heading "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING," FREE expects it will receive a reduction in OPWDD revenue of approximately 1.5% compared to the 2013-14 revenue, which will be phased-in over four years. This decrease is exclusive of additional revenue resulting from other actions such as the cost of living increases (2% effective January 1, 2015 and an additional 2% effective April 1, 2015) included in the New York State Budget, as well as increases as a result of new program development. As of December 31, 2015, the final reimbursement rates as of July 1, 2015 for each program type have yet to be issued. The calculation of such reimbursement rates will incorporate new adjustments to the original formula. Other than the foregoing, 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 2013 and 2014 were $253,769 and $152,265, respectively. See Appendix C-I for interim unaudited financial information through October 31, 2015.

(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, 2014, FREE had $1,195,756 in unrestricted cash and cash equivalents and $13,792,577 in net accounts receivable.

FREE has available an aggregate amount of $10,000,000 under two lines of credit with TD Bank, N.A. and Valley National Bank (successor to State Bank of Long Island), with interest payable monthly at 3.25% with respect to each line of credit. The lines of credit are available through September 30, 2016, and are secured by all assets of FREE, which includes Public Funds and thus constitutes a Prior Pledge as to such funds. There was a balance of $2,000,000 outstanding at December 31, 2014.

Long-Term Debt. As of December 31, 2014, FREE had $28,211,581 in outstanding long-term indebtedness. Approximately $26,830,142 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, 2014.

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, the Mortgages and the Intercept Agreement.

Management.

Directors and Officers. The affairs of FREE are governed by a Board of Directors consisting of nine members. The officers of the Board of Directors are: Mark Preiser, President; Alan Polacek, Secretary; and Michael Leahy, Treasurer. Other members of the Board of Directors include: Uma Ashok, John Baldante, Mary Ellen Freely, Ellen Paige Nelson, David Sanders and Dr. Andrea Spencer. 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.

As described in this paragraph, during the past five years, FREE has failed to provide certain secondary market disclosure pursuant to Rule 15c2-12 in connection with its previous continuing disclosure undertakings. Such failures include the late filings (up to 126 days after the deadline set forth in its continuing disclosure undertaking) of its audited financial statements and Annual Information with respect to its fiscal year ended December 31, 2013. FREE has adopted procedures to ensure the timely filing of required information pursuant to its continuing disclosure undertakings in the future.

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LIFESPIRE, INC.

General Operations. Lifespire, Inc. ("Lifespire") was founded in 1951. Lifespire provides a wide range of in-home and residential and day program services to the developmentally disabled community of New York City. Lifespire's mission is to provide support and assistance to individuals with developmental and related disabilities and their families. In order to achieve its mission, Lifespire provides services the goals of which are: to assist individuals to develop to their fullest level of independence; to allow individual choice in determining what their lives will be like; to help families stay together by providing relief, training and support of caregivers, which enhance the family's quality of life; and to provide excellent services as defined by the consumers of those services. Lifespire is a not-for-profit organization, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable New York State Law.

Lifespire's funding sources for its 2015 Fiscal Year were: OPWDD (approximately 98%) and miscellaneous other sources (approximately 2%).

Description of Facilities and Financing Plan. DASNY will lend Lifespire $605,000 from the proceeds of the Series 2016 Bonds ("Lifespire's Allocable Portion"). Such amount will be used for legal fees, capitalized interest, costs of issuance, debt service reserve requirements and to finance or refinance debt incurred in connection with project at the following facility (the "Facility"):

- 4 Corriedale Lane, Cottekill, New York ("Corriedale Lane") - to refinance existing loans for the acquisition, renovation and furnishing of a 2,464 square-foot two-story building to be used as a residence for four developmentally disabled adults.

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

The Facility is not an Applicable Project. See the information in this Official Statement entitled "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities - PPA Regulatory Compliance Process" for further information concerning Applicable Projects.

The Facility has a Certificate of Occupancy, and Lifespire is in the process of qualifying for an Operating Certificate for the Facility. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

Lifespire owns the Facility. Lifespire will grant DASNY a real property mortgage on the Facility, a subordinate security interest in the furniture, equipment and other assets financed with bond proceeds and constituting a portion of the Facility, and a lien on the Public Funds attributable to the Facility.

Other Properties. Lifespire also owns approximately 37 other properties and leases approximately 45 other residential and day program properties in the Boroughs of New York City and leases office space in Manhattan and Staten Island.

Description of Employees. Lifespire employs approximately 1,125 full-time and 297 part-time employees in New York City and Westchester County. Lifespire does not expect that the operation of the Facility will require it to employ additional personnel.

Debt Service Coverage.

Calculated in accordance with the definition set forth in the Loan Agreement between DASNY and Lifespire, the actual Total Debt Service Coverage Ratio of Lifespire for Fiscal Year 2015 and the Pro Forma Total Debt Service Coverage Ratio (which includes Lifespire's Allocable Portion of the Series 2016 Bonds) are as follows:

	2015 Actual	2015 Pro Forma
Revenues	$103,797,045	$103,797,045
Expenses	101,701,487	101,701,487
Total Net Revenue	2,095,558	2,095,558
Less Extraordinary Revenue Items	(2,692,201)	(2,692,201)
Plus Extraordinary Expense Items	955,759	955,759
Plus Depreciation and Amortization	1,735,900	1,735,900
Plus Current Interest Expense	2,518,043	2,518,043
New PPA Program Revenues (unaudited)	0	44,137
Total Net Revenues Available for Debt Service	4,613,059	4,657,196
Maximum Annual Debt Service (unaudited)	4,512,893	4,557,030
Total Debt Service Coverage Ratio	1.022	1.022

Financials. Audited financial statements for Lifespire's fiscal years ended June 30, 2013 through June 30, 2015 were prepared by MBAF-CPAs, LLC and are attached as Appendix B-II. Interim unaudited financial information prepared by Lifespire's Management covering the period from July 1, 2015 through October 31, 2015 is attached as Appendix C-II. Significant accounting policies are contained in the audited financial statements.

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

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

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

Fiscal Year Ended June 30,

	2011	2012	2013	2014	2015
Current Assets	$41,543,217	$55,147,172	$68,429,807	$65,113,713	$54,050,661
Net Fixed Assets	18,555,175	19,301,407	17,868,535	17,526,446	17,553,855
Other	11,653,646	8,356,158	10,254,811	10,041,137	8,388,407
Total	71,752,038	82,804,737	96,553,153	92,681,296	79,992,923
Current Liabilities	26,523,603	35,522,231	34,643,396	32,337,437	26,110,179
Other Liabilities	26,616,278	36,214,975	36,729,192	35,711,916	27,155,243
Net Assets	18,612,157	11,067,531	25,180,565	24,631,943	26,727,501
Total	71,752,038	82,804,737	96,553,153	92,681,296	79,992,923
Operating Revenue:					
Program Revenue	103,181,862	103,289,400	102,886,815	101,641,989	99,505,922
Nonprogram Revenue	152,212	(1,438,773)	1,703,830	(866,565)	1,598,922
Total	103,334,074	101,850,627	104,590,645	100,775,424	101,104,844
Pension-Related Change	0	0	5,477,652	(1,900,973)	1,736,442
Operating Expenses	102,603,545	101,181,632	99,107,843	99,423,073	100,745,728
Change in Net Assets	5,596,345	(7,544,626)	11,471,504	(548,622)	2,095,558
Net Assets, Beginning of Year	13,015,812	18,612,157	11,067,531	25,180,565	24,631,943
Prior Period Adjustment	0	0	2,636,380	0	0
Net Assets, End of Year	18,612,157	11,067,531	25,180,565	24,631,943	26,727,501
Cash & Equivalents	22,407,985	24,876,092	19,880,055	18,179,568	18,339,606

Management Discussion of Results of Operations.

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

(2) Sources of Liquidity: (a) Internal – Lifespire had current assets of $54,050,661 and $65,113,713 at the end of the fiscal years of 2015 and 2014, respectively. (b) External – Lifespire has available a $5 million line of credit with J.P. Morgan Chase for operating expenses and a $5 million line of credit with Bank of America for capital improvements.

(3) Known Trends or Uncertainties Likely to have an Impact on Revenue or Income: As a result of the new reimbursement methodology being implemented by OPWDD, in conjunction with the NYSDOH, described in this Official Statement under the heading "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING," Lifespire expects it will receive an increase in OPWDD revenue of approximately 1.02% compared to the 2013-14 revenue, which will be phased-in over four years. This increase is exclusive of additional revenue resulting from other actions such as the cost of living increases (2% effective January 1, 2015 and an additional 2% effective April 1, 2015) included in the New York State Budget, as well as increases as a result of new program development. OPWDD re-based Lifespire's rate on July 1, 2015 utilizing the CFR cost data for 2013, which could alter Lifespire's original target rates. As of December 31, 2015, the final reimbursement rates as of July 1, 2015 for each program type have yet to be issued. The calculation of such reimbursement rates will incorporate new adjustments to the original formula. Other than the foregoing, Lifespire is not aware of any trends or uncertainties that have had or that are reasonably expected to have a material impact on the net revenues. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS.")

(4) Income or Loss from Sources Other than Continuing Operations: Income from contributions, fund-raising, and interest for fiscal years 2014 and 2015 were $192,021 and $103,389, respectively. See Appendix C-II for interim unaudited financial information through October 31, 2015.

(5) Causes for Changes in Financial Statements: Changes in the number of persons served in a particular program normally affect the revenue of the program. Lifespire's total operations have increased due to expansion of residential services provided. Lifespire records unearned advances to fee for service revenue as deferred revenue until it is expended for the purpose of the funding source, at which time it is recognized as Prior Period Revenue.

Liquidity and Capital Resources. As of June 30, 2015, Lifespire had $18,339,606 in unrestricted cash and cash equivalents and $84,957 in net accounts receivable.

As of June 30, 2015, Lifespire had an available line of credit of $5 million with J.P. Morgan Chase. The proceeds of the line of credit are to be used for operating expenses. The line of credit is secured by a lien on Lifespire's accounts receivable, other accounts and general intangibles, which include Public Funds, and thus constitutes a Prior Pledge as to such funds. There was no outstanding balance as of June 30, 2015.

As of June 30, 2015, Lifespire had an available line of credit of $5 million with Bank of America for the purpose of site acquisition. The line of credit is secured by a lien on each applicable acquired site. There was an outstanding balance on such line of credit of $852,382 as of June 30, 2015.

Long-Term Debt. As of June 30, 2015, Lifespire had $15,188,758 in outstanding long-term indebtedness. Of this amount, $13,820,000 is secured by a security interest in certain receivables of

Lifespire, which may include Lifespire's Public Funds, and thus constitutes a Prior Pledge as to such funds. See Notes 11, 13 and 14 of Lifespire's Audited Financial Statements under titles of "Mortgages Payable - DASNY," "Bonds Payable - DASNY" and "Bonds Payable - IDA." Lifespire has not incurred any long-term debt subsequent to June 30, 2015.

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

Management.

Directors and Officers: The affairs of Lifespire are governed by a Board of Directors of fifteen. The officers are comprised of: Jeffrey Goodman, Chairman, Anne Dunbar, Treasurer and Ellen R. Greene, Secretary. Other members of the Board are: Margaret Davino, Laura Gaffney, Michael S. Gross, Jerome Greene, Ellen R. Kozlowski, Robert Krakow, Audrey Lieberman, Denise Nicoletti, Julian Palmo, Suzanne Revell, Helen Sturm and John Castro-Tie. The Board of Directors meets at least four times a year. A majority of the members of the Board constitute a quorum. The members of the Board serve without compensation.

Executive and Administrative Officers: Mark van Voorst is the Chief Executive Officer of Lifespire. He holds a Master of Divinity from Princeton Theological Seminary. Prior to working at Lifespire, Mr. van Voorst was the Associate Executive Director of Lexington Center. Lifespire has several other key employees including Tom Lydon, Chief Operating Officer and Keith Lee, Chief Financial Officer.

Continuing Disclosure.

As described in this paragraph, during the past five years, Lifespire has failed to provide certain secondary market disclosure pursuant to Rule 15c2-12 in connection with its previous continuing disclosure undertakings. Such failures include the failure to file its Annual Information with respect to each of its fiscal years ended June 30, 2010 through and including June 30, 2012. Lifespire has adopted procedures to ensure the timely filing of required information pursuant to its continuing disclosure undertakings in the future.

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LITTLE FLOWER CHILDREN AND FAMILY SERVICES OF NEW YORK

General Operations. Little Flower Children and Family Services of New York ("Little Flower") was incorporated in 1929 as "Little Flower House of Providence for Homeless Colored Children", a residential center for orphaned, abandoned, and neglected children, founded by Father Bernard J. Quinn. Today, Little Flower operates a variety of facilities and provides a variety of services for developmentally disabled and other at-risk individuals, including educational, residential, medical, foster care and elder care services.

Little Flower's primary funding sources are OPWDD (approximately 20%), New York City Administration for Children's Services (approximately 35%), New York State Medicaid (approximately 17%), Suffolk County (approximately 20%), Nassau County (approximately 4%) and miscellaneous other sources (approximately 4%). Little Flower 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.

Description of Facility and Financing Plan. DASNY will lend Little Flower $745,000 from the proceeds of the 2016 Bonds ("Little Flower's Allocable Portion"), which will be used for legal fees, capitalized interest, costs of issuance, debt service reserve requirements and to finance or refinance debt incurred for the following project (the "Facility"):

- 2463 North Wading River Road, Wading River, New York: to refinance existing loans made for the construction of a residential facility for six developmentally disabled adults in a 4,415 square foot, one-story building.

The governmental funding source for the Facility is OPWDD, and the Facility is supported by a PPA, which Little Flower has received. This means the project is pre-approved by OPWDD for principal and interest reimbursement by OPWDD.

The Facility is not an Applicable Project. See the information in this Official Statement entitled "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities - PPA Regulatory Compliance Process" for further information concerning Applicable Projects.

The Facility has received its Certificate of Occupancy and its Operating Certificate. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

Little Flower owns the Facility. Little Flower will grant DASNY a real property mortgage on the Facility, a subordinate lien on the furniture, fixtures and equipment financed with bond proceeds and constituting a portion of the Facility, and a lien on Public Funds attributable to the Facility. The Facility consists of a 15.687 acre parcel, but the residential facility building, parking lot and other improvements are situated on 2.317 acres of such parcel. Little Flower's Mortgage provides that if a subdivision is governmentally approved and certain other conditions are satisfied, DASNY will approve a release of approximately 13.55 acres of the unimproved land from the Little Flower Mortgage.

Other Properties. Little Flower also owns 3 other residences and 1 campus setting consisting of 21 buildings, and leases 5 other residences and office properties in Brooklyn, Queens Nassau and Suffolk Counties.

Description of Employees. Little Flower employs approximately 445 full-time and 195 part-time employees in New York City. The Facility is not expected to require Little Flower to employ new employees.

Debt Service Coverage.

Calculated in accordance with the definition set forth in the Loan Agreement between DASNY and Little Flower, the actual Total Debt Service Coverage Ratio of Little Flower for Fiscal Year 2015 and the Pro Forma Total Debt Service Coverage Ratio (which includes Little Flower's Allocable Portion of the Series 2016 Bonds) are as follows:

	2015 Actual	**2015 Pro Forma**
Revenues	$54,374,919	$54,374,919
Expenses	53,967,536	53,967,536
Total Net Revenue	407,383	407,383
Less Extraordinary Revenue Items	(123,065)	(123,065)
Plus Extraordinary Expense Items		
Plus Depreciation and Amortization	892,033	892,033
Plus Current Interest Expense	160,456	160,456
New PPA Program Revenues (unaudited)	0	0
Total Net Revenues Available for Debt Service	1,336,807	1,336,807
Maximum Annual Debt Service (unaudited)	503,456	493,456
Total Debt Service Coverage Ratio	2.6553	2.7091

Financials. Audited financial statements for Little Flower's fiscal years ending June 30, 2013 through June 30, 2015 were prepared by Baker Tilly Virchow Krause, LLP, or its predecessor, Holtz Rubenstein Reminick LLP, and are attached as Appendix B-III. Interim unaudited financial information prepared by Little Flower's management, covering the period from July 1, 2015 through October 31, 2015 is attached as Appendix C-III. Significant accounting policies are contained in the audited financial statements.

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

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

The following is a summary of financial information for Little Flower for the most recently ended five fiscal years for which audited financial statements were available and has been prepared by Little Flower's management and derived from the audited financial statements of Little Flower 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-III and the unaudited financial statements presented in Appendix C-III.

	Fiscal Year Ended June 30,				
	2011	**2012**	**2013**	**2014**	**2015**
Current Assets	$19,950,565	$17,291,461	$16,795,795	$15,373,643	$17,061,366
Net Fixed Assets	8,282,803	10,731,449	10,607,918	10,317,519	10,121,736
Other Assets	1,539,744	8,564	266,125	486,165	457,589
Total	29,773,112	28,031,474	27,669,838	26,177,327	27,640,691
Current Liabilities	10,136,289	9,794,736	8,394,583	7,745,251	8,885,545
Other Liabilities	4,305,912	5,280,009	5,827,154	5,424,394	5,463,146
Net Assets	15,330,911	12,956,729	13,448,101	13,007,682	13,292,000
Total	29,773,112	28,031,474	27,669,838	26,177,327	27,640,691
Operating Revenue:					
Program Revenue	62,222,711	54,772,969	51,564,221	50,000,559	51,993,380
Nonprogram Revenue	2,009,467	977,325	1,658,769	1,563,869	1,044,466
Total	64,232,178	55,750,294	53,222,990	51,564,428	53,037,846
Operating Expenses	63,432,826	57,838,019	52,796,462	52,846,542	53,967,536
Workers Compensation Trust Fund Adjustment	(1,089,335)	(63,258)	(33,342)	0	0
Change in Temporarily Restricted Net Assets	38,492	(233,199)	98,186	111,721	45,668
Foster Care Accrual Adjustment	0	0	0	729,974	1,168,340
Change in Net Assets	(251,491)	(2,374,182)	491,372	(440,419)	284,318
Net Assets, Beginning of Year	15,582,402	15,330,911	12,956,729	13,448,101	13,007,682
Net Assets, End of Year	15,330,911	12,956,729	13,448,101	13,007,682	13,292,000
Cash & Equivalents	2,179,378	1,389,015	2,840,618	1,674,068	2,153,753

Management Discussion of Results of Operations.

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

(2) Sources of Liquidity: (a) Internal – Little Flower had current assets of $17,061,366 and $15,373,643 at the end of the fiscal years of June 30, 2015 and 2014, respectively. (b) External – Little Flower does not currently have a line of credit.

(3) Known Trends or Uncertainties Likely to have an Impact on Revenue or Income: As a result of the new reimbursement methodology being implemented by OPWDD, in conjunction with the NYSDOH, described in this Official Statement under the heading "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING," Little Flower expects it will receive an increase in OPWDD revenue of approximately 9.65% compared to the 2013-14 revenue, which will be phased-in over four years. This increase is exclusive of additional revenue resulting from other actions such as the cost of living increases (2% effective January 1, 2015 and an additional 2% effective April 1, 2015) included in the New York State Budget, as well as increases as a result of new program development. As of December 31, 2015, the final reimbursement rates as of July 1, 2015 for each program type have yet to be issued. The calculation of such reimbursement rates will incorporate new adjustments to the original formula. Other than the foregoing, Little Flower 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 2015 and 2014 were $1,044,466 and $1,563,869, respectively. See Appendix C-III for interim unaudited financial information through October 31, 2015.

(5) Causes for Changes in Financial Statements: Little Flower has experienced declining enrollment and revenue in its foster boarding home program due to overall declining enrollment in the New York City foster care system. This decline has been offset with staffing reductions to balance the declining revenue/enrollment. During the same period Little Flower has been able to slightly increase the number of consumers served in the developmentally disability program, thereby adding increased diversity to Little Flower's overall revenue cycles and program services.

Liquidity and Capital Resources. As of June 30, 2015, Little Flower had $2,153,753 in unrestricted cash and cash equivalents and $8,659,264 in net accounts receivable.

As of June 30, 2015, Little Flower did not have a line of credit. However, Little Flower's Loan Agreement provides that, with the prior written consent of DASNY (such consent not to be unreasonably withheld or delayed), Little Flower may grant a Prior Pledge with respect to receivables, including, without limitation, its Public Funds, to secure a line of credit or other short-term indebtedness for working capital purposes. There were no other loans outstanding as of October 31, 2015.

Long-Term Debt. As of June 30, 2015, Little Flower has $2,274,608 in outstanding long-term indebtedness, which is secured by mortgages or security interests in equipment. Little Flower has not incurred any long-term debt subsequent to June 30, 2015.

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 Little Flower 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 Little Flower to carry out the transactions contemplated in the Loan Agreement and the Intercept Agreement.

Management.

Directors and Officers. The affairs of Little Flower are governed by a Board of Directors of 20 members. The officers are comprised of: Reverend Patrick J. West, Chairman, J. Keith Fell, President, Thomas K. Cullen, Vice President, Michael Rafferty, Treasurer, and Leonard Scioscia, Secretary. Other members of the Board of Directors are: John Corbett, Reverend Monsignor R. Emmet Fagan, Reverend Peter J. Garry, Robert Griffith, James Hudson, Ellen S. Knarr, Diana Kubik, Barbara C. Kullen, Kerry McCooey, Kathleen Murphy Alcock, Genara Cristina Necos, Howard Nolan, W. Douglas Singer, Reverend Robert James Smith, and Richard Staine. The Board of Directors meets at least four times per year. A majority of the members of the Board constitute a quorum. The members of the Board of Directors serve without compensation.

Executive and Administrative Officers. Corinne Hammons is the Executive Director of Little Flower. Before joining Little Flower, Ms. Hammons oversaw operations at Community Development Corporation of Long Island, and worked at Safe Horizon in a variety of capacities in Development, Program, and Finance. Ms. Hammons holds an AB degree in Economics from Harvard University and a Master's degree in Public Administration from the Wagner School of Public Service at New York University. Other key employees of Little Flower include Janet Greaves, LMSW, Assistant Executive Director, and Kevin Kundmueller, Chief Financial Officer.

Continuing Disclosure.

Little Flower has not been obligated to provide secondary market disclosure pursuant to Rule 15c2-12 in connection with any previous continuing disclosure undertakings. Little Flower has adopted procedures to ensure the timely filing of required information pursuant to its continuing disclosure undertakings in the future.

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SPECIAL CITIZENS FUTURES UNLIMITED, INC.

General Operations. Special Citizens Futures Unlimited, Inc. ("SCFU") was founded in 1976 by parents of teenagers with autism to advocate for ongoing adult programs for their children who had aged out of special education services. SCFU provides a wide range of services to adults and children with autism throughout New York City and Westchester County. SCFU's mission is the development and delivery of a comprehensive, integrated system of services, which has as its primary purpose the promotion and attainment of independence, inclusion, individuality and productivity for adults and children with autism. SCFU 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.

SCFU's sole funding source for its 2015 Fiscal Year was OPWDD.

Description of Facility and Financing Plan. DASNY will lend SCFU $925,000 from the proceeds of the Series 2016 Bonds ("SCFU's Allocable Portion"). Such amount will be used for legal fees, capitalized interest, costs of issuance, debt service reserve requirements and to refinance debt incurred to acquire, renovate and furnish the following facility (the "Facility"):

- 5431 Fieldston Road, Bronx, New York: to refinance existing loans made for the construction, renovation and furnishing of a residential facility for eight developmentally disabled adults in a 2,708-square-foot, two-story building.

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

The Facility is not an Applicable Project. See the information in this Official Statement entitled "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities - PPA Regulatory Compliance Process" for further information concerning Applicable Projects.

The Facility has a Certificate of Occupancy and an Operating Certificate. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

SCFU owns the Facility, and will grant to DASNY a first priority mortgage on such Facility and a subordinate lien on furniture, fixtures and equipment financed with bond proceeds and constituting a portion of the Facility. SCFU also will grant DASNY a lien on the Public Funds attributable to the Facility.

Other Properties. SCFU also owns or leases approximately 12 other properties in New York City and Westchester County.

Employees. SCFU employs approximately 100 full-time and 55 part-time employees in New York City and Westchester County. SCFU does not expect the operation of the Facility will require it to employ an additional personnel.

Debt Service Coverage.

Calculated in accordance with the definition set forth in the Loan Agreement between DASNY and SCFU, the actual Total Debt Service Coverage Ratio of SCFU for Fiscal Year 2015 and the Pro Forma Total Debt Service Coverage Ratio (which includes SCFU's Allocable Portion of the Series 2016 Bonds) are as follows:

	2015 Actual	**2015 Pro Forma**
Total Revenues	$11,567,322	$11,567,322
Total Expenses	11,605,542	11,605,542
Net Income (after adj.)	(38,220)	(38,220)
Less Extraordinary Revenue Items	0	0
Plus Extraordinary Revenue Items	0	0
Depreciation	370,504	370,504
Interest Expense	143,215	143,215
PPA Reimbursement	0	0
Net Revenues Available for Debt Service	475,499	475,499
Maximum Annual Debt Service (unaudited)	476,450	441,450
Total Debt Service Coverage Ratio	1.00	1.08

Financials. Audited financial statements for SCFU's fiscal years ended June 30, 2014 and June 30, 2015 were prepared by WithumSmith+Brown, PC. Audited financial statements for SCFU's fiscal year ended June 30, 2013 were prepared by Marks Paneth LLP. Such audited financial statements are attached as Appendix B-IV. Interim unaudited financial information prepared by SCFU's Management covering the period from July 1, 2015 through October 31, 2015 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 Result of Operations.

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

The following is a summary of financial information for SCFU for the most recently ended five fiscal years for which audited financial statements were available and has been prepared by SCFU's Management and derived from SCFU's audited financial statements 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-IV and the unaudited financial statements presented in Appendix C-IV.

Fiscal Year Ended June 30,

	2011	2012	2013	2014	2015
Current Assets	$ 2,259,072	$ 3,432,150	$ 3,291,565	$ 2,037,785	$ 2,017,137
Net Fixed Assets	3,959,806	3,488,082	3,080,764	2,939,830	2,942,029
Other	39,346	39,346	39,346	428,035	477,492
Total	6,258,224	6,959,578	6,411,675	5,405,650	5,436,658
Current Liabilities	2,424,912	2,861,559	2,763,982	1,489,454	1,552,106
Other Liabilities	2,504,845	2,297,920	2,111,130	1,666,993	1,673,569
Net Assets	1,328,467	1,800,099	1,536,563	2,249,203	2,210,983
Total	6,258,224	6,959,578	6,411,675	5,405,650	5,436,658
Operating Revenue:					
Program Revenue	11,803,325	11,716,604	11,389,304	11,201,420	11,254,547
Nonprogram Revenue	235,132	137,783	86,434	538,410	312,775
Total	12,038,457	11,854,387	11,475,738	11,739,830	11,567,322
Operating Expenses	11,738,598	11,382,755	11,739,274	11,027,190	11,605,542
Change in Net Assets	299,859	471,632	(263,536)	712,640	(38,220)
Net Assets, Beginning of Year	1,028,608	1,328,755	1,800,099	1,536,563	2,249,203
Net Assets, End of Year	1,328,467	1,800,099	1,536,563	2,249,203	2,210,983
Cash & Equivalents	469,521	1,704,511	1,252,458	889,178	487,977

Management's Discussion of Results of Operations.

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

(2) Sources of Liquidity: (a) Internal - SCFU had current assets of $2,017,137 and $2,037,785 at the end of the fiscal years of 2015 and 2014, respectively; (b) External – SCFU has an available line of credit in the amount of $500,000 from HSBC Bank USA, N.A.

(3) Known Trends or Uncertainties Likely to have an Impact on Revenue or Income: As a result of the new reimbursement methodology being implemented by OPWDD, in conjunction with the NYSDOH, described in this Official Statement under the heading "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING," SCFU expects it will receive a reduction in OPWDD revenue of approximately 7.52% compared to the 2013-14 revenue, which will be phased-in over four years. This decrease does not impact the PPA payments supporting debt service. This decrease is also exclusive of additional revenue resulting from other actions such as the cost of living increases (2% effective January 1, 2015 and an additional 2% effective April 1, 2015) included in the New York State Budget, as well as increases as a result of new program development. As of December 31, 2015, the final reimbursement rates as of July 1, 2015 for each program type have yet to be issued. The calculation of such reimbursement rates will incorporate new adjustments to the original formula. Other than the foregoing, SCFU 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 investment for fiscal years 2015 and 2014 were $312,775 and $538,410, respectively. See Appendix C-IV for interim unaudited financial information through October 31, 2015.

(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. SCFU's total operations have increased due to the expansion of residential services provided.

Liquidity and Capital Resources. As of June 30, 2015, SCFU had $487,977 in unrestricted cash and cash equivalents and $1,382,696 in net accounts receivable.

As of June 30, 2015, SCFU had an available line of credit with HSBC Bank USA, N.A. for $500,000, The line of credit is secured by SCFU's accounts and receivables which includes SCFU's Public Funds and thus constitutes a Prior Pledge as to such funds. As of June 30, 2015, there was no outstanding balance under the lines of credit.

Long-Term Debt. As of June 30, 2015, SCFU had $1,856,078 in outstanding term indebtedness, which is secured by security interests in certain real and personal property of SCFU. See Notes 6 and 7 of SCFU's Audited Financial Statements under titles "Loans Payable" and "Mortgages Payable." SCFU has not incurred any long term debt subsequent to June 30, 2015.

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 SCFU 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 SCFU to carry out the transactions contemplated in the Loan Agreement and the Intercept Agreement.

Management.

Directors and Officers. The affairs of SCFU are governed by a Board of Directors of six members. The officers are comprised of: Victoria Berger-Gross, President; Joseph Patuleia, Vice-President; Rick Ritt, Treasurer; and Bob Beaudet, Secretary. Other members of the Board of Directors are: Bonnie Hiller and Mike Brown. The Board of Directors meets at least five times per year. A majority of the members of the Board constitute a quorum. The members of the Board of Directors serve without compensation.

Executive and Administrative Officers. Jessica Zufall, Ph.D. is the Chief Executive Officer of SFCU. She started her career as a direct support worker in a group home working with people with developmental disabilities and mental illness. From there, Ms. Zufall worked in various capacities as a Rape and Sexual Assault Care Director in Trenton, New Jersey, a Drug and Alcohol Prevention Director also in Trenton, a Domestic Violence Treatment Director in Brick, New Jersey and was Vice President of National Development and Public Relations for a Princeton, New Jersey-based, national nonprofit that supports people with developmental disabilities. Other key employees of SFCU include Melissa Frisina, Chief Administrative Officer, and John Miles, Chief Financial Officer.

Continuing Disclosure.

SCFU has not been obligated to provide secondary market disclosure pursuant to Rule 15c2-12 in connection with any previous continuing disclosure undertakings. SCFU has adopted procedures to ensure the timely filing of required information pursuant to its continuing disclosure undertakings in the future.

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YOUNG ADULT INSTITUTE, INC.

General Operations. Young Adult Institute, Inc. ("YAI") was founded in 1957. Today, YAI provides a wide range of in-home, residential, vocational training, educational and early intervention services to the developmentally disabled community of the State of New York. YAI's mission is to provide support and assistance to individuals with developmental and related disabilities and their families. To achieve its mission, YAI provides services whose goals are: (i) to assist individuals to develop to their fullest level of independence; (ii) to allow individuals choice in determining what their lives will be like; (iii) to help families stay together by providing relief, training and support of care givers which enhance the family's quality of life; and (iv) to provide excellent services as defined by the consumers of service. YAI is a not-for-profit organization, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and comparable New York State Law.

YAI's funding sources for its 2015 Fiscal Year were: OPWDD (approximately 99%) and miscellaneous other sources (approximately 1%).

Description of Facilities and Financing Plan. DASNY will lend YAI $9,295,000 from the proceeds of the Series 2016 Bonds ("YAI's Allocable Portion"). Such amount will be used for legal fees, capitalized interest, costs of issuance, debt service reserve requirements and to finance or refinance debt incurred to acquire, construct, renovate and/or furnish the following facilities (collectively, the "Facilities") for developmentally disabled adults:

- 416 Grant Avenue, First and Second Floors, Brooklyn, New York ("Grant Avenue"): to refinance existing loans made for the renovation and furnishing of a 4,560 square foot, two-story building to be used as a residence for nine developmentally disabled adults.

- 1681 E. 52nd Street, Brooklyn, New York ("52nd Street"): to refinance existing loans made for the acquisition, renovation and furnishing of a 3,570 square foot, two-story building to be used as a residence for six developmentally disabled adults.

- 361 83rd Street, Brooklyn, New York ("83rd Street"): to refinance existing loans made for the renovation and furnishing of a 15,216 square foot, three-story building to be used as a residence for sixteen developmentally disabled adults.

- 290 Madison Avenue, New York, New York ("Madison Avenue"): to refinance existing loans made for the renovation and furnishing of a 4,750 square foot, one-story portion of a building to be used as a day habilitation facility for 61 developmentally disabled adults.

- 198 Lake Avenue, Deer Park, New York ("Lake Avenue"): to refinance existing loans made for the acquisition, renovation and furnishing of a 2,371 square foot, one-story building to be used as a residence for four developmentally disabled adults.

- 94-17 84th Street, Ozone Park, New York ("84th Street"): to refinance existing loans made for the renovation and furnishing of a 11,280 square foot, three-story building to be used as a residence for fourteen developmentally disabled adults.

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

Lake Avenue is an Applicable Project. See the information in this Official Statement entitled "PART 5 - SOURCES OF SERIES 2016 PARTICIPANT FUNDING - New York State Office for People with Developmental Disabilities - PPA Regulatory Compliance Process" for further information concerning Applicable Projects.

Each of the Facilities has a Certificate of Occupancy, and YAI is in the process of obtaining updated Certificates of Occupancy for Grant Avenue, 83rd Street and Lake Avenue. Each of the Facilities, other than Grant Avenue and Lake Avenue, has and Operating Certificate. YAI is in the process of obtaining Operating Certificates for Grant Avenue and Lake Avenue. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

YAI owns 52nd Street and Lake Avenue, and leases the other Facilities. YAI will grant DASNY a first priority mortgage on 52nd Street and Lake Avenue, and a lien on the Public Funds attributable to each of the Facilities.

Other Properties. YAI also owns approximately 61 and leases approximately 84 other properties in the Boroughs of New York City and Nassau, Rockland, Suffolk and Westchester Counties.

Employees. YAI employs approximately 1,866 full-time and 846 part-time employees in the State of New York. YAI does not expect that the operation of the Facilities will require it to employ additional personnel.

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Debt Service Coverage.

Calculated in accordance with the definition set forth in the Loan Agreement between DASNY and YAI, the actual Total Debt Service Coverage Ratio of YAI for Fiscal Year 2015 and the Pro Forma Total Debt Service Coverage Ratio (which includes YAI's Allocable Portion of the Series 2016 Bonds) are as follows:

	2015 Actual	**2015 Pro Forma**
Revenues	184,191,130	184,191,130
Expenses	180,928,721	180,928,721
Total Net Revenue	3,262,409	3,262,409
Less Extraordinary Revenue Items	0	0
Plus Extraordinary Expense Items	0	0
Plus Depreciation and Amortization	4,230,136	4,230,136
Plus Current Interest Expense	1,584,475	1,584,475
New PPA Program Revenues (unaudited)	0	738,907
Total Net Revenues Available for Debt Service	9,077,020	9,815,927
Maximum Annual Debt Service (unaudited)	5,459,006	6,057,913
Total Debt Service Coverage Ratio	1.6628	1.6203

Financials. Audited financial statements for YAI's fiscal years ended June 30, 2013 through June 30, 2014 were prepared by Grassi & Co., CPAs, P.C. Audited financial statements for YAI's fiscal year ended June 30, 2015 were prepared by Marks Paneth LLP. Such audited financial statements are attached as Appendix B-V. Interim unaudited financial information prepared by YAI's Management covering the period from July 1, 2015 through October 31, 2015 is attached as Appendix C-V. Significant accounting policies are contained in the audited financial statements.

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

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

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

	Fiscal Year Ended June 30,				
	2011	**2012**	**2013**	**2014**	**2015**
Current Assets	$ 61,818,151	$ 67,189,061	$ 56,313,212	$ 54,311,494	$ 64,475,266
Net Fixed Assets	39,599,751	37,827,580	37,618,851	34,839,214	32,833,234
Other	13,754,433	1,2836,403	12,220,017	14,996,595	8,694,842
Total	115,172,335	117,853,044	106,152,080	104,147,303	106,003,342
Current Liabilities	54,533,992	43,580,878	55,981,566	40,947,295	54,232,523
Other Liabilities	49,048,764	60,488,883	31,212,658	41,464,918	26,773,320
Net Assets	11,589,579	13,783,283	18,957,856	21,735,090	24,997,499
Total	115,172,335	117,853,044	106,152,080	104,147,303	106,003,342
Operating Revenue:					
Program Revenue	197,360,203	176,286,422	178,604,006	176,672,348	183.832.082
Nonprogram Revenue	2,563,652	1,459,985	997,527	316,350	359,048
Total	199,923,855	177,746,407	179,601,533	176,988,698	184,191,130
Operating Expenses	193,953,685	174,451,695	174,426,960	174,211,464	180,928,721
Loss from Discontinued Operations	0	(1,101,008)	0	0	0
Change in Net Assets	5,970,170	2,193,704	5,174,573	2,777,234	3,262,409
Net Assets, Beginning of Year	5,619,409	11,589,579	13,783,283	18,957,856	21,735,090
Net Assets, End of Year	11,589,579	13,783,283	18,957,856	21,735,090	24,997,499
Cash & Equivalents	2,490,720	7,323,106	9,859,068	13,933,654	17,109,932

Management's Discussion of Results of Operations.

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

(2) Sources of Liquidity: (a) Internal - YAI had current assets of $64,475,266 and $54,311,494 at the end of the fiscal years of 2015 and 2014, respectively; (b) External - YAI has available lines of credit totaling $26,000,000 from Bank of America.

(3) Known Trends or Uncertainties Likely to have an Impact on Revenue or Income: As a result of the new reimbursement methodology being implemented by OPWDD, in conjunction with the NYSDOH, described in this Official Statement under the heading "PART 5 - SOURCES OF SERIES

2016 PARTICIPANT FUNDING," YAI expects it will receive a reduction in OPWDD revenue of approximately 4.05% compared to the 2013-14 revenue, which will be phased-in over four years. This decrease does not impact the PPA payments supporting debt service. This decrease is also exclusive of additional revenue resulting from other actions such as the cost of living increases (2% effective January 1, 2015 and an additional 2% effective April 1, 2015) included in the New York State Budget, as well as increases as a result of new program development. As of December 31, 2015, the final reimbursement rates as of July 1, 2015 for each program type have yet to be issued. The calculation of such reimbursement rates will incorporate new adjustments to the original formula. Other than the foregoing, YAI is not aware of any trends or uncertainties that have had or that are reasonably expected to have a material impact on the net revenues. (See the information in this Official Statement entitled "PART 11 - BONDHOLDERS' RISKS.")

(4) Income or Loss from Sources Other than Continuing Operations: Income from contributions, fund raising, membership dues, and interest/investment for fiscal years 2015 and 2014 were $359,048 and $861,076, respectively. See Appendix C-V for interim unaudited financial information through October 31, 2015.

(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. YAI's total operations have decreased due to decreases in non-Medicaid transportation and OPWDD funding, as well as decreases in funding for Family Support Services and contracts for New York State and New York City that were not renewed for Fiscal Year 2015.

Liquidity and Capital Resources. As of June 30, 2015, YAI had $17,109,932 in unrestricted cash and cash equivalents and $23,260,312 in net accounts receivable.

As of June 30, 2015, YAI had available lines of credit totaling $26,000,000 as follows: an $18,000,000 line of credit with Bank of America; and an $8,000,000 line of credit with Bank of America. The loans with respect to the lines of credit are secured by YAI's business personal property and accounts receivable, which includes Public Funds and thus constitutes a Prior Pledge as to such funds and certain real property of YAI, respectively. Approximately $18,897,950 was outstanding as of June 30, 2015.

Long-Term Debt. As of June 30, 2015, YAI had $19,544,581 in outstanding long term indebtedness, which is secured by a security interest in certain receivables of YAI, which may include YAI's Public Funds, and thus constitutes a Prior Pledge as to such funds. See Notes 7 and 8 of YAI's Audited Financial Statements under titles of "Notes and Mortgages Payable" and "Capital Lease Obligations." YAI has not incurred any long-term debt subsequent to June 30, 2015.

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 YAI 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 YAI to carry out the transactions contemplated in the Loan Agreement and the Intercept Agreement.

Internal Revenue Service Examination. On May 20, 2013, the Internal Revenue Service (the "IRS") notified YAI that the IRS was opening an examination of YAI's executive compensation, possible unrelated business income and operations. For a number of reasons, including inquiries by federal and New York State officials, YAI engaged an independent compensation consultant in December 2011 to conduct a study and prepare a report regarding YAI's executive compensation. As a result of the report prepared by such consultant, YAI discovered that certain amounts payable under its Supplemental Executive Retirement Plan (the "SERP") may be subject to federal excise taxes, and on February 19, 2013, YAI voluntarily reported this information to the IRS. Upon its receipt of the aforementioned study, YAI entered into negotiations with its current and former executives to reduce the amounts payable under the SERP to levels determined to be reasonable according to the study. Subsequently, as required for all non-profits in New York State pursuant to Executive Order 38 (Cuomo 2012), YAI's Board has worked directly with an independent consultant which, on an annual basis, conducts a formal study and submits a report to the Board directly showing the comparison of YAI executive pay to other providers in the field. The YAI Board relies on this study to determine executive pay on an annual basis.

Although the IRS examination remains in progress and the result is unknown, YAI has received notification from the IRS stating that its exemption from income tax under Section 501(c)(3) of the Internal Revenue Code is not in jeopardy. YAI has covenanted in its Loan Agreement that it will not take any action which would adversely affect such federal income tax status, and that it will conduct its operations in the manner which will conform to the standards necessary to qualify YAI as an organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

Management.

Directors and Officers. The affairs of YAI are governed by a nine-member Board of Trustees. The officers are comprised of: Jeffrey A. Mordos, Chairman; Lewis Lindenberg, Esq., Vice Chairman, Jeffrey Lieberman, Secretary; and Kevin Hogan, Treasurer. Other Members of the Board of Trustees are: Eliot Green, Esq., Jane Levine, John Rufer, Richard Paul Rosenbaum, and David B. Stafford. The Board of Trustees meets at least four times per year. The members of the Board of Trustees serve without compensation.

Executive and Administrative Officers. George Contos is the Chief Executive Officer of YAI. He previously served as Chairman of the Board of Trustees. Mr. Contos received his Juris Doctor degree from Georgetown University and his bachelor of Arts degree from Tufts University. Other key officers of YAI include Paul Smoller, Executive Vice President, and Sanjay Dutt, Chief Financial Officer.

Continuing Disclosure.

As described in this paragraph, during the past five years, YAI has failed to provide certain secondary market disclosure pursuant to Rule 15c2-12 in connection with its previous continuing disclosure undertakings. Such failures include (i) the late filing (on October 28, 2015) of its audited financial statements with respect to its fiscal year ended June 30, 2010; and (ii) failure to file its Annual Information with respect to its fiscal year ended June 30, 2010. YAI has adopted procedures to ensure the timely filing of required information pursuant to its continuing disclosure undertakings in the future.

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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF SERIES 2016 PARTICIPANTS

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APPENDIX B-I

FAMILY RESIDENCES AND ESSENTIAL ENTERPRISES, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2014, DECEMBER 31, 2013 AND DECEMBER 31, 2012)

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FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Old Bethpage, New York

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2014 and 2013

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

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Consolidated Financial Statements

BAKER TILLY

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INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

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, 2014 and 2013, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Board of Directors
Family Residences & Essential
Enterprises, Inc. and Subsidiaries

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, 2014 and 2013, 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.

Other Matters

Report on Consolidating and Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 17 to 18 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual organizations, and it is not a required part of the consolidated financial statements. Also, the consolidated statement of functional expenses on page 19 is presented for 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 audit 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 as a whole.

Baker Tilly Virchow Krause, LLP

Melville, New York
June 1, 2015

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Position

As of December 31,	2014	2013
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,195,756	$ 2,902,989
Accounts receivable, net of allowance for doubtful accounts of approximately $1,497,000 and $1,941,000, respectively	13,792,577	13,027,202
Receivables from affiliated organizations	730,503	381,162
Other current assets	3,620,311	2,319,866
Total Current Assets	19,339,147	18,631,219
Property, Plant and Equipment, net	38,869,260	35,663,922
Other Assets, net	2,449,623	2,672,083
Interest Rate Swap Agreement	-	311,970
Assets with Limited Use:		
Restricted cash	409,719	452,318
Restricted investments - debt service funds	527,083	396,818
Restricted other investments	1,482,099	1,286,740
Accrued Receivable - Unfunded Bond Principals	230,584	319,903
Total Plant and Other Long-Term Assets	43,968,368	41,103,754
Total Assets	$ 63,307,515	$ 59,734,973
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	$ 3,713,802	$ 1,861,312
Payables to affiliated organizations	169,748	138,802
Accrued expenses	1,198,256	1,169,918
Accrued salaries and payroll	5,963,266	6,226,680
Lines of credit	2,000,000	-
Current maturities of long-term debt	3,743,559	3,090,385
Deferred revenue, current	631,962	1,644,552
Reserves and recoveries, current	2,753,224	3,917,269
Other current liabilities	4,537,656	1,970,858
Total Current Liabilities	24,711,473	20,019,776
Long-Term Liabilities:		
Long-term debt, net of current maturities	24,468,022	26,006,726
Deferred revenue	1,028,388	1,300,004
Reserves and recoveries	2,626,291	2,064,275
Other liabilities	1,914,882	1,696,740
Interest rate swap agreement	64,189	-
Total Long-Term Liabilities	30,101,772	31,067,745
Total Liabilities	54,813,245	51,087,521
Commitments and Contingencies		
Net Assets - Unrestricted	8,494,270	8,647,452
Total Liabilities and Net Assets	$ 63,307,515	$ 59,734,973

See notes to consolidated financial statements.

Consolidated Statements of Activities and Changes in Net Assets

For the Years Ended December 31,	2014	2013
Unrestricted Revenues, Gains and Other Support:		
OMH residential	$ 8,344,035	$ 8,002,662
OPWDD residential	51,222,953	46,907,367
Day programs	23,387,250	23,319,137
Clinic programs	3,126,570	3,316,753
HHAP/HUD programs	267,946	154,010
CDCH Charter school	2,792,386	3,365,859
CDCH Preschool	644,980	852,485
CDCH Foundation	3	89
Other program revenue	1,331,455	1,966,531
Investment income	20,700	16,048
Other miscellaneous income	756,584	673,541
Contributions	131,565	237,721
Unrealized and realized gain in fair value of investments	25,977	44,489
Gain on disposal of property, plant and equipment	4,000	34,438
Total Unrestricted Revenues, Gains and Other Support	92,056,404	88,891,130
Expenses:		
OMH residential	7,082,079	7,359,978
OPWDD residential	44,321,784	42,818,563
Day programs	18,898,015	18,792,720
Clinic programs	3,644,927	3,898,984
HHAP/HUD programs	363,499	186,480
CDCH Charter school	2,958,977	2,729,835
CDCH Preschool	769,835	1,019,652
CDCH Foundation	126,664	137,220
Other program expenses	2,061,001	2,275,259
Total Program Expenses	80,226,781	79,218,691
Support Services and Administration	11,606,646	9,067,192
Total Expenses	91,833,427	88,285,883
Changes in Net Assets before Unrealized (Loss) Gain on Interest Rate Swap	222,977	605,247
Unrealized (Loss) Gain on Interest Rate Swap	(376,159)	737,456
Changes in Net Assets after Unrealized (Loss) Gain on Interest Rate Swap	(153,182)	1,342,703
Net Assets, beginning of year	8,647,452	7,304,749
Net Assets, end of year	$ 8,494,270	$ 8,647,452

Consolidated Statements of Cash Flows

For the Years Ended December 31,	2014	2013
Cash Flows from Operating Activities:		
(Decrease) increase in unrestricted net assets	$ (153,182)	$ 1,342,703
Adjustments to reconcile (decrease) increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	3,816,506	3,778,357
Provision for bad debt	496,661	571,375
Gain on disposal of property, plant and equipment	(4,000)	(34,438)
Unrealized and realized gain in fair value of investments	(25,977)	(44,489)
Unrealized loss (gain) on interest rate swap	376,159	(737,457)
(Increase) decrease in operating assets:		
Accounts receivable	(1,262,036)	4,016,277
Other current assets	(1,300,855)	137,052
Receivables from affiliated organizations	(349,341)	537,038
Restricted cash	42,599	(528,979)
Restricted other investments	(61,509)	123,230
Accrued receivable - unfunded bond principals	89,319	128,616
Increase (decrease) in operating liabilities:		
Accounts payable	1,852,490	(105,427)
Payables to affiliated organizations	30,946	117,090
Accrued expenses	28,338	281,158
Accrued salaries and payroll	(263,414)	51,676
Deferred revenue	(1,284,206)	890,957
Reserves and recoveries	(602,029)	(167,829)
Other liabilities	2,784,940	612,428
Net Cash Provided by Operating Activities	4,211,409	10,969,338
Cash Flows from Investing Activities:		
Purchases of property, plant and equipment	(5,008,650)	(4,038,446)
Proceeds from the sale of property, plant and equipment	4,000	34,438
Net purchases of investments	(107,463)	(88,316)
Increase in other assets	(96,411)	(372,823)
Net Cash Used in Investing Activities	(5,208,524)	(4,465,147)
Cash Flows from Financing Activities:		
Proceeds from lines of credit	23,625,000	11,050,500
Payments of lines of credit	(21,625,000)	(15,250,500)
Proceeds from long-term debt	3,197,866	995,000
Payments of long-term debt	(5,777,719)	(3,655,832)
Increase in restricted investments - debt service funds	(130,265)	-
Net Cash Used in Financing Activities	(710,118)	(6,860,832)
Net decrease in Cash and Cash Equivalents	(1,707,233)	(356,641)
Cash and Cash Equivalents, beginning of year	2,902,989	3,259,630
Cash and Cash Equivalents, end of year	$ 1,195,756	$ 2,902,989
Supplemental Disclosures:		
Cash paid for interest	$ 1,058,763	$ 1,194,012
Noncash Investing and Financing Activities:		
Assets purchased on capital leases and through a loan	$ 1,694,323	$ 734,051

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2014 and 2013

1. Organization and Nature of Activities

Family Residences & Essential Enterprises, Inc. (the "Agency") is a non-profit corporation organized under the not-for-profit laws of New York State. 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 Charter School is a non-profit corporation organized under the not-for-profit laws of New York State. 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 not-for-profit laws of New York State. 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 State 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 restricted 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.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2014 and 2013

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 restricted 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 restricted other investments are recorded using the same fair value measurement principles discussed above and primarily consist of investments in mutual funds.

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 and is calculated using the straight-line method over the estimated useful lives of the assets detailed below. Leasehold improvements are depreciated over the lesser of the life of the lease or the asset's useful life. Property, plant and equipment are depreciated/amortized using the following estimated useful lives:

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

Long-lived assets - The Organization will recognize losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts.

Revenues - Revenues are recorded when earned as services are provided for residential care, day programs, clinical services and education 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 New York State 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 effects 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 support 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. The first bank holds two of the Organization's interest rate swap agreements. These interest rate swaps are 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, which holds the remaining two interest rate swap agreements, 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.

These interest rate swap agreements are recorded at fair value. Fair values are determined based on significant other observable inputs and represent Level 2 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.

Assets with limited use - Assets with limited use consist of restricted cash, restricted investments - debt service funds, and restricted other investments. Restricted cash consists of funded depreciation and individual burial funds. Restricted investments - debt service funds are required under the bond financing agreements, plus interest earned. Restricted other investments consist of assets held for deferred compensation plans and the cash surrender value associated with life insurance policies.

Uncertain tax positions - Management evaluated the tax positions and concluded that the Organization has 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 2011, 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 changes in net assets.

Evaluation of subsequent events - Management has evaluated subsequent events through June 1, 2015, 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:

As of December 31,	2014	2013
Land	$ 7,419,263	$ 7,344,263
Buildings	27,402,468	26,981,966
Building Improvements	28,928,171	27,641,383
Leasehold Improvements	1,762,726	1,827,440
Equipment, Furniture and Fixtures	3,349,080	5,131,016
Transportation - Vehicles	3,304,034	3,350,324
Construction in Progress	2,741,609	1,510,605
Total Property, Plant and Equipment	74,907,351	73,786,997
Less Accumulated Depreciation and Amortization	36,038,091	38,123,075
Property, Plant and Equipment, net	$ 38,869,260	$ 35,663,922

A portion of the Organization's property, plant and equipment was purchased with bond 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, 2014 and 2013, construction in progress, which consists of amounts incurred in advance for future projects, amounted to approximately $2,742,000 and $1,511,000, respectively. As of December 31, 2014, the aggregate estimated future commitment to complete the remaining construction is approximately $418,000.

Included in property, plant and equipment are assets under capital leases as follows:

As of December 31,	**2014**	2013
Transportation - Vehicles	$ **3,304,034**	$ 3,350,324
Less Accumulated Depreciation and Amortization	**1,460,515**	1,657,869
	$ **1,843,519**	$ 1,692,455

4. Other Assets, Net

Other assets, net, consist of the following:

As of December 31,	**2014**	2013
Bond Issuance and Related Costs	$ **3,718,118**	$ 5,242,268
Less Accumulated Amortization	**1,868,219**	3,291,103
Bond Issuance and Related Costs, net	**1,849,899**	1,951,165
Investments Held by Trustee - OPWDD	**351,116**	379,164
Security Deposits	**248,608**	341,754
Bond Sinking Funds	**2,967,165**	2,319,862
Prepaid and Other Assets	**653,146**	1,817,600
Total Other Assets	**6,069,934**	6,809,545
Less Current Portion	**3,620,311**	4,137,462
Total Other Assets, net	$ **2,449,623**	$ 2,672,083

5. Notes Payable - Lines of Credit

At December 31, 2014 and 2013, the Organization established $10,000,000, respectively, lines of credit which were shared by two banks. The outstanding balances on the lines of credit are secured by the Organization's accounts receivable. The two lines of credit of $5,000,000 each expire on September 30, 2015. The lines of credit bear interest at the banks' prime rate (3.25% at December 31, 2014 and 2013).

At December 31, 2014, $2,000,000 was outstanding under these respective lines of credit. At December 31, 2013, there were no borrowings against the lines of credit.

Interest expense for the years ended December 31, 2014 and 2013, approximated $63,000 and $19,000, respectively.

6. Long-Term Debt

The Organization has mortgages, bonds, and loans payable on several of its facilities summarized as follows at December 31, 2014 and 2013:

Indebtedness	Creditor		Balance Outstanding 2014	2013	Average Rate of Interest
Mortgage Payable	Reese Michaels	(A)	$ 165,017	$ 180,017	Interest free
	Suffolk County National Bank	(M)	881,439	946,311	5.56%
Notes Payable	Services for the Underserved	(B)	500,000	500,000	3.25 & 1.50%
	TD Equipment Finance, Inc.	(C)	873,263	-	4.38%
Bonds Payable	NYS Sponsored Medical Care Facilities Finance Agency	(D)	1,889,650	2,420,850	7.08%
	Suffolk County Industrial Development Agency Civic Facility Revenue Bonds	(E)	30,000	45,000	7.00% & 7.75%
		(F)	200,000	240,000	6.375%
		(G)	810,000	945,000	6.00% & 6.25%
		(H)	25,000	50,000	6.00% & 6.75%
		(I)	555,000	615,000	5.95% & 7.25%
	DASNY Bonds	(J)	612,959	763,593	5.0455%
		(K)	2,821,116	-	1% to 5%
	Capital Leases	(L)	1,590,387	1,243,340	Various
	Nassau County Local Economic Assistance Corporation Bonds	(N)	9,890,000	10,246,000	3.709%
	Suffolk County Economic Development Corporation Bonds	(N)	6,991,000	8,402,000	3.709%
	TD Bank Bridge Loans	(O)	376,750	2,500,000	3.25% & 3.75%
Total Mortgages, Notes, Bonds and Loans Payable			28,211,581	29,097,111	
Less Current Maturities			3,743,559	3,090,385	
Total Long-Term Debt			$ 24,468,022	$ 26,006,726	

(A) This note payable is collateralized by the equestrian ranch and day program known as Saddlerock located in Middle Island, New York.

(B) This note payable is held by the Agency for the Child Development Center of the Hamptons.

(C) This note payable was used to pay for the Agresso implementation.

(D) 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.

(E) 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.

(F) 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.

(G) 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.

(H) 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.

(I) 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.

(J) This Dormitory Authority of the State of New York ("DASNY") Bond is secured by three OMH Community Residence located in Suffolk County, New York. The Agency recognizes revenue for both principal and interest reimbursed by NYS for the DASNY bond.

(K) These Dormitory Authority of the State of New York ("DASNY") Bonds are secured by the three locations that were previously financed on bridge loans in Springfield Gardens, New York, Queens Village, New York and Mastic Beach, New York. $2,615,000 was issued as tax-exempt with a variable rate ranging from 2.00% to 5.00% for the 15 year term. The remaining $115,000 was issued as taxable with a fixed rate of 1% for the three year term. These bonds were issued at a premium of $171,266 which is to be repaid over the 15 year term of the tax-exempt bond issuance.

(L) The Agency has executed capital leases related to vehicle purchases for various programs. These capital leases mature on various dates from May 2016 through November 2019.

(M) 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%. This interest rate was subsequently changed to 5.75% in October 2009 and 5.00% in October 2014. 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 and the annual increase in tangible net worth covenant for the year ended December 31, 2014 for which the Foundation obtained a waiver from the bank.

(N) 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 issuance of Nassau County Local Economic and Suffolk County Economic Development Corporation 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, 2014, the notional amount and fair value liability were $7,510,000 and ($51,636), respectively, for the TD Bank swap agreements, and $7,510,000 and ($12,553), respectively, for the Valley National Bank swap agreements.

At December 31, 2014 and 2013, the total fair value (liability) asset of the interest rate swaps was approximately $(64,000) and $312,000, respectively, and is reflected within the accompanying consolidated statements of financial position. The unrealized gain (loss) for the valuation is shown as non-operating activities on the consolidated statements of activities and changes in net assets.

(O) Throughout the year ended December 31, 2014, the Organization entered into two bridge loan agreements with TD Bank for the purchase of new IRA homes, one in Coram, New York and one in Medford, New York. These loans are secured by the property associated with the loan. During the year ended December 31, 2014, the bridge loans associated with three bridge loans outstanding at December 31, 2013 were satisfied utilizing funds from the issuance of the 2014 DASNY bonds within reference K above.

Minimum future principal payments for long-term debt are approximately as follows:

For the Years Ending December 31,	
2015	$ 3,744,000
2016	3,221,000
2017	2,899,000
2018	1,816,000
2019	1,519,000
Thereafter	15,013,000
Total	$ 28,212,000

Interest expense on long-term debt for the years ended December 31, 2014 and 2013 approximated $993,000 and $1,149,000, respectively.

7. Pension Plans

The Organization adopted the Family Residences Retirement & 401(k) Savings Plan (the "Plan") effective January 1, 1997 covering all eligible employees. The Plan is qualified under the Employee Retirement Income Security Act of 1974 guidelines set forth by the Department of Labor. Effective April 24, 2014, the Plan was amended by restating the Plan in its entirety. The Plan has been characterized for financial accounting purposes as a multi-employer plan. The Plan permits eligible employees the option to defer a portion of their compensation, subject to Internal Revenue Service ("IRS") limitations, into the Plan.

For each Plan year, the Organization may contribute to the Plan, on behalf of each eligible employee, a discretionary matching contribution. The Organization will determine this discretionary matching contribution annually. The discretionary matching contributions for the Plan years ended December 31, 2014 and 2013 were $200,000 and $45,000, respectively. As of the date of this report, the Organization's discretionary matching contributions were fully funded.

In addition to the discretionary matching contributions, the Organization may make a discretionary contribution to the Plan which will be determined annually. For the Plan years ended December 31, 2014 and 2013, the Organization's discretionary contribution was $729,000 and $1,200,000, respectively.

The Organization has adopted a Family Residences and Essential Enterprises, Inc. 403(b) Plan ("403(b) Plan") effective January 1, 2009. Effective April 24, 2014, the 403(b) Plan was amended by restating the 403(b) Plan in its entirety. The 403(b) Plan permits eligible employees the option to defer a portion of their compensation, subject to IRS limitations, into the 403(b) Plan. There are no employer contributions into the 403(b) Plan.

The Organization adopted the Family Residences & Essential Enterprises, Inc. Section 457 Deferred Compensation Plan pursuant to Section 457(b) ("457(b) Plan") effective January 1, 1998 which was restated effective January 1, 2010 and April 24, 2014. The 457(b) Plan covers a group of management employees and permits employee compensation deferrals and employer contributions. The Organization contributed approximately $76,000 to the 457(b) Plan during 2014. The Organization has recognized a long-term liability of approximately $731,000 and $598,000 at December 31, 2014 and 2013, respectively.

The Organization also has a plan that includes a corporate-sponsored split dollar agreement to purchase life insurance. The cash surrender value of the policies at December 31, 2014 and 2013 approximated $751,000 and $690,000, respectively. This 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 $773,000 and $700,000 at December 31, 2014 and 2013, respectively.

The Preschool has a tax-sheltered retirement income ("IRC 403(b)") plan covering its eligible employees. This plan enables participants to make pretax salary contributions, within limits, through elective salary deferrals. In addition, the Preschool offers a discretionary employer match as part of the plan. Expenses relating to the match were approximately $1,000 and $40,000 for the years ended December 31, 2014 and 2013, respectively.

The Charter School is a participant in a pension plan that has been characterized for financial accounting purposes as a multi-employer plan. This Plan covers the Charter School union-represented employees. The New York State Teachers' Retirement System (the "NYSTRS") is a cost sharing, multi-employer defined benefit plan for the Charter School employees. The risks of participating in multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If one of the participating employers petitions to stop participating in the multiemployer plan, such employer may be required to pay the plan a withdrawal liability based on the funded status of the plan.

The NYSTRS is designed to provide retirement benefits for its members including the eligible employees of the Charter School. Benefits are calculated utilizing specified percentages within the plan document.

The Charter School made employer contributions to the NYSTRS approximating $175,000 and $128,000 for the years ended December 31, 2014 and 2013, respectively, which are included in the accompanying consolidated statements of activities and changes in net assets. The Charter School's required annual contributions represent less than 5% of the total contributions to the NYSTRS. During the years ended December 31, 2014 and 2013, the employer contribution percentages were 16.25% and 11.84%, respectively. Additionally, there were 24 and 25 Charter School employees participating in the NYSTRS during the years ended December 31, 2014 and 2013, respectively.

The following table discloses the most recent funded status of the NYSTRS as of June 30, 2013 (the date of the latest actuarial valuation), inclusive of the fair value of plan assets as of June 30, 2013 (in millions) and June 30, 2012, respectively.

	Fair Value of Plan Assets	Actuarial Present Value of Accumulated Plan Benefits	Total Contributions	Funded Status	Zone Status
June 30, 2013	**$ 82,742,500**	**$ 94,583,800**	**$ 2,522,513**	87.5%	**GREEN**
June 30, 2012	$ 82,871,000	$ 92,251,000	$ 1,868,333	89.8%	GREEN

For the years ended December 31, 2014 and 2013, the Charter School did not pay a surcharge to the NYSTRS nor did the NYSTRS have a rehabilitation plan implemented or pending.

8. Transactions with Affiliated Organizations

The Organization has a contract to supply management services and direct staff leasing to Rides Unlimited of New York, Inc. ("Rides"), a transportation company. Fees charged for these services for the years ended December 31, 2014 and 2013 were approximately $1,683,000 and $1,464,000, respectively. The Organization currently transports individuals attending day programs via Rides. Transportation fees charged for the years ended December 31, 2014 and 2013 were approximately $4,194,000 and $4,027,000, respectively. The Organization leases a vehicle storage and repair facility located in Islandia, New York to Rides. Rent charges were approximately $277,000 for each of the years ended December 31, 2014 and 2013. 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, 2014 and 2013 were approximately $309,000 and $325,000, respectively. The net amount due to Rides at December 31, 2014 and 2013 of approximately ($103,000) and ($32,000), respectively, are included in payables to affiliate organizations.

The Organization has an agreement with The Rehabilitation Institute, Inc. ("TRI"), a non-profit corporation organized under the not-for-profit laws of New York State. 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 $305,000 and $354,000 for the years ended December 31, 2014 and 2013, respectively. The net amount due from TRI at December 31, 2014 of approximately $86,000 and the net amount due to TRI at December 31, 2013 of approximately ($79,000) are included in receivables from and payables to affiliated organizations, respectively.

The Organization has an agreement with the National Foundation for Human Potential, Inc. (the "National Foundation"), a non-profit corporation organized under the not-for-profit laws of New York State. National Foundation 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 provides managerial services for the direct oversight of the National Foundation's daily operations. Total amounts charged to the National Foundation for these services amounted to approximately $223,000 and $147,000 for the years ended December 31, 2014 and 2013, respectively. The Organization leases office space located in Old Bethpage, New York to the National Foundation. Rent charges for the years ended December 31, 2014 and 2013 were approximately $37,000 and $36,000, respectively. The Organization had receivables from the National Foundation, which amounted to $76,000 and $9,000 at December 31, 2014 and 2013, respectively.

In 2008, the Organization entered into a management agreement with Park House, Inc., a non-profit corporation under the not-for-profit laws of New York State, 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 $265,000 and $266,000 for the years ended December 31, 2014 and 2013, respectively. The Organization had receivables from Park House, Inc., which amounted to $34,000 and $42,000 at December 31, 2014 and 2013, respectively.

The Organization has an agreement with Homes Anew I Ltd. ("Homes Anew I") and Homes Anew II Ltd. ("Homes Anew II"), not-for-profit organizations under the not-for-profit laws of New York State. Homes Anew I is a community residence program which establishes, operates and maintains community residences for developmentally disabled, low income individuals in Suffolk County, New York. Homes Anew II is a community residence program which establishes, operates and maintains community residences for homeless and/or physically/developmentally disabled individuals. The Organization provides management services to assist in the administration and oversight of Homes Anew I and Homes Anew II's business activities. Total amounts charged to Homes Anew I and Homes Anew II for these services amounted to approximately $30,000 and $8,000 for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, the amounts due to Homes Anew I and Homes Anew II of approximately $61,000 and $28,000, respectively, were included in payables to affiliated organizations.

The Organization has an agreement with Contemporary Guidance Services ("CGS"), a non-profit corporation under the not-for-profit laws of New York State, to provide administrative services. CGS provides vocational training, supportive work, day habilitation, respite, and Medicaid Service Coordination ("MSC") services, among others, to developmentally disabled individuals. Total amounts charged to CGS for the management services amounted to approximately $336,000 and $321,000, respectively, for the years ended December 31, 2014 and 2013. The Organization had receivables from CGS, which amounted to approximately $317,000 and $330,000, respectively, at December 31, 2014 and 2013.

During 2014, the Organization entered into a management agreement with Adelante of Suffolk County, Inc. ("Adelante"), a non-profit organization located in Central Islip, New York. Adelante provides services to culturally diverse communities in the areas of health, education, employment, supported housing, youth leadership development, volunteerism and culture. Adelante advocates the need to improve the quality of life of their community members, to promote Hispanic culture and civic responsibility, as well as foster the educational, economical, social and cultural awareness and pride of the community. Per the terms of the agreement, the Organization is to provide executive consulting, financial management, accounting services, legal services, human resources, real estate management, compliance and similar services. Total amounts charged to Adelante for these services amounted to approximately $84,000 for the year ended December 31, 2014. The Organization also obtains services from Adelante. At December 31, 2014, the amount due to Adelante of approximately $6,000 is included within payables to affiliated organizations.

During 2014, the Organization entered into a management agreement with Skills Unlimited, Inc. ("Skills Unlimited"), a non-profit organization located in Oakdale, New York. Skills Unlimited provides vocational training, sheltered employment, Article 31 clinic and social adjustment services to disabled individuals in training or sheltered employment. Per the terms of the agreement, the Organization is to provide executive consulting, financial management, human resources, information technology, accounting and legal services, compliance and similar services. Total amounts charged to Skills Unlimited for the management services amounted to approximately $161,000 for the year ended December 31, 2014. The Organization had a receivable which amounted to approximately $167,000 at December 31, 2014.

The Organization had receivables which amounted to approximately $55,000 at December 31, 2014 from other affiliated organizations.

The Organization is affiliated with the organizations listed above through management agreements in place to provide supervisory and management functions to these organizations.

9. Commitments

The Organization is a party to various lease operating commitments. Minimum payments under these lease commitments at December 31, 2014 are approximately as follows:

For the Years Ending December 31,	
2015	$ 2,895,000
2016	750,000
2017	416,000
2018	170,000
Total	$ 4,231,000

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, 2014 and 2013 approximated $2,980,000 and $2,101,000, 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.

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 Federal Deposit Insurance Corporation ("FDIC"). Accounts receivable from governmental agencies are from federal, state and county agencies.

Consolidating and Supplementary Information

Consolidating Statement of Financial Position

As of December 31, 2014

	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	$ 909,738	$ 218,110	$ 16,919	$ 50,989	$ -	$ 1,195,756
Accounts receivable, net of allowance for doubtful accounts of approximately $1,497,000	13,229,928	485,382	77,267		-	13,792,577
Receivables from affiliated organizations	730,503	-	-	-	-	730,503
Other current assets	3,589,414	9,812	21,085	-	-	3,620,311
Total Current Assets	18,459,583	713,304	115,271	50,989	-	19,339,147
Property, Plant and Equipment, net	36,193,401	793,646	46,115	1,836,098	-	38,869,260
Other Assets, net	2,449,623	-	-	-	-	2,449,623
Due from Related Parties	805,857	521,128	23,932	-	(1,350,917)	-
Assets with Limited Use:						
Restricted cash	409,719	-	-	-	-	409,719
Restricted investments - debt service funds	527,083	-	-	-	-	527,083
Restricted other investments	1,482,099	-	-	-	-	1,482,099
Accrued Receivable - Unfunded Bond Principals	230,584	-	-	-	-	230,584
Total Plant and Other Long-Term Assets	42,098,366	1,314,774	70,047	1,836,098	(1,350,917)	43,968,368
Total Assets	$ 60,557,949	$ 2,028,078	$ 185,318	$ 1,887,087	$ (1,350,917)	$ 63,307,515
Liabilities and Net Assets						
Current Liabilities:						
Accounts payable	$ 3,666,285	$ 43,992	$ 3,525	$ -	$ -	$ 3,713,802
Payables to affiliated organizations	169,748	-	-	-	-	169,748
Accrued expenses	1,156,936	19,735	11,585	10,000	-	1,198,256
Accrued salaries and payroll	5,755,490	183,137	24,639	-	-	5,963,266
Lines of credit	2,000,000	-	-	-	-	2,000,000
Current maturities of long-term debt	3,672,359	-	-	71,200	-	3,743,559
Deferred revenue, current	352,518	279,444	-	-	-	631,962
Reserves and recoveries, current	2,459,470	-	293,754	-	-	2,753,224
Other current liabilities	4,537,656	-	-	-	-	4,537,656
Total Current Liabilities	23,770,462	526,308	333,503	81,200	-	24,711,473
Long-Term Liabilities:						
Long-term debt, net of current maturities	23,657,783		-	810,239	-	24,468,022
Deferred revenue	1,028,388	-	-	-	-	1,028,388
Reserves and recoveries	2,626,291	-	-	-	-	2,626,291
Other liabilities	1,914,882	-	-	-	-	1,914,882
Interest rate swap agreement	64,189	-	-	-	-	64,189
Due to related parties	-	761,046	560,281	29,590	(1,350,917)	-
Total Long-Term Liabilities	29,291,533	761,046	560,281	839,829	(1,350,917)	30,101,772
Total Liabilities	53,061,995	1,287,354	893,784	921,029	(1,350,917)	54,813,245
Commitments and Contingencies						
Net Assets - Unrestricted	7,495,954	740,724	(706,466)	966,058	-	8,494,270
Total Liabilities and Net Assets	$ 60,557,949	$ 2,028,078	$ 185,318	$ 1,887,087	$ (1,350,917)	$ 63,307,515

See independent auditors' report.

Consolidating Statement of Activities and Changes in Net Assets

For the Year Ended December 31, 2014

	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	$ 8,344,035	$ -	$ -	$ -	$ -	$ 8,344,035
OPWDD residential	51,222,953	-	-	-	-	51,222,953
Day programs	23,387,250	-	-	-	-	23,387,250
Clinic programs	3,126,570	-	-	-	-	3,126,570
HHAP/HUD programs	267,946	-	-	-	-	267,946
CDCH Charter school	-	2,826,024	-	-	(33,638)	2,792,386
CDCH Preschool	-	-	644,980	-	-	644,980
CDCH Foundation	-	-	-	123,080	(123,077)	3
Other program revenue	1,331,455	-	-	-	-	1,331,455
Investment income	20,612	40	23	25	-	20,700
Other miscellaneous income	750,584	6,000	-	-	-	756,584
Contributions	127,915	3,650	-	-	-	131,565
Unrealized and realized gain in fair value of investments	25,977	-	-	-	-	25,977
Gain on disposal of property, plant and equipment	4,000	-	-	-	-	4,000
Total Unrestricted Revenues, Gains and Other Support	88,609,297	2,835,714	645,003	123,105	(156,715)	92,056,404
Expenses:						
OMH residential	7,082,079	-	-	-	-	7,082,079
OPWDD residential	44,321,784	-	-	-	-	44,321,784
Day programs	18,898,015	-	-	-	-	18,898,015
Clinic programs	3,644,927	-	-	-	-	3,644,927
HHAP/HUD programs	363,499	-	-	-	-	363,499
CDCH Charter school	-	3,074,200	-	-	(115,223)	2,958,977
CDCH Preschool	-	-	850,945	-	(81,110)	769,835
CDCH Foundation	-	-	-	126,664	-	126,664
Other program expenses	2,061,001	-	-	-	-	2,061,001
Total Program Expenses	76,371,305	3,074,200	850,945	126,664	(196,333)	80,226,781
Support Services and Administration	11,430,698	103,128	33,202	-	39,618	11,606,646
Total Expenses	87,802,003	3,177,328	884,147	126,664	(156,715)	91,833,427
Changes in Net Assets before Unrealized Loss on Interest Rate Swap	807,294	(341,614)	(239,144)	(3,559)	-	222,977
Unrealized Loss on Interest Rate Swap	(376,159)	-	-	-	-	(376,159)
Changes in Net Assets after Unrealized Loss on Interest Rate Swap	431,135	(341,614)	(239,144)	(3,559)	-	(153,182)
Net Assets (Deficit), beginning of year	7,064,819	1,082,338	(469,322)	969,617	-	8,647,452
Net Assets (Deficit), end of year	$ 7,495,954	$ 740,724	$ (708,466)	$ 966,058	$ -	$ 8,494,270

See independent auditors' report.

Consolidated Statement of Functional Expenses

For the Year Ended December 31, 2014

	OMH Residential	OPWDD Residential	Day Programs	Clinic Programs	HHAP/HUD Programs	CDCH Charter, Preschool and Foundation	Other Programs	Total Program Expenses	Support Services and Administration	2014 Expenses
Salaries	$ 2,606,001	$ 25,001,090	$ 7,795,593	$ 1,537,034	$ 150,879	$ 2,037,025	$ 756,691	$ 39,884,313	$ 5,822,074	**$ 45,706,387**
Fringe Benefits	869,973	8,346,219	2,604,375	513,115	50,368	636,955	252,609	13,273,614	1,963,772	**15,237,386**
Consulting and Professional Fees	30,569	725,020	190,650	994,393	2,098	343,803	61,429	2,347,962	1,377,667	**3,725,629**
Food and Household	302,924	1,370,322	299,683	12,595	626	14,328	140,922	2,141,400	90,342	**2,231,742**
Program Expense	15,024	480,829	126,572	71,244	26	75,799	42,144	811,638	7,916	**819,554**
Staff Development and Recruitment	13,535	53,616	32,746	2,042	678	59,584	2,312	164,513	168,663	**333,176**
Transportation	40,445	155,393	4,333,852	23,264	2,976	560	12,318	4,568,808	22,794	**4,591,602**
Vehicle Expense	21,039	411,509	128,222	15,396	297	-	14,919	591,382	70,941	**662,323**
Utilities	226,027	755,851	211,358	29,210	18,812	57,131	17,364	1,315,753	118,167	**1,433,920**
Telephone	96,759	291,055	229,994	23,571	1,662	22,542	16,666	682,249	185,788	**868,037**
IT Expense	187,623	593,037	576,767	109,996	490	52,571	96,368	1,616,852	97,566	**1,714,418**
Expensed Furniture and Equipment	97,693	389,354	111,194	4,681	1,273	5,694	27,117	637,006	68,878	**705,884**
Repairs and Maintenance	295,583	1,710,733	719,257	64,624	44,776	150,681	53,627	3,039,281	338,140	**3,377,421**
Office Supplies	16,260	95,018	73,432	19,644	990	25,294	14,033	244,671	127,851	**372,522**
Miscellaneous	-	287,520	860	318	225	7,219	9,536	305,678	16,484	**322,162**
Interest Expense	35,182	419,480	260,756	3,946	285	75,383	16,502	811,534	244,742	**1,056,276**
Insurance	171,912	468,412	256,629	66,990	8,045	67,311	18,576	1,057,875	227,887	**1,285,762**
Depreciation and Amortization	184,002	1,940,576	675,358	77,980	13,772	187,690	74,699	3,154,077	662,429	**3,816,506**
Rental/Lease Expense	1,838,700	717,188	168,701	39,971	65,212	26,576	20,359	2,876,707	106,524	**2,983,231**
Other Property Expense	29,303	76,095	75,370	20,996	9	-	3,034	204,807	9,701	**214,508**
Management Fees	-	-	-	-	-	-	-	-	(121,680)	**(121,680)**
Bad Debt	3,525	33,467	26,646	13,917	-	9,330	409,776	496,661	-	**496,661**
Total Expenses after Eliminations	$ 7,082,079	$ 44,321,784	$ 18,898,015	$ 3,644,927	$ 363,499	$ 3,855,476	$ 2,061,001	$ 80,226,781	$ 11,606,646	**$ 91,833,427**

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Old Bethpage, New York

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2013 and 2012

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

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Consolidated Financial Statements

BAKER TILLY

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INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

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, 2013 and 2012, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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.

Board of Directors
Family Residences & Essential
Enterprises, Inc. and Subsidiaries

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, 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.

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 17 to 18 is presented for 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 as a whole.

Baker Tilly Virchow Krause, LLP

New York, New York
June 2, 2014

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Position

As of December 31,	2013	2012
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,579,840	$ 2,618,706
Accounts receivable, net of allowance for doubtful accounts of approximately $1,941,000 and $1,633,000, respectively	12,995,263	17,245,496
Related party receivables	381,162	918,200
Deposits and prepaid expenses	821,827	735,352
Investments	22,197	21,646
Total Current Assets	16,800,289	21,539,400
Property, Plant and Equipment, net	34,153,317	32,593,651
Construction in Progress	1,510,605	1,593,391
Other Assets, net	2,362,270	2,495,951
Interest Rate Swap Agreement	311,970	-
Assets with Limited Use:		
Restricted cash	313,665	313,144
Restricted investments - debt service funds	2,537,561	3,002,596
Restricted other investments	1,425,393	1,277,716
Accrued Receivable - Unfunded Bond Principals	319,903	448,519
Total Plant and Other Long-Term Assets	42,934,684	41,724,968
Total Assets	$ 59,734,973	$ 63,264,368
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	$ 1,867,187	$ 1,975,343
Related party payables	138,802	21,712
Accrued expenses	9,200,538	8,643,574
Lines of credit	-	4,200,000
Due to New York State	459,622	831,262
Current maturities of long-term debt	3,090,306	4,020,972
Deferred revenue and recoveries	3,441,751	1,726,674
Total Current Liabilities	18,198,206	21,419,537
Long-Term Liabilities:		
Long-term debt, net of current maturities	25,245,654	26,503,370
Deferred revenue and recoveries	5,544,325	4,951,129
Other liabilities	1,797,068	1,593,423
Advanced funding - OMH	302,268	1,066,673
Interest rate swap agreement	-	425,487
Total Long-Term Liabilities	32,889,315	34,540,082
Total Liabilities	51,087,521	55,959,619
Commitments and Contingencies		
Net Assets - Unrestricted	8,647,452	7,304,749
Total Liabilities and Net Assets	$ 59,734,973	$ 63,264,368

See notes to consolidated financial statements.

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidated Statements of Activities and Changes in Net Assets

For the Years Ended December 31,	2013	2012
Unrestricted Revenues, Gains and Other Support:		
OMH residential	$ 8,002,662	$ 7,591,051
OPWDD residential	46,887,814	44,945,436
Day programs	23,264,260	22,358,589
Clinic programs	3,316,753	4,112,312
HHAP/HUD programs	154,010	122,828
CDCH Charter school	3,398,481	3,342,938
CDCH Preschool	853,238	1,445,615
CDCH Foundation	141	29,063
Other program revenue	2,056,046	706,914
Investment income	14,717	13,234
Other miscellaneous income	643,646	6,113
Contributions	237,721	103,254
Unrealized and realized gain in fair value of investments	44,489	35,782
Gain on disposal of property, plant and equipment	34,438	-
Total Unrestricted Revenues, Gains and Other Support	88,908,416	84,813,129
Expenses:		
OMH residential	7,375,436	6,687,024
OPWDD residential	42,791,699	40,393,116
Day programs	18,885,763	18,453,672
Clinic programs	3,922,169	4,132,307
HHAP/HUD programs	386,964	307,003
CDCH Charter school	2,673,278	2,577,386
CDCH Preschool	1,051,097	1,145,565
CDCH Foundation	125,220	143,858
Other program expenses	2,004,067	897,182
Total Program Expenses	79,215,693	74,737,113
Support Services and Administration	9,087,476	9,372,165
Total Expenses	88,303,169	84,109,278
Changes in Net Assets before Amortization Expense Due to Extinguishment of Debt and Unrealized Gain (Loss) on Interest Rate Swap	605,247	703,851
Amortization Expense Due to Extinguishment of Debt	-	(381,393)
Unrealized Gain (Loss) on Interest Rate Swap	737,456	(425,487)
Changes in Net Assets after Amortization Expense Due to Extinguishment of Debt and Unrealized Gain (Loss) on Interest Rate Swap	1,342,703	(103,029)
Net Assets, beginning of year	7,304,749	7,407,778
Net Assets, end of year	$ 8,647,452	$ 7,304,749

See notes to consolidated financial statements.

FAMILY RESIDENCES & ESSENTIAL ENTERPRISES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended December 31,	2013	2012
Cash Flows from Operating Activities:		
Increase (decrease) in unrestricted net assets	$ 1,342,703	$ (103,029)
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	3,807,963	4,015,584
Provision for bad debt	571,376	555,798
Gain on disposal of property, plant and equipment	(34,438)	-
Unrealized and realized gain in fair value of investments	(44,489)	(35,782)
Unrealized (gain) loss on interest rate swap	(737,457)	425,487
(Increase) decrease in operating assets:		
Accounts receivable	3,678,857	3,967,726
Deposits and prepaid expenses	(86,475)	(77,286)
Related party receivables	537,038	(24,140)
Restricted cash	(521)	(31,473)
Restricted other investments	123,230	(95,619)
Accrued receivable - unfunded bond principals	128,616	190,385
Increase (decrease) in operating liabilities:		
Accounts payable	(108,156)	(122,098)
Related party payables	117,090	21,712
Accrued expenses	556,964	(751,429)
Due to New York State	(371,640)	-
Deferred revenue and recoveries	2,308,273	(2,895,145)
Other liabilities	203,645	170,393
Advanced funding - OMH	(764,405)	30,663
Net Cash Provided by Operating Activities	11,228,174	5,241,747
Cash Flows from Investing Activities:		
Purchases of property, plant and equipment	(4,177,852)	(3,270,192)
Proceeds from the sale of property, plant and equipment	34,438	-
Net purchases of investments	(226,969)	(49,788)
Increase in other assets	(197,007)	(1,214,043)
Net Cash Used in Investing Activities	(4,567,390)	(4,534,023)
Cash Flows from Financing Activities:		
Proceeds from lines of credit	11,050,500	32,150,000
Payments of lines of credit	(15,250,500)	(32,913,000)
Proceeds from long-term debt	995,000	23,550,000
Payments of long-term debt	(3,959,685)	(22,704,889)
Decrease in restricted investments - debt service funds	465,035	1,101,098
Net Cash (Used in) Provided by Financing Activities	(6,699,650)	1,183,209
Net (Decrease) increase in Cash and Cash Equivalents	(38,866)	1,890,933
Cash and Cash Equivalents, beginning of year	2,618,706	727,773
Cash and Cash Equivalents, end of year	$ 2,579,840	$ 2,618,706
Supplemental Disclosures:		
Cash paid for interest	$ 1,194,012	$ 1,843,688
Noncash Investing and Financing Activities:		
Assets purchased on capital lease	$ 776,303	$ 409,548

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 not-for-profit laws of New York State. 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 Charter School is a non-profit corporation organized under the not-for-profit laws of New York State. 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 not-for-profit laws of New York State. 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 State 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 restricted 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 restricted 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 restricted other investments are recorded using the same fair value measurement principles discussed above and primarily consist of investments in mutual funds.

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 useful life. Property, plant and equipment are depreciated/amortized using the following estimated useful lives:

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

Long-lived assets - The Organization will recognize losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts.

Revenues - Revenues are recorded when earned as services are provided for residential care, day programs, clinical services and education 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 New York State 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 effects 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 support 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. The first bank holds two of the Organization's interest rate swap agreements. These interest rate swaps are 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, which holds the remaining two interest rate swap agreements, 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.

These interest rate swap agreements are recorded at fair value. Fair values are determined based on significant other observable inputs and represent Level 2 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.

Assets with limited use - Assets with limited use consist of restricted cash, restricted investments - debt service funds, and restricted other investments. Restricted cash consists of funded depreciation and individual burial funds. Restricted investments - debt service funds are required under the bond financing agreements, plus interest earned. Restricted other investments consist of assets held for deferred compensation plans and the cash surrender value associated with life insurance policies.

Uncertain tax positions - Management evaluated the tax positions and concluded that the Organization has 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 2010, 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 changes in net assets.

Evaluation of subsequent events - Management has evaluated subsequent events through June 2, 2014, 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:

As of December 31,	**2013**	2012
Land	$ **7,344,263**	$ 6,859,263
Buildings	**26,981,966**	25,991,966
Building Improvements	**27,641,383**	25,587,753
Leasehold Improvements	**1,827,440**	1,697,787
Equipment, Furniture and Fixtures	**5,131,016**	4,528,873
Transportation - Vehicles	**3,350,324**	2,574,021
Total Property, Plant and Equipment	**72,276,392**	67,239,663
Less Accumulated Depreciation and Amortization	**38,123,075**	34,646,012
Property, Plant and Equipment, net	$ **34,153,317**	$ 32,593,651

A portion of the Organization's property, plant and equipment was purchased with bond 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, 2013 and 2012, construction in progress, which consists of amounts incurred in advance for future projects, amounted to approximately $1,511,000 and $1,593,000, respectively. As of December 31, 2013, the aggregate estimated future commitment to complete the remaining construction is approximately $54,000.

Included in property, plant and equipment are assets under capital leases as follows:

As of December 31,		2013		2012
Transportation - Vehicles	$	**3,350,324**	$	2,574,021
Less Accumulated Depreciation and Amortization		**1,657,869**		1,220,599
	$	**1,692,455**	$	1,353,422

4. Other Assets, Net

Other assets, net, consist of the following:

As of December 31,		2013		2012
Bond Issuance and Related Costs	$	**5,242,269**	$	5,072,365
Less Accumulated Amortization		**3,291,103**		2,987,518
Bond Issuance and Related Costs, net		**1,951,166**		2,084,847
Investments Held by Trustee - Bond Reserve Fund		**411,104**		411,104
Total Other Assets, net	$	**2,362,270**	$	2,495,951

As described in Note 6, the Organization refinanced approximately $19,000,000 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 was reported as a non-operating expense in the consolidated statements of activities and changes in net assets for the year ended December 31, 2012.

5. Notes Payable - Lines of Credit

At December 31, 2013 and 2012, the Organization established $10,000,000 and $8,000,000, respectively, lines of credit which were shared by two banks. The outstanding balances on the lines of credit are secured by the Organization's accounts receivable. The lines of credit expire on August 31, 2014 and September 30, 2014, respectively. The lines of credit bear interest at the banks' prime rate (3.25% at December 31, 2013 and 2012).

At December 31, 2013, there were no borrowings against the lines of credit. At December 31, 2012, $4,200,000 was outstanding under these respective lines of credit.

Interest expense for the years ended December 31, 2013 and 2012 approximated $19,000 and $61,000, respectively.

6. Long-Term Debt

The Organization has mortgages, bonds, and loans payable on several of its facilities summarized as follows at December 31, 2013 and 2012:

Indebtedness	Creditor		Balance Outstanding 2013	Balance Outstanding 2012	Average Rate of Interest
Notes Payable	Reese Michaels	(A)	$ 180,017	$ 195,017	Interest free
Bonds Payable	NYS Sponsored Medical Care Facilities Finance Agency	(B)	2,622,361	3,211,467	7.08%
	Suffolk County Industrial Development Agency Civic Facility Revenue Bonds	(C)	45,000	60,000	7.00% & 7.75%
		(D)	240,000	280,000	6.375%
		(E)	945,000	1,075,000	6.00% & 6.25%
		(F)	50,000	70,000	6.00% & 6.75%
		(G)	615,000	675,000	5.95% & 7.25%
	DASNY Bonds	(H)	300,474	310,785	5.0455%
	Capital Leases	(I)	1,243,340	829,045	Various
	Suffolk County National Bank	(J)	946,768	1,008,028	5.75%
	Nassau County Local Economic Assistance Corporation Bonds	(K)	10,246,000	10,712,000	3.709%
	Suffolk County Economic Development Corporation Bonds	(K)	8,402,000	9,793,000	3.709%
	TD Bank Bridge Loans	(L)	2,500,000	2,305,000	3.25% & 3.75%
Total Mortgages, Notes, Bonds and Loans Payable			28,335,960	30,524,342	
Less Current Maturities			3,090,306	4,020,972	
Total Long-Term Debt			$ 25,245,654	$ 26,503,370	

(A) This note payable is collateralized by the equestrian ranch and day program known as Saddlerock located in Middle Island, New York.

(B) 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.

(C) 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.

(D) 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.

(E) 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.

(F) 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.

(G) 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.

(H) This Dormitory Authority of the State of New York ("DASNY") Bond is secured by an OMH Community Residence located in Hauppauge, New York. The Agency recognizes revenue for both principal and interest reimbursed by NYS for the DASNY bond.

(I) The Agency has executed capital leases related to vehicle purchases for various programs. These capital leases mature on various dates from May 2016 through September 2018.

(J) 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%. 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 and the annual increase in tangible net worth covenant for the year ended December 31, 2013 for which the Foundation obtained a waiver from the bank.

(K) 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 issuance of Nassau County Local Economic and Suffolk County Economic Development Corporation 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, 2013, the notional amount and fair value liability were $9,070,000 and $203,063, respectively, for the TD Bank swap agreements, and $9,070,000 and $222,424, respectively, for the Valley National Bank swap agreements.

At December 31, 2013 and 2012, the total fair value asset (liability) of the interest rate swaps was approximately $312,000 and ($425,000), respectively, and is reflected within the accompanying consolidated statements of financial position. The unrealized gain (loss) for the valuation is shown as non-operating activities on the consolidated statements of activities and changes in net assets.

(L) Throughout the years ended December 31, 2013 and 2012, the Organization entered into four bridge loan agreements with TD Bank for the purchase of new IRA homes, two in Queens, New York, one in Medford, New York, and one in Mastic Beach, New York. Two of these loans are secured by the property associated with the loan and the other two loans are secured by the Organization's non real estate assets. Prior to the year ended December 31, 2013, the bridge loan associated with the Medford, New York location was satisfied in full. Subsequent to the year ended December 31, 2013, all of the remaining three bridge loans were satisfied utilizing funds from the Organization's refinancing noted within the subsequent events Note 12 and are reflected as long-term debt on the consolidated statements of financial position.

Minimum future principal payments for long-term debt are approximately as follows:

Year Ending December 31,	
2014	$ 3,090,000
2015	3,229,000
2016	2,754,000
2017	2,312,000
2018	1,721,000
Thereafter	15,230,000
Total	$ 28,336,000

Interest expense on long-term debt for the years ended December 31, 2013 and 2012 approximated $1,149,000 and $1,751,000, respectively.

7. Pension Plans

The Organization has a variable defined contribution pension plan covering all of its eligible employees. This pension plan is qualified under the Employee Retirement Income Security Act of 1974 guidelines set forth by the Department of Labor.

The annual cost of the pension plan for the years ended December 31, 2013 and 2012 was approximately $1,200,000 and $915,000, respectively. All of the 2012 pension costs were funded during 2013.

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, 2013 approximated $948,000, of which approximately $45,000 represents the amount matched by the Organization. The total contribution for the plan year ended December 31, 2012 was approximately $852,000, of which approximately $41,000 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, 2013 and 2012 approximated $690,000 and $813,000, 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 $1,298,000 and $1,094,000 at December 31, 2013 and 2012, respectively.

The Preschool has a tax-sheltered retirement income (IRC 403(b)) plan covering its eligible employees. This plan enables participants to make pretax salary contributions, within limits, through elective salary deferrals. In addition, the Preschool offers an employer match as part of the plan. Expenses relating to the match were approximately $40,000 and $26,000 for the years ended December 31, 2013 and 2012, respectively.

The Charter School is a participant in a pension plan that has been characterized for financial accounting purposes as a multiemployer pension plan. The New York State Teachers' Retirement System (the "NYSTRS") is a cost sharing, multi-employer defined benefit plan for the Charter School employees. The risks of participating in multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If one of the participating employers petitions to stop participating in the multiemployer plan, such employer may be required to pay the plan a withdrawal liability based on the funded status of the plan.

The NYSTRS is designed to provide retirement benefits for its members including the eligible employees of the Charter School. Benefits are calculated utilizing specified percentages within the plan document.

The Charter School made employer contributions to the NYSTRS approximating $128,000 and $187,000 for the years ended December 31, 2013 and 2012, respectively, which are included in the accompanying consolidated statements of activities and changes in net assets. The Charter School's required annual contributions represent less than five percent of total contributions to the NYSTRS. During the years ended December 31, 2013 and 2012, the employer contribution percentages were 11.84% and 11.11%, respectively. Additionally, there are 25 Charter School employees participating in the NYSTRS during the year ended December 31, 2013.

The following table discloses the name and most recent funded status of the NYSTRS as of June 30, 2012 (the date of the latest actuarial valuation), inclusive of the fair value of plan assets as of June 30, 2013 (in thousands):

Legal Name	Fair Value of Plan Assets	Actuarial Present Value of Accumulated Plan Benefits	Total Contributions	Funded Status	Zone Status
New York State Teachers' Retirement System	$ 82,871,000	$ 92,251,000	$ 1,868,333	89.8%	Green

For the year ended December 31, 2013, the Charter School did not pay a surcharge to the NYSTRS nor did the NYSTRS have a rehabilitation plan implemented or pending.

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, 2013 and 2012 were approximately $4,027,000 and $3,590,000, respectively. The Organization has a contract to supply management services to Rides. Fees charged for management services for the years ended December 31, 2013 and 2012 were approximately $1,464,000 and $1,200,000, respectively. The Organization leases a vehicle storage and repair facility located in Islandia, New York to Rides. Rent charges for each of the years ended December 31, 2013 and 2012 were approximately $277,000. 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, 2013 and 2012 were approximately $325,000 and $316,000, respectively. The amount due to Rides at December 31, 2013 of approximately ($32,000) and the amount due from Rides at December 31, 2012 of approximately $656,000 are included in related party payables and receivables, respectively.

The Organization has an agreement with The Rehabilitation Institute, Inc. ("TRI"), a non-profit corporation organized under the not-for-profit laws of New York State. 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 $354,000 and $468,000 for the years ended December 31, 2013 and 2012, respectively. The amount due to TRI at December 31, 2013 of approximately ($79,000) and the amount due from TRI at December 31, 2012 of approximately $56,000 are included in related party payables and receivables, respectively.

The Organization has an agreement with the National Foundation for Human Potential, Inc. (the "National Foundation"), a non-profit corporation organized under the not-for-profit laws of New York State. National Foundation 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 provides managerial services for the direct oversight of the National Foundation's daily operations. Total amounts charged to the National Foundation for these services amounted to approximately $147,000 and $144,000 for the years ended December 31, 2013 and 2012, respectively. The Organization leases office space located in Old Bethpage, New York to the National Foundation. Rent charges for the years ended December 31, 2013 and 2012 were approximately $36,000 and $35,000, respectively. The Organization had receivables from the National Foundation, which amounted to $9,000 and $46,000 at December 31, 2013 and 2012, respectively.

In 2008, the Organization entered into a management agreement with Park House, Inc., a non-profit corporation under the not-for-profit laws of New York State, 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 $266,000 and $231,000 for the years ended December 31, 2013 and 2012, respectively. The Organization had receivables from Park House, Inc., which amounted to $42,000 and $8,000 at December 31, 2013 and 2012, respectively.

The Organization has an agreement with Homes Anew I Ltd. ("Homes Anew I") and Homes Anew II Ltd. ("Homes Anew II"), not-for-profit organizations under the not-for-profit laws of New York State. Homes Anew I is a community residence program which establishes, operates and maintains community residences for developmentally disabled, low income individuals in Suffolk County, New York. Homes Anew II is a community residence program which establishes, operates and maintains community residences for homeless and/or physically/ developmentally disabled individuals. The Organization provides management services to assist in the administration and oversight of Homes Anew I and Homes Anew II's business activities. Total amounts charged to Homes Anew I and Homes Anew II for these services amounted to approximately $8,000 and $9,000 for the years ended December 31, 2013 and 2012, respectively. At December 31, 2013 and 2012, the amounts due to Homes Anew I and Homes Anew II of approximately $28,000 and $22,000, respectively, were included in related party payables.

The Organization has an agreement with Contemporary Guidance Services ("CGS"), a non-profit corporation under the not-for-profit laws of New York State, to provide administrative services. CGS provides vocational training, supportive work, day habilitation, respite, and Medicaid Service Coordination ("MSC") services, among others, to developmentally disabled individuals. Total amounts charged to CGS for the management services amounted to approximately $321,000 and $151,000, respectively, for the years ended December 31, 2013 and 2012. The Organization had receivables from CGS, which amounted to approximately $330,000 and $154,000, respectively, at December 31, 2013 and 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, 2013 are as follows:

Year Ending December 31,	
2014	$ 2,210,000
2015	711,000
2016	296,000
2017	259,000
2018	183,000
Thereafter	3,000
Total	$ 3,662,000

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, 2013 and 2012 approximated $2,101,000 and $1,784,000, 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.

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 Federal Deposit Insurance Corporation (the "FDIC"). Accounts receivable from governmental agencies are from federal, state and county agencies.

12. Subsequent Events

In August 2013, the Organization entered into a management agreement with Adelante of Suffolk County, Inc. ("Adelante"), a non-profit organization located in Central Islip, New York. Adelante provides services to culturally diverse communities in the areas of health, education, employment, supported housing, youth leadership development, volunteerism and culture. Adelante advocates the need to improve the quality of life of their community members, to promote Hispanic culture and civic responsibility as well as foster to the educational, economical, social and cultural awareness and pride of the community. Per the terms of the agreement, the Organization is to provide executive consulting, financial management, accounting services, legal services, human resources, real estate management, compliance and similar services. The effective date of this agreement is January 1, 2014 and will renew for one-year periods unless cancelled by either party at least 60 days prior to the anniversary date. Management fees for these services shall be 9% of gross revenue from all sources.

In February 2014, the Organization entered into a management agreement with Skills Unlimited, Inc. ("Skills Unlimited"), a non-profit organization located in Oakdale, New York. Skills Unlimited provides vocational training, sheltered employment, Article 31 clinic and social adjustment services to disabled Individuals in training or sheltered employment. Per the terms of the agreement, the Organization is to provide executive consulting, financial management, human resources, information technology, accounting and legal services, compliance and similar services. Management fees for these services shall equal up to a maximum of 8% of gross revenue, based on the annual positive net income of Skills Unlimited, as well as the gradual improvement in operations expected to arise from this agreement.

In April 2014, the Organization refinanced the existing $2,500,000 TD Bank Bridge Loans (see Note 6) through the issuance of DASNY Series 2014 bonds in the amount of $2,730,000. The Series 2014 bonds consist of two bonds, one tax-exempt bond in the amount of $2,615,000 and one taxable bond in the amount of $115,000. The interest rate for the tax-exempt bond is fixed per year and varies over the life of the bond ranging from 2% to 5%. The interest rate for the taxable bond is fixed at 1% for three years.

Supplementary Information

Consolidating Statement of Financial Position

As of December 31, 2013

	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	$ 1,895,322	$ 284,554	$ 312,867	$ 87,097	$ -	$ 2,579,840
Accounts receivable, net of allowance for doubtful accounts of approximately $1,941,000	12,028,616	783,020	183,627	-	-	12,995,263
Related party receivables	381,162		-	-	-	381,162
Deposits and prepaid expenses	803,240	3,137	15,450	-	-	821,827
Investments	21,900	-	297	-	-	22,197
Total Current Assets	15,130,240	1,070,711	512,241	87,097	-	16,800,289
Property, Plant and Equipment, net	31,307,334	911,237	34,520	1,900,226	-	34,153,317
Construction in Progress	1,510,605	-	-	-	-	1,510,605
Other Assets, net	2,362,270	-	-	-	-	2,362,270
Interest Rate Swap Agreement	311,970	-	-	-	-	311,970
Due from Affiliates	914,074	623,433	66,006	-	(1,603,513)	-
Assets with Limited Use:						
Restricted cash	313,665	-	-	-	-	313,665
Restricted investments - debt service funds	2,537,561	-	-	-	-	2,537,561
Restricted other investments	1,425,393	-	-	-	-	1,425,393
Accrued Receivable - Unfunded Bond Principals	319,903	-	-	-	-	319,903
Total Plant and Other Long-Term Assets	41,002,775	1,534,670	100,526	1,900,226	(1,603,513)	42,934,684
Total Assets	$ 56,133,015	$ 2,605,381	$ 612,767	$ 1,987,323	$ (1,603,513)	$ 59,734,973
Liabilities and Net Assets						
Current Liabilities:						
Accounts payable	$ 1,693,583	$ 154,690	$ 12,913	$ 6,001	$ -	$ 1,867,187
Related party payables	138,802	-	-	-	-	138,802
Accrued expenses	8,655,901	157,917	386,720	-	-	9,200,538
Due to New York State	459,622	-	-	-	-	459,622
Current maturities of long-term debt	3,025,508	-	-	64,798	-	3,090,306
Deferred revenue and recoveries	3,087,435	325,708	28,608	-	-	3,441,751
Total Current Liabilities	17,060,851	638,315	428,241	70,799	-	18,198,206
Long-Term Liabilities:						
Long-term debt, net of current maturities	24,363,684	-	-	881,970	-	25,245,654
Deferred revenue and recoveries	5,544,325	-	-	-	-	5,544,325
Other liabilities	1,797,068	-	-	-	-	1,797,068
Advanced funding - OMH	302,268	-	-	-	-	302,268
Due to affiliates	-	884,726	653,848	64,937	(1,603,513)	-
Total Long-Term Liabilities	32,007,345	884,726	653,848	946,907	(1,603,513)	32,889,315
Total Liabilities	49,068,196	1,523,043	1,082,089	1,017,706	(1,603,513)	51,087,521
Commitments and Contingencies						
Net Assets - Unrestricted	7,064,819	1,082,338	(469,322)	969,617	-	8,647,452
Total Liabilities and Net Assets	$ 56,133,015	$ 2,605,381	$ 612,767	$ 1,987,323	$ (1,603,513)	$ 59,734,973

Consolidating Statement of Activities and Changes in Net Assets

For the Year Ended December 31, 2013

	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	$ 8,002,662	$ -	$ -	$ -	$ -	$ 8,002,662
OPWDD residential	46,887,814	-	-	-	-	46,887,814
Day programs	23,264,260	-	-	-	-	23,264,260
Clinic programs	3,316,753	-	-	-	-	3,316,753
HHAP/HUD programs	154,010	-	-	-	-	154,010
CDCH Charter school	-	3,398,481	-	-	-	3,398,481
CDCH Preschool	-	-	853,238	-	-	853,238
CDCH Foundation	-	-	-	123,218	(123,077)	141
Other program revenue	2,056,046	-	-	-	-	2,056,046
Investment income	14,717	-	-	-	-	14,717
Other miscellaneous income	643,646	-	-	-	-	643,646
Contributions	224,730	12,991	-	-	-	237,721
Unrealized and realized gain in fair value of investments	44,489	-	-	-	-	44,489
Gain on disposal of property, plant and equipment	34,438	-	-	-	-	34,438
Total Unrestricted Revenues, Gains and Other Support	84,643,565	3,411,472	853,238	123,218	(123,077)	88,908,416
Expenses:						
OMH residential	7,375,436	-	-	-	-	7,375,436
OPWDD residential	42,791,699	-	-	-	-	42,791,699
Day programs	18,885,763	-	-	-	-	18,885,763
Clinic programs	3,922,169	-	-	-	-	3,922,169
HHAP/HUD programs	386,964	-	-	-	-	386,964
CDCH Charter school	-	2,758,201	-	-	(84,923)	2,673,278
CDCH Preschool	-	-	1,089,251	-	(38,154)	1,051,097
CDCH Foundation	-	-	-	125,220	-	125,220
Other program expenses	2,004,067	-	-	-	-	2,004,067
Total Program Expenses	75,366,098	2,758,201	1,089,251	125,220	(123,077)	79,215,693
Support Services and Administration	8,965,000	58,403	52,073	12,000	-	9,087,476
Management Fees	(236,175)	168,284	67,891	-	-	-
Total Expenses	84,094,923	2,984,888	1,209,215	137,220	(123,077)	88,303,169
Changes in Net Assets before Unrealized Gain on Interest Rate Swap	548,642	426,584	(355,977)	(14,002)	-	605,247
Unrealized Gain on Interest Rate Swap	737,456	-	-	-	-	737,456
Changes in Net Assets after Unrealized Gain on Interest Rate Swap	1,286,098	426,584	(355,977)	(14,002)	-	1,342,703
Net Assets (Deficit), beginning of year	5,778,721	655,754	(113,345)	983,619	-	7,304,749
Net Assets (Deficit), end of year	$ 7,064,819	$ 1,082,338	$ (469,322)	$ 969,617	$ -	$ 8,647,452

See independent auditors' report on supplementary information.

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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, 2012 and 2011

HOLTZ
RUBENSTEIN
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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

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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.

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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	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, the 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 varions 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

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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.

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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.

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

APPENDIX B-II

LIFESPIRE, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2015, JUNE 30, 2014 AND JUNE 30, 2013)

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LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

LIFESPIRE, INC. AND SUBSIDIARY

TABLE OF CONTENTS

MBAF

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lifespire, Inc. and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lifespire, Inc. and Subsidiary (the "Agency"), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities, changes in net assets, 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated 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 auditor's 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 Agency'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 Agency'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 Lifespire, Inc. and Subsidiary as of June 30, 2015, 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.

MBAF CPAs, LLC
New York, NY
November 23, 2015

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS		
Cash and cash equivalents	$	18,339,606
Cash and cash equivalents designated for recoupments payable		9,664,397
Cash and cash equivalents designated for self funded insurance		3,753,361
Cash and cash equivalents designated for health reimbursement accounts		1,867,797
Cash and cash equivalents restricted to debt service escrow		2,735,240
Cash and cash equivalents designated - other		1,111,096
Investments		4,494,162
Debt service reserve fund due from New York State		318,841
Accounts receivable, net		84,957
Accrued income receivable		14,905,887
Due from related parties		753,467
Security deposits and prepaid expenses		834,853
Property and equipment, net		17,553,855
Deferred charges, net		3,575,404
TOTAL ASSETS	**$**	**79,992,923**

LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$	5,930,964
Accrued payroll		3,356,361
Accrued compensated absences		3,656,838
Recoupments payable		9,664,397
Mortgages payable - DASNY		1,368,758
Bonds payable - DASNY		12,720,000
Bonds payable - IDA		1,100,000
Lines of credit		852,382
Deferred rent		2,649,237
Self funded insurance liability		2,057,661
Pension liability		5,180,577
Postretirement health insurance liability		4,728,247
TOTAL LIABILITIES		53,265,422
NET ASSETS		
Unrestricted:		
Undesignated		13,450,053
Residential reserve for replacement		979,354
Property and equipment		6,120,361
Board designated - program expansion		1,125,818
Board designated - anticipated pension contributions		1,240,000
Board designated - self funded insurance		3,753,361
		26,668,947
Temporarily restricted		58,554
TOTAL NET ASSETS		26,727,501
TOTAL LIABILITIES AND NET ASSETS	**$**	**79,992,923**

The accompanying notes are an integral part of these financial statements.

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

REVENUE - PROGRAM OPERATIONS	
Program service fees	$ 95,177,440
Participants' share of room and board	3,252,807
Subcontract	461,168
DASNY bond fees	612,007
	99,503,422
Net assets released from restrictions	2,500
TOTAL REVENUE - PROGRAM OPERATIONS	99,505,922
EXPENSES	
Program services	94,598,677
Management and administration	6,147,051
TOTAL EXPENSES	100,745,728
CHANGE IN UNRESTRICTED NET ASSETS BEFORE OTHER REVENUE AND PENSION AND HEALTH CARE BENEFIT PLAN-RELATED CHANGES	(1,239,806)
OTHER REVENUE	
Investment income	137,665
Contributions and fundraising	21,626
Retroactive rate adjustments	1,399,173
Miscellaneous	27,169
TOTAL OTHER REVENUE	1,585,633
CHANGE IN UNRESTRICTED NET ASSETS BEFORE PENSION AND HEALTH CARE BENEFIT PLAN-RELATED CHANGES	345,827
Pension related change other than net periodic pension benefits (costs)	(955,759)
Post-retirement health care benefit change other than net periodic benefits (costs)	2,692,201
CHANGE IN UNRESTRICTED NET ASSETS	2,082,269
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	
Donors	15,789
Net assets released from restrictions	(2,500)
	13,289
CHANGE IN NET ASSETS	2,095,558
NET ASSETS - BEGINNING OF YEAR	24,631,943
NET ASSETS - END OF YEAR	**$ 26,727,501**

The accompanying notes are an integral part of these financial statements.

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

UNRESTRICTED NET ASSETS - BEGINNING OF YEAR	$	24,586,678
Change in unrestricted net assets		2,082,269
UNRESTRICTED NET ASSETS - END OF YEAR	$	26,668,947
TEMPORARILY RESTRICTED NET ASSETS - BEGINNING OF YEAR	$	45,265
Change in temporarily restricted net assets		13,289
TEMPORARILY RESTRICTED NET ASSETS - END OF YEAR	$	58,554

The accompanying notes are an integral part of these financial statements.

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	Program Services					Total Program Services	Management and Administration	Total Expenses
	Waiver Services	Vocational Services	Residential	Mental Health	Other Programs			
Salaries	$ 16,082,663	$ 8,771	$ 19,449,074	$ 563,411	$ 3,546,937	$ 39,650,856	$ 2,487,009	$ 42,137,865
Payroll taxes and benefits	6,585,366	699	7,105,892	191,228	1,053,011	14,936,196	907,556	15,843,752
Total personnel costs	22,668,029	9,470	26,554,966	754,639	4,599,948	54,587,052	3,394,565	57,981,617
Professional fees and contracted services	941,037	673	1,954,135	99,999	2,709,106	5,704,950	462,453	6,167,403
General and professional liability insurance	422,661	6,940	303,434	37,193	41,168	811,396	285,715	1,097,111
Supplies and expenses:								
Food, household supplies and services	166,588	460	2,817,284	3,566	18,694	3,006,592	17,233	3,023,825
Rent and real estate taxes	3,042,050	325,397	2,668,415	223,112	470,329	6,729,303	452,558	7,181,861
Transportation	9,750,809	35,418	1,084,945	9,562	91,307	10,972,041	135,164	11,107,205
Utilities and telephone	1,094,207	19,621	1,027,864	88,115	245,505	2,475,312	164,140	2,639,452
Maintenance and repair	463,383	4,214	805,754	24,871	52,241	1,350,463	111,771	1,462,234
General	1,532,863	275,421	2,190,949	18,426	727,690	4,745,349	1,085,728	5,831,077
Total expenses before interest, fees, and bond expense, and depreciation and amortization	40,081,627	677,614	39,407,746	1,259,483	8,955,988	90,382,458	6,109,327	96,491,785
Interest, fees, and bond expense	716,537	35,619	1,749,896	-	15,991	2,518,043	-	2,518,043
Depreciation and amortization	644,690	75,261	904,900	12,526	60,799	1,698,176	37,724	1,735,900
TOTAL EXPENSES	$ 41,442,854	$ 788,494	$ 42,062,542	$ 1,272,009	$ 9,032,778	$ 94,598,677	$ 6,147,051	$ 100,745,728

The accompanying notes are an integral part of these financial statements.

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	2,095,558
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization		1,735,900
Amortization of bond issue costs		455,567
Unrealized loss on investments		22,294
Bad debt recovery		(1,190)
Changes in operating assets and liabilities:		
Accounts receivable		46,659
Accrued income receivable		2,543,365
Due from related parties		170,169
Security deposits and prepaid expenses		(196,568)
Accounts payable and accrued expenses		(966,131)
Accrued payroll		(1,368,578)
Accrued compensated absences		7,427
Recoupments payable		(6,854,213)
Self funded insurance liability		(253,336)
Pension liability		(384,809)
Postretirement health insurance liability		(2,058,875)
NET CASH USED IN OPERATING ACTIVITIES		(5,006,781)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash and cash equivalents restricted to debt service escrow		1,315,678
Purchases of investments		(4,204,310)
Proceeds from sales of investments		3,641,351
Purchases of property and equipment		(1,763,309)
NET CASH USED IN INVESTING ACTIVITIES		(1,010,590)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of mortgages payable - DASNY		(481,325)
Repayments of bonds payable - DASNY		(775,000)
Proceeds from line of credit		305,000
Repayments of bonds payable - IDA		(1,590,000)
Payments of bond issuance costs		(188,164)
NET CASH USED IN FINANCING ACTIVITIES		(2,729,489)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(8,746,860)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		43,483,117
CASH AND CASH EQUIVALENTS - END OF YEAR	$	34,736,257
RECONCILIATION FOR UNRESTRICTED CASH & CASH EQUIVALENTS		
Cash and cash equivalents	$	18,339,606
Cash and cash equivalents designated for recoupments payable		9,664,397
Cash and cash equivalents designated for self funded insurance		3,753,361
Cash and cash equivalents designated for health reimbursement accounts		1,867,797
Cash and cash equivalents designated - other		1,111,096
CASH AND CASH EQUIVALENTS - END OF YEAR, UNRESTRICTED	$	34,736,257
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$	801,158

Noncash items:
Proceeds from settlement of bonds payable - IDA through refinancing by bonds payable - DASNY of $3,450,000

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

1. ORGANIZATION

Lifespire, Inc. and Subsidiary (collectively, the "Agency") serves individuals with disabilities and their families through various programs which include, but are not limited to, residential, rehabilitation, and day programs. The Agency is funded through government programs, consumer contributions, and gifts. It is the Agency's aim to provide individuals with disabilities the assistance and support necessary to achieve a level of functional behaviors and cognitive skills to enable them to maintain themselves in their community in the most integrated and independent manner possible. Lifespire Services, Inc. ("Parent") is the sole member of the Agency.

2. SIGNIFICANT ACCOUNTING POLICIES

Tax Status

The Agency, according to the Internal Revenue Service ("IRS"), was granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and under the corresponding provisions of the New York State and New York City income tax laws. Under these provisions, the Agency is exempt from federal and state income taxes and, therefore, has made no provision for income taxes in the accompanying consolidated financial statements.

The Agency follows the accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the consolidated financial statements. It also provides guidance for de-recognition, classification, interest and penalties, disclosure and transition.

The Agency is subject to audit by tax authorities. In assessing the realizability of tax benefits, management considers whether it is more likely than not that some portion or all of any tax position will not be realized. Management believes that its tax-exempt status would be sustained upon examination. Management believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

If applicable, the Agency would classify interest and penalties on underpayments of income tax as miscellaneous expenses.

The Agency files federal and New York State informational returns. With few exceptions, the Agency is no longer subject to federal or state income tax examinations for fiscal years before June 30, 2012.

Financial Statement Presentation

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

The classification of the Agency's net assets and its support, revenues, and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – be displayed in the statement of financial position and that the amounts of change in each of those classes of net assets be displayed in the statement of activities.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

These classes are defined as follows:

Permanently Restricted - Net assets resulting from (a) contributions and other inflows of assets whose use by the Agency is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Agency, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications from other classes of net assets as a consequence of donor-imposed stipulations.

Temporarily Restricted - Net assets resulting from contributions and other inflows of assets whose use by the Agency is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Agency pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Agency reports the support as unrestricted.

Unrestricted - The part of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Some of these net assets are undesignated but some are designated by the Board of Directors ("Board") as set forth below:

Residential Reserve for Replacement - There is an amount of $979,354 as residential reserve for replacement. Such reserve was designated by the New York State Office for People with Developmental Disabilities ("OPWDD") for the reimbursement of building renovations and improvements for Agency-owned residential properties. This reimbursement mechanism does not apply to residential properties that are leased.

The Agency has the ability to utilize the residential reserve funding for all of its certified residential sites within each class of residences. These funds are not interchangeable among program types.

Property and Equipment - There is a designated amount of $6,120,361 which represents the excess of the net book value of property and equipment over the related debt.

Board Designated-Program Expansion - The Board has designated $1,125,818 for future programmatic expansion. The monies, which are not segregated, are used to alleviate the ongoing financial pressures on the Agency due to the timing of collections of government funding, the limitations on available government funding, and the limited fund-raising activities undertaken by the Agency. The Agency has minimum monthly operating cash requirements of approximately $9,040,000 to finance its program operations.

Board Designated-Anticipated Pension Contributions - The Board has designated $1,240,000 for anticipated defined benefit pension plan contributions for the year ended June 30, 2016.

Board Designated-Self Funded Insurance - The Board has designated $3,753,361 for payments of current and future claims related to the Agency's self funded insurance plans.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation

The consolidated financial statements include the financial activity of Lifespire, Inc. ("Lifespire") and its wholly-owned subsidiary, Manhattan Management Solutions, LLC (the "Organization"). The Organization provides consulting services to other not-for-profit organizations. Lifespire consolidates the Organization because it has both (i) an economic interest in, and (ii) control over the Organization through a majority voting interest in its governing board. The Organization had no activity for the year ended June 30, 2015. Any inter-entity transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management has determined that estimates of program service fees and related recoupment payable (see Note 4) and self-insurance are subject to change in the near term. Actual results could differ from those estimates.

Subsequent Events

The Agency has evaluated events through November 23, 2015, which is the date the consolidated financial statements were available to be issued.

Cash and Cash Equivalents

The Agency considers all highly liquid investments with an original maturity date of three months or less at the time of purchase to be cash equivalents. Restricted cash and cash equivalents as of June 30, 2015 are described in Note 5.

Investments

Investments are comprised of certificates of deposits with varying maturity dates and mutual funds. These investments are stated at fair value. Income from investments is considered unrestricted unless restricted by a donor.

Accounts Receivable, Net

All known uncollected accounts receivable have been adjusted to net realizable value as of June 30, 2015. The allowance for doubtful accounts, which amounts to $5,142 at June 30, 2015, is established through provisions charged against income and is maintained at a level believed adequate by management to absorb estimated bad debts. Management generally uses 5% of total subcontract accounts receivable as the basis for the calculation of allowance for doubtful accounts based on historical experience and economic conditions.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Service Fees and Accrued Income Receivable

The Agency receives a major portion of its program service fees from Medicaid in conjunction with the OPWDD, the Social Security Administration ("SSA") and directly from the OPWDD. At June 30, 2015, substantially all of the accrued income receivable of $14,905,887 is due from these governmental agencies.

The Agency recognizes revenue as services are provided. The amount is determined by the funding agencies either by a fee for service or a cost based fee. These fees are subject to periodic review and revision by the funding agencies. During the year ended June 30, 2015, the Agency recognized $1,399,173 in retroactive rate adjustments.

The current third-party-payor programs, including Medicaid and Medicare, are based upon complex laws and regulations. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. No such fines, penalties and exclusions were imposed on the Agency during the fiscal year ended June 30, 2015.

Property and Equipment

Property and equipment are stated at cost, or at fair market value if donated, less accumulated depreciation and amortization. Maintenance and repairs are charged to expense as incurred; major improvements are capitalized in accordance with funding source guidelines. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the lesser of the term of the lease or the estimated useful life of the asset. These amounts do not purport to represent replacement or realizable values. The Agency capitalizes individual items costing in excess of $5,000.

Impairment

The Agency reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the Agency recognizes an impairment loss. No impairment losses were recognized for the year ended June 30, 2015.

In-Kind Contributions

In-kind contributions consist of property and services donated by state agencies and individuals which are measured at fair value at the date of donation. There were no in-kind contributions received by the Agency during the year ended June 30, 2015.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled $68,906 for the year ended June 30, 2015, and is included in general expenses in the accompanying consolidated statement of functional expenses.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Rent

The Agency leases program and office space whereby the various landlords provide periods of scheduled increases in the minimum amounts charged. Rent expense related to the minimum rentals is recognized on a straight-line basis over the term of the respective leases. The accompanying consolidated statement of financial position reflects a liability of $2,649,237 at June 30, 2015 relating to deferred rent. The change in this liability is reflected as a charge to rent and real estate taxes in the accompanying consolidated statement of functional expenses.

Deferred Charges

Deferred charges comprise the following:

Bond Costs - Bond issuance costs, which also reflect bond premiums and discounts, are amortized over the life of the respective bond issue. Bond costs amounted to $926,167 at June 30, 2015, which is net of accumulated amortization. Amortization expense of these costs for the year ended June 30, 2015 was $455,567. Such amortization is included in interest, fees and bond expense of $2,518,043 shown in the accompanying consolidated statement of functional expenses.

Deferred Rent Recovery - OPWDD includes in the reimbursement rate paid to service providers a component for rents paid in accordance with lease terms. The Agency recognizes such amounts, however, based upon the future stream of payments for rent that is required to be recognized under U.S. GAAP that is in excess of the cumulative rents incurred up to date. The difference between the revenue recognized and the rents incurred over their lease terms (which is the reimbursement from OPWDD) is reflected as a deferred charge on the consolidated statement of financial position. This deferred charge represents a timing difference which will accumulate over the earlier periods of the rent expense recognition for a respective lease and will reverse during the latter periods of the rent payments. The deferred charge amounted to $2,649,237 at June 30, 2015. For the year ended June 30, 2015, the decrease in deferred rent recovery amounted to $364,091 and is reflected in the accompanying consolidated statement of activities.

Self Funded Health and Workers' Compensation Insurance

The Agency is self funded for health and workers' compensation insurance on all employees. At June 30, 2015, the Agency recorded a liability of $2,057,661 for claims that have been incurred but not paid for employees covered by the self funded plans.

Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications based upon benefits received.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The accounting standards codification establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs to be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Agency. Unobservable inputs reflect the Agency's assumption about inputs that market participants would use at the measurement date. The fair value hierarchy is categorized into three levels based on inputs as follows:

Level 1 - Valuation based on quoted prices in active markets for identical assets or liabilities that the Agency has the ability to access.

Level 2 - Valuation based on quoted prices for similar assets or liabilities in active markets; for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Valuation based on inputs that are unobservable and significant to the overall fair value measurement.

Level 3 assets and liabilities measured at fair value are based on one or more of the following three valuation techniques noted in the standard:

- Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset (i.e. current replacement cost); and
- Income approach - Uses valuation techniques to convert future amounts to a single present discounted amount based on market expectations about those future amounts (including present value techniques, option-pricing models, and lattice models).

Fair Value of Financial Instruments

The carrying amounts of the Agency's financial instruments (including cash and cash equivalents, receivables, accounts payable and accrued expenses, and lines of credit) approximates fair value due to the short-term nature of these instruments. Additionally, the carrying amount of the mortgages and bonds payable approximates fair value because the interest rates approximated market rates.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued an accounting standard update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2017 and within that interim period. Early application is not permitted. The Agency is currently evaluating the effect the update will have on its financial statements.

In April 2015, the FASB issued an accounting standard update that requires that debt issuance costs related to a recognized debt liability be presented as a direct deduction on the balance sheet from the carrying amount of the debt. The recognition and measurement guidance for debt issuance costs is not affected. The update is effective on a retrospective basis for reporting periods beginning after December 15, 2015, and interim periods within that fiscal year with early adoption permitted for financial statements that have not been previously issued. The Agency is currently evaluating the effect the update will have on its financial statements.

3. CASH AND CASH EQUIVALENTS DESIGNATED - OTHER

Cash and cash equivalents designated – other at June 30, 2015 comprised of the following:

	Restricted Cash Amount
Temporarily restricted contributions	$ 58,554
403(b) tax sheltered annuity plan	73,188
Residential reserve for replacement	979,354
	$ 1,111,096

4. CASH AND CASH EQUIVALENTS DESIGNATED FOR RECOUPMENTS PAYABLE

As of June 30, 2015, the Agency designated cash and cash equivalents of $9,664,397 to settle estimated recoupments payable.

The Agency entered into contracts with OPWDD for the operation of its facilities. Typically, there are over or under payments on these contracts, resulting from rates of reimbursements being subsequently adjusted and reconciled by OPWDD. However, the reconciliation process has not been completed for some contracts in the prior years. Once these reconciliations are completed or an OPWDD program audit is initiated, a timeline and/or methodology will be established as to how and when these amounts will be recouped. It is the policy of the Agency to hold all overpayments as well as qualifying contractual expenses as a recoupment payable pursuant to these contracts until an audit has occurred, and a reconciliation or recoupment process is initiated by the Agency.

As of June 30, 2015, the Agency has a recoupment payable balance of $9,664,397. These amounts are expected to be recouped in the future through designated reductions of remittance payments or by demanding payment of full amount.

4. CASH AND CASH EQUIVALENTS DESIGNATED FOR RECOUPMENTS PAYABLE (CONTINUED)

The recoupment payable is related to transactions incurred as follows:

June 30,	
2015	$ 2,179,064
2014	257,370
2013	1,290,268
2012	335,634
2011 and prior	5,602,061
	$ 9,664,397

5. CASH AND CASH EQUIVALENTS RESTRICTED TO DEBT SERVICE ESCROW

The cash and cash equivalents related to debt service escrow of $2,735,240 is comprised of the following:

Debt Service Escrow:	
IDA – Bond 2002	$ 910,100
DASNY – Bond 2010	749,375
DASNY – Bond 2011	241,064
DASNY – Bond 2013	347,363
DASNY – Bond 2015	487,338
	$ 2,735,240

The Debt Service Escrow – IDA – regarding the Industrial Development Agency ("IDA") Bond 2002 represents a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts set up with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required to be made pursuant to the bond agreements (Note 13).

The Debt Service Escrow – DASNY - regarding the Dormitory Authority State of New York ("DASNY") Bonds 2010, 2011, 2013, and 2015 represent a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts set up with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required to be made pursuant to the bond agreement (Note 12).

The amounts from the above earn interest and such interest is applied against the Agency's current year's bond principal pay down obligations.

6. DEBT SERVICE RESERVE FUND DUE FROM NEW YORK STATE

The debt service reserve fund due from New York State of $318,841 represents a portion of the loan proceeds retained by New York State under the terms and conditions set forth in the mortgage agreements for the properties listed in Note 10.

The monies are designated to be applied to scheduled debt service payments in the future by OPWDD.

7. INVESTMENTS

As of June 30, 2015, total investments are comprised of money market, bank certificates of deposit, and mutual funds stated at $4,494,162. Investments consisted of the following:

	Cost	Fair Value
Bank of America - money market	$ 2,820,087	$ 2,820,087
Morgan Stanley - certificates of deposit	1,269,350	1,261,901
Chase - mutual funds	427,019	412,174
Total	$ 4,516,456	$ 4,494,162

Activity in investments is as follows for the year ended June 30, 2015:

Investments - beginning of year	$ 3,953,497
Investment activity:	
Purchases	4,160,410
Investment returns (reinvested)	43,901
Sales and redemptions (at cost)	(3,208,087)
Withdrawals for operations	(433,265)
	562,959
Net depreciation in fair value of investments: unrealized losses	(22,294)
Investments - end of year	$ 4,494,162

Money market, certificates of deposit, and mutual funds securities are valued at the quoted market price of shares held by the Agency at year end.

All of the investments are classified as level 1, as defined in Note 2.

8. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties comprise the following:

Due from Related Parties

Due from related parties of $753,467 on the accompanying consolidated statement of financial position represents net amounts owed from the Parent as follows:

An amount of $762,639 is due from the Parent. This amount includes three outstanding notes with the Parent, plus accrued interest thereon, comprised as follows:

- An unsecured note receivable, executed on April 30, 2010 in the amount of $689,901, for funds that was previously loaned to the Parent by the Agency. The Parent is obligated to pay the outstanding indebtedness in twenty-five equal annual installments of $27,596 on or before April 30th of each year. The outstanding balance on this note, which is non-interest bearing, amounted to $524,325 at June 30, 2015.

8. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

- An interest only unsecured note receivable in the amount of $55,500 due from the Parent. This note accrues interest at a rate of 6% per annum. The note will be repaid when the Parent has sufficient cash flow to make such payments.

- On June 16, 2011, a $300,000 unsecured note was executed with the Parent, accruing interest at a rate of 6% per annum. The outstanding balance on this note amounts to $125,000 at June 30, 2015. The note will be repaid when the Parent has sufficient cash flow to make such payments.

- Total unpaid accrued interest receivable due from the Parent amounted to $57,814 as of June 30, 2015 relating to the above. Related party interest income amounted to $21,630 for the year ended June 30, 2015.

An amount of $9,172 is due to the Parent for funds that was received by the Agency as repayment of related party receivable that was previously forgiven by the Parent. The amount will be repaid to the Parent in the subsequent period.

Board members of the Parent are also Board members of the Agency.

Other Related Party Transactions

The Agency performs management services to the Agency's Housing and Urban Development ("HUD") affiliate for a fixed annual management fee of $13,585. The Agency also received $14,331 from HUD for reimbursement of certain employee benefits and insurance costs during the year ended June 30, 2015.

The Agency purchases supplies and services from ACRMD Community Mental Retardation Services Company, Inc. ("Community"), which is related because certain Agency employees are board members of Community. The Agency also receives payment from Community for the outsourced labor provided to assist with the processing and packaging of the inventory items which Community sells to the Agency as well as to other non-related entities. During the year ended June 30, 2015, purchases of supplies and services from Community totaled $684,669 and fees from Community for the provision of labor provided by the Agency totaled $148,130. At June 30, 2015, $73,652 was due to Community, which is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position. Additionally, at June 30, 2015, approximately $8,200 was owed to the Agency for outstanding fees, which is included in accounts receivable in the accompanying consolidated statement of financial position. In addition, the Agency also received approximately $17,026 from Community for reimbursement of its portion of fringe benefits and insurance costs paid on behalf of three of the Agency's employees who provide services to the not-for-profit related party. No reimbursable costs were outstanding as of June 30, 2015.

The Agency purchases document storage, messenger, landscaping, and maintenance services from ACRMD Enterprises LLC ("Enterprise"), a wholly-owned subsidiary of Community. During the year ended June 30, 2015, purchases of these services from Enterprise totaled $184,798. In addition, during the year ended June 30, 2015, the Agency also received $18,108 from Enterprise for reimbursement of insurance costs. At June 30, 2015, $20,261 was due to Enterprise, which is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position.

Management periodically reviews the related party accounts and notes receivable amounts to determine if an allowance is necessary. The related party receivables have been adjusted for all known uncollectible accounts. At June 30, 2015, no allowance was necessary because the related party receivables were determined to be fully collectible.

9. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

June 30, 2015		Cost	Estimated Useful Lives
Land	$	4,764,267	
Construction in progress		168,171	
Buildings and improvements		27,688,763	5-20 years
Furniture and equipment		3,434,542	5 years
Vehicles		318,666	4 years
Leasehold improvements		9,398,847	Life of lease
		45,773,256	
Less: accumulated depreciation and amortization		(28,219,401)	
	$	17,553,855	

The above amounts include land and buildings which were donated to the Agency by the OPWDD. The Agency is subject to adherence of certain terms, conditions, and restrictions as to the use and ultimate disposition of these properties as further delineated in the disposition and subordination agreements entered into with the funding source.

Depreciation and amortization expense was $1,735,900 for the year ended June 30, 2015.

10. MORTGAGES PAYABLE - DASNY

Mortgages payable – DASNY represents self-liquidating term-notes owed to DASNY, which has OPWDD as its agent.

The mortgage notes are collateralized by (i) the real property located at each of the sites (ii) all accounts receivable generated from billings related to the respective locations, and (iii) all personal property owned by the Agency located at each of the sites. The Agency is entitled to credits in an amount equal to the past accrued interest earned on the debt service reserve fund due from New York State for some of the above-mentioned liabilities. When such credits are determined and applied to the corresponding mortgages, then those mortgage liabilities will be reduced accordingly.

Additional information for the mortgages payable - DASNY is reflected below.

Property	Maturity Date	Interest Rate		Outstanding at June 30, 2015
South Avenue	8/15/2015	7.68%	$	3,616
213-233 48th Street (Sunset I)	2/15/2018	7.34%		292,010
87-21 121st Street (Queens)	2/15/2018	6.41%		765,250
Jumel	8/15/2018	6.41%		307,882
Total Mortgages Payable - DASNY			$	1,368,758

10. MORTGAGES PAYABLE – DASNY (CONTINUED)

The mortgage balances for the 213-233 48th Street and 87-21 121st Street locations are for the Day Habilitation Program. Since the year ended June 30, 2004, OPWDD allocates a portion of the bond (mortgage) payable to a separate Day Habilitation Medicaid Management Information System ("MMIS") Provider number for debt recovery purposes. However, the total indebtedness does not change.

Under the terms of the mortgages payable – DASNY, the Agency is required to fulfill certain financial covenants.

11. LINES OF CREDIT

Under the terms of a line of credit agreement with Bank of America entered into on March 31, 2015, the Agency may borrow up to $5,000,000 at the bank's prime interest rate plus 0.5% (3.25% at June 30, 2015) through March 31, 2016, when the agreement expires. The Agency's property and leasehold improvements not otherwise encumbered have been pledged as collateral against any advances on the line of credit. The balance outstanding on this line of credit as of June 30, 2015 was $852,382. The Agency is required to fulfill certain financial covenants.

The Agency has a line of credit agreement with J.P. Morgan Chase for a maximum amount of $5,000,000 which expires on June 30, 2016. The proceeds of the line of credit are to be used for operating expenses. Interest is charged at the bank's floating rate of prime plus 0.5% (3.25% at June 30, 2015) and is secured by a lien on the Agency's government receivables not otherwise encumbered. The government receivables totaled $14,905,887 at June 30, 2015 and are reflected in the accompanying financial statements as accrued income receivable. There was no outstanding balance on the line of credit as of June 30, 2015.

12. BONDS PAYABLE - DASNY

Bonds payable – DASNY includes the following at June 30, 2015:

Series	Due Date	Interest Rates	Principal Due
2010 A-1 and A-2	July 2028	2.10% to 5.00%	$ 4,215,000
2011 A-1 and A-2	July 2026	1.40% to 4.00%	1,565,000
2013 A-1 and A-2	July 2038	2.00% to 4.00%	3,490,000
2015 A-1 and A-2	July 2024	1.20% to 4.00%	3,450,000
Total Bonds Payable - DASNY			$ 12,720,000

2010 A-1 and A-2

In March 2010, a bond payable – DASNY was issued in the amount of $6,125,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2010A, subseries 2010A-1, and 2010A-2 (the "2010 Bonds"). The Agency used the proceeds from the 2010 Bonds to pay down $5,485,795 of indebtedness on seven properties.

The interest is payable to the bondholders on a semi-annual basis commencing on August 1, 2010. The principal is payable to the bondholder on an annual basis commencing on August 1, 2011. The cost of the bond issuance amounted to $318,265 of which $125,652 was amortized as of June 30, 2015. The cost of bond discounts amounted to $78,516, of which $31,528 was amortized as of June 30, 2015.

12. BONDS PAYABLE – DASNY (CONTINUED)

The Agency is required to make deposits for interest and principal under the 2010 Bond loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2015	$ 410,000
2016	415,000
2017	415,000
2018	415,000
2019	415,000
Thereafter	2,145,000
	$ 4,215,000

The 2010 Bonds are secured ratably by each applicable mortgage on the properties and the DASNY's security interest in the pledged program service fees revenues subject to prior pledges.

Under the terms of the bonds payable – DASNY, the Agency is required to fulfill certain financial covenants.

2011 A-1 and A-2

On August 17, 2011, a bond payable – DASNY was issued in the amount of $1,925,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2011A, subseries 2011A-1, and subseries 2011 A-2 (the "2011 Bonds"). The Agency used the proceeds from the 2011 Bonds to pay down $1,182,262 of indebtedness on two properties.

The interest rate is not to exceed 4.125% on the Series 2011 Bonds. The interest is payable to the bondholders on an annual basis commencing on July 1, 2012. The cost of the bond issuance amounted to $166,854 of which $41,360 was amortized as of June 30, 2015. The cost of the bond discounts amounted to $12,469 of which $3,222 was amortized during the year ending June 30, 2015.

The Agency is required to make deposits for interest and principal under the loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

12. BONDS PAYABLE – DASNY (CONTINUED)

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2015	$ 125,000
2016	125,000
2017	130,000
2018	130,000
2019	130,000
Thereafter	925,000
	$ 1,565,000

The 2011 Bonds are secured by each mortgage on the properties and a lien on the furnishings and equipment located at each mortgaged property.

Under the terms of the bond payable – DASNY, the Agency is required to fulfill certain financial covenants.

2013 A-1 and A-2

On March 13, 2013, a bond payable – DASNY was issued in the amount of $3,665,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2013A, subseries 2013A-1, and subseries 2013 A-2 (the "2013 Bonds").

The interest is payable to the bondholders on an annual basis commencing on July 1, 2013. The cost of the bond issuance amounted to $301,396 of which $33,550 was amortized as of June 30, 2015. The cost of the bond discounts amounted to $33,679 of which $2,985 was amortized during the year ending June 30, 2015.

The Agency is required to make deposits for interest and principal under the loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2015	$ 160,000
2016	165,000
2017	165,000
2018	165,000
2019	170,000
Thereafter	2,665,000
	$ 3,490,000

The 2013 Bonds are secured by each mortgage on the properties and a lien on the furnishings and equipment located at each mortgaged property.

Under the terms of the bond payable – DASNY, the Agency is required to fulfill certain financial covenants.

12. BONDS PAYABLE – DASNY (CONTINUED)

2015 A-1 and A-2

On February 11, 2015, a bond payable – DASNY was issued in the amount of $3,450,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2015A, subseries 2015A-1, and subseries 2015 A-2 (the "2015 Bonds"). The Agency used the proceeds from the 2015 Bonds to refinance principal due to the New York City Industrial Development Agency ("IDA") Civic Facility Revenue Bonds, Series 2004 A and Series 2008 A.

The interest is payable to the bondholders on an annual basis commencing on July 1, 2015. The cost of the bond issuance amounted to $187,815 of which $5,076 was amortized as of June 30, 2015.

The Agency is required to make deposits for interest and principal under the loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2015	$ 145,000
2016	505,000
2017	490,000
2018	480,000
2019	325,000
Thereafter	1,505,000
	$ 3,450,000

The 2015 Bonds are secured by each mortgage on the properties and a lien on the furnishings and equipment located at each mortgaged property.

Under the terms of the bond payable – DASNY, the Agency is required to fulfill certain financial covenants.

13. BONDS PAYABLE - IDA

Bonds payable – IDA includes the following at June 30, 2015 :

Series	Due Date	Interest Rates	Principal Due
2002 C-1	July 1, 2017	6.50%	$ 1,100,000
Total Bonds Payable - IDA			$ 1,100,000

Bonds Payable – IDA - 2002

The Bonds payable – IDA – 2002 represents amounts owed relating to the New York City Industrial Development Agency ("IDA") Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2002 C-1.

13. BONDS PAYABLE – IDA (CONTINUED)

The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2003. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2003. The cost of the bond issuance amounted to $395,027 of which $320,780 was amortized as of June 30, 2015.

Deposits for interest and principal payments for the bond holders under the loan agreement are to be made monthly and deposited into the applicable debt service escrow accounts by the Agency until it comes due to pay the bondholders (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2015	$ 280,000
2016	280,000
2017	540,000
	$ 1,100,000

Bonds Payable – IDA – General Terms

The Agency anticipates that, periodically, OPWDD will adjust certain program service fees to provide the Agency with the sufficient amounts to repay the debt principal, related interest, and fees. The Series 2002 C-1 bonds will be secured ratably by the IDA's security interest in certain pledged revenues, which amounted to $612,007 for the year ended June 30, 2015, as well as the amounts held in cash and cash equivalents restricted to debt service escrow (Note 5).

The underlying properties secure the respective Bonds with first liens except where otherwise noted.

14. MATURITIES OF DEBT TO THIRD PARTIES

The short-term and long-term third-party debt is comprised of the following:

June 30, 2015	
Mortgages payable – DASNY	$ 1,368,758
Bonds payable – DASNY	12,720,000
Bonds payable – IDA	1,100,000
Line of credit	852,382
	$ 16,041,140

14. MATURITIES OF DEBT TO THIRD PARTIES (CONTINUED)

Approximate maturities of short-term and long-term third-party debt are as follows:

June 30,	
2016	$ 2,445,498
2017	1,994,850
2018	1,661,785
2019	1,215,132
2019	1,040,000
Thereafter	7,683,875
	$ 16,041,140

The above maturities are not reduced by the funds held in the various debt service escrow accounts (Note 5) for interest earned currently and the last year of a particular bond's obligation are utilized to reduce the Agency's payments thereon.

15. SELF FUNDED INSURANCE

All Agency employees have an option to participate in the Agency's self-funded, comprehensive medical care benefits program. The cost of medical care is paid out of employee and employer contributions and is held in a separate reserve bank account. The Agency has contracted with Aetna, Inc., a third-party administrator, to provide administrative services for this health care benefits program. The health care benefits program has stop loss coverage of $150,000 per person and a total of one hundred fifty percent of claims estimated at the beginning of the policy year. As of June 30, 2015, cash designated for this program totaled $3,173,470 and the estimated liability for outstanding claims at June 30, 2015 totaled $1,189,679.

All Agency employees are covered by a self-funded worker's compensation benefits program administered by The Hartford Financial Services Group, Inc. The workers' compensation benefits program has a stop loss policy of $250,000 per incident, up to $1,000,000 for the current policy year. The workers' compensation claims are paid out of employer contributions and is held in a separate reserve bank account. As of June 30, 2015, cash designated for this program totaled $579,891 and the estimated liability for outstanding claims at June 30, 2015 totaled $867,982.

The Agency is partially self-insured for its workers compensation commitments. Accordingly, the Agency has provided $2,465,000 in Letters of Credit for performance guarantees, which are secured by deposits totaling $2,820,000 on the accompanying consolidated statement of financial position.

16. DEFINED BENEFIT PENSION PLAN

The Agency has a defined benefit pension plan (the "Plan") covering all of its eligible employees. The benefits are based on years of service and the employee's highest five years of compensation during the last ten years of employment. The Agency's funding policy is to contribute annually the required amount that should be deducted in accordance with federal income tax guidelines. The Agency's contributions for calendar year 2014 met the minimum funding requirements of the Employee Retirement Income Security Act of 1974 ("ERISA").

16. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The Agency, as the sponsor of the Plan, froze the Plan effective December 31, 2010. Although the Plan remains frozen, the Agency has the ability to unfreeze the Plan in the future, subject to certain conditions.

The Agency is required to contribute approximately $1,240,000 to its defined benefit plan for the year ended June 30, 2015.

Under U.S. GAAP, a liability is disclosed at fiscal year-end. The pension liability is an aggregation of the excess of total benefit obligation over fair value of plan assets at the end of the year. There is a cumulative amount totaling $5,180,577 of pension liability as of June 30, 2015.

The changes in the defined benefit pension obligations, plan assets and funded status for the year ended June 30, 2015 were as follows:

	Pension Benefits
Reconciliation of benefit obligation:	
Benefit obligation, beginning of year	$ 37,827,699
Service cost	-
Interest cost	1,606,896
Actuarial gain	(97,730)
Benefits paid	(1,062,080)
Benefit obligation, end of year	$ 38,274,785
Reconciliation of fair value of plan assets:	
Fair value of plan assets, beginning of year	$ 32,262,313
Actual return on plan assets	655,011
Employer contributions	1,238,964
Benefits paid	(1,062,080)
Fair value of plan assets, end of year	$ 33,094,208
Funded status, end of year	$ (5,180,577)

Assumptions

Without the exception of the discount rate, the Agency's independent enrolled actuary certified the following significant weighted-average assumptions in order to determine benefit obligations net periodic pension cost as of June 30, 2015:

Discount rate	4.43%
Expected long-term rate of return on plan assets	7.00%
Rate of compensation increase	0.00%

16. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Net periodic pension benefit and other amounts recognized in the statement of activities for the year ended June 30, 2015 included the following components:

Service cost	$ -
Interest cost	1,606,896
Expected return on plan assets	(2,249,634)
Amortization of net loss	541,134
Net periodic pension benefit	$ (101,604)

Investment Strategies

With respect to the Plan assets, investments are to be made consistent with the safeguards and diversity to which a prudent investor would adhere to. Following is a description of the investment guidelines used for the Plan's investment funds:

Equities - General assurances by the Plan's Investment Advisor includes criteria that no more than 2% of the equity position of the entire Plan assets portfolio at cost, and 3% at market value, shall be invested in any one company, and no more than 50% of any individual Money Manager's portfolio at cost, and 60% at market value shall be invested in any one company. Investment possibilities includes 1) common stock listed on any U.S. exchange or the over-the-counter market with the requirement that such stock have, in the reasonable opinion of each of the Money Managers, adequate market liquidity relative to the size of the investment, 2) foreign ordinary securities, 3) international investments managed by an International/Global Money Manager which adhere to specific criteria, including a limitation that no more than 20% of the value of the managed international portfolio's total assets, measured at time of purchase may be invested in securities of companies in emerging securities markets throughout the world, and 4) exchange traded funds (not subject to the diversification guidelines above. Furthermore, there are several categories of securities and types of transactions that are not permissible for investments and should not be part of the portfolio, including short sales, put and call options, margin purchases, private placements, commodities, securities of the Investment Advisor or any of the Money Managers, their direct parent or their subsidiaries, penny stocks, and derivatives. In addition, the Agency may identify additional securities to be restricted.

Fixed Income - Diversification of the fund includes assurances that no more than 5% of the Plan's portfolio should be invested in bonds of any one issuer, and there shall be no limit on direct obligations of the U.S. government. The Plan should not invest in any fixed-income security carrying a rating less than BBB/Baa by either Standard & Poor or Moody's. If issues are downgraded so as to violate these guidelines, the Plan's Trustee should judiciously liquidate them. Issues within a quality high yield mutual fund are exempt from this provision. With regards to maturity, the market value weighted average maturity of the bond portfolio should not exceed 15 years, and no holding may have an absolute maturity of more than 30 years at the time of purchase. Generally, fixed income investments includes debt securities guaranteed by the U.S. government, corporate bonds, high quality and high yield mutual funds, international bond mutual funds, indexed notes, Yankee bonds, and preferred stock issues.

Corporate Bonds - Valued at the closing price reported in the active market in which the bond is traded.

Equities - Valued at the closing price reported on the major stock exchanges.

Government Securities - Valued at the closing price reported in active market in which the individual security is traded.

16. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Mutual Funds - Valued using market value as listed in active exchange markets.

Municipal Bonds - Valued at the closing price reported in active market in which the individual security is traded.

International Bonds - Valued at the closing price reported in active market in which the individual security is traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan 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 pension plan asset allocations, along with respective dollar values and fair value measurements, at June 30, 2015, by asset category are as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Funds	$ 1,650,388	$ 1,650,388	$ -	$ -
Equities:				
Basic Materials	166,199	166,199	-	-
Consumer Goods	447,999	447,999	-	-
Financials	1,691,520	1,691,520	-	-
Healthcare	714,772	714,772	-	-
Industrial Goods	469,978	469,978	-	-
Oil & Gas	501,999	501,999	-	-
Services	1,371,789	1,371,789	-	-
Technology	1,082,194	1,082,194	-	-
Utilities	29,211	29,211	-	-
Government Securities	1,262,288	1,262,288	-	-
Municipal Bonds	235,216	235,216	-	-
International Bonds	889,909	889,909	-	-
Corporate Bonds	8,945,621	8,945,621	-	-
Mutual Funds:				
Mid Cap Growth	1,001,758	1,001,758	-	-
Mid Cap Value	1,023,441	1,023,441	-	-
Small Cap Value	356,580	356,580	-	-
Large Cap Foreign	2,610,296	2,610,296	-	-
Large Cap Growth	4,964,653	4,964,653	-	-
Large Cap Value	205,041	205,041	-	-
Emerging Markets	2,507,988	2,507,988	-	-
REITs	965,368	965,368	-	-
	$ 33,094,208	$ 33,094,208	$ -	$ -

16. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Transfer Between Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Expected Future Benefit Payments

Benefit payments for defined benefit pension plans, which reflect expected future service, as appropriate, are expected to be paid as follows:

June 30,	Pension benefits expected to be paid
2016	$ 1,433,597
2017	1,167,904
2018	1,254,167
2019	1,336,513
2020	1,455,791
2021 - 2025	8,828,544
	$ 15,476,516

17. POSTRETIREMENT HEALTH CARE BENEFIT PLAN

The Agency sponsors a defined benefit postretirement health care benefit plan.

Plan Provisions

Retired Prior to January 1, 2000

For certain long-service employees, the plan will pay the monthly premium for the participant (and eligible spouse) to continue coverage under the pre-2000 postretirement plan.

Retired January 1, 2001 and Later

For employees who retire on or after age 65 with at least 20 years of service, the Agency will enroll the retiree and eligible spouse in an AARP Medicare Supplement plan and contribute the following towards such coverage (for each retiree and eligible spouse):

-- 20 years of service	Plan E	--$130.25 per month
-- 25 years of service	Plan G	--$152.25 per month
-- 30 years of service	Plan I	--$259.00 per month

17. POSTRETIREMENT HEALTH CARE BENEFIT PLAN (CONTINUED)

For employees who retire between ages 62 and 65, with the requisite years of service, the Agency will contribute, as per the above schedule, towards coverage under the current active employee's plan, until Medicare eligibility. At that time, the retiree will be treated in the same fashion as a post-65 retiree.

If an eligible spouse is not Medicare eligible, the Agency will contribute towards coverage under the current active employees' plan in an amount based on the retiree's service as described above.

Determination of the Net Periodic Benefit Cost for the Fiscal Year

Net periodic benefit cost and other amounts recognized in unrestricted net assets for the year ended June 30, 2015 included the following components:

Service cost		$ 327,252
Interest cost		292,226
Amortization:		
(a) Transition obligation	-	
(b) Prior service cost	63,914	
(c) (Gain) loss	17,763	
Net amortization		81,677
Net periodic benefit cost		$ 701,155

Reconciliation of Funded Status for the Fiscal Year Ended June 30, 2015

Accumulated postretirement benefit liability at June 30, 2015	$ 4,728,247
Net liability recognized at June 30, 2015	$ 4,728,247

Net Amount Recognized in Consolidated Statement of Financial Position

Beginning of year	$ 6,787,125
Service cost	327,252
Interest cost	292,226
Expected return on plan assets	-
Employer contributions	(67,832)
Net gain	(2,610,524)
Prior service credit (cost)	-
End of year	$ 4,728,247

17. POSTRETIREMENT HEALTH CARE BENEFIT PLAN (CONTINUED)

Assumptions

Mortality:	RP 2000 Separate Annuitants and Non-Annuitants Mortality Tables with generational projection scale AA, for males and females
Claim cost:	Monthly premium
Trend:	4.50% - 7.30% – based on the year of retirement
Funding method:	Projected Unit Credit Actuarial Cost Method

a) The discount rate was changed from 4.33% to 4.43%, which decreased the accumulated postretirement benefit liability by approximately $90,000.

b) Based upon the plan provisions, the Affordable Care Act will have an immaterial effect on the accumulated postretirement benefit obligation and the net periodic benefit cost of the Agency's postretirement health care benefit plan.

	Postretirement Benefits	
	Accumulated Postretirement Benefit Liability	Service Cost Plus Interest Cost
At trend	$ 4,728,247	$ 619,478
At trend + 1%	4,776,612	622,007
Dollar impact	48,365	2,529
Percentage impact	1.02%	0.41%
At trend – 1%	4,684,164	617,312
Dollar impact	(44,083)	(2,166)
Percentage impact	-0.93%	-0.35%

Expected Future Benefit Payments

Benefit payments for postretirement health care benefit plans, which reflect expected future service, as appropriate, are expected to be paid as follows:

June 30,	Postretirement Benefits
2016	$ 91,797
2017	102,245
2018	113,744
2019	126,981
2020	142,598
2021 - 2025	1,011,879
	$ 1,589,244

18. TEMPORARILY RESTRICTED NET ASSETS

The changes in contributions, which comprise the Agency's temporarily restricted net assets for the year ended June 30, 2015, which are available for use in future years, were as follows:

	Balance at 6/30/14	Additions	Expenditures	Balance at 6/30/15
Program	$ 45,265	13,289	-	$ 58,554

The funds released from restrictions were used towards other expenses for some of the Agency's programs.

19. COMMITMENTS AND CONTINGENCIES

General
Pursuant to the Agency's contractual relationships with certain funding sources, outside agencies have the right to examine the Agency's books and records which pertain to transactions relating to these contracts. The accompanying consolidated financial statements do not include a provision for possible disallowances and reimbursements. Management believes that any actual disallowances, if any, would be immaterial. In addition, certain agreements provide that certain property and equipment owned by or on loan to the Agency (Note 9) be utilized by the Agency for its continued ownership, since the costs of such property and equipment were funded under these agreements ("Reversing Assets").

There are certain amounts of real and personal property used by the Agency in its program operations which is owned by New York State and/or other governmental sources. The Agency uses some of these real and personal properties at no cost. The value of the benefit received for use of these real and personal properties is not readily measurable, is not recorded in the accompanying consolidated financial statements, and is consistent with similar industry practices.

The Agency has a number of pending lawsuits and/or claims against them for a variety of reasons. The alleged claims are being handled by legal counsel and/or by its insurance providers. In the opinion of the Agency's legal counsel and management, there is no basis to establish a liability for any loss contingency due to lack of merit or insurance coverage exceeding expected settlement amounts.

On March 13, 2013, the Agency entered into a collective bargaining agreement with the Civil Service Employees Association, Inc. ("CSEA"). The collective bargaining agreement expired on June 30, 2015. Negotiations between management and the union have commenced and are ongoing as of the report date. It is not possible at this time to determine the financial impact a new contract will have on the Agency.

Approximately 74% of the Agency's labor is represented by the CSEA.

19. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Operating Leases

The Agency is obligated, pursuant to real property lease agreements, for minimum monthly rentals for its administrative and program operations as follows:

June 30,		
2016	$	6,141,138
2017		4,799,382
2018		3,834,657
2019		3,421,216
2020		3,309,628
Thereafter		8,933,662
	$	30,439,683

For the year ended June 30, 2015, rent expense was $6,631,351, which was generally recovered through fees for service from the funding sources.

A renewal option allows the Agency, at its sole option, the right to extend some of the leases for an additional five-year period with a predetermined rent base amount with annual rent percentage increases. Various leases have rent escalations in which various predetermined annual percentage increases exist throughout the lease periods. A clause exists whereby, in the event that real estate taxes increase during the term of some of the leases, the Agency shall pay any increases in real estate taxes over the base year.

20. 403(b) TAX – SHELTERED ANNUITY PLAN

The Agency offers a 403(b) tax-sheltered annuity plan for all employees who are eligible and elect to participate. The plan is governed by IRS regulations setting the limits on the amount that employees may contribute and the conditions to withdraw monies from it. The employees each own their individual annuity plan and are responsible for deciding the amount of contributions they wish to make each year (up to the maximum stipulated by the IRS) and how the funds may be invested. There are no employer contributions.

21. DEFINED CONTRIBUTION PROFIT SHARING PLAN

The Agency has established a defined contribution profit sharing plan ("401K Plan") for certain employees who satisfy age and service requirements. Participants are not allowed to contribute to the 401K Plan, and rollover contributions are not allowed in the 401K Plan. At the end of the 401K Plan year, the Agency, at the discretion of its board of directors, may make a profit sharing contribution, as defined in the 401K Plan document whereby the profit sharing contribution shall be allocated to the individual accounts of qualifying participants in the ratio that each qualifying participant's compensation for the 401K Plan year bears to the total compensation of all qualifying participants.

There were no employer contributions for the year ended June 30, 2015.

22. CONCENTRATION OF CREDIT RISK

The Agency has maintained bank balances that often exceed the limit of the Federal Depository Insurance Corporation insurance coverage. The Agency verifies, on a quarterly basis, the equity strength and profitability of the banks it uses in order to minimize the risk.

Approximately 13% of the Agency's accounts payable and accrued expenses as of June 30, 2015 were derived from one vendor.

The Agency earns its revenue and records related receivables primarily from service fees provided to individuals with developmental disabilities within the New York City area. A significant portion of all of the Agency's revenue and receivables are received from Medicaid.

23. RISKS AND UNCERTAINTIES

The Agency's pension plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the amounts reported in the accompanying consolidated statement of financial position.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the consolidated financial statements.

The Agency is subject to indemnification clauses should they cause any of the tax exempt bonds to lose their tax exempt status.

The Agency's self funded insurance liability is based upon estimated claims at current year end. The actual claims may exceed the recorded amount.

24. SUBSEQUENT EVENTS

OPWDD has created a "Transformation Task Force," seeking input from families and providers on the issues facing the developmental disabilities community such as, waiting list for residential opportunities, raising the minimum wage, transformation of employment, rate rationalization impact, self-directed services, housing, Developmental Disabilities Individual Support and Care Coordination Organization ("DISCO") implementation, Coordinated assessment tool ("CAS"), and value-based payment system for the preparation to transitioning to Managed Care. At this moment, Managed Care may not be implemented until later years.

The Agency has evaluated events through November 23, 2015, which is the date the financial statements were available to be issued.

LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

LIFESPIRE, INC. AND SUBSIDIARY

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MBAF

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lifespire, Inc. and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lifespire, Inc. and Subsidiary (the "Agency"), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, changes in net assets, 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated 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 auditor's 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 Agency'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 Agency'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 Lifespire, Inc. and Subsidiary as of June 30, 2014, 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.

MBAF CPAs, LLC

New York, NY
November 24, 2014

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS

Cash and cash equivalents	$	18,179,568
Cash and cash equivalents designated for recoupments payable		16,518,610
Cash and cash equivalents designated for self funded insurance		5,732,607
Cash and cash equivalents designated for health reimbursement accounts		2,003,981
Cash and cash equivalents restricted to debt service escrow		4,050,918
Cash and cash equivalents designated - other		1,048,351
Investments		3,953,497
Debt service reserve fund due from New York State		318,841
Accounts receivable, net		130,426
Accrued income receivable		17,449,252
Due from related parties		923,636
Security deposits and prepaid expenses		638,265
Property and equipment, net		17,526,446
Deferred charges, net		4,206,898
TOTAL ASSETS	**$**	**92,681,296**

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	$	6,897,095
Accrued payroll		4,724,939
Accrued compensated absences		3,649,411
Recoupments payable		16,518,610
Mortgages payable - DASNY		1,850,083
Bonds payable - DASNY		10,045,000
Bonds payable - IDA		6,140,000
Lines of credit		547,382
Deferred rent		3,013,328
Self funded insurance liability		2,310,997
Pension liability		5,565,386
Postretirement health insurance liability		6,787,122
TOTAL LIABILITIES		68,049,353
NET ASSETS		
Unrestricted:		
Undesignated		10,549,405
Residential reserve for replacement		929,971
Property and equipment		5,006,900
Board designated - program expansion		1,077,795
Board designated - anticipated pension contributions		1,290,000
Board designated - self funded insurance		5,732,607
		24,586,678
Temporarily restricted		45,265
TOTAL NET ASSETS		24,631,943
TOTAL LIABILITIES AND NET ASSETS	**$**	**92,681,296**

The accompanying notes are an integral part of these financial statements.

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

REVENUE - PROGRAM OPERATIONS	
Program service fees	$ 97,224,712
Participants' share of room and board	3,307,496
Subcontract	497,939
DASNY bond fees	609,545
	101,639,692
Net assets released from restrictions	2,297
TOTAL REVENUE - PROGRAM OPERATIONS	101,641,989
EXPENSES	
Program services	93,884,777
Management and administration	5,538,296
TOTAL EXPENSES	99,423,073
CHANGE IN UNRESTRICTED NET ASSETS BEFORE OTHER REVENUE (EXPENSE) AND PENSION AND HEALTH CARE BENEFIT PLAN-RELATED CHANGES	2,218,916
OTHER REVENUE (EXPENSE)	
Investment income	188,727
Contributions and fundraising	3,294
Retroactive rate adjustments	(1,026,857)
Miscellaneous	(33,228)
TOTAL OTHER REVENUE (EXPENSE)	(868,064)
CHANGE IN UNRESTRICTED NET ASSETS BEFORE PENSION AND HEALTH CARE BENEFIT PLAN-RELATED CHANGES	1,350,852
Pension related change other than net periodic pension benefits (costs)	(1,270,277)
Post-retirement health care benefit change other than net periodic benefits (costs)	(630,696)
CHANGE IN UNRESTRICTED NET ASSETS	(550,121)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	
Donors	3,100
Fundraising	696
Net assets released from restrictions	(2,297)
	1,499
CHANGE IN NET ASSETS	(548,622)
NET ASSETS - BEGINNING OF YEAR	25,180,565
NET ASSETS - END OF YEAR	**$ 24,631,943**

The accompanying notes are an integral part of these financial statements.

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2014

UNRESTRICTED NET ASSETS - BEGINNING OF YEAR	$	25,136,799
Change in unrestricted net assets		(550,121)
UNRESTRICTED NET ASSETS - END OF YEAR	$	24,586,678
TEMPORARILY RESTRICTED NET ASSETS - BEGINNING OF YEAR	$	43,766
Change in temporarily restricted net assets		1,499
TEMPORARILY RESTRICTED NET ASSETS - END OF YEAR	$	45,265

The accompanying notes are an integral part of these financial statements.

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Program Services							
	Waiver Services	Vocational Services	Residential	Mental Health	Other Programs	Total Program Services	Management and Administration	Total Expenses
Salaries	$ 15,896,077	$ 33,597	$ 18,640,472	$ 671,675	$ 3,634,514	$ 38,876,335	$ 2,439,399	$ 41,315,734
Payroll taxes and benefits	6,561,533	13,442	6,834,103	218,868	1,318,789	14,946,735	772,084	15,718,819
Total personnel costs	22,457,610	47,039	25,474,575	890,543	4,953,303	53,823,070	3,211,483	57,034,553
Professional fees and contracted services	880,199	1,432	1,672,032	98,398	2,874,825	5,526,886	323,608	5,850,494
General and professional liability insurance	396,508	26,568	274,756	47,476	38,076	783,384	213,724	997,108
Supplies and expenses:								
Food, household supplies and services	124,639	2,446	2,613,204	2,673	16,918	2,759,880	16,657	2,776,537
Rent and real estate taxes	3,277,836	318,100	2,625,690	171,157	511,035	6,903,818	482,425	7,386,243
Transportation	9,657,072	144,221	1,061,652	49,763	100,940	11,013,648	133,292	11,146,940
Utilities and telephone	994,360	64,494	1,030,499	86,837	270,316	2,446,506	149,685	2,596,191
Maintenance and repair	316,611	11,017	804,497	20,403	73,747	1,226,275	64,261	1,290,536
General	1,079,403	298,845	2,972,598	87,164	798,701	5,236,711	928,233	6,164,944
Total expenses before interest, fees, and bond expense, and depreciation and amortization	39,184,238	914,162	38,529,503	1,454,414	9,637,861	89,720,178	5,523,368	95,243,546
Interest, fees, and bond expense	609,593	34,374	1,745,732	-	14,913	2,404,612	-	2,404,612
Depreciation and amortization	642,759	79,864	967,992	21,032	48,340	1,759,987	14,928	1,774,915
TOTAL EXPENSES	$ 40,436,590	$ 1,028,400	$ 41,243,227	$ 1,475,446	$ 9,701,114	$ 93,884,777	$ 5,538,296	$ 99,423,073

The accompanying notes are an integral part of these financial statements.

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (548,622)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	1,774,915
Amortization of bond issue costs	227,644
Unrealized gains on investments	(8,598)
Bad debt recovery	(263)
Changes in operating assets and liabilities:	
Accounts receivable	181,414
Note receivable	246,650
Accrued income receivable	605,164
Due from related parties	37,789
Security deposits and prepaid expenses	90,619
Accounts payable and accrued expenses	(569,354)
Accrued payroll	(2,179,925)
Accrued compensated absences	(214,802)
Recoupments payable	110,740
Self funded insurance liability	261,174
Pension liability	(486,703)
Postretirement health insurance liability	1,191,556
NET CASH PROVIDED BY OPERATING ACTIVITIES	719,398
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash and cash equivalents restricted to debt service escrow	(67,318)
Cash and cash equivalents restricted - other	911,715
Purchases of investments	(2,974,008)
Proceeds from sales of investments	2,810,585
Purchases of property and equipment	(1,432,826)
NET CASH USED IN INVESTING ACTIVITIES	(751,852)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayments of mortgages payable - DASNY	(446,875)
Repayments of bonds payable - DASNY	(615,000)
Proceeds from line of credit	547,382
Repayments of bonds payable - IDA	(875,000)
Payments of bond issuance costs	(16,785)
NET CASH USED IN FINANCING ACTIVITIES	(1,406,278)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,438,732)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	44,921,849
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 43,483,117
RECONCILIATION FOR UNRESTRICTED CASH & CASH EQUIVALENTS	
Cash and cash equivalents	$ 18,179,568
Cash and cash equivalents designated for recoupments payable	16,518,610
Cash and cash equivalents designated for self funded insurance	5,732,607
Cash and cash equivalents designated for health reimbursement accounts	2,003,981
Cash and cash equivalents designated - other	1,048,351
CASH AND CASH EQUIVALENTS - END OF YEAR, UNRESTRICTED	$ 43,483,117
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash paid during the year for:	
Interest	$ 825,924

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION

Lifespire, Inc. and Subsidiary (collectively, the "Agency") serves individuals with disabilities and their families through various programs which include, but are not limited to, residential, rehabilitation, and day programs. The Agency is funded through government programs, consumer contributions, and gifts. It is the Agency's aim to provide individuals with disabilities the assistance and support necessary to achieve a level of functional behaviors and cognitive skills to enable them to maintain themselves in their community in the most integrated and independent manner possible. Lifespire Services, Inc. ("Parent") is the sole member of the Agency.

2. SIGNIFICANT ACCOUNTING POLICIES

Tax Status

The Agency, according to the Internal Revenue Service ("IRS"), was granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and under the corresponding provisions of the New York State and New York City income tax laws. Under these provisions, the Agency is exempt from federal and state income taxes and, therefore, has made no provision for income taxes in the accompanying consolidated financial statements.

The Agency follows the accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the consolidated financial statements. It also provides guidance for de-recognition, classification, interest and penalties, disclosure and transition.

The Agency is subject to audit by tax authorities. In assessing the realizability of tax benefits, management considers whether it is more likely than not that some portion or all of any tax position will not be realized. Management believes that its tax-exempt status would be sustained upon examination. Management believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

If applicable, the Agency would classify interest and penalties on underpayments of income tax as miscellaneous expenses.

The Agency files federal and New York State informational returns. With few exceptions, the Agency is no longer subject to federal or state income tax examinations by tax authorities for fiscal years before June 30, 2011.

Financial Statement Presentation

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

The classification of the Agency's net assets and its support, revenues, and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – be displayed in the statement of financial position and that the amounts of change in each of those classes of net assets be displayed in the statement of activities.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

These classes are defined as follows:

Permanently Restricted - Net assets resulting from (a) contributions and other inflows of assets whose use by the Agency is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Agency, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications from other classes of net assets as a consequence of donor-imposed stipulations.

Temporarily Restricted - Net assets resulting from contributions and other inflows of assets whose use by the Agency is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Agency pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Agency reports the support as unrestricted.

Unrestricted - The part of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Some of these net assets are undesignated but some are designated by the Board of Directors ("Board") as set forth below:

Residential Reserve for Replacement - There is an amount of $929,971 as residential reserve for replacement. Such reserve was designated by the New York State Office for People with Developmental Disabilities ("OPWDD") for the reimbursement of building renovations and improvements for Agency-owned residential properties. This reimbursement mechanism does not apply to residential properties that are leased.

The Agency has the ability to utilize the residential reserve funding for all of its certified residential sites within each class of residences. These funds are not interchangeable among program types.

Property and Equipment - There is a designated amount of $5,006,900 of unrestricted net assets which represents the excess of the net book value of property and equipment over the related debt.

Board Designated-Program Expansion - The Board has designated an amount of $1,077,795 of unrestricted net assets for future programmatic expansion. The monies, which are not segregated, are used to alleviate the ongoing financial pressures on the Agency due to the timing of collections of government funding, the limitations on available government funding, and the limited fund-raising activities undertaken by the Agency. The Agency has minimum monthly operating cash requirements of approximately $8,890,000 to finance its program operations.

Board Designated-Anticipated Pension Contributions - The Board has designated an amount of $1,290,000 of unrestricted net assets for defined benefit pension plan contributions anticipated to make during the year ended June 30, 2015.

Board Designated-Self Funded Insurance - The Board has designated an amount of $5,732,607 of unrestricted net assets for payments of current and future claims related to the Agency's self funded insurance plans.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation

The consolidated financial statements include the financial activity of Lifespire, Inc. ("Lifespire") and its wholly-owned subsidiary, Manhattan Management Solutions, LLC (the "Organization"). The Organization provides consulting services to other not-for-profit organizations. Lifespire consolidates the Organization because it has both (i) an economic interest in, and (ii) control over the Organization through a majority voting interest in its governing board. The Organization had no activity for the year ended June 30, 2014. Any inter-entity transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management has determined that estimates of program service fees and related recoupment payable (see Note 4) and self-insurance are subject to change in the near term. Actual results could differ from those estimates.

Subsequent Events

The Agency has evaluated events through November 24, 2014, which is the date the consolidated financial statements were available to be issued.

Cash and Cash Equivalents

The Agency considers all highly liquid investments with an original maturity date of three months or less at the time of purchase to be cash equivalents. Restricted cash and cash equivalents as of June 30, 2014 are described in Note 5.

Investments

Investments are comprised of certificates of deposits with varying maturity dates and mutual funds. These investments are stated at fair value. Income from investments is considered unrestricted unless restricted by a donor.

Accounts Receivable, Net

All known uncollected accounts receivable have been adjusted to net realizable value as of June 30, 2014. The allowance for doubtful accounts, which amounts to $6,332 at June 30, 2014, is established through provisions charged against income and is maintained at a level believed adequate by management to absorb estimated bad debts. Management generally uses 5% of total subcontract accounts receivable as the basis for the calculation of allowance for doubtful accounts based on historical experience and economic conditions.

Program Service Fees and Accrued Income Receivable

The Agency receives a major portion of its program service fees from Medicaid in conjunction with the OPWDD, the Social Security Administration ("SSA") and directly from the OPWDD. At June 30, 2014, substantially all of the accrued income receivable of $17,449,252 is due from these governmental agencies.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Agency recognizes revenue as services are provided. The amount is determined by the funding agencies either by a fee for service or a cost based fee. These fees are subject to periodic review and revision by the funding agencies. During the year ended June 30, 2014, the Agency recognized $1,026,857 in retroactive rate adjustments.

The current third-party-payor programs, including Medicaid and Medicare, are based upon complex laws and regulations. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. No such fines, penalties and exclusions were imposed on the Agency during the fiscal year ended June 30, 2014.

Property and Equipment

Property and equipment are stated at cost, or at fair market value if donated, less accumulated depreciation and amortization. Maintenance and repairs are charged to expense as incurred; major improvements are capitalized in accordance with funding source guidelines. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the lesser of the term of the lease or the estimated useful life of the asset. These amounts do not purport to represent replacement or realizable values. The Agency capitalizes individual items costing in excess of $5,000.

Impairment

The Agency reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the Agency recognizes an impairment loss. No impairment losses were recognized for the year ended June 30, 2014.

In-Kind Contributions

In-kind contributions consist of property and services donated by state agencies and individuals which are measured at fair value at the date of donation. There were no in-kind contributions received by the Agency during the year ended June 30, 2014.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled $52,845 for the year ended June 30, 2014, and is included in general expenses in the accompanying consolidated statement of functional expenses.

Deferred Rent

The Agency leases program and office space whereby the various landlords provide periods of scheduled increases in the minimum amounts charged. Rent expense related to the minimum rentals is recognized on a straight-line basis over the term of the respective leases. The accompanying consolidated statement of financial position reflects a liability of $3,013,328 at June 30, 2014 relating to deferred rent. The change in this liability is reflected as a charge to rent and real estate taxes in the accompanying consolidated statement of functional expenses.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Charges

Deferred charges comprise the following:

Bond Costs - Bond issuance costs, which also reflect bond premiums and discounts, are amortized over the life of the respective bond issue. Bond costs amounted to $1,193,570 at June 30, 2014, which is net of accumulated amortization. Amortization expense of these costs for the year ended June 30, 2014 was $227,644. Such amortization is included in interest, fees and bond expense of $2,404,612 shown in the accompanying consolidated statement of functional expenses.

Deferred Rent Recovery - OPWDD includes in the reimbursement rate paid to service providers a component for rents paid in accordance with lease terms. The Agency recognizes such amounts, however, based upon the future stream of payments for rent that is required to be recognized under U.S. GAAP that is in excess of the cumulative rents incurred up to date. The difference between the revenue recognized and the rents incurred over their lease terms (which is the reimbursement from OPWDD) is reflected as a deferred charge on the consolidated statement of financial position. This deferred charge represents a timing difference which will accumulate over the earlier periods of the rent expense recognition for a respective lease and will reverse during the latter periods of the rent payments. The deferred charge amounted to $3,013,328 at June 30, 2014. For the year ended June 30, 2014, the decrease in deferred rent recovery amounted to $46,428 and is reflected as miscellaneous expenses in the accompanying consolidated statement of activities.

Self Funded Health and Workers' Compensation Insurance

The Agency is self funded for health and workers' compensation insurance on all employees. At June 30, 2014, the Agency recorded a liability of $2,310,997 for claims that have been incurred but not paid for employees covered by the self funded plans.

Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications based upon benefits received.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The accounting standards codification establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs to be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Agency. Unobservable inputs reflect the Agency's assumption about inputs that market participants would use at the measurement date. The fair value hierarchy is categorized into three levels based on inputs as follows:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Level 1 - Valuation based on quoted prices in active markets for identical assets or liabilities that the Agency has the ability to access.

Level 2 - Valuation based on quoted prices for similar assets or liabilities in active markets; for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Valuation based on inputs that are unobservable and significant to the overall fair value measurement.

Level 3 assets and liabilities measured at fair value are based on one or more of the following three valuation techniques noted in the standard:

- Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset (i.e. current replacement cost); and
- Income approach - Uses valuation techniques to convert future amounts to a single present discounted amount based on market expectations about those future amounts (including present value techniques, option-pricing models, and lattice models).

The carrying amounts of the Agency's financial instruments (including cash and cash equivalents, receivables, accounts payable and accrued expenses, and lines of credit) approximates fair value due to the short-term nature of these instruments. Additionally, the carrying amount of the mortgages and bonds payable approximates fair value based on the variable nature of the interest rates.

Recent Accounting Pronouncements

In May 2014, the FASB issued an accounting standard update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2017 and in interim periods in annual periods beginning after December 15, 2018. Early application is not permitted. The Agency is currently evaluating the effect the update will have on its financial statements.

3. CASH AND CASH EQUIVALENTS DESIGNATED - OTHER

Cash and cash equivalents designated – other at June 30, 2014 comprised of the following:

	Restricted Cash Amount
Temporarily restricted contributions	$ 45,265
403(b) tax sheltered annuity plan	73,115
Residential reserve for replacement	929,971
	$ 1,048,351

4. CASH AND CASH EQUIVALENTS DESIGNATED FOR RECOUPMENTS PAYABLE

As of June 30, 2014, the Agency designated cash and cash equivalents of $16,518,610 to settle estimated recoupments payable.

The Agency entered into contracts with OPWDD for the operation of its facilities. Typically, there are over or under payments on these contracts, resulting from rates of reimbursements being subsequently adjusted and reconciled by OPWDD. However, the reconciliation process has not been completed for some contracts in the prior years. Once these reconciliations are completed or an OPWDD program audit is initiated, a timeline and/or methodology will be established as to how and when these amounts will be recouped. It is the policy of the Agency to hold all overpayments as well as qualifying contractual expenses as a recoupment payable pursuant to these contracts until an audit has occurred, and a reconciliation or recoupment process is initiated by the Agency.

As of June 30, 2014, the Agency has a recoupment payable balance of $16,518,610. These amounts are expected to be recouped in the future through designated reductions of remittance payments or by demanding payment of full amount.

In October 2014, the Agency remitted payments totaling $7,116,144 relating to a portion of the recoupments payable balance at June 30, 2014.

The recoupment payable is related to transactions incurred as follows:

June 30,	
2014	$ 2,293,013
2013	2,832,545
2012	2,765,686
2011	87,199
2010 and prior	8,540,167
	$ 16,518,610

5. CASH AND CASH EQUIVALENTS RESTRICTED TO DEBT SERVICE ESCROW

The cash and cash equivalents related to debt service escrow of $4,050,918 is comprised of the following:

Debt Service Escrow:	
IDA – Bond 2002	$ 922,186
IDA – Bond 2004	1,098,444
IDA – Bond 2008	587,530
DASNY – Bond 2010	840,382
DASNY – Bond 2011	248,838
DASNY – Bond 2013	353,538
	$ 4,050,918

The Debt Service Escrow – IDA – regarding the Industrial Development Agency ("IDA") Bonds 2002, 2004 and 2008 represents a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts set up with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required to be made pursuant to the bond agreements (Note 13).

The Debt Service Escrow – DASNY - regarding the Dormitory Authority State of New York ("DASNY") Bonds 2010, 2011, and 2013 represent a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts set up with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required to be made pursuant to the bond agreement (Note 12).

The amounts from the above earn interest and such interest is applied against the Agency's current year's bond principal pay down obligations. All remaining funds are applied against the last year's principal pay down of the applicable bond issue.

6. DEBT SERVICE RESERVE FUND DUE FROM NEW YORK STATE

The debt service reserve fund due from New York State of $318,841 represents a portion of the loan proceeds retained by New York State under the terms and conditions set forth in the mortgage agreements for the properties listed in Note 10.

The monies are designated to be applied to scheduled debt service payments in the future by OPWDD.

7. INVESTMENTS

As of June 30, 2014, total investments are comprised of money market, bank certificates of deposit, and mutual funds stated at $3,953,497. Investments consisted of the following:

	Cost	Fair Value
Bank of America - money market	$ 2,295,087	$ 2,295,087
Morgan Stanley - certificates of deposit	1,233,860	1,249,714
Chase - mutual funds	414,981	408,696
Total	$ 3,943,928	$ 3,953,497

7. INVESTMENTS (CONTINUED)

Activity in investments is as follows for the year ended June 30, 2014:

Investments - beginning of year	$	3,781,476
Investment activity:		
Purchases		2,933,738
Investment returns (reinvested)		40,270
Sales and redemptions (at cost)		(2,775,085)
Withdrawals for operations		(35,500)
		163,423
Net appreciation in fair value of investments: unrealized gains		8,598
Investments - end of year	$	3,953,497

Money market, certificates of deposit, and mutual funds securities are valued at the quoted market price of shares held by the Agency at year end.

All of the investments are classified as level 1, as discussed in Note 2.

8. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties comprise the following:

Due from Related Parties

Due from related parties of $923,636 on the accompanying consolidated statement of financial position represents amounts owed from two not-for-profit entities as follows:

An amount of $153,403 is due from the Agency's Housing and Urban Development ("HUD") affiliate. Certain staff members of the Agency are also members of the Board of this not-for-profit HUD organization. This amount includes an unsecured note receivable of $140,203 due from the affiliate dating back a number of years. The Agency is not permitted to charge interest to the affiliate pursuant to HUD rules. The Agency expects to be repaid for this amount when the affiliate has sufficient cash flow available.

An amount of $779,405 is due from the Parent. This amount includes three outstanding notes with the Parent, plus accrued interest thereon, comprised as follows:

- An unsecured note receivable, executed on April 30, 2010 in the amount of $689,901, for funds that was previously loaned to the Parent by the Agency. The Parent is obligated to pay the outstanding indebtedness in twenty-five equal annual installments of $27,596 on or before April 30th of each year. The outstanding balance on this note, which is non-interest bearing, amounted to $551,921 at June 30, 2014.

- An interest only unsecured note receivable in the amount of $55,500 due from the Parent. This note accrues interest at a rate of 6% per annum. The note will be repaid when the Parent has sufficient cash flow to make such payments.

8. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

- On June 16, 2011, a $300,000 unsecured note was executed with the Parent, accruing interest at a rate of 6% per annum. The outstanding balance on this note amounts to $125,000 at June 30, 2014. The note will be repaid when the Parent has sufficient cash flow to make such payments.

- Total unpaid accrued interest receivable due from the Parent amounted to $46,984 as of June 30, 2014 relating to the above. Related party interest income amounted to $21,630 for the year ended June 30, 2014.

An amount of $9,172 is due to the Parent for funds that was received by the Agency as repayment of related party receivable that was previously forgiven by the Parent. The amount will be repaid to the Parent in the subsequent period.

Board members of the Parent are also Board members of the Agency.

Other Related Party Transactions

The Agency purchases supplies and services from ACRMD Community Mental Retardation Services Company, Inc. ("Community"), which is related because certain Agency employees are board members of Community. The Agency also receives payment from Community for the outsourced labor provided to assist with the processing and packaging of the inventory items which Community sells to the Agency as well as to other non-related entities. During the year ended June 30, 2014, purchases of supplies and services from Community totaled $638,711 and fees from Community for the provision of labor provided by the Agency totaled $119,007. At June 30, 2014, $59,122 was due to Community, which is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position. Additionally, at June 30, 2014, approximately $11,000 was owed to the Agency for outstanding fees, which is included in accounts receivable in the accompanying consolidated statement of financial position. In addition, the Agency also received approximately $32,000 from Community for reimbursement of its portion of fringe benefits and insurance costs paid on behalf of three of the Agency's employees who provide services to the not-for-profit related party. No reimbursable costs were outstanding as of June 30, 2014.

The Agency purchases document storage, messenger, landscaping, and maintenance services from ACRMD Enterprises LLC ("Enterprise"), a wholly-owned subsidiary of Community. During the year ended June 30, 2014, purchases of these services from Enterprise totaled $126,534. In addition, during the year ended June 30, 2014, the Agency also received $11,223 from Enterprise for reimbursement of insurance costs. At June 30, 2014, $12,094 was due to Enterprise, which is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position.

Management periodically reviews the related party accounts and notes receivable amounts to determine if an allowance is necessary. The related party receivables have been adjusted for all known uncollectible accounts. At June 30, 2014, no allowance was necessary because the related party receivables were determined to be fully collectible.

9. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

June 30, 2014	Cost	Estimated Useful Lives
Land	$ 4,709,267	
Construction in progress	444,840	
Buildings and improvements	27,128,852	5-20 years
Furniture and equipment	3,430,909	5 years
Vehicles	318,666	4 years
Leasehold improvements	8,047,112	Life of lease
	44,079,646	
Less: accumulated depreciation and amortization	(26,553,200)	
	$ 17,526,446	

The above amounts include land and buildings which were donated to the Agency by the OPWDD. The Agency is subject to adherence of certain terms, conditions, and restrictions as to the use and ultimate disposition of these properties as further delineated in the disposition and subordination agreements entered into with the funding source.

As of June 30, 2014, the Agency had approximately $866,000 of open commitments to contractors for construction on work being performed.

Depreciation and amortization expense was $1,774,915 for the year ended June 30, 2014.

10. MORTGAGES PAYABLE - DASNY

Mortgages payable – DASNY represents self-liquidating term-notes owed to DASNY, which has OPWDD as its agent.

The mortgage notes are collateralized by (i) the real property located at each of the sites (ii) all accounts receivable generated from billings related to the respective locations, and (iii) all personal property owned by the Agency located at each of the sites. The Agency is entitled to credits in an amount equal to the past accrued interest earned on the debt service reserve fund due from New York State for some of the above-mentioned liabilities. When such credits are determined and applied to the corresponding mortgages, then those mortgage liabilities will be reduced accordingly.

10. MORTGAGES PAYABLE – DASNY (CONTINUED)

Additional information for the mortgages payable - DASNY is reflected below.

Property	Maturity Date	Interest Rate	Outstanding at June 30, 2014
South Avenue	8/15/2015	7.68%	$ 39,091
213-233 48th Street (Sunset I)	2/15/2018	7.34%	391,610
87-21 121st Street (Queens)	2/15/2018	6.41%	1,017,750
Jumel	8/15/2018	6.41%	401,632
Total Mortgages Payable - DASNY			$ 1,850,083

The mortgage balances for the 213-233 48th Street and 87-21 121st Street locations are for the Day Habilitation Program. Since the year ended June 30, 2004, OPWDD allocates a portion of the bond (mortgage) payable to a separate Day Habilitation Medicaid Management Information System ("MMIS") Provider number for debt recovery purposes. However, the total indebtedness does not change.

Under the terms of the mortgages payable – DASNY, the Agency is required to fulfill certain financial covenants.

11. LINES OF CREDIT

Under the terms of a line of credit agreement with Bank of America entered into on March 31, 2014, the Agency may borrow up to $5,000,000 at the bank's prime interest rate plus 0.5% (3.25% at June 30, 2014) through March 31, 2015, when the agreement expires. The Agency's property and leasehold improvements not otherwise encumbered have been pledged as collateral against any advances on the line of credit. The balance outstanding on this line of credit as of June 30, 2014 was $547,382. The Agency is required to fulfill certain financial covenants.

The Agency has a line of credit agreement with J.P. Morgan Chase for a maximum amount of $5,000,000 which expires on March 13, 2015. The proceeds of the line of credit are to be used for operating expenses. Interest is charged at the bank's floating rate of prime plus 0.5% (3.25% at June 30, 2014) and is secured by a lien on the Agency's government receivables not otherwise encumbered. The government receivables totaled $17,449,252 at June 30, 2014 and are reflected in the accompanying financial statements as accrued income receivable. There was no outstanding balance on the line of credit as of June 30, 2014.

12. BONDS PAYABLE - DASNY

Bonds payable – DASNY includes the following at June 30, 2014:

Series	Due Date	Interest Rates	Principal Due
2010 A-1 and A-2	July 2028	2.10% to 5.00%	$ 4,710,000
2011 A-1 and A-2	July 2026	1.40% to 4.00%	1,690,000
2013 A-1 and A-2	July 2038	2.00% to 4.00%	3,645,000
Total Bonds Payable - DASNY			$ 10,045,000

12. BONDS PAYABLE – DASNY (CONTINUED)

2010 A-1 and A-2

In March 2010, a bond payable – DASNY was issued in the amount of $6,125,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2010A, subseries 2010A-1, and 2010A-2 (the "2010 Bonds"). The Agency used the proceeds from the 2010 Bonds to pay down $5,485,795 of indebtedness on seven properties.

The interest is payable to the bondholders on a semi-annual basis commencing on August 1, 2010. The principal is payable to the bondholder on an annual basis commencing on August 1, 2011. The cost of the bond issuance amounted to $318,265 of which $103,339 was amortized as of June 30, 2014. The cost of bond discounts amounted to $78,516, of which $25,660 was amortized as of June 30, 2014.

The Agency is required to make deposits for interest and principal under the 2010 Bond loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2014	$ 495,000
2015	410,000
2016	415,000
2017	415,000
2018	415,000
Thereafter	2,560,000
	$ 4,710,000

The 2010 Bonds are secured ratably by each applicable mortgage on the properties and the DASNY's security interest in the pledged program service fees revenues subject to prior pledges.

Under the terms of the bonds payable – DASNY, the Agency is required to fulfill certain financial covenants.

2011 A-1 and A-2

On August 17, 2011, a bond payable – DASNY was issued in the amount of $1,925,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2011A, subseries 2011A-1, and subseries 2011 A-2 (the "2011 Bonds"). The Agency used the proceeds from the 2011 Bonds to pay down $1,182,262 of indebtedness on two properties.

The interest rate is not to exceed 4.125% on the Series 2011 Bonds. The interest is payable to the bondholders on an annual basis commencing on July 1, 2012. The cost of the bond issuance amounted to $166,854 of which $30,272 was amortized as of June 30, 2014. The cost of the bond discounts amounted to $12,469 of which $2,382 was amortized during the year ending June 30, 2014.

The Agency is required to make deposits for interest and principal under the loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

12. BONDS PAYABLE – DASNY (CONTINUED)

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2014	$ 125,000
2015	125,000
2016	125,000
2017	130,000
2018	130,000
Thereafter	1,055,000
	$ 1,690,000

The 2011 Bonds are secured by each mortgage on the properties and a lien on the furnishings and equipment located at each mortgaged property.

Under the terms of the bond payable – DASNY, the Agency is required to fulfill certain financial covenants.

2013 A-1 and A-2

On March 13, 2013, a bond payable – DASNY was issued in the amount of $3,665,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2013A, subseries 2013A-1, and subseries 2013 A-2 (the "2013 Bonds").

The interest is payable to the bondholders on an annual basis commencing on July 1, 2013. The cost of the bond issuance amounted to $301,396 of which $17,427 was amortized as of June 30, 2014. The cost of the bond discounts amounted to $33,679 of which $1,552 was amortized during the year ending June 30, 2014.

The Agency is required to make deposits for interest and principal under the loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2014	$ 160,000
2015	160,000
2016	165,000
2017	165,000
2018	165,000
Thereafter	2,830,000
	$ 3,645,000

The 2013 Bonds are secured by each mortgage on the properties and a lien on the furnishings and equipment located at each mortgaged property.

Under the terms of the bond payable – DASNY, the Agency is required to fulfill certain financial covenants.

13. BONDS PAYABLE - IDA

Bonds payable – IDA includes the following at June 30, 2014 :

Series	Due Date	Interest Rates	Principal Due
2002 C-1	July 1, 2017	6.50%	$ 1,380,000
2004 A-1 and B-1	July 1, 2023	4.15% to 5.05%	2,310,000
2004 C-1	July 1, 2014	5.25%	130,000
2008 A-1 and A-2	July 1, 2033	6.50%	2,320,000
Total Bonds Payable - IDA			$ 6,140,000

Bonds Payable – IDA - 2002

The Bonds payable – IDA – 2002 represents amounts owed relating to the New York City Industrial Development Agency ("IDA") Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2002 C-1.

The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2003. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2003. The cost of the bond issuance amounted to $395,027 of which $283,657 was amortized as of June 30, 2014.

Deposits for interest and principal payments for the bond holders under the loan agreement are to be made monthly and deposited into the applicable debt service escrow accounts by the Agency until it comes due to pay the bondholders (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2014	$ 280,000
2015	280,000
2016	280,000
2017	540,000
	$ 1,380,000

Bonds Payable – IDA - 2004

Bonds Payable – IDA – 2004 represents amounts owed relating to IDA Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program) Series 2004 A-1 and B-1, and Series 2004 C-1.

Series 2004 A-1 and B-1 Bonds - The Agency used the Series A-1 and B-1 bond proceeds to pay down $4,112,273 of indebtedness on four properties in a prior year. The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2004. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2004.

The cost of the bond issuance amounted to $696,558 of which $455,100 was amortized as of June 30, 2014.

13. BONDS PAYABLE – IDA (CONTINUED)

Deposits for interest and principal payments for the bondholders under the loan agreement are to be made monthly and deposited into the applicable debt service escrow accounts by the Agency until it comes due to pay the bondholders (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2014	$ 220,000
2015	220,000
2016	220,000
2017	220,000
2018	220,000
Thereafter	1,210,000
	$ 2,310,000

Series 2004 C-1 Bonds - The Agency used the Series C-1 bond proceeds to pay down $805,621 of indebtedness on one property and to pay off a balance due on one line of credit in a prior year. The interest is payable to the bondholders on a semi-annual basis commencing on January 1, 2005. The principal is payable to the bondholders on an annual basis commencing on July 1, 2005. The cost of the bond issuance amounted to $50,095 and the cost of bond discounts amounted to $41,281, and was fully amortized as of June 30, 2014.

Deposits for interest and principal payments for the bondholders under the loan agreement are to be made monthly and deposited into the applicable debt service escrow accounts by the Agency until it comes due to pay the bondholders (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2014	$ 130,000
	$ 130,000

Bonds Payable - IDA-2008

Bonds payable – IDA – 2008 represents amounts owed to IDA Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2008 A. These bonds are segregated into Series 2008 A-1 and Series 2008 A-2 (taxable).

The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2008. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2008. The cost of the bond issuance amounted to $265,634, of which $151,399 was amortized as of June 30, 2014.

The bond agreement has a first lien on the properties being mortgaged except for the facility located at 213 48th Street, Brooklyn, which is a second lien.

13. BONDS PAYABLE – IDA (CONTINUED)

Deposits for interest and principal payments for the bondholders under the loan agreement are to be made monthly and deposited into the applicable debt service escrow accounts by the Agency until it comes due to pay the bondholders (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2014	$ 170,000
2015	170,000
2016	175,000
2017	175,000
2018	180,000
Thereafter	1,450,000
	$ 2,320,000

Bonds Payable – IDA – General Terms

The Agency anticipates that, periodically, OPWDD will adjust the certain program service fees to provide the Agency with the sufficient amounts to repay the debt principal, related interest, and fees. The Series 2002 C-1, 2004 A-1, B-1, and C-1, as well as Series 2008 A-1 and A-2 bonds will be secured ratably by the IDA's security interest in certain pledged revenues, which amounted to $609,545 for the year ended June 30, 2014, as well as the amounts held in cash and cash equivalents restricted to debt service escrow (Note 5).

The underlying properties secure the respective Bonds with first liens except where otherwise noted.

14. MATURITIES OF DEBT TO THIRD PARTIES

The short-term and long-term third-party debt is comprised of the following:

June 30, 2014	
Mortgages payable – DASNY	$ 1,850,083
Bonds payable – DASNY	10,045,000
Bonds payable – IDA	6,140,000
Line of credit	547,382
	$ 18,582,465

14. MATURITIES OF DEBT TO THIRD PARTIES (CONTINUED)

Approximate maturities of short-term and long-term third-party debt are as follows:

June 30,		
2015	$	2,607,432
2016		1,838,116
2017		1,884,850
2018		1,559,935
2019		1,130,132
Thereafter		9,562,000
	$	18,582,465

The above maturities are not reduced by the funds held in the various debt service escrow accounts (Note 5) for interest earned currently and the last year of a particular bond's obligation are utilized to reduce the Agency's payments thereon.

15. SELF FUNDED INSURANCE

All Agency employees have an option to participate in the Agency's self-funded, comprehensive medical care benefits program. The cost of medical care is paid out of employee and employer contributions and is held in a separate reserve bank account. The Agency has contracted with Aetna, Inc., a third-party administrator, to provide administrative services for this health care benefits program. The health care benefits program has stop loss coverage of $150,000 per person and a total of one hundred fifty percent of claims estimated at the beginning of the policy year. As of June 30, 2014, cash designated for this program totaled $4,830,471 and the estimated liability for outstanding claims at June 30, 2014 totaled $1,070,398.

All Agency employees are covered by a self-funded worker's compensation benefits program administered by The Hartford Financial Services Group, Inc. The workers' compensation benefits program has a stop loss policy of $250,000 per incident, up to $1,300,000 for the current policy year. The workers' compensation claims are paid out of employer contributions and is held in a separate reserve bank account. As of June 30, 2014, cash designated for this program totaled $902,136 and the estimated liability for outstanding claims at June 30, 2014 totaled $1,240,599.

The Agency is partially self-insured for its workers compensation commitments. Accordingly, the Agency has provided $1,940,000 in Letters of Credit for performance guarantees, which are secured by certificates of deposits totaling $2,083,000 on the accompanying consolidated statement of financial position.

16. DEFINED BENEFIT PENSION PLAN

The Agency has a defined benefit pension plan (the "Plan") covering all of its eligible employees. The benefits are based on years of service and the employee's highest five years of compensation during the last ten years of employment. The Agency's funding policy is to contribute annually the required amount that should be deducted in accordance with federal income tax guidelines. The Agency's contributions for calendar year 2013 met the minimum funding requirements of ERISA.

The Agency, as the sponsor of the Plan, froze the Plan effective December 31, 2010. Although the Plan remains frozen, the Agency has the ability to unfreeze the Plan in the future, subject to certain conditions.

The Agency is required to contribute approximately $1,990,000 to its defined benefit plan for the year ended June 30, 2014.

Under U.S. GAAP, a liability is disclosed at fiscal year-end. The pension liability is an aggregation of the excess of total benefit obligation over fair value of plan assets at the end of the year. There is a cumulative amount totaling $5,565,386 of pension liability as of June 30, 2014.

The changes in the defined benefit pension obligations, plan assets and funded status for the year ended June 30, 2014 were as follows:

	Pension Benefits
Reconciliation of benefit obligation:	
Benefit obligation, beginning of year	$ 33,085,407
Service cost	-
Interest cost	1,639,142
Actuarial loss	3,939,305
Benefits paid	(836,155)
Benefit obligation, end of year	$ 37,827,699
Reconciliation of fair value of plan assets:	
Fair value of plan assets, beginning of year	$ 27,033,318
Actual return on plan assets	4,074,974
Employer contributions	1,990,176
Benefits paid	(836,155)
Fair value of plan assets, end of year	$ 32,262,313
Funded status, end of year	$ (5,565,386)

16. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Assumptions

Without the exception of the discount rate, the Agency's independent enrolled actuary certified the following significant weighted-average assumptions in order to determine benefit obligations net periodic pension cost as of June 30, 2014:

Discount rate	4.33%
Expected long-term rate of return on plan assets	7.00%
Rate of compensation increase	0.00%

Net periodic pension cost and other amounts recognized in the statement of activities for the year ended June 30, 2014 included the following components:

Sevice cost	$ -
Interest cost	1,639,142
Expected return on plan assets	(1,892,849)
Amortization of net loss	486,903
Net periodic pension cost	$ 233,196

Investment Strategies

With respect to the Plan assets, investments are to be made consistent with the safeguards and diversity to which a prudent investor would adhere to. Following is a description of the investment guidelines used for the Plan's investment funds:

Equities - General assurances by the Plan's Investment Advisor includes criteria that no more than 2% of the equity position of the entire Plan assets portfolio at cost, and 3% at market value, shall be invested in any one company, and no more than 50% of any individual Money Manager's portfolio at cost, and 60% at market value shall be invested in any one company. Investment possibilities includes 1) common stock listed on any U.S. exchange or the over-the-counter market with the requirement that such stock have, in the reasonable opinion of each of the Money Managers, adequate market liquidity relative to the size of the investment, 2) foreign ordinary securities, 3) international investments managed by an International/Global Money Manager which adhere to specific criteria, including a limitation that no more than 20% of the value of the managed international portfolio's total assets, measured at time of purchase may be invested in securities of companies in emerging securities markets throughout the world, and 4) exchange traded funds (not subject to the diversification guidelines above. Furthermore, there are several categories of securities and types of transactions that are not permissible for investments and should not be part of the portfolio, including short sales, put and call options, margin purchases, private placements, commodities, securities of the Investment Advisor or any of the Money Managers, their direct parent or their subsidiaries, penny stocks, and derivatives. In addition, the Agency may identify additional securities to be restricted.

16. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Fixed Income - Diversification of the fund includes assurances that no more than 5% of the Plan's portfolio should be invested in bonds of any one issuer, and there shall be no limit on direct obligations of the U.S. government. The Plan should not invest in any fixed-income security carrying a rating less than BBB/Baa by either Standard & Poor or Moody's. If issues are downgraded so as to violate these guidelines, the Plan's Trustee should judiciously liquidate them. Issues within a quality high yield mutual fund are exempt from this provision. With regards to maturity, the market value weighted average maturity of the bond portfolio should not exceed 15 years, and no holding may have an absolute maturity of more than 30 years at the time of purchase. Generally, fixed income investments includes debt securities guaranteed by the U.S. government, corporate bonds, high quality and high yield mutual funds, international bond mutual funds, indexed notes, Yankee bonds, and preferred stock issues.

Corporate Bonds - Valued at the closing price reported in the active market in which the bond is traded.

Equities - Valued at the closing price reported on the major stock exchanges.

Government Securities - Valued at the closing price reported in active market in which the individual security is traded.

Mutual Funds - Valued using market value as listed in active exchange markets.

Municipal Bonds - Valued at the closing price reported in active market in which the individual security is traded.

International Bonds - Valued at the closing price reported in active market in which the individual security is traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan 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.

16. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The pension plan asset allocations, along with respective dollar values and fair value measurements, at June 30, 2014, by asset category are as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Funds	$ 2,466,514	$ 2,466,514	$ -	$ -
Equities:				
Basic Materials	340,466	340,466	-	-
Consumer Goods	458,037	458,037	-	-
Financials	1,707,397	1,707,397	-	-
Healthcare	520,771	520,771	-	-
Industrial Goods	343,901	343,901	-	-
Oil & Gas	627,487	627,487	-	-
Services	1,183,827	1,183,827	-	-
Technology	1,049,696	1,049,696	-	-
Utilities	25,494	25,494	-	-
Government Securities	1,486,991	1,486,991	-	-
Municipal Bonds	272,441	272,441	-	-
International Bonds	915,072	915,072	-	-
Corporate Bonds	8,068,223	8,068,223	-	-
Mutual Funds:				
Mid Cap Growth	905,878	905,878	-	-
Mid Cap Value	982,422	982,422	-	-
Small Cap Value	361,410	361,410	-	-
Large Cap Foreign	2,355,347	2,355,347	-	-
Large Cap Growth	4,791,100	4,791,100	-	-
Emerging Markets	2,432,532	2,432,532	-	-
REITs	967,307	967,307	-	-
	$ 32,262,313	$ 32,262,313	$ -	$ -

Transfer Between Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The plan administrators evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits.

16. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Expected Future Benefit Payments

Benefit payments for defined benefit pension plans, which reflect expected future service, as appropriate, are expected to be paid as follows:

June 30,	Pension benefits expected to be paid
2015	$ 1,290,296
2016	1,048,030
2017	1,158,332
2018	1,249,892
2019	1,343,635
2020-2024	8,434,596
	$ 14,524,781

17. POSTRETIREMENT HEALTH CARE BENEFIT PLAN

The Agency sponsors a defined benefit postretirement health care benefit plan.

Plan Provisions

Retired Prior to January 1, 2000

For certain long-service employees, the plan will pay the monthly premium for the participant (and eligible spouse) to continue coverage under the pre-2000 postretirement plan.

Retired January 1, 2001 and Later

For employees who retire on or after age 65 with at least 20 years of service, the Agency will enroll the retiree and eligible spouse in an AARP Medicare Supplement plan and contribute the following towards such coverage (for each retiree and eligible spouse):

-- 20 years of service	Plan E	--$130.25 per month
-- 25 years of service	Plan G	--$152.25 per month
-- 30 years of service	Plan I	--$259.00 per month

For employees who retire between ages 62 and 65, with the requisite years of service, the Agency will contribute, as per the above schedule, towards coverage under the current active employee's plan, until Medicare eligibility. At that time, the retiree will be treated in the same fashion as a post-65 retiree.

If an eligible spouse is not Medicare eligible, the Agency will contribute towards coverage under the current active employees' plan in an amount based on the retiree's service as described above.

17. POSTRETIREMENT HEALTH CARE BENEFIT PLAN (CONTINUED)

Determination of the Net Periodic Benefit Cost for the Fiscal Year

Net periodic benefit cost and other amounts recognized in unrestricted net assets for the year ended June 30, 2014 included the following components:

Service cost		$ 279,471
Interest cost		278,117
Amortization:		
(a) Transition obligation	-	
(b) Prior service cost	63,914	
(c) (Gain) loss	-	
Net amortization		63,914
Net periodic benefit cost		$ 621,502

Reconciliation of Funded Status for the Fiscal Year Ended June 30, 2014

Accumulated postretirement benefit liability at June 30, 2014	$ 6,787,122
Net liability recognized at June 30, 2014	$ 6,787,122

Net Amount Recognized in Consolidated Statement of Financial Position

Beginning of year	$ 5,595,566
Service cost	279,471
Interest cost	278,117
Expected return on plan assets	-
Employer contributions	(60,642)
Net (gain) loss	694,610
Prior service credit (cost)	-
End of year	$ 6,787,122

Assumptions

Mortality:	RP 2000 Separate Annuitants and Non-Annuitants Mortality Table projected to 2014 for males and females
Claim cost:	Monthly premium
Trend:	4.70% - 7.00% – based on the year of retirement
Funding method:	Projected Unit Credit Actuarial Cost Method

17. POSTRETIREMENT HEALTH CARE BENEFIT PLAN (CONTINUED)

a) The discount rate was changed from 5.00% to 4.33% which increased the accumulated postretirement benefit liability by approximately $783,000.

b) Based upon the plan provisions, the Affordable Care Act will have an immaterial effect on the accumulated postretirement benefit obligation and the net periodic benefit cost of the Agency's postretirement health care benefit plan.

	Postretirement Benefits	
	Accumulated Postretirement Benefit Liability	Service Cost Plus Interest Cost
At trend	$ 6,787,122	$ 557,588
At trend + 1%	6,845,536	560,474
Dollar impact	58,411	2,886
Percentage impact	0.86%	0.52%
At trend – 1%	6,737,118	555,117
Dollar impact	(50,007)	(2,471)
Percentage impact	-0.74%	-0.44%

Expected Future Benefit Payments

Benefit payments for postretirement health care benefit plans, which reflect expected future service, as appropriate, are expected to be paid as follows:

June 30,	Postretirement Benefits
2014	$ 76,538
2015	94,324
2016	110,206
2017	128,285
2018	152,995
2019-2023	1,162,705
	$ 1,725,053

18. TEMPORARILY RESTRICTED NET ASSETS

The changes in contributions, which comprise the Agency's temporarily restricted net assets for the year ended June 30, 2014, which are available for use in future years, were as follows:

	Balance at 6/30/13	Additions	Expenditures	Balance at 6/30/14
Program	$ 43,766	3,796	(2,297)	$ 45,265

The funds released from restrictions were used towards other expenses for some of the Agency's programs.

19. COMMITMENTS AND CONTINGENCIES

General

Pursuant to the Agency's contractual relationships with certain funding sources, outside agencies have the right to examine the Agency's books and records which pertain to transactions relating to these contracts. The accompanying consolidated financial statements do not include a provision for possible disallowances and reimbursements. Management believes that any actual disallowances, if any, would be immaterial. In addition, certain agreements provide that certain property and equipment owned by or on loan to the Agency (Note 9) be utilized by the Agency for its continued ownership, since the costs of such property and equipment were funded under these agreements ("Reversing Assets").

There are certain amounts of real and personal property used by the Agency in its program operations which is owned by New York State and/or other governmental sources. The Agency uses some of these real and personal properties at no cost. The value of the benefit received for use of these real and personal properties is not readily measurable, is not recorded in the accompanying consolidated financial statements, and is consistent with similar industry practices.

The Agency has a number of pending lawsuits and/or claims against them for a variety of reasons. The alleged claims are being handled by legal counsel and/or by its insurance providers. In the opinion of the Agency's legal counsel and management, there is no basis to establish a liability for any loss contingency due to lack of merit or insurance coverage exceeding expected settlement amounts.

On March 13, 2013, the Agency entered into a collective bargaining agreement with the Civil Service Employees Association, Inc. ("CSEA"). The collective bargaining agreement is set to expire on June 30, 2015. Approximately 73% of the Agency's labor is represented by the CSEA.

Operating Leases

The Agency is obligated, pursuant to real property lease agreements, for minimum monthly rentals for its administrative and program operations as follows:

June 30,		
2015	$	5,748,198
2016		4,063,940
2017		3,604,962
2018		2,917,004
2019		2,867,194
Thereafter		11,654,266
	$	30,855,564

For the year ended June 30, 2014, rent expense was $6,942,039, which was generally recovered through fees for service from the funding sources.

A renewal option allows the Agency, at its sole option, the right to extend some of the leases for an additional five-year period with a predetermined rent base amount with annual rent percentage increases. Various leases have rent escalations in which various predetermined annual percentage increases exist throughout the lease periods. A clause exists whereby, in the event that real estate taxes increase during the term of some of the leases, the Agency shall pay any increases in real estate taxes over the base year.

20. 403(b) TAX – SHELTERED ANNUITY PLAN

The Agency offers a 403(b) tax-sheltered annuity plan for all employees who are eligible and elect to participate. The plan is governed by IRS regulations setting the limits on the amount that employees may contribute and the conditions to withdraw monies from it. The employees each own their individual annuity plan and are responsible for deciding the amount of contributions they wish to make each year (up to the maximum stipulated by the IRS) and how the funds may be invested. There are no employer contributions.

21. CONCENTRATION OF CREDIT RISK

The Agency has maintained bank balances that often exceed the limit of the Federal Depository Insurance Corporation insurance coverage. The Agency verifies, on a quarterly basis, the equity strength and profitability of the banks it uses in order to minimize the risk.

Approximately 11% of the Agency's accounts payable and accrued expenses as of June 30, 2014 were derived from one vendor.

The Agency earns its revenue and records related receivables primarily from service fees provided to individuals with developmental disabilities within the New York City area. A significant portion all of the Agency's revenue and receivables are received from Medicaid.

22. RISKS AND UNCERTAINTIES

The Agency's pension plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the amounts reported in the accompanying consolidated statement of financial position.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the consolidated financial statements.

The Agency is subject to indemnification clauses should they cause any of the tax exempt bonds to lose their tax exempt status.

The Agency's self funded insurance liability is based upon estimated claims at current year end. The actual claims may exceed the recorded amount.

23. SUBSEQUENT EVENTS

The OPWDD, in consultation with the State Department of Health ("DOH") has begun the process of seeking significant programmatic and fiscal changes to the OPWDD service system. The new direction for OPWDD, "The People First" Waiver is being developed with a 5 year statewide comprehensive plan through 2015.

Subsequent to year end and in anticipation of the changes in the OPWDD funding stream, the Agency entered into a verbal agreement with other six New York State Agencies to form a Developmental Disabilities Individual Support and Care Coordination Organization ("DISCO"). A letter of intent to become a DISCO has been submitted to OPWDD. At this time it is undetermined if OPWDD will approve the letter of intent. Final request for applications ("RFA") to become a DISCO have not yet been released by OPWDD and the changes as proposed by the "People First Waiver" Plan are still under review for approval.

LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

LIFESPIRE, INC. AND SUBSIDIARY

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MBAF

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lifespire, Inc. and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lifespire, Inc. and Subsidiary (the "Agency"), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities, changes in net assets, 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated 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 auditor's 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 Lifespire, Inc. and Subsidiary 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.

MBAF CPAs, LLC

Valhalla, NY
December 12, 2013

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

ASSETS	
Cash and cash equivalents	$ 19,880,055
Cash and cash equivalents designated for recoupments payable and deferred income	16,407,870
Cash and cash equivalents designated for self funded insurance	6,267,702
Cash and cash equivalents designated for health reimbursement accounts	2,366,222
Cash and cash equivalents restricted to debt service escrow	3,983,600
Cash and cash equivalents restricted - other	911,715
Investments	3,781,476
Debt service reserve fund due from New York State	318,841
Accounts receivable, net	311,577
Note receivable	246,650
Accrued income receivable	18,054,416
Due from related parties	961,425
Security deposits and prepaid expenses	728,884
Property and equipment, net	17,868,535
Deferred charges, net	4,464,185
TOTAL ASSETS	**$ 96,553,153**
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable and accrued expenses	$ 7,466,449
Accrued payroll	6,904,864
Accrued compensated absences	3,864,213
Recoupments payable and deferred income	16,407,870
Mortgages payable - DASNY	2,296,958
Bonds payable - DASNY	10,660,000
Bonds payable - IDA	7,015,000
Deferred rent	3,059,756
Self funded insurance liability	2,049,823
Pension liability	6,052,089
Postretirement health insurance liability	5,595,566
TOTAL LIABILITIES	71,372,588
NET ASSETS	
Unrestricted:	
Undesignated	9,876,020
Residential reserve for replacement	794,907
Property and equipment	4,135,765
Board designated - program expansion	1,047,973
Board designated - anticipated pension contributions	3,014,432
Board designated - self funded insurance	6,267,702
	25,136,799
Temporarily restricted	43,766
TOTAL NET ASSETS	25,180,565
TOTAL LIABILITIES AND NET ASSETS	**$ 96,553,153**

The accompanying notes are an integral part of these financial statements.

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

REVENUE - PROGRAM OPERATIONS	
Program service fees	$ 98,460,715
Participants' share of room and board	3,282,156
Subcontract	488,931
DASNY bond fees	651,896
	102,883,698
Net assets released from restrictions	3,117
TOTAL REVENUE - PROGRAM OPERATIONS	102,886,815
EXPENSES	
Program services	92,851,996
Management and administration	6,255,847
TOTAL EXPENSES	99,107,843
CHANGE IN UNRESTRICTED NET ASSETS BEFORE OTHER REVENUE AND NON-OPERATING PENSION AND HEALTH CARE BENEFIT PLAN-RELATED CHANGES	3,778,972
OTHER REVENUE	
Investment income	101,884
Contributions and fundraising	3,650
Retroactive rate adjustments	1,423,511
Miscellaneous	169,635
TOTAL OTHER REVENUE	1,698,680
CHANGE IN UNRESTRICTED NET ASSETS BEFORE NON-OPERATING PENSION AND HEALTH CARE BENEFIT PLAN-RELATED CHANGES	5,477,652
Pension related change other than net periodic pension benefits (costs)	5,146,177
Postretirement health care benefit change other than net periodic benefits (costs)	847,675
CHANGE IN UNRESTRICTED NET ASSETS	11,471,504
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	
Donors	8,267
Net assets released from restrictions	(3,117)
	5,150
CHANGE IN NET ASSETS	11,476,654
NET ASSETS - BEGINNING OF YEAR (AS ORIGINALLY REPORTED)	11,067,531
PRIOR PERIOD ADJUSTMENTS (NOTE 25)	2,636,380
NET ASSETS - BEGINNING OF YEAR (AS RESTATED)	13,703,911
NET ASSETS - END OF YEAR	$ 25,180,565

The accompanying notes are an integral part of these financial statements.

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2013

UNRESTRICTED NET ASSETS - BEGINNING OF YEAR (AS ORIGINALLY REPORTED)	$	11,028,915
Prior period adjustments (Note 25)		2,636,380
UNRESTRICTED NET ASSETS - BEGINNING OF YEAR (AS RESTATED)		13,665,295
Change in unrestricted net assets		11,471,504
UNRESTRICTED NET ASSETS - END OF YEAR	$	25,136,799
TEMPORARILY RESTRICTED NET ASSETS - BEGINNING OF YEAR	$	38,616
Change in temporarily restricted net assets		5,150
TEMPORARILY RESTRICTED NET ASSETS - END OF YEAR	$	43,766

The accompanying notes are an integral part of these financial statements.

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Program Services							
	Waiver Services	Vocational Services	Residential	Mental Health	Other Programs	Total Program Services	Management and Administration	Total Expenses
Salaries	$ 16,650,410	$ 35,505	$ 19,723,650	$ 753,318	$ 3,833,367	$ 40,996,250	$ 2,667,069	$ 43,663,319
Payroll taxes and benefits	5,328,057	10,710	5,868,971	216,148	1,192,953	12,616,839	681,847	13,298,686
Total personnel costs	21,978,467	46,215	25,592,621	969,466	5,026,320	53,613,089	3,348,916	56,962,005
Professional fees and contracted services	818,551	1,501	1,530,130	85,494	2,901,416	5,337,092	521,131	5,858,223
General and professional liability insurance	421,039	29,601	293,475	53,563	36,967	834,645	291,504	1,126,249
Supplies and expenses:								
Food, household supplies and services	156,072	2,032	2,723,224	2,962	14,997	2,899,287	15,788	2,915,075
Rent and real estate taxes	3,242,515	286,551	2,687,492	161,580	422,695	6,800,833	688,312	7,489,145
Transportation	9,458,364	134,165	1,170,247	67,338	101,595	10,931,729	151,357	11,083,086
Utilities and telephone	863,040	63,413	952,161	90,296	242,954	2,211,864	193,581	2,405,445
Maintenance and repair	293,657	10,390	663,732	19,162	45,138	1,032,079	53,074	1,085,153
General	1,079,335	371,746	2,455,553	106,611	592,465	4,605,710	918,390	5,524,100
Total expenses before interest, fees, and bond expense, and depreciation and amortization	38,311,040	945,634	38,068,635	1,556,472	9,384,547	88,266,328	6,182,153	94,448,481
Interest, fees, and bond expense	723,971	38,503	1,729,286	-	14,940	2,506,700	34,035	2,540,735
Depreciation and amortization	833,882	91,249	1,074,320	24,112	55,425	2,078,968	39,659	2,118,627
TOTAL EXPENSES	$ 39,868,873	$ 1,075,386	$ 40,872,241	$ 1,580,584	$ 9,454,912	$ 92,851,996	$ 6,255,847	$ 99,107,843

The accompanying notes are an integral part of these financial statements.

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	11,476,654
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		2,118,627
Amortization of bond issue costs		181,022
Unrealized loss on investments		14,216
Bad debt recovery		(532)
Loss on disposal of assets		21,762
Changes in operating assets and liabilities:		
Accounts receivable		141,007
Note receivable		110,850
Debt service reserve fund due from New York State		22,744
Accrued income receivable		(2,771,871)
Due from related parties		8,240
Security deposits and prepaid expenses		44,518
Deferred charges		(319,390)
Accounts payable and accrued expenses		(550,656)
Accrued payroll		(463,668)
Accrued compensated absences		110,215
Recoupments payable and deferred income		1,939,459
Self funded insurance liability		154,084
Pension liability		(5,948,674)
Postretirement health insurance liability		(243,038)
NET CASH PROVIDED BY OPERATING ACTIVITIES		6,045,469
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash and cash equivalents restricted to debt service escrow		89,440
Cash and cash equivalents restricted - other		(257,721)
Purchases of investments		(1,864,146)
Proceeds from sales of investments		1,236,585
Purchases of property and equipment		(707,517)
NET CASH USED IN INVESTING ACTIVITIES		(1,503,359)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of mortgages payable - DASNY		(478,650)
Proceeds from bonds payable - DASNY		3,665,000
Repayments of bonds payable - DASNY		(585,000)
Payments on lines of credit		(1,914,085)
Repayments of bonds payable - IDA		(1,005,000)
NET CASH USED IN FINANCING ACTIVITIES		(317,735)
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,224,375
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR (AS RESTATED) (NOTE 25)		40,697,474
CASH AND CASH EQUIVALENTS - END OF YEAR	$	44,921,849
RECONCILIATION FOR UNRESTRICTED CASH & CASH EQUIVALENTS		
Cash and cash equivalents		19,860,055
Cash and cash equivalents designated for recoupments payable and deferred income		15,407,870
Cash and cash equivalents designated for self funded insurance		8,287,702
Cash and cash equivalents designated for health reimbursement accounts		2,366,222
CASH AND CASH EQUIVALENTS - END OF YEAR, UNRESTRICTED	$	44,921,849
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$	908,342

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION

Lifespire, Inc. and Subsidiary (collectively, the "Agency") serves individuals with disabilities and their families through various programs which include, but are not limited to, residential, rehabilitation, and day programs. The Agency is funded through government programs, consumer contributions, and gifts. It is the Agency's aim to provide individuals with disabilities the assistance and support necessary to achieve a level of functional behaviors and cognitive skills to enable them to maintain themselves in their community in the most integrated and independent manner possible. Lifespire Services, Inc. ("Parent") is the sole member of the Agency.

2. SIGNIFICANT ACCOUNTING POLICIES

Tax Status

The Agency, according to the Internal Revenue Service ("IRS"), was granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and under the corresponding provisions of the New York State and New York City income tax laws. Under these provisions, the Agency is exempt from federal and state income taxes and, therefore, has made no provision for income taxes in the accompanying consolidated financial statements.

The Agency follows the accounting standard for uncerteinty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the consolidated financial statements. It also provides guidance for de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Agency is subject to reguler audit by tax authorities. In assessing the realizability of tax benefits, management considers whether it is more likely than not that some portion or all of any tax position will not be realized. Management believes that its tax-exempt status would be sustained upon examination. Management believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

If applicable, the Agency would classify interest and penalties on underpayments of income tax as miscellaneous expenses.

The Agency files tax returns in the federal and New York State jurisdictions. With few exceptions, the Agency is no longer subject to federal or state income tax examinations by tax authorities for fiscal years before June 30, 2010.

Financial Statement Presentation

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

The classification of the Agency's net assets and its support, revenuos, and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – be displayed in the statement of financial position and that the amounts of change in each of those classes of net assets be displayed in the statement of activities.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

These classes are defined as follows:

Permanently Restricted - Net assets resulting from (a) contributions and other inflows of assets whose use by the Agency is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Agency, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Temporarily Restricted - Net assets resulting from contributions and other inflows of assets whose use by the Agency is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Agency pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Agency reports the support as unrestricted.

Unrestricted - The part of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Some of these net assets are undesignated but some are designated by the Board of Directors ("Board") as set forth below:

Residential Reserve for Replacement - There is an amount of $794,907 restricted as residential reserve for replacement. Such reserve was restricted by the New York State Office for People with Developmental Disabilities ("OPWDD") for the reimbursement of building renovations and improvements for Agency-owned residential properties. This reimbursement mechanism does not apply to residential properties that are leased.

The Agency has the ability to utilize the residential reserve funding for all of its certified residential sites within each class of residences. These funds are not interchangeable among program types.

Property and Equipment - There is a designated amount of $4,135,765 of unrestricted net assets which represents the excess of the net book value of property and equipment over the related debt.

Board Designated-Program Expansion - The Board has designated an amount of $1,047,973 of unrestricted net assets for future programmatic expansion. The monies, which are not segregated, are used to alleviate the ongoing financial pressures on the Agency due to the timing of collections of government funding, the limitations on available government funding, and the limited fund-raising activities undertaken by the Agency. The Agency has minimum monthly operating cash requirements of approximately $8,918,000 to finance its program operations.

Board Designated-Anticipated Pension Contributions - The board has designated an amount of $3,014,432 of unrestricted net assets for defined benefit pension plan contributions anticipated to make during the year ended June 30, 2014.

Board Designated-Self Funded Insurance - The board has designated an amount of $6,267,702 of unrestricted net assets for payments of current and future claims related to the Agency's self funded insurance plans.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation

The consolidated financial statements include the financial activity of Lifespire, Inc. ("Lifespire") and its wholly-owned subsidiary, Manhattan Manegement Solutions, LLC (the "Organization"). The Organization was established to provide consulting services to other not-for-profit organizations. Lifespire consolidates the Organization because it has both (i) an economic interest in, and (ii) control over the Organization through a majority voting interest in its governing board. The Organization had no activity for the year ended June 30, 2013. Any inter-entity transactions are eliminated in consolidation.

Use of Estimates

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

Subsequent Events

The Agency has evaluated events through December 12, 2013, which is the date the consolidated financial statements were available to be issued.

Cash and Cash Equivalents

The Agency considers all highly liquid investments with an original maturity date of three months or less at the time of purchase to be cash equivalents. Restricted cash and cash equivalents as of June 30, 2013 are described in Notes 3 and 5.

Investments

Investments are comprised of certificates of deposits with varying maturity dates and mutual funds. These investments are stated at fair value. Income from investments is considered unrestricted net assets unless restricted by a donor.

Accounts Receivable, Net

All known uncollected accounts receivable have been adjusted to net realizable value as of June 30, 2013. The allowance for doubtful accounts, which amounts to $6,595 at June 30, 2013, is established through provisions charged against income and is maintained at a level believed adequate by management to absorb estimated bad debts. Management generally uses 5% of total subcontract accounts receivable as the basis for the calculation of allowance for doubtful accounts based on historical experience and economical conditions.

Program Service Fees and Accrued Income Receivable

The Agency receives a major portion of its program service fees from Medicaid in conjunction with the OPWDD, the Social Security Administration ("SSA") and directly from the OPWDD. At June 30, 2013, substantially all of the accrued income receivable of $18,054,416 is due from these governmental agencies.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Agency recognizes revenue as services are provided. The amount is determined by the funding agencies either by a fee for service or a cost based fee. These fees are subject to review and revision by the funding agencies periodically. During the year ended June 30, 2013, the Agency recognized $1,423,511 in retroactive rate adjustments.

The current third-party-payor programs, including Medicaid and Medicare, are based upon complex laws and regulations. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. No such fines, penalties and exclusions were imposed on the Agency during the fiscal year ended June 30, 2013.

Property and Equipment

Property and equipment are stated at cost, or at fair market value if donated, less accumulated depreciation and amortization. Maintenance and repairs are charged to expense as incurred; major improvements are capitalized in accordance with funding source guidelines. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the lesser of the term of the lease or the estimated useful life of the asset. These amounts do not purport to represent replacement or realizable values. The Agency capitalizes individual items costing in excess of $5,000.

Impairment

The Agency reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the Agency recognizes an impairment loss. No impairment losses were recognized for the year ended June 30, 2013.

In-Kind Contributions

In-kind contributions consist of property and services donated by state agencies and individuals which are measured at fair value at the date of donation. There were no in-kind contributions received by the Agency during the year ended June 30, 2013.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled $70,894 for the year ended June 30, 2013, and is included in general expenses in the accompanying consolidated statement of functional expenses.

Deferred Rent

The Agency leases program and office space whereby the various landlords provide periods of scheduled increases in the minimum amounts charged. Rent expense related to the minimum rentals is recognized on a straight-line basis over the term of the respective leases. The accompanying consolidated statement of financial position reflects a liability of $3,059,756 at June 30, 2013 relating to deferred rent. The change in this liability is reflected as a charge to rent and real estate taxes in the accompanying consolidated statement of functional expenses.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Charges

Deferred charges comprise the following:

Bond Costs - Bond issuance costs, which also reflect bond premiums and discounts, are amortized over the life of the respective bond issue. Bond costs amounted to $1,404,429 at June 30, 2013, which is net of accumulated amortization. Amortization expense of these costs for the year ended June 30, 2013 was $161,022. Such amortization is included in interest, fees and bond expense of $2,540,735 shown in the accompanying consolidated statement of functional expenses.

Deferred Rent Recovery - OPWDD includes in the reimbursement rate paid to service providers a component for rents paid in accordance with lease terms. The Agency recognizes such amounts, however, based upon the future stream of payments for rent that is required to be recognized under U.S. GAAP that is in excess of the rents incurred over their respective lease terms. The difference between the revenue recognized and the rents incurred over their lease terms (which is the reimbursement from OPWDD) is reflected as a deferred charge on the consolidated statement of financial position. This deferred charge represents a timing difference which will accumulate over the earlier periods of the rent expense recognition for a respective lease and will reverse during the latter periods of the rent payments. The deferred charge amounted to $3,059,756 at June 30, 2013. For the year ended June 30, 2013, the addition to deferred rent recovery amounted to $155,277 and is reflected as miscellaneous revenue in the accompanying consolidated statement of activities.

Self Funded Health and Workers' Compensation Insurance

The Agency is self funded for health and workers' compensation insurance on all employees. The Agency records a liability for claims that have been incurred but not paid for employees covered by the self funded plans. The Agency recorded a liability for claims incurred but not paid of $2,049,823 at June 30, 2013.

Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications based upon benefits received.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The accounting standard establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs to be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Agency. Unobservable inputs reflect the Agency's assumption about inputs that market participants would use at the measurement date. The fair value hierarchy is categorized into three levels based on inputs as follows:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Level 1 - Valuation based on quoted prices in active markets for identical assets or liabilities that the Agency has the ability to access.

Level 2 - Valuation based on quoted prices for similar assets or liabilities in active markets; for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Valuation based on inputs that are unobservable and significant to the overall fair value measurement.

Level 3 assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in the standard. The three valuation techniques are as follows:

- Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset (i.e. current replacement cost); and
- Income approach - Uses valuation techniques to convert future amounts to a single present discounted amount based on market expectations about those future amounts (including present value techniques, option-pricing models, and lattice models).

New Accounting Pronouncements

In April 2013, the FASB issued an accounting standard update which requires not-for-profit entities to apply similar recognition and measurement bases for services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the recipient not-for-profit entity is not charged by the affiliate. The update requires that those services be measured at the cost recognized by the affiliate for the personnel providing those services unless such measurement would significantly overstate or understate the value of the service received, in which case the recipient non-for-profit entity may elect to recognize such services at the fair value of the service. The update is effective prospectively for fiscal years beginning after June 15, 2014, and interim periods thereafter, with early adoption permitted. The Agency is currently evaluating the effect the update will have on its financial statements.

Recoupments payable and deferred income

The Agency entered into contracts with OPWDD for the operation of its facilities. Typically, there are over or under payments on these contracts, resulting from rates of reimbursements being in excess of amounts earned, which are generally reconciled with OPWDD. However, the reconciliation process has not been completed for some contracts in the prior years. Once these reconciliations are completed or an OPWDD program audit is initiated, a timeline and/or methodology will be established as to how and when these amounts will be recouped. It is the policy of the Agency to hold all overpayments as well as qualifying contractual expenses as a recoupment payable pursuant to these contracts until an audit has occurred, and a reconciliation or recoupment process is initiated by the appropriate Agency.

As of June 30, 2013, the Agency has a recoupment payable and deferred income balance of $16,407,870. These amounts are expected to be recouped in the future through designated reductions of remittance payments or by demanding payment of full amount.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The recoupment payable is related to transactions incurred as follows:

June 30,	
2013	$ 5,043,870
2012	2,246,190
2011	87,199
2010	350,704
2009 and prior	8,679,907
	$ 16,407,870

3. CASH AND CASH EQUIVALENTS RESTRICTED - OTHER

Cash and cash equivalents restricted – other at June 30, 2013 comprised of the following:

June 30, 2013	Restricted Cash Amount
Temporarily restricted contributions	$ 43,766
403(b) tax sheltered annuity plan	73,042
Residential Reserve for Replacement	794,907
	$ 911,715

4. CASH AND CASH EQUIVALENTS DESIGNATED FOR RECOUPMENTS PAYABLE AND DEFERRED INCOME

The Agency designated cash and cash equivalents of $16,407,870 to settle amounts included within recoupments payable and deferred income (Note 2).

5. CASH AND CASH EQUIVALENTS RESTRICTED TO DEBT SERVICE ESCROW

The cash and cash equivalents related to debt service escrow of $3,983,600 is comprised of the following:

Debt Service Escrow:	
IDA – Bond 2002	$ 888,130
IDA – Bond 2004	1,138,852
IDA – Bond 2008	699,922
DASNY – Bond 2010	817,353
DASNY – Bond 2011	247,822
DASNY – Bond 2013	191,521
	$ 3,983,600

The Debt Service Escrow – IDA – regarding the Industrial Development Agency ("IDA") Bonds 2002, 2004 and 2008 represents a portion of the loan proceeds, in addition to subsequent payments made

5. CASH AND CASH EQUIVALENTS RESTRICTED TO DEBT SERVICE ESCROW (CONTINUED)

by the Agency, that were deposited into accounts set up with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required to be made pursuant to the bond agreements (Note 14).

The Debt Service Escrow – DASNY - regarding the Dormitory Authority State of New York ("DASNY") Bonds 2010, 2011, and 2013 represent a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts set up with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required to be made pursuant to the bond agreement (Note 13).

The amounts from the above earn interest and such interest is applied against the Agency's current year's bond principal pay down obligations. All remaining funds are applied against the last year's principal pay down of the applicable bond issue.

6. DEBT SERVICE RESERVE FUND DUE FROM NEW YORK STATE

The debt service reserve fund due from New York State of $318,841 represents a portion of the loan proceeds retained by New York State under the terms and conditions set forth in the mortgage agreements for the properties listed in Note 11.

The monies are designated to be applied to scheduled debt service payments in the future by OPWDD.

7. INVESTMENTS

As of June 30, 2013, total investments are comprised of bank certificates of deposit and mutual funds stated at $3,781,476. Investment activity for the year consisted of the following:

Bank of America	$ 2,160,087	$ 2,160,087
Morgan Stanley	1,215,089	1,230,133
Chase	405,329	391,256
Total	$ 3,780,505	$ 3,781,476

Activity in investments is as follows for the year ended June 30, 2013:

Investments - beginning of year	$ 3,168,131
Investment activity:	
Purchases	1,815,365
Investment returns (reinvested)	48,781
Sales and redemptions (at cost)	(1,230,365)
Withdrawals for operations	(6,220)
	627,561
Net depreciation in fair value of investments: unrealized loss	(14,216)
Investments - end of year	$ 3,781,476

All of the investments are classified as level 1, as discussed in Note 2.

8. NOTE RECEIVABLE

The note receivable balance of $246,650 represents an amount owed from the Inter Agency Council of Mental Retardation and Developmental Disabilities, Inc. ("IAC"). Such note bears interest at a rate of 3.0% per annum, is unsecured, and requires the outstanding balance to be paid back in one or more installments on or before June 30, 2014, at the option of IAC.

9. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties comprise the following:

Due from Related Parties

Due from related parties of $961,425 on the accompanying consolidated statement of financial position represents amounts owed from two not-for-profit entities as follows:

An amount of $153,403 is due from the Agency's Housing and Urban Development ("HUD") related party ("affiliate"). Certain staff members of the Agency are also members of the Board of this not-for-profit HUD organization. This amount includes an unsecured note receivable of $140,203 due from the affiliate dating back a number of years. The Agency is not permitted to charge interest to the affiliate pursuant to HUD rules. The Agency expects to be repaid for this amount when the affiliate has sufficient cash flow available. There is also an amount of $13,200 representing management fee payable due from the affiliate, which was paid subsequent to the year ended June 30, 2013.

An amount of $808,022 is due from the Parent. This amount includes three outstanding notes with the Parent, plus accrued interest thereon, comprised as follows:

- An unsecured note receivable, executed on April 30, 2010 in the amount of $689,901, for funds that was previously loaned to the Parent by the Agency. The Parent is obligated to pay the outstanding indebtedness in twenty-five equal annual installments of $27,596 on or before April 30th of each year. The outstanding balance on this note, which is non-interest bearing, amounted to $579,517 at June 30, 2013.
- An interest only unsecured note receivable in the amount of $55,500 due from the Parent. This note accrues interest at a rate of 6% per annum. The note will be repaid when the Parent has sufficient cash flow to make such payments.
- On June 16, 2011, a $300,000 unsecured note was executed with the Parent, accruing interest at a rate of 6% per annum. The outstanding balance on this note amounts to $125,000 at June 30, 2013. The note will be repaid when the Parent has sufficient cash flow to make such payments.
- Total unpaid accrued interest receivable due from the Parent amounted to $48,005 as of June 30, 2013 relating to the above. Related party interest income amounted to $21,375 for the year ended June 30, 2013.

Board members of the Parent are also Board members of the Agency.

Other Related Party Transactions

The Agency purchases supplies and services from ACRMD Community Mental Retardation Services Company, Inc. ("Community"), which is related because certain Agency employees are board members of Community. The Agency also receives payment from Community for the outsourced labor provided to assist with the processing and packaging of the inventory items which Community sells to the Agency as well as to

9. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

other non-related entities. During the year ended June 30, 2013, purchases of supplies and services from Community totaled $619,779 and fees from Community for the provision of labor provided by the Agency totaled $135,085. At June 30, 2013, $47,979 was due to Community, which is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position. Additionally, at June 30, 2013, approximately $13,000 was owed to the Agency for outstanding fees, which is included in accounts receivable, net in the accompanying consolidated statement of financial position. In addition, the Agency also received approximately $30,000 from Community for reimbursement of its portion of fringe benefits and insurance costs paid on behalf of three of the Agency's employees who provide services to the not-for-profit related party. No reimbursable costs were outstanding as of June 30, 2013.

The Agency purchases document storage, messenger, landscaping, and maintenance services from ACRMD Enterprises LLC ("Enterprise"), a wholly-owned subsidiary of Community. During the year ended June 30, 2013, purchases of these services from Enterprise totaled $126,534. At June 30, 2013, $23,730 was due to Enterprise, which is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position.

Management periodically reviews the related party accounts and notes receivable amounts to determine if an allowance is necessary. The related party receivables have been adjusted for all known uncollectible accounts. At June 30, 2013, no allowance was necessary because the related party receivables were determined to be fully collectible.

10. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

June 30, 2013	Cost	Estimated Useful Lives
Land	$ 4,549,267	
Construction in progress	48,034	
Buildings and improvements	26,582,525	5-20 years
Furniture and equipment	3,217,232	5 years
Vehicles	325,926	4 years
Leasehold improvements	7,934,562	Life of lease
	42,657,546	
Less: accumulated depreciation and amortization	(24,789,011)	
	$ 17,868,535	

The above amounts include land and buildings which were donated to the Agency by the OPWDD. The Agency is subject to adherence of certain terms, conditions, and restrictions as to the use and ultimate disposition of these properties as further delineated in the disposition and subordination agreements entered into with the funding source.

Depreciation and amortization expense was $2,118,627 for the year ended June 30, 2013.

11. MORTGAGES PAYABLE - DASNY

Mortgages payable – DASNY represents self-liquidating term-notes owed to DASNY, which has as its agent, the OPWDD.

As part of its program service fees, OPWDD makes direct payments to DASNY to satisfy certain debt service and administration fees. The payments are first applied to interest and then to principal. The Agency will receive additional amounts of reimbursement as an increase to its per diem rates to repay these recoupments. The mortgage notes are collateralized by (i) the real property located at each of the sites (ii) all accounts receivable generated from billings related to the respective locations, and (iii) all personal property owned by the Agency located at each of the sites. The Agency is entitled to credits in an amount equal to the past accrued interest earned on the debt service reserve fund due from New York State for some of the above-mentioned liabilities. When such credits are determined and applied to the corresponding mortgages, then those mortgage liabilities will be reduced accordingly.

Additional information for the mortgages payable - DASNY is reflected below.

Property	Maturity Date	Interest Rate	Outstanding at June 30, 2013
South Avenue	8/15/2015	7.68%	$ 71,991
213-233 48th Street (Sunset I)	2/15/2018	7.34%	483,085
87-21 121st Street (Queens)	2/15/2018	6.41%	1,250,250
Jumel	8/15/2018	6.41%	491,632
Total Mortgages Payable - DASNY			$ 2,296,958

The mortgage balances for the 213-233 48th Street and 87-21 121st Street locations are for the Day Treatment and Day Habilitation Programs, respectively. Since the year ended June 30, 2004, OPWDD allocates a portion of the bond (mortgage) payable to a separate Day Habilitation Medicaid Management Information System ("MMIS") Provider number for debt recovery purposes. However, the total indebtedness does not change.

During the year ended June 30, 2013, one site that was mortgaged was paid in full under normal amortization terms.

Under the terms of the mortgages payable – DASNY, the Agency is required to fulfill certain financial covenants.

12. LINES OF CREDIT

Under the terms of a line of credit agreement with Bank of America entered into on March 31, 2013, the Agency may borrow up to $5,000,000 at the bank's prime interest rate plus 0.5% (3.25% at June 30, 2013) through March 31, 2014, when the agreement expires. The Agency's property and leasehold improvements not otherwise encumbered have been pledged as collateral against any advances on the line of credit. There was no balance outstanding on this line of credit as of June 30, 2013. The Agency is required to fulfill certain financial covenants.

The Agency has a line of credit agreement with J.P. Morgan Chase for a maximum amount of $5,000,000 which expires on March 13, 2014. The proceeds of the line of credit are to be used for operating expenses. Interest is charged at the bank's floating rate of prime plus 0.5% (3.25% at June 30, 2013) and is secured by a lien on the Agency's government receivables not otherwise encumbered. The government receivables totaled

12. LINES OF CREDIT (CONTINUED)

$18,054,416 at June 30, 2013 and are reflected in the accompanying financial statements as accrued income receivable. There was no outstanding balance on the line of credit as of June 30, 2013.

13. BONDS PAYABLE - DASNY

Bonds payable – DASNY includes the following at June 30, 2013:

Series	Due Date	Interest Rates	Principal Due
2010 A-1 and A-2	July 2028	2.10% to 5.00%	$ 5,185,000
2011 A-1 and A-2	July 2026	1.40% to 4.00%	1,810,000
2013 A-1 and A-2	July 2038	2.00% to 4.00%	3,665,000
Total Bonds Payable-DASNY			$ 10,660,000

2010 A-1 and A-2

In March 2010, a bond payable – DASNY was issued in the amount of $6,125,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2010A, subseries 2010A-1, and 2010A-2 (the "2010 Bonds"). The Agency used the proceeds from the 2010 Bonds to pay down $5,485,795 of indebtedness on seven properties.

The interest is payable to the bondholders on a semi-annual basis commencing on August 1, 2010. The principal is payable to the bondholder on an annual basis commencing on August 1, 2011. The cost of the bond issuance amounted to $318,265 of which $77,194 was amortized as of June 30, 2013. The cost of bond discounts amounted to $78,515, of which $19,245 was amortized as of June 30, 2013.

The Agency is required to make deposits for interest and principal under the 2010 Bond loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2013	$ 475,000
2014	495,000
2015	410,000
2016	415,000
2017	415,000
Thereafter	2,975,000
	$ 5,185,000

13. BONDS PAYABLE – DASNY (CONTINUED)

The 2010 Bonds are secured ratably by each applicable mortgage on the properties and the DASNY's security interest in the pledged program service fees revenues subject to prior pledges.

Under the terms of the bonds payable – DASNY, the Agency is required to fulfill certain financial covenants.

2011 A-1 and A-2

On August 17, 2011, a bond payable – DASNY was issued in the amount of $1,925,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2011A, subseries 2011A-1, and subseries 2011 A-2 (the "2011 Bonds"). The Agency used the proceeds from the 2011 Bonds to pay down $1,182,262 of indebtedness on two properties.

The interest rate is not to exceed 4.125% on the Series 2011 Bonds. The interest is payable to the bondholders on an annual basis commencing on July 1, 2012. The cost of the bond issuance amounted to $162,053 of which $19,184 was amortized as of June 30, 2013. The cost of the bond discounts amounted to $12,469 of which $1,541 was amortized during the year ending June 30, 2013.

The Agency is required to make deposits for interest and principal under the loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2013	$ 120,000
2014	125,000
2015	125,000
2016	125,000
2017	130,000
Thereafter	1,185,000
	$ 1,810,000

The 2011 Bonds are secured by each mortgage on the properties and a lien on the furnishings and equipment located at each mortgaged property.

Under the terms of the bond payable – DASNY, the Agency is required to fulfill certain financial covenants.

2013 A-1 and A-2

On March 13, 2013, a bond payable – DASNY was issued in the amount of $3,665,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2013A, subseries 2013A-1, and subseries 2013 A-2 (the "2013 Bonds").

13. BONDS PAYABLE – DASNY (CONTINUED)

The interest is payable to the bondholders on an annual basis commencing on July 1, 2013. The cost of the bond issuance amounted to $289,789 of which $1,304 was amortized as of June 30, 2013. The cost of the bond discounts amounted to $33,679 of which $119 was amortized during the year ending June 30, 2013.

The Agency is required to make deposits for interest and principal under the loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2013	$ 15,000
2014	160,000
2015	160,000
2016	165,000
2017	165,000
Thereafter	3,000,000
	$ 3,665,000

The 2013 Bonds are secured by each mortgage on the properties and a lien on the furnishings and equipment located at each mortgaged property.

Under the terms of the bond payable – DASNY, the Agency is required to fulfill certain financial covenants.

14. BONDS PAYABLE - IDA

Bonds payable – IDA includes the following at June 30, 2013 :

Series	Due Date	Interest Rates	Principal Due
2002 C-1	July 1, 2017	5.50% to 6.50%	$ 1,660,000
2004 A-1 and B-1	July 1, 2023	3.05% to 5.05%	2,525,000
2004 C-1	July 1, 2014	5.25%	250,000
2008 A-1 and A-2	July 1, 2033	5.70% to 6.20%	2,580,000
Total Bonds Payable- IDA			$ 7,015,000

Bonds Payable - IDA-2002

The Bonds payable – IDA – 2002 represents amounts owed relating to the New York City Industrial Development Agency ("IDA") Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2002 C-1.

14. BONDS PAYABLE – IDA (CONTINUED)

The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2003. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2003. The cost of the bond issuance amounted to $395,027 of which $246,533 was amortized as of June 30, 2013.

Deposits for interest and principal payments for the bond holders under the loan agreement are to be made monthly and deposited into the applicable debt service escrow accounts by the Agency until it comes due to pay the bondholders (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2013	$ 280,000
2014	280,000
2015	280,000
2016	280,000
2017	540,000
	$ 1,660,000

Bonds Payable - IDA-2004

Bonds Payable – IDA – 2004 at June 30, 2013 represents amounts owed relating to IDA Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program) Series 2004 A-1 and B-1, and Series 2004 C-1.

Series 2004 A-1 and B-1 Bonds - The Agency used the Series A-1 and B-1 bond proceeds to pay down $4,112,273 of indebtedness on four properties in a prior year. The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2004. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2004.

The cost of the bond issuance amounted to $696,558 of which $356,924 was amortized as of June 30, 2013.

Deposits for interest and principal payments for the bondholders under the loan agreement are to be made monthly and deposited into the applicable debt service escrow accounts by the Agency until it comes due to pay the bondholders (Note 5).

14. BONDS PAYABLE – IDA (CONTINUED)

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2013	$ 215,000
2014	220,000
2015	220,000
2016	220,000
2017	220,000
Thereafter	1,430,000
	$ 2,525,000

Series 2004 C-1 Bonds - The Agency used the Series C-1 bond proceeds to pay down $805,621 of indebtedness on one property and to pay off a balance due on one line of credit in a prior year. The interest is payable to the bondholders on a semi-annual basis commencing on January 1, 2005. The principal is payable to the bondholders on an annual basis commencing on July 1, 2005. The cost of the bond issuance amounted to $50,095, of which $42,517 was amortized as of June 30, 2013. The cost of bond discounts amounted to $41,281, of which $37,669 was amortized as of June 30, 2013.

Deposits for interest and principal payments for the bondholders under the loan agreement are to be made monthly and deposited into the applicable debt service escrow accounts by the Agency until it comes due to pay the bondholders (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2013	$ 120,000
2014	130,000
	$ 250,000

Bonds Payable - IDA-2008

Bonds payable – IDA – 2008 represents amounts owed to IDA Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2008 A. These bonds are segregated into Series 2008 A-1 and Series 2008 A-2 (taxable).

The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2008. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2008. The cost of the bond issuance amounted to $265,634, of which $131,711 was amortized as of June 30, 2013.

The bond agreement has a first lien on the properties being mortgaged except for the facility located at 213 48th Street, Brooklyn, which is a second lien.

14. BONDS PAYABLE – IDA (CONTINUED)

Deposits for interest and principal payments for the bondholders under the loan agreement are to be made monthly and deposited into the applicable debt service escrow accounts by the Agency until it comes due to pay the bondholders (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2013	$ 260,000
2014	170,000
2015	170,000
2016	175,000
2017	175,000
Thereafter	1,630,000
	$ 2,580,000

Bonds Payable – IDA – General Terms

The Agency anticipates that, periodically, OPWDD will adjust the certain program service fees to provide the Agency with the sufficient amounts to repay the debt principal, related interest, and fees. The Series 2002 C-1, 2004 A-1, B-1, and C-1, as well as Series 2008 A-1 and A-2 bonds will be secured ratably by the IDA's security interest in certain pledged revenues as well as the amounts held in cash and cash equivalents restricted to debt service escrow (Note 5).

The underlying properties secure the respective Bonds with first liens except where otherwise noted.

15. MATURITIES OF DEBT TO THIRD PARTIES

The short-term and long-term third-party debt is comprised of the following:

June 30, 2013	
Mortgages payable – DASNY	$ 2,296,958
Bonds payable – DASNY	10,660,000
Bonds payable – IDA	7,015,000
	$ 19,971,958

16. MATURITIES OF DEBT TO THIRD PARTIES (CONTINUED)

Approximate maturities of short-term and long-term third-party debt are as follows:

June 30,	
2014	$ 1,947,525
2015	2,075,091
2016	1,852,075
2017	1,884,125
2018	1,541,142
Thereafter	10,672,000
	$ 19,971,958

The above maturities are not reduced by the funds held in the various debt service escrow accounts (Note 5) for interest earned currently and the last year of a particular bond's obligation are utilized to reduce the Agency's payments thereon.

17. SELF FUNDED INSURANCE

All Agency employees have an option to participate in the Agency's self-funded, comprehensive medical care benefits program. The cost of medical care is paid out of employee and employer contributions and is held in a separate reserve bank account. The Agency has contracted with Aetna, Inc., a third-party administrator, to provide administrative services for this health care benefits program. The health care benefits program has stop loss coverage of $150,000 per person and a total of one hundred fifty percent of claims estimated at the beginning of the policy year. As of June 30, 2013, cash designated for this program totaled $5,512,793 and the estimated liability for outstanding claims at June 30, 2013 totaled $901,599.

All Agency employees are covered by a self-funded worker's compensation benefits program administered by Hartford. The workers' compensation benefits program has a stop loss policy of $250,000 per incident, up to $1,300,000 for the current policy year. The workers' compensation claims are paid out of employer contributions and is held in a separate reserve bank account. As of June 30, 2013, cash designated for this program totaled $754,909 and the estimated liability for outstanding claims at June 30, 2013 totaled $1,148,224.

The Agency is partially self-insured for its workers' compensation commitments. Accordingly, the Agency has provided approximately $1,363,380 in Letters of Credit for performance guarantees, which are secured by certificates of deposits in investments on the accompanying consolidated statement of financial position.

18. DEFINED BENEFIT PENSION PLAN

The Agency has a defined benefit pension plan (the "Plan") covering all of its eligible employees. The benefits are based on years of service and the employee's highest five years of compensation during the last ten years of employment. The Agency's funding policy is to contribute annually the required amount that should be deducted in accordance with federal income tax guidelines. The Agency's contributions for calendar year 2012 met the minimum funding requirements of ERISA.

The Agency, as the sponsor of the Plan, froze the Plan effective December 31, 2010. Although the Plan remains frozen, the Agency has the ability to unfreeze the Plan in the future, subject to certain conditions.

18. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The Agency is required to contribute approximately $1,260,000 to its defined benefit plan for the year ended June 30, 2014.

The benefits paid amounted to $716,326 during the fiscal year ended June 30, 2013.

Under U.S. GAAP, a liability is disclosed at fiscal year-end. The pension liability is an aggregation of the excess of total benefit obligation over fair value of plan assets at the end of the year. There is a cumulative amount totaling $6,052,089 of pension liability as of June 30, 2013.

The changes in the defined benefit pension obligations, plan assets and funded status for the year ended June 30 were as follows:

	Pension Benefits 2013
Reconciliation of benefit obligation:	
Benefit obligation, beginning of year	$ 36,073,121
Service cost	-
Interest cost	1,535,441
Actuarial gain	(3,806,829)
Benefits paid	(716,326)
Benefit obligation, end of year	$ 33,085,407
Reconciliation of fair value of plan assets:	
Fair value of plan assets, beginning of year	$ 24,072,358
Actual return on plan assets	2,413,065
Employer contributions	1,264,221
Benefits paid	(716,326)
Fair value of plan assets, end of year	$ 27,033,318
Funded status, end of year	$ (6,052,089)
Amounts recognized in the consolidated statement of financial position:	
Prepaid pension costs	$ 2,835,134
Accumulated change in unrestricted net assets	(8,887,223)
Funded status, end of year	$ (6,052,089)

16. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Assumptions

Without the exception of the discount rate, the Agency's independent enrolled actuary certified the following significant weighted-average assumptions in order to determine benefit obligations net periodic pension cost as of June 30, 2013:

Discount rate	5.00%
Expected long-term rate of return on plan assets	7.00%
Rate of compensation increase	0.00%

The discount rate was increased from 4.30% to 5.00%, which decreased the projected benefit obligation by approximately $3,617,000.

Net periodic pension cost and other amounts recognized in the statement of activities for the year ended June 30, 2013 included the following components:

Sevice cost	$	-
Interest cost		1,535,441
Expected return on plan assets		(1,930,575)
Amortization of net loss		856,858
Net periodic pension cost	$	461,724

Investment Strategies

With respect to the Plan assets, investments are to be made consistent with the safeguards and diversity to which a prudent investor would adhere to. Following is a description of the investment guidelines used for the Plan's investment funds:

Equities - General assurances by the Plan's Investment Advisor includes criteria that no more than 2% of the equity position of the entire Plan assets portfolio at cost, and 3% at market value, shall be invested in any one company, and no more than 50% of any individual Money Manager's portfolio at cost, and 60% at market value shall be invested in any one company. Investment possibilities includes 1) common stock listed on any U.S. exchange or the over-the-counter market with the requirement that such stock have, in the reasonable opinion of each of the Money Managers, adequate market liquidity relative to the size of the investment, 2) foreign ordinary securities, 3) International investments managed by an International/Global Money Manager which adhere to specific criteria, including a limitation that no more than 20% of the value of the managed international portfolio's total assets, measured at time of purchase may be invested in securities of companies in emerging securities markets throughout the world, and 4) exchange traded funds (not subject to the diversification guidelines above. Furthermore, there are several categories of securities and types of transactions that are not permissible for investments and should not be part of the portfolio, including short sales, put and call options, margin purchases, private placements, commodities, securities of the Investment Advisor or any of the Money Managers, their direct

18. DEFINED BENEFIT PENSION PLAN (CONTINUED)

parent or their subsidiaries, penny stocks, and derivatives. In addition, the Agency may identify additional securities to be restricted.

Fixed Income - Diversification of the fund includes assurances that no more than 5% of the Plan's portfolio should be invested in bonds of any one issuer, and there shall be no limit on direct obligations of the U.S. government. The Plan should not invest in any fixed-income security carrying a rating less than BBB/Baa by either Standard & Poor or Moody's. If issues are downgraded so as to violate these guidelines, the Plan's Trustee should judiciously liquidate them. Issues within a quality high yield mutual fund are exempt from this provision. With regards to maturity, the market value weighted average maturity of the bond portfolio should not exceed 15 years, and no holding may have an absolute maturity of more than 30 years at the time of purchase. Generally, fixed income investments includes debt securities guaranteed by the U.S. government, corporate bonds, high quality and high yield mutual funds, international bond mutual funds, indexed notes, Yankee bonds, and preferred stock issues.

Corporate Bonds - Valued at the closing price reported in the active market in which the bond is traded.

Equities - Valued at the closing price reported on the major stock exchanges.

Money Funds - Prices are received from various pricing services. For instances where pricing sources are not readily available, estimated prices may be generated by a matrix system or a market-driven pricing model.

Governmental Securities - Valued at the closing price reported in active market in which the individual security is traded.

Mutual Funds - Valued using market value as listed in active exchange markets.

Municipal Bonds - Valued at the closing price reported in active market in which the individual security is traded.

International Bonds - Valued at the closing price reported in active market in which the individual security is traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan 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.

18. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The pension plan asset allocations, along with respective dollar values and fair value measurements, at June 30, 2013, by asset category are as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Funds	$ 2,673,410	$ -	$ 2,673,410	$ -
Equities:				
Basic Materials	239,586	239,586	-	-
Consumer Goods	291,351	291,351	-	-
Financials	1,588,542	1,588,542	-	-
Healthcare	534,679	534,679	-	-
Industrial Goods	433,558	433,558	-	-
Oil & Gas	480,069	480,069	-	-
Services	718,995	718,995	-	-
Technology	866,858	866,858	-	-
Telecommunications	15,092	15,092	-	-
Government Securities	1,425,248	1,425,248	-	-
Municipal Bonds	289,699	289,699	-	-
International Bonds	786,823	786,823	-	-
Corporate Bonds	5,969,577	5,969,577	-	-
Mutual Funds:				
Mid Cap Growth	734,422	734,422	-	-
Mid Cap Value	775,971	775,971	-	-
Small Cap Growth	133,812	133,812	-	-
Small Cap Value	300,650	300,650	-	-
Large Cap Foreign	1,973,985	1,973,985	-	-
Large Cap Growth	3,958,366	3,958,366	-	-
Large Cap Value	251,370	251,370	-	-
Emerging Markets	1,807,847	1,807,847	-	-
REITs	783,408	783,408	-	-
	$ 27,033,318	$ 24,359,908	$ 2,673,410	$ -

Transfer Between Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The plan administrators evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits. For the year ended June 30, 2013, there were no significant transfers in or out of levels 1, 2 or 3.

18. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Expected Future Benefit Payments

Benefit payments for defined benefit pension plans, which reflect expected future service, as appropriate, are expected to be paid as follows:

June 30,	Pension benefits expected to be paid
2014	$ 1,157,962
2015	909,830
2016	1,015,713
2017	1,131,434
2018	1,235,808
2019-2023	7,902,281
	$ 13,353,028

19. POSTRETIREMENT HEALTH CARE BENEFIT PLAN

The Agency sponsors a defined benefit postretirement health care benefit plan.

Plan Provisions

Retired Prior to January 1, 2000

For certain long-service employees, the plan will pay the monthly premium for the participant (and eligible spouse) to continue coverage under the pre-2000 postretirement plan.

Retired January 1, 2001 and Later

For employees who retire on or after age 65 with at least 20 years of service, the Agency will enroll the retiree and eligible spouse in an AARP Medicare Supplement plan and contribute the following towards such coverage (for each retiree and eligible spouse):

– 20 years of service	Plan E	–$130.25 per month
– 25 years of service	Plan G	–$152.25 per month
– 30 years of service	Plan I	–$259.00 per month

For employees who retire between ages 62 and 65, with the requisite years of service, the Agency will contribute, as per the above schedule, towards coverage under the current active employee's plan, until Medicare eligibility. At that time, the retiree will be treated in the same fashion as a post-65 retiree.

If an eligible spouse is not Medicare eligible, the Agency will contribute towards coverage under the current active employees' plan in an amount based on the retiree's service as described above.

19. POSTRETIREMENT HEALTH CARE BENEFIT PLAN (CONTINUED)

Determination of the Net Periodic Benefit Cost for the Fiscal Year

Net periodic benefit cost and other amounts recognized in unrestricted net assets for the year ended June 30, 2013 included the following components:

Service cost		$ 315,992
Interest cost		249,921
Amortization:		
(a) Transition obligation	-	
(b) Prior service cost	63,914	
(c) (Gain)/loss	26,095	
Net Amortization		90,009
Net periodic benefit cost		$ 655,922

Reconciliation of Funded Status for the Fiscal Year Ended June 30, 2013

Accumulated postretirement benefit liability at June 30, 2013	$	(5,595,566)
Net liability recognized at June 30, 2013	$	(5,595,566)

Net Amount Recognized in Consolidated Statement of Financial Position

Beginning of year	$	(5,838,604)
Service cost		(315,992)
Interest cost		(249,921)
Expected return on plan assets		-
Employer contributions		51,285
Net gain/(loss)		757,666
Prior service credit/(cost)		-
End of year	$	(5,595,566)

19. POSTRETIREMENT HEALTH CARE BENEFIT PLAN (CONTINUED)

Assumptions

Mortality:	RP 2000 Separate Annuitants and Non-Annuitants Mortality Table projected to 2013 for males and females
Claim cost:	Monthly premium
Trend:	4.70% - 8.90% – based on the year of retirement
Funding method:	Projected Unit Credit Actuarial Cost Method

a) The discount rate was changed from 4.30% to 5.00% which decreased the accumulated postretirement benefit liability by approximately $782,000.

b) Based upon the plan provisions, the Affordable Care Act will have an immaterial effect on the accumulated postretirement benefit obligation and the net periodic benefit cost of the Agency's postretirement health care benefit plan.

	Postretirement Benefits	
	Accumulated Postretirement Benefit Liability	Service Cost Plus Interest Cost
At trend	$ 5,595,569	$ 565,913
At trend + 1%	5,653,284	568,401
Dollar impact	57,715	2,488
Percentage Impact	1.03%	0.44%
At trend – 1%	5,546,147	563,800
Dollar impact	(49,422)	(2,113)
Percentage impact	-0.88%	-0.37%

19. POSTRETIREMENT HEALTH CARE BENEFIT PLAN (CONTINUED)

Expected Future Benefit Payments

Benefit payments for postretirement health care benefit plans, which reflect expected future service, as appropriate, are expected to be paid as follows:

Fiscal Year Ending June 30,	Postretirement Benefits
2013	$ 66,446
2014	78,985
2015	95,470
2016	110,726
2017	131,283
2018-2022	1,042,162
	$ 1,525,072

20. TEMPORARILY RESTRICTED NET ASSETS

The changes in contributions, which comprise the Agency's temporarily restricted net assets for the year ended June 30, 2013, which are available for use in future years, were as follows:

	Balance at 6/30/12	Additions	Expenditures	Balance at 6/30/13
Program	$ 38,616	8,267	(3,117)	$ 43,766

The funds released from restrictions were used towards other expenses for some of the Agency's programs.

21. COMMITMENTS AND CONTINGENCIES

General

Pursuant to the Agency's contractual relationships with certain funding sources, outside agencies have the right to examine the Agency's books and records which pertain to transactions relating to these contracts. The accompanying consolidated financial statements do not include a provision for possible disallowances and reimbursements. Management believes that any actual disallowances, if any, would be immaterial. In addition, certain agreements provide that certain property and equipment owned by or on loan to the Agency (Note 10) be utilized by the Agency for its continued ownership, since the costs of such property and equipment were funded under these agreements ("Reversing Assets").

There are certain amounts of real and personal property used by the Agency in its program operations which is owned by New York State and/or other governmental sources. The Agency uses some of these real and personal properties at no cost. The value of the benefit received for use of these real and personal properties is not readily measurable, is not recorded in the accompanying consolidated financial statements, and is consistent with similar industry practices.

21. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Agency has a number of pending lawsuits and/or claims against them for a variety of reasons. The alleged claims are being handled by legal counsel and/or by its insurance providers. In the opinion of the Agency's legal counsel and management, there is no basis to establish a liability for any loss contingency due to lack of merit or insurance coverage exceeding expected settlement amounts.

On March 13, 2013, the Agency entered into a collective bargaining agreement with the Civil Service Employees Association, Inc. ("CSEA"). The collective bargaining agreement is set to expire on June 30, 2015. Approximately 74% of the Agency's labor is represented by the CSEA.

Operating Leases

The Agency is obligated, pursuant to real property lease agreements, for minimum monthly rentals for its administrative and program operations as follows:

June 30,		
2014	$	6,582,544
2015		5,085,020
2016		3,722,000
2017		3,521,865
2018		3,113,271
Thereafter		15,343,877
	$	37,368,577

For the year ended June 30, 2013, rent expense was $7,115,385, which was generally recovered through fees for service from the funding sources.

A renewal option allows the Agency, at its sole option, the right to extend some of the leases for an additional five-year period with a predetermined rent base amount with annual rent percentage increases. Various leases have rent escalations in which various predetermined annual percentage increases exist throughout the lease periods. A clause exists whereby, in the event that real estate taxes increase during the term of some of the leases, the Agency shall pay any increases in real estate taxes over the base year.

22. 403(b) TAX – SHELTERED ANNUITY PLAN

The Agency offers a 403(b) tax-sheltered annuity plan for all employees who are eligible and elect to participate. The plan is governed by IRS regulations setting the limits on the amount that employees may contribute and the conditions to withdraw monies from it. The employees each own their individual annuity plan and are responsible for deciding the amount of contributions they wish to make each year (up to the maximum stipulated by the IRS) and how the funds may be invested. There are no employer contributions.

23. CONCENTRATION OF CREDIT RISK

The Agency has maintained bank balances that often exceed the limit of the Federal Depository Insurance Corporation insurance coverage. The Agency verifies, on a quarterly basis, the equity strength and profitability of the banks it uses in order to minimize the risk.

23. CONCENTRATION OF CREDIT RISK (CONTINUED)

Approximately 12% of the Agency's accounts payable and accrued expenses as of June 30, 2013 were derived from one vendor.

The Agency earns its revenue and records related receivables primarily from service fees provided to individuals with developmental disabilities within the New York City area. A significant portion all of the Agency's revenue and receivables are received from Medicaid.

24. RISKS AND UNCERTAINTIES

The Agency's pension plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the amounts reported in the accompanying consolidated statement of financial position.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the consolidated financial statements.

The Agency is subject to indemnification clauses should they cause any of the tax exempt bonds to lose their tax exempt status.

The Agency's self funded insurance liability is based upon estimated claims at current year end. The actual claims may exceed the recorded amount.

25. PRIOR PERIOD ADJUSTMENT

The Agency has restated its previously issued 2012 financial statements to reflect its self funded health insurance and workers' compensation liabilities and related designated cash accounts. Previously, the Agency recognized contributions to the respective reserve accounts as expense. The Agency currently recognizes expense based on the date the claims were incurred.

The Agency also previously recognized legally restricted cash and cash equivalents as unrestricted cash and cash equivalents. The Agency now separated the cash and cash equivalents which is subject to legal restrictions of its use.

25. PRIOR PERIOD ADJUSTMENT (CONTINUED)

The net effect of the prior period adjustment resulted in an increase of prior year net assets by $2,636,380, as reflected below:

June 30, 2012	As Previously Reported	Adjustment	As Restated
Cash and cash equivalents restricted for debt service-escrow	$ -	$ 4,073,040	$ 4,073,040
Cash and cash equivalents related to debt service-escrow	$ 4,073,040	$ (4,073,040)	$ -
Cash and cash equivalents restricted- other	$ -	$ 653,994	$ 653,994
Cash and cash equivalents	$ 24,876,092	$ (653,994)	$ 24,222,098
Cash and cash equivalents designated for self funded insurance	$ -	$ 4,532,119	$ 4,532,119
Self funded insurance liability	$ -	$ (1,895,739)	$ (1,895,739)
Net assets, unrestricted	$ 11,028,915	$ 2,636,380	$ 13,665,295

26. SUBSEQUENT EVENTS

The OPWDD, in consultation with the State Department of Health ("DOH") has begun the process of seeking significant programmatic and fiscal changes to the OPWDD service system. The new direction for OPWDD, "The People First" Waiver is being developed with a 5 year statewide comprehensive plan through 2015.

Subsequent to year end and in anticipation of the changes in the OPWDD funding stream, the Agency entered into a verbal agreement with other six New York State Agencies to form a Developmental Disabilities Individual Support and Care Coordination Organization ("DISCO"). A letter of intent to become a DISCO has been submitted to OPWDD. At this time it is undetermined if OPWDD will approve the letter of intent. Final request for applications ("RFA") to become a DISCO have not yet been released by OPWDD and the changes as proposed by the "People First Waiver" Plan are still under review for approval.

APPENDIX B-III

LITTLE FLOWER CHILDREN AND FAMILY SERVICES OF NEW YORK

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2015, JUNE 30, 2014 AND JUNE 30, 2013)

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LITTLE FLOWER CHILDREN AND FAMILY SERVICES OF NEW YORK

Wading River, New York

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2015 and 2014

LITTLE FLOWER CHILDREN AND FAMILY SERVICES OF NEW YORK

Contents

As of and for the Years Ended June 30, 2015 and 2014

FINANCIAL STATEMENTS

BAKER TILLY

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INDEPENDENT AUDITORS' REPORT

Audit Committee
Little Flower Children and
Family Services of New York
Wading River, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Little Flower Children and Family Services of New York (the "Agency"), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and changes 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 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 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 financial statements are free from 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.

Audit Committee
Little Flower Children and
Family Services of New York

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 18 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Melville, New York
November 25, 2015

Statements of Financial Position

As of June 30,	2015	2014
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,153,753	$ 1,674,068
Cash held as agent	378,911	337,293
Restricted cash	-	58,482
Short-term investments	5,128,447	5,386,538
Accounts receivable, net of allowance for doubtful accounts of $60,000 and $61,546 as of June 30, 2015 and 2014, respectively	8,659,264	7,339,270
Grants receivable	217,039	155,956
Due from affiliate	8,125	7,618
Prepaid expenses and other current assets	515,827	414,418
Total Current Assets	17,061,366	15,373,643
Land, Buildings and Improvements, and Equipment, net	10,121,736	10,317,519
Construction in Progress	110,457	29,525
Due From Affiliate - Long-Term	341,319	351,017
Other Assets	5,813	105,623
Total Assets	$ 27,640,691	$ 26,177,327
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 2,233,615	$ 2,130,551
Accounts payable held as agent	378,911	337,293
Due to governmental agencies	4,435,471	3,516,804
Accrued salaries and related costs	1,383,312	1,176,785
Refundable advances	118,922	94,721
Current portion of long-term debt	228,287	219,645
Current portion of capital leases payable	107,027	65,624
Current portion of workers' compensation trust fund deficit payable	-	203,828
Total Current Liabilities	8,885,545	7,745,251
Long-Term Debt	1,724,301	1,951,606
Capital Leases Payable	214,993	178,860
Accrued Compensated Absences Payable	2,972,395	2,619,925
Deferred Rent Payable	551,457	674,003
Total Liabilities	14,348,691	13,169,645
Commitments and Contingencies		
Net Assets:		
Unrestricted	12,651,860	12,413,210
Temporarily restricted	640,140	594,472
Total Net Assets	13,292,000	13,007,682
Total Liabilities and Net Assets	$ 27,640,691	$ 26,177,327

See notes to financial statements.

LITTLE FLOWER CHILDREN AND FAMILY SERVICES OF NEW YORK

Statements of Activities and Changes in Net Assets

For the Years Ended June 30,	2015	2014
Unrestricted Net Assets		
Revenue:		
Program services:		
Foster Boarding Home	$ 19,416,970	$ 18,418,938
Bridges to Health	4,516,955	4,627,995
Medical/Mental Health	4,233,074	3,880,438
Residential Treatment Center	10,964,783	11,540,629
Adult Residential Services	8,715,459	8,351,904
Day Habilitation	573,959	115,441
Family Care	2,541,772	2,263,295
Managed Service Coordination	596,512	603,584
Elder Care	181,972	184,905
Bridges to Families and BIP	56,470	-
Grants	195,454	13,430
Total program services	51,993,380	50,000,559
Other revenue:		
Contributions, including in-kind donations of $10,000 for the year ended June 30, 2015	341,476	246,466
Fundraising and special events, net	231,019	290,016
Other income	313,118	239,174
Interest and investment income, net	35,788	723,029
Net assets released from restrictions	123,065	65,184
Total other revenue	1,044,466	1,563,869
Total Revenue	53,037,846	51,564,428
Expenses:		
Program services:		
Foster Boarding Home	18,489,412	18,420,814
Bridges to Health	3,717,706	3,628,818
Medical/Mental Health	4,516,683	4,472,275
Residential Treatment Center	9,965,341	9,909,175
Adult Residential Services	8,373,062	8,653,684
Day Habilitation	484,545	162,420
Family Care	2,317,936	2,221,652
Managed Service Coordination	609,297	540,766
Elder Care	182,482	153,517
Bridges to Families and BIP	56,470	-
Grants	26,590	14,089
Total program services	48,739,524	48,177,210
Supporting services:		
Management and general	4,771,319	4,272,246
Fundraising	456,693	397,086
Total supporting services	5,228,012	4,669,332
Total Expenses	53,967,536	52,846,542
Change in Unrestricted Net Assets before Accrual Adjustment	(929,690)	(1,282,114)
Foster Care Accrual Adjustment	1,168,340	729,974
Change in Unrestricted Net Assets	238,650	(552,140)
Temporarily Restricted Net Assets:		
Contributions	166,710	97,127
Special events, net	-	74,027
Interest and investment income, net	2,023	5,751
Net assets released from restrictions	(123,065)	(65,184)
Change in Temporarily Restricted Net Assets	45,668	111,721
Changes in Net Assets	284,318	(440,419)
Net Assets, beginning of year	13,007,682	13,448,101
Net Assets, end of year	$ 13,292,000	$ 13,007,682

See notes to financial statements.

Statements of Cash Flows

For the Years Ended June 30,	2015	2014
Cash Flows from Operating Activities:		
Change in net assets	$ 284,318	$ (440,419)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	892,033	868,778
(Decrease) increase in allowance for doubtful accounts	(1,546)	2,449
Net realized and unrealized losses (gains)	151,764	(549,249)
Deferred rent payable	(122,546)	(122,547)
Write-off of other assets	87,333	-
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Cash held as agent	(41,618)	12,842
Accounts receivable	(1,318,448)	462,740
Grants receivable	(61,083)	(31,082)
Due from affiliate	(507)	7,658
Prepaid expenses and other current assets	(101,409)	215,828
Other assets	12,477	(99,859)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	103,064	123,511
Accounts payable held as agent	41,618	(12,842)
Due to governmental agencies	918,667	(963,876)
Accrued salaries and related costs	206,527	137,282
Refundable advances	24,201	(4,039)
Workers' compensation trust fund deficit payable	(203,828)	-
Accrued compensated absences payable	352,470	(124,303)
Net Cash Provided by (Used in) Operating Activities	1,223,487	(517,128)
Cash Flows from Investing Activities:		
Proceeds from sale of investments	271,377	1,892,149
Purchase of investments	(165,050)	(1,699,251)
Purchase of land, building and improvements, and equipment	(588,917)	(444,709)
Increase in construction in progress	(35,892)	(24,225)
Decrease (increase) in due from affiliate - long-term	9,698	(154,438)
Decrease in restricted cash	58,482	-
Net Cash Used in Investing Activities	(450,302)	(430,474)
Cash Flows from Financing Activities:		
Principal payments on long-term debt	(218,663)	(214,244)
Proceeds from long-term debt	-	50,326
Principal payments on capital leases	(74,837)	(55,030)
Net Cash Used in Financing Activities	(293,500)	(218,948)
Net Increase (Decrease) in Cash and Cash Equivalents	479,685	(1,166,550)
Cash and Cash Equivalents, beginning of year	1,674,068	2,840,618
Cash and Cash Equivalents, end of year	$ 2,153,753	$ 1,674,068
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ 160,456	$ 132,219

Noncash Transactions:
During each of the years ended June 30, 2015 and 2014, the Agency acquired five vehicles, via capital lease financing in the amounts of approximately $107,000 and $134,000, respectively. The Agency also acquired scanning equipment via capital lease financing in the amount of approximately $45,000 during the year ended June 30, 2015.

Notes to Financial Statements

As of and for the Years Ended June 30, 2015 and 2014

1. Description of Organization and Summary of Significant Accounting Policies

Nature of operations - Little Flower Children and Family Services of New York (the "Agency") is a non-profit corporation operating in New York State. The Agency was organized to care for neglected and dependent children in a residential or foster home setting and to provide for the spiritual, physical and intellectual welfare of such children. The Agency also provides social, mental health and residential services for adults. During the year ended June 30, 2014, the Agency began a day habilitation program.

Basis of presentation - The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Agency's financial statements distinguish net assets between unrestricted and temporarily restricted net assets. The Agency does not possess any permanently restricted net assets.

Contributions - The Agency reports gifts of cash or 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 statements of activities and changes in net assets as net assets released from restrictions. Temporarily restricted contributions that originate in a given year and are released from restriction in the same year by meeting the donors' restricted purposes are reflected in the change in unrestricted net assets.

The Agency reports gifts of property, plant 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 these long-lived assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Investments - Investments are carried at fair value based upon their quoted market prices. Investments subject to the provisions of Accounting Standards Update 2009-12, *"Investments in Certain Entities that Calculate Net Asset Value per Share"*, with no readily determinable fair values are recorded at net asset value per share as a practical expedient to estimating fair value. Investments are shown net of the related commission and consulting fees, which approximated $24,000 and $34,000 for the years ended June 30, 2015 and 2014, respectively. Realized and unrealized gains and losses on investments are reported in the 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.

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 Agency determines 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.

Plant assets, depreciation and amortization - Plant assets are stated at cost when purchased and donated assets are stated at fair value at date of donation. The Agency capitalizes property and equipment with a cost of $5,000 or higher, and a useful life of at least two years. Depreciation of buildings and improvements and equipment is provided over the estimated useful lives of the respective assets (ranging from 3 to 40 years) on a straight-line basis. Depreciation and amortization expense for the years ended June 30, 2015 and 2014 approximated $892,000 and $869,000, respectively.

Deferred rent payable - Deferred rent payable represents the cumulative difference between rental expense determined on a straight-line basis, in accordance with accounting principles generally accepted in the United States of America, and the stated amount per the lease agreement.

Accounts receivable and revenues - Accounts receivable and revenues for services are recorded at rates established by state, city and local governments and agencies. Additionally, the Agency receives contributions and grants from individuals, organizations, and fundraising events.

Allowance for doubtful accounts - Periodically, the accounts receivable balances are reviewed and evaluated as to their collectability. An allowance is then set-up based on these evaluations. A receivable balance is considered past due once it has not been received by its scheduled due date.

Donated goods and services - Donated services requiring specific expertise and donated goods are recorded as in-kind contributions and expensed or capitalized at their fair value as determined by donors.

During the years ended June 30, 2015 and 2014, a number of general volunteers have donated significant amounts of their time in program services and fundraising campaigns. Such services have not been recognized, since they do not meet the criteria for recognition. During the year ended June 30, 2015, the Agency received donated advertising services of $10,000. No donated goods or services were received during the year ended June 30, 2014.

Statement of cash flows - For purposes of the statement of cash flows, the Agency considers all highly liquid debt instruments with maturities of three months or less, at the date of purchase, to be cash equivalents.

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

Income taxes - The Agency qualifies as a tax-exempt, not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and as a non-profit corporation in New York State. Accordingly, no provision for federal or state income taxes is required.

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.

Advertising - All costs associated with advertising are expensed as incurred. No advertising expenses were incurred for the years ended June 30, 2015 or 2014.

Uncertain tax positions - Management evaluated the Agency's tax positions and concluded that the Agency had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of FASB Accounting Standards Codification No. 740. With few exceptions, the Agency is no longer subject to income tax examinations by the United States federal, state or local tax authorities for the years before 2012, which is the standard statute of limitations look-back period.

Reclassifications - Certain 2014 amounts and descriptions have been reclassified to conform to the 2015 financial statement presentation. These reclassifications have no effect on previously reported changes in net assets.

Evaluation of subsequent events - Management has evaluated subsequent events through November 25, 2015 for inclusion or disclosure in the financial statements.

Notes to Financial Statements

As of and for the Years Ended June 30, 2015 and 2014

2. Cash Held as Agent

The Agency acts as agent for adult consumers that participate in its programs who receive benefits and retirement income payments from governmental and private sources. The Agency maintains the records and is responsible for disbursing payments out of these funds for consumer's personal expenses. Separate bank accounts are maintained for these funds as required. Cash held as agent represents the net amount available to the consumers as of June 30, 2015 and 2014.

3. Restricted Cash

As of June 30, 2014, restricted cash of approximately $58,000 represented amounts to be utilized to purchase vehicles for the Agency's Adult Residential Services programs. The funds were utilized for their intended purpose during the year ended June 30, 2015.

4. Short-Term Investments

Short-term investments consist of the following:

As of June 30, 2015	Cost	Fair Value
Short-Term Investments in Equity Securities, Fixed-Income Securities, Mutual Funds and Alternative Investments	$ 4,791,583	$ 5,128,447

As of June 30, 2014	Cost	Fair Value
Short-Term Investments in Equity Securities, Fixed-Income Securities, Mutual Funds and Alternative Investments	$ 4,818,796	$ 5,386,538

5. Fair Value Measurements

Investment composition and classification of investments within the fair value hierarchy, was as follows:

As of June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Mutual Funds:				
Intermediate-Term Bond	$ 392,194	$ -	$ -	$ 392,194
Specialty	1,759,916	-	-	1,759,916
Moderate Allocation	718,895	-	-	718,895
Large-Cap Blend	395,564	-	-	395,564
Small-Blend	176,865	-	-	176,865
Large Growth	408,141	-	-	408,141
Total Mutual Funds	3,851,575	-	-	3,851,575
Other:				
Hedge Funds	-	790,363	486,509	1,276,872
Total Investments	$ 3,851,575	$ 790,363	$ 486,509	$ 5,128,447

Notes to Financial Statements

As of and for the Years Ended June 30, 2015 and 2014

As of June 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Mutual Funds:				
Intermediate-Term Bond	$ 399,618	$ -	$ -	$ 399,618
Specialty	1,873,374	-	-	1,873,374
Moderate Allocation	748,394	-	-	748,394
Large-Cap Blend	416,035	-	-	416,035
Small-Blend	233,639	-	-	233,639
Large Growth	421,859	-	-	421,859
Total Mutual Funds	4,092,919	-	-	4,092,919
Other:				
Hedge Funds	-	818,287	475,332	1,293,619
Total Investments	$ 4,092,919	$ 818,287	$ 475,332	$ 5,386,538

Reconciliation of Level 3 Assets for the Years Ended,	**2015**	2014
Balance, beginning of year	**$ 475,332**	$ -
Purchases	**-**	449,997
Net Change in Unrealized Appreciation from Investments Still Held at the Reporting Date	**11,177**	25,335
Balance, end of year	**$ 486,509**	$ 475,332

The Agency invests in three hedge funds (the "Funds") that have no readily determinable fair value. The Funds are recorded at net asset value, which represents fair value, and are based on the values provided by the general partner and/or fund managers of the Funds.

The objective of the first Fund is to achieve capital appreciation principally through investing in investment funds managed by third-party investment managers that employ a variety of alternative investment strategies. These investment strategies allow flexibility of using leverage or short-side positions to take advantage of perceived inefficiencies across the global markets, often referred to as "alternative" strategies.

The objective of the second Fund is to produce positive long-term returns of 10% to 12% per annum over the risk-free rate. Diversification is achieved at both the Trading Fund trading style and market sector level. This Fund, through its allocation of assets to the Trading Funds, invests in a range of trading styles, including long-term trend following, short-term systematic, value, discretionary macro and specialist FX strategies; market exposure is broadly diversified with positions in global currency and financial and commodity markets.

The objective of the third Fund is to seek total return. Over an investment cycle, the Fund expects to achieve net returns commensurate with the long-term return on equities with less volatility, and a relatively low degree of correlation to the equity markets. The Fund seeks to achieve its objective by investing directly or indirectly in private funds or other pooled investment vehicles or accounts organized outside the United States ("Portfolio Funds") generally believed not to be highly correlated with the Standard & Poor's 500 Index over a long-term time horizon. The Fund may also invest directly in securities (other than those of Portfolio Funds) or other financial instruments.

Because investment funds following alternative investment strategies are often described as hedge funds, the investment programs of these Funds can be described as a fund of hedge funds. As of June 30, 2015 and 2014, the Funds did not have any unfunded commitments. Redemption of the first Fund can occur with written notice of 65 days and are at the sole discretion of the Fund's board of directors and may be restricted if they will negatively impact the Fund's overall performance. The second fund has no redemption restrictions. The third fund offers redemption from time to time, but no assurance can be given that these redemptions will occur as scheduled or at all as they will be conducted at the sole discretion of the Fund's board of directors.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with investments, it is at least reasonably possible that changes in market conditions in the near term would materially affect the amounts reported in the accompanying financial statements.

6. Accounts Receivable and Revenues

Accounts receivable and revenues by funding source are as follows:

As of June 30, 2015	Accounts Receivable	Revenue
New York City	$ 3,877,095	$ 21,634,011
New York State	2,930,761	19,994,961
Suffolk County	1,566,474	8,689,933
Nassau County	248,559	1,413,337
Other	36,375	261,138
	$ 8,659,264	$ 51,993,380

As of June 30, 2014	Accounts Receivable	Revenue
New York City	$ 3,443,391	$ 20,886,571
New York State	2,137,141	18,978,732
Suffolk County	1,507,711	8,582,587
Nassau County	213,567	1,237,054
Other	37,460	315,615
	$ 7,339,270	$ 50,000,559

7. Land, Building and Improvements, and Equipment, Net

Land, building and improvements, and equipment, net, consist of the following:

As of June 30,	2015	2014
Land	$ 302,144	$ 302,144
Buildings and Improvements	16,911,077	16,794,878
Furniture and Equipment	2,420,975	2,202,575
Vehicles	1,299,717	962,298
Other	461,796	461,796
	21,395,709	20,723,691
Less Accumulated Depreciation and Amortization	11,273,973	10,406,172
	$ 10,121,736	$ 10,317,519

8. Construction In Progress

As of June 30, 2015 and 2014, construction in progress of $110,457 and $29,525, respectively, consisted of payments made for miscellaneous improvement projects and restoration work. There are no future commitments as of June 30, 2015 in regards to construction in progress.

9. Management Services Agreement

On March 1, 2014, the Agency entered into a management services agreement (the "Agreement") with St. John's Residence for Boys, Inc. ("St. Johns") for a period of one year. The Agreement automatically renews for successive one year periods unless terminated by 90 days written notice by either party or written notice by one party within 30 days of a breach by the other. The Agency provides administrative and financial functions to St. Johns under this agreement. During the years ended June 30, 2015 and 2014, amounts charged to St. John's under this agreement amounted to approximately $156,000 and $89,000, respectively.

10. Due to Governmental Agencies

Due to governmental agencies represents net payments received in prior years, in excess of amounts earned, and overpayments received from New York City and New York State. Amounts are due upon final audit and reconciliation by the governmental agencies and are not expected to be materially different from the recorded amounts. The liability adjustment due to the completion of final audit and reconciliation of prior years is reflected as a foster care accrual adjustment on the statements of activities and changes in net assets for the years ended June 30, 2015 and 2014.

11. Long-Term Debt

Long-term debt consists of the following:

As of June 30,	**2015**	2014
Mortgage payable in monthly installments of $4,531 through September 2020, bearing interest at 9.10% per annum, collateralized by the respective property.	$ **236,524**	$ 267,714
Mortgage payable in monthly installments of $14,121 through January 2019 and $6,833 from February 2019 through January 2028, bearing interest at 4.46% per annum, collateralized by the respective property.	**991,148**	1,113,425
Vehicle capital leases, which are payable in total monthly installments of $7,665, with maturity dates between August 2016 and May 2020, bearing interest at rates ranging from 0.57% to 7.55% per annum.	**264,250**	216,965
Mortgages payable in total monthly installments of $7,382 through June 2018 and $5,536 through June 2018, bearing interest rates ranging from 2.50% to 5.00%, collateralized by the respective property.	**696,537**	749,539
Vehicle loans payable, one of which is payable in monthly installments of $1,186 through January 2014, bearing interest at 5.99% per annum, and one of which is payable in monthly installments of $1,147 through August 2017, bearing interest at 4.49% per annum.	**28,379**	40,573
Telephone capital lease payable in monthly installments of $1,099 through November 2016, bearing interest at 9.48% per annum.	**16,464**	27,519
Scanner software capital lease payable in monthly installments of $1,414 through May 2017, bearing interest at 12.63% per annum.	**41,306**	-
	2,274,608	2,415,735
Less Current Maturities	**335,314**	285,269
	$ **1,939,294**	$ 2,130,466

Long-term debt matures approximately as follows:

For the Years Ending June 30,	Capital Leases	Long-Term Debt	Total
2016	$ 107,000	$ 228,000	$ 335,000
2017	99,000	244,000	343,000
2018	69,000	201,000	270,000
2019	29,000	142,000	171,000
2020	18,000	151,000	169,000
Thereafter	-	987,000	987,000
	$ 322,000	$ 1,953,000	$ 2,275,000

The book value of equipment underlying the capital lease obligations, net of accumulated amortization of $188,000, approximated $355,000 as of June 30, 2015. Amortization expense for the years ended June 30, 2015 and 2014 approximated $130,000 and $58,000, respectively.

Interest expense for the years ended June 30, 2015 and 2014 approximated $160,000 and $132,000, respectively.

12. Workers' Compensation Trust Fund Deficit Payable

The Agency received notification in December 2010 that the workers' compensation trust fund it participated in through the year ended June 30, 2007 was underfunded by approximately $14,800,000. The Agency's share of this deficit was estimated to be approximately $1,186,000 and is to be paid over five years, in equal installments, beginning in the year ended June 30, 2011. As of June 30, 2014, the outstanding balance with respect to this matter was approximately $204,000, after accounting for a present value discount. Payment was made in August 2014 reducing this liability to zero.

13. Net Assets

Temporarily restricted net assets - Temporarily restricted net assets as of June 30, 2015 and 2014 consist of amounts restricted by donors for the provision of the culinary arts program, scholarships, the campus industry program and special events for children and are approximately as follows:

As of June 30,	**2015**	2014
Purpose Restrictions:		
Culinary arts program	**$ 363,000**	$ 405,000
Scholarships	**154,000**	131,000
Campus industry program	**89,000**	55,000
Chapel Restoration	**29,000**	-
Special events for children	**5,000**	3,000
	$ 640,000	$ 594,000

Notes to Financial Statements

As of and for the Years Ended June 30, 2015 and 2014

Release of temporarily restricted net assets - During the years ended June 30, 2015 and 2014, net assets of approximately $123,000 and $65,000, respectively, were released from restrictions by incurring expenses satisfying the restricted purpose as stipulated by the donors as follows:

For the Years Ended June 30,	**2015**	2014
Purpose Releases:		
Special events for children	$ **13,000**	$ 2,000
Scholarships	**16,000**	24,000
Culinary arts program	**43,000**	39,000
Campus industry program	**51,000**	-
	$ **123,000**	$ 65,000

14. Fundraising and Special Events, Net

The Agency generated revenue from the following special events during the years ended June 30, 2015 and 2014:

	Gross Revenue	**Direct Benefit to Donors**	**Classified as Temporarily Restricted Net Assets**	**2015 Net Revenue**
Golf Outing	$ **128,610**	$ **32,745**	$ **-**	$ **95,865**
Humanitarian Award	**197,993**	**62,839**	**-**	**135,154**
Total	$ **326,603**	$ **95,584**	$ **-**	$ **231,019**

	Gross Revenue	Direct Benefit to Donors	Classified as Temporarily Restricted Net Assets	2014 Net Revenue
Golf Outing	$ 109,280	$ 31,348	$ 74,027	$ 3,905
Humanitarian Award	324,381	79,675	-	244,706
Donor Reception	40,325	-	-	40,325
Holiday Dinner Dance	1,080	-	-	1,080
Total	$ 475,066	$ 111,023	$ 74,027	$ 290,016

15. Transactions with Affiliate

The Agency is a related party to the Little Flower Union Free School District (the "School"), which operates on its premises. Certain officers of the Agency are also board members of the School. Current amounts due from affiliate represent certain operating expenses of the School paid by the Agency, and general and administrative services provided by the Agency, which aggregated approximately $6,000 and $8,000 for years ended June 30, 2015 and 2014, respectively.

During fiscal year 2013, the Agency entered into a contract to renovate the lobby at the School. At June 30, 2013, approximately $197,000 of costs were incurred related to this renovation. Additional costs of approximately $154,000 were incurred related to this renovation during fiscal year 2014. The renovation was completed during fiscal year 2014. The Agency and the School finalized a written repayment agreement related to this renovation, wherein the School agreed to repay the Agency the $351,000 in renovation costs, plus interest of 2.905% per annum, amortized over 25 years. As of June 30, 2015 and 2014, approximately $343,000 and $351,000, respectively, was outstanding under this agreement.

16. Pension Plan

The Agency maintains a tax deferred annuity plan (the "403(b) Plan") which is available to all employees. As of January 1, 2014, the 403(b) Plan was amended and restated to include St. John's Residence for Boys, Inc., an entity which has a management agreement with the Agency, as a participating employer. Effective July 1, 2014, the 403(b) Plan allowed for employer basic contributions for eligible employees. For the year ended June 30, 2015, the Agency contributed approximately $682,000 to the 403(b) Plan.

The Agency maintains a noncontributory supplemental retirement plan and trust (the "Supplemental Plan") as defined by Section 403(b) of the United States Internal Revenue Code. The Supplemental Plan covers all eligible employees. Contributions to the Supplemental Plan are discretionary and determined by the board of directors each year. For the years ended June 30, 2015 and 2014, no contributions were made. The Agency has expressed their intention to terminate the Supplemental Plan during fiscal year 2016.

Through June 30, 2014, the Agency was a participant in a pension plan that has been characterized for financial accounting purposes as a multi-employer pension plan (the "Diocesan Plan"), a noncontributory defined benefit plan established by the Diocese of Brooklyn. This plan covers certain administrative and field supervisory employees. The risks of participating in a multi-employer plan are different from single-employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating entity stops contributing to the multi-employer plan, the unfunded obligations of the plan may be borne by the remaining participating entities.
- If an entity petitions to stop participating in the multi-employer plan, the entity may be required to pay the plan a withdrawal liability based on the funded status of the plan.

The Diocesan Plan is designed to provide retirement benefits for eligible lay employees of participating Diocesan entities. Any employee becomes eligible for participation in the Diocesan Plan upon attaining the age of 25 and completing one year of continuous service and becomes fully vested upon completion of five years of vesting service. Employees who terminate employment with five or more years of vesting service are entitled to an annual deferred-vested pension based on benefits earned to the date of termination.

The Agency's pension plan expense is equal to the required annual contributions to the Diocesan Plan, which is calculated based on actuarially determined methods. Amounts charged to pension costs for the year ended June 30, 2014 totaled approximately $1,070,000 and are included in the accompanying statements of activities and changes in net assets. Required annual contributions represent approximately 5.86% of total contributions to the Diocesan Plan for the year ended June 30, 2014.

The following table discloses the name and funded status of the Roman Catholic Diocese of Brooklyn Lay Pension Plan (EIN 13-3795042), referred to above as the Diocesan Plan, as of January 1, 2013 (the date of the latest actuarial valuation), inclusive of the fair value of plan assets as of December 31, 2013:

Valuation Date	Actuarial Present Value of Accumulated Plan Benefits	Fair Value of Plan Assets	Total Net Contributions	Funded Status
January 1, 2013	$835,000,000	$623,000,000	$21,000,000	Between 65% and 80% funded

Notes to Financial Statements

As of and for the Years Ended June 30, 2015 and 2014

During the year ended June 30, 2014, the Agency did not pay a surcharge to the Diocesan Plan nor did the Diocesan Plan have a rehabilitation plan implemented or pending.

Effective June 30, 2014, the Agency ceased participation in the Diocesan Plan. During the year ended June 30, 2015, a multiple-employer defined benefit pension plan (the "Catholic Federation Plan") was created by the Agency and six other entities that were previously participating employers in the Diocesan Plan. The Diocesan Plan transferred the identified portion of assets and liabilities of the Agency and the six other entities to the Catholic Federation Plan. The Catholic Federation Plan is designed to provide retirement benefits for eligible employees of the participating entities.

The Catholic Federation Plan is frozen as of June 30, 2014 and final accrued benefits were calculated for all participants as of the freeze date. The contribution policy will be to amortize the initial deficit over 20 years from July 1, 2014. In the future, any gains or losses and administrative expenses incurred will also be amortized over a 20 year period from the date they are first recognized. Required annual contributions are allocated among participating employers using a pro-rate method relative to the size of each entity's pension liabilities. Amounts charged to pension costs for the year ended June 30, 2015 totaled approximately $457,000 and are included in the accompanying statements of activities and changes in net assets. Required annual contributions represent approximately 29.4% of total contributions to the Catholic Federation Plan for the year ended June 30, 2015.

The following table discloses the name and funded status of the Catholic Federation of Social Services Agencies of Brooklyn and Queens Pension Plan (EIN 26-4439481), referred to above as the Catholic Federation Plan, as of July 1, 2014 (the date of the latest actuarial valuation):

Valuation Date	Actuarial Present Value of Accumulated Plan Benefits	Fair Value of Plan Assets	Total Net Contributions	Funded Status
July 1, 2014	$135,215,000	$103,095,000	$1,554,000	Between 65% and 80% funded.

During the year ended June 30, 2015, the Agency did not pay a surcharge to the Catholic Federation Plan nor did the Catholic Federation Plan have a rehabilitation plan implemented or pending.

In May 2015, the Agency created a 457(b) deferred compensation plan (the "457(b) Plan"), which allows for both participant deferral contributions and employer discretionary contributions, for one employee. The employee will be fully vested at all times in both their deferral contributions and employer discretionary contributions. Pursuant to the agreement, the 457(b) Plan's assets are considered general assets of the Agency until the assets are distributed to the beneficiary. The Agency did not make any contributions to the 457(b) Plan during the year ended June 30, 2015.

The Agency also created a 457(f) deferred compensation plan (the "457(f) Plan") in May 2015, which allows for participant deferral contributions, for one employee. The employee will be fully vested in their 457(f) Plan account in June 2025.

17. Commitments and Contingencies

Operating leases - The Agency is obligated under various noncancellable operating leases for certain of its facilities and equipment, expiring through July 18, 2020. Future minimum lease payments under these operating leases are as follows:

For the Years Ending June 30,	Real Property	Equipment	Total
2016	$ 1,275,000	$ 137,000	$ 1,412,000
2017	1,158,000	55,000	1,213,000
2018	1,118,000	31,000	1,149,000
2019	1,140,000	30,000	1,170,000
2020	382,000	17,000	399,000
Thereafter	-	1,000	1,000
	$ 5,073,000	$ 271,000	$ 5,344,000

Facility rent expense for the years ended June 30, 2015 and 2014 approximated $1,321,000 and $1,248,000, respectively.

Equipment rental expense for the years ended June 30, 2015 and 2014 approximated $199,000 and $203,000, respectively.

In October 2013, the Agency terminated the lease associated with one of its Brooklyn locations. Deferred rent and leasehold improvements related to this location were written off during the year ended June 30, 2014.

Guarantee - The Agency has pledged investments up to $800,000 to the Suffolk County National Bank to secure borrowings of the Little Flower Union Free School District ("LFUFSD"). LFUFSD owed $800,000 under a revenue anticipation note agreement as of June 30, 2015. This guarantee expires on June 10, 2016.

Collective bargaining agreement - Approximately 55% of the Agency's labor force is covered by a collective bargaining agreement expiring June 30, 2016.

18. Government Funding and Possible Rate Adjustments

Substantial funding of programs is provided to the Agency by New York State, New York City, and the counties of Suffolk and Nassau. Continuation of such funding is dependent on budgetary allocations from such agencies. In addition, reimbursements under contracts or rates are subject to audit by various agencies on a regular basis. Liabilities, if any, resulting from these audits are not presently determinable.

Changes in contract amounts due or payable resulting from audit adjustments or rate appeals are reflected in the operations of the Agency when such adjustments are determined or can be reasonably estimated.

19. Off-Balance Sheet Risk and Concentrations of Credit Risk

Financial instruments which potentially subject the Agency to concentrations of credit risk consist principally of temporary cash investments and accounts receivable from government agencies. The Agency places its temporary cash investments with high credit quality financial institutions. Accounts receivable are predominately from state and local government agencies, including Medicaid, other third-party and private payors. At times throughout the year, the Agency's cash balances with any one financial institution may exceed the federal depository insurance coverage limit.

20. Litigation

The Agency is subject to lawsuits and claims with respect to matters arising in the normal course of business. The Agency defends its position on all actions. In the opinion of management, the ultimate liabilities, if any, from these lawsuits or claims will not materially affect the financial position of the Agency. Nevertheless, due to the uncertainty of the settlement process, management's view of the outcome may be modified in the future.

21. Reversion Clause

The Agency's main facility is located on land in Wading River, New York, that is owned by the Roman Catholic Diocese of Brooklyn (the "Diocese"). This land is subject to reversion to the Diocese should the Agency cease to operate in accordance with its mission.

SUPPLEMENTARY INFORMATION

Schedule of Functional Expenses

For the Year Ended June 30, 2015 (with comparative totals for 2014)

	Program Services															
	Foster Boarding Home	Bridges to Health	Medical/ Mental Health	Residential Treatment Center	Adult Residential Services	Day Habilitation	Family Care	Managed Service Coordination	Elder Care	Bridges to Families and BIP	Grants	Total	Management and General	Fundraising	2015 Total Expenses	2014 Total Expenses
Salaries	$ 6,545,925	$2,581,914	$2,232,532	$5,931,697	$4,629,826	$ 216,816	$ 398,687	$ 440,182	$ 119,382	$ 33,647	$ -	$23,130,588	$2,522,025	$ 189,246	$ 25,841,859	$ 24,611,640
Payroll Taxes and Employee Benefits	1,911,771	738,935	656,355	1,657,861	1,311,147	63,804	117,935	130,637	35,482	9,653		6,631,580	700,810	53,576	7,385,966	6,911,658
Total Salaries, Payroll Taxes and Employee Benefits	8,457,696	3,318,849	2,858,887	7,589,558	5,940,973	280,620	516,602	570,819	154,864	43,300	-	29,762,168	3,222,835	242,822	33,227,825	31,523,298
Expenses:																
Foster parent payments	6,582,544	-	-	-	-	-	1,550,442	-	-	-	-	8,132,986	-	-	8,132,986	8,635,378
Transportation	166,605	133,179	8,889	70,580	43,513	125,210	4,590	37,373	-	1,143	-	591,082	20,752	2,529	614,363	588,421
Allowance and activities	138,950	504	-	203,544	22,675	1,704	809	-	-	-	-	368,186	-	-	368,186	372,049
Scholarships	-	-	-	-	-	-	-	-	-	-	-	-	15,000	-	15,000	17,250
Contracted services	869,093	31,015	974,458	146,271	725,801	28,968	47,390	-	2,825	-	-	2,826,619	277,980	13,869	3,118,468	3,242,799
Food	1,224	68	-	435,702	159,908	2,875	-	-	-	-	-	599,777	550	1,376	601,713	628,674
Clothing	770	-	-	59,253	30,748	-	-	-	-	-	-	90,771	-	-	90,771	84,346
Supplies and small equipment	64,620	15,715	262,330	145,807	225,156	10,766	14,673	-	121	-	-	739,188	29,165	9,329	777,682	875,902
Rent - facilities	957,591	67,075	95,689	-	131,015	-	12,747	-	13,702	-	-	1,277,819	19,539	24,025	1,321,383	1,247,873
Leased equipment	78,725	8,797	28,409	10,446	15,784	2,540	15,286	-	1,434	-	-	161,421	31,429	6,633	199,483	202,792
Utilities	149,285	24,475	69,871	296,881	149,033	2,113	34,571	-	1,183	-	-	727,412	84,731	1,966	814,109	912,445
Repairs and maintenance	139,494	8,630	27,259	321,192	165,240	6,460	25,943	39	959	-	-	696,216	66,049	13,452	775,717	743,003
Telephone	124,241	14,796	21,999	55,084	49,158	-	9,109	-	898	97	-	275,382	14,970	1,883	292,235	237,811
Supplies	99,648	11,438	26,767	23,062	19,084	2,339	11,536	649	2,737	-	-	197,280	76,972	21,982	296,234	295,216
Dues and licenses	14,882	1,546	875	4,559	9,664	290	4,414	-	-	-	-	36,230	96,766	20,966	153,962	117,013
Conferences and training	31,802	4,708	1,909	32,318	23,899	1,311	8,791	56	-	650	-	106,644	7,109	-	113,753	14,392
Miscellaneous expenses	13,698	5,680	-	8,048	4,464	205	4,976	-	-	5,148	-	42,219	29,484	56,998	128,701	234,717
Publicity and recruitment	2,149	3,303	3,751	35,078	18,109	3,385	7,742	-	-	5,934	-	79,451	9,269	1,960	90,680	51,868
Professional fees	290,299	-	-	-	208,668	-	-	-	-	-	-	498,967	232,763	-	731,730	882,995
Insurance	168,062	52,300	56,257	243,300	163,752	-	33,447	-	1,439	-	-	718,557	89,360	3,560	811,477	762,265
Taxes	73,118	1,468	25,066	4,171	2,583	-	549	-	2,025	-	-	108,960	5,077	3,409	117,446	69,561
Depreciation and amortization	59,891	8,962	14,232	248,142	149,624	12,780	3,133	361	281		26,590	523,796	366,292	1,945	892,033	868,778
Interest and bank charges	2,326	325	438	30,201	68,767	2,014	267	-	14	-	-	124,352	75,199	27,987	227,538	202,572
Bad debt expense	2,099	4,873	9,597	2,124	25,464	967	8,917	-	-	-	-	54,041	-	-	54,041	37,122
	10,031,716	398,857	1,627,796	2,375,783	2,432,089	203,925	1,801,334	38,478	27,618	13,170	26,590	18,977,356	1,548,484	213,871	20,739,711	21,323,244
Total Expenses	$ 18,489,412	$3,717,706	$4,516,883	$9,965,341	$8,373,062	$ 484,545	$2,317,938	$ 609,297	$ 182,482	$ 56,470	$ 26,590	$48,739,524	$4,771,319	$ 456,693	53,967,536	$ 52,846,542

LITTLE FLOWER CHILDREN AND FAMILY SERVICES OF NEW YORK

Wading River, New York

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2014 and 2013

LITTLE FLOWER CHILDREN AND FAMILY SERVICES OF NEW YORK

Contents

As of and for the Years Ended June 30, 2014 and 2013

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Audit Committee
Little Flower Children and
Family Services of New York
Wading River, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Little Flower Children and Family Services of New York (the "Agency"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes 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 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 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 financial statements are free from 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.

Audit Committee
Little Flower Children and
Family Services of New York

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses on page 18 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Melville, New York
November 26, 2014

LITTLE FLOWER CHILDREN AND FAMILY SERVICES OF NEW YORK

Statements of Financial Position

As of June 30,	2014	2013
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,674,068	$ 2,840,618
Cash held as agent	337,293	350,135
Restricted cash	58,482	-
Short-term investments	5,386,538	5,030,187
Accounts receivable, net of allowance for doubtful accounts of $61,546 and $59,097 at June 30, 2014 and 2013, respectively	7,339,270	7,804,459
Grants receivable	155,956	124,874
Due from affiliate	7,618	15,276
Prepaid expenses and other current assets	414,418	630,246
Total Current Assets	15,373,643	16,795,795
Land, Buildings and Improvements, and Equipment, net	10,317,519	10,607,918
Construction in Progress	29,525	5,300
Restricted Cash - Long-Term	-	58,482
Due From Affiliate - Long-Term	351,017	196,579
Other Assets	105,623	5,764
Total Assets	$ 28,177,327	$ 27,669,838
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 2,130,551	$ 2,007,040
Accounts payable held as agent	337,293	350,135
Due to governmental agencies	3,516,804	4,480,680
Accrued salaries and related costs	1,176,785	1,039,503
Refundable advances	94,721	98,760
Current portion of long-term debt	219,645	176,710
Current portion of capital leases payable	65,624	37,927
Current portion of workers' compensation trust fund deficit payable	203,828	203,828
Total Current Liabilities	7,745,251	8,394,583
Long-Term Debt	1,951,606	2,158,459
Capital Leases Payable	178,860	127,917
Accrued Compensated Absences Payable	2,619,925	2,744,228
Deferred Rent	674,003	796,550
Total Liabilities	13,169,645	14,221,737
Commitments and Contingencies		
Net Assets:		
Unrestricted	12,413,210	12,965,350
Temporarily restricted	594,472	482,751
Total Net Assets	13,007,682	13,448,101
Total Liabilities and Net Assets	$ 26,177,327	$ 27,669,838

See notes to financial statements.

LITTLE FLOWER CHILDREN AND FAMILY SERVICES OF NEW YORK

Statements of Activities and Changes in Net Assets

For the Years Ended June 30,	2014	2013
Unrestricted Net Assets		
Revenue:		
Program services:		
Foster Boarding Home	$ 18,418,938	$ 20,084,203
Bridges to Health	4,627,995	4,662,990
Medical/Mental Health	3,880,438	4,447,911
Residential Treatment Center	11,540,629	9,978,158
Adult Residential Services	8,351,904	8,864,599
Day Care	-	742,140
Day Habilitation	115,441	-
Family Care	2,866,879	2,595,709
Elder Care	184,905	181,500
Grants	13,430	7,011
Total program services	50,000,559	51,564,221
Other Revenue:		
Contributions, including in-kind donations of $274,750 for the year ended June 30, 2013	246,466	580,196
Fundraising and special events, net	290,016	173,567
Other income	239,174	206,444
Interest and investment income, net	723,029	650,613
Net assets released from restrictions	65,184	47,949
Total other revenue	1,563,869	1,658,769
Total Revenue	51,564,428	53,222,990
Expenses:		
Program services:		
Foster Boarding Home	18,420,814	20,080,820
Bridges to Health	3,628,818	3,735,290
Medical/Mental Health	4,472,275	4,618,571
Residential Treatment Center	9,909,175	8,547,834
Adult Residential Services	8,653,684	7,673,987
Day Care	-	784,024
Day Habilitation	162,420	-
Family Care	2,762,418	2,521,616
Elder Care	153,517	167,792
Grants	14,089	14,089
Total program services	48,177,210	48,144,023
Supporting services:		
Management and general	4,272,246	4,272,293
Fundraising	397,086	380,146
Total supporting services	4,669,332	4,652,439
Total Expenses	52,846,542	52,796,462
Change in Unrestricted Net Assets before Workers' Compensation Trust Fund Deficit Adjustment and Accrual Adjustment	(1,282,114)	426,528
Foster Care Accrual Adjustment	729,974	-
Workers' Compensation Trust Fund Deficit Accrual	-	(33,342)
Change in Unrestricted Net Assets	(552,140)	393,186
Temporarily Restricted Net Assets:		
Contributions	97,127	37,707
Special events, net	74,027	104,400
Interest and investment income, net	5,751	4,028
Net assets released from restrictions	(65,184)	(47,949)
Change in Temporarily Restricted Net Assets	111,721	98,186
Changes in Net Assets	(440,419)	491,372
Net Assets, beginning of year	13,448,101	12,956,729
Net Assets, end of year	$ 13,007,682	$ 13,448,101

See notes to financial statements.

LITTLE FLOWER CHILDREN AND FAMILY SERVICES OF NEW YORK

Statements of Cash Flows

For the Years Ended June 30,

	2014	2013
Cash Flows from Operating Activities:		
Change in net assets	$ (440,419)	$ 491,372
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	868,778	893,404
Gain on sale of fixed assets	-	(508)
Increase (decrease) in allowance for doubtful accounts	2,449	(903)
Net realized and unrealized gains	(549,249)	(482,807)
Deferred rent	(122,547)	(122,547)
Donated equipment	-	(274,750)
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	462,740	2,001,022
Grants receivable	(31,082)	(77,998)
Prepaid expenses and other current assets	215,828	(272,707)
Due from affiliate	7,658	9,312
Cash held as agent	12,842	(16,389)
Other assets	(99,859)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	123,511	(552,594)
Accrued salaries and related costs	137,282	(31,178)
Refundable advances	(4,039)	(22,507)
Workers' compensation trust fund deficit payable	-	(237,150)
Due to governmental agencies	(963,876)	(712,567)
Accrued compensated absences payable	(124,303)	16,094
Accounts payable held as agent	(12,842)	16,389
Net Cash (Used in) Provided by Operating Activities	(517,128)	622,988
Cash Flows from Investing Activities:		
Proceeds from sale of investments	1,892,149	1,339,687
Purchase of investments	(1,699,251)	(564,661)
Purchase of land, building and improvements, and equipment	(444,709)	(392,621)
Increase in construction in progress	(24,225)	(2,500)
Increase in due from affiliate - long-term	(154,438)	(196,579)
Increase in restricted cash	-	(58,482)
Proceeds from sale of fixed assets	-	508
Net Cash (Used in) Provided by Investing Activities	(430,474)	125,352
Cash Flows from Financing Activities:		
Principal payments on long-term debt	(214,244)	(73,547)
Proceeds from long-term debt	50,326	799,944
Principal payments on capital leases	(55,030)	(23,134)
Net Cash (Used in) Provided by Financing Activities	(218,948)	703,263
Net (Decrease) Increase in Cash and Cash Equivalents	(1,166,550)	1,451,603
Cash and Cash Equivalents, beginning of year	2,840,618	1,389,015
Cash and Cash Equivalents, end of year	$ 1,674,068	$ 2,840,618
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ 132,219	$ 81,185

Noncash Transactions:

During the years ended June 30, 2014 and 2013, the Agency acquired five and three vehicles, respectively, via capital lease financing in the amounts of approximately $134,000 and $59,000, respectively. The Agency also acquired telephone and video equipment via capital lease financing in the amount of approximately $44,000 during the year ended June 30, 2013. During the year ended June 30, 2013, the Agency converted $1,239,878 of notes payable to long-term debt.

See notes to financial statements.

Notes to Financial Statements

As of and for the Years Ended June 30, 2014 and 2013

1. Description of Organization and Summary of Significant Accounting Policies

Nature of operations - Little Flower Children and Family Services of New York (the "Agency") is a non-profit corporation operating in New York State. The Agency was organized to care for neglected and dependent children in a residential or foster home setting and to provide for the spiritual, physical and intellectual welfare of such children. The Agency also provides social, mental health and residential services for adults. During the year ended June 30, 2014, the Agency began a day habilitation program. During the year ended June 30, 2013, the Agency discontinued its day care program.

Basis of presentation - The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Agency's financial statements distinguish net assets between unrestricted and temporarily restricted net assets. The Agency does not possess any permanently restricted net assets.

Contributions - The Agency reports gifts of cash or 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 statements of activities and changes in net assets as net assets released from restrictions. Temporarily restricted contributions that originate in a given year and are released from restriction in the same year by meeting the donors' restricted purposes are reflected in the change in unrestricted net assets.

The Agency reports gifts of property, plant 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 these long-lived assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Investments - Investments are carried at fair value based upon their quoted market prices. Investments subject to the provisions of Accounting Standards Update 2009-12, *"Investments in Certain Entities that Calculate Net Asset Value per Share"*, with no readily determinable fair values are recorded at net asset value per share as a practical expedient to estimating fair value. Investments are shown net of the related commission and consulting fees, which approximated $34,000 and $39,000 for the years ended June 30, 2014 and 2013, respectively. Realized and unrealized gains and losses on investments are reported in the 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.

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 Agency determines 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.

Plant assets, depreciation and amortization - Plant assets are stated at cost when purchased and donated assets are stated at fair market value at date of donation. The Agency capitalizes property and equipment with a cost of $1,000 or higher, and a useful life of at least two years. Depreciation of buildings and improvements and equipment is provided over the estimated useful lives of the respective assets (ranging from 3 to 40 years) on a straight-line basis. Depreciation and amortization expense for the years ended June 30, 2014 and 2013 approximated $869,000 and $893,000, respectively.

Deferred rent payable - Deferred rent payable represents the cumulative difference between rental expense determined on a straight-line basis, in accordance with accounting principles generally accepted in the United States of America, and the stated amount per the lease agreement.

Accounts receivable and revenues - Accounts receivable and revenues for services are recorded at rates established by state, city and local governments and agencies. Additionally, the Agency receives contributions and grants from individuals, organizations, and fundraising events.

Allowance for doubtful accounts - Periodically, the accounts receivable balances are reviewed and evaluated as to their collectability. An allowance is then set-up based on these evaluations. A receivable balance is considered past due once it has not been received by its scheduled due date.

Donated goods and services - Donated services requiring specific expertise and donated goods are recorded as in-kind contributions and expensed or capitalized at their fair market value as determined by donors.

During the years ended June 30, 2014 and 2013, a number of general volunteers have donated significant amounts of their time in program services and fundraising campaigns. Such services have not been recognized, since they do not meet the criteria for recognition. During the year ended June 30, 2013, the Agency received donated software with a fair value of approximately $275,000 which was capitalized as equipment. No donated goods were received during the year ended June 30, 2014.

Statement of cash flows - For purposes of the statement of cash flows, the Agency considers all highly liquid debt instruments with maturities of three months or less, at the date of purchase, to be cash equivalents.

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

Income taxes - The Agency qualifies as a tax-exempt, not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and as a non-profit corporation in New York State. Accordingly, no provision for federal or state income taxes is required.

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.

Advertising - All costs associated with advertising are expensed as incurred. No advertising expenses were incurred for the years ended June 30, 2014 or 2013.

Uncertain tax positions - Management evaluated the Agency's tax positions and concluded that the Agency had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of FASB Accounting Standards Codification No. 740. With few exceptions, the Agency is no longer subject to income tax examinations by the United States federal, state or local tax authorities for the years before 2011, which is the standard statute of limitations look-back period.

Reclassifications - Certain 2013 amounts and descriptions have been reclassified to conform to the 2014 financial statement presentation. These reclassifications have no effect on previously reported changes in net assets.

Evaluation of subsequent events - Management has evaluated subsequent events through November 26, 2014 for inclusion or disclosure in the financial statements.

2. Cash Held as Agent

The Agency acts as agent for adult consumers that participate in its programs who receive benefits and retirement income payments from governmental and private sources. The Agency maintains the records and is responsible for disbursing payments out of these funds for consumer's personal expenses. Separate bank accounts are maintained for these funds as required. Cash held as agent represents the net amount available to the clients at June 30, 2014 and 2013.

3. Restricted Cash

At June 30, 2014 and 2013, restricted cash of approximately $58,000 represents amounts to be utilized to purchase vehicles for the Agency's Adult Residential Services programs. The funds are to be utilized for their intended purposes during the year ended June 30, 2015.

4. Short-Term Investments

Short-term investments consist of the following:

As of June 30, 2014	Cost	Market Value
Short-Term Investments in Equity Securities, Fixed-Income Securities, Mutual Funds and Alternative Investments	$ 4,818,796	$ 5,386,538

As of June 30, 2013	Cost	Market Value
Short-Term Investments in Equity Securities, Fixed-Income Securities, Mutual Funds and Alternative Investments	$ 4,890,940	$ 5,030,187

5. Fair Value Measurements

Investment composition and classification of investments within the fair value hierarchy, was as follows:

As of June 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Mutual Funds:				
Intermediate-Term Bond	$ 399,618	$ -	$ -	$ 399,618
Specialty	1,873,374	-	-	1,873,374
Moderate Allocation	748,394	-	-	748,394
Large-Cap Blend	416,035	-	-	416,035
Small-Blend	233,639	-	-	233,639
Large Growth	421,859	-	-	421,859
Total Mutual Funds	4,092,919	-	-	4,092,919

Notes to Financial Statements

As of and for the Years Ended June 30, 2014 and 2013

Other:				
Hedge Funds	-	818,287	475,332	1,293,619
Total Investments	$ 4,092,919	$ 818,287	$ 475,332	$ 5,386,538

As of June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Mutual Funds:				
Intermediate-Term Bond	$ 737,612	$ -	$ -	$ 737,612
Specialty	1,223,160	-	-	1,223,160
Moderate Allocation	365,248	-	-	365,248
Large-Cap Blend	363,685	-	-	363,685
Small-Blend	193,171	-	-	193,171
Large Growth	370,013	-	-	370,013
Total Mutual Funds	3,252,889	-	-	3,252,889
Common Stocks:				
Technology/Communication	176,020	-	-	176,020
Consumer Goods	156,871	-	-	156,871
Financial	172,592	-	-	172,592
Services	37,201	-	-	37,201
Materials - Basic	93,324	-	-	93,324
Health Care	85,926	-	-	85,926
Utilities/Energy	103,691	-	-	103,691
Industrial Goods	53,842	-	-	53,842
Total Common Stocks	879,467	-	-	879,467
Fixed-Income Securities:				
Corporate	141,754	-	-	141,754
Total Fixed-Income Securities	141,754	-	-	141,754
Other:				
Hedge Funds	-	756,077	-	756,077
Total Investments	$ 4,274,110	$ 756,077	$ -	$ 5,030,187

Reconciliation of Level 3 Assets for the Year Ended June 30, 2014

Balance, beginning of year	$ -
Purchases	449,997
Sales	-
Realized Gains	-
Net Change in Unrealized Appreciation from Investments Still Held at the Reporting Date	25,335
Balance, end of year	$ 475,332

The Agency invests in three hedge funds (the "Funds") that have no readily determinable fair value. The Funds are recorded at net asset value, which represents fair value, and are based on the values provided by the general partner and/or fund managers of the Funds.

The objective of the first Fund is to achieve capital appreciation principally through investing in investment funds managed by third-party investment managers that employ a variety of alternative investment strategies. These investment strategies allow flexibility of using leverage or short-side positions to take advantage of perceived inefficiencies across the global markets, often referred to as "alternative" strategies. The objective of the second Fund is to produce positive long-term returns of 10% to 12% per annum over the risk-free rate. Diversification is achieved at both the Trading Fund trading style and market sector level. This Fund, through its allocation of assets to the Trading Funds, invests in a range of trading styles, including long-term trend following, short-term systematic, value, discretionary macro and specialist FX strategies; market exposure is broadly diversified with positions in global currency and financial and commodity markets.

The objective of the third Fund is to seek total return. Over an investment cycle, the Fund expects to achieve net returns commensurate with the long-term return on equities with less volatility, and a relatively low degree of correlation to the equity markets. The Fund seeks to achieve its objective by investing directly or indirectly in private funds or other pooled investment vehicles or accounts organized outside the United States ("Portfolio Funds") generally believed not to be highly correlated with the Standard & Poor's 500 Index over a long-term time horizon. The Fund may also invest directly in securities (other than those of Portfolio Funds) or other financial instruments.

Because investment funds following alternative investment strategies are often described as hedge funds, the investment programs of these Funds can be described as a fund of hedge funds. At June 30, 2014, the Funds did not have any unfunded commitments. Redemption of the first Fund can occur with written notice of 65 days and are at the sole discretion of the Fund's board of directors and may be restricted if they will negatively impact the Fund's overall performance. The second fund has no redemption restrictions. The third fund offers redemption from time to time, but no assurance can be given that these redemptions will occur as scheduled or at all as they will be conducted at the sole discretion of the Fund's board of directors.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with investments, it is at least reasonably possible that changes in market conditions in the near term would materially affect the amounts reported in the accompanying financial statements.

6. Accounts Receivable and Revenues

Accounts receivable and revenues by funding source are as follows:

As of June 30, 2014	Accounts Receivable	Revenue
New York City	$ 3,443,391	$ 20,886,571
New York State	2,137,141	18,978,732
Suffolk County	1,507,711	8,582,587
Nassau County	213,567	1,237,054
Other	37,460	315,615
	$ 7,339,270	$ 50,000,559

As of June 30, 2013	Accounts Receivable	Revenue
New York City	$ 3,354,617	$ 22,235,002
New York State	2,671,010	19,797,457
Suffolk County	1,482,027	7,999,387
Nassau County	254,001	1,176,988
Other	42,804	355,387
	$ 7,804,459	$ 51,564,221

During the year ended June 30, 2014, the Agency began a day habilitation program. During the year ended June 30, 2013, the Agency discontinued its day care program.

7. Land, Building and Improvements, and Equipment, Net

Land, building and improvements, and equipment, net, consist of the following:

As of June 30,	2014	2013
Land	$ **302,144**	$ 302,144
Buildings and Improvements	**16,794,878**	16,677,180
Furniture and Equipment	**2,202,575**	2,060,357
Vehicles	**962,298**	824,991
Other	**461,796**	346,166
	20,723,691	20,210,838
Less Accumulated Depreciation and Amortization	**10,406,172**	9,602,920
	$ **10,317,519**	$ 10,607,918

8. Construction in Progress

At June 30, 2014 and 2013, construction in progress of $29,525 and $5,300, respectively, consisted of payments made for miscellaneous improvement projects and restoration work. Construction in progress at June 30, 2013 was completed and placed into service during 2014. There are no future commitments at June 30, 2014 in regards to construction in progress.

9. Management Services Agreement

On March 1, 2014, the Agency entered into a management services agreement (the "Agreement") with St. John's Residence for Boys, Inc. ("St. Johns") for a period of one year. The Agreement automatically renews for successive one year periods unless terminated by 90 days written notice by either party or written notice by one party within 30 days of a breach by the other. The Agency provides administrative and financial functions to St. Johns under this agreement. During the years ended June 30, 2014 and 2013, amounts charged to St. John's under this agreement amounted to approximately $89,000 and $54,000, respectively.

10. Due to Governmental Agencies

Due to governmental agencies represents net payments received in prior years, in excess of amounts earned, and overpayments received from New York City and New York State. Amounts are due upon final audit and reconciliation by the governmental agencies and are not expected to be materially different from the recorded amounts. During the year ended June 30, 2014, the Agency experienced a decline in foster boarding home program enrollment. As a result, the due to other governmental agencies liability significantly decreased from June 30, 2013. The liability adjustment due to a decline in enrollment is reflected as a foster care accrual adjustment on the statements of activities and changes in net assets for the year ended June 30, 2014.

11. Long-Term Debt

Long-term debt consists of the following:

As of June 30,	**2014**	2013
Mortgage payable in monthly installments of $4,531 through September 2020, bearing interest at 9.10% per annum, collateralized by the respective property.	$ **267,714**	$ 296,599
Mortgage payable in monthly installments of $14,121 through January 2019 and $6,833 from February 2019 through January 2028, bearing interest at 4.46% per annum, collateralized by the respective property.	**1,113,425**	1,230,377
Vehicle capital leases, which are payable in total monthly installments of $5,464, with maturity dates between August 2016 and April 2019, bearing interest at rates ranging from 1.99% to 7.55% per annum.	**216,965**	128,265
Mortgages payable in total monthly installments of $7,382 through June 2018 and $5,536 through June 2018, bearing interest rates ranging from 2.50% to 5.00%, collateralized by the respective property.	**749,539**	800,135
Vehicle loans payable, one of which is payable in monthly installments of $1,186 through January 2014, bearing interest at 5.99% per annum, and one of which is payable in monthly installments of $1,147 through August 2017, bearing interest at 4.49% per annum.	**40,573**	8,058
Telephone capital lease payable in monthly installments of $1,099 through November 2016, bearing interest at 9.48% per annum.	**27,519**	37,579
	2,415,735	2,501,013
Less Current Maturities	**285,269**	214,637
	$ **2,130,466**	$ 2,286,376

Long-term debt matures approximately as follows:

For the Years Ending June 30,	Capital Leases	Long-Term Debt	Total
2015	$ 65,000	$ 220,000	$ 285,000
2016	69,000	231,000	300,000
2017	62,000	244,000	306,000
2018	40,000	201,000	241,000
2019	8,000	142,000	150,000
Thereafter	-	1,134,000	1,134,000
	$ 244,000	$ 2,172,000	$ 2,416,000

The book value of equipment underlying the capital lease obligations, net of accumulated amortization of $101,000, approximated $289,000 at June 30, 2014. Amortization expense for the years ended June 30, 2014 and 2013 approximated $58,000 and $32,000, respectively.

Interest expense for the years ended June 30, 2014 and 2013 approximated $132,000 and $81,000, respectively.

12. Workers' Compensation Trust Fund Deficit Payable

The Agency received notification in December 2010 that the workers' compensation trust fund it participated in through the year ended June 30, 2007 was underfunded by approximately $14,800,000. The Agency's share of this deficit was estimated to be approximately $1,186,000 and is to be paid over five years, in equal installments, beginning in the year ended June 30, 2011. At June 30, 2014 and 2013, the outstanding balance with respect to this matter was approximately $204,000, after accounting for a present value discount. Payment was made in August 2014 reducing this liability to zero.

13. Net Assets

Temporarily restricted net assets - Temporarily restricted net assets at June 30, 2014 and 2013 consist of amounts restricted by donors for the provision of the culinary arts program, scholarships, the campus industry program and special events for children and are approximately as follows:

As of June 30,	**2014**	2013
Purpose Restrictions:		
Culinary arts program	$ **405,000**	$ 340,000
Scholarships	**131,000**	114,000
Campus industry program	**55,000**	25,000
Special events for children	**3,000**	4,000
	$ **594,000**	$ 483,000

Release of temporarily restricted net assets - During the years ended June 30, 2014 and 2013, net assets of approximately $65,000 and $48,000, respectively, were released from restrictions by incurring expenses satisfying the restricted purpose as stipulated by the donors as follows:

For the Years Ended June 30,	**2014**	2013
Purpose Releases:		
Special events for children	$ **2,000**	$ -
Scholarships	**24,000**	14,000
Culinary arts program	**39,000**	31,000
Campus industry program	**-**	3,000
	$ **65,000**	$ 48,000

14. Fundraising and Special Events, Net

The Agency generated revenue from the following special events during the years ended June 30, 2014 and 2013:

	Gross Revenue	**Direct Benefit to Donors**	**Classified as Temporarily Restricted Net Assets**	**2014 Net Revenue**
Golf Outing	$ **109,280**	$ **31,348**	$ **74,027**	$ **3,905**
Humanitarian Award	**324,381**	**79,675**	**-**	**244,706**
Donor Reception	**40,325**	**-**	**-**	**40,325**
Holiday Dinner Dance	**1,080**	**-**	**-**	**1,080**
Total	$ **475,066**	$ **111,023**	$ **74,027**	$ **290,016**

	Gross Revenue	Direct Benefit to Donors	Classified as Temporarily Restricted Net Assets	2013 Net Revenue
Golf Outing	$ 141,785	$ 33,702	$ 104,400	$ 3,683
Humanitarian Award	152,685	58,241	-	94,444
Donor Reception	51,200	6,157	-	45,043
Holiday Dinner Dance	41,460	11,063	-	30,397
Total	$ 387,130	$ 109,163	$ 104,400	$ 173,567

15. Transactions with Affiliate

The Agency is a related party to the Little Flower Union Free School District (the "School"), which operates on its premises. Certain officers and board members of the Agency are also board members of the School. Current amounts due from affiliate represent certain operating expenses of the School paid by the Agency, and general and administrative services provided by the Agency, which aggregated approximately $8,000 and $15,000 for the years ended June 30, 2014 and 2013, respectively.

During fiscal year 2013, the Agency entered into a contract to renovate the lobby at the School. At June 30, 2013, approximately $197,000 of costs were incurred related to this renovation. Additional costs of approximately $154,000 were incurred related to this renovation during fiscal year 2014. The renovation was completed during fiscal year 2014. The School intends to repay the Agency for the total cost of approximately $351,000 for this renovation over a period of 25 years. The Agency and the School anticipate finalizing a written agreement related to this renovation during the year ending June 30, 2015.

16. Pension Plan

The Agency maintains a tax deferred annuity plan which is available to all employees. This plan is employee contributory only.

The Agency maintains a noncontributory supplemental retirement plan and trust as defined by Section 403(b) of the United States Internal Revenue Code. The plan covers all eligible employees. Contributions to the plan are discretionary and determined by the board of directors each year. For the years ended June 30, 2014 and 2013, no contributions were made.
Through June 30, 2014, the Agency was a participant in a pension plan that has been characterized for financial accounting purposes as a multi-employer pension plan (the "Diocesan Plan"), a noncontributory defined benefit plan established by the Diocese of Brooklyn. This plan covers certain administrative and field supervisory employees. The risks of participating in a multi-employer plan are different from single-employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating entity stops contributing to the multi-employer plan, the unfunded obligations of the plan may be borne by the remaining participating entities.
- If an entity petitions to stop participating in the multi-employer plan, the entity may be required to pay the plan a withdrawal liability based on the funded status of the plan.

The Diocesan Plan is designed to provide retirement benefits for eligible lay employees of participating Diocesan entities. Any employee becomes eligible for participation in the Diocesan Plan upon attaining the age of 25 and completing one year of continuous service and becomes fully vested upon completion of five years of vesting service. Employees who terminate employment with five or more years of vesting service are entitled to an annual deferred-vested pension based on benefits earned to the date of termination.

The Agency's pension plan expense is equal to the required annual contributions to the Diocesan Plan, which is calculated based on actuarially determined methods. Amounts charged to pension costs for the years ended June 30, 2014 and 2013 totaled approximately $1,070,000 and $1,238,000, respectively, and are included in the accompanying statements of activities and changes in net assets. Required annual contributions represent approximately 5.86% and 5.73% of total contributions to the Diocesan Plan for the years ended June 30, 2014 and 2013, respectively.

Notes to Financial Statements

As of and for the Years Ended June 30, 2014 and 2013

The following table discloses the name and funded status of the Roman Catholic Dioceses of Brooklyn Lay Pension Plan (EIN 13-3795042) as of January 1, 2013 (the date of the latest actuarial valuation), inclusive of the fair value of plan assets as of December 31, 2013 and 2012, respectively:

Valuation Date	Actuarial Present Value of Accumulated Plan Benefits	Fair Value of Plan Assets	Total Net Contributions	Funded Status
January 1, 2013	$835,000,000	$623,000,000	$21,000,000	Between 65% and 80% funded.
January 1, 2012	$876,000,000	$611,000,000	$21,000,000	Between 65% and 80% funded.

During the years ended June 30, 2014 and 2013, the Agency did not pay a surcharge to the Diocesan Plan nor did the Diocesan Plan have a rehabilitation plan implemented or pending.

Effective June 30, 2014, the Agency ceased participation in the Diocesan Plan. The Agency plans to transfer its identified portion of the Diocesan Plan assets and liabilities to a new multi-employer defined benefit plan which will continue to be funded by future Agency contributions.

17. Commitments and Contingencies

Operating leases - The Agency is obligated under various noncancellable operating leases for certain of its facilities and equipment, expiring through October 31, 2019. Future minimum lease payments under these operating leases are as follows:

For the Years Ending June 30,	Real Property	Equipment	Total
2015	$ 1,244,000	$ 137,000	$ 1,381,000
2016	1,231,000	46,000	1,277,000
2017	1,128,000	7,000	1,135,000
2018	1,118,000	3,000	1,121,000
2019	1,140,000	2,000	1,142,000
	$ 5,861,000	$ 195,000	$ 6,056,000

Facility rent expense for the years ended June 30, 2014 and 2013 approximated $1,248,000 and $1,327,000, respectively.

Equipment rental expense for the years ended June 30, 2014 and 2013 approximated $203,000 and $202,000, respectively.

In October 2013, the Agency terminated the lease associated with one of their Brooklyn locations. Deferred rent and leasehold improvements related to this location were written off during the year ended June 30, 2014.

Guarantee - The Agency has pledged investments up to $800,000 to the Suffolk County National Bank to secure borrowings of the Little Flower Union Free School District ("LFUFSD"). LFUFSD owed $800,000 under a revenue anticipation note agreement at June 30, 2014. This guarantee expires on June 12, 2015.

Collective bargaining agreement - Approximately 41% of the Agency's labor force is covered by a collective bargaining agreement expiring June 30, 2016.

18. Government Funding and Possible Rate Adjustments

Substantial funding of programs is provided to the Agency by New York State, New York City, and the counties of Suffolk and Nassau. Continuation of such funding is dependent on budgetary allocations from such agencies. In addition, reimbursements under contracts or rates are subject to audit by various agencies on a regular basis. Liabilities, if any, resulting from these audits are not presently determinable.

Changes in contract amounts due or payable resulting from audit adjustments or rate appeals are reflected in the operations of the Agency when such adjustments are determined or can be reasonably estimated.

19. Off-Balance Sheet Risk and Concentrations of Credit Risk

Financial instruments which potentially subject the Agency to concentrations of credit risk consist principally of temporary cash investments and accounts receivable from government agencies. The Agency places its temporary cash investments with high credit quality financial institutions. Accounts receivable are predominately from state and local government agencies, including Medicaid, other third-party and private payors. At times throughout the year, the Agency's cash balances with any one financial institution may exceed the federal depository insurance coverage limit.

20. Litigation

The Agency is subject to lawsuits and claims with respect to matters arising in the normal course of business. The Agency defends its position on all actions. In the opinion of management, the ultimate liabilities, if any, from these lawsuits or claims will not materially affect the financial position of the Agency. Nevertheless, due to the uncertainty of the settlement process, management's view of the outcome may be modified in the future.

21. Reversion Clause

The Agency's main facility is located on land in Wading River, New York, that is owned by the Roman Catholic Diocese of Brooklyn (the "Diocese"). This land is subject to reversion by the Diocese should the Agency cease to operate in accordance with its mission.

SUPPLEMENTARY INFORMATION

penses

(with comparative totals for 2013)

	Program Services										Management and General	Fundraising	2014 Total Expenses	2013 Total Expenses
	Foster Boarding Home	Bridges to Health	Medical/ Mental Health	Residential Treatment Center	Adult Residential Services	Day Habilitation	Family Care	Elder Care	Grants	Total				
	$ 6,089,695	$2,550,863	$ 2,029,537	$5,639,874	$ 4,648,714	$ 67,202	$ 857,171	$ 97,214	$ -	$22,180,270	$ 2,258,767	$ 172,603	$ 24,611,640	$23,196,540
	1,753,180	712,108	616,783	1,569,893	1,269,959	21,045	244,715	28,784	-	6,216,467	646,531	48,660	6,911,658	7,011,360
loyee Benefits	7,842,875	3,262,971	2,646,320	7,409,767	5,918,673	88,247	1,101,886	125,998	-	28,396,737	2,905,298	221,263	31,523,298	30,207,900
	7,237,101	-	-	-	-	-	1,398,277	-	-	8,635,378	-	-	8,635,378	10,272,621
	210,110	134,429	9,915	77,291	56,942	19,124	44,283	47	-	552,141	14,151	2,129	568,421	592,195
	145,266	227	-	192,610	30,927	2,069	950	-	-	372,049	-	-	372,049	364,683
	-	-	-	-	-	-	-	-	-	-	17,250	-	17,250	27,000
	757,904	11,869	1,094,932	156,086	1,039,500	1,965	45,130	2,371	-	3,109,757	123,688	9,354	3,242,799	3,050,230
	2,586	-	-	449,742	173,802	544	-	-	-	626,674	-	-	626,674	650,773
	998	-	-	59,433	23,915	-	-	-	-	84,346	-	-	84,346	78,486
	63,384	8,176	305,289	229,806	230,946	6,669	11,478	105	-	855,853	19,806	243	875,902	781,518
	903,421	64,758	85,569	-	129,139	-	12,254	12,503	-	1,207,644	18,202	22,027	1,247,873	1,327,247
	63,193	11,949	38,210	11,306	16,121	822	15,520	1,999	-	159,120	33,625	10,047	202,792	202,327
	158,991	24,252	85,209	337,970	146,180	10,791	41,064	1,251	-	805,708	104,651	2,086	912,445	871,029
	138,118	5,725	37,396	353,503	122,072	10,926	13,562	1,085	-	682,387	54,202	6,414	743,003	693,561
	89,643	10,814	24,629	40,219	38,620	-	7,637	1,053	-	212,615	23,342	1,854	237,811	251,421
	96,163	14,420	31,614	22,957	15,712	12,386	9,166	4,275	-	206,693	84,993	3,532	295,218	271,420
	15,149	-	778	8,639	12,038	284	5,728	-	-	42,616	62,112	12,285	117,013	94,683
	7,526	1,141	-	77	1,183	-	1,878	-	-	11,805	2,587	-	14,392	15,693
	39,662	12,778	-	45,060	36,397	124	6,949	-	-	140,970	35,517	58,230	234,717	174,170
	2,601	1,984	4,843	10,537	11,264	2,958	6,506	-	-	40,693	8,517	2,658	51,868	43,814
	347,591	-	-	-	281,828	-	-	-	-	629,419	253,576	-	882,995	983,204
	174,194	38,385	55,873	238,807	140,210	220	28,643	1,222	-	677,554	101,395	3,316	782,265	737,362
	45,474	358	9,679	2,474	2,240	-	454	972	-	61,651	7,069	841	69,561	37,703
	68,643	15,377	22,603	221,028	113,240	4,794	4,525	417	14,089	464,716	402,263	1,799	868,778	893,404
	9,728	3,543	5,169	38,902	103,826	497	1,678	219	-	163,562	2	39,008	202,572	149,160
	493	5,662	14,247	2,961	8,909	-	4,850	-	-	37,122	-	-	37,122	24,858
	10,677,939	365,847	1,825,955	2,499,408	2,735,011	74,173	1,660,532	27,519	14,089	19,780,473	1,366,948	175,823	21,323,244	22,588,562
	$18,420,814	$3,628,818	$ 4,472,275	$ 9,909,175	$ 8,653,684	$ 162,420	$ 2,762,418	$153,517	$14,089	$48,177,210	$ 4,272,246	$ 397,086	$ 52,846,542	$52,796,462

upplementary information.

LITTLE FLOWER CHILDREN AND FAMILY SERVICES OF NEW YORK

Wading River, New York

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Including Independent Auditors' Report

For the Years Ended June 30, 2013 and 2012

Contents

Years Ended June 30, 2013 and 2012

FINANCIAL STATEMENTS

BAKER TILLY

formerly
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Little Flower Children and
Family Services of New York
Wading River, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Little Flower Children and Family Services of New York (the "Agency"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and changes 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 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 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 financial statements are free from 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 auditors consider 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.

Board of Directors
Little Flower Children and
Family Services of New York

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Little Flower Children and Family Services of New York as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 17 is presented for the purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements taken as a whole.

Baker Tilly Virchow Krause, LLP

Melville, New York
December 3, 2013

Statements of Financial Position

June 30,	2013	2012
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,840,618	$ 1,389,015
Cash held as agent	350,135	333,746
Short-term investments	5,030,187	5,322,406
Accounts receivable, net of allowance for doubtful accounts of $59,097 and $60,000 at June 30, 2013 and 2012, respectively	7,804,459	9,804,578
Grants receivable	124,874	46,876
Due from affiliate	15,276	24,588
Prepaid expenses and other current assets	642,959	370,252
Total Current Assets	16,808,508	17,291,461
Land, Buildings and Improvements, and Equipment, net	10,607,918	10,731,449
Construction in Progress	5,300	2,800
Restricted Cash	58,482	-
Due From Affiliate - Long-Term	196,579	-
Other Assets	5,764	5,764
Total Assets	$ 27,682,551	$ 28,031,474
Liabilities and Net Assets		
Current Liabilities:		
Notes payable	$ -	$ 155,300
Accounts payable and accrued expenses	2,019,753	2,572,347
Accounts payable held as agent	350,135	333,746
Due to governmental agencies	4,480,680	5,193,247
Accrued salaries and related costs	1,039,503	1,070,681
Refundable advances	98,760	121,267
Current portion of long-term debt	176,710	105,693
Current portion of capital leases payable	37,927	16,588
Current portion of workers' compensation trust fund deficit payable	203,828	225,867
Total Current Liabilities	8,407,296	9,794,736
Long-Term Debt	2,158,459	1,347,779
Capital Leases Payable	127,917	69,888
Accrued Compensated Absences Payable	2,744,228	2,728,134
Deferred Rent	796,550	919,097
Long-Term Workers' Compensation Trust Fund Deficit Payable	-	215,111
Total Liabilities	14,234,450	15,074,745
Commitments and Contingencies		
Net Assets:		
Unrestricted	12,965,350	12,572,164
Temporarily restricted	482,751	384,565
Total Net Assets	13,448,101	12,956,729
Total Liabilities and Net Assets	$ 27,682,551	$ 28,031,474

See notes to financial statements.

Statements of Activities and Changes in Net Assets

Years Ended June 30,	2013	2012
Unrestricted Net Assets		
Revenue:		
Program services:		
Foster Boarding Home	$ 20,084,203	$ 23,710,266
Bridges to Health	4,662,990	4,436,224
Medical/Mental Health	4,447,911	4,234,925
Residential Treatment Center	9,978,158	9,341,207
Adult Residential Services	8,864,599	5,940,635
Day Care	742,140	4,485,380
Family Care	2,595,709	2,432,417
Elder Care	181,500	177,915
Grants	7,011	14,000
Total program services	51,564,221	54,772,969
Other Revenue:		
Contributions, including in-kind donations of $274,750 for the year ended June 30, 2013	580,196	382,034
Fundraising and special events, net	173,567	182,187
Other income	206,444	159,363
Interest and investment income (loss), net	650,613	(82,419)
Net assets released from restrictions	47,949	336,160
Total Other Revenue	1,658,769	977,325
Total Revenue	53,222,990	55,750,294
Expenses:		
Program services:		
Foster Boarding Home	20,080,820	23,858,189
Bridges to Health	3,735,290	3,171,979
Medical/Mental Health	4,618,571	4,954,791
Residential Treatment Center	8,547,834	8,422,323
Adult Residential Services	7,673,987	5,991,530
Day Care	784,024	4,333,860
Family Care	2,521,616	2,364,447
Elder Care	167,792	161,803
Grants	14,089	14,089
Total program services	48,144,023	53,273,011
Supporting services:		
Management and general	4,272,293	4,105,719
Fundraising	380,146	459,289
Total supporting services	4,652,439	4,565,008
Total Expenses	52,796,462	57,838,019
Change in Unrestricted Net Assets before Workers' Compensation Trust Fund Deficit Adjustment	426,528	(2,087,725)
Workers' Compensation Trust Fund Deficit Accrual	(33,342)	(63,258)
Change in Unrestricted Net Assets	393,186	(2,150,983)
Temporarily Restricted Net Assets:		
Contributions	37,707	28,612
Special events, net	104,400	84,101
Interest and investment income, net	4,028	248
Net assets released from restrictions	(47,949)	(336,160)
Change in Temporarily Restricted Net Assets	98,186	(223,199)
Changes in Net Assets	491,372	(2,374,182)
Net Assets, beginning of year	12,956,729	15,330,911
Net Assets, end of year	$ 13,448,101	$ 12,956,729

See notes to financial statements.

Statements of Cash Flows

Years Ended June 30,	2013	2012
Cash Flows from Operating Activities:		
Change in net assets	$ 491,372	$ (2,374,182)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	893,404	760,039
Gain on sale of fixed assets	(508)	(3,743)
Decrease in allowance for doubtful accounts	(903)	(108)
Net realized and unrealized (gains) losses	(482,807)	325,430
Deferred rent	(122,547)	428,912
Donated equipment	(274,750)	-
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	2,001,022	382,911
Grants receivable	(77,998)	(4,966)
Prepaid expenses and other current assets	(272,707)	(54,180)
Due from affiliate	9,312	14,102
Cash held as agent	(16,389)	(4,622)
Other assets	-	77,216
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(552,594)	(262,710)
Accrued salaries and related costs	(31,178)	(8,142)
Refundable advances	(22,507)	45,708
Workers' compensation trust fund deficit payable	(237,150)	(411,197)
Due to governmental agencies	(712,567)	421,106
Accrued compensated absences payable	16,094	(89,309)
Accounts payable held as agent	16,389	4,622
Net Cash Provided by (Used in) Operating Activities	622,988	(753,113)
Cash Flows from Investing Activities:		
Proceeds from sale of investments	1,339,687	2,586,609
Purchase of investments	(564,661)	(1,376,435)
Purchase of land, building and improvements, and equipment	(392,621)	(2,947,922)
(Increase) decrease in construction in progress	(2,500)	1,291,090
Increase in due from affiliate - long-term	(196,579)	-
Increase in restricted cash	(58,482)	-
Proceeds from sale of fixed assets	508	3,743
Net Cash Provided by (Used in) Investing Activities	125,352	(442,915)
Cash Flows from Financing Activities:		
Proceeds from note payable	-	500,452
Principal payments on long-term debt	(73,547)	(83,376)
Proceeds from long-term debt	799,944	-
Principal payments on capital leases	(23,134)	(11,411)
Net Cash Provided by Financing Activities	703,263	405,665
Net Increase (Decrease) in Cash and Cash Equivalents	1,451,603	(790,363)
Cash and Cash Equivalents, beginning of year	1,389,015	2,179,378
Cash and Cash Equivalents, end of year	$ 2,840,618	$ 1,389,015
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ 81,185	$ 28,080

Noncash Transactions:

During the years ended June 30, 2013 and 2012, the Agency acquired three and four vehicles, respectively, via capital lease financing in the amounts of approximately $59,000 and $98,000, respectively. The Agency also acquired telephone and video equipment via capital lease financing in the amount of approximately $44,000 during the year ended June 30, 2013. During the year ended June 30, 2013, the Agency converted $1,239,878 of notes payable to long-term debt.

See notes to financial statements.

1. Description of Organization and Summary of Significant Accounting Policies

Nature of operations - Little Flower Children and Family Services of New York (the "Agency") is a non-profit corporation operating in New York State. The Agency was organized to care for neglected and dependent children in a residential or foster home setting and to provide for the spiritual, physical and intellectual welfare of such children. The Agency also provides social, mental health and residential services for adults. During the year ended June 30, 2013, the Agency discontinued their day care program.

Basis of presentation - The financial statements have been prepared on the accrual basis and distinguishes net assets between unrestricted and temporarily restricted net assets. The Agency does not possess any permanently restricted net assets.

Contributions - The Agency reports gifts of cash or 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 statements of activities and changes in net assets as net assets released from restrictions. Temporarily restricted contributions that originate in a given year and are released from restriction in the same year by meeting the donors' restricted purposes are reflected in unrestricted net assets.

The Agency reports gifts of property, plant 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 these long-lived assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Investments - Investments are carried at fair value based upon their quoted market prices. Investments subject to the provisions of Accounting Standards Update 2009-12, *"Investments in Certain Entities That Calculate Net Asset Value per Share"*, with no readily determinable fair values are recorded at net asset value per share as a practical expedient to estimating fair value. Investments are shown net of the related commission and consulting fees, which approximated $39,000 and $47,000 for the years ended June 30, 2013 and 2012, respectively. Realized and unrealized gains and losses on investments are reported in the 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.

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 Agency must determine whether its assets and liabilities recorded at fair value were based on Level 1 (valued based on quoted prices in an active market for identical assets), Level 2 (valued based on significant other observable inputs), or Level 3 (valued based on significant unobservable inputs) measurements within the fair value hierarchy.

Plant assets, depreciation and amortization - Plant assets are stated at cost when purchased and donated assets are stated at fair market value at date of donation. The Agency capitalizes property and equipment with a cost of $1,000 or higher, and a useful life of at least two years. Depreciation of buildings and improvements and equipment is provided over the estimated useful lives of the respective assets (ranging from 3 to 40 years) on a straight-line basis. Depreciation and amortization expense for the years ended June 30, 2013 and 2012 approximated $893,000 and $760,000, respectively.

Deferred rent payable - Deferred rent payable represents the cumulative difference between rental expense determined on a straight-line basis, in accordance with accounting principles generally accepted in the United States of America, and the stated amount per the lease agreement.

Accounts receivable and revenues - Accounts receivable and revenues for services are recorded at rates established by state, city and local governments and agencies. Additionally, the Agency receives contributions and grants from individuals, organizations, and fundraising events.

Allowance for doubtful accounts - Periodically, the accounts receivable balances are reviewed and evaluated as to their collectability. An allowance is then set-up based on these evaluations. A receivable balance is considered past due once it has not been received by its scheduled due date..

Donated goods and services - Donated services requiring specific expertise and donated goods are recorded as in-kind contributions and expensed or capitalized at their fair market value as determined by donors.

During the years ended June 30, 2013 and 2012, a number of general volunteers have donated significant amounts of their time in program services and fundraising campaigns. Such services have not been recognized, since they do not meet the criteria for recognition. During the year ended June 30, 2013, the Agency received donated software with a fair market value of approximately $275,000 which was capitalized as equipment.

Statement of cash flows - For purposes of the statement of cash flows, the Agency considers all highly liquid debt instruments with maturities of three months or less, at the date of purchase, to be cash equivalents.

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

Income taxes - The Agency qualifies as a tax-exempt, not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and as a non-profit corporation in New York State. Accordingly, no provision for federal or state income taxes is required.

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.

Advertising - All costs associated with advertising are expensed as incurred. For the year ended June 30, 2012, advertising expenses amounted to approximately $4,000. No advertising expenses were incurred for the year ended June 30, 2013.

Uncertain tax positions - Management evaluated the Agency's tax positions and concluded that the Agency had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of FASB Accounting Standards Codification No. 740. With few exceptions, the Agency is no longer subject to income tax examinations by the United States federal, state or local tax authorities for the years before 2010, which is the standard statute of limitations look-back period.

Evaluation of subsequent events - Management has evaluated subsequent events through December 3, 2013 for inclusion or disclosure in the financial statements.

Reclassifications - Certain 2012 amounts and descriptions have been reclassified to conform to the 2013 financial statement presentation. These reclassifications have no effect on previously reported changes in net assets.

2. Cash Held as Agent

The Agency acts as agent for adult consumers that participate in their programs, who receive benefits and retirement income payments from governmental and private sources. The Agency maintains the records and is responsible for disbursing payments out of these funds for consumer's personal expenses. Cash held as agent represents the net amount available to the clients at June 30, 2013 and 2012.

Notes to Financial Statements
Years Ended June 30, 2013 and 2012

3. Restricted Cash

At June 30, 2013, restricted cash of approximately $58,000 represents amounts to be utilized to purchase vehicles for the Agency's Adult Residential Services programs.

4. Short-Term Investments

Short-term investments consist of the following:

June 30, 2013	Cost	Market Value
Short-Term Investments in Equity Securities, Fixed-Income Securities, Mutual Funds and Alternative Investments	$ 4,890,940	$ 5,030,187

June 30, 2012	Cost	Market Value
Short-Term Investments in Equity Securities, Fixed-Income Securities, Mutual Funds and Alternative Investments	$ 5,007,913	$ 5,322,406

5. Fair Value Measurements

Investment composition and classification of investments within the fair value hierarchy, was as follows:

June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Mutual Funds:			
Intermediate-Term Bond	$ 737,612	$ -	$ 737,612
Specialty	1,223,160	-	1,223,160
Moderate Allocation	365,248	-	365,248
Large-Cap Blend	363,685	-	363,685
Small-Blend	193,171	-	193,171
Large Growth	370,013	-	370,013
Total Mutual Funds	3,252,889	-	3,252,889
Common Stocks:			
Technology/Communication	176,020	-	176,020
Consumer Goods	156,871	-	156,871
Financial	172,592	-	172,592
Services	37,201	-	37,201
Materials - Basic	93,324	-	93,324
Health Care	85,926	-	85,926
Utilities/Energy	103,691	-	103,691
Industrial Goods	53,842	-	53,842
Total Common Stocks	879,467	-	879,467
Fixed-Income Securities:			
Corporate	141,754	-	141,754
Total Fixed-Income Securities	141,754	-	141,754
Other:			
Hedge Funds	-	756,077	756,077
Total Investments	$ 4,274,110	$ 756,077	$ 5,030,187

June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Mutual Funds:			
Intermediate-Term Bond	$ 935,142	$ -	$ 935,142
Specialty	800,424	-	800,424
Moderate Allocation	718,831	-	718,831
Large-Cap Blend	327,923	-	327,923
Small-Blend	127,569	-	127,569
Large Growth	16,913	-	16,913
Total Mutual Funds	2,926,802	-	2,926,802
Common Stocks:			
Technology/Communication	293,803	-	293,803
Consumer Goods	166,794	-	166,794
Financial	161,765	-	161,765
Services	161,316	-	161,316
Materials - Basic	156,713	-	156,713
Health Care	148,996	-	148,996
Utilities/Energy	68,117	-	68,117
Industrial Goods	35,577	-	35,577
Total Common Stocks	1,193,081	-	1,193,081
Fixed-Income Securities:			
U.S. Treasuries	89,682	-	89,682
Corporate	57,116	-	57,116
Total Fixed-Income Securities	146,798	-	146,798
Other:			
Hedge Funds	-	1,055,725	1,055,725
Total Investments	$ 4,266,681	$ 1,055,725	$ 5,322,406

The Agency invests in two hedge funds (the "Funds") that have no readily determinable fair value. The Funds are recorded at net asset value, which represents fair value, and are based on the values provided by the general partner and/or fund managers of the Funds. The objective of one of the Funds is to achieve capital appreciation principally through investing in investment funds managed by third-party investment managers that employ a variety of alternative investment strategies. These investment strategies allow flexibility of using leverage or short-side positions to take advantage of perceived inefficiencies across the global markets, often referred to as "alternative" strategies. The objective of the other Fund is to produce positive long-term returns of 10% to 12% per annum over the risk-free rate. Diversification is achieved at both the Trading Fund trading style and market sector level. This Fund, through its allocation of assets to the Trading Funds, invests in a range of trading styles, including long-term trend following, short-term systematic, value, discretionary macro and specialist FX strategies; market exposure is broadly diversified with positions in global currency and financial and commodity markets. Because investment funds following alternative investment strategies are often described as hedge funds, the investment programs of these Funds can be described as a fund of hedge funds. At June 30, 2013, the Funds did not have any unfunded commitments. Redemption of one of the Funds can occur with written notice of 65 days and are at the sole discretion of the Fund's board of directors and may be restricted if they will negatively impact the Fund's overall performance. The other Fund has no redemption restrictions.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with investments, it is at least reasonably possible that changes in market conditions in the near term would materially affect the amounts reported in the accompanying financial statements.

6. Accounts Receivable and Revenues

Accounts receivable and revenues by funding source are as follows:

Year Ended June 30, 2013	Accounts Receivable	Revenue
New York City	$ 3,354,617	$ 22,235,002
New York State	2,671,010	19,797,457
Suffolk County	1,482,027	7,999,387
Nassau County	254,001	1,176,988
Other	42,804	348,576
	$ 7,804,459	$ 51,557,410

Year Ended June 30, 2012	Accounts Receivable	Revenue
New York City	$ 4,053,727	$ 24,737,386
New York State	2,083,262	16,516,306
Suffolk County	3,144,709	11,303,030
Nassau County	311,550	1,487,300
Other	211,330	667,491
	$ 9,804,578	$ 54,711,513

During the year ended June 30, 2013, the Agency discontinued their day care program.

7. Land, Building and Improvements, and Equipment, Net

Land, building and improvements, and equipment, net, consist of the following:

June 30,	2013	2012
Land	$ 302,144	$ 302,144
Buildings and Improvements	16,677,180	16,403,451
Furniture and Equipment	2,060,357	1,637,957
Vehicles	824,991	782,324
Other	346,166	335,915
	20,210,838	19,461,791
Accumulated Depreciation and Amortization	9,602,920	8,730,342
	$ 10,607,918	$ 10,731,449

8. Construction in Progress

At June 30, 2013 and 2012, construction in progress of $5,300 and $2,800, respectively, consisted of payments made for restoration work. Construction in progress at June 30, 2012 has been completed and placed into service during 2013. There are no future commitments at June 30, 2013 in regards to this construction in progress.

9. Notes Payable

In December 2010, the Agency entered into two short-term borrowing agreements, which expired on September 30, 2012, with a financial institution for total available financing of $1,185,000. This financing was utilized for the acquisition of, and related development of, a facility located in Laurelton, New York, which will serve as a residence for consumers of the Agency with developmental disabilities. This financing is collateralized by the facility and depository accounts held by the Agency at the financial institution. The notes bear interest at the greater of 5% or the financial institutions prime rate plus 1%.

During the year ended June 30, 2013, the financial institution that held the two short-term borrowing agreements assigned its rights for these two agreements to The Community Preservation Corporation ("CPC"), a not-for-profit corporation organized and existing under the laws of New York. At June 30, 2012, the amount outstanding under these agreements was $1,084,769. The notes bear interest at the greater of 5% or the financial institutions prime rate (3.25% at June 30, 2013) plus 1%. On December 7, 2012, the Agency entered into a borrowing arrangement with CPC in the amount of $202,161 ("Original Note"). CPC then consolidated these three existing notes into one consolidated, amended, and restated long-term note ("Consolidated Note") for $1,286,930 on December 7, 2012 utilizing the same terms as the Original Note. The Consolidated Note, which matures on January 1, 2028, bears interest at an annual rate of 4.46%. Monthly payments of $14,121 commenced on February 1, 2013 and will be reduced to $6,833 starting February 1, 2019 through maturity. This financing is collateralized by the facility located in Laurelton, New York. As the amount outstanding under the notes at June 30, 2012 was refinanced during the year ended June 30, 2013 as described above, the amount outstanding under the notes are presented as long-term debt at both June 30, 2013 and 2012.

On August 16, 2011, the Agency entered into a short-term borrowing arrangement with a financial institution in which the Agency borrowed $721,000 to finance the installation of a six-bed individualized residential alternative facility located in Wading River, New York, which will serve as a residence for consumers of the Agency with developmental disabilities. This loan, which is collateralized by all assets of the Agency, bears interest at the financial institution's base rate (4.5% as of the closing date) plus .05% and is due on August 16, 2012. At June 30, 2012, the amount outstanding under this agreement approximated $155,000. On June 19, 2013, the Agency refinanced this short-term borrowing arrangement which consisted of a 15 year first mortgage loan in the amount of $700,000 ("First Mortgage") and a five year second mortgage loan in the amount of $100,135 ("Second Mortgage"). The First Mortgage has an annual interest rate of 5.00% for the first ten years and an annual interest rate of 2.50% in excess of the Federal Home Loan Bank Rate for the final five years and matures in June 2028. The Second Mortgage has an annual interest rate of 4.00% and matures in June 2018. Both mortgages are collateralized by the facility mentioned above.

10. Due to Governmental Agencies

Due to governmental agencies represents net payments received in prior years, in excess of amounts earned, and overpayments received from New York City and New York State. Amounts are due upon final audit and reconciliation by the governmental agencies and are not expected to be materially different from the recorded amounts.

11. Long-Term Debt

Long-term debt consists of the following:

June 30,		2013		2012
Mortgage payable in monthly installments of $4,531 through September 2020, bearing interest at 9.10% per annum, collateralized by the respective property.	$	296,599	$	321,359
Mortgage payable in monthly installments of $14,121 through January 2019 and $6,833 from February 2019 through January 2028, bearing interest at 4.46% per annum, collateralized by the respective property.		1,230,377		1,084,769
Vehicle capital leases, which are payable in total monthly installments of $2,851, with maturity dates between August 2016 and June 2018, bearing interest at rates ranging from 0.46% to 5.33% per annum.		128,265		86,476
Intermediate care facility mortgages payable in semi-annual installments of $20,578, at a rate of 5.92% per annum, collateralized by the respective property. These mortgages were paid off during the year ended June 30, 2013.		-		25,944
Mortgages payable in total monthly installments of $7,382 through June 2018 and $5,536 through June 2018, bearing interest rates ranging from 2.50% to 5.00%, collateralized by the respective property.		800,135		-
Vehicle loans payable, one of which is payable in monthly installments of $763 through June 2012, bearing interest at 1.90% per annum, and one of which is payable in monthly installments of $1,186 through January 2014, bearing interest at 5.99% per annum.		8,058		21,400
Telephone capital lease payable in monthly installments of $1,099 through November 2016, bearing interest at .79% per annum.		37,579		-
		2,501,013		1,539,948
Less Current Maturities		214,637		122,281
	$	2,286,376	$	1,417,667

Long-term debt matures approximately as follows:

Years Ending June 30,		Capital Leases		Long-Term Debt		Total
2014	$	38,000	$	177,000	$	215,000
2015		41,000		188,000		229,000
2016		44,000		198,000		242,000
2017		33,000		209,000		242,000
2018		10,000		220,000		230,000
Thereafter		-		1,343,000		1,343,000
	$	166,000	$	2,335,000	$	2,501,000

The book value of equipment underlying the capital lease obligations, net of accumulated amortization of $43,000, approximated $172,000 at June 30, 2013. Amortization expense for the years ended June 30, 2013 and 2012 approximated $32,000 and $11,000, respectively.

Interest expense for the years ended June 30, 2013 and 2012 approximated $81,000 and $45,000, respectively.

12. Workers' Compensation Trust Fund Deficit Payable

The Agency received notification in December 2010 that the workers' compensation trust fund they participated in through the year ended June 30, 2007 was underfunded by approximately $14,800,000. The Agency's share of this deficit was estimated to be approximately $1,186,000 and is to be paid over five years, in equal installments, beginning in the year ended June 30, 2011. At June 30, 2013 and 2012, the outstanding balance with respect to this matter was approximately $204,000 and $441,000, respectively, after accounting for a present value discount.

13. Net Assets

Temporarily restricted net assets - Temporarily restricted net assets at June 30, 2013 and 2012 consist of amounts restricted by donors for the provision of the culinary arts program, scholarships, the campus industry program and special events for children and are approximately as follows:

June 30,	2013	2012
Purpose Restrictions:		
Culinary arts program	$ 340,000	$ 267,000
Scholarships	114,000	100,000
Campus industry program	25,000	13,000
Special events for children	4,000	5,000
	$ 483,000	$ 385,000

Release of temporarily restricted net assets - During the years ended June 30, 2013 and 2012, net assets of approximately $48,000 and $336,000, respectively, were released from restrictions by incurring expenses satisfying the restricted purpose as stipulated by the donors as follows:

Years Ended June 30,	2013	2012
Purpose Releases:		
Recreation center	$ -	$ 293,000
Special events for children	-	23,000
Scholarships	14,000	12,000
Culinary arts program	31,000	8,000
Campus industry program	3,000	-
	$ 48,000	$ 336,000

14. Fundraising and Special Events, Net

The Agency generated revenue from the following special events during the years ended June 30, 2013 and 2012:

	Gross Revenue	Direct Benefit to Donors	Classified as Temporarily Restricted Net Assets	2013 Net Revenue
Golf Outing	$ 141,785	$ 33,702	$ 104,400	$ 3,683
Humanitarian Award	152,685	58,241	-	94,444
Donor Reception	51,200	6,157	-	45,043
Holiday Dinner Dance	41,460	11,063	-	30,397
Total	$ 387,130	$ 109,163	$ 104,400	$ 173,567

	Gross Revenue	Direct Benefit to Donors	Classified as Temporarily Restricted Net Assets	2012 Net Revenue
Golf Outing	$ 126,615	$ 34,282	$ 84,101	$ 8,232
Humanitarian Award	217,797	58,589	-	159,208
Other	14,747	-	-	14,747
Total	$ 359,159	$ 92,871	$ 84,101	$ 182,187

15. Transactions with Affiliates

The Agency is a related party to the Little Flower Union Free School District (the "School"), which operates on its premises. Certain officers and board members of the Agency are also board members of the School. Current amounts due from affiliate represent certain operating expenses of the School paid by the Agency, and general and administrative services provided by the Agency, which aggregated approximately $15,000 and $25,000 for the years ended June 30, 2013 and 2012, respectively.

During fiscal year 2013, the Agency entered into a contract to renovate the lobby at the School. The total cost of the renovation is expected to be $276,000 and construction is expected to be completed during fiscal year 2014. At June 30, 2013, approximately $197,000 of costs were incurred related to this renovation. The School will reimburse the Agency for the cost of this renovation over a period of 25 years with annual principal payments of approximately $8,000 commencing in November 2016. The Agency and the School will finalize a written agreement related to this renovation upon completion during the year ended June 30, 2014.

16. Pension Plan

The Agency maintains a tax deferred annuity plan which is available to all employees. This plan is employee contributory only.

The Agency maintains a noncontributory supplemental retirement plan and trust as defined by Section 403(b) of the United States Internal Revenue Code. The plan covers all eligible employees. Contributions to the plan are discretionary and determined by the board of directors each year. For the years ended June 30, 2013 and 2012, no contribution was made.

The Agency is a participant in a pension plan that has been characterized for financial accounting purposes as a multi-employer pension plan (the "Diocesan Plan"), a noncontributory defined benefit plan established by the Diocese of Brooklyn. This plan covers certain administrative and field supervisory employees. The risks of participating in a multi-employer plan are different from single-employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating entity stops contributing to the multi-employer plan, the unfunded obligations of the plan may be borne by the remaining participating entities.
- If an entity petitions to stop participating in the multi-employer plan, the entity may be required to pay the plan a withdrawal liability based on the funded status of the plan.

The Diocesan Plan is designed to provide retirement benefits for eligible lay employees of participating Diocesan entities. Any employee becomes eligible for participation in the Diocesan Plan upon attaining the age of 25 and completing one year of continuous service and becomes fully vested upon completion of five years of vesting service. Employees who terminate employment with five or more years of vesting service are entitled to an annual deferred-vested pension based on benefits earned to the date of termination.

The Agency's pension plan expense is equal to the required annual contributions to the Diocesan Plan, which is calculated based on actuarially determined methods. Amounts charged to pension costs for the years ended June 30, 2013 and 2012 totaled approximately $1,238,000 and $1,197,000, respectively, and are included in the accompanying statements of activities and changes in net assets. Required annual contributions represent approximately 5.73% of total contributions to the Diocesan Plan for the year ended June 30, 2013.

The following table discloses the name and funded status of the Diocesan Plan as of January 1, 2012 (the date of the latest actuarial valuation), inclusive of the fair value of plan assets as of December 31, 2012:

Legal Name and Plan Number	Plan EIN	Actuarial Present Value of Accumulated Plan Benefits	Fair Value of Plan Assets	Total Net Contributions	Funded Status
Roman Catholic Dioceses of Brooklyn Lay Pension Plan	13-3795042	$876,000,000	$611,000,000	$21,000,000	Between 65% and 80% funded.

For the year ended June 30, 2013, the Agency did not pay a surcharge to the Diocesan Plan nor did the Diocesan Plan have a rehabilitation plan implemented or pending.

The Agency intends to cease participation in the Diocesan Plan during the year ended June 30, 2014 and transfer the Agency's identified portion of the Diocesan Plan assets and liabilities to a new multi-employer defined benefit plan which will continue to be funded by future Agency contributions.

17. Commitments and Contingencies

Operating leases - The Agency is obligated under various noncancellable operating leases for certain of its facilities and equipment, expiring through October 31, 2019. Future minimum lease payments under these operating leases are as follows:

Years Ending June 30,	Real Property	Equipment	Total
2014	$ 1,141,000	$ 149,000	$ 1,290,000
2015	831,000	130,000	961,000
2016	806,000	40,000	846,000
2017	695,000	3,000	698,000
2018	676,000	-	676,000
Thereafter	921,000	-	921,000
	$ 5,070,000	$ 322,000	$ 5,392,000

Facility rent expense for the years ended June 30, 2013 and 2012 approximated $1,327,000 and $1,289,000, respectively.

Equipment rental expense for each of the years ended June 30, 2013 and 2012 approximated $202,000.

In October 2013, the Agency terminated the lease associated with one of their Brooklyn locations. Deferred rent and leasehold improvements related to this location will be written off during the year ended June 30, 2014.

Guarantee - The Agency has agreed to pledge investments up to $1,000,000 to the Suffolk County National Bank to secure borrowings of the Little Flower Union Free School District ("LFUFSD"). LFUFSD owed $1,000,000 under the loan agreement as of June 30, 2013. This guarantee expires on December 13, 2013.

Collective bargaining agreement - Approximately 56% of the Agency's labor force is covered by a collective bargaining agreement expiring June 30, 2016.

18. Government Funding and Possible Rate Adjustments

Substantial funding of programs is provided to the Agency by New York State, New York City, and the counties of Suffolk and Nassau. Continuation of such funding is dependent on budgetary allocations from such agencies. In addition, reimbursements under contracts or rates are subject to audit by various agencies on a regular basis. Liabilities, if any, resulting from these audits are not presently determinable.

Changes in contract amounts due or payable resulting from audit adjustments or rate appeals are reflected in the operations of the Agency when such adjustments are determined or can be reasonably estimated.

19. Off-Balance Sheet Risk and Concentrations of Credit Risk

Financial instruments which potentially subject the Agency to concentrations of credit risk consist principally of temporary cash investments and accounts receivable from government agencies. The Agency places its temporary cash investment with high credit quality financial institutions. Accounts receivable are predominately from state and local government agencies, including Medicaid, other third-party and private payors. At times throughout the year, the Agency's cash balances with any one financial institution may exceed the federal depository insurance coverage limit.

20. Litigation

The Agency is subject to lawsuits and claims with respect to matters arising in the normal course of business. The Agency defends its position on all actions. In the opinion of management, the ultimate liabilities, if any, from these lawsuits or claims will not materially affect the financial position of the Agency. Nevertheless, due to the uncertainty of the settlement process, management's view of the outcome may be modified in the future.

21. Reversion Clause

The Agency's main facility is located on land in Wading River, New York, that is owned by the Roman Catholic Diocese of Brooklyn (the "Diocese"). This land is subject to reversion by the Diocese should the Agency cease to operate in accordance with its mission.

22. Management Services Agreement

On December 28, 2011, the Agency entered into a management services agreement (the "Agreement") with St. John's Residence for Boys, Inc. ("St. Johns") for a period of one year. The Agreement automatically renews for successive one year periods unless terminated by 90 days written notice by either party or written notice by one party within 30 days of a breach by the other. The Agency provides administrative and financial functions to St. Johns under the agreement. The agreement automatically renewed on December 28, 2012.

SUPPLEMENTARY INFORMATION

Statement of Functional Expenses

Years Ended June 30, 2013 and 2012

	Program Services													
	Foster Boarding Home	Bridges to Health	Medical/ Mental Health	Residential Treatment Center	Adult Residential Services	Day Care	Family Care	Elder Care	Grants	Total	Management and General	Fundraising	2013 Total Expenses	2012 Total Expenses
Salaries	$ 6,057,856	$2,591,082	$2,094,735	$4,844,887	$ 4,223,690	$ 78,806	$ 780,449	$108,954	$ -	$20,780,459	$ 2,136,275	$145,444	$ 23,062,178	$ 23,280,691
Payroll Taxes and Employee Benefits	1,936,809	817,866	649,188	1,460,749	1,265,456	(328)	256,227	35,750	-	6,421,717	679,440	44,565	7,145,722	7,291,745
Total Salaries, Payroll Taxes and Employee Benefits	7,994,665	3,408,948	2,743,923	6,305,636	5,489,146	78,478	1,036,676	144,704	-	27,202,176	2,815,715	190,009	30,207,900	30,572,436
Expenses:														
Foster parent payments	8,315,132	-	-	-	-	676,419	1,279,070	-	-	10,272,621	-	-	10,272,621	15,058,260
Transportation	261,943	133,865	11,203	77,077	52,138	255	41,795	101	-	578,397	11,887	1,911	592,195	641,680
Allowance and activities	183,668	775	88	159,755	19,949	-	448	-	-	364,683	-	-	364,683	392,730
Scholarships	-	-	-	-	-	-	-	-	-	-	27,000	-	27,000	28,500
Contracted services	972,637	12,440	1,150,656	143,812	553,462	197	37,414	2,252	-	2,872,870	122,198	55,162	3,050,230	3,106,849
Food	3,310	-	-	470,059	175,442	-	-	-	-	648,811	1,982	-	650,773	638,752
Clothing	814	-	-	50,684	27,008	-	-	-	-	78,486	-	-	78,486	74,524
Supplies and small equipment	73,923	6,886	299,245	161,426	214,257	129	5,605	80	-	761,551	18,922	1,045	781,518	776,028
Rent - facilities	989,146	55,923	130,999	-	117,481	-	8,031	12,567	-	1,294,137	20,380	12,730	1,327,247	1,289,086
Leased equipment	78,386	4,903	27,844	10,188	12,949	3,187	11,104	1,764	-	150,325	36,177	15,825	202,327	200,238
Utilities	161,609	25,147	92,124	328,380	135,762	702	26,871	1,236	-	771,831	97,565	1,633	871,029	770,348
Repairs and maintenance	119,413	4,074	27,852	311,296	147,491	541	15,842	758	-	627,267	63,694	2,600	693,561	599,510
Telephone	95,150	4,972	21,948	24,433	26,746	3,805	7,177	705	-	184,936	65,620	865	251,421	258,983
Supplies	79,759	9,024	19,965	16,510	12,785	1,178	7,849	1,294	-	148,364	119,726	3,330	271,420	342,909
Dues and licenses	9,186	720	1,904	6,891	10,819	-	5,763	-	-	35,283	53,615	5,785	94,683	88,503
Conferences and training	7,439	1,323	157	3,895	285	-	2,019	-	-	15,118	575	-	15,693	13,615
Miscellaneous expenses	(1,569)	15,173	(1,240)	7,234	71,742	12,326	5,583	-	-	109,249	27,930	36,991	174,170	165,086
Publicity and recruitment	2,022	810	1,974	8,592	2,530	-	671	-	-	16,599	19,013	8,202	43,814	40,619
Professional fees	449,026	-	-	-	265,610	-	-	-	-	714,636	268,568	-	983,204	1,044,151
Insurance	210,796	26,261	56,018	234,639	101,649	4,641	20,070	1,223	-	655,267	78,789	3,306	737,362	729,732
Taxes	19,217	594	6,396	4,169	1,246	100	333	605	-	32,660	4,494	549	37,703	43,950
Depreciation and amortization	71,802	20,823	24,860	168,285	175,787	-	4,761	424	14,089	500,831	390,649	1,924	893,404	760,039
Interest and bank charges	3,013	51	957	38,832	50,486	66	44	89	-	93,636	27,243	38,279	149,160	139,117
Bad debt expense	353	2,558	1,698	5,961	9,217	-	4,490	-	-	24,287	571	-	24,858	42,162
	12,086,155	326,342	1,874,648	2,242,198	2,184,841	705,546	1,484,940	23,088	14,089	20,941,847	1,456,578	190,137	22,588,562	27,265,583
Total Expenses	$20,080,820	$ 3,735,290	$4,618,571	$ 8,547,834	$ 7,673,987	$ 784,024	$2,521,616	$167,792	$ 14,089	$48,144,023	$ 4,272,293	$380,146	$ 52,796,462	$ 57,838,019

APPENDIX B-IV

SPECIAL CITIZENS FUTURES UNLIMITED, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2015, JUNE 30, 2014 AND JUNE 30, 2013)

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WithumSmith+Brown, PC
AUDIT • TAX • ADVISORY

SPECIAL CITIZENS FUTURES UNLIMITED

Financial Statements

June 30, 2015 and 2014

With Independent Auditors' Report

Special Citizens Futures Unlimited
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June 30, 2015 and 2014

WithumSmith+Brown, PC
AUDIT • TAX • ADVISORY

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Additional offices in New Jersey, New York, Pennsylvania, Massachusetts, Florida, Colorado and Grand Cayman

Independent Auditors' Report

To the Board of Trustees,
Special Citizens Futures Unlimited:

We have audited the accompanying financial statements of Special Citizens Futures Unlimited, which comprise the statements of financial position as of June 30, 2015 and 2014 and the related statements of activities, cash flows, and functional expenses 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 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 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 financial statements are free from 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 financial statements referred to above present fairly, in all material respects, the financial position of Special Citizens Futures Unlimited as of June 30, 2015 and 2014, and its changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

William Smith + Brown, PC

November 25, 2015

Special Citizens Futures Unlimited
Statements of Financial Position
June 30, 2015 and 2014

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	$ 487,977	$ 889,178
Accounts receivable - net of allowance for doubtful accounts of $-0- and $426,888, respectively	1,382,696	1,098,953
Prepaid expenses and other assets	146,464	49,654
Total current assets	2,017,137	2,037,785
Property and equipment, net	2,942,029	2,939,830
Mortgage financing fees, net	109,278	126,253
Software, net	66,667	--
Debt service reserve	39,346	39,346
Other assets	262,201	262,436
Total other assets	3,419,521	3,367,865
	$ 5,436,658	$ 5,405,650
Liabilities and Net Assets		
Current liabilities		
Current maturities of loans payable	$ 145,843	$ 107,972
Current maturities of mortgages payable	164,243	147,318
Accounts payable and accrued expenses	430,968	243,173
Accrued salaries and benefits	315,086	442,076
Deferred rent-short term	45,205	64,662
Due to funding sources	450,761	484,253
Total current liabilities	1,552,106	1,489,454
Loans payable	504,893	444,065
Mortgages payable	1,041,099	1,193,945
Deferred rent-long term	113,101	28,983
Sub tenant security deposit	14,476	--
Total liabilities	1,673,569	1,666,993
Net assets		
Unrestricted	2,163,297	2,154,447
Temporarily restricted	47,686	94,756
Total net assets	2,210,983	2,249,203
	$ 5,436,658	$ 5,405,650

The Notes to Financial Statements are an integral part of these statements.

Special Citizens Futures Unlimited
Statements of Activities
Years Ended June 30, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and support						
Medicaid revenue	$ 10,225,942	$ --	$ 10,225,942	$ 10,170,583	$ --	$ 10,170,583
Client fees	508,846	--	508,846	559,693	--	559,693
New York State Supplemental Income	519,759	--	519,759	471,144	--	471,144
Contributions	20,169	20,000	40,169	23,682	127,793	151,475
Other revenue	272,606	--	272,606	386,935	--	386,935
	11,547,322	20,000	11,567,322	11,612,037	127,793	11,739,830
Net assets released from restrictions	67,070	(67,070)	--	33,037	(33,037)	--
	11,614,392	(47,070)	11,567,322	11,645,074	94,756	11,739,830
Expenses						
Program services	9,164,504	--	9,164,504	9,223,757	--	9,223,757
Management and administration	2,441,038	--	2,441,038	1,741,113	--	1,741,113
Fundraising	--	--	--	62,320	--	62,320
	11,605,542	--	11,605,542	11,027,190	--	11,027,190
Change in net assets	8,850	(47,070)	(38,220)	617,884	94,756	712,640
Net assets, beginning of year	2,154,447	94,756	2,249,203	1,536,563	--	1,536,563
Net assets, end of year	$ 2,163,297	$ 47,686	$ 2,210,983	$ 2,154,447	$ 94,756	$ 2,249,203

The Notes to Financial Statements are an integral part of these statements.

Special Citizens Futures Unlimited
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Change in net assets	$ (38,220)	$ 712,640
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	370,504	209,761
Allowance for bad debts (recovery)	(82,068)	152,434
Changes in assets and liabilities		
Accounts receivable	(201,675)	260,261
Prepaid expenses and other assets	(96,575)	215,369
Accounts payable and accrued expenses	187,795	(172,199)
Accrued salaries and benefits	(126,990)	(338,556)
Deferred rent liability	64,661	56,973
Due to funding sources	(33,492)	(725,053)
Sub tenant security deposit	14,476	--
Net cash provided by operating activities	58,416	371,630
Cash flows from investing activities		
Capital acquisitions	(342,395)	(195,080)
Purchase of software additions	(80,000)	--
Net cash used by investing activties	(422,395)	(195,080)
Cash flows from financing activities		
Issuance of loans	233,924	--
Repayments of loans	(135,225)	(73,583)
Repayments of mortgage payable	(135,921)	(466,247)
Net cash used by financing activities	(37,222)	(539,830)
Net decrease in cash and cash equivalents	(401,201)	(363,280)
Cash and cash equivalents		
Beginning of year	889,178	1,252,458
End of year	$ 487,977	$ 889,178
Supplemental disclosure of cash flow information		
Interest paid	$ 143,215	$ 144,959
Income taxes paid	$ --	$ --

The Notes to Financial Statements are an integral part of these statements.

Special Citizens Futures Unlimited
Statements of Functional Expenses
Year Ended June 30, 2015

	Residential Services	Day Habilitation Disabled	Other Program Services	Total Program Services	Management and Administration	Total
Salaries	$ 2,735,990	$ 1,150,404	$ 1,089,499	$ 4,975,893	$ 1,263,383	$ 6,239,276
Fringe benefits	605,904	306,057	224,014	1,135,975	190,057	1,326,032
	3,341,894	1,456,461	1,313,513	6,111,868	1,453,440	7,565,308
Occupancy	330,540	551,632	147,253	1,029,425	514,048	1,543,473
Professional fees	87,344	73,326	34,590	195,260	115,443	310,703
Food	204,302	7,763	1,861	213,926	708	214,634
Travel and transportation	129,036	147,787	15,369	292,192	40,895	333,087
Repairs and maintenance	163,077	100,169	15,881	279,127	82,876	362,003
Equipment and furnishings	4,641	15,842	--	20,483	3,618	24,101
Supplies	101,265	89,764	24,545	215,574	62,644	278,218
Client expenses	82,586	17,808	3,597	103,991	--	103,991
Telephone	37,523	27,780	14,541	79,844	21,811	101,655
Insurance	22,830	11,356	177	34,363	50,223	84,586
Depreciation and amortization	265,583	51,543	5,122	322,248	48,256	370,504
Interest	111,780	2,914	388	115,082	28,133	143,215
Medicaid assessment	57,154	--	--	57,154	--	57,154
Bad debt (recovery)	--	--	--	--	(82,068)	(82,068)
Contracted services	36,728	--	--	36,728	--	36,728
Advertising	--	--	6,375	6,375	6,666	13,041
Miscellaneous	33,633	16,147	1,084	50,864	94,345	145,209
	$ 5,009,916	$ 2,570,292	$ 1,584,296	$ 9,164,504	$ 2,441,038	$ 11,605,542

The Notes to Financial Statements are an integral part of this statement.

Special Citizens Futures Unlimited
Statements of Functional Expenses
Year Ended June 30, 2014

	Residential Services	Day Habilitation Disabled	Other Program Services	Total Program Services	Management and Administration	Fundraising	Total
Salaries	$ 2,549,295	$ 1,390,458	$ 994,520	$ 4,934,273	$ 904,297	$ 19,243	$ 5,857,813
Fringe benefits	833,479	461,963	302,579	1,598,021	171,075	1,586	1,770,682
	3,382,774	1,852,421	1,297,099	6,532,294	1,075,372	20,829	7,628,495
Occupancy	301,129	537,897	110,463	949,489	170,212	20,726	1,140,427
Professional fees	66,281	62,174	7,514	135,969	110,716	467	247,152
Food	98,542	13,304	--	111,846	--	--	111,846
Travel and transportation	119,824	138,969	17,068	275,861	13,515	389	289,765
Repairs and maintenance	150,397	51,429	3,638	205,464	18,580	--	224,044
Equipment and furnishings	2,827	6,573	--	9,400	3,323	--	12,723
Supplies	101,966	58,224	10,874	171,064	69,910	--	240,974
Client expenses	100,728	28,614	131	129,473	--	1,264	130,737
Telephone	35,725	36,614	8,719	81,058	22,446	256	103,760
Insurance	27,237	14,965	15,506	57,708	19,507	2,330	79,545
Depreciation and amortization	144,631	51,020	1,482	197,133	2,879	9,749	209,761
Interest	104,863	3,811	290	108,964	35,995	--	144,959
Medicaid assessment	101,810	--	--	101,810	--	--	101,810
Bad debt	--	--	--	--	152,434	--	152,434
Contracted services	83,582	--	--	83,582	--	--	83,582
Miscellaneous	40,241	20,479	11,922	72,642	46,224	6,310	125,176
	$ 4,862,557	$ 2,876,494	$ 1,484,706	$ 9,223,757	$ 1,741,113	$ 62,320	$ 11,027,190

The Notes to Financial Statements are an integral part of this statement.

1. Organization and Nature of Activities

Special Citizens Futures Unlimited ("SCFU" or the "Organization") was organized in August 1976, under the Not-for-Profit Organization Law of the State of New York. The purpose of SCFU is to develop and implement residential and day programs specifically for autistic young adults, and create structured learning environments and experiences for developmentally disabled autistic adolescents. The certificate of incorporation allows SCFU to establish, operate and maintain community residences for the developmentally disabled, including on-site and off-site facilities and day programs for autistic and developmentally disabled persons.

2. Summary of Significant Accounting Policies

Basis of Presentation
SCFU prepares its financial statements using the accrual basis of accounting.

Financial reporting by not-for-profit organizations requires that resources be classified for accounting and reporting purposes into net asset categories according to externally (donor) imposed restrictions. For the years ended June 30, 2015 and 2014, the Organization had accounting transactions in the unrestricted net asset category and the temporary restricted net asset category. Unrestricted net assets are net assets that are not subject to donor imposed restrictions. Temporarily restricted net assets are those whose use is temporarily limited by the donor. When a temporary 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 as net assets released from restriction.

Revenue and Support Recognition
Revenue from Medicaid billings and fee for service contracts is recognized at the time services are provided. Medicaid billing rates are established by the State of New York Department of Social Services. Billings are completed by entering the amount of units serviced into the database which is then sent to Medicaid. The amount of units is dependent on the type of service provided. Revenue from Medicaid billings comprised 88 percent and 87 percent of total revenue and support for the years end June 30, 2015 and 2014, respectively. Medicaid rates are provisionary rates and can be changed at any time. Due to this, additional amounts or refunds maybe be generated in future years related to Medicaid income.

The Organization recognizes contributions as revenue when they are received or unconditionally pledged and records these revenues as unrestricted or restricted support according to donor stipulations that limit the use of these assets due to time or purpose restrictions.

Client fees are generated from social security income and paid to the Organization for rental services provided. These fees are recognized at the time services are provided. Rates are established by the Office of Persons with Developmental Disabilities ("OPWDD") and are based on location.

New York State Supplemental income is paid to the Organization to supplement costs associated with an individual's room and board that are not covered by the individual's social security income. These amounts are recognized at the time services are provided. Rates are established by New York State.

Fair Value Measurements
The carrying amounts of financial instruments including accounts receivable, accounts payable and accrued salaries and expenses, and due to funding sources approximate their fair values because of the relatively short maturity of these instruments.

Property and Equipment
Property and equipment is stated at cost. Depreciation is provided over the estimated useful lives of the assets by the straight-line method. The principal rates used for computing depreciation are as follows:

Class	Estimated Life (Years)
Building and improvements	7 to 25
Vehicles	5
Furniture and equipment	3 to 10

When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is reflected in operations. During the year ended June 30, 2015, assets maintenance and repairs are charged to operations as incurred.

Cash and Cash Equivalents
Cash equivalents consist of money market funds. The Organization maintains its cash in deposit accounts, which at times exceed federally insured limits.

Accounting 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 June 30, 2015 and 2014 and the reported amounts of revenues and expenses during the years then ended. Actual results could differ from these estimates. Significant estimates included in the financial statements include Medicaid revenue, allocation of expenses, depreciation expense and allowance for doubtful accounts.

Functional Allocation of Expenses
The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Major program services include the following:

Residential Services – Individual Residential Alternatives and Intermediate Care Facilities
Day Rehabilitation Disabled – Site and Community Based Day Options
Other Program Services – Medicaid Service Coordination, Community Habilitation, Supported Employment, Pre-Vocational Support, Work Readiness, and Recreation

Long-lived Assets
The Organization reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of assets may not be fully recoverable. Management has determined that no assessment was required for periods presented in these financial statements.

Accounts Receivable
At June 30, 2015 and 2014, the Organization determined that an allowance for doubtful accounts should be provided for accounts receivable of approximately $-0- and $426,888, respectively. Such estimates are based on management's assessment of the aged basis of its governmental funding sources, creditworthiness of contributors and other sources, current economic conditions and historical information. Accounts receivable consists of amounts due from New York State sources.

Mortgage Financing Fees, Net
Expenses incurred by the Organization in connection with obtaining financing, are being amortized using the straight-line method over 7 and 25 years. Amortization expense charged to operations for each of the years ended June 30, 2015 and 2014 was $16,975.

Future amortization of deferred financing cost is as follows:

Year	Amount
2016	$ 16,975
2017	16,975
2018	16,975
2019	7,227
2020	3,427
Thereafter	47,698
	$ 109,278

Software, Net
The Organization is amortizing software over a useful life of 3 years. Future amortization is as follows:

Year	Amount
2016	$ 26,667
2017	26,667
2018	13,333
	$ 66,667

Amortization expense during the years ended June 30, 2015 and 2014 amounted to $13,333 and $-0-, respectively.

Reclassifications
Certain items in the consolidated financial statements for 2014 have been reclassified to conform to the 2015 presentation.

3. Income Taxes

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization had no unrecognized tax benefits at June 30, 2015 and 2014. In addition the Organization has no income tax related penalties or interest for the periods presented in these financial statements.

4. Due to Funding Sources

Due to funding sources includes unrecovered debt service payments in the amount of $15,897 for each of the years ended June 30, 2015 and 2014, made by the New York State Office for People With Developmental Disabilities ("OPWDD").

In addition, as of June 30, 2015 and 2014, $434,864 and $140,692, respectively was due to OPWDD representing funds paid by OPWDD to SCFU for the Day Habilitation program which were duplicate payments included in the NYS reimbursement rates. Such funds are currently being recouped by OPWDD, and are expected to be paid in full by June 30, 2016.

In May 2013, SCFU made a self-disclosure submission to New York State Office of the Medicaid Inspector General ("OMIG") based on an internal review of claims and noted that approximately $825,000 was owed back to OMIG. As of June 30, 2014, $327,664 was outstanding. During the year ended June 30, 2015 this amount was paid in full.

5. Property and Equipment

Property and equipment consisted of the following at June 30:

	2015	2014
Land	$ 703,000	$ 703,000
Building and improvements	3,542,105	3,507,505
Vehicles	612,302	439,137
Furniture and fixtures	94,781	94,781
Office equipment	42,025	--
Leasehold improvements	32,275	--
	5,026,488	4,744,423
Less accumulated depreciation	2,084,459	1,804,593
Net book value	$ 2,942,029	$ 2,939,830

Depreciation expense charged to operations for the years ended June 30, 2015 and 2014 totaled $340,196 and $192,786, respectively.

6. Mortgages Payable

Mortgages payable consisted of the following as of June 30:

	2015	2014
Payable to the Facilities Development Corporation ("FDC") through February 15, 2019 with an average interest rate of 6.414 percent and semi-annual principal payments of $25,000 secured by 5115 Tibbett Ave, Riverdale.	$ 228,731	$ 267,905
Payable to the Community Preservation Corporation ("CPC") through November 1, 2022 with an annual interest rate of 7.08 percent with monthly interest and principal installment payments of $14,136 secured by 5431 Fieldston Road, Bronx, NY.	976,611	1,073,358
	1,205,342	1,341,263
Less current portion	164,243	147,318
	$ 1,041,099	$ 1,193,945

The mortgage with FDC effectively assigns or collateralizes the revenue received as well as the property and all equipment or improvements made, and restricts the use of the property. SCFU was required to deposit, into a pooled debt services reserve account with other agencies held by the FDC, amounts equal to the estimated last principal and interest payments the FDC will make to New York State, which totaled $39,346 for each of the years ended June 30, 2015 and 2014.

Future maturities of long term debt are as follows:

Year	Amount
2016	$ 164,243
2017	172,074
2018	184,118
2019	174,146
2020	138,509
Thereafter	372,252
	$ 1,205,342

7. Loans Payable

Loans payable included the following as of June 30, 2015:

	2015	2014
Long-term debt, which is secured by automobiles, is comprised of the following:		
6.84 percent note payable in monthly installments of $593 including interest, with final payment due in April 2017	$ 12,177	$ 18,719
4.34 percent note payable in monthly installments of $369 including interest, with final payment due in June 2018	12,434	16,542
6.84 percent note payable in monthly installments of $492 including interest, with final payment due in March 2019	19,486	23,341
1.90 percent note payable in monthly installments of $611 including interest, with final payment due in April 2021	40,447	--
5.99 percent note payable in monthly installments of $646 including interest, with final payment due in April 2021	38,111	--
6.89 percent note payable in monthly installments of $478 including interest, with final payment due in April 2021	27,488	--
6.89 percent note payable in monthly installments of $615 including interest, with final payment due in May 2021	35,776	--
6.89 percent note payable in monthly installments of $615 including interest, with final payment due in May 2021	35,776	--
6.89 percent note payable in monthly installments of $493 including interest, with final payment due in May 2021	29,093	--
Bank loan with proceeds used to renovate a residential facility located in Cortlandt Manor, New York. The interest rate is 6.60 percent, with monthly installments of $2,851, payable through May 15, 2021. The debt is secured by the property.	168,121	190,283
Bank loan with proceeds used for a day habilitation space renovation project in the Bronx, New York. The interest rate is 5.48 percent, with monthly installments of $7,180, payable through May 15, 2021. The debt is secured by the property.	231,827	303,152
	650,736	552,037
Less current portion	145,843	107,972
	$ 504,893	$ 444,065

Future maturities of long term debt are as follows:

Year		Amount
2016	$	145,843
2017		153,264
2018		149,117
2019		70,733
2020		70,637
Thereafter		61,142
	$	650,736

8. Line of Credit

The Organization has an unsecured line of credit with HSBC Bank USA, N.A. that provides for borrowings up to $500,000 with interest payable at a rate equal to 3.50 percent above the bank's prime rate. There was no outstanding balance on the line of credit at June 30, 2015 and 2014. The line of credit can be terminated by either party at any time, there is no set expiration date for this line.

9. Pension

SCFU has a qualified defined contribution pension plan (the "Plan") under section 403(b) of the Internal Revenue Code covering all eligible employees. SCFU's Board of Directors makes discretionary contributions to the Plan and the Board approval is made on an annual basis. There were no matching contributions for the years ended June 30, 2015 and 2014.

The Organization has not completed required tax returns or audits in accordance with the 403(b) plan regulations. Any interest or penalties related to this will be borne by the Organization.

10. Leases

SCFU entered into two separate lease agreements for space in Westchester, New York and the Bronx, New York, both for a ten-year term expiring in 2018 and 2024, respectively. In addition, there were various leases entered into for rental units for program participants expiring through March 31, 2019. SCFU also entered into a lease agreement for administrative space in New York City for six and one-half years expiring September 30, 2016.

Future minimum rental commitments for the years ended subsequent to June 30, 2015 are as follows:

Year		Amount
2016	$	999,350
2017		908,979
2018		812,404
2019		652,170
2020		671,732
Thereafter		2,829,878
	$	6,874,513

Rent expense for the years ended June 30, 2015 and 2014 amounted to $1,196,979 and $973,739, respectively, and is included in occupancy expense in the accompanying financial statements.

SCFU entered into a sublease agreement for their administrative space in New York City for one year and five months expiring September 30, 2016.

Future minimum rentals expected to be received under non-cancellable subleases for the years ended subsequent to June 30, 2015 are as follows:

Year	Amount
2016	$ 173,706
2017	43,427
	$ 217,133

11. Commitments and Contingencies

Medicaid revenues are subject to special audit procedures. Such audits could result in claims against the Organization for disallowed costs or noncompliance with the terms of the agreements. There were no audits conducted during the years ended June 30, 2015 and 2014.

SCFU is a party to lawsuits and complaints generally arising in the ordinary course of business. SCFU is a defendant in a matter with a former employee. The final outcome of the matter cannot be determined at this time; however, if an amount is due it is expected to be covered by the insurance company.

In addition, SCFU is a defendant in a legal matter relating to vacated premises of a leased property located at 22 Marble Hill, New York, NY. The landlord filed a law suit for breach of contract as well as damage to the premises and attorney's fees and costs. Regarding the breach of contract, the premises was subsequently leased approximately 7 months after SCFU vacated the premises and SCFU is counterclaiming in this matter for unjust enrichment by the landlord and violation by the landlord of the lease agreement. SCFU has entered an affirmative defense regarding the damage to the premises. The final outcome of such action is estimated at $175,000. This amount has been accrued in the financial statements.

12. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	2015	2014
Program activities		
Emmons Hiller Supported Employment Program	$ 47,686	$ 94,756

Net assets were released from donor restrictions by incurring expenses satisfying the purpose and/or time restrictions specified by donors as follows for the year ended June 30,:

	2015	2014
Total restricted released		
Emmons Hiller Supported Employment Program	$ 67,070	$ 33,037

13. Subsequent Events

The Organization has evaluated subsequent events occurring after the statement of financial position date through the date of November 25, 2015. Based on this evaluation, the Organization has determined that no subsequent events have occurred, which require disclosure in the financial statements.

WithumSmith+Brown, PC
AUDIT • TAX • ADVISORY

SPECIAL CITIZENS FUTURES UNLIMITED

Financial Statements

June 30, 2014

With Independent Auditors' Report

Special Citizens Futures Unlimited
Table of Contents
June 30, 2014

WithumSmith+Brown, PC
Certified Public Accountants and Consultants

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Independent Auditors' Report

To the Board of Trustees,
Special Citizens Futures Unlimited:

We have audited the accompanying financial statements of Special Citizens Futures Unlimited, which comprise the statement of financial position as of June 30, 2014 and the related statements of activities, cash flows, and functional expenses for the year 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 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 from 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 financial statements referred to above present fairly, in all material respects, the financial position of Special Citizens Futures Unlimited as of June 30, 2014, and the results of its operations, changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Williams Smith + Brown, PC

November 25, 2014

Special Citizens Futures Unlimited
Statement of Financial Position
June 30, 2014

Assets

Current assets	
Cash and cash equivalents	$ 889,178
Accounts receivable - net of $426,888 allowance	1,098,953
Prepaid expenses and other assets	49,654
Total current assets	2,037,785
Property and equipment, net	2,939,830
Mortgage financing fees, net	126,253
Debt service reserve	39,346
Other assets	262,436
Total other assets	3,367,865
	$ 5,405,650

Liabilities and Net Assets

Current liabilities	
Current maturities of loans payable	$ 107,972
Current maturities of mortgages payable	147,318
Accounts payable and accrued expenses	243,173
Accrued salaries and benefits	442,076
Deferred rent- short term	64,662
Due to funding sources	484,253
Total current liabilities	1,489,454
Loans payable	444,065
Mortgages payable	1,193,945
Deferred rent- long term	28,983
Total liabilities	1,666,993
Net assets	
Unrestricted	2,154,447
Temporarily restricted	94,756
Total net assets	2,249,203
	$ 5,405,650

The Notes to Financial Statements are an integral part of this statement.

Special Citizens Futures Unlimited
Statement of Activities
Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Total
Revenue and support			
Medicaid revenue	$ 10,170,583	$ --	$ 10,170,583
Participation fees	559,693	--	559,693
Contributions	23,682	127,793	151,475
Other revenue	858,079	--	858,079
	11,612,037	127,793	11,739,830
Net assets released from restrictions	33,037	(33,037)	--
	11,645,074	94,756	11,739,830
Expenses			
Program services	9,223,757	--	9,223,757
Management and administration	1,741,113	--	1,741,113
Fundraising	62,320	--	62,320
	11,027,190	--	11,027,190
Change in net assets	617,884	94,756	712,640
Net assets, beginning of year	1,536,563	--	1,536,563
Net assets, end of year	$ 2,154,447	$ 94,756	$ 2,249,203

The Notes to Financial Statements are an integral part of this statement.

Special Citizens Futures Unlimited
Statement of Cash Flows
Year Ended June 30, 2014

Cash flows from operating activities		
Change in net assets	$	712,640
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization		209,761
Changes in assets and liabilities		
Accounts receivable		412,695
Prepaid expenses and other assets		215,369
Accounts payable and accrued expenses		(172,199)
Accrued salaries and benefits		(105,058)
Accrued vacation		(233,498)
Deferred rent liability		56,973
Due to funding sources		(725,053)
Net cash provided by operating activities		371,630
Cash flows from investing activities		
Capital acquisitions		(195,080)
Net cash used by investing activties		(195,080)
Cash flows from financing activities		
Repayments of loans		(73,583)
Repayments of mortgage payable		(466,247)
Net cash used by financing activities		(539,830)
Net decrease in cash and cash equivalents		(363,280)
Cash and cash equivalents		
Beginning of year		1,252,458
End of year	$	889,178
Supplemental disclosure of cash flow information		
Interest paid	$	144,959
Income taxes paid	$	--

The Notes to Financial Statements are an integral part of this statements.

Special Citizens Futures Unlimited
Statement of Functional Expenses
Year Ended June 30, 2014

	Residential Services	Day Habilitation Disabled	Other Program Services	Total Program Services	Management ang Administration	Fundraising	Total
Salaries	$ 2,549,295	$ 1,390,458	$ 994,520	$ 4,934,273	$ 904,297	$ 19,243	$ 5,857,813
Fringe benefits	833,479	461,963	302,579	1,598,021	171,075	1,586	1,770,682
	3,382,774	1,852,421	1,297,099	6,532,294	1,075,372	20,829	7,628,495
Occupancy	301,129	537,897	110,463	949,489	170,212	20,726	1,140,427
Professional fees	66,281	62,174	7,514	135,969	110,716	467	247,152
Food	98,542	13,304	--	111,846	--	--	111,846
Travel and transportation	119,824	138,969	17,068	275,861	13,515	389	289,765
Repairs and maintenance	150,397	51,429	3,638	205,464	18,580	--	224,044
Equipment and furnishings	2,827	6,573	--	9,400	3,323	--	12,723
Supplies	101,966	58,224	10,874	171,064	69,910	--	240,974
Client expenses	100,728	28,614	131	129,473	--	1,264	130,737
Telephone	35,725	36,614	8,719	81,058	22,446	256	103,760
Insurance	27,237	14,965	15,506	57,708	19,507	2,330	79,545
Depreciation	144,631	51,020	1,482	197,133	2,879	9,749	209,761
Interest	104,863	3,811	290	108,964	35,995	--	144,959
Medicaid assessment	101,810	--	--	101,810	--	--	101,810
Bad debt	--	--	--	--	152,434	--	152,434
Contracted services	83,582	--	--	83,582	--	--	83,582
Miscellaneous	40,241	20,479	11,922	72,642	46,224	6,310	125,176
	$ 4,862,557	$ 2,876,494	$ 1,484,706	$ 9,223,757	$ 1,741,113	$ 62,320	$ 11,027,190

The Notes to Financial Statements are an integral part of this statements.

1. Organization and Nature of Activities

Special Citizens Futures Unlimited, Inc. ("SCFU" or the "Organization") was organized in August 1976, under the Not-for-Profit Organization Law of the State of New York. The purpose of SCFU is to develop and implement residential and day programs specifically for autistic young adults, and create structured learning environments and experiences for developmentally disabled autistic adolescents. The certificate of incorporation allows SCFU to establish, operate and maintain community residences for the developmentally disabled, including on-site and off-site facilities and day programs for autistic and developmentally disabled persons.

2. Summary of Significant Accounting Policies

Basis of Presentation
SCFU prepares its financial statements using the accrual basis of accounting.

Financial reporting by not-for-profit organizations requires that resources be classified for accounting and reporting purposes into net asset categories according to externally (donor) imposed restrictions. For the year ended June 30, 2014, the Organization had accounting transactions in the unrestricted net asset category and the temporary restricted net asset category. Unrestricted net assets are net assets that are not subject to donor imposed restrictions. Temporarily restricted net assets are those whose use is temporarily limited by the donor. When a temporary 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 as net assets released from restriction.

Revenue and Support Recognition
The Organization recognizes contributions as revenue when they are received or unconditionally pledged and records these revenues as unrestricted or restricted support according to donor stipulations that limit the use of these assets due to time or purpose restrictions.

When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization accounts for those contract and grant revenues which are exchange transactions in the statement of activities to the extent that expenses have been incurred for the purpose specified by the grantor during the period. In applying this concept the legal and contractual requirements of each individual program are used as guidance. All monies not expended in accordance with the grant or contract are recorded as a liability to the grantor as the Organization does not maintain any equity in the grant or contract. Funds received under exchange contracts in advance of their usage are classified as due to grantor in the statement of financial position.

Revenue from Medicaid billings and fee for service contracts is recognized at the time services are provided. Medicaid billing rates are established by the State of New York Department of Social Services. Revenue from Medicaid billings comprised 92 percent of total revenue and support for the year end June 30, 2014.

Fair Value Measurements
The carrying amounts of financial instruments including accounts receivable, prepaid expenses and other assets, accounts payable and accrued salaries and expenses, and due to funding sources approximate their fair values because of the relatively short maturity of these instruments.

Property and Equipment
Property and equipment is stated at cost. Depreciation is provided over the estimated useful lives of the assets by the straight-line method. The principal rates used for computing depreciation are as follows:

Class	Estimated Life (Years)
Building and improvements	25
Vehicles	5
Furniture and equipment	3 to 10

When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is reflected in operations. Maintenance and repairs are charged to operations as incurred.

Cash and Cash Equivalents
Cash equivalents consist of money market funds. The Organization maintains its cash in deposit accounts, which at times exceed federally insured limits.

Accounting 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 June 30, 2014 and the reported amounts of revenues and expenses during the year then ended. Actual results could differ from these estimates.

Functional Allocation of Expenses
The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Major program services include the following:

Residential Services – Individual Residential Alternatives and Intermediate Care Facilities
Day Rehabilitation Disabled – Site and Community Based Day Options
Other Program Services – Medicaid Service Coordination, Community Habilitation, Supported Employment, Pre-Vocational Support, Work Readiness, and Recreation

Long-lived Assets
The Organization reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of assets may not be fully recoverable. Management has determined that no assessment was required for period presented in these financial statements.

Accounts Receivable
As of June 30, 2014, the Organization determined that an allowance for doubtful accounts should be provided for accounts receivable of approximately $426,888. Such estimates are based on management's assessment of the aged basis of its governmental funding sources, creditworthiness of contributors and other sources, current economic conditions and historical information. Accounts receivable consists of amounts due from New York State sources.

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

Mortgage Financing Fees, Net
Expenses incurred by the Organization in connection with obtaining financing, are being amortized using the straight-line method over 7 and 25 years. Amortization expense charged to operations for the year ended June 30, 2014 was $16,975.

Future amortization of deferred financing cost is approximately $16,975 for the next year, $13,176 for year two, three, four, and $3,142 for year five.

3. Income Taxes

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization had no unrecognized tax benefits at June 30, 2014. In addition the Organization has no income tax related penalties or interest for the period presented in these financial statements. The Organization has no open tax years prior to 2011.

4. Due to Funding Sources

Due to funding sources includes unrecovered debt service payments in the amount of $15,897 as of June 30, 2014 made by the New York State Office for People With Developmental Disabilities ("OPWDD").

In addition, $140,692 as of June 30, 2014, was due to OPWDD representing funds paid by OPWDD to SCFU for the Day Habilitation program (from 2011 to 2013), which were duplicate payments included in the NYS reimbursement rates. Such funds are being currently recouped by OPWDD, and are expected to be paid in full by June 30, 2015.

In May 2013, SCFU made a self-disclosure submission to New York State Office of the Medicaid Inspector General ("OMIG") based on an internal review of claims and noted that approximately $825,000 was owed back to OMIG. As of June 20, 2014, $327,664 is still outstanding, which is being paid in weekly installments of $6,200 through June 30, 2015.

5. Property and Equipment

Property and equipment consisted of the following at June 30, 2014:

Land	$ 703,000
Building and improvements	3,512,402
Vehicles	439,137
Furniture and fixtures	89,884
	4,744,423
Less accumulated depreciation	1,804,593
Net book value	$ 2,939,830

Depreciation expense charged to operations for the year ended June 30, 2014 totaled $192,786.

6. Mortgages Payable

Mortgages payable consisted of the following as of June 30, 2014:

Payable to the Facilities Development Corporation ("FDC") though February 15, 2019 with an average interest rate of 6.414 percent and semi-annual principal payments of $25,000 secured by 5115 Tibbett Ave, Riverdale.	$	267,905
Payable to the Community Preservation Corporation ("CPC") through November 1, 2022 with an annual interest rate of 7.08 percent with monthly interest and principal installment payments of $14,136 secured by 5431 Fieldston Road, Bronx, NY.	$	1,073,358
		1,341,263
Less current portion		147,318
		1,193,945

The mortgage with FDC effectively assigns or collateralizes the revenue received as well as the property and all equipment or improvements made, and restricts the use of the property. SCFU was required to deposit, into a pooled debt services reserve account with other agencies held by the FDC, amounts equal to the estimated last principal and interest payments the FDC will make to New York State, which totaled $39,346.

Future maturities of long term debt are as follows:

Year		Amount
2015	$	147,318
2016		164,436
2017		172,074
2018		185,272
2019		161,974
Thereafter		510,189
	$	1,341,263

7. Loan Payable

Loans payable included the following as of June 30, 2014:

Vehicle loans with an ending interest rates of 6.94 percent, 4.34 percent, monthly installments of $593, $369, payable through April 25, 2017, June 10, 2018, respectively.	$	58,602
Bank loan with proceeds used to renovate a residential facility located in Cortlandt Manor, New York. The interest rate is 6.60 percent, with monthly installments of $2,851, payable through May 15, 2021.		190,283
Bank loan with proceeds used for a day habilitation space renovation project in the Bronx, New York. The interest rate is 5.48 percent, with monthly installments of $7,180, payable through May 15, 2021.		303,152
		552,037
Less current portion		107,972
	$	444,065

Future maturities of long term debt are as follows:

Year	**Amount**
2015	$ 107,972
2016	114,410
2017	120,046
2018	114,049
2019	33,462
Thereafter	62,098
	$ 552,037

8. Line of Credit

The Organization has a line of credit with HSBC Bank USA, N.A. that provides for borrowings up to $500,000 with interest payable at a rate equal to 3.50 percent above the bank's prime rate. There was no outstanding balance on the line of credit at June 30, 2014.

9. Pension

SCFU has a qualified defined contribution pension plan (the "Plan") under section 403(b) of the Internal Revenue Code covering all eligible employees. SCFU's Board of Directors makes discretionary contributions to the Plan and the Board approval is made on an annual basis. There were no matching contributions for the year ended June 30, 2014.

10. Leases

SCFU entered into two separate lease agreements for space in Westchester, New York and the Bronx, New York, both for a ten-year term expiring in 2018. In addition, there were various leases entered into for rental units for program participants expiring through March 31, 2019. SCFU also entered into a lease agreement for administrative space in New York City for six and one-half years expiring September 30, 2016.

Future minimum rental commitments for the years ended subsequent to June 30, 2014 are as follows:

Year	**Amount**
2015	$ 706,179
2016	726,179
2017	744,798
2018	763,240
2019	652,170
Thereafter	2,810,293
	$ 6,402,859

Rent expense for the year ended June 30, 2014 amounted to $973,739 and is included in occupancy expense in the accompanying financial statements.

11. Commitments and Contingencies

Grants and reimbursements from Federal, State, and Local government agencies are subject to special audit procedures. Such audits could result in claims against the Organization for disallowed costs or noncompliance with the terms of the agreements. There were no audits conducted during the year ended June 30, 2014.

SCFU is a party to lawsuits and complaints generally arising in the ordinary course of business. In addition, SCFU is a defendant in a legal matter relating to vacated premises of a leased property located at 22 Marble Hill, New York, NY. The final outcome of such action cannot be determined at this time, however the worst case scenario could result in liability in excess of $3,000,000. SCFU has counterclaims against the landlord in this matter.

12. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2014:

Program activities	
Emmons Hiller Supported Employment Program	$ 94,756

Net assets were released from donor restrictions by incurring expenses satisfying the purpose and/or time restrictions specified by donors as follows for the year ended June 30, 2014:

Total restricted released	
Emmons Hiller Supported Employment Program	$ 33,037

13. Subsequent Events

The Organization has evaluated subsequent events occurring after the statement of financial position date through the date of November 25, 2014. Based on this evaluation, the Organization has determined that no subsequent events have occurred, which require disclosure in the financial statements.

SPECIAL CITIZENS FUTURES UNLIMITED

Supporting Adults and Children with Autism Since 1976

SPECIAL CITIZENS FUTURES UNLIMITED, INC.

FINANCIAL STATEMENTS
(TOGETHER WITH INDEPENDENT AUDITORS' REPORT)

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

MARKS PANETH

ACCOUNTANTS & ADVISORS

SPECIAL CITIZENS FUTURES UNLIMITED, INC.

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

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MARKS PANETH
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Special Citizens Futures Unlimited, Inc.

We have audited the accompanying financial statements of Special Citizens Futures Unlimited, Inc. ("SCFU"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses 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 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 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 combined 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 financial statements referred to above present fairly, in all material respects, the financial position of Special Citizens Futures Unlimited, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marks Paneth LLP

New York, NY
January 27, 2014

SPECIAL CITIZENS FUTURES UNLIMITED, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash and cash equivalents (Note 2C)	$ 1,252,458	$ 1,704,511
Accounts receivable - government, net (Note 2E)	1,511,648	1,296,290
Prepaid expenses and other assets (Note 5)	527,459	431,349
Property and equipment, net (Notes 2D, 3, 5 and 6)	3,080,764	3,488,082
Debt service reserve (Notes 5 and 6)	39,346	39,346
TOTAL ASSETS	$ 6,411,675	$ 6,959,578
LIABILITIES		
Accounts payable and accrued expenses	$ 415,372	$ 517,943
Accrued salaries	547,134	554,372
Accrued vacation	233,498	275,323
Deferred rent (Notes 2H and 7B)	36,672	282,499
Deferred revenues/due to funding source (Notes 2F and 4)	1,531,306	1,231,422
Loans payable (Note 6)	625,620	678,441
Mortgages payable (Note 5)	1,485,510	1,619,479
TOTAL LIABILITIES	4,875,112	5,159,479
COMMITMENTS AND CONTINGENCIES (Note 7)		
NET ASSETS (Note 2B)		
Unrestricted:		
Operations	(54,077)	(109,325)
Invested in property and equipment	1,590,640	1,894,424
Total Unrestricted	1,536,563	1,785,099
Temporarily restricted (Note 9)	-	15,000
TOTAL NET ASSETS	1,536,563	1,800,099
TOTAL LIABILITIES AND NET ASSETS	$ 6,411,675	$ 6,959,578

The accompanying notes are an integral part of these financial statements.

SPECIAL CITIZENS FUTURES UNLIMITED, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	For the Year Ended June 30, 2013			For the Year Ended June 30, 2012		
	Unrestricted	Temporarily Restricted	Total 2013	Unrestricted	Temporarily Restricted	Total 2012
SUPPORT AND REVENUE:						
Public Support:						
Contributions	$ 80,918	$ (15,000)	$ 65,918	$ 52,260	$ -	$ 52,260
Total Public Support	80,918	(15,000)	65,918	52,260	-	52,260
Governmental Support:						
Fees for service	11,222,953	-	11,222,953	11,559,698	-	11,559,698
Grants	166,351	-	166,351	156,906	-	156,906
Total Governmental Support	11,389,304	-	11,389,304	11,716,604	-	11,716,604
Revenue (loss):						
Store sales	10,763	-	10,763	12,249	-	12,249
Loss on disposal of fixed assets (Note 3)	(395,390)	-	(395,390)	(127,700)	-	(127,700)
Interest and other	405,143	-	405,143	200,974	-	200,974
Total Revenue	20,516	-	20,516	85,523	-	85,523
TOTAL SUPPORT AND REVENUE	11,490,738	(15,000)	11,475,738	11,854,387	-	11,854,387
EXPENSES:						
Program services	10,148,829	-	10,148,829	9,889,052	-	9,889,052
Management and administration	1,587,137	-	1,587,137	1,485,028	-	1,485,028
Fundraising	3,308	-	3,308	8,675	-	8,675
TOTAL EXPENSES	11,739,274	-	11,739,274	11,382,755	-	11,382,755
CHANGE IN NET ASSETS (Notes 2F and 9)	(248,536)	(15,000)	(263,536)	471,632	-	471,632
Net assets - beginning of year	1,785,099	15,000	1,800,099	1,313,467	15,000	1,328,467
NET ASSETS - END OF YEAR	$ 1,536,563	$ -	$ 1,536,563	$ 1,785,099	$ 15,000	$ 1,800,099

The accompanying notes are an integral part of these financial statements.

SPECIAL CITIZENS FUTURES UNLIMITED, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013
(With Comparative Totals for the Year Ended June 30, 2012)

For the Year Ended June 30, 2013

	Program Services				Supporting Services				
	Residential Services	Day Services	Other Program Services	Total Program Services	Management and Administration	Fundraising	Total Supporting Services	Total 2013	Total 2012
Salaries	$ 2,897,227	$ 1,524,152	$ 967,547	$ 5,388,926	$ 737,864	$ 2,400	$ 740,264	$ 6,129,190	$ 5,855,597
Payroll taxes and employee benefits (Note 8)	809,897	424,923	235,882	1,470,702	136,517	184	136,701	1,607,403	1,751,155
Total Salaries and Related Costs	3,707,124	1,949,075	1,203,429	6,859,628	674,381	2,584	876,965	7,736,593	7,606,752
Occupancy (Note 7B)	333,167	515,130	82,981	931,278	228,342	68	228,410	1,159,688	1,196,534
Professional and contracted service fees	110,560	81,060	60,400	252,020	256,424	-	256,424	508,444	431,915
Food	224,261	11,210	6	235,477	-	-	-	235,477	240,722
Travel and transportation	92,099	150,548	14,850	257,497	15,164	-	15,164	272,661	274,564
Repairs and maintenance	306,551	160,756	3,407	470,714	8,280	-	8,280	478,994	368,101
Equipment and furnishings	14,507	3,536	1,028	19,071	5,093	-	5,093	24,164	33,215
Office supplies	109,887	40,160	11,584	161,631	51,798	-	51,798	213,429	204,446
Consumer expenses	99,587	38,554	612	138,753	-	-	-	138,753	124,863
Telephone	34,507	53,597	14,055	102,159	25,653	-	25,653	127,812	125,861
Insurance	30,246	15,021	15,802	61,069	9,577	-	9,577	70,646	47,769
Depreciation and amortization	200,069	145,365	-	345,434	25,760	-	25,760	371,194	388,309
Interest	104,302	22,400	-	126,702	13,526	-	13,526	140,228	163,114
Medicaid assessment	94,274	18	-	94,292	-	-	-	94,292	96,305
Bad debt	-	-	-	-	26,504	-	26,504	26,504	13,238
Contracted services	62,468	-	-	62,468	-	-	-	62,468	-
Miscellaneous	24,115	5,215	1,306	30,636	46,635	656	47,291	77,927	67,037
TOTAL EXPENSES	$ 5,547,724	$ 3,191,645	$ 1,409,460	$ 10,148,829	$ 1,587,137	$ 3,308	$ 1,590,445	$ 11,739,274	$ 11,382,755

The accompanying notes are an integral part of these financial statements.

SPECIAL CITIZENS FUTURES UNLIMITED INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	Program Services				Supporting Services			
	Residential Services	**Day Services**	**Other Program Services**	**Total Program Services**	**Management and Administration**	**Fundraising**	**Total Supporting Services**	**Total**
Salaries	$ 2,708,612	$ 1,528,998	$ 907,147	$ 5,144,757	$ 707,538	$ 3,302	$ 710,840	$ 5,855,597
Payroll taxes and employee benefits (Note 8)	861,869	461,928	213,251	1,537,048	213,854	253	214,107	1,751,155
Total Salaries and Related Costs	3,570,481	1,990,926	1,120,398	6,681,805	921,392	3,555	924,947	7,606,752
Occupancy (Note 7B)	322,082	546,947	180,654	1,049,683	146,851	-	146,851	1,196,534
Professional and contracted service fees	100,840	100,652	-	201,492	225,638	4,785	230,423	431,915
Food	232,766	7,956	-	240,722	-	-	-	240,722
Travel and transportation	104,842	142,149	13,807	260,798	13,766	-	13,766	274,564
Repairs and maintenance	250,312	109,682	4,844	364,838	3,263	-	3,263	368,101
Equipment and furnishings	11,042	12,242	275	23,559	9,656	-	9,656	33,215
Office supplies	113,916	44,024	10,622	168,562	35,884	-	35,884	204,446
Consumer expenses	101,268	23,428	187	124,883	-	-	-	124,883
Telephone	32,734	51,645	13,005	97,384	28,467	-	28,467	125,851
Insurance	26,979	12,174	2,250	41,403	6,366	-	6,366	47,769
Depreciation and amortization	217,922	139,106	-	357,028	31,281	-	31,281	388,309
Interest	120,006	23,528	-	143,534	19,580	-	19,580	163,114
Medicaid assessment	96,305	-	-	96,305	-	-	-	96,305
Bad debt	-	-	-	-	13,238	-	13,238	13,238
Miscellaneous	16,933	11,250	8,873	37,056	29,646	335	29,981	67,037
TOTAL EXPENSES	$ 5,318,428	$ 3,215,709	$ 1,354,915	$ 9,889,052	$ 1,485,028	$ 8,675	$ 1,493,703	$ 11,382,755

The accompanying notes are an integral part of these financial statements.

SPECIAL CITIZENS FUTURES UNLIMITED, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (263,536)	$ 471,632
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Bad debt	26,504	13,238
Loss on disposal of fixed assets	395,390	127,700
Depreciation and amortization	371,194	388,309
Subtotal	529,552	1,000,879
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable - government	(241,862)	(185,005)
Prepaid expenses and other assets	(96,110)	233,679
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	(102,571)	48,983
Accrued salaries	(7,238)	89,855
Accrued vacation	(41,825)	19,824
Deferred revenues/due to a funding source	299,884	236,090
Deferred rent	(245,827)	41,895
Net Cash Provided by Operating Activities	94,003	1,486,200
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(359,266)	(44,285)
Net Cash Used by Investing Activities	(359,266)	(44,285)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of loans	(52,821)	(89,918)
Principal repayment of mortgage payable	(133,969)	(117,007)
Net Cash Used by Financing Activities	(186,790)	(206,925)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(452,053)	1,234,990
Cash and cash equivalents - beginning of year	1,704,511	469,521
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,252,458	$ 1,704,511
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 140,225	$ 161,712

The accompanying notes are an integral part of these financial statements.

SPECIAL CITIZENS FUTURES UNLIMITED, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 — ORGANIZATION AND NATURE OF ACTIVITIES

Special Citizens Futures Unlimited, Inc. ("SCFU") was organized in August 1976, under the Not-for-Profit Corporation Law of the State of New York and has been granted exemption from Federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. The purpose of SCFU is to develop and implement residential and day programs specifically for autistic young adults, and create structured learning environments and experiences for developmentally disabled autistic adolescents. The certificate of incorporation allows SCFU to establish, operate and maintain community residences for the developmentally disabled, including on-site and off-site facilities and day programs for autistic and developmentally disabled persons. In addition, SCFU sells products assembled by SCFU's program participants.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. SCFU prepares its financial statements using the accrual basis of accounting. SCFU adheres to accounting principles generally accepted in the United States of America.

B. SCFU maintains its net assets under the following classes:

- Unrestricted - represents resources available for support of SCFU's operations over which the Board of Directors has discretionary control.

- Temporarily restricted - represents assets resulting from contributions and other inflows of assets whose use by SCFU is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of SCFU pursuant to those stipulations. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. SCFU reports donor-restricted contributions as unrestricted support provided the restrictions are met in the same year the contributions are received.

C. Cash and cash equivalents include all highly liquid instruments purchased with maturities of three months or less.

D. Property and equipment is stated at cost less accumulated depreciation. These amounts do not purport to represent replacement or realizable values. SCFU capitalizes property and equipment with a cost of $5,000 or more and a useful life greater than two years. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Capital lease assets are depreciated over the life of the lease.

E. As of June 30, 2013 and 2012, SCFU determined that an allowance for doubtful accounts should be provided for accounts receivable of approximately $415,000 and $388,000, respectively. Such estimates are based on management's assessment of the aged basis of its governmental funding sources, creditworthiness of contributors and other sources, current economic conditions and historical information. Accounts receivable consists of amounts due from Federal and New York State sources.

F. 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, rate appeal results, etc. Included in the change in net assets for the year ended June 30, 2013 is a decrease of approximately $128,000 relating to prior years.

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

H. SCFU leases real property under operating leases expiring at various dates in the future. For the years ended June 30, 2013 and 2012, SCFU recorded an adjustment to rent expense to reflect its straight-lining policy that amounted to $4,869 and $41,895, respectively, and recorded such amounts as an increase in occupancy expense. Straight-lining of rent gives rise to a timing difference that is reflected as deferred rent in the accompanying statements of financial position.

I. Contributions, including cash and in-kind contributions of long lived assets are recorded as unrestricted support in the period in which they are received.

NOTE 3 — PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2013 and 2012:

	2013	2012	Estimated Useful Lives
Land	$ 703,000	$ 703,000	
Buildings and improvements	4,756,964	4,844,450	25 Years
Vehicles	562,702	510,963	5 Years
Furniture and equipment	367,253	382,661	3-10 Years
Total cost	6,389,919	6,441,074	
Less: accumulated depreciation	3,309,155	2,952,992	
Net book value	$ 3,080,764	$ 3,488,082	

Depreciation and amortization expense for the years ended June 30, 2013 and 2012 amounted to $371.194 and $388,309, respectively.

During the year ended June 30, 2013, SCFU vacated premises of a leased property located at 22 Marble Hill New York, NY, 1st and 2nd floors and disposed of leasehold improvements that were previously done to the property with a net book value of $390,818 In relation to the disposal, SCFU recorded a loss on disposal of fixed assets amounting to $390,818, which is included in the accompanying statements of activities

During the year ended June 30, 2012, SCFU disposed of partial improvements that were previously done to a property located at 22 Marble Hill New York, NY, 3rd floor, with an original cost of $127,700. Since the property was not previously depreciated due to non-occupancy, SCFU recorded a loss on disposal of fixed assets amounting to $127,700, which is included in the accompanying statement of activities.

Certain real property, vehicles and equipment of SCFU are held as collateral for SCFU's indebtedness as further described in Notes 5 and 6 to the financial statements.

NOTE 4 — DEFERRED REVENUES/DUE TO FUNDING SOURCE

Deferred revenues/due to funding source includes unrecovered debt service payments in the amount of $15,897 and $20,606 as of June 30, 2013 and 2012, respectively, made by the New York State Office for People With Developmental Disabilities ("OPWDD").

In addition, $354,663 and $156,195 as of June 30, 2013 and 2012, respectively, was due to OPWDD representing funds paid by OPWDD to SCFU for Day Habilitation program (from 2007 to 2009), which were duplicate payments included in the NYS reimbursement rates. Such funds are being currently recouped by OPWDD.

In July 2012, SCFU received a letter from New York State Department of Health notifying of a negative retroactive rate adjustment in the amount of $211,635. SCFU accrued such amount for future recoupment. The accrued amount was recouped in full during fiscal year ended June 30, 2013.

As of June 30, 2013 SCFU maintained a reserve of approximately $1,160,000 for potential audit adjustments resulting from potential future audits of its Medicaid programs by The State of New York Office of the Medicaid Inspector General ("OMIG"). The prior year reserve amounted to approximately $840,000. In May 2013, SCFU made a self-disclosure submission to OMIG. Based on review of claims OMIG informed SCFU of a negative retrospective adjustment for approximately $825,000 to be repaid by SCFU. Such amount is covered by the reserve.

NOTE 5 — MORTGAGES PAYABLE

The mortgages payable are self-liquidating loans with payments applied first to interest and then to principal. They are secured by real property located in the Riverdale section of The Bronx, New York.

The Agency's mortgages payable consisted of the following as of June 30, 2013 and 2012:

	2013	2012	Due Date
Payable to the Facilities Development Corporation ("FDC") with an average interest rate of 6.414% and semi-annual principal payments of $25,000.	$ 322,000	$ 372,000	2019
Payable to the Community Preservation Corporation ("CPC") with an annual interest rate of 7.08%. The monthly interest and principal installment payments are $14,136.	1,163,510	1,247,479	2022
	$ 1,485,510	$ 1,619,479	

The mortgage with FDC effectively assigns or collateralizes the revenue received as well as the property and all equipment or improvements made, and restricts the use of the property. SCFU was required to deposit into a pooled debt services reserve account with other agencies, held by the FDC, amounts equal to the estimated last principal and interest payments the FDC will make to New York State.

In October 2007, SCFU obtained a mortgage in the amount of $1,565,000 from CPC in order to purchase property located in the Riverdale section of the Bronx, New York to be used to provide housing to eight individuals diagnosed with developmental disabilities. As of June 30, 2008, approximately $495,000 of this mortgage was placed into escrow, classified as prepaid expenses and other assets on the statements of financial position, to be used for the construction of the Riverdale property. As of June 30, 2013 and 2012, remaining balances of approximately $26,000 and $19,000, respectively are to be used for real estate taxes, insurance and reserve for future repairs.

Future annual principal payments are as follows for the fiscal years ended after June 30, 2013:

2014	$ 140,685
2015	147,318
2016	164,436
2017	172,074
2018	185,272
Thereafter	675,725
	$ 1,485,510

NOTE 6 — LOANS PAYABLE

Loans payable of SCFU included the following as of June 30, 2013 and 2012:

	2013	2012	Due Date
Payable to Ford Credit, with monthly installments of various amounts. The annual payment approximates to $9,000. These notes are secured by vehicles. The interest rates vary from 4.34% to 6.84%.	$ 43,960	$ 13,525	2018
Payable to a bank. Maximum borrowing amount is $250,000, with proceeds used to renovate a residential facility located in Cortlandt Manor, New York. The interest rate is 6.60%, with monthly installments of $2,851.	211,007	230,384	May 2021
Payable to a bank. Maximum borrowing amount is $500,000, with proceeds mainly used for a day habilitation space renovation project in Bronx, New York. The interest rate is 5.48%, with monthly installments of $7,180.	370,653	434,532	May 2018
	$ 625,620	$ 678,441	

Future annual principal payments are as follows for the years ended after June 30, 2013:

2014	$ 97,781
2015	103,564
2016	109,691
2017	114,994
2018	108,602
Thereafter	90,988
	$ 625,620

NOTE 7 — COMMITMENTS AND CONTINGENCIES

A. Pursuant to SCFU's contractual relationships with certain governmental funding sources, governmental agencies have the right to examine the books and records of SCFU involving transactions relating to these contracts. The accompanying financial statements make no provision for possible disallowances, except as discussed in Notes 2F and 4. Although such possible disallowances could be substantial in amount, in the opinion of management, any actual disallowances would be immaterial.

B. During 2008, SCFU entered into two separate lease agreements for space in Westchester, New York and the Bronx, New York, both for a ten-year term expiring in 2018. In addition, there were various leases entered into, which expire beginning 2010 and onwards. Properties rented are to be used for programmatic purposes. During 2010, SCFU entered into a lease agreement for space in New York City for six and one-half years. Future minimum rental commitments for the years ended subsequent to June 30, 2013 are as follows:

2014	$ 419,000
2015	419,000
2016	398,000
2017	324,000
2018	130,000
	$ 1,690,000

Rent expense for real property for the years ended June 30, 2013 and 2012 amounted to $960,779 and $1,026,180, respectively, and is included in occupancy expense in the accompanying financial statements.

NOTE 7 — COMMITMENTS AND CONTINGENCIES (Continued)

C. SCFU has no uncertain tax positions as of June 30, 2013 and 2012 in accordance with Accounting Standards Codification ("ASC") Topic 740, which provides standards for establishing and classifying any tax provisions for uncertain tax positions. SCFU is no longer subject to federal or state and local income tax examinations by tax authorities for years ended before June 30, 2010.

D. SCFU is a party to lawsuits and complaints generally arising in the ordinary course of business. In addition, SCFU is a defendant in a legal matter relating to vacated premises of a leased property located at 22 Marble Hill New York, NY, as discussed in Note 3. The final outcome of such action cannot be determined at this time.

NOTE 8 — PENSION PLAN

SCFU has a qualified defined contribution pension plan (the "Plan") under section 403(b) of the Internal Revenue Code covering all eligible employees. SCFU's Board of Directors makes discretionary contributions to the Plan and the Board approval is made on an annual basis. Matching contributions amounted to approximately $0 and $13,000 for the years ended June 30, 2013 and 2012, respectively.

NOTE 9 — TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets amounted to $15,000 as of June 30, 2012 and were restricted for promotion of vocational services, and were fully released during the year ended June 30, 2013.

NOTE 10 — CONCENTRATION

SCFU derives a significant portion of its revenue from contractual arrangements with government sources. Such revenue approximated 98% and 97% of total support and revenue for the years ended June 30, 2013 and 2012, respectively. Such revenue is subject to audit and possible adjustment by the various government agencies.

NOTE 11 — RELATED PARTY TRANSACTIONS

SCFU had a Board member whose firm provided legal services to SCFU. For the years ended June 30, 2013 and 2012, the legal services relating to the Board member's firm amounted to $14,634 and $137,375, respectively, and were included in the accompanying statements of activities and statements of functional expenses.

NOTE 12 — SUBSEQUENT EVENTS

SCFU has evaluated, for potential recognition or disclosure, events subsequent to the date of the statement of financial position through January 27, 2014, the date the financial statements were issued. No events have occurred subsequent to the statement of financial position date through January 27, 2014 that would require adjustment or disclosure in the financial statements.

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APPENDIX B-V

YOUNG ADULT INSTITUTE, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2015, JUNE 30, 2014 AND JUNE 30, 2013)

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Young Adult Institute, Inc.

YAI

Seeing beyond disability.

Financial Statements
(Together with Independent Auditors' Report)

Year Ended June 30, 2015

MARKS PANETH

ACCOUNTANTS & ADVISORS

YOUNG ADULT INSTITUTE, INC.

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEAR ENDED JUNE 30, 2015

CONTENTS

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MARKS PANETH

ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

The Board of Directors of the
Young Adult Institute, Inc.

We have audited the accompanying financial statements of the Young Adult Institute, Inc. ("YAI") which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year 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 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 from 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 auditor's 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 financial statements referred to above present fairly, in all material respects, the financial position of the Young Adult Institute, Inc. as of June 30, 2015, 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.

Marks Paneth LLP

New York, NY
September 29, 2015

YOUNG ADULT INSTITUTE, INC
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2015

ASSETS		
Current Assets		
Cash and cash equivalents (Notes 2C and 10)	$	17,109,932
Short-term Investments (Notes 2D and 4)		18,508,324
Accounts receivable, net (Notes 2E, 3 and 7)		23,260,312
Prepaid expenses and other receivables		5,596,698
Total Current Assets		64,475,266
Non-Current Assets		
Bond issuance costs, net (Note 2M)		1,224,074
Property and equipment, net (Notes 2G, 5, 6 and 7)		32,833,234
Debt service reserve (Notes 2N and 4)		2,687,908
Deferred charges (Note 2O)		3,410,536
Accounts receivable and other assets, net (Note 2E)		1,372,324
TOTAL ASSETS	$	106,003,342
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	$	17,986,516
Due to funding sources (Note 8C)		13,558,773
Notes and mortgages payable (Note 7)		20,427,409
Capital lease obligation (Note 6)		920,796
Other current liabilities (Note 2L)		1,339,029
Total Current Liabilities		54,232,523
Non-Current Liabilities		
Due to funding sources (Note 8C)		4,621,175
Notes and mortgages payable (Note 7)		14,826,205
Capital lease obligation (Note 6)		843,843
Other non current liabilities (Note 2L)		6,482,097
TOTAL LIABILITIES		81,005,843
COMMITMENTS AND CONTINGENCIES (Note 8)		
NET ASSETS (Note 2B)		
Unrestricted		24,609,687
Temporarily restricted (Note 9)		387,812
TOTAL NET ASSETS		24,997,499
TOTAL LIABILITIES AND NET ASSETS	$	106,003,342

The accompanying notes are an integral part of these financial statements.

YOUNG ADULT INSTITUTE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUE AND SUPPORT (Note 2K)			
Medicaid (Notes 2F and 2J)	$ 157,431,074	$ -	$ 157,431,074
New York State/New York City contractual agreements	8,350,169	-	8,350,169
Client fees	6,724,345	-	6,724,345
Grants and other revenues (Note 2F)	10,886,494	440,000	11,326,494
Net assets released from restrictions (Note 9)	431,511	(431,511)	-
TOTAL OPERATING REVENUE AND SUPPORT	183,823,593	8,489	183,832,082
OPERATING EXPENSES:			
Program Services:			
Residential services	91,434,246	-	91,434,246
Clinical services	65,139,131	-	65,139,131
Employment initative services	2,684,602	-	2,684,602
Total Program Services	159,257,979	-	159,257,979
Supporting Services:			
Management and general	21,670,742	-	21,670,742
Total Supporting Services	21,670,742	-	21,670,742
TOTAL OPERATING EXPENSES	180,928,721	-	180,928,721
CHANGE IN NET ASSETS FROM OPERATIONS	2,894,872	8,489	2,903,361
NON-OPERATING ACTIVITIES (Note 2K)			
Contributions	911,181	-	911,181
Special events (net of direct costs of $863,133)	440,124	-	440,124
Fundraising expenses	(1,388,604)	-	(1,388,604)
Interest income	396,347	-	396,347
TOTAL NON-OPERATING ACTIVITIES	359,048	-	359,048
CHANGE IN TOTAL NET ASSETS	3,253,920	8,489	3,262,409
Net Assets - beginning of year	21,355,767	379,323	21,735,090
NET ASSETS - END OF YEAR	$ 24,609,687	$ 387,812	$ 24,997,499

The accompanying notes are an integral part of these financial statements.

YOUNG ADULT INSTITUTE, INC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ 3,262,409
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation and amortization	4,230,136
Amortization of bond issuance	812,743
Write off of deferred charges	852,633
Bad debts	4,994,007
Subtotal	14,151,928
Changes in operating assets and liabilities:	
(Increase) or decrease in assets:	
Accounts receivable, net of bad debt	130,063
Prepaid expenses and other receivables	(1,533,088)
Accounts receivable and other assets, net of bad debt	(646,562)
Deferred charges, net of write off	375,826
Increase or (decrease) in liabilities:	
Accounts payable and accrued expenses	1,674,366
Due to funding sources	3,264,703
Other liabilities	(1,029,252)
Net Cash Provided by Operating Activities	16,387,984
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(1,887,748)
Purchases of short-term investments	(7,353,890)
Decrease in debt service reserve	1,682,527
Net Cash Used in Investing Activities	(7,559,111)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from notes and mortgages	8,964,290
Principal repayments of notes and mortgages	(5,087,759)
Principal repayments of capital lease obligation	(9,529,126)
Net Cash Used in Financing Activities	(5,652,595)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,176,278
Cash and cash equivalents - beginning of the year	13,933,654
CASH AND CASH EQUIVALENTS- END OF YEAR	$ 17,109,932
Supplemental Disclosure of Cash Flow Information:	
Cash paid for interest	$ 1,584,475

The accompanying notes are an integral part of these financial statements.

YOUNG ADULT INSTITUTE, INC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

The Young Adult Institute, Inc. ("YAI") was organized and incorporated in 1957 under the Not-for-Profit Corporation Law of New York State. YAI has been granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. YAI has an equivalent exemption from income tax at the state and local level.

YAI serves people of all ages with developmental and learning disabilities, from infants through the elderly, in a variety of community settings and at home through state-of-the-art programs that help to build skills, expand opportunities, and support community living. YAI's 240 programs and direct services benefit over 9,200 individuals and their families daily in 10 counties throughout the New York metropolitan area. YAI is funded primarily by Medicaid.

YAI is part of a network of independent agencies, collectively known as the YAI Network. The network provides programs and services including residential and other facilities for adults with developmental disabilities throughout New York City, Westchester County, and Long Island.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ***Basis of Accounting and Use of Estimates*** - YAI's financial statements have been prepared on the accrual basis of accounting. YAI adheres to accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

B. ***Basis of Presentation*** - YAI maintains its net assets under the following three classes:

   Unrestricted - This represents net assets not subject to donor-imposed stipulations and that have no time restrictions. Such resources are available for support of YAI's operations over which the Board of Directors has discretionary control.

   Temporarily Restricted - This represents net assets subject to donor-imposed stipulations that will be met by actions of YAI or by the passage of time. When a stipulated time restriction ends or purpose restriction is accomplished, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

   Permanently Restricted - This represents net assets subject to donor-imposed stipulations that they be maintained permanently by YAI. Generally, the donors of these assets permit YAI to use all or part of the income earned for unrestricted or donor-specified purposes. As of June 30, 2015, there were no permanently restricted net assets.

C. ***Cash and Cash Equivalents*** - YAI considers highly liquid debt instruments with maturities of three months or less, when acquired, to be cash and cash equivalents. Program participant funds included in the cash and cash equivalents amounted to approximately $668,000 as of June 30, 2015. Such amounts are also included as a liability in the accompanying financial statements.

D. ***Short-term Investments and Fair Value Measurements*** – Short-term Investments are carried at fair value. Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 4.

E. ***Allowance for Uncollectible Receivables*** - YAI determines whether an allowance for uncollectible receivables should be provided for accounts receivable. Such estimate is based on management's assessment of the aged basis of its receivables, current economic conditions, historical experience, and collections subsequent to year end. As of June 30, 2015, YAI determined an allowance of $633,176 was necessary for accounts receivable. In addition, YAI has established an allowance for doubtful accounts for other receivables due from network agencies of approximately $9,658,000, representing nearly the entire balance due.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. ***Revenue Recognition*** - YAI records fee for service revenue 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, YAI records a liability due to funding sources.

G. ***Property and Equipment*** - Property and equipment is stated at cost less accumulated depreciation or amortization. These amounts do not purport to represent replacement or realizable values. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the useful lives of the improvements or the term of the applicable lease. Property and equipment is capitalized by YAI provided its cost is $5,000 or more and its useful life is greater than one year.

H. ***Contributions*** - Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift.

I. ***Functional Expenses*** - The costs of providing program and supporting services of YAI have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and general supporting services benefited.

J. ***Prior Period Revenue*** - There are occasions when funding source reimbursements for prior years are adjusted in the current year. Such adjustments may be due to retroactive rate adjustments, funding source audit findings, additional monies available over and above original contract amounts, rate appeal results, etc. Included in Medicaid revenue for the year ended June 30, 2015 is a decrease of approximately ($700,000) of prior year revenues relating to such adjustments.

K. ***Operating and Non-Operating Activities*** - YAI includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Contributions, special events, cost of direct benefits of special events and interest income and fundraising expenses are considered non-operating.

L. ***Deferred Rent*** - YAI leases real property under various operating leases. The leases include rent escalations. Since the rent increases over time, YAI records an adjustment to rent expense each year to reflect its straight-lining policy. Straight-lining of rent gives rise to a timing difference that is reflected as deferred rent liability under the caption "Other Liabilities" in the accompanying statement of financial position. This amounted to approximately $3 million as of June 30, 2015.

M. ***Bond Issuance Costs*** - Bond issuance costs consist of financing costs, which are amortized over the life of the bond. The amortization is on the straight line method which does not differ materially from the effective interest rate method.

N. ***Debt Service Reserves*** - Under the terms of the Industrial Development Agency ("IDA"), and Dormitory Authority State of new York ("DASNY"), YAI is required to deposit with the bond trustee an amount to be held in a debt service reserve fund, which will be utilized to satisfy the last payment required on the mortgage, or can be used prior to that point under the direction of IDA or DASNY to make any loan payments due by reason of default or other causes spelled out in the loan agreement. The debt service reserve is carried at the original cost in the statement of financial position.

O. ***Deferred Charges*** - The New York State Office for People with Developmental Disabilities ("OPWDD") includes interest and principal amortization on loans from the Dormitory Authority of the State of New York in the reimbursement rate paid to service providers. As of June 30, 2015 deferred charges include unreimbursed bond issuance costs from OPWDD expected to be collected in the future.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following as of June 30, 2015:

Due from Medicaid	$ 18,699,150
Due from the State of New York	4,081,740
Due from the City of New York	285,128
Due from other sources	827,470
	23,893,488
Less: allowance for doubtful accounts	(633,176)
	$ 23,260,312

NOTE 4 – SHORT-TERM INVESTMENTS AND FAIR VALUE MEASUREMENTS

Short-term investments consist of the following as of June 30, 2015:

Money market funds	$ 17,529,554
Corporate bonds	328,097
Government bonds	650,673
	$ 18,508,324

The components of short-term investment return for the year ended June 30, 2015 consisted of $55,464 of interest and $7,443 of unrealized gains.

The fair value hierarchy defines three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

In determining fair value, YAI utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value. Investments in money markets are valued using market prices in active markets (Level 1). Fair value of these investments are determined by management through the investment managers. Level 1 instrument valuations are obtained from real-time quotes in active exchange markets involving identical assets. Corporate bonds and U.S. Government bonds are designated as Level 2 instruments and valuations are obtained from similar market or model derived valuations in which all significant inputs are observable or can be derived primarily from or corroborated with observable market data (credit risk/grade, maturities, etc.).

NOTE 4 – SHORT-TERM INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Financial assets carried at fair value as of June 30, 2015 are classified in the table as follows:

	Level 1	Level 2	Total
Short-term Investments:			
Money market funds	$ 17,529,554	$ -	$ 17,529,554
Corporate bonds	-	328,097	328,097
Government bonds	-	650,673	650,673
	17,529,554	978,770	18,508,324
Debt service reserve fund:			
U.S. Treasury bills	2,687,908	-	2,687,908
	$ 20,217,462	$ 978,770	$ 21,196,232

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30, 2015:

		Estimated Useful Lives
Land	$ 9,802,584	
Building and building improvements	52,778,454	15-25 years
Leasehold improvements	17,890,704	5-25 years
Furniture and equipment	11,476,135	3-10 years
Construction in progress (see below)	1,822,639	
	93,770,516	
Less accumulated depreciation and amortization	(60,937,282)	
	$ 32,833,234	

Depreciation and amortization expense amounted to $4,230,136 for the year ended June 30, 2015. Construction in progress consists of new site construction, various renovations, and module upgrades with a combined additional estimated completion cost of approximately $1.3 million, and estimated completion dates between fiscal year 2016 and 2017.

NOTE 6 – CAPITAL LEASE OBLIGATION

YAI has entered into capital lease agreements to fund the purchase of buildings, building improvements and equipment through three issuances between 2001 and 2007.

The New York City Industrial Development Agency ("NYCIDA"), a corporate governmental agency constituting a body corporate and politic and a public benefit corporation of the State of New York, issued and sold revenue bonds (Special Needs Pooled Program) carrying interest rates ranging from 6% to 7.25% per annum payable in semiannual installments with maturities ranging from 2016 to 2018. The proceeds of the loans were used to finance the purchase and renovation of various collateralized properties in New York. As part of the agreement with NYCIDA, YAI transferred the titles to all the facilities. NYCIDA has leased the facilities back to YAI for a term and at an amount concurrent with the bond repayment schedules. At the conclusion of the lease terms, YAI has the option to purchase each of the leased properties for $1.

The capital lease agreements require YAI to comply with certain terms and conditions. YAI was in compliance with all applicable financial covenants as of June 30, 2015.

NOTE 6 – CAPITAL LEASE OBLIGATION (Continued)

Pursuant to the capital lease agreement, the debt service reserve fund was established with a balance of $706,250 as of June 30, 2015, included in the statement of financial position under debt service reserves.

As of June 30, 2015, future minimum principal lease payments are as follows:

2016	$ 920,796
2017	817,745
2018	26,100
	$ 1,764,641

NOTE 7 – NOTES AND MORTGAGES PAYABLE

YAI has available an $18 million working capital line of credit carrying an interest rate of prime or 30-day LIBOR (at YAI's determination) plus 2% per annum, which at June 30, 2015 was 2.2%. The loan is collateralized by YAI's accounts receivable and matures on December 29, 2015. Pursuant to the line of credit agreement, YAI is required to maintain certain financial, affirmative and negative covenants. The outstanding balance as of September 29, 2015, amounted to $13,172,428.	$ 13,516,797
YAI has available an $8 million line of credit for the acquisition and renovation of program sites. Upon receipt of New York State prior property approvals, the funds drawn down on the line of credit are subsequently converted into notes. As of June 30, 2015, there were thirteen notes executed. The notes bear an interest rate of prime or 30-day LIBOR (at YAI's determination) plus 2% per annum, resulting in rate of 2.2% at June 30, 2015. The notes are collateralized by related property and mature on December 29, 2015. Pursuant to the line of credit agreement, YAI is required to maintain certain financial, affirmative and negative covenants. The outstanding balance as of September 29, 2015, amounted to $5,725,522.	3,956,877
YAI has entered into various loan agreements with the Dormitory Authority of the State of New York (formerly the Facilities Development Corporation (FDC)), a body corporate and politic of the State of New York, constituting a public benefit corporation, acting by and through its agent, the Commissioner of the New York State Office for People with Developmental Disabilities. The loans carry interest rates ranging from 1.5% to 7.82% per annum, payable in semi-annual installments with maturity dates ranging from August 2014 through July 2030. The loans are collateralized by YAI's underlying real property.	17,779,940
	$ 35,253,614

Required future annual principal payments are payable as follows for the years ending June 30:

2016	$ 20,427,409
2017	2,332,721
2018	2,241,493
2019	2,108,006
2020	1,801,937
Thereafter	6,342,048
	$ 35,253,614

NOTE 8 – COMMITMENTS AND CONTINGENCIES

A. YAI has several operating lease agreements. Certain leases include rent escalations and periods of free rent. The difference between straight lining the rental charge and actual payments is reported as deferred rent within caption other liabilities in the accompanying statement of financial position. Annual future minimum rentals payable for real and personal property, principally under long-term noncancellable operating leases expiring at varying dates through 2038, are as follows:

	Real Property	Vehicles and Equipment	Total
2016	$ 6,826,000	$ 574,000	$ 7,400,000
2017	5,619,000	527,000	6,146,000
2018	4,992,000	327,000	5,319,000
2019	4,762,000	161,000	4,923,000
2020	4,126,000	16,000	4,142,000
Thereafter	18,046,000	-	18,046,000
	$ 44,371,000	$ 1,605,000	$ 45,976,000

Rent expense amounted to the following for the year ended June 30, 2015:

Real property	$ 7,370,311
Vehicles and equipment	891,458
	$ 8,261,769

B. YAI believes it has no uncertain tax positions as of June 30, 2015 in accordance with Accounting Standard Codification ("ASC") Topic 740, "Income Taxes," which provides standards for establishing and classifying any tax provisions for uncertain tax positions. YAI believes it is no longer subject to federal or state and local income tax examinations by tax authorities for the years prior to June 30, 2012.

C. YAI receives a significant portion of its revenue for services provided from third-party reimbursement through government agencies and Medicaid. These revenues are based on predetermined rates based on cost reimbursement principles and are subject to audit and retroactive adjustment by the government. YAI, when appropriate, records an estimated liability to governmental agencies for any excess reimbursement over allowable costs and underspending of interim rates. As of June 30, 2015, due to funding NYS represents overpayments from the 2010-2015 fiscal years for YAI programs, which is expected to be recouped by the funding sources.

D. YAI is subject to legal proceedings and claims which have arisen in the ordinary course of its business and which have not been fully adjudicated. Management does not believe there will be a material adverse effect upon the financial position of YAI.

NOTE 9 –TEMPORARILY RESTRICTED NET ASSETS

For the year ended June 30, 2015, $431,511 was released from restrictions satisfying the donor restrictions. As of June 30, 2015, temporarily restricted net assets consists of $387,812 restricted for the Linking Individuals to Necessary Knowledge (LINK) program.

NOTE 10 – CONCENTRATIONS

Cash and cash equivalents that potentially subject YAI to a concentration of credit risk include cash and short-term investment accounts with banks that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. Cash and short-term investment accounts are insured up to $250,000 per depositor. As of June 30, 2015, there was approximately $17.1 million of cash and cash equivalents and $17.5 million of short-term investments held by banks that exceeded FDIC limits.

NOTE 11 – RETIREMENT PLAN

YAI has a discretionary defined contribution retirement plan covering substantially all its employees. To be eligible, employees must complete 12 months of service and 1,000 hours. Contributions and costs of these plans are based on amounts determined in accordance with Internal Revenue Service Code Section 415 on an annual basis. For the year ended June 30, 2015, the employer contribution was approved as 2.25%. The liability and expense for YAI amounted to $1,846,396, as of and for the year ended June 30, 2015.

NOTE 12 – RELATED PARTY TRANSACTIONS

YAI is the sole corporate member of the Rockland County Association for the Learning Disabled (the "Association"). For the year ended June 30, 2015, YAI provided certain management services to the Association, including but not limited to accounting and financial operations, administrative and program support, human resources, education and training, information technology and general management. The Association paid $432,000 for such services. As of June 30, 2015, there were no amounts owed to YAI by RCALD. The operations of RCALD are not consolidated in the accompanying financial statements due to immateriality. The net assets of RCALD as of June 30, 2015 were approximately $700,000.

NOTE 13 – FUNCTIONAL ALLOCATION OF EXPENSES

The functional allocation of expenses for the year ended June 30, 2015 follows:

Residential services	$ 91,434,246
Clinical services	65,139,131
Employment initiative services	2,684,602
Total program services	159,257,979
Management and general	21,670,742
Cost of direct benefit of special events	863,133
Fundraising expenses	1,388,604
Total expenses	$ 183,180,458

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated, for potential accrual or disclosure, events subsequent to the date of the statement of financial position through September 29, 2015, the date the financial statements were issued. No events have occurred subsequent to the statement of financial position date through September 29, 2015 that would require adjustment to or disclosure in the financial statements.

YOUNG ADULT INSTITUTE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2014

YOUNG ADULT INSTITUTE, INC.

CONTENTS

Grassi & Co.
Accountants and Success Consultants

Accounting, Auditing, Tax, Litigation Support,
Valuation, Management & Technology Consulting

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Young Adult Institute, Inc.
New York, New York

We have audited the accompanying statement of financial position of Young Adult Institute, Inc. at June 30, 2014, and the related statements of activities and cash flows for the year 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 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 from 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 auditor's 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Young Adult Institute, Inc. at June 30, 2014, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Grassi & Co., CPAs, P.C.

GRASSI & CO., CPAs, P.C.

Jericho, New York
October 17, 2014

YOUNG ADULT INSTITUTE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS

CURRENT ASSETS:	
Cash	$ 13,933,654
Certificates of deposit	442,018
Investments	10,712,416
Accounts receivable, net	
Medicaid	19,176,967
New York State	4,907,738
New York City	94,684
Client fees	250,583
Private pay	415,129
Medicare	314,695
Prepaid expenses and other receivables	4,063,610
Total Current Assets	54,311,494
Bond issuance costs, net	2,036,817
Fixed assets, net	34,839,214
Assets limited as to use	4,370,435
Deferred charges	4,638,995
Other assets and receivables, net	3,950,348
Total Assets	$ 104,147,303

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$ 16,312,150
Due to New York State	14,685,425
Current maturities of notes and mortgages payable	2,127,027
Current maturities of capital lease obligations	1,967,350
Other current liabilities	5,855,343
Total Current Liabilities	40,947,295
Due to New York State	229,820
Notes and mortgages payable, less current maturities	28,913,648
Capital lease obligations, less current maturities	9,326,415
Other noncurrent liabilities	2,995,035
Total Liabilities	82,412,213
COMMITMENTS AND CONTINGENCIES	
NET ASSETS	
Unrestricted	21,355,767
Temporarily restricted	379,323
Total Net Assets	21,735,090
Total Liabilities and Net Assets	$ 104,147,303

The accompanying notes are an integral part of these financial statements.

YOUNG ADULT INSTITUTE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUES:			
Medicaid	$ 146,468,943	$ -	$ 146,468,943
New York State/New York City contractual agreements	15,357,772	-	15,357,772
Client fees	6,125,478	-	6,125,478
Grants and other revenue	8,220,155	500,000	8,720,155
Net assets released from restrictions	174,154	(174,154)	-
Total Operating Revenues	176,346,502	325,846	176,672,348
OPERATING EXPENSES:			
Residential services	85,473,064	-	85,473,064
Clinical services	65,070,670	-	65,070,670
Employment initiative services	3,002,885	-	3,002,885
Management and general	20,664,845	-	20,664,845
Total Operating Expenses	174,211,464	-	174,211,464
CHANGE IN NET ASSETS FROM OPERATIONS	2,135,038	325,846	2,460,884
NONOPERATING REVENUES AND EXPENSES:			
Contributions	807,462	-	807,462
Interest income	53,614	-	53,614
Fundraising expenses	(1,694,670)	-	(1,694,670)
Special events	1,371,980	-	1,371,980
Cost of direct benefits of special events	(584,006)	-	(584,006)
Other nonoperating revenues	361,970	-	361,970
Total Nonoperating Revenues and Expenses	316,350	-	316,350
CHANGE IN NET ASSETS	2,451,388	325,846	2,777,234
NET ASSETS, BEGINNING OF YEAR	18,904,379	53,477	18,957,856
NET ASSETS, END OF YEAR	$ 21,355,767	$ 379,323	$ 21,735,090

The accompanying notes are an integral part of these financial statements.

YOUNG ADULT INSTITUTE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ 2,777,234
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	4,127,198
Bad debt expense	3,822,532
Deferred charges	414,971
Decrease (increase) in assets:	
Accounts receivable	434,556
Prepaid expenses and other receivables	(722,067)
Other assets and receivables	(3,668,859)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(2,150,059)
Due to New York State	2,172,824
Other liabilities	1,014,821
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,223,151
CASH FLOWS FROM INVESTING ACTIVITIES:	
Fixed asset acquisitions	(355,021)
Proceeds from sale of investments	2,541,282
Decrease in assets limited as to use	19,198
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,205,459
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on notes and mortgages payable	(3,699,749)
Principal payments on capital leases	(2,654,275)
NET CASH USED IN FINANCING ACTIVITIES	(6,354,024)
NET CHANGE IN CASH	4,074,586
CASH, BEGINNING OF YEAR	9,859,068
CASH, END OF YEAR	$ 13,933,654
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	$ 1,725,197
NONCASH INVESTING AND FINANCING ACTIVITIES:	
Fixed asset acquisitions through capital leases	$ 534,428

The accompanying notes are an integral part of these financial statements.

Note 1 - Nature of Organization

Young Adult Institute, Inc. ("YAI") was organized and incorporated in 1957 under the Not-for-Profit Corporation Law of New York State. YAI has been granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

YAI serves people of all ages with developmental and learning disabilities, from infants through the elderly, in a variety of community settings and at home through state-of-the-art programs that help to build skills, expand opportunities, and support community living. YAI's 240 programs and direct services benefit 9,298 individuals and their families daily in 10 counties throughout the New York metropolitan area. YAI is funded primarily by Medicaid.

YAI is part of a network of independent agencies, collectively known as the YAI Network. The network provides programs and services including residential and other facilities for adults with developmental disabilities throughout New York City, Westchester County, and Long Island.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared on the accrual basis.

Use of Estimates

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

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.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fair Value of Financial Instruments (cont'd.)

Level 3 - Valuations based on unobservable inputs reflecting YAI's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

At June 30, 2014, the fair value of YAI's financial instruments including cash, certificates of deposit, accounts receivable, prepaid expenses and other receivables, assets limited as to use, and accounts payable and accrued expenses, approximated book value due to the short maturity of these instruments.

Refer to Note 5 - Fair Value Measurements for assets measured at fair value.

Certificates of Deposit

YAI has invested in several certificates of deposit that have various maturity dates ranging from April 2023 to October 2027, and have various interest rates ranging from 2.50% to 4.00% per annum. The balance of the certificates of deposit at June 30, 2014 is $442,018. The certificates of deposit were valued using Level 2 inputs consisting of broker dealer quotes for similar securities.

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 and Other Receivables, Allowance for Doubtful Accounts and Revenue Recognition

YAI 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 amounts spent, YAI 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. YAI has established an allowance for doubtful accounts for accounts receivable of approximately $738,000. YAI has established an allowance for doubtful accounts for other receivables due from networking agencies of approximately $6,433,000.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fixed Assets

Fixed assets are recorded at cost. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. YAI capitalizes all purchases of fixed assets 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.

Useful lives are as follows:

Building	15 to 25 years
Building improvements	3 to 25 years
Leasehold improvements	3 to 20 years
Furniture and fixtures	5 years
Equipment	3 to 10 years
Computer software	5 years

Deferred Charges

The New York State Office for People with Developmental Disabilities ("OPWDD") includes interest and principal amortization on loans from the Dormitory Authority of the State of New York in the reimbursement rate paid to service providers. YAI recognizes revenue, however, based upon interest and depreciation of the facility. The difference between the revenue recognized and the reimbursement from OPWDD is reflected as a deferred charge on the balance sheet. This deferred charge represents a timing difference, which will accumulate over the early periods of the loan repayments and will reverse during the latter periods of the loan repayments.

Bond Issuance Costs

Costs of obtaining financing or refinancing are offset against the debt reflected in the accompanying statement of financial position and amortized over the life of the debt. The accumulated amortization at June 30, 2014 was $4,702,852. Amortization expense related to bond issuance costs was $458,112 for the year ended June 30, 2014.

Assets Limited as to Use

The amount represents cash, which is held by trustees under bond indenture agreements.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Capital Leases

Capital leases are recorded at the lower of the fair market value of the assets or the present value of the minimum lease payments and are amortized over the lease term or estimated useful life of the assets, whichever is shorter, unless the lease provides for transfer of title or includes a bargain purchase option, in which case the lease is amortized over the estimated useful life of the asset.

Net Assets

Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those net assets that are restricted by the donors to a specific time period or for specific purposes.

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.

Operating Leases

Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent has been recorded for the difference between the fixed payments and rent expense.

Functional Expenses

The costs of providing YAI's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Measure of Operations

Changes in net assets from operations include all revenues, gains and expenses for the period except for contributions, interest income, special event revenue and expenses, and fundraising expenses.

Accounting for Uncertainty in Income Taxes

YAI 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.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Accounting for Uncertainty in Income Taxes (cont'd.)

YAI is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. YAI believes it is no longer subject to income tax examinations for years prior to 2011.

Note 3 - Concentration of Credit Risk

YAI 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, YAI's balances may exceed these limits.

The mix of revenue and receivables from program recipients and third-party payors is as follows:

	Revenue	Accounts Receivable
Medicaid	83%	76%
New York State contracts	9%	20%
Other third party payors	8%	4%
	100%	100%

Note 4 - Fixed Assets

Fixed assets, net, at cost, consists of the following at June 30, 2014.

	Cost	Accumulated Depreciation and Amortization	Net
Land	$ 9,802,584	$ -	$ 9,802,584
Building	20,590,064	15,260,913	5,329,151
Building improvements	31,791,246	18,965,757	12,825,489
Leasehold improvements	17,311,502	13,304,656	4,006,846
Furniture and fixtures	4,787,539	4,233,412	554,127
Equipment	2,789,684	2,560,150	229,534
Computer software	3,299,747	2,382,258	917,489
Construction in progress	1,173,994	-	1,173,994
Total	$ 91,546,360	$ 56,707,146	$ 34,839,214

Depreciation and amortization expense related to fixed assets including fixed assets acquired through capital leases was $3,669,086 for the year ended June 30, 2014.

Note 4 - Fixed Assets (cont'd.)

The cost of fixed assets purchased with capital lease proceeds was $35,337,544, with accumulated amortization thereon of $24,211,987.

YAI 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 YAI's review at June 30, 2014, no impairment of long-lived assets was evident.

Note 5 - Fair Value Measurements

YAI measures its investments 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 YAI's own assumptions of market participant valuation (unobservable inputs).

Items Measured at Fair Value on a Recurring Basis

Investments are stated at fair value using Level 1 inputs based on quoted market prices of identical securities. Assets using Level 2 inputs consist of government and corporate bonds. The fair value of the bonds is estimated using recently executed transactions in securities of the issuer or comparable issuers with comparable terms, market price quotations (where observable), bond spreads and fundamental data relating to the issuer.

The fair value of corporate and government bonds is estimated using recently executed transactions, market price quotations (where observable), bond spreads or credit default swap spreads. The spread data used is for the same maturity as the bond. If the spread data does not reference the issuer, then data that references a comparable issuer is used. Corporate and government bonds are generally categorized in Level 2 of the fair value hierarchy.

Note 5 - Fair Value Measurements (cont'd.)

The following table presents YAI's assets that are measured at fair value on a recurring basis at June 30, 2014:

	Total	Level 1	Level 2	Level 3
Certificates of deposit	$ 442,018	$ 442,018	$ -	$ -
Marketable securities:				
Money market funds	10,056,105	10,056,105	-	-
U.S. Treasury bonds	27,996	27,996	-	-
Government bonds	136,354	-	136,354	-
Corporate bonds	491,961	-	491,961	-
Total securities measured at fair value	$ 11,154,434	$ 10,526,119	$ 628,315	$ -

Note 6 - Due to New York State

YAI has entered into contracts with OPWDD for the operation of intermediate care facilities, individual residential alternatives, community residences, supportive apartments and day habilitation programs. As part of these agreements, OPWDD provides interest-free advances to YAI for pre-operational start-up costs, equipment, renovations, lease costs, real estate taxes, minor maintenance contracts and operations. YAI has agreed to pay back to OPWDD all of the above funds to the extent that such costs are reimbursed by Medicaid. Medicaid payments for these costs are withheld from remittances.

Payments over the next five years are as follows:

Years Ending June 30:	
2015	$ 14,685,425
2016	61,355
2017	55,372
2018	55,372
2019	57,721
	$ 14,915,245

Note 7 - Notes and Mortgages Payable

A. *Bank of America*

YAI has available an $18 million working capital line of credit carrying an interest rate of prime or 30-day LIBOR (at YAI's determination) plus 2% per annum, which at June 30, 2014 was 2.15%. The loan is collateralized by YAI's accounts receivable and matures on December 29, 2015.	$	15,045,037
YAI has available an $8 million line of credit for the acquisition and renovation of program sites. Upon receipt of New York State prior property approvals, the funds drawn down on the line of credit are subsequently converted into notes. At June 30, 2014, there were six notes executed. The notes bear an interest rate of prime or 30-day LIBOR (at YAI's determination) plus 2% per annum, which at June 30, 2014 was 2.15%. The notes are collateralized by related property with a net book value of $2,405,464 and mature on December 29, 2015.		2,968,663
B. Dormitory Authority of the State of New York		
YAI has entered into twenty-four loan agreements with the Dormitory Authority of the State of New York (formerly the Facilities Development Corporation (FDC)), a body corporate and politic of the State of New York, constituting a public benefit corporation, acting by and through its agent, the Commissioner of the New York State Office for People with Developmental Disabilities. The loans carry interest rates ranging from 2.5% to 7.82% per annum, payable in semi-annual installments with maturity dates ranging from August 2014 through July 2030. The loans are collateralized by related property with a net book value of $12,169,948.		13,026,975
Total amount due at June 30, 2014	$	31,040,675

Note 7- Notes and Mortgages Payable (cont'd.)

Principal payments over the next five years and thereafter are as follows:

Years Ending June 30:		
2015	$	2,127,027
2016		19,702,434
2017		1,232,721
2018		1,141,493
2019		998,006
Thereafter		5,838,994
	$	31,040,675

Note 8 - Capital Lease Obligations

YAI has entered into capital lease agreements to fund the purchase of buildings, building improvements and equipment through thirteen bond issuances between 2001 and 2007.

The New York City Industrial Development Agency ("NYCIDA"), a corporate governmental agency constituting a body corporate and politic and a public benefit corporation of the State of New York, issued and sold revenue bonds (Special Needs Pooled Program) carrying interest rates ranging from 4.05% to 7.25% per annum payable in semiannual installments with maturities ranging from 2015 to 2030. The proceeds of the loans were used to finance the purchase and renovation of various collateralized properties in New York with a net book value of $11,125,557.

As part of the agreement with NYCIDA, YAI transferred the titles to all the facilities. NYCIDA has leased the facilities back to YAI for a term and at an amount concurrent with the bond repayment schedules. At the conclusion of the lease terms, YAI has the option to purchase each of the leased properties for $1.

Note 8 - Capital Lease Obligations (cont'd.)

Future minimum lease payments are as follows:

Years Ending June 30:		
2015	$	2,625,240
2016		2,383,708
2017		2,053,107
2018		1,260,529
2019		1,768,690
Thereafter		3,703,296
		13,794,570
Less: Amount representing interest		2,500,805
Present value of net minimum lease payments	$	11,293,765

Note 9 - Pension Plans

YAI has defined contribution plans covering substantially all its employees. Contributions and costs of these plans are based on amounts determined in accordance with Internal Revenue Service Code Section 415 on an annual basis, and totaled $2,490,367 for the year ended June 30, 2014.

Note 10 - Leased Facilities

YAI leases various facilities for its administrative office and program sites under noncancellable leases. The leases expire at various periods through February 2038. Rental expense totaled $7,505,742 for the year ended June 30, 2014.

At June 30, 2014, the future minimum lease payments under the terms of the lease agreements are as follows:

Years Ending June 30:		
2015	$	6,005,782
2016		4,290,792
2017		3,763,238
2018		3,888,113
2019		3,667,118
Thereafter		19,900,673
	$	41,515,716

Note 11 - Commitments and Contingencies

YAI is responsible for reporting to and is regulated by various third parties, among which are the Centers for Medicare and Medicaid Services ("CMS") 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. Laws and regulations governing YAI's programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will 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 Medicare and Medicaid programs.

Medicaid

(a) During August 2007, MFCU issued subpoenas to a number of operators of Home Health Care programs citing that the contracted home health aides from licensed vendor agencies had not received proper certification. The subpoena requested documentation and information from YAI's Certified Home Health Aide program ("CHHA") regarding its use of home health aides. CHHA relied on the home health aide certificates provided by the licensed vendor agency. Based on the information that was provided to MFCU, the Attorney General made a determination that some Medicaid claims were not valid because the individuals providing the service were not lawful home health aides. On December 4, 2008, CHHA received a letter from MFCU requesting repayment of $219,608. Through discussion with MFCU, on or about February 12, 2009, CHHA reached an agreement in principle with MFCU that, when and if consummated, would provide CHHA with a comprehensive release of liabilities to the Medicaid program associated with the use of uncertified home health aides. In return for this release, CHHA would be required to pay a total of $110,000 to MFCU, divided into equal monthly installments of $2,750, payable over 40 months. Based upon this agreement in principle with MFCU, management of CHHA has accrued $110,000 in these financial statements. To date, CHHA is waiting for the draft of MFCU's proposed stipulation of settlement agreement, and management and legal counsel cannot offer any opinion regarding whether this matter will ultimately be settled on the foregoing terms.

(b) DOH increased Medicaid rates to provide funding for recruitment, training and retention of home health aides, personal care workers and/or other personnel with direct patient care responsibility. These funds cover the period from June 1, 2006 through February 29, 2012. In the accompanying financial statements, these funds are reflected as a liability. The methodology employed to make this determination was predicated on the approach approved by DOH under a similar program put forth in 2002. The funding was allocated based on the ratio of service hours provided by each licensed agency to the total agency hours provided. CHHA received attestations from those licensed agencies with which it contracts certifying that these funds were paid to home health aides and other personnel with direct patient care responsibilities. This approach and the underlying support are subject to audit by DOH, OMIG and MFCU.

Note 11 - Commitments and Contingencies (cont'd.)

Medicaid (cont'd.)

(c) During February 2011, CHHA received a letter from OMIG in connection with an audit of CHHA's cost reports for each of the four years ended December 31, 2004 through 2007. In connection with this audit, CHHA is responding to OMIG's requests for documentation that supports the costs and patient visits/hours claimed by CHHA on its cost reports. On April 1, 2011, CHHA submitted the requested documentation. Until such time as OMIG issues its final audit findings, management will not be in a position to estimate what potential loss, if any, might result from this matter.

Other

(d) YAI is involved in various legal proceedings and litigation arising in the ordinary course of business. YAI is vigorously defending these matters, and it is the opinion of legal counsel that these claims are without merit. Potential damages, if successful, are undeterminable at June 30, 2014.

Note 12 - Functional Expenses

Residential services	$ 85,473,064
Clinical services	65,070,670
Employment initiative services	3,002,885
Total program expenses	153,546,619
Management and general	20,664,845
Cost of direct benefits of special events	584,006
Fundraising expenses	1,694,670
Total expenses	$ 176,490,140

Note 13 - Temporarily Restricted Net Assets

YAI received funds to place computerized health monitoring systems in residences that house individuals who have been diagnosed with developmental disabilities. These monitoring systems will provide health care professionals with more accurate health-related data, and in turn provide a better quality of life for these individuals. The balance available at June 30, 2014 is $53,477.

In 2014, YAI received funds from The Taft Foundation to be used to expand, diversify and enhance the agency's LINK (Linking Individuals to Necessary Knowledge) services. This enhancement will help support, engage and empower individuals with developmental disabilities and assist them and their families in navigating a complicated service system. For the year ended June 30, 2014, $174,154 was released from restriction. The balance available at June 30, 2014 is $325,846.

Note 14 - Related Parties

YAI is the sole corporate member of Rockland County Association for the Learning Disabled (the "Association"). For the year ended June 30, 2014, YAI provided certain management services to the Association, including but not limited to accounting and financial operations, administrative and program support, human resources, education and training, information technology and general management. The Association paid $541,525 for such services. As of June 30, 2014, the Association owes $40,024 to YAI which is included in prepaid expenses and other receivables on the statement of financial position.

Note 15 - Supplemental Executive Retirement Program

Certain executives at YAI have been entitled to retirement benefits as part of a Supplemental Executive Retirement Program ("SERP"). In previous years, YAI contributed monies to the SERP that have been held in a grantor trust within the meaning of Subpart E, Part I, Subchapter J, Chapter I, Subtitle A of the Internal Revenue Code of 1986, as amended, which is intended to be a "rabbi trust" as described in Internal Revenue Service Rev. Proc. 92-64. During the year ended June 30, 2013, the SERP was terminated with respect to all participants and beneficiaries other than one former executive. Certain amounts were distributed to those participants and beneficiaries with respect to whom the SERP was terminated, and certain other amounts were authorized to be returned to YAI to allow YAI to settle certain outstanding obligations. The one former executive has not agreed with the distribution amount that was determined by YAI.

As of June 30, 2014, YAI is in legal proceedings with this former executive and his wife regarding his post-termination benefits, including the amount of his benefit under the SERP. YAI is contesting this matter vigorously and is unable to evaluate the likelihood of an outcome or estimate an amount or range of potential loss. Any future residual financial impact to YAI is unknown pending resolution of the dispute.

Note 16 - Subsequent Events

YAI has evaluated all events or transactions that occurred after June 30, 2014 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.

YOUNG ADULT INSTITUTE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2013

YOUNG ADULT INSTITUTE, INC.

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Young Adult Institute, Inc.
New York, New York

We have audited the accompanying statement of financial position of Young Adult Institute, Inc. at June 30, 2013, and the related statements of activities and cash flows for the year 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 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 from 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 auditor's 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.

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Opinion

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

Grassi & Co., CPAs, P.C.

GRASSI & CO., CPAs, P.C.

Jericho, New York
October 31, 2013

YOUNG ADULT INSTITUTE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

ASSETS

CURRENT ASSETS:	
Cash	$ 9,859,068
Certificates of deposit	443,756
Investments	13,251,960
Accounts receivable, net	
Medicaid	19,813,151
New York State	5,222,209
Client fees	327,046
Private pay	23,695
Medicare	208,252
Prepaid expenses and other receivables, net	7,164,075
Total Current Assets	56,313,212
Bond issuance costs, net	2,494,929
Fixed assets, net	37,618,851
Assets limited as to use	4,389,633
Deferred charges	5,053,966
Other assets	281,489
Total Assets	$ 106,152,080

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$ 18,462,212
Due to New York State	8,259,273
Current maturities of notes and mortgages payable	21,713,449
Current maturities of capital lease obligations	2,550,485
Other current liabilities	4,996,147
Total Current Liabilities	55,981,566
Due to New York State	4,483,148
Notes and mortgages payable, less current maturities	13,026,974
Capital lease obligations, less current maturities	10,863,126
Other noncurrent liabilities	2,839,410
Total Liabilities	87,194,224
COMMITMENTS AND CONTINGENCIES	
NET ASSETS	
Unrestricted	18,904,379
Temporarily restricted	53,477
Total Net Assets	18,957,856
Total Liabilities and Net Assets	$ 106,152,080

The accompanying notes are an integral part of these financial statements.

YOUNG ADULT INSTITUTE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUES:			
Medicaid	$ 138,385,111	$ -	$ 138,385,111
New York State/New York City contractual agreements	19,108,705	-	19,108,705
Client fees	6,120,747	-	6,120,747
Other revenue	14,989,443	-	14,989,443
Total Operating Revenues	178,604,006	-	178,604,006
OPERATING EXPENSES:			
Residential services	79,839,950	-	79,839,950
Clinical services	67,061,161	-	67,061,161
Employment initiative services	3,469,054	-	3,469,054
Management and general	24,056,795	-	24,056,795
Total Operating Expenses	174,426,960	-	174,426,960
CHANGE IN NET ASSETS FROM OPERATIONS	4,177,046	-	4,177,046
NONOPERATING REVENUES AND EXPENSES:			
Contributions	845,505	-	845,505
Interest income	26,247	-	26,247
Fundraising expenses	(1,292,149)	-	(1,292,149)
Special events	1,396,386	-	1,396,386
Cost of direct benefits of special events	(698,705)	-	(698,705)
Net recoveries from property damage	720,243	-	720,243
Total Nonoperating Revenues and Expenses	997,527	-	997,527
CHANGE IN NET ASSETS	5,174,573	-	5,174,573
NET ASSETS, BEGINNING OF YEAR	13,729,806	53,477	13,783,283
NET ASSETS, END OF YEAR	$ 18,904,379	$ 53,477	$ 18,957,856

The accompanying notes are an integral part of these financial statements.

YOUNG ADULT INSTITUTE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ 5,174,573
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	4,599,932
Bad debt expense	4,291,693
Decrease (increase) in assets:	
Accounts receivable	2,903,506
Prepaid expenses and other receivables	(3,363,331)
Deferred charges	157,104
Other assets	1,761
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	3,244,348
Due to New York State	(9,690,503)
Other liabilities	(5,577,108)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,741,975
CASH FLOWS FROM INVESTING ACTIVITIES:	
Fixed asset acquisitions	(3,952,881)
Proceeds from sale of investments	9,579,943
Decrease in assets limited as to use	19,199
NET CASH PROVIDED BY INVESTING ACTIVITIES	5,646,261
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on notes and mortgages payable	(6,327,253)
Principal payments on capital leases	(2,274,931)
Proceeds from notes and mortgage loans	3,749,910
NET CASH USED IN FINANCING ACTIVITIES	(4,852,274)
NET CHANGE IN CASH	2,535,962
CASH, BEGINNING OF YEAR	7,323,106
CASH, END OF YEAR	$ 9,859,068
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	$ 1,942,631

The accompanying notes are an integral part of these financial statements.

Note 1 - Nature of Organization

Young Adult Institute, Inc. ("YAI") was organized and incorporated in 1957 under the Not-for-Profit Corporation Law of New York State. YAI has been granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

YAI serves people of all ages with developmental and learning disabilities, from infants through the elderly, in a variety of community settings and at home through state-of-the-art programs that help to build skills, expand opportunities, and support community living. YAI's 239 programs and direct services benefit 9,266 individuals and their families daily in 10 counties throughout the New York metropolitan area. YAI is funded primarily by Medicaid.

YAI is part of a network of independent agencies, collectively known as the YAI Network. The network provides programs and services including residential and other facilities for adults with developmental disabilities throughout New York City, Westchester County, and Long Island.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared on the accrual basis.

Use of Estimates

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

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.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fair Value of Financial Instruments (cont'd.)

Level 3 - Valuations based on unobservable inputs reflecting YAI's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

At June 30, 2013, the fair value of YAI's financial instruments including cash, certificates of deposit, accounts receivable, prepaid expenses and other receivables, assets limited as to use, and accounts payable and accrued expenses, approximated book value due to the short maturity of these instruments.

Refer to Note 5 - Fair Value Measurements for assets measured at fair value.

Certificates of Deposit

YAI has invested in several certificates of deposit that have various maturity dates ranging from April 2023 to October 2027, and have various interest rates ranging from 2.00% to 3.00% per annum. The balance of the certificates of deposit at June 30, 2013 is $443,756. The certificates of deposit were valued using Level 2 inputs consisting of broker dealer quotes for similar securities.

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 and Other Receivables, Allowance for Doubtful Accounts and Revenue Recognition

YAI 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 amounts spent, YAI 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. YAI has established an allowance for doubtful accounts for accounts receivable of approximately $441,000. YAI has established an allowance for doubtful accounts for other receivables of approximately $3,933,000.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fixed Assets

Fixed assets are recorded at cost. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. YAI capitalizes all purchases of fixed assets 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 and amortization of fixed assets is provided utilizing the straight-line method over the estimated useful lives of the respective assets as follows:

Building	15 to 25 years
Building improvements	3 to 25 years
Leasehold improvements	3 to 20 years
Furniture and fixtures	5 years
Equipment	3 to 10 years
Computer software	5 years

Deferred Charges

The New York State Office for People with Developmental Disabilities ("OPWDD") includes interest and principal amortization on loans from the Dormitory Authority of the State of New York in the reimbursement rate paid to service providers. YAI recognizes revenue, however, based upon interest and depreciation of the facility. The difference between the revenue recognized and the reimbursement from OPWDD is reflected as a deferred charge on the balance sheet. This deferred charge represents a timing difference, which will accumulate over the early periods of the loan repayments and will reverse during the latter periods of the loan repayments.

Bond Issuance Costs

Costs of obtaining financing or refinancing are offset against the debt reflected in the accompanying statement of financial position and amortized over the life of the debt. The accumulated amortization at June 30, 2013 was $4,244,740. Amortization expense related to bond issuance costs was $438,322 for the year ended June 30, 2013.

Assets Limited as to Use

The amount represents cash, which is held by trustees under bond indenture agreements.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Capital Leases

Capital leases are recorded at the lower of the fair market value of the assets or the present value of the minimum lease payments and are amortized over the lease term or estimated useful life of the assets, whichever is shorter, unless the lease provides for transfer of title or includes a bargain purchase option, in which case the lease is amortized over the estimated useful life of the asset.

Net Assets

Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those net assets that are restricted by the donors to a specific time period or for specific purposes.

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.

Operating Leases

Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent has been recorded for the difference between the fixed payments and rent expense.

Functional Expenses

The costs of providing YAI's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Measure of Operations

Changes in net assets from operations include all revenues, gains and expenses for the period except for contributions, interest income, special event revenue and expenses, fundraising expenses and net recoveries from property damage.

Accounting for Uncertainty in Income Taxes

YAI 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.

Note 3 - Concentration of Credit Risk

YAI 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, YAI's balances may exceed these limits.

The mix of revenue and receivables from program recipients and third-party payors is as follows:

	Revenue	Accounts Receivable
Medicaid	78%	77%
New York State/New York City	11%	20%
Client Fees	3%	2%
Other	8%	1%
	100%	100%

Note 4 - Fixed Assets

Fixed assets, net, at cost, consists of the following at June 30, 2013.

	Cost	Accumulated Depreciation and Amortization	Net
Land	$ 9,900,761	$ -	$ 9,900,761
Building	20,851,877	14,514,006	6,337,871
Building improvements	31,313,537	17,415,571	13,897,966
Leasehold improvements	17,261,114	12,642,916	4,618,198
Furniture and fixtures	4,659,202	4,053,634	605,568
Equipment	2,804,553	2,473,009	331,544
Computer software	2,734,279	1,938,924	795,355
Construction in Progress	1,131,588	-	1,131,588
Total	$ 90,656,911	$ 53,038,060	$ 37,618,851

Depreciation and amortization expense related to fixed assets was $4,161,610 for the year ended June 30, 2013.

Note 4 - Fixed Assets (cont'd.)

The cost of fixed assets purchased with capital lease proceeds was $35,337,544, with accumulated amortization thereon of $22,848,607.

YAI 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 its fair value. Based on YAI's review at June 30, 2013, no impairment of long-lived assets was evident.

Note 5 - Fair Value Measurements

YAI measures its investments 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 YAI's own assumptions of market participant valuation (unobservable inputs).

Items Measured at Fair Value on a Recurring Basis

The following table presents YAI's assets that are measured at fair value on a recurring basis at June 30, 2013:

	Total	Level 1	Level 2	Level 3
Certificates of deposit	$ 443,756	$ -	$ 443,756	$ -
Marketable securities:				
Money market funds	12,599,371	12,599,371	-	-
U.S. Treasury bonds	28,911	28,911	-	-
Mortgage-backed securities	623,678	623,678	-	-
Total securities measured at fair value	$ 13,695,716	$ 13,251,960	$ 443,756	$ -

Note 6 - Due to New York State

YAI has entered into contracts with OPWDD for the operation of intermediate care facilities, individual residential alternatives, community residences, supportive apartments and day habilitation programs. As part of these agreements, OPWDD provides interest-free advances to YAI for pre-operational start-up costs, equipment, renovations, lease costs, real estate taxes, minor maintenance contracts and operations. YAI has agreed to pay back to OPWDD all of the above funds to the extent that such costs are reimbursed by Medicaid. Medicaid payments for these costs are withheld from remittances.

Payments over the next five years are as follows:

Years Ending June 30:	
2014	$ 8,259,273
2015	3,066,494
2016	753,956
2017	343,158
2018	319,540
	$ 12,742,421

Note 7 - Notes and Mortgages Payable

A. Bank of America

YAI has available an $18 million working capital line of credit carrying an interest rate of prime or 30-day LIBOR (at YAI's determination) plus 2% per annum, which at June 30, 2013 was 2.195%. The loan is collateralized by YAI's accounts receivable and matures on December 29, 2013.	$ 16,562,828
YAI has available an $8 million line of credit for the acquisition and renovation of program sites. Upon receipt of New York State prior property approvals, the funds drawn down on the line of credit are subsequently converted into notes. At June 30, 2013, there were three notes executed. The notes bear an interest rate of prime or 30-day LIBOR (at YAI's determination) plus 2% per annum, which at June 30, 2013 was 2.195%. The notes mature on December 29, 2013. The notes are collateralized by related property with a net book value of $2,502,959.	2,968,663
B. Dormitory Authority of the State of New York	
YAI has entered into twenty-four loan agreements with the Dormitory Authority of the State of New York (formerly the Facilities Development Corporation ("FDC")), a body corporate and politic of the State of New York, constituting a public benefit corporation, acting by and through its agent, the Commissioner of the New York State Office for People with Developmental Disabilities. The loans carry interest rates ranging from 1.5% to 7.82% per annum, payable in semi-annual installments with maturity dates ranging from August 2014 through July 2030. The loans are collateralized by related property with a net book value of $13,390,624.	15,208,932
Total amount due at June 30, 2013	$ 34,740,423

Note 7- Notes and Mortgages Payable (cont'd.)

Principal payments over the next five years and thereafter are as follows:

Years Ending June 30:	
2014	$ 21,713,449
2015	2,127,027
2016	1,688,734
2017	1,232,771
2018	1,141,493
Thereafter	6,836,949
	$ 34,740,423

Note 8 - Capital Lease Obligations

YAI has entered into capital lease agreements to fund the purchase of buildings, building improvements and equipment through thirteen bond issuances between 2001 and 2007.

The New York City Industrial Development Agency ("NYCIDA"), a corporate governmental agency constituting a body corporate and politic and a public benefit corporation of the State of New York, issued and sold revenue bonds (Special Needs Pooled Program) carrying interest rates ranging from 4.05% to 7.25% per annum payable in semiannual installments with maturities ranging from 2014 to 2030. The proceeds of the loans were used to finance the purchase and renovation of various collateralized properties in New York with a net book value of $12,488,937.

As part of the agreement with NYCIDA, YAI transferred the titles to all the facilities. NYCIDA has leased the facilities back to YAI for a term and at an amount concurrent with the bond repayment schedules. At the conclusion of the lease terms, YAI has the option to purchase each of the leased properties for $1.

Future minimum lease payments are as follows:

Years Ending June 30:	
2014	$ 3,250,980
2015	2,436,701
2016	2,202,607
2017	1,964,649
2018	1,260,529
Thereafter	5,474,657
	16,590,123
Less: Amount representing interest	3,176,512
Present value of net minimum lease payments	$ 13,413,611

Note 9 - Pension Plans

YAI has defined contribution plans covering substantially all its employees. Contributions and costs to these plans are based on amounts determined in accordance with Internal Revenue Service Code Section 415 on an annual basis and totaled $4,284,926 for the year ended June 30, 2013.

Note 10 - Leased Facilities

YAI leases various facilities for its administrative office and program sites under noncancellable leases. The leases expire at various periods through February 2038. Rental expense totaled $7,521,493 for the year ended June 30, 2013.

At June 30, 2013, the future minimum lease payments under the terms of the lease agreements are as follows:

Years Ending June 30:	
2014	$ 7,388,086
2015	5,789,657
2016	4,204,970
2017	3,770,247
2018	3,887,952
Thereafter	23,702,122
	$ 48,743,034

Note 11 - Commitments and Contingencies

YAI is responsible for reporting to and is regulated by various third parties, among which are the Centers for Medicare and Medicaid Services ("CMS") 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. Laws and regulations governing YAI's programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will 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 Medicare and Medicaid programs.

Note 11 - Commitments and Contingencies (cont'd.)

Medicaid

(a) During August 2007, MFCU issued subpoenas to a number of operators of Home Health Care programs citing that the contracted home health aides from licensed vendor agencies had not received proper certification. The subpoena requested documentation and information from YAI's Certified Home Health Aide program ("CHHA") regarding its use of home health aides. CHHA relied on the home health aide certificates provided by the licensed vendor agency. Based on the information that was provided to MFCU, the Attorney General made a determination that some Medicaid claims were not valid because the individuals providing the service were not lawful home health aides. On December 4, 2008, CHHA received a letter from MFCU requesting repayment of $219,608. Through discussion with MFCU, on or about February 12, 2009, CHHA reached an agreement in principle with MFCU that, when and if consummated, would provide CHHA with a comprehensive release of liabilities to the Medicaid program associated with the use of uncertified home health aides. In return for this release, CHHA would be required to pay a total of $110,000 to MFCU, divided into equal monthly installments of $2,750, payable over 40 months. Based upon this agreement in principle with MFCU, management of CHHA has accrued $110,000 in these financial statements. To date, CHHA is waiting for the draft of MFCU's proposed stipulation of settlement agreement, and management and legal counsel cannot offer any opinion regarding whether this matter will ultimately be settled on the foregoing terms.

(b) DOH increased Medicaid rates to provide funding for recruitment, training and retention of home health aides, personal care workers and/or other personnel with direct patient care responsibility. These funds cover the period from June 1, 2006 through February 29, 2012. In the accompanying financial statements, a portion of these funds is reflected as revenue earned, the balance as a liability. The methodology employed to make this determination was predicated on the approach approved by DOH under a similar program put forth in 2002. The funding was allocated based on the ratio of service hours provided by each licensed agency to the total agency hours provided. CHHA received attestations from those licensed agencies with which it contracts certifying that these funds were paid to home health aides and other personnel with direct patient care responsibilities. This approach and the underlying support are subject to audit by DOH, OMIG and MFCU.

(c) During February 2011, CHHA received a letter from OMIG in connection with an audit of CHHA's cost reports for each of the four years ended December 31, 2004 through 2007. In connection with this audit, CHHA is responding to OMIG's requests for documentation that supports the costs and patient visits/hours claimed by CHHA on its cost reports. On April 1, 2011, CHHA submitted the requested documentation. Until such time as OMIG issues its final audit findings, management will not be in a position to estimate what potential loss, if any, might result from this matter.

Note 11 - Commitments and Contingencies (cont'd.)

(d) In January 2011, YAI entered into agreements to settle the joint state and federal investigations and the qui tam complaint filed under the federal and New York State False Claims Acts after an investigation by the United States Attorney's office for the Southern District of New York and the State of New York, Office of the Attorney General with regard to alleged errors contained in the New York State Consolidated Fiscal Reports submitted for the years 1999 through 2009. The settlement for $18,000,000 ($10,800,000 with New York State and $7,200,000 with the United States of America) covered a ten-year period of time representing approximately 1% of YAI's revenue. YAI paid $5,000,000 in January 2011 with the balance to be paid in equal monthly installments, plus interest at 2.75%, ending December 2015. On October 31, 2012, YAI voluntarily prepaid the remaining balances due, inclusive of interest, under the New York State and federal settlement agreements in the amounts of $5,347,961 and $3,565,307, respectively.

Other

(e) YAI is involved in various legal proceedings and litigation arising in the ordinary course of business. YAI is vigorously defending these matters, and it is the opinion of legal counsel that these claims are without merit. Potential damages, if successful, are undeterminable at June 30, 2013.

Note 12 - Functional Expenses

Residential services	$ 79,839,950
Clinical services	67,061,161
Employment initiatives services	3,469,054
Total program expenses	150,370,165
Management and general	24,056,795
Cost of direct benefits of special events	698,705
Fundraising expenses	1,292,149
Total expenses	$ 176,417,814

Note 13 - Temporarily Restricted Net Assets

YAI received funds to place computerized health monitoring systems in residences that house individuals who have been diagnosed with developmental disabilities. These monitoring systems will provide health care professionals with more accurate health-related data, and in turn provide a better quality of life for these individuals. The balance available at June 30, 2013 is $53,477.

Note 14 - Related Parties

YAI is the sole corporate member of Rockland County Association for the Learning Disabled (the "Association"). For the year ended June 30, 2013, YAI provided certain management services to the Association, including but not limited to accounting and financial operations, administrative and program support, human resources, education and training, information technology and general management. The Association paid $568,567 for such services. As of June 30, 2013, the Association owes $283,517 to YAI which is included in prepaid expenses and other receivables on the statement of financial position.

Note 15 - Supplemental Executive Retirement Program

Certain current and former executives at YAI were entitled to retirement benefits as part of a Supplemental Executive Retirement Program ("SERP"). In previous years, YAI contributed monies to the SERP, which were held in a grantor trust within the meaning of Subpart E, Subchapter, Chapter I, Subtitle A of the Internal Revenue Code of 1986, as amended, and which was intended to be a "rabbi trust" as described in Rev. Proc. 92-64. During the year ended June 30, 2013, the SERP was terminated. At termination, certain amounts were identified and distributed to the employees and other amounts were returned to YAI. At June 30, 2013, one former executive has not agreed with the distribution amount that was determined by YAI. This portion of the SERP proceeds remains within the grantor trust until YAI and the former executive can agree on the amount to be distributed. Any future residual financial impact to YAI is unknown at this time. Approximately $8,900,000 was returned to YAI during 2013 and was used to settle outstanding obligations. The amount received as a result of the termination by YAI from the SERP is included in the other revenue on the statement of activities.

Note 16 - Subsequent Events

YAI has evaluated all events or transactions that occurred after June 30, 2013 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.

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APPENDIX C

UNAUDITED FINANCIAL STATEMENTS OF SERIES 2016 PARTICIPANTS

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APPENDIX C-I

FAMILY RESIDENCES AND ESSENTIAL ENTERPRISES, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF OCTOBER 31, 2015)

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Statement of Financial Position

Family Residences and Essential Enterprises, Inc

For the period ended October 31, 2015 and December,31,2014

	October 31, 2015	December 31, 2014
Cash	1,434,107	909,738
Investments	20,677	21,489
Due from Network Partners	1,687,027	3,103,678
Accounts Receivable	13,443,482	13,141,485
Accrued Receivable	536,001	88,443
Prepaid Expense	548,419	600,760
Other Current Assets	4,482,254	2,967,165
Total Current Assets:	**22,151,966**	**20,832,759**
Property, Plant, and Equipment	34,524,777	33,451,792
Construction in Progress	2,778,421	2,741,609
Restricted Cash	412,342	409,719
Restricted Investments DSRF	527,083	527,083
Other Non Current Assets	2,518,212	2,449,623
Accrued Bond Principal	163,092	230,584
Other Restricted Investments	1,482,099	1,482,099
Other Long Term Investments	20,000	-
Total Non Current Assets:	**42,426,027**	**41,292,510**
Total Assets	**$ 64,577,993**	**$ 62,125,268**
Accounts Payable Trade	1,528,973	3,666,285
Due To Network Partners	58,414	1,737,066
Line of Credit	5,000,000	2,000,000
Current Portion of LT Debt	3,965,968	3,672,359
Accrued Expenses	2,164,372	1,156,936
Accrued Salary and Payroll Payable	5,338,872	5,755,490
Other Current Liabilities	2,845,052	4,537,656
Deferred Revenue, Current	718,166	352,518
Overpayments and Rate Adjustments	4,149,849	2,459,470
Total Current Liabilities:	**24,182,279**	**19,934,429**
Long-Term Liabilities:		
Notes Payable	5,183,986	2,553,457
Mortgages Payable	137,517	150,017
Bonds Payable	19,972,237	20,954,309
Total Long Term Debt:	**25,293,740**	**23,657,783**
Other Non Current Liabilities:		
Deferrred Revenue, non-current	813,032	1,028,388
Reserves and Recoveries, non-current	2,798,309	2,626,291
Other Liabilities, Long Term	1,954,214	1,914,882
Interest Rate Swap Valuation	64,189	64,189
Total Other Non Current Liabilities:	**5,629,745**	**5,633,751**
Total Long-Term Liabilities:	**30,923,485**	**29,291,534**
Total Liabilities	**56,693,151**	**54,629,314**
Net Assets	7,495,954	7,065,088
Current Year Addition:	388,889	430,866
Total Net Assets	7,884,843	7,495,954
Total Liabilities and Net Assets	**$ 64,577,993**	**$ 62,125,268**

Statement of Activities

Family Residences and Essential Enterprises, Inc

For the period ended October 31, 2015

	YTD Actual Oct-15	YTD Budget Oct-15	Variance	Prior YTD Actual Oct-14	Change over Prior Year
Revenue					
Participant Fees	717,822	725,431	(7,609)	691,100	26,722
SSI/SSA	4,518,134	4,359,699	158,436	4,214,953	303,182
Medicaid	65,206,515	63,148,255	2,058,261	61,511,456	3,695,059
Medicare	22,568	28,220	(5,652)	26,042	(3,474)
State Payments	1,809,934	1,895,764	(85,830)	2,004,184	(194,250)
LTSE Income	-	-	-	-	-
Sales	155,976	142,578	13,398	138,512	17,464
Food Stamps	341,523	358,760	(17,236)	370,545	(29,022)
Government Grants	1,928,373	1,430,425	497,949	762,423	1,165,951
Private Grants	70,000	41,667	28,333	69,169	831
Net Contract Funding	2,673,515	2,945,856	(272,342)	2,856,730	(183,215)
Other Program Revenue	66,872	-	66,872	73,816	(6,944)
Total Program Services Revenue	**77,511,232**	**75,076,653**	**2,434,579**	**72,718,930**	**4,792,303**
Contributions	133,806	108,304	25,502	112,754	21,052
Investment Revenue	3,832	1,256	2,576	2,875	958
Rental Revenue	122,457	-	122,457	8,878	113,580
Realized Gain/Loss	2,600	5,000	(2,400)	4,000	(1,400)
Other Income	300,531	70,141	230,390	267,865	32,666
Total Other Revenue	**563,226**	**184,700**	**378,526**	**396,371**	**145,803**
Total Revenue	**78,074,458**	**75,261,354**	**3,191,630**	**73,115,300**	**4,959,158**

Statement of Activities

Family Residences and Essential Enterprises, Inc

For the period ended October 31, 2015

	YTD Actual Oct-15	YTD Budget Oct-15	Variance	Prior YTD Actual Oct-14	Change over Prior Year
Expenses					
Accrued salaries	-	610,523	610,523	760,118	(760,118)
Direct Care Salary	24,390,315	24,982,707	592,392	22,773,479	1,616,836
Contracted Direct Care	988,291	111,438	(876,853)	181,868	806,423
Support	755,873	609,615	(146,257)	1,251,349	(495,477)
Contracted Support	341,772	294,173	(47,599)	351,165	(9,392)
Clinical	5,646,848	5,056,939	(589,910)	5,161,201	485,648
Contracted Clinical	973,754	652,029	(321,725)	867,030	106,724
Program Admin	3,397,209	3,619,012	221,803	3,758,380	(361,171)
Agency Admin	4,367,915	3,884,347	(483,568)	4,633,707	(265,792)
Total Salaries and Contracted Services	**40,861,978**	**39,820,784**	**(1,041,194)**	**39,738,296**	**1,123,682**
Total Fringe Benefits:	**12,723,630**	**12,523,469**	**(200,162)**	**12,539,737**	**183,893**
OTPS					
Food and Household	1,857,921	2,003,429	145,508	1,853,208	4,714
Participant Incidentals	100,061	78,125	(21,936)	90,500	9,561
Program Expense	665,219	509,095	(156,124)	545,047	120,173
Raw Materials/Cost of Goods Sold	162	-	(162)	-	162
Staff Development	177,202	108,337	(68,865)	116,547	60,655
Transportation	4,074,627	3,975,400	(99,227)	3,818,930	255,697
Vehicle Expense	408,062	495,082	87,020	579,569	(171,508)
Utilities	1,208,779	1,275,198	66,419	1,139,526	69,253
Telephone	758,626	702,539	(56,087)	707,790	50,836
IT Expense	1,590,862	1,165,471	(425,391)	1,714,425	(123,562)
Expensed Furniture & Equipment	552,931	568,461	15,530	564,497	(11,566)
Repair & Maintenance	2,248,834	2,627,836	379,002	2,607,594	(358,760)

Statement of Activities

Family Residences and Essential Enterprises, Inc

For the period ended October 31, 2015

	YTD Actual Oct-15	YTD Budget Oct-15	Variance	Prior YTD Actual Oct-14	Change over Prior Year
Office Supplies	263,462	295,981	32,519	299,076	(35,614)
Recruitment	63,729	115,104	51,375	108,171	(44,442)
Professional Fees	1,192,890	947,368	(245,522)	1,329,303	(136,413)
General Insurance	95,585	91,075	(4,509)	129,370	(33,785)
Miscellaneous	1,068,237	740,976	(327,261)	164,191	904,046
Total OTPS	**16,327,190**	**15,699,479**	**(627,711)**	**15,767,743**	**559,447**
Equipment and Property					
Interest Expense	946,374	1,065,291	118,917	943,722	2,652
Property Insurance	942,015	735,524	(206,491)	893,328	48,687
Depreciation & Amortization	3,152,121	3,048,363	(103,758)	2,674,897	477,225
Rental/Lease Expense	2,682,554	2,388,119	(294,435)	2,443,976	238,578
Other Property Expense	73,553	46,727	(26,825)	45,684	27,868
Unfunded Depreciation	25,406	-	(25,406)	310,017	(284,611)
Total Equipment and Property	**7,822,023**	**7,284,024**	**(538,000)**	**7,311,624**	**510,399**
Management Fees Offsets	(131,717)	(390,327)	(258,610)	(2,606,449)	2,474,731
Total Expenses:	**77,603,105**	**74,937,429**	**(2,665,676)**	**72,750,952**	**4,852,153**
	471,353	**323,925**	**147,429**	**364,349**	**107,005**
Prior Period Adjustments	280,760	-	280,760	155,667	125,093
Non-Allowable Expenses	(359,225)	(66,667)	(292,558)	(244,234)	(114,991)
Unrealized Gain/Loss	-	-	-	-	-
Grant Expense	(4,000)	-	(4,000)	-	(4,000)
	(82,465)	**(66,667)**	**(15,798)**	**(88,567)**	**6,102**
	$ 388,889	**$ 257,258**	**$ 131,630**	**$ 275,782**	**$ 113,106**

APPENDIX C-II

LIFESPIRE, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF OCTOBER 31, 2015)

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LIFESPIRE, INC.
PRO FORMA STATEMENT OF FINANCIAL POSITION
October 31, 2015
(Unaudited)

Assets	
Cash and cash equivalents	20,572,401
Cash and cash equivalents designated for recoupments payable	9,664,397
Cash and cash equivalents designated for self funded insurance	3,559,464
Cash and cash equivalents designated for health reimbursement accounts	1,825,935
Cash and cash equivalents restricted to debt service escrow	2,232,117
Cash and cash equivalents restricted - other	1,111,096
Investments	4,502,354
Debt Service Reserve Fund due from New York State	318,841
Accounts Receivable - Net	94,806
Accrued Income Receivables	10,555,483
Due From Related Parties	753,467
Security Deposits and Prepaid Expenses	778,133
Property and Equipment	17,359,996
Deferred Charges - Bond Issue Costs-Net	3,537,156
Total Assets	**76,865,646**

Liabilities and Net Assets	
Liabilities	
Accounts Payable and Accrued Expenses	3,000,320
Accrued Payroll	3,356,361
Accrued Compensated Absences	3,656,839
Recoupments Payable and Deferred Income	9,664,396
Mortgages Payable - DASNY	1,207,709
Bonds Payable - DASNY	11,880,000
Bonds Payable IDA	820,001
Lines of Credit	1,063,082
Deferred Rent	2,649,237
Self Funded Insurance Liability	2,115,227
Pension Liability	5,123,011
Postretirement Health Insurance Liability	4,728,247
Total Liabilities	49,264,430
Net Assets:	
Unrestricted:	14,576,219
Residential reserve for replacement	979,354
Property and equipment	6,120,361
Board designated - program expansion	1,125,818
Board designated - anticipated pension contributions	1,240,000
Board designated - self funded Insurance	3,559,464
Total Net Assets	27,601,216
Total Liabilities and Net Assets	**76,865,646**

LIFESPIRE, INC.
PRO FORMA STATEMENT OF ACTIVITIES
PERIOD ENDED 10/31/2015
(Unaudited)

Support and Revenue - Program Operations:	
Program Service Fees	31,100,085
Participant's Share of Room and Board	704,166
Subcontract - Net	123,688
MCFAA and DASNY Bond Fees	194,841
Subtotal Support and Revenue - Program Operations	32,122,780
Expenses:	
Program Services	28,856,222
Management and Administration	2,505,265
Total Expenses	31,361,487
Change in unrestricted net assets before other revenue and prior year revenue	761,293
Other Revenue	
Investment Return	703
Contributions and Fund Raising	1,420
Miscellaneous	67,820
Total other revenue	69,943
Changes in unrestricted net assets before prior period revenue	831,236
Prior Period Revenue	42,479
Increase in unrestricted net assets	873,715
Net Assets, Beginning of the Period	26,727,501
Net Assets, End of the Period	**27,601,216**

APPENDIX C-III

LITTLE FLOWER CHILDREN AND FAMILY SERVICES OF NEW YORK

UNAUDITED FINANCIAL INFORMATION

(AS OF OCTOBER 31, 2015)

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Little Flower Children and Family Services of New York

Little Flower Children & Family Services of NY
Balance Sheet
As of Date: 10/31/2015

Unaudited	Current Year July' 15- Oct '15	Prior Year FYE June '15
Assets		
Current Assets		
Cash & Cash Equivalents	1,832,520	2,153,753
Cash held as agent	378,950	378,911
Investments	5,212,365	5,128,447
Acct/Rec., Net of allowances	8,069,095	8,467,690
Acct/Rec- Grants	68,185	217,039
A/ Rec Affiliates/Gov't	14,140	199,699
Prepaid Exp & other current	290,105	515,827
Total Current Assets	15,865,360	17,061,366
Fixed Assets		
Land, Bldg & Equip, net	9,821,055	10,121,736
Construction in Progress	149,295	110,457
Total Fixed Assets	9,970,350	10,232,193
Other Assets		
Security Deposits	5,815	5,813
Due from Affiliate Long Term	331,335	341,319
Other Assets	337,150	347,132
Total Assets	**26,172,860**	**27,640,691**
Liabilities & Net Assets		
Liabilities		
Current Liabilities		
Note payable, Bank	0	0
Acct Payable / Accrued Expense	1,726,890	2,233,615
Accts Payable as Agent	378,950	378,911
Due To Gov't Agencies	4,206,590	4,435,471
Accrued Salaries & related	1,143,495	1,383,312
Refundable advances	444,450	118,922
Current Portion LT debt	350,245	335,314
Total Current Liabilities	8,250,620	8,885,545
Long Term Liabilities		
Long Term debt	1,826,765	1,939,294
Compensated Absences	2,997,175	2,972,395
Deferred Rent	510,610	551,457
City of NY Reconciliations	5,260	0
Long Term Liabilities	5,339,810	5,463,146
Sub Total Liabilities	13,590,430	14,348,691
Net Assets		
Unrestricted Net Assets	12,582,430	13,292,000
Net Assets	12,582,430	13,292,000
Total Liabilities & Net Assets	**26,172,860**	**27,640,691**
Current Ratio		
Current Assets	15,865,360	17,061,366
Current Liabilities	8,250,620	8,885,545
Ratio	**1.92**	**1.92**

Little Flower Children and Family Services of New York

Little Flower Children & Family Services of NY
Statement of Activites & Changes in Net Assets
For the Four Months Ended October 31, 2015

Unaudited

	Oct-15
Revenue:	
Program Revenue:	
Foster Boarding Home	6,384,000
Bridges to Health	1,450,325
Medical/Mental Health	1,384,390
Residential Treatment Center	3,429,295
Adult Residential Services	2,878,325
Adult Day Habilitation	188,525
Adult Family Care	1,118,055
Adult Service Coordination	233,545
Bridges to Families/BIP	69,130
Elder Care	63,695
Grants	0
Total Program Revenues	**17,199,285**
Other Revenue:	
Contributions	193,682
Fundraising & Special Events,net	0
Interest & Investment income, net	(163,437)
Other income- Contracts	109,650
Total Other Revenue	**139,895**
Total Revenue	**17,339,180**
Expenses:	
Program Expenditures	
Foster Homes	6,246,045
Bridges to Health	1,235,480
Medical/Mental Health	1,512,010
Residential Treatment Center	3,348,125
Adult Residential Services	2,548,620
Adult Day Habilitation	151,140
Adult Family Care	844,430
Adult Service Coordination	204,145
Elder Care	63,080
Bridges to Families/BIP	69,130
Grants	13,030
Program Operating Expenditures	**16,235,235**
Supporting Services	
Management & General	1,562,890
Fundraising	250,625
Total Support Services	**1,813,515**
Total Expenses	**18,048,750**
Change in Net Assets before Prior Period	**(709,570)**
Prior period Foster Care adjustment	-
Changes in Temporary Restricted Assets	-
Change in Net Assets	**(709,570)**

APPENDIX C-IV

SPECIAL CITIZENS FUTURES UNLIMITED, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF OCTOBER 31, 2015)

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SPECIAL CITIZENS FUTURES UNLIMITED, INC
Balance Sheet
As of Date: 10/31/2015

	Current Year	Prior Year
Assets		
Current Assets		
CASH	(47,557.30)	845,425.78
ACCTS RECVB.	1,499,979.17	1,422,368.27
PREPD & OTHER ASSETS	555,429.48	346,182.93
DEBT SVC. RESERVE	39,346.25	39,346.25
Petty Cash - 261st	250.00	0.00
Clearing Account - Accounts Payable	44,359.97	0.00
Total Current Assets	2,091,807.57	2,653,323.23
Fixed Assets		
PROPERTY & EQUIP. NET	3,100,189.78	2,986,216.63
Renovations - Zach's IRA	32,275.00	32,275.00
Networking Equipment	33,026.00	24,037.00
AED'S	17,988.00	0.00
F & E 3 years	5,723.00	0.00
Total Fixed Assets	3,189,201.78	3,042,528.63
Total Assets	5,281,009.35	5,695,851.86
Liabilities & Net Assets		
Liabilities		
Current Liabilities		
A/P & ACCRUED EXPS.	155,914.22	389,372.92
ACCRUED SALARIES	(37,106.73)	135,080.15
ACCRUED VACATION	0.00	0.00
DEFERRED REVENUE	15,897.97	31,976.94
Deffered Rent	158,306.00	93,644.73
Loans /P	277,816.34	54,000.65
Reserve for Medicaid Revenue	158,687.87	140,692.00
Reserve for Dbtful A/R	0.00	355,175.14
Aflac/P	23,229.73	662.98
HRA Payable - CIGNA	(20,390.67)	0.00
OMIG Self Disclosure	0.00	216,063.20
Settlements	175,000.00	0.00
Security Deposits Payable	14,475.50	0.00
HSBC Line of Credit	375,000.00	0.00

SPECIAL CITIZENS FUTURES UNLIMITED, INC
Balance Sheet
As of Date: 10/31/2015

	Current Year	Prior Year
Total Current Liabilities	1,296,830.23	1,416,668.71
Long Term Liabilities		
MORTGAGES /P	1,512,965.28	1,766,284.58
Total Long Term Liabilities	1,512,965.28	1,766,284.58
Total Liabilities	2,809,795.51	3,182,953.29
Net Assets		
FUND BAL.	2,471,213.84	2,512,898.57
Total Net Assets	2,471,213.84	2,512,898.57
Total Liabilities & Net Assets	5,281,009.35	5,695,851.86

SPECIAL CITIZENS FUTURES UNLIMITED, INC
Statement of Revenue and Expense
Current Period: 7/1/2015 - 10/31/2015
Year-to-Date: 7/1/2015 - 10/31/2015

	Current Year Current Period	Current Year Year-to-Date	Prior Year Current Period	Prior Year Year-to-Date
Revenue				
Medicaid Revenue	3,542,378.25	3,542,378.25	3,530,186.14	3,530,186.14
Other Revenue	421,563.17	421,563.17	450,260.24	450,260.24
Total Revenue	3,963,941.42	3,963,941.42	3,980,446.38	3,980,446.38
Expenses				
Salaries	2,192,019.71	2,192,019.71	2,054,247.92	2,054,247.92
Fringe	454,373.82	454,373.82	481,101.12	481,101.12
Occupancy	389,678.01	389,678.01	433,860.06	433,860.06
Professional Fees	53,055.45	53,055.45	66,195.74	66,195.74
Food	29,705.64	29,705.64	49,279.18	49,279.18
Travel & Transportation	114,990.36	114,990.36	122,496.47	122,496.47
Repairs and Maintenance	72,684.38	72,684.38	102,468.94	102,468.94
Office Supplies	64,252.58	64,252.58	97,999.91	97,999.91
Client Expenses	13,417.28	13,417.28	43,517.82	43,517.82
Telephone	31,774.04	31,774.04	33,808.37	33,808.37
Insurance	28,421.75	28,421.75	35,932.24	35,932.24
Depreciation	121,848.30	121,848.30	112,981.39	112,981.39
Interest and Fees	52,280.80	52,280.80	55,457.02	55,457.02
Assessment	0.00	0.00	11,554.25	11,554.25
Miscellaneous	38,107.73	38,107.73	52,402.21	52,402.21
Advertising	15,989.95	15,989.95	0.00	0.00
Reserve forDbtful A/R	0.00	0.00	(71,712.71)	(71,712.71)
Day Hab Svcs. cost.	0.00	0.00	27,536.44	27,536.44
Equip. Lease - new	9,360.74	9,360.74	7,615.33	7,615.33
Consultant - RN	11,367.70	11,367.70	0.00	0.00
Consultant - DSP	37,656.58	37,656.58	0.00	0.00
Computer Hosting Services	9,148.26	9,148.26	0.00	0.00
Total Expenses	3,740,133.08	3,740,133.08	3,716,741.70	3,716,741.70
Excess or (Deficiency) of Revenue Over Expenses	223,808.34	223,808.34	263,704.68	263,704.68

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APPENDIX C-V

YOUNG ADULT INSTITUTE, INC.

UNAUDITED FINANCIAL INFORMATION

(AS OF OCTOBER 31, 2015)

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YAI Seeing beyond disability.

Young Adult Institute, Inc.
Comparative Balance Sheet -

		Unaudited 10/31/2015
ASSETS		
Current assets		
Cash and cash equivalents	$	17,435,312
Investments		22,265,771
Accounts receivable, net		26,267,920
Prepaid expenses and other receivables		6,333,647
Total current assets		72,302,650
Bond issuance costs, net		1,148,053
Property and equipment, net		34,112,948
Debt service reserve		2,687,908
Deferred charges		3,323,206
Accounts receivable and other assets, net		1,178,067
Total assets	$	114,752,833
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	$	15,834,042
Due to funding sources		13,622,604
Notes and mortgages payable		22,281,674
Capital lease obligations		886,810
Other current liabilities		1,484,134
Total current liabilities		54,109,263
Due to funding sources		5,073,332
Notes and mortgages payable		14,048,627
Capital lease obligations		542,841
Other non current liabilities		6,621,362
Total liabilities		80,395,425
Net Assets (Exhibit B)		
Unrestricted		33,969,596
Temporarily restricted		387,812
Total Net Assets		34,357,408
Total liabilities and net assets	$	114,752,833

Young Adult Institute, Inc.
Statement of Activities - Unaudited
Four Month Ended October 31, 2015

Operating revenues	$	59,347,790
Operating expenses		50,415,263
Change in unrestricted net assets from operations		8,932,527
Nonoperating revenues		427,382
Change in unrestricted net assets		9,359,909
Net assets - beginning of year		24,997,499
Net assets - end of year (Exhibit A)	$	34,357,408

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 2016A 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 February 1, 2016, among DASNY, 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 DASNY 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 DASNY 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 DASNY, 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 Fee means a fee payable to DASNY 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 DASNY.

Authorized Officer means (i) in the case of DASNY, 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 DASNY 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 DASNY 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 DASNY 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 DASNY 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 DASNY authorized pursuant to the Resolution and issued pursuant to an Applicable Series Resolution.

Bond Counsel means an attorney or a law firm, appointed by DASNY 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 DASNY 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 DASNY, 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 DASNY 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 DASNY 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 DASNY 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.

DASNY 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 DASNY.

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 DASNY 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 DASNY 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 DASNY 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 DASNY 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 DASNY and the Trustee; provided that if such index is at such time not being published a comparable index reasonably acceptable to DASNY 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 DASNY 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 DASNY or the Trustee, as the case may be, in form and substance satisfactory to DASNY 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 DASNY 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 DASNY 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 DASNY.

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 DASNY in connection with the granting of a particular Loan under the Resolution, in form and substance satisfactory to DASNY, 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 DASNY shall have issued Bonds under the Resolution and with whom DASNY 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 DASNY 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 DASNY; (vi) any mortgage or other lien or encumbrance in connection with any additional Bonds issued under the Resolution approved in writing by DASNY; (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 DASNY, 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 DASNY 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 or 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 DASNY 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 2016A 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 DASNY; 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 DASNY, 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 DASNY (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 DASNY authorizing the issuance of a Series of Bonds, adopted by DASNY pursuant to the Resolution.

Series 2016A Resolution means DASNY's Series 2016A Resolution Authorizing Up to $24,000,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2016A, adopted by DASNY on November 10, 2015, 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 DASNY 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 DASNY pursuant to the Applicable Series Resolution or the Applicable Bond Series Certificate.

Supplemental Resolution means any resolution of the members of DASNY 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 2016 LOAN AGREEMENTS

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SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2016 LOAN AGREEMENTS

The following is a brief summary of certain provisions of one Series 2016 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, DASNY 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 DASNY 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.[1] Subject to the conditions of the Loan Agreement, DASNY 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 DASNY, 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 DASNY 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 DASNY 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

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1 The Series 2016 Loan Agreement for Family Residences and Essential Enterprises, Inc. will include at the end of this sentence the following language: "no later than September 1, 2017".

DASNY, 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 2016A-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, DASNY 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 DASNY 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 DASNY, 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 2016A-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 DASNY, 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 DASNY 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, DASNY 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 DASNY 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 2016A-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 DASNY 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, DASNY 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 DASNY as in the reasonable judgment of DASNY 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 DASNY 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 DASNY, which approval shall not be unreasonably withheld. The Participant agrees to furnish or cause to be furnished to DASNY copies of all change orders regardless of amount, upon the request of DASNY therefor.

DASNY, 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 DASNY to issue Bonds for such purpose, it being the intent to reserve to DASNY 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 DASNY 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, DASNY 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 DASNY 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 DASNY, 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 DASNY (i) for the Participant's Allocable Portion of DASNY Fee then unpaid, (ii) to reimburse DASNY for payments made by it pursuant to the penultimate paragraph under this heading and any expenses or liabilities incurred by DASNY 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 DASNY 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 DASNY 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 DASNY 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 DASNY (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 DASNY, 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 DASNY in connection therewith including those of any rebate analyst or consultant engaged by DASNY.

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.

DASNY 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 DASNY, 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 DASNY.

Notwithstanding the foregoing, to the extent DASNY 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 DASNY to the Trustee. To the extent DASNY 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 DASNY.

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 DASNY in satisfaction of the Participant's indebtedness to DASNY 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 DASNY from the Participant of a payment in satisfaction of the Participant's indebtedness to DASNY 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 DASNY, 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 DASNY or the Trustee; provided, however, that nothing in the Loan Agreement shall be construed to release DASNY from the performance of any agreements on its part therein contained or any of its other duties or obligations, and in the event DASNY 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 nonperformance. Notwithstanding the foregoing, DASNY 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.

DASNY, 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.

DASNY 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 DASNY shall limit, impair or otherwise affect the rights of DASNY 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 DASNY 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 DASNY 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, DASNY 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 DASNY 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, DASNY 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 DASNY 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 DASNY 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 DASNY 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 DASNY under the Resolution. The Participant authorizes DASNY 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 DASNY 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 DASNY and the Trustee a written opinion of counsel satisfactory to DASNY 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 DASNY 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.[1]

(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, DASNY notifies the Participant that account debtors are to make payments directly to DASNY 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).

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[1] DASNY has agreed in the Little Flower's Series 2016 Loan Agreement to allow Little Flower to secure a working capital line of credit with a lien on receivables, including Public Funds, prior to the lien on Pledged Revenues created by Little Flower's Series 2016 Loan Agreement.

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 DASNY for deposit in the Debt Service Fund. Pursuant to the Act and the Intercept Agreement, the Participant has assigned and pledged to DASNY 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 DASNY, 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 DASNY 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 DASNY in accordance with the Loan Agreement. DASNY 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 DASNY 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 of Default described in the Loan Agreement or an event which with the passage of time or giving of notice, or both, would become an Event of Default shall have occurred or there shall have 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, shall have occurred, DASNY waives its right to collect those amounts payable to DASNY pursuant to the Loan Agreement as described in the paragraph above. Upon the occurrence of an event described in the preceding sentence, DASNY 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 DASNY 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 DASNY of the Bonds, the Participant shall execute and deliver to DASNY the Mortgage, in recordable form, mortgaging the Mortgaged Property to DASNY, subject only to Permitted Encumbrances. As further security for the obligations and liabilities of the Participant under the Loan Agreement, the Participant shall grant DASNY 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 DASNY 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, DASNY, 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, DASNY, 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 DASNY 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 DASNY 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 DASNY

The Participant consents to and authorizes the assignment, transfer or pledge by DASNY to the Trustee of DASNY'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 DASNY to the Trustee. The Participant further agrees that DASNY may pledge and assign to the Trustee any and all of DASNY's rights and remedies under the Loan Agreement. Upon any pledge and assignment by DASNY to the Trustee authorized by the Loan Agreement, the Trustee shall be fully vested with all of the rights of DASNY 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 DASNY 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 DASNY 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 DASNY 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 2016A-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 DASNY 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. DASNY and its agents may conduct such inspections as DASNY 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 DASNY, 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 DASNY 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 DASNY 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 DASNY of actual notice or knowledge of such occurrence, the Participant and DASNY 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 DASNY. 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 DASNY 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 DASNY 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 DASNY, 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 DASNY 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 DASNY within ten (10) days after written demand by DASNY, 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 DASNY the full amount of such contested impositions. Notwithstanding the foregoing, DASNY, 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 DASNY, 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 DASNY under the Loan Agreement, under the Series Resolution, under the Resolution or under the Mortgage; (ii) the ability of DASNY to enforce its rights under the Loan Agreement or thereunder; (iii) the ability of DASNY 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 DASNY for any such payment, with interest thereon from the date payment was made by DASNY 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 DASNY.

(Section 25)

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

The Participant shall, if and when requested by DASNY, render to DASNY 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 DASNY, render such other reports concerning the condition of the Project or the Project Property as DASNY 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, DASNY and to such other parties as DASNY may reasonably designate, including rating services, copies of its financial statements audited by an independent public accountant selected by the Participant and acceptable to DASNY 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 DASNY. 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 DASNY, 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; provided, however, that failure by the Participant in any Fiscal Year to demonstrate compliance with the Total Debt Service Coverage Ratio shall not constitute an Event of Default under the Loan Agreement if the Participant delivers to DASNY, the Underwriter and the Trustee, by the last day of the next succeeding Fiscal Year, a certificate of an Authorized Officer of the Participant along with a schedule or schedules demonstrating compliance with the Total Debt Service Coverage Ratio for a rolling 12-month period ending no earlier than 90 days after the end of the Fiscal Year for which the Participant is unable to demonstrate compliance.

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 DASNY, 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 DASNY 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 DASNY 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 DASNY 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, DASNY 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 DASNY 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 DASNY 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 DASNY 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 DASNY'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 DASNY arising herefrom, from the Series Resolution or from the Resolution;

(f) realize upon any security interest which DASNY 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 DASNY, provided that the moneys in such fund or account shall be applied by DASNY to the payment of any of the obligations of the Participant under the Loan Agreement including the fees and expenses of DASNY; and provided further that DASNY 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 DASNY 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 DASNY 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 DASNY 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 DASNY applicable to the construction of the Project, and (z) take or refrain from taking such action under the Loan Agreement as DASNY may from time to time determine. The Participant shall be liable to DASNY 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 DASNY under the Loan Agreement of any kind whatsoever shall be paid by the Participant to DASNY upon demand. The Participant irrevocably constitutes and appoints DASNY 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 DASNY 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 DASNY and make recommendations with respect to such rates, operations, management and other matters; and

(j) take any legal or equitable action necessary to enable DASNY 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 DASNY are, to the extent permitted by law, cumulative, non-exclusive and in addition to any and all rights and remedies that DASNY 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 DASNY'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, DASNY 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 DASNY'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 2016A-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 2016A-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 2016A-1 Bonds in an amount related to the amount of any obligation to be acquired from the Participant by DASNY, unless DASNY 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 2016A-1 Bonds will not cause interest on the Subseries 2016A-1 Bonds to be included in the gross income of the owners of such Subseries 2016A-1 Bonds for purposes of federal income taxation. The Participant will, on a timely basis, provide DASNY with all necessary information and funds not in DASNY's possession, to enable DASNY 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 DASNY is notified in writing that the Subseries 2016A-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 2016A-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 DASNY. Upon the occurrence of such an event, the Participant and DASNY 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 2016A 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 DASNY, 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 DASNY, 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 DASNY 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 DASNY under the Resolution and under an Applicable Series Resolution, DASNY may grant, pledge and assign to the Trustee all of DASNY'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 DASNY 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 DASNY under any such Loan Agreement or Mortgage, and the right to make all waivers and agreements in the name and on behalf of DASNY, 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 DASNY; (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 DASNY 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 DASNY (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, DASNY shall remain liable to observe and perform all the conditions and covenants in such Loan Agreement or Mortgage to be observed and performed by it.

Upon the happening of (a) any withdrawal from any Participant's Allocable Portion of the Debt Service Reserve Fund, if any, securing such Participant's Allocable Portion of the Applicable Series of Bonds which has not been restored to such Participant's Allocable Portion of the Debt Service Reserve Fund Requirement within thirty (30) days after notice given in accordance with the Applicable Series Resolution has been received by DASNY, or (b) the occurrence of an event of default specified in paragraph (d) of under the caption "*Events of Default*" in this Appendix F, DASNY 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 DASNY 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 DASNY may retain the right to the payment of the fees, costs and expenses of DASNY 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 DASNY. 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 DASNY, reassign to DASNY 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 DASNY of documents of reassignment in form and substance reasonably acceptable to DASNY.

In the event DASNY 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

DASNY reserves the right to issue bonds, notes or any other obligations or otherwise incur indebtedness pursuant to other and separate resolutions or agreements of DASNY, 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 DASNY 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, DASNY'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 DASNY 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, DASNY'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 DASNY 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 DASNY payable solely from and secured by a pledge of the proceeds from the sale of such Series of Bonds, the Applicable Revenues, DASNY'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 2016A Resolution establishes a Debt Service Reserve Fund to be held and maintained by the Trustee with respect to the Series 2016A 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 DASNY, 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 DASNY 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 2016A Resolution)

Application of Bond Proceeds and Allocation Thereof.

Upon the receipt of proceeds from the sale of a Series of Bonds, DASNY 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

DASNY 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, DASNY 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 DASNY 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 DASNY 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 DASNY 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 DASNY 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, DASNY 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 DASNY 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 DASNY, 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 DASNY 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 DASNY, to the Arbitrage Rebate Fund, the amount set forth in such direction which shall be an amount equal to such Participant's Allocable Portion of Arbitrage Rebate due to the United States Federal Government with respect to such Loan and the Applicable Series of Bonds;

SECOND: To the Debt Service Reserve Fund, if any, established in connection with the Applicable Series of Bonds, such amount as shall be necessary to make the amount on deposit in such Fund equal to such Participant's Allocable Portion of the Debt Service Reserve Fund Requirement established therefor; and

THIRD: Any balance remaining, to the Applicable Debt Service Account in the Debt Service Fund for the redemption or purchase, in accordance with this Resolution and the Applicable Series Resolution or Applicable Bond Series Certificate, of the Bonds of the Applicable Series or any portion thereof which corresponds to such Participant's Allocable Portion of the principal and interest on such Bonds.

(Section 5.04)

Deposit of Revenues and Allocation Thereof.

The Revenues and any other moneys which, by the provisions of each of the Loan Agreements are required to be deposited in separate Debt Service Accounts established in the Debt Service Fund with respect to each Loan made to a Participant, shall be deposited to the credit of the Applicable Debt Service Account of the Debt Service Fund.

To the extent not required to pay an Applicable Participant's Allocable Portion with respect to its Loan of (a) the interest becoming due on the Outstanding Bonds of the Applicable Series on the next succeeding interest payment date of such Bonds; (b)(i) in the case of amounts deposited in the respective Debt Service Account during the period from the beginning of each Bond Year until December 31 thereof, the amount necessary to pay one-half (1/2) of the principal and Sinking Fund Installments becoming due on the Outstanding Bonds of the Applicable Series on the next succeeding July 1; and (ii) in the case of amounts deposited in the respective Debt Service Accounts after December 31 in a Bond Year and until the end of such Bond Year, the amount necessary to pay the principal and Sinking Fund Installments becoming due on the Outstanding Bonds of the Applicable Series on such July 1; and (c) moneys which are required or have been set aside for the redemption of Bonds of the Applicable Series, then moneys (other than Contribution Amounts) in each of the respective Debt Service Accounts of the Debt Service Fund shall, with respect to each Applicable Participant and Applicable Loan, be paid by the Trustee, on or before the Business Day preceding each interest payment date for the Applicable Series of Bonds, as follows and in the following order of priority:

FIRST: To reimburse, *pro rata*, each Applicable Facility Provider which has issued a Reserve Fund Facility for moneys advanced thereunder relating to such Participant's Allocable Portion of the Debt Service Reserve Fund, if any, established with respect to such Applicable Series of Bonds, including interest thereon, in proportion to the respective amounts advanced by each such Facility Provider;

SECOND: To the Debt Service Reserve Fund, if any, (i) the amount, if any, necessary to make such Participant's Allocable Portion with respect to the Applicable Loan of the amount on deposit therein equal to the Debt Service Reserve Fund Requirement established with respect to the Applicable Series of Bonds, and (ii) a portion of earnings accruing on amounts held in the Debt Service Fund as DASNY 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 DASNY, unless otherwise paid, such amounts as are payable to DASNY relating to such Participant's Allocable Portion with respect to the Applicable Loan of: (i) expenditures of DASNY 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 DASNY in connection with the financing of the particular Project relating to such Loan, including expenses incurred by DASNY 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 DASNY; but only upon receipt by the Trustee of a certificate of DASNY, stating in reasonable detail the amounts payable to DASNY 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 DASNY 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 DASNY 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, DASNY 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 DASNY. 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

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 DASNY 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, DASNY 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 DASNY 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 2016A Bonds or Permitted Investments in an amount sufficient to satisfy each Applicable Series 2016A Participant's Allocable Portion of the Debt Service Reserve Fund Requirement as set forth in the Applicable Bond Series Certificate. An Applicable Series 2016A 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, DASNY may deposit or cause to be deposited with the Trustee a Reserve Fund Facility for the benefit of the Holders of the Series 2016A Bonds for all or any part of the Debt Service Reserve Fund Requirement or any Applicable Series 2016A 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 2016A are not rated by Moody's and S&P by whichever of said rating services that then rates the Outstanding Series 2016A 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 DASNY 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 DASNY.

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 2016A Participant's Allocable Portion of a Debt Service Reserve Fund is less than such Applicable Series 2016A Participant's Allocable Portion of the Debt Service Reserve Fund Requirement, the Trustee shall immediately notify DASNY, each Applicable Facility Provider and the Applicable Series 2016A Participant of such deficiency. Such Applicable Series 2016A 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 2016A 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 2016A Participant's Allocable Portion of, respectively, interest on the Outstanding Series 2016A 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 2016A 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 2016A Bonds upon the acceleration of such Series 2016A Participant's Loan pursuant to the Applicable Loan Agreement.

Upon the exercise by a Series 2016A 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 2016A 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 2016A 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 DASNY, (iii) upon the request of a Series 2016A 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 2016A 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 DASNY and such Series 2016A 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 2016A 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 DASNY, 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 DASNY to make payments to the Department of the Treasury of the United States of America at such times and in such amounts as DASNY 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 DASNY 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 DASNY.

If and to the extent required by the Code, DASNY 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 DASNY and the Applicable Participant. Upon receipt of such notice, DASNY 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 DASNY, 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 DASNY 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 DASNY 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 DASNY 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 DASNY 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 DASNY 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 DASNY, 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, DASNY, 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 DASNY 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 DASNY 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, DASNY 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 DASNY 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 DASNY 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

DASNY 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 DASNY 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 DASNY 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 DASNY of any amendment, a copy thereof certified by DASNY 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 DASNY 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, DASNY 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 DASNY:

(a) To add additional covenants and agreements of DASNY 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 DASNY 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 DASNY 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 DASNY 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 DASNY 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 DASNY.

(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 DASNY 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 DASNY 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

DASNY 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 DASNY 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 DASNY in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon DASNY 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 DASNY 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 DASNY 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 DASNY 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 DASNY 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 DASNY 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 DASNY, 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 DASNY 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 DASNY, 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 DASNY, 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 DASNY 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 DASNY 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, 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 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, DASNY 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 DASNY 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 DASNY 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 DASNY 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 DASNY, 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 DASNY, 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 DASNY 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 DASNY, 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 DASNY, 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 DASNY 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 DASNY as if DASNY 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 DASNY 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 DASNY 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 DASNY 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 DASNY, 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 DASNY 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, DASNY 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 DASNY 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 DASNY, execute and deliver such documents to evidence such discharge and satisfaction as may be reasonably required by DASNY, 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 DASNY; *second*, to each Applicable Facility Provider which has certified to the Trustee and DASNY 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 DASNY the amount certified by DASNY to be then due or past due pursuant to an Applicable Loan Agreement for fees and expenses of DASNY or pursuant to any indemnity; and, *fourth*, the balance thereof to the Applicable Participants, as directed in writing by DASNY. 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 DASNY, execute and deliver such documents to evidence such discharge and satisfaction as may be reasonably required by the Participant and DASNY, 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 DASNY; *second*, to each Applicable Facility Provider which has certified to the Trustee and DASNY 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 DASNY the amount certified by DASNY 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 DASNY 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, DASNY 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 DASNY 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, DASNY 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 DASNY, 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. DASNY 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 DASNY 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 DASNY; *second*, to each Applicable Facility Provider who has certified to the Trustee and DASNY 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 DASNY the amount certified by DASNY to be then due or past due pursuant to the Applicable Loan Agreement for fees and expenses of DASNY 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 DASNY, be repaid by the Trustee or Paying Agent to DASNY 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 DASNY for the payment of such Bonds; *provided, however*, that, before being required to make any such payment to DASNY, the Trustee or Paying Agent may, at the expense of DASNY, 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 DASNY.

(Section 12.01)

APPENDIX G

FORM OF CONTINUING DISCLOSURE AGREEMENT

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AGREEMENT TO PROVIDE CONTINUING DISCLOSURE

DORMITORY AUTHORITY OF THE STATE OF NEW YORK INTERAGENCY COUNCIL POOLED LOAN PROGRAM REVENUE BONDS SERIES 2016A

PARTICIPANT: [ ]

This **AGREEMENT TO PROVIDE CONTINUING DISCLOSURE** (the "Disclosure Agreement"), dated as of [ ], 2016, is executed and delivered by the Dormitory Authority of the State of New York (the "Issuer" or "DASNY"), the Participant identified above (the "Obligated Person"), The Bank of New York Mellon, as Trustee (the "Trustee") and Digital Assurance Certification, L.L.C. ("DAC"), as exclusive Disclosure Dissemination Agent (the "Disclosure Dissemination Agent") for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) and in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the "Rule").

The services provided under this Disclosure Agreement solely relate to the execution of instructions received from the parties hereto through use of the DAC system and are not intended to constitute "advice" within the meaning of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act"). DAC will not provide any advice or recommendation to the Issuer, the Obligated Person or anyone on the Issuer's or the Obligated Person's behalf regarding the "issuance of municipal securities" or any "municipal financial product" as defined in the Act and nothing in this Disclosure Agreement shall be interpreted to the contrary.

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Resolution (hereinafter defined). The capitalized terms shall have the following meanings:

"Annual Filing Date" means the date, set forth in Sections 2(a) and 2(f), by which the Annual Report is to be filed with the MSRB.

"Annual Financial Information" means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

"Annual Report" means an Annual Report described in and consistent with Section 3 of this Disclosure Agreement.

"Audited Financial Statements" means the financial statements (if any) of the Obligated Person for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

“Bonds” means the bonds as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

“Certification” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Voluntary Financial Disclosure, Notice Event notice, Failure to File Event notice or Voluntary Event Disclosure delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Voluntary Financial Disclosure, Notice Event notice, Failure to File Event notice or Voluntary Event Disclosure required to be or voluntarily submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Obligated Person and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“Disclosure Dissemination Agent” means Digital Assurance Certification, L.L.C., acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Issuer pursuant to Section 9 hereof.

“Disclosure Dissemination Agreement” means that agreement, dated January 31, 2005, as amended to the date hereof, by and between the Disclosure Dissemination Agent and the Issuer pursuant to which disclosure dissemination services are to be provided by the Disclosure Dissemination Agent on behalf of the Issuer.

“Disclosure Representative” means the chief financial officer of the Obligated Person or his or her designee, or such other person as the Obligated Person shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“Failure to File Event” means the Obligated Person’s failure to file an Annual Report on or before the Annual Filing Date.

“Force Majeure Event” means: (i) acts of God, war or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access System maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent’s reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Agreement.

“Holder” means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding

Bonds through nominees, depositories or other intermediaries) or (b) treated as the owner of any Bonds for federal income tax purposes.

"Information" means collectively, the Annual Reports, the Audited Financial Statements (if any), the Notice Event notices, the Failure to File Event Notices, the Voluntary Event Disclosures and the Voluntary Financial Disclosures.

"Issuer" means the Dormitory Authority of the State of New York, as conduit issuer of the Bonds.

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

"Notice Event" means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Agreement.

"Obligated Person" means any person who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities), as shown on Exhibit A.

"Official Statement" means that Official Statement prepared by the Issuer and the Obligated Person in connection with the Bonds, as listed on Exhibit A.

"Program Facilitator" means the Interagency Council of Developmental Disabilities Agencies, Inc.

"Trustee" means The Bank of New York Mellon.

"Voluntary Event Disclosure" means information of the category specified in any of subsections (e)(vi)(1) through (e)(vi)(11) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(a) of this Disclosure Agreement.

"Voluntary Financial Disclosure" means information of the category specified in any of subsections (e)(vii)(1) through (e)(vii)(9) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(b) of this Disclosure Agreement.

SECTION 2. <u>Provision of Annual Reports</u>.

(a) The Obligated Person shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy each for the Issuer and the Trustee, not later than 180 days after the end of each fiscal year of the Obligated Person (or any time thereafter following a Failure to File Event as described in this Section), commencing with the fiscal year ending [ ], such date and each anniversary thereof, the "Annual Filing Date." Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report and Audited Financial Statements to the MSRB through its Electronic Municipal Market Access (“EMMA”) System for municipal securities disclosures. The Annual Financial Information and Audited Financial Statements may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail), with a copy to the Issuer and the Program Facilitator, to remind the Obligated Person of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall, not later than two (2) business days prior to the Annual Filing Date, either: (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Financial Information, Audited Financial Statements and the Certification, or (ii) instruct the Disclosure Dissemination Agent in writing, with a copy to the Issuer and the Trustee, that a Failure to File Event may occur, state the date by which the Annual Financial Information and Audited Financial Statements for such year are expected to be provided, and, at the election of the Obligated Person, instruct the Disclosure Dissmenation Agent to send a notice to the MSRB in substantially the form attached as Exhibit B on the Annual Filing Date, accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 6:00 p.m. Eastern time on the Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the Obligated Person irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the MSRB in substantially the form attached as Exhibit B which shall include, if known, the anticipated filing date for the Annual Report, accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(d) If Audited Financial Statements of the Obligated Person are prepared but not available prior to the Annual Filing Date, the Obligated Person shall provide unaudited financial statements for filing prior to the Annual Filing Date in accordance with Section 3(b) hereof and, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification, together with a copy each for the Issuer and the Trustee, for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

(i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;

(ii) upon receipt, promptly file each Annual Report received under Section 2(a) and 2(b) with the MSRB;

(iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with the MSRB;

(iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) with the MSRB, identifying the Notice Event as instructed pursuant to Section 4(a) or 4(b)(ii) (being any of the categories set forth below) when filing pursuant to the Section 4(c) of this Disclosure Agreement:

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, IRS notices or events affecting the tax status of the securities;

7. Modifications to rights of securities holders, if material;

8. Bond calls, if material;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the securities, if material;

11. Ratings changes;

12. Tender offers;

13. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

14. Merger, consolidation, or acquisition of the Obligated Person, if material; and

15. Appointment of a successor or additional trustee, or the change of name of a trustee, if material;

(v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Agreement, as applicable), promptly file a completed copy of

Exhibit B to this Disclosure Agreement with the MSRB, identifying the filing as "Failure to provide annual financial information as required" when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement;

(vi) upon receipt, promptly file the text of each Voluntary Event Disclosure received under Section 7(a) with the MSRB, identifying the Voluntary Event Disclosure as instructed by the Issuer or the Obligated Person pursuant to Section 7(a) (being any of the categories set forth below) when filing pursuant to Section 7(a) of this Disclosure Agreement:

1. "amendment to continuing disclosure undertaking;"
2. "change in obligated person;"
3. "notice to investors pursuant to bond documents;"
4. "certain communications from the Internal Revenue Service;"
5. "secondary market purchases;"
6. "bid for auction rate or other securities;"
7. "capital or other financing plan;"
8. "litigation/enforcement action;"
9. "change of tender agent, remarketing agent, or other on-going party;"
10. "derivative or other similar transaction;" and
11. "other event-based disclosures;"

(vii) upon receipt, promptly file the text of each Voluntary Financial Disclosure received under Section 7(b) with the MSRB, identifying the Voluntary Financial Disclosure as instructed by the Issuer or the Obligated Person pursuant to Section 7(b) (being any of the categories set forth below) when filing pursuant to Section 7(b) of this Disclosure Agreement:

1. "quarterly/monthly financial information;"
2. "change in fiscal year/timing of annual disclosure;"
3. "change in accounting standard;"

4. “interim/additional financial information/operating data;”

5. “budget;”

6. “investment/debt/financial policy;”

7. “information provided to rating agency, credit/liquidity provider or other third party;”

8. “consultant reports;” and

9. “other financial/operating data;”

(viii) provide the Obligated Person, the Issuer and the Program Facilitator evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Obligated Person may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, the Issuer, the Trustee and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Any Information received by the Disclosure Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

SECTION 3. <u>Content of Annual Reports</u>.

Each Annual Report shall contain:

(a) Annual Financial Information with respect to the Obligated Person which shall contain the information set forth in Exhibit D hereto, together with a narrative explanation as may be necessary to avoid misunderstanding regarding the presentation of such Annual Financial Information concerning the Obligated Person; and

(b) Audited Financial Statements prepared in accordance with generally accepted accounting principles (“GAAP”) OR alternate accounting principles as described in the Official Statement will be included in the Annual Report. If Audited Financial Statements are not available, the Obligated Person shall be in compliance under this Disclosure Agreement if unaudited financial statements, prepared in accordance with GAAP or alternate accounting principles as described in the Official Statement, are included in the Annual Report. Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Obligated Person is an "obligated person" (as defined by the Rule), which have been previously filed the Securities and Exchange Commission or available from the MSRB Internet Website. If the document incorporated by reference is a Final Official Statement, it must be available from the MSRB. The Obligated Person will clearly identify each such document so incorporated by reference.

Any Annual Financial Information reflecting additions or deletions to the Funding Sources or a decrease in Debt Service Coverage shall include an explanation, in narrative form, of such changes.

SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events with respect to the Bonds constitutes 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 and determinations with respect to the tax status of the securities or other material events affecting the tax status of the securities;

7. Modification to rights of the security holders, if material;

8. Bond calls, if material;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the Bonds, if material;

11. Rating changes;

12. Tender offers;

13. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

    Note to subsection (a)(13) of this Section 4: For the purposes of the event described in subsection (a)(13) of this Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

14. The consummation of a merger, consolidation or acquisition involving the Obligated Person, or the sale of all or substantially all of the assets of the Obligated Person, 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;

15. Appointment of a successor or additional trustee or the change of name of a trustee, if material; and

The Obligated Person shall, in a timely manner not in excess of ten business days after its occurrence, notify DASNY, the Trustee, the Program Facilitator and the Disclosure Dissemination Agent in writing upon the occurrence of a Notice Event. Upon actual knowledge of the occurrence of a Notice Event, DASNY or the Trustee shall promptly notify the Obligated Person and also may notify the Disclosure Dissemination Agent in writing of the occurrence of such Notice Event. Each such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the desired text of the disclosure, the written authorization for the Disclosure Dissemination Agent to disseminate such information, and identify the desired date for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the Issuer, the Obligated Person or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Issuer, the Obligated Person or the Disclosure Representative, such notified party will within two business days of receipt of such notice (but in any event not later than the tenth business day after the occurrence of the Notice Event, if the Issuer or the Obligated Person determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer or the Obligated Person desires to make, contain the written authorization of the Issuer or the Obligated Person for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer or the Obligated Person desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed as prescribed in subsection (a) or as prescribed in subsection (b) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with the MSRB, in accordance with Section 2(e)(iv) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

SECTION 5. <u>CUSIP Numbers</u>.

Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference in the Annual Reports, Audited Financial Statements, Notice Event notices and Voluntary Reports, the Obligated Person shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

SECTION 6. <u>Additional Disclosure Obligations</u>.

The Obligated Person acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Obligated Person, and that the duties and responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement do not extend to providing legal advice regarding such laws. The Obligated Person acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. <u>Voluntary Filing</u>.

(a) The Issuer or the Obligated Person may instruct the Disclosure Dissemination Agent to file Voluntary Event Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Event Disclosure (which shall be any of the categories set forth in Section 2(e)(vi) of this Disclosure Agreement), include the text of the disclosure that the Issuer or Obligated Person desires to make, and identify the date the Issuer or Obligated Person desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer or Obligated Person as prescribed in this Section 7(a) to file a Voluntary Event Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Event Disclosure with the MSRB in accordance with Section 2(e)(vi) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The Issuer or Obligated Person may instruct the Disclosure Dissemination Agent to file Voluntary Financial Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Financial Disclosure (which shall be any of the categories set forth in Section 2(e)(vii) of this Disclosure Agreement), include the text of the disclosure that the Issuer or Obligated Person desires to make, and identify the date the Issuer or Obligated Person desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer or Obligated Person as prescribed in this Section 7(b) to file a Voluntary Financial Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Financial Disclosure with the MSRB in accordance with Section 2(e)(vii) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-3.

(c) The parties hereto acknowledge that neither the Issuer nor the Obligated Person is obligated pursuant to the terms of this Disclosure Agreement to file any Voluntary Event Disclosure pursuant to Section 7(a) hereof or any Voluntary Financial Disclosure pursuant to Section 7(b) hereof. In the event that the Issuer intends to instruct the Disclosure Dissemination Agent to file a notice pursuant to Section 7 hereof, the Issuer will provide a copy of any such notice first to the Obligated Person and shall only instruct the Dissemination Agent to file such notice if the Obligated Person does not object to such filing within 2 business days of receipt of such proposed notice. In the event that the Obligated Person intends to instruct the Disclosure Dissemination Agent to file a notice pursuant to Section 7(a) hereof, the Obligated Person will provide a copy of any such notice first to the Issuer and shall only instruct the Dissemination Agent to file such notice if the Issuer does not object to such filing within 2 business days of receipt of such proposed notice.

(d) Nothing in this Disclosure Agreement shall be deemed to prevent the Obligated Person, with the approval of DASNY, from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Section 7, or including any other information in any Annual Report, Audited Financial Statements, Failure to File Event Notice or Notice Event notice in addition to that which is specifically required by this Disclosure Agreement. If the Obligated Person chooses to include any information in any Annual Report, Audited Financial Statements, Failure to File Event Notice or Notice Event notice in addition to that which is specifically required by this Disclosure Agreement or to file Voluntary Event Disclosure or Voluntary Financial Disclosure, the Obligated Person shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Audited Financial Statement, Voluntary Financial Disclosure, Voluntary Event Disclosure, Failure to File Event Notice or Notice Event notice.

SECTION 8. Termination of Reporting Obligation.

The obligations of the Obligated Person and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Obligated Person is no longer an Obligated Person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent.

The Issuer has appointed DAC as exclusive Disclosure Dissemination Agent under this Disclosure Agreement pursuant to the Disclosure Dissemination Agreement. The Issuer may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Issuer or DAC, the Issuer agrees to appoint a successor Disclosure Dissemination Agent or, alternatively, agrees to assume all responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the Issuer shall remain liable until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Issuer.

SECTION 10. Remedies in Event of Default.

In the event of a failure of the Obligated Person or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Disclosure Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Issuer or the Obligated Person has provided such information to the Disclosure Dissemination Agent as provided in this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information, or any other information, disclosures or notices provided to it by the Issuer or the Obligated Person and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Obligated Person, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Obligated Person's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine or liability for failing to determine whether the Issuer or the Obligated Person has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Issuer or the Obligated Person at all times.

THE OBLIGATED PERSON AGREES TO INDEMNIFY AND SAVE THE DISCLOSURE DISSEMINATION AGENT, THE ISSUER AND THE TRUSTEE AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS, HARMLESS AGAINST ANY LOSS, EXPENSE AND LIABILITY WHICH THEY MAY INCUR ARISING OUT OF OR IN THE EXERCISE OR PERFORMANCE OF THEIR POWERS AND DUTIES HEREUNDER, INCLUDING THE COSTS AND EXPENSES (INCLUDING ATTORNEYS FEES) OF DEFENDING AGAINST ANY CLAIM OF LIABILITY, BUT EXCLUDING LIABILITIES DUE TO THE DISCLOSURE DISSEMINATION AGENT'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

The obligations of the Obligated Person under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and neither of them shall incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The fees and expenses of such counsel shall be payable by the Obligated Person.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Disclosure Agreement shall be provided in an electronic format through the EMMA System and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. No Issuer Responsibility.

The Obligated Person and the Disclosure Dissemination Agent acknowledge that neither the Issuer nor the Trustee have undertaken any responsibility, and shall not be required to undertake any responsibility, with respect to any reports, notices or disclosures required by or provided pursuant to this Disclosure Agreement other than those notices required under Section 4(b) hereof, and shall have no liability to any person, including any Holder of the Bonds, with respect to any such reports, notices or disclosures other than those notices required under said Section 4(b). DASNY (as conduit issuer) is not, for purposes of and within the meaning of the Rule, (i) committed by contract or other arrangement to support payment of all, or part of, the oligations on the Bonds, or (ii) a person for whom annual financial information and notices of material events will be provided.

SECTION 13. Amendment; Waiver.

Notwithstanding any other provision of this Disclosure Agreement, the Obligated Person, the Issuer, the Trustee and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to each of the Obligated Person, the Issuer, the Trustee and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided none of the Obligated Person, the Issuer, the Trustee or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, DASNY, the Obligated Person, the Trustee and the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement for any of the following purposes:

(i) to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time;

(ii) to add or change a dissemination agent for the information required to be provided hereby and to make any necessary or desirable provisions with respect thereto;

(iii) to evidence the succession of another person to the Obligated Person, the Trustee or the Issuer and the assumption by any such successor of the covenants of the Obligated Person, the Trustee or the Issuer hereunder;

(iv) to add to the covenants of the Obligated Person, the Issuer or the Disclosure Dissemination Agent for the benefit of the Holders, or to surrender any right or power herein conferred upon the Obligated Person, the Issuer or the Disclosure Dissemination Agent;

(v) for any purpose for which, and subject to the conditions pursuant to which, amendments may be made under the Rule, as amended or modified from time to time, or any formal authoritative interpretations thereof by the Securities and Exchange Commission.

SECTION 14. Beneficiaries.

This Disclosure Agreement shall inure solely to the benefit of the Obligated Person, the Issuer, the Trustee, the Disclosure Dissemination Agent, the underwriter, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Governing Law.

This Disclosure Agreement shall be governed by the laws of the State of New York (without regard to conflicts of laws).

SECTION 16. Counterparts.

This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

The Disclosure Dissemination Agent, the Issuer, the Trustee and the Obligated Person have caused this Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

DIGITAL ASSURANCE CERTIFICATION, L.L.C.,
as Disclosure Dissemination Agent

By:____
Name:______________________________________
Title:_______________________________________

[ ],
Obligated Person

By:____
Name:______________________________________
Title:_______________________________________

DORMITORY AUTHORITY OF THE STATE OF NEW YORK,
Issuer

By:____
Authorized Officer

THE BANK OF NEW YORK MELLON
as Trustee

By: _______________________________________
Name: _____________________________________
Title: ______________________________________

EXHIBIT A

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer:	Dormitory Authority of the State of New York
Obligated Person(s):	[ ]
Name of Bond Issue:	InterAgency Council Pooled Loan Program Revenue Bonds, Series 2016A
Date of Issuance:	[ ]
Date of Official Statement:	[ ]

Maturity	CUSIP No.

EXHIBIT B

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Dormitory Authority of the State of New York
Obligated Person(s):	[ ]
Name of Bond Issue:	InterAgency Council Pooled Loan Program Revenue Bonds, Series 2016A
Date of Issuance:	[ ]

CUSIP Numbers:

NOTICE IS HEREBY GIVEN that the Obligated Person has not provided an Annual Report with respect to the above-named Bonds as required by the Agreement to Provide Continuing Disclosure, dated as of [ ], by and among the Obligated Person, the Dormitory Authority of the State of New York, as Issuer, The Bank of New York Mellon, as Trustee and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The Obligated Person has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by ______________ [if known].

Dated:_____________________________

Digital Assurance Certification, L.L.C., as
Disclosure Dissemination Agent, on behalf of the
Obligated Person

____

cc: Issuer
Obligated Person
Program Facilitator

EXHIBIT C-1
EVENT NOTICE COVER SHEET

This cover sheet and accompanying "event notice" will be sent to the MSRB, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and Obligated Person's Names:

____

Issuer's Six-Digit CUSIP Number:

____

____

or Nine-Digit CUSIP Number(s) of the bonds to which this event notice relates:

____

Number of pages attached: _____

____ Description of Notice Events (Check One):

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, IRS notices or events affecting the tax status of the security;"
7.______"Modifications to rights of securities holders, if material;"
8.______"Bond calls, if material;"
9.______"Defeasances;"
10._____"Release, substitution, or sale of property securing repayment of the securities, if material;"
11._____"Rating changes;"
12._____"Tender offers;"
13._____"Bankruptcy, insolvency, receivership or similar event of the obligated person;"
14._____"Merger, consolidation, or acquisition of the obligated person, if material;" and
15._____"Appointment of a successor or additional trustee, or the change of name of a trustee, if material."

____ Failure to provide annual financial information as required.

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

____

Name: ____________________________________ Title: ____________________________________

Digital Assurance Certification, L.L.C.
390 N. Orange Avenue
Suite 1750
Orlando, FL 32801
407-515-1100

Date:

EXHIBIT C-2
VOLUNTARY EVENT DISCLOSURE COVER SHEET

This cover sheet and accompanying "voluntary event disclosure" will be sent to the MSRB, pursuant to the Continuing Disclosure Agreement dated as of [   ] by and among the Issuer, the Obligated Person, the Trustee and DAC.

Issuer's and Obligated Person's Names:

____

Issuer's Six-Digit CUSIP Number:

____

____

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

____

Number of pages attached: _____

____ Description of Voluntary Event Disclosure (Check One):

1.______"amendment to continuing disclosure undertaking;"
2.______"change in obligated person;"
3.______"notice to investors pursuant to bond documents;"
4.______"certain communications from the Internal Revenue Service;"
5.______"secondary market purchases;"
6.______"bid for auction rate or other securities;"
7.______"capital or other financing plan;"
8.______"litigation/enforcement action;"
9.______"change of tender agent, remarketing agent, or other on-going party;"
10._____"derivative or other similar transaction;" and
11._____"other event-based disclosures."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

____

Name: ____________________________________ Title: ____________________________________

Digital Assurance Certification, L.L.C.
390 N. Orange Avenue
Suite 1750
Orlando, FL 32801
407-515-1100

Date:

EXHIBIT C-3
VOLUNTARY FINANCIAL DISCLOSURE COVER SHEET

This cover sheet and accompanying "voluntary financial disclosure" will be sent to the MSRB, pursuant to the Continuing Disclosure Agreement dated as of [   ] by and among the Issuer, the Obligated Person, the Trustee and DAC.

Issuer's and Obligated Person's Names:

____

Issuer's Six-Digit CUSIP Number:

____

____

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

____

Number of pages attached: _____

____ Description of Voluntary Financial Disclosure (Check One):

1.______"quarterly/monthly financial information;"
2.______"change in fiscal year/timing of annual disclosure;"
3.______"change in accounting standard;"
4.______"interim/additional financial information/operating data;"
5.______"budget;"
6.______"investment/debt/financial policy;"
7.______"information provided to rating agency, credit/liquidity provider or other third party;"
8.______"consultant reports;" and
9.______"other financial/operating data."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

____

Name: ____________________________________ Title: ____

Digital Assurance Certification, L.L.C.
390 N. Orange Avenue
Suite 1750
Orlando, FL 32801
407-515-1100

Date:

EXHIBIT D

FORM OF ANNUAL FINANCIAL INFORMATION

Name of Issuer:	Dormitory Authority of the State of New York
Obligated Person(s):	[ ]
Name of Bond Issue:	InterAgency Council Pooled Loan Program Revenue Bonds, Series 2016A
Date of Issuance:	[ ]
Date of Official Statement:	[ ]
CUSIP Nos.	

Funding Sources. Funding sources for the Obligated Person's 20__ Fiscal Year were as follows:

Funding Source	Approx. % of Revenues
NYS Office for People with Developmental Disabilities	
NYS Department of Health	
NYS Education Department	
[list other sources]	

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between DASNY and the Obligated Person, the Total Debt Service Coverage Ratio for Fiscal Year 20__ is as follows:

Revenues
Expenses
Total Net Revenue

Less Extraordinary Revenue Items
Plus Extraordinary Expense Items
Plus Depreciation and Amortization
Plus Current Interest Expense

Total Net Revenues Available for Debt Service

Maximum Annual Debt Service

Total Debt Service Coverage Ratio

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APPENDIX H

FORMS OF APPROVING OPINIONS OF CO-BOND COUNSEL

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PROPOSED FORMS OF APPROVING OPINIONS OF CO-BOND COUNSEL

Upon delivery of the Series 2016A Bonds, Barclay Damon, LLP, Albany, New York, Co-Bond Counsel to DASNY, proposes to issue its legal opinion in substantially the following form:

__________, 2016

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

Ladies and Gentlemen:

We have examined the record of proceedings relating to the $16,435,000 aggregate principal amount of InterAgency Council Pooled Loan Program Revenue Bonds, Series 2016A (the "Series 2016A Bonds"), consisting of $15,665,000 Subseries 2016A-1 Bonds and $770,000 Subseries 2016A-2 Bonds (Federally Taxable) issued by the Dormitory Authority of the State of New York ("DASNY"), a body corporate and politic constituting a public benefit corporation of the State of New York, created and existing under and pursuant to the Constitution and statutes of the State of New York, including the Dormitory Authority Act, being Chapter 524 of the Laws of 1944 of the State of New York, as amended to the date hereof (the "Act"). We have also examined such certificates, documents, records and matters of law as we have deemed necessary for the purpose of rendering the opinions hereinafter set forth. Capitalized terms used herein without other definition have the meanings set forth in the Resolution (hereinafter defined).

The Series 2016A Bonds are issued under and pursuant to the Act and the InterAgency Council Pooled Loan Program Revenue Bond Resolution of DASNY adopted March 31, 2010 (the "Resolution") and DASNY's Series 2016A Resolution Authorizing Up To $24,000,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2016A adopted November 10, 2015 (the "Series 2016A Resolution" and, together with the Resolution, the "Resolutions"). The Series 2016A Bonds are being issued for the purposes set forth in the Resolutions.

DASNY has entered into separate Loan Agreements with each of Family Residences and Essential Enterprises, Inc., Lifespire, Inc., Little Flower Children and Family Services of New York, Special Citizens Futures Unlimited, Inc., and Young Adult Institute, Inc. (collectively, the "Series 2016A Participants"), each dated as of November 10, 2015 (collectively, the "Loan Agreements"), providing, among other things, for loans to the Series 2016A Participants from the proceeds of the Series 2016A Bonds for the purposes permitted by the respective Loan Agreements and by the Resolutions.

We are of the opinion that:

(1) DASNY is a body corporate and politic constituting a public benefit corporation of the State of New York with the right and lawful authority and power to adopt the Resolutions and to issue the Series 2016A Bonds thereunder.

(2) The Resolution has been duly and lawfully adopted by DASNY. The Series 2016A Resolution has been duly and lawfully adopted by DASNY in accordance with the provisions of the Resolution and is authorized and permitted by the Resolution. The Resolutions are in full force and

effect, and are legal, valid and binding obligations of DASNY enforceable in accordance with their respective terms. The Resolutions create the valid pledge and the valid lien they purport to create upon the proceeds of the Series 2016A Bonds and the Revenues, subject only to the provisions of the Resolutions permitting the withdrawal, payment, setting apart or appropriation thereof for the purposes and on the terms and conditions set forth in the Resolutions.

(3) The Series 2016A Bonds have been duly and validly authorized and issued in accordance with the statutes of the State of New York, including the Act, and in accordance with the Resolutions. The Series 2016A Bonds are legal, valid and binding special obligations of DASNY payable as provided in the Resolutions, are enforceable in accordance with their terms pursuant to the Resolutions and are entitled to the equal benefits of the Resolutions and the Act.

(4) The Series 2016A Bonds are not a debt of the State of New York, and the State of New York is not liable thereon. The Series 2016A Bonds are not payable out of the funds of DASNY other than those pledged for the payment of the Series 2016A Bonds.

(5) DASNY has the right and lawful authority and power to enter into the Loan Agreements. The Loan Agreements have each been duly authorized, executed and delivered by DASNY and, assuming due authorization, execution and delivery of the Loan Agreements by the respective Series 2016A Participants, constitute legal, valid and binding obligations of DASNY enforceable in accordance with their terms.

(6) Under existing law:

(a) interest on the Subseries 2016A-1 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code");

(b) interest on the Subseries 2016A-1 Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code; provided, however, that such interest on the Subseries 2016A-1 Bonds is taken into account in determining adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations;

(c) interest on the Series 2016A Bonds is exempt from personal income taxes of the State of New York and its political subdivisions, including The City of New York and the City of Yonkers; and

(d) interest on the Subseries 2016A-2 Bonds is not excludable from gross income for federal income tax purposes under Section 103 of the Code.

In rendering the opinions set forth in clauses (a) and (b) of paragraph (6) above, we have relied upon certain representations, certifications of fact, and statements of reasonable expectations made by DASNY, each of the Series 2016A Participants, as applicable, and others, and we have assumed compliance by DASNY and each of the Series 2016A Participants, as applicable, with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Subseries 2016A-1 Bonds from gross income under Section 103 of the Code. In the event of the inaccuracy or incompleteness of any such representation, certification or statement made by DASNY or the Series 2016A Participants, or of the failure by DASNY or the Series 2016A Participants to comply with any such covenant, the interest on the Subseries 2016A-1 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of original execution and delivery of such Bonds, regardless of the date on which the event causing such inclusion occurs.

In addition, we have relied on the opinion of counsel to the Series 2016A Participants regarding, among other matters, the status of the Series 2016A Participants as organizations described in Section 501(c)(3) of the Code.

Further, although the interest on the Subseries 2016A-1 Bonds is excludable from gross income for federal income tax purposes, receipt or accrual of the interest may otherwise affect the tax liability of a holder of a Subseries 2016A-1 Bond. The tax effect of receipt or accrual of the interest will depend upon the tax status of a holder of a Subseries 2016A-1 Bond and such holder’s other items of income, deduction or credit. We express no opinion with respect to any such effect.

We have examined a fully executed Subseries 2016A-1 Bond and a fully executed Subseries 2016A-2 Bond and, in our opinion, the form of said Series 2016A Bonds and their execution are regular and proper.

The opinions contained in paragraphs (2), (3) and (5) above are qualified to the extent that the enforceability of the Resolutions, the Loan Agreements and the Series 2016A Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws effecting creditors’ rights generally and as to the availability of any particular remedy.

Very truly yours,

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Upon delivery of the Series 2016A Bonds, Marous Law Group, P.C., New York, New York, Co-Bond Counsel to DASNY, proposes to issue its legal opinion in substantially the following form:

__________] 2016

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

Ladies and Gentlemen:

We have examined the record of proceedings relating to the $16,435,000 aggregate principal amount of InterAgency Council Pooled Loan Program Revenue Bonds, Series 2016A (the "Series 2016A Bonds"), consisting of $15,665,000 Subseries 2016A-1 Bonds and $770,000 Subseries 2016A-2 Bonds (Federally Taxable) issued by the Dormitory Authority of the State of New York ("DASNY"), a body corporate and politic constituting a public benefit corporation of the State of New York, created and existing under and pursuant to the Constitution and statutes of the State of New York, including the Dormitory Authority Act, being Chapter 524 of the Laws of 1944 of the State of New York, as amended to the date hereof (the "Act"). We have also examined such certificates, documents, records and matters of law as we have deemed necessary for the purpose of rendering the opinions hereinafter set forth. Capitalized terms used herein without other definition have the meanings set forth in the Resolution (hereinafter defined).

The Series 2016A Bonds are issued under and pursuant to the Act and the InterAgency Council Pooled Loan Program Revenue Bond Resolution of DASNY adopted March 31, 2010 (the "Resolution") and DASNY's Series 2016A Resolution Authorizing Up To $24,000,000 InterAgency Council Pooled Loan Program Revenue Bonds, Series 2016A adopted November 10, 2015 (the "Series 2016A Resolution" and, together with the Resolution, the "Resolutions"). The Series 2016A Bonds are being issued for the purposes set forth in the Resolutions.

DASNY has entered into separate Loan Agreements with each of Family Residences and Essential Enterprises, Inc., Lifespire, Inc., Little Flower Children and Family Services of New York, Special Citizens Futures Unlimited, Inc., and Young Adult Institute, Inc. (collectively, the "Series 2016A Participants"), each dated as of November 10, 2015 (collectively, the "Loan Agreements"), providing, among other things, for loans to the Series 2016A Participants from the proceeds of the Series 2016A Bonds for the purposes permitted by the respective Loan Agreements and by the Resolutions.

We are of the opinion that:

(1) DASNY is a body corporate and politic constituting a public benefit corporation of the State of New York with the right and lawful authority and power to adopt the Resolutions and to issue the Series 2016A Bonds thereunder.

(2) The Resolution has been duly and lawfully adopted by DASNY. The Series 2016A Resolution has been duly and lawfully adopted by DASNY in accordance with the provisions of the Resolution and is authorized and permitted by the Resolution. The Resolutions are in full force and effect, and are legal, valid and binding obligations of DASNY enforceable in accordance with their respective terms. The Resolutions create the valid pledge and the valid lien they purport to create upon

the proceeds of the Series 2016A Bonds and the Revenues, subject only to the provisions of the Resolutions permitting the withdrawal, payment, setting apart or appropriation thereof for the purposes and on the terms and conditions set forth in the Resolutions.

(3) The Series 2016A Bonds have been duly and validly authorized and issued in accordance with the statutes of the State of New York, including the Act, and in accordance with the Resolutions. The Series 2016A Bonds are legal, valid and binding special obligations of DASNY payable as provided in the Resolutions, are enforceable in accordance with their terms pursuant to the Resolutions and are entitled to the equal benefits of the Resolutions and the Act.

(4) The Series 2016A Bonds are not a debt of the State of New York, and the State of New York is not liable thereon. The Series 2016A Bonds are not payable out of the funds of DASNY other than those pledged for the payment of the Series 2016A Bonds.

(5) DASNY has the right and lawful authority and power to enter into the Loan Agreements. The Loan Agreements have each been duly authorized, executed and delivered by DASNY and, assuming due authorization, execution and delivery of the Loan Agreements by the respective Series 2016A Participants, constitute legal, valid and binding obligations of DASNY enforceable in accordance with their terms.

We have examined a fully executed Subseries 2016A-1 Bond and a fully executed Subseries 2016A-2 Bond and, in our opinion, the form of said Series 2016A Bonds and their execution are regular and proper.

The opinions contained in paragraphs (2), (3) and (5) above are qualified to the extent that the enforceability of the Resolutions, the Loan Agreements and the Series 2016A Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws effecting creditors' rights generally and as to the availability of any particular remedy.

Very truly yours,

DORMITORY AUTHORITY OF THE STATE OF NEW YORK • INTERAGENCY COUNCIL POOLED LOAN PROGRAM REVENUE BONDS, SERIES 2016A

Mixed Sources
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