

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Issuer, under existing statutes and court decisions and assuming compliance with the tax covenants referred to herein, (i) interest on the Series 2013A-1 Bonds (as hereinafter defined) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2013A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code, such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, interest on the Series 2013A-2 Bonds (as hereinafter defined) is not excludable from gross income for federal income tax purposes pursuant to the Code. In addition, in the opinion of Bond Counsel to the Issuer, under existing statutes, interest on the Series 2013A Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). See "TAX MATTERS" herein.

\$5,905,000
BUILD NYC RESOURCE CORPORATION
REVENUE BONDS
(SPECIAL NEEDS FACILITIES POOLED PROGRAM)
\$5,640,000 Series 2013A-1 and
\$265,000 Series 2013A-2 (Federally Taxable)

Dated: Date of Issuance

Due: July 1, as shown on the inside cover

The \$5,640,000 Revenue Bonds (Special Needs Facilities Pooled Program), Series 2013A-1 (the "Series 2013A-1 Bonds") and the \$265,000 Revenue Bonds (Special Needs Facilities Pooled Program), Series 2013A-2 (Federally Taxable) (the "Series 2013A-2 Bonds", together with the Series 2013A-1 Bonds, the "Series 2013A Bonds") are being issued by Build NYC Resource Corporation (the "Issuer") to finance and/or refinance a portion of the cost of the acquisition and renovation of facilities and to finance and/or refinance the acquisition of certain equipment and other personal property within The City of New York for Eden II School for Autistic Children, Inc. ("Eden II") and Institute for Community Living, Inc. (each a "Participant" and collectively, the "Participants") for the provision of direct or administrative services to people with developmental disabilities or other special needs.

The Series 2013A Bonds are special limited obligations of the Issuer, payable by the Issuer solely from the loan payments to be made by the respective Participants with respect to their respective Facilities (as hereinafter defined) and the amounts on deposit in certain funds and accounts established therefor under the Indenture (as hereinafter defined). Eden II's portion of the Series 2013A Bonds are further payable from and secured by, upon an event of default, amounts realized pursuant to a Mortgage and Security Agreement (the "Mortgage"), which also secures Eden II's payment, performance and observance of all obligations of Eden II under the Security Documents (as hereinafter defined).

Except as otherwise described herein, the obligations of each Participant under its Loan Agreement and other Security Documents to which such Participant is a party are payable from and secured, subject to Permitted Encumbrances, (i) with respect to Eden II, by the Mortgage providing a mortgage lien on, and security interest in, Eden II's Facility, (ii) by certain funds and accounts established under the Indenture (other than the Rebate Fund) and investment income thereon, and (iii) by, in certain instances, the proceeds of insurance and condemnation awards. The Issuer's right to receive payments under the Loan Agreements (except for payments to the Issuer for its own account as more fully described herein) will be pledged to secure the payment of the Series 2013A Bonds. No Participant is required to make payments on behalf of any other Participant that fails to make any payment under its Loan Agreement.

A DEFAULT BY ANY ONE OR MORE OF THE PARTICIPANTS UNDER THEIR RESPECTIVE LOAN AGREEMENT IS A DEFAULT UNDER THE INDENTURE. HOWEVER, ANY LIABILITY WITH RESPECT TO SUCH DEFAULT IS LIMITED SOLELY TO THE PARTICIPANT OR PARTICIPANTS THAT ARE IN DEFAULT, WITHOUT RIGHT OF CONTRIBUTION FROM THE NON-DEFAULTING PARTICIPANTS. ANY SUCH DEFAULT, HOWEVER, COULD RESULT IN A DEFAULT IN PAYMENT OF THE PARTICULAR SERIES OF THE SERIES 2013A BONDS.

The Series 2013A Bonds are issuable 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 2013A Bonds. Purchases of beneficial ownership interests in the Series 2013A Bonds may be made only through the DTC book-entry system and may be made only in minimum denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. Beneficial Owners (as defined herein) of the Series 2013A Bonds will not receive certificates representing their interests in the Series 2013A Bonds.

Interest on the Series 2013A Bonds is payable on July 1, 2013 and on each January 1 and July 1 thereafter (or if such day is not a Business Day, on the immediately succeeding Business Day). So long as DTC or its nominee is the registered owner of the Series 2013A Bonds, references herein to Bondowners or owners of the Series 2013A Bonds shall mean Cede & Co., as aforesaid, and payments of the principal, sinking fund installments or Redemption Price, if any, of and interest on the Series 2013A Bonds will be made directly to DTC by The Bank of New York Mellon, as paying agent. See "THE SERIES 2013A BONDS – DTC Book-Entry Only System" herein.

THE SERIES 2013A BONDS ARE SPECIAL LIMITED REVENUE OBLIGATIONS OF THE ISSUER, PAYABLE AS TO PRINCIPAL, REDEMPTION PRICE AND INTEREST, SOLELY FROM THE TRUST ESTATE (AS HEREINAFTER DEFINED). NEITHER THE STATE OF NEW YORK (THE "STATE") NOR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY OF NEW YORK (THE "CITY"), SHALL BE OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF, OR THE INTEREST ON, THE SERIES 2013A BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY, IS PLEDGED TO SUCH PAYMENT OF THE SERIES 2013A BONDS. THE SERIES 2013A BONDS WILL NOT BE PAYABLE OUT OF ANY FUNDS OF THE ISSUER OTHER THAN THOSE PLEDGED THEREFOR PURSUANT TO THE INDENTURE (AS HEREINAFTER DEFINED). THE SERIES 2013A BONDS WILL NOT GIVE RISE TO A PECUNIARY LIABILITY OR CHARGE AGAINST THE CREDIT OR TAXING POWERS OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY. NO RECOURSE WILL BE HAD FOR THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF, OR THE INTEREST ON, THE SERIES 2013A BONDS AGAINST ANY MEMBER, OFFICER, DIRECTOR, EMPLOYEE OR AGENT OF THE ISSUER. THE ISSUER HAS NO TAXING POWER.

The Series 2013A Bonds are issued pursuant to an Indenture of Trust, dated as of April 1, 2013, between the Issuer and The Bank of New York Mellon, as trustee (the "Trustee"). The Trustee is the Bond Registrar and Paying Agent for the Series 2013A Bonds. The Series 2013A-1 Bonds are subject to optional and mandatory redemption as described herein, and the Series 2013A-2 Bonds are subject to mandatory redemption as described herein.

The Series 2013A Bonds are offered, when, as and if issued by the Issuer, subject to prior sale, withdrawal or modification of the offer without notice, and subject to the approval of legality by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Issuer. Certain legal matters will be passed upon for the Issuer, by Richard E. Marshall, Esq., Vice President for Legal Affairs of the Issuer, for the Participants by Cullen and Dykman LLP, Albany, New York and for the Underwriter by McCarter & English, LLP, Newark, New Jersey and New York, New York. It is expected that delivery of the Series 2013A Bonds to The Depository Trust Company, New York, New York or its agent, will take place on or about April 17, 2013.

Investors must read this entire Limited Offering Memorandum to obtain information essential to the making of an informed investment decision. This cover page contains information for quick reference only. It is not a summary of this issue.

MUNICIPAL CAPITAL MARKETS GROUP, INC.

April 8, 2013

\$5,905,000
BUILD NYC RESOURCE CORPORATION
REVENUE BONDS
(SPECIAL NEEDS FACILITIES POOLED PROGRAM)
SERIES 2013A
Consisting of:

\$5,640,000
Series 2013A-1

\$785,000 5.000% Term Bond due July 1, 2018 to Yield 4.90% CUSIP⁽¹⁾ 12008E BE5
\$1,325,000 5.250% Term Bond due July 1, 2023 to Yield 5.30% CUSIP⁽¹⁾ 12008E BF2
\$1,690,000 5.375% Term Bond due July 1, 2028 to Yield 5.50% CUSIP⁽¹⁾ 12008E BG0
\$790,000 5.750% Term Bond due July 1, 2033 to Yield 5.80% CUSIP⁽¹⁾ 12008E BH8
\$1,050,000 5.875% Term Bond due July 1, 2038 to Yield 6.00% CUSIP⁽¹⁾ 12008E BJ4

\$265,000
Series 2013A-2
(Federally Taxable)

\$265,000 5.000% Term Bond due July 1, 2015 to Yield 5.000% CUSIP⁽¹⁾ 12008E BK1

⁽¹⁾ CUSIP numbers have been assigned by an independent company not affiliated with the Issuer and are included solely for the convenience of the holder of the Series 2013A Bonds. Neither the Issuer nor the Underwriter is responsible for the selection or uses of the CUSIP numbers, and no representation is made as to their correctness on the Series 2013A Bonds or as indicated above. CUSIP numbers are subject to being changed after the issuance of the Series 2013A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Series 2013A Bonds or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Series 2013A Bonds.

REGARDING THIS LIMITED OFFERING MEMORANDUM

No dealer, broker, salesman or other person has been authorized by any of the Issuer, the Participants or the Underwriter to give any information or to make any representations with respect to the Series 2013A Bonds other than those contained in this Limited Offering Memorandum and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer, the Participants or the Underwriter. This Limited Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2013A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The Issuer has provided the information set forth under the captions “THE ISSUER” and “ABSENCE OF LITIGATION – The Issuer.” All other information has been obtained from the City Departments and State Departments (each as defined herein), the Interagency Council of Developmental Disabilities Agencies, Inc. (the “Program Facilitator”), the Participants and other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and it is not to be construed as a representation or warranty of, any of the Issuer, the City, the State or the Underwriter. The information and expressions of opinion set forth herein are subject to change without notice, and neither the delivery of this Limited Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Limited Offering Memorandum. The Underwriter has reviewed the information in this Limited Offering Memorandum 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.

The Series 2013A Bonds are being offered solely to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act of 1933, as amended. Only potential investors who are qualified institutional buyers will be permitted to purchase the Series 2013A Bonds offered hereunder.

The Series 2013A Bonds will not be registered under the Securities Act of 1933, as amended, nor will the Indenture be qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The Series 2013A Bonds have not been recommended by any federal or state securities commission or regulatory authority. Such commissions and authorities have not reviewed or passed upon the accuracy or adequacy of this Limited Offering Memorandum. The registration or qualification of the Series 2013A Bonds in accordance with the applicable provisions of securities laws of the jurisdictions in which the Series 2013A Bonds have been registered or qualified and the exemption therefrom in other jurisdictions cannot be regarded as a recommendation thereof by any such jurisdictions. Any representation to the contrary may be a criminal offense.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2013A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE. THE UNDERWRITER MAY OFFER AND SELL THE SERIES 2013A BONDS TO CERTAIN DEALERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE FRONT COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

The contents of this Limited Offering Memorandum are not to be construed as legal, business or tax advice. Prospective investors should consult their own attorneys and business and tax advisors as to legal, business and tax advice. In making an investment decision, prospective investors must rely on their own examination of the Participants, the Facilities and the terms of the offering of the Series 2013A Bonds, including the merits and risks involved. This Limited Offering Memorandum is not to be construed as a contract or agreement between the Issuer, the Program Facilitator, the Participants or the Underwriter and the purchasers or holders of any Series 2013A Bonds.

The Series 2013A Bonds involve a certain degree of risk, and information with respect to the Series 2013A Bonds should be carefully reviewed. In making an investment decision, investors in the Series 2013A Bonds must rely on their own independent investigations of the legal and financial aspects of the Series 2013A Bonds and the operations of the applicable Participants to determine if an investment in the Series 2013A Bonds is consistent with their investment objectives and to assess the creditworthiness, financial condition of the applicable Participants, status of compliance with the State and/or the City imposed standards of operations of such Participants in order to continue to receive payments of State and/or City funds, and financial condition of the State and/or the City and ability of the State and/or the City to continue sufficient appropriations to fund such Participants' operations, including the merits and risks involved with the foregoing. The Underwriter, the Program Facilitator and the Participants will be available to respond to inquiries and provide additional information to potential investors upon request to the Underwriter.

This Limited Offering Memorandum contains a general description of the Series 2013A Bonds, the Issuer and the Participants and sets forth certain provisions of the Indenture, the Loan Agreements, and the related Mortgage. The descriptions and summaries herein do not purport to be complete or definitive. All descriptions and summaries herein of the Indenture, the Loan Agreements, the related Mortgage, and the other agreements are qualified in their entirety by reference to such documents and agreements, and all summaries herein of the Series 2013A Bonds are qualified in their entirety by reference to the form thereof set forth in the Indenture. Persons interested in purchasing the Series 2013A Bonds should review carefully the Appendices attached hereto as well as copies of such documents, which are available upon request from the Underwriter.

All summaries of the provisions of the New York Constitution, statutes, legislative processes, the State Departments, the City Departments, funding and sources of funding, and federal statutes herein set forth are made subject to the detailed provisions thereof, to which reference is hereby made for further information, and such summaries do not purport to be complete or definitive statements of any or all of such provisions.

This Limited Offering Memorandum contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation whatsoever is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. So far as any statements herein involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

Certain statements included or incorporated by reference in this Limited Offering Memorandum constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act. Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget," "intend," "projection," or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information in Appendix A - "DESCRIPTION OF PARTICIPANTS." Such forward-looking statements speak only as of the date of this Limited Offering Memorandum.

Forward-looking statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the Participants. THE PARTICIPANTS DISCLAIM ANY OBLIGATION OR UNDERTAKING TO RELEASE PUBLICLY ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENT CONTAINED HEREIN TO REFLECT ANY CHANGE IN ANY OF THE PARTICIPANT'S EXPECTATIONS WITH REGARD THERETO OR ANY CHANGE IN EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED.

The order and placement or incorporation by reference of materials in this Limited Offering Memorandum, including the Appendices, are not to be deemed to be a determination of relevance, materiality or importance, and this Limited Offering Memorandum, including the Appendices, must be considered in its entirety.

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SUMMARY

The following material is qualified in its entirety by the detailed information and financial statements appearing elsewhere or incorporated by reference in this Limited Offering Memorandum and Appendices hereto.

- DATED:** The Series 2013A Bonds are dated their date of issuance.
- ISSUER:** Build NYC Resource Corporation, a not-for-profit local development corporation organized pursuant to the Not-For-Profit Corporation Law of the State of New York at the direction of the Mayor of The City of New York.
- PARTICIPANTS:** Each Participant is a nonprofit corporation and is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The Participants provide services to people with developmental disabilities and/or other special needs residing in The City of New York and have been licensed and authorized to provide such services under New York State statutes. (See Appendix A - "DESCRIPTION OF PARTICIPANTS" for a description of the services and programs, the financial condition and the results of operations of each Participant, Appendix B - "AUDITED FINANCIAL STATEMENTS OF PARTICIPANTS" and Appendix C - "UNAUDITED FINANCIAL INFORMATION OF PARTICIPANTS" for copies of certain recent financial statements of each Participant).
- FINANCING STRUCTURE:** The Series 2013A Bonds are being issued pursuant to the Indenture. Subject to conditions set forth in the Indenture, additional bonds may be issued pursuant to supplements to the Indenture (each a "Supplemental Indenture"). Except as provided in the Indenture and each such Supplemental Indenture, each subsequent series of bonds issued under the Indenture will be secured by the trust estate (the "Trust Estate") described in the Indenture.
- Prior to the delivery of the Series 2013A Bonds, each Participant will execute a Loan Agreement, which will be substantially similar to the Loan Agreement of each of the other Participants. Each Participant will be obligated under its Loan Agreement to make loan payments to the Trustee. In the aggregate, the Participants' loan payments will be in an amount sufficient to pay the principal (including sinking fund installments) or Redemption Price, if any, of and interest on the Series 2013A Bonds.
- The financing involves one "pooled" financing program for borrowers, i.e. the Participants, within The City of New York (the "Special Needs Facilities Pooled Program" or the "Pool"). The net proceeds of the Series 2013A Bonds (excluding any

accrued interest, delivery costs, capitalized interest and the reserve amounts) will be placed into separate accounts with the Trustee created under the Indenture (each a "Project Account") for the payment of certain costs of the Facilities of the Participants.

PURPOSE:

The net proceeds of the Series 2013A Bonds will be used (i) to finance, refinance or reimburse a portion of the cost of the acquisition and renovation of real property and attendant improvements, and the acquisition of equipment and other personal property, (ii) to fund a reserve account for the Series 2013A-1 Bonds under the Indenture, (iii) to capitalize interest on a portion of the Series 2013A Bonds and (iv) to pay a portion of the costs of issuance of the Series 2013A Bonds. (See "THE PARTICIPANTS" and Appendix A - "DESCRIPTION OF PARTICIPANTS").

THE SERIES 2013A BONDS:

The Series 2013A Bonds consist of \$5,640,000 aggregate principal amount of Series 2013A-1 Bonds maturing in the years 2018, 2023, 2028, 2033 and 2038 and \$265,000 aggregate principal amount of Series 2013A-2 Bonds maturing in the year 2015. (See "THE SERIES 2013A BONDS - Description of the Series 2013A Bonds" for details).

**OPTIONAL AND
MANDATORY CALLS:**

The Series 2013A-1 Bonds are subject to optional and mandatory call provisions, and the Series 2013A-2 Bonds are subject to mandatory call provisions. (See "THE SERIES 2013A BONDS - Redemption Provisions").

**PARTICIPANTS' SOURCES
OF REVENUE:**

The Participants' primary sources of revenue are revenues received from the State and the City on a contractual basis or an approved reimbursement basis with one or more State and/or City Departments. (See "SOURCES OF PARTICIPANT FUNDING" and "THE PARTICIPANTS").

As with all State and City agencies, the funding for these Departments is subject to annual appropriation by the State and/or the City. The Participants' principal sources of revenue with respect to the projects financed by the Series 2013A Bonds are revenues received from State appropriations from the following: the New York State Education Department, the New York State Office for People with Developmental Disabilities, New York City Department of Homeless Services, the New York State Office of Mental Health, the New York City Department of Health and Mental Hygiene and the New York City Board of Education. (See "SOURCES OF PARTICIPANT FUNDING").

SECURITY:

Each Participant's Loan Agreement is a full recourse, general obligation of the Participant. The Series 2013A Bonds (and any additional bonds issued under the applicable future Supplemental Indenture) will be secured, except as specifically provided in such Supplemental Indentures, by the Trust Estate under the Indenture.

Additional security for the repayment of the Series 2013A Bonds includes the following:

1. Lien and Mortgage on Facility Realty and Security Interest in Facility Personalty: Pursuant to the Mortgage, Eden II School for Autistic Children, Inc. ("Eden II") will grant a first mortgage (as more fully described herein under "SECURITY FOR THE SERIES 2013A BONDS") on its Facility Realty, the acquisition of which is refinanced with proceeds of the Series 2013A Bonds, subject to certain Permitted Encumbrances, and a first security interest (as against liens filed of record under the New York Uniform Commercial Code with the Secretary of State of New York and with the Office of the Richmond County Clerk), subject to certain Permitted Encumbrances, in certain property pertaining to or otherwise used in the operation of such Facility Realty, owned by Eden II to secure its obligations under or with respect to its allocable share of the Series 2013A Bonds, its Loan Agreement and any other Security Documents. Pursuant to filings under the New York Uniform Commercial Code, Institute for Community Living, Inc. ("ICL") will grant a first security interest in the Facility Personalty, the acquisition, improvement or renovation of which is financed or refinanced with proceeds of the Series 2013A Bonds (as against liens filed of record under the New York Uniform Commercial Code with the Office of the City Register, New York County) to secure its obligations under or with respect to its allocable share of the Series 2013A Bonds, its Loan Agreement and any other Security Documents. (See "THE PARTICIPANTS", "SECURITY FOR THE SERIES 2013A BONDS", "BONDHOLDERS' RISKS" and Appendix A – "DESCRIPTION OF PARTICIPANTS").

2. Debt Service Reserve Fund. A separate subaccount of the Tax-Exempt Bond Debt Service Reserve Account for each Participant has been established in the Debt Service Reserve Fund, held by the Trustee under the Indenture.

The Tax-Exempt Bond Debt Service Reserve Account will initially be funded with proceeds of the Series 2013A Bonds in an amount approximately equal to the least of (i) ten percent (10%) of the net proceeds of the Series 2013A-1 Bonds, (ii) the maximum annual principal and interest requirements of the Series 2013A-1 Bonds, or (iii) one hundred twenty-five percent (125%) of the average annual principal and interest requirements on the Series 2013A-1 Bonds, subject to certain further

limitations imposed by the Code. Such amount in the Tax-Exempt Bond Debt Service Reserve Account has been divided into subaccounts for each Participant pursuant to its proportional share of the Series 2013A-1 Bonds, and each such subaccount is only available with respect to payments due from the related Participant.

Money on deposit in each Tax-Exempt Debt Service Reserve Subaccount is to be used to pay any deficiency with respect to principal and interest payments pertaining only to the applicable Participant and the Series 2013A-1 Bonds, if and to the extent moneys are not available at the time such payments are due and payable; provided, however, that the Trustee may not transfer moneys in a Tax-Exempt Bond Debt Service Reserve Subaccount, with respect to a particular Participant, in an amount greater than such Participant's Tax-Exempt Bond Debt Service Reserve Subaccount Requirement. (See "SECURITY FOR THE SERIES 2013A BONDS" and Appendix A - "DESCRIPTION OF PARTICIPANTS" for the amount of each Participant's Tax-Exempt Bond Debt Service Reserve Subaccount).

3. Bond Fund. The Bond Fund under the Indenture is for the benefit of the holders of the Bonds to which the accounts therein pertain. The Bond Fund secures on a parity basis all Bonds (current and future) issued under the Indenture, except as otherwise expressly provided therein. The security interests granted or held for the payment of amounts owing under a Participant's Loan Agreement, including, but not limited to, any related Mortgage, are for the benefit solely of the obligations of such Participant under its Loan Agreement.

BONDHOLDERS' RISKS:

The Series 2013A Bonds involve a certain degree of investment risk. A prospective Bondholder is advised to read the entirety of this Limited Offering Memorandum, including the Appendices hereof, particularly the sections captioned "SOURCES OF PARTICIPANT FUNDING," "THE POOL," "SECURITY FOR THE SERIES 2013A BONDS" and "BONDHOLDERS' RISKS."

TABLE I

Participants and Their Respective Financings

<u>Participant</u>	<u>Series 2013A-1</u>	<u>Total Financing</u>
Eden II School for Autistic Children, Inc.		\$3,155,000
Institute for Community Living, Inc.		2,485,000

<u>Participant</u>	<u>Series 2013A-2 (Federally Taxable)</u>	<u>Total Financing</u>
Eden II School for Autistic Children, Inc.		\$150,000
Institute for Community Living, Inc.		115,000

TABLE II

Total Debt Service by Participant

FY Ending	Eden II School For Children, Inc.		Institute for Community Living, Inc.	
	Principal & Sinking Fund Installments	Interest	Principal & Sinking Fund Installments	Interest
6/30/2014		\$ 37,290		\$ 28,794
6/30/2015	\$ 65,000	181,413	\$125,000	140,081
6/30/2016	75,000	178,163	130,000	133,831
6/30/2017	70,000	174,413	140,000	127,331
6/30/2018	75,000	170,913	145,000	120,331
6/30/2019	80,000	167,163	155,000	113,081
6/30/2020	85,000	163,163	160,000	105,331
6/30/2021	90,000	158,700	170,000	96,931
6/30/2022	95,000	153,975	175,000	88,006
6/30/2023	100,000	148,983	180,000	78,819
6/30/2024	105,000	143,738	190,000	69,369
6/30/2025	105,000	138,225	200,000	59,394
6/30/2026	115,000	132,581	210,000	48,644
6/30/2027	120,000	126,400	220,000	37,356
6/30/2028	125,000	119,950	230,000	25,531
6/30/2029	130,000	113,231	245,000	13,169
6/30/2030	140,000	106,244		
6/30/2031	145,000	98,194		
6/30/2032	155,000	89,856		
6/30/2033	165,000	80,944		
6/30/2034	175,000	71,456		
6/30/2035	185,000	61,394		
6/30/2036	195,000	50,525		
6/30/2037	210,000	39,069		
6/30/2038	220,000	26,731		
6/30/2039	235,000	13,806		

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LIMITED OFFERING MEMORANDUM
relating to
\$5,905,000
BUILD NYC RESOURCE CORPORATION
REVENUE BONDS
(SPECIAL NEEDS FACILITIES POOLED PROGRAM)
\$5,640,000 Series 2013A-1 and
\$265,000 Series 2013A-2 (Federally Taxable)

INTRODUCTION

This Limited Offering Memorandum, which includes the cover page and the Appendices hereto, is being distributed in connection with the offering and sale of Build NYC Resource Corporation Revenue Bonds (Special Needs Facilities Pooled Program), Series 2013A, consisting of \$5,640,000 Series 2013A-1 Bonds and \$265,000 Series 2013A-2 Bonds (Federally Taxable) (collectively, the "Series 2013A Bonds") of Build NYC Resource Corporation (the Issuer"). The Issuer is a not-for-profit local development corporation created pursuant to the Not-For-Profit Corporation Law of the State of New York at the direction of the Mayor of The City of New York.

The Series 2013A Bonds are authorized to be issued under and pursuant to a resolution of the Issuer adopted on January 8, 2013, authorizing the issuance and sale of the Series 2013A Bonds, and an Indenture of Trust dated as of April 1, 2013 (the "Indenture") between the Issuer and The Bank of New York Mellon, as trustee (the "Trustee"). Pursuant to the Indenture, the Trustee also has been appointed as the Bond Registrar and Paying Agent for the Series 2013A Bonds.

The Series 2013A Bonds are being issued for the purpose of (i) financing, refinancing or reimbursing a portion of the cost of the acquisition and renovation of certain facilities (collectively, the "Facilities") within The City of New York for Eden II School for Autistic Children, Inc. and Institute for Community Living, Inc. (each a "Participant" and collectively, the "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 Facilities, (ii) making a deposit to each subaccount of the Tax-Exempt Bond Debt Service Reserve Account in an amount equal to each Participant's Tax-Exempt Bond Debt Service Reserve Subaccount Requirement and (iii) paying certain costs of issuance of the Series 2013A Bonds. Each of the Participants is a not-for-profit corporation organized and existing under the laws of the State of New York (the "State") and determined to be exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code").

The proceeds from the sale of the Series 2013A Bonds are being loaned to each Participant pursuant to a Loan Agreement dated as of April 1, 2013 (each a "Loan Agreement") between such Participant and the Issuer for the purposes described herein. Each Participant will be obligated under the Loan Agreement and the Promissory Note from each Participant to the Issuer and the Trustee (each a "Promissory Note") to make payments sufficient to pay its allocable portion of the principal or Redemption Price of, and interest on the Series 2013A Bonds, as and when the same become due. Each Loan Agreement is a general obligation of the respective Participant. The Loan Agreements in the aggregate require the payment of loan payments sufficient to provide for the payment of the principal (including sinking fund installments) or Redemption Price, if any, of, and interest on the Series 2013A Bonds as the same become due.

The payment of the principal (including sinking fund installments) or Redemption Price, if any, of, and interest on the Series 2013A Bonds will be payable solely from and secured by: (i) payments to be made to the Trustee by each applicable Participant under its Loan Agreement; (ii) as to Eden II, upon an event of default, by amounts realized pursuant to the Mortgage and Security Agreement (the "Mortgage")

dated as of April 1, 2013 from Eden II to the Issuer and the Trustee granting a mortgage lien on and security interest in its Mortgaged Property described therein, said Mortgage being assigned by the Issuer to the Trustee pursuant to the Assignment of Mortgage dated as of April 1, 2013 from the Issuer to the Trustee (the "Assignment of Mortgage"); (iii) as to ICL, upon an event of default, by amounts realized pursuant to its filings under the New York Uniform Commercial Code granting a first security interest in the Facility Personalty, described therein; (iv) certain funds and accounts established under the Indenture (other than the Rebate Fund) and investment income thereon; and (v) in certain instances from the proceeds of insurance and condemnation awards. Each Participant's Loan Agreement is a general obligation of such Participant. Although the Indenture provides for a Debt Service Reserve Fund as security for payment of the Series 2013A-1 Bonds, the Trustee may not transfer moneys from such Fund, due to a Participant's failure to make timely loan payments under its Loan Agreement, in an amount greater than such Participant's Tax-Exempt Bond Debt Service Reserve Subaccount Requirement established under the Indenture.

The Issuer's right to receive payments under the Loan Agreements (except for payments to the Issuer for its own account as more fully described herein) will be pledged to secure the payment of the Series 2013A Bonds.

THE PAYMENT OBLIGATIONS OF EACH PARTICIPANT UNDER ITS LOAN AGREEMENT ARE LIMITED TO THE AMOUNTS SPECIFIED IN ITS LOAN AGREEMENT. NO PARTICIPANT HAS ANY OBLIGATION TO MAKE ANY PAYMENT ON BEHALF OF ANY OTHER PARTICIPANT AND IS NOT LIABLE UNDER THE INDENTURE FOR ANY DEFAULT MADE BY ANY OTHER PARTICIPANT OR REPAYMENT OF MORE THAN ITS ALLOCABLE SHARE OF THE SERIES 2013A BONDS.

The forepart of this Limited Offering Memorandum contains brief descriptions of the Issuer, the Participants, the Program Facilitator, the Series 2013A Bonds, the Indenture, the Loan Agreements, the Promissory Notes, the Mortgage, and the Continuing Disclosure Agreement to be executed by each Participants on the date of issuance of the Series 2013A Bonds (the "Continuing Disclosure Agreement"). Additional information about the Participants is set forth in Appendix A. The audited financial statements of the Participants are included in Appendix B. Certain unaudited financial information with respect to the Participants are included in Appendix C. Certain of the defined terms used herein are set forth in Appendix D. Summaries of certain provisions of the Loan Agreements and the Indenture are included as Appendices E and E, respectively. The proposed form of opinion of Bond Counsel is included in Appendix G. The proposed form of the Continuing Disclosure Agreement is included in Appendix H.

All references herein to the Indenture, the Loan Agreements, the Promissory Notes and the Continuing Disclosure Agreement are qualified in their entirety by reference to such documents, and the description of the Series 2013A Bonds herein is qualified in its entirety by reference to the terms thereof and the information with respect thereto included in the Indenture and the Loan Agreements. All such descriptions are further qualified in their entirety by reference to laws relating to or affecting the enforcement of creditors' rights generally. Copies of the Indenture and the Loan Agreements may be obtained prior to the date of issuance of the Series 2013A Bonds from Municipal Capital Markets Group, Inc. (the "Underwriter") at its offices at 4851 LBJ Freeway, Dallas Texas 75244 and, on and after the date of issuance of the Series 2013A Bonds, from the Trustee at its offices at 101 Barclay Street, New York, New York 10286.

This introduction is subject in all respects to the additional information contained in this Limited Offering Memorandum, including Appendices A through H.

THE ISSUER

The Issuer, created in 2011, is a not-for-profit local development corporation organized pursuant to Section 1411 of the Not-For-Profit Corporation Law of the State of New York (the "State") at the direction of the Mayor of The City of New York (the "City"). The Issuer is not an agency of State or City government and is not subject to administrative direction by any department, commission, board or agency of the State or of the City. The Issuer is authorized by the Not-For-Profit Corporation Law of the State and the Issuer's Certificate of Incorporation to promote community and economic development and the creation of jobs in the non-profit and profit sectors for residents of the City by developing and providing programs for not-for-profit institutions, manufacturing and industrial businesses and other entities to access low interest tax-exempt and non-tax-exempt financing for their eligible projects.

The Issuer has offered and plans to offer other obligations from time to time to finance projects for other not-for-profit and, under certain circumstances, manufacturing and industrial businesses, with respect to facilities located in the City. Such obligations have been and will be issued pursuant to and secured by instruments separate and apart from the Indenture.

The Issuer has not prepared or assisted in the preparation of this Limited Offering Memorandum, except for statements under the sections captioned "THE ISSUER" and "ABSENCE OF LITIGATION-The Issuer" and, except as aforesaid, the Issuer is not responsible for any statements made in this Limited Offering Memorandum. Except for the execution and delivery of documents required to effect the issuance of the Series 2013A Bonds, the Issuer has not otherwise assisted in the public offer, sale or distribution of the Series 2013A Bonds. Accordingly, except as aforesaid, the Issuer disclaims responsibility for the disclosures set forth in this Limited Offering Memorandum or otherwise made in connection with the offer, sale and distribution of the Series 2013A Bonds.

The Series 2013A Bonds are special limited revenue obligations of the Issuer payable solely from the payments made by the Participants under the Loan Agreements and the Promissory Notes and from the Trust Estate, as described in the Indenture. Neither the Issuer nor its directors or officers are personally liable with respect to the Series 2013A Bonds. Accordingly, no financial information with respect to the Issuer or its directors or officers has been included in this Limited Offering Memorandum.

THE PARTICIPANTS

Descriptions of the Participants, their operations and the Facilities they will finance or refinance with the proceeds of the Series 2013A Bonds are set forth in Appendix A hereto, copies of the most recent audited financial statements for each of the Participants are set forth in Appendix B hereto and copies of recent unaudited financial information for each of the Participants are set forth in Appendix C. Prospective purchasers of the Series 2013A Bonds should carefully review Appendix A, Appendix B and Appendix C.

The Participants are not-for-profit corporations, organized and existing under the laws of the State. All of the Participants have received Section 501(c)(3) designations from the Internal Revenue Service (the "IRS") and as such qualify for exemption from certain federal income taxes. Typically, management of each 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 Participant's charitable purposes. When revenues are not sufficient to cover expenses, the 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 Participant typically serve without remuneration, though expenses associated with attendance at board meetings or other official board functions may be reimbursed.

Each of the Participants owns and/or leases and operates one or more facilities in the City, as identified in Appendix A, to provide services to individuals who are developmentally disabled or require other special needs. Each of the Participants has represented that it has the appropriate licenses and authority to provide its services under State statutes. The Participants all currently have one or more contracts or approved reimbursement arrangements with a State or City Department. Such contracts or arrangements have been typically for a period of one fiscal year. *No independent investigation or verification has been made of the status of compliance with the City, the State or each federal agency standards of licensing and operations of the Participants in order to continue to receive payments of City, the State 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 Participants. A careful review should be made of Appendix A, Appendix B and Appendix C to this Limited Offering Memorandum to determine the creditworthiness of each of the Participants.* See "SOURCES OF PARTICIPANT FUNDING" herein.

SOURCES OF PARTICIPANT FUNDING

The Office for People with Developmental Disabilities ("OPWDD"), formerly the Office of Mental Retardation and Developmental Disabilities, provides a portion of the revenues of the Participants through contracts and reimbursement arrangements for the provision of their services. Other significant government funding sources include the New York State Education Department through the New York City Board of Education, the New York State Department of Health through the New York City Department of Health and Mental Hygiene, the New York City Department of Homeless Services, and the New York State Office of Mental Health. The current methodology used by these agencies in determining the amounts to be paid to the Participants for provision of services is set forth below. Other government funding sources for one or more of the Participants are described in "Appendix A - Description of Participants."

New York State Office for People with Developmental Disabilities

OPWDD is responsible for coordinating services for more than 126,000 New Yorkers with developmental disabilities, including intellectual disabilities, cerebral palsy, Down syndrome, autism spectrum disorders, and other disabilities. It provides services directly and through a network of approximately 700 nonprofit "service provider" agencies, with about 80 percent of services provided by the nonprofit service provider agencies and 20 percent provided directly by the State. Although the community residential program statewide has grown from 9,000 community beds in 1980 to over 40,000 community beds in 2013, additional development of community services will be required to serve individuals needing out of home placement who cannot be served within the existing capacity. Funding for new services is distributed through a Request for Services process, and is targeted to the locally identified priority services and populations. Awards are based upon an agency's demonstrated ability to identify and serve the various priority populations.

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

Neither of the Facilities being financed or refinanced with the proceeds of the Series 2013A Bonds are eligible for Prior Property Approval through OPWDD.

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 nonprofit agencies.

The State-operated institutional system provides residential care and habilitative services to consumers at nine developmental centers and related special population units located throughout the State. OPWDD's 2011-2015 Comprehensive Plan includes plans to close the remainder of the developmental center through the placement of the 1,200 remaining individuals into community homes. The only remaining institutional facilities will be small, specialized forensic and behavioral units to serve individuals who require this level of care.

The OPWDD Budget for 2012-2013 reflects an increase of slightly over 1% in overall funding to OPWDD. It provides for new funding to provide 2,900 new opportunities for individuals to (i) be placed into community settings from developmental centers, and (ii) return from out-of-state residential school settings, as well as other respite, crisis, employment and community integration opportunities. In addition, the budget includes \$334 million over five years (including \$56 million this year) for enhanced fire safety efforts. OPWDD has found efficiencies in its state operations by consolidating certain back office functions, including purchasing, and reconfiguring its regional offices as described above. These savings will be reinvested in community services.

As a result of recent negotiations between the State and the U.S. Center for Medicaid & Medicare Services ("CMS") regarding a reduction in the total amount of Medicaid funds that are available to the State in State Fiscal Year 2013-14, OPWDD's available Medicaid funding for voluntary agencies will be reduced by approximately 4.5%. The reduction will not be administered as an across the board cut as Governor Cuomo announced that the cuts will be targeted towards agency administration costs and not funds committed to property (i.e., PPA dollars). The Commissioner of OPWDD also announced that OPWDD will work with provider association representatives and the Developmental Disabilities Advisory Council to discuss the development of targeted actions to address the reduction.

Population Statistics

The following are actual population statistics for the residential programs for the mentally retarded or the disabled provided by OPWDD. Consistent with its plan, the State Operated Developmental Center census as of December 31, 2012 was slightly over 1,000. (Source: OPWDD)

<u>Year</u> <u>(as of 3/31)</u>	<u>State-Operated</u> <u>Development</u> <u>Centers</u>	<u>Not-for-Profit</u> <u>Community</u> <u>Residences</u>
2007	1,700	37,500
2008	1,593	36,760
2009	1,500	37,500
2010	1,300	37,500
2011	1,300	39,000
2012	1,300	40,000

The appropriations made for the operations and costs of OPWDD for State Fiscal Years 2006-2007 through 2012-2013 are as follows (Source: OPWDD):

<u>Year</u>	<u>Aid to Localities</u>	<u>State Operations</u>	<u>Total Operations</u>
2006-2007	\$1,818,919,000	\$1,454,196,000	\$3,273,115,000
2007-2008	2,067,751,000	1,465,083,000	3,532,834,000
2008-2009	2,234,383,899	1,976,645,000	4,211,028,899
2009-2010	2,221,012,000	2,171,410,000	4,392,422,000
2010-2011	2,363,796,000	2,263,789,000	4,527,585,000
2011-2012	2,296,901,500	2,150,820,700	4,447,722,200
2012-2013	2,478,841,000	2,140,718,000	4,783,099,000

New York State Education Department

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

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

<u>State Fiscal Year</u>	<u>State Operations</u>	<u>Aid to Localities*</u>	<u>Capital Projects</u>	<u>Total State Appropriations</u>
2008-09	\$571,265,900	\$31,209,289,000	\$56,640,000	\$31,937,194,900
2009-10	575,463,000	32,242,405,000	20,800,000	32,838,668,000
2010-11	591,612,000	32,006,510,000	20,800,000	32,618,922,000
2011-12	566,868,000	49,459,817,000	17,400,000	50,044,085,000
2012-13	582,345,000	50,341,613,000	17,400,000	50,941,358,000

* Appropriations for Aid for Localities include two years of appropriations for State aid to school districts in 2011-12 and 2012-13.

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

The Nature of the Approval Process for Licensing or Authorizing Providers

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

1. Submission of program information forms including the documentation of regional need and sufficient evidence to establish that the proposed program will serve only those students who, because of the nature and severity of their disability, would require such a program;

2. Submission of a budget and financial statement information, including evidence that the school has enough capital or other financial resources, other than State or local sources of revenue, to be able to operate for at least a year;
3. A fire safety check by the New York State Division of Fire Prevention and Control for in-state private schools, and a State or local fire safety check for out-of-state schools; and
4. For schools operating as corporate entities, evidence of the following:
 - (a) for in-state not-for-profit schools, a charter or application for a charter from the Board, incorporating a school authorized to provide special education services;
 - (b) for in-state for-profit schools, approval by the Commissioner of the SED of the school's incorporation as a school for the provision of special education; or
 - (c) for out-of-state schools, a license or charter from the education agency of the State in which the school is located; and
 - (d) at least one onsite program review visit by program staff of the SED.

Final approval of schools which have had conditional approval:

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

*The Method and Frequency of the SED's Reimbursement to
New York City Board of Education*

Frequency of payments for a given school year:

Payments to private preschools and school age programs in contract with the New York City Department of Education are made according to the contract schedule, usually on a monthly basis.

Programs for School Age Children with Disabilities:

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

Programs for Preschool Children with Disabilities:

Payments for programs for preschool children with disabilities are made six times per year on alternating months beginning in March.

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

SED Special Education Programs

Children are entitled to special educational school services under the State Education Law Section 4410 (preschool, ages 3-5) and Chapter 853 (school age, ages 5-21) of the Laws of 1976, as amended. The government policy for the provision of services to eligible children has shifted from providing services only in segregated special education settings (i.e., where only children with disabilities attend) to providing the educational services in a full range of more integrated settings (i.e., children with disabilities and typically developing children), including day care, Head Start, and other forms of integrated settings. Therefore the school services provider which can offer the broadest choices of service models receives the most service referrals. Eden II receives substantial funding for special education programs from the SED.

New York City Board of Education

Non-Public Preschools and School Age Programs Operating under Section 4410 or Chapter 853 of the State Education Law and under Contract with the New York City Board of Education

Duly incorporated special education preschool providers apply to the SED for approval to provide special services or programs for children who are eligible for special education services under Section 4410 or Chapter 853 of the New York State Education Law. Upon approval from the SED, providers enter into contracts with the New York City Board of Education ("BOE"). The BOE utilizes a multi-year contract that is uniform for all providers. The conditions of the contract are negotiated between the BOE and the Contract Committee, which is composed of representatives of the two preschool trade associations. All contracted schools receive payment according to a schedule prescribed in the contract. Each non-public school provider has a specific tuition rate as established by the SED. The rates are reconciled annually against the actual expenditures. Providers are required to submit certified financial reports to the SED on an annual basis.

Placement Process for Preschool and School Age Children with Disabilities into Non-Public Schools

Section 4410 and Chapter 853 of New York State Education Law and Part 200 of the Commissioner's Regulations prescribe the process for the referral, evaluation, determination of eligibility for, and delivery of special services or programs for children with disabilities.

A child suspected of having a disability is referred to either the Committee on Preschool Special Education ("CPSE") or the Committee on Special Education (for school age children) ("CSE") and receives an individual evaluation and determination of eligibility for preschool special education services. The CPSE or the CSE, as applicable, then determines if the child has a disability such that she/he is eligible for special education programs and services, and if she/he is eligible, develops an Individualized

Education Program (“IEP”) for the child, recommending placement based upon the least restrictive environment appropriate for the child, consistent with the child’s IEP, with the appropriate provider.

New York City Department of Homeless Services

The mission of the Department of Homeless Services (“DHS”) is to prevent homelessness when possible and to provide short-term, emergency shelter for individuals and families who have no other housing options available. As an agency comprised of 2,000 employees, with an annual operating budget of approximately \$800 million, DHS is one of the largest organizations of its kind committed to preventing and addressing homelessness in the City. In order to accomplish its mission, DHS employs a variety of innovative strategies to help families and individuals successfully exit shelters and return to self-sufficiency as quickly as possible.

Collaborating with other public agencies and nonprofit partners, DHS works to prevent homelessness before it occurs, reduce street homelessness, and assist New Yorkers in transitioning from shelters into permanent housing. Furthermore, DHS remains committed to meeting its legal mandate to provide temporary emergency shelter to those experiencing homelessness in a safe and respectful environment. DHS requires shelter clients to gain employment, connect to work supports and other public benefits, save their income, and search for housing, to better prepare for independent living.

Employment-focused programs and prevention services are the cornerstones of the work at DHS. Through this approach, DHS focuses on the following critical objectives:

- To increase the number of households prevented from becoming homeless
- To reduce the number of individuals living on city streets
- To ensure the availability of temporary, emergency shelter for individuals and families with no other housing options available to them
- To increase client engagement and responsibility in moving to permanent housing
- To maintain shelter safety and sanitation
- To reduce clients' length of stay in shelters
- To ensure that those who exit shelters remain stably housed in the community

Temporary Housing Assistance

Governed by a unique right to shelter mandate, the City provides temporary emergency shelter to every person who is eligible for services every night. This policy sets the City apart from municipalities across the nation, many of which turn homeless individuals and families away once shelters have filled up or simply put their names on a waiting list. In order to meet its legal obligations, the DHS maintains an open-ended Request for Proposal (“RFP”) process, through which nonprofit social services providers submit proposals to open shelters in neighborhoods throughout the City, as needed to meet demand. Once a shelter proposal has been approved, DHS works with local Community Boards and offices of local elected officials to maintain regular and ongoing dialogue, and to address any community issues and concerns. At the same time, DHS asks New Yorkers to accept those who are sheltered in their community as neighbors — individuals and families in crisis who need the City’s assistance in overcoming a housing emergency.

New York City Department of Health and Mental Hygiene

The New York City Department of Health and Mental Hygiene's ("DMH") origins stem back to 1954, when New York State enacted the Community Mental Health Services Act, authorizing local communities in the State to establish community mental health boards and authorizing funding for local contracts with community-based mental health providers.

In response to the State action, in the same year, the City implemented the Community Mental Health Services Act through an amendment of the City Charter to establish the DMH and the New York City Community Mental Health Board.

In 1969 the New York City Community Mental Health Board was replaced by the establishment of the Department of Mental Health and Mental Retardation as a City agency. In 1971 alcoholism was added to the DMH's portfolio, thereby setting in place the three mental hygiene disabilities that the DMH is now responsible for.

Currently, the legal authority for the DMH derives from Article 41 of the State Mental Hygiene Law ("MHL"), which provides authority and State aid for the DMH's mental health, mental retardation and alcoholism contracts. Article 41 also mandates a local planning process for all three disabilities, mental health, mental retardation and alcoholism.

In January 1998, Mayor Giuliani proposed the merger of the DMH with the City's Department of Health. The merger, enacted in 2001, allowed the City to further integrate health initiatives that address the needs of New Yorkers with complex health and mental health needs. Additionally, this new public health agency administered the City's core health and mental hygiene programs, strengthened the Mayor's drug abuse initiative by ensuring access to drug treatment, and developed initiatives to better serve children and adolescents with complex health and mental hygiene problems.

In the mental hygiene area, the DMH projects about 115 contracts with non-profit service providers valued at \$622 million for fiscal year 2013, similar to prior years. These contracts serve an estimated 400,000 New Yorkers a year. The DMH also has 231 Early Intervention service provider agreements.

To some extent, the mental hygiene contracts of the DMH are subject to the provisions of the City's Procurement Policy Board ("PPB") rules, and new contracts are procured through either a RFP or a negotiated acquisition process.

However, many of the DMH's mental hygiene contracts are subject to rulings from OPWDD and DOH, the two State agencies that provide funding for the programs. These agencies have ruled that renewals of these contracts should not be subject to competitive procurement. These contracts are otherwise subject to the PPB rules.

Contracts in the mental hygiene area are on a net deficit basis, i.e., the DMH negotiates a budget with the service provider and typically requires the provider to count third-party income, e.g., Medicaid, towards that budget. However, for many of the unlicensed providers who are not Medicaid providers, the DMH's funding constitutes the entire funding for the program.

Early Intervention Program service providers are qualified by the DOH, and can either be for-profit or not-for-profit. Agencies with existing licenses under the MHL or the PHL are automatically eligible to participate as service providers in the Early Intervention Program. Agencies without existing licenses are qualified under Article 25 of the PHL to provide Early Intervention services only.

The DMH contracts with almost all agencies qualified through the State process. Moreover, as long as the agencies under contract with the Department for the provision of Early Intervention services remain in compliance with State licensing regulations and otherwise comply with City policy, they will remain as Early Intervention service providers in contract with the DMH.

Early Intervention service providers are paid on a fee-for-service basis by the DMH in accordance with DOH rates, depending on the nature of the particular visit on behalf of the eligible infant or toddler. The DMH employs a fiscal agent that pays these agencies and also claims Medicaid and other reimbursement for the services from the State.

New York State Office of Mental Health

The State's public mental health system is primarily a community-based system of care which serves approximately 715,000 adults, adolescents and children each year, of which less than 1 percent receive services in State-operated psychiatric hospitals. Like most state public mental health systems, it has evolved over the past several decades from a system which relied on State hospitals to deliver virtually all care for individuals with serious mental illness, to a less expensive model in which most services are delivered in the community. As documented in the Office of Mental Health Progress Report, 86 percent of those receiving mental health care use locally-operated mental health services, while the remaining 14 percent use direct State services.

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

The Office of Mental Health ("OMH") has a dual role in the State. As the lead governmental agency responsible for statewide oversight of all public mental health services, it oversees and regulates more than 4,500 mental health programs which are operated by local governments and nonprofit agencies. In addition, OMH is also a provider of inpatient and outpatient services, operating 18 adult psychiatric centers, six children's facilities, three forensic facilities and two research institutes. All OMH facilities are accredited by the New York Joint Commission on Accreditation of Healthcare Organizations and by the federal Centers for Medicare and Medicaid Services.

The State has transitioned to a substantial expansion of community-based services, including housing, case management and other supports, which have made the decrease in inpatient census possible. The existing community-based residential system currently supports almost 27,000 operating beds and another 4,100 beds are in various stages of planning and development.

The State continues to operate nearly 10% of the nation's state-operated psychiatric centers, and inpatient bed utilization also continues to exceed that of other mid-Atlantic states. Today, New York operates 24 State adult psychiatric centers, three of which serve forensic inmate-patients. With the number of people requiring inpatient psychiatric treatment only a fraction of the size it once was, there is no longer a need to continue operating this many facilities.

With an estimated adult inpatient census of less than 4,000 by the end of the 2013 State fiscal year, New York will continue to examine the role of State-operated inpatient care within the broader context of community-based treatment, rehabilitation and support services available in each area of the State.

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

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

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

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

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

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

The gross expenditures for the public mental health system operated, funded or licensed by OMH were approximately \$3.3 billion for 2012. Local programs accounted for the majority of these expenditures. This figure includes all expenditures in the public mental health system, whether financed through the OMH budget, through Medicaid, by third-party payors or other sources.

THE POOL

General

The Issuer, in conjunction with the Program Facilitator, has established a Pool for the issuance of the Series 2013A Bonds, the net proceeds of which will be disbursed to the Participants that satisfy the conditions of their Loan Agreements and will be used by such Participants for the purposes described in Appendix A hereto.

The Series 2013A Bonds are the first series of bonds being issued under the Issuer's Pool. The Issuer is financing the Facilities on behalf of two Participants with the proceeds of the Series 2013A Bonds from such Pool.

The Program Facilitator

The Interagency Council of Developmental Disabilities Agencies, Inc. (the "Program Facilitator") will act as the facilitator of the Pool. The Program Facilitator is a not-for-profit membership organization voluntarily supported by one hundred thirty not-for-profit service provider agencies that conduct business primarily in the City of New York metropolitan area, but also throughout the State, including the Participants. For its services, the Program Facilitator will be paid a fee of .25% of the principal amount of the Series 2013A Bonds at closing and will also receive an annual fee of .125% of all outstanding Series 2013A Bonds payable by the Participants.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of proceeds of the Series 2013A Bonds (exclusive of accrued interest):

Sources of Funds

Principal amount of Series 2013A-1 Bonds	\$5,640,000.00	
Net Original Issue Discount	<u>(45,321.60)</u>	
Principal amount of Series 2013A-2 Bonds	<u>265,000.00</u>	
Total Sources of Funds		<u>\$5,859,678.40</u>

Uses of Funds

Deposit into Tax-Exempt Bond Debt Service Reserve Account	\$ 488,448.25	
Deposit into Project Accounts	4,761,403.34	
Deposit into Capitalized Interest Account	175,666.93	
Deposit into Loan Payment Accounts	7,951.89	
Deposit into Costs of Issuance Account*	<u>426,207.99</u>	
Total Uses of Funds		<u>\$5,859,678.40</u>

THE SERIES 2013A BONDS

Description of the Series 2013A Bonds

The Series 2013A Bonds are being issued in the principal amounts, will mature on the dates and will bear interest at the rates per annum, all as set forth on the inside front cover page of this Limited Offering Memorandum. The Series 2013A Bonds will be issuable in fully registered book-entry-only form, without coupons, in minimum denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. Interest on the Series 2013A Bonds accrues from their date of issuance and is payable on July 1, 2013 and each January 1 and July 1 thereafter (or if such day is not a Business Day, the immediately succeeding Business Day) (each an "Interest Payment Date"). Interest on the Series 2013A Bonds will be calculated on the basis of a 360-day year of twelve 30-day months.

The principal or Redemption Price of the Series 2013A Bonds shall be payable to the registered owner in accordance with the Indenture at the designated corporate trust office of The Bank of New York Mellon in New York, New York, as Trustee and Paying Agent under the Indenture or at the designated corporate trust office of any successor Paying Agent, and interest shall be payable by check mailed to the registered owners of the Series 2013A Bonds as shown on the registration books kept by the Bond Registrar as of the close of business on the Record Date next preceding the Interest Payment Date. Interest payable to the registered owner of any one series of the Series 2013A Bonds in the aggregate principal amount of \$1,000,000 or more may, at the request of such registered owner, be paid by wire transfer on the Interest Payment Date, provided such owner submits a written request therefor to the Trustee not later than five Business Days before the applicable Record Date.

Notwithstanding the preceding paragraph, if and to the extent there shall be a default in the payment of the interest due on any Interest Payment Date, the defaulted interest shall be paid to the

* Includes Underwriter's discount.

owners in whose names the Series 2013A Bonds are registered at the close of business on the fifth Business Day next preceding the date of payment of the defaulted interest.

Redemption Provisions

Optional Redemption

The Series 2013A-1 Bonds allocable to a Participant are subject to redemption, on or after July 1, 2022, as a whole or in part on any Business Day at the option of the Issuer (which option shall be exercised upon the giving of notice by such Participant of its intention to prepay loan payments due under its Loan Agreement), at the Redemption Prices (expressed as percentages of unpaid principal amount of the Series 2013A-1 Bonds to be redeemed) set forth below, plus accrued interest to the redemption date:

<u>Redemption Period</u> <u>(both dates inclusive)</u>	<u>Redemption Price</u>
July 1, 2022 through June 30, 2023	101.00%
July 1, 2023 through June 30, 2024	100.50
July 1, 2024 and thereafter	100.00

The Series 2013A-2 Bonds are not subject to optional redemption.

Extraordinary Redemption

The Series 2013A Bonds allocable to a Participant are subject to redemption prior to maturity, at the option of the Issuer exercised at the direction of such Participant (which option shall be exercised only upon the giving of notice by such Participant of its intention to prepay loan payments due under its Loan Agreement), in whole on any Business Day (in the case of (y) an event described in clause (i) or (ii) below with respect to the last remaining Facility Component under its Loan Agreement or (z) an event described in clause (iii) below) or in part on any Interest Payment Date (in the case of an event described in clause (i) or (ii) below with respect to a Facility Component to the extent of the Net Proceeds received with respect thereto or, if no Net Proceeds, in an amount equal to the unpaid principal amount of the Series 2013A Bonds allocable to the affected Facility Component and to the extent that the affected Facility Component shall not be the last Facility Component remaining under its Loan Agreement), upon notice or waiver of notice as provided in the Indenture, at a Redemption Price of 100% of the unpaid principal amount thereof plus accrued interest to the date of redemption if one or more of the following events shall have occurred:

(i) A Facility Component of such Participant shall have been damaged or destroyed to such extent that, as evidenced by a certificate of an Independent Engineer filed with the Issuer and the Trustee, (a) such Facility Component cannot be reasonably restored within a period of one year from the date of such damage or destruction to the condition thereof immediately preceding such damage or destruction, (b) such Participant is thereby prevented or likely to be prevented from carrying on its normal operation at such Facility Component for a period of one year from the date of such damage or destruction, or (c) the restoration cost of such Facility Component would exceed the total amount of all insurance proceeds, including any deductible amount, in respect of such damage or destruction; or

(ii) Title to, or the temporary use of, all or substantially all of a Facility Component of such Participant shall have been taken or condemned by a competent authority which taking or condemnation results, or is likely to result, in such Participant being thereby prevented or likely to be prevented from carrying on its normal operation at such Facility Component for a period of one year from the date of such taking or condemnation, as evidenced by a certificate of an Independent Engineer filed with the Issuer and the Trustee; or

(iii) As a result of changes in the Constitution of the United States of America or of the State or of legislative or executive action of the State or any political subdivision thereof or of the United States of America or by final decree or judgment of any court after the contest thereof by such Participant, such Participant's Loan Agreement becomes void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed therein or unreasonable burdens or excessive liabilities are imposed upon such Participant by reason of the operation of its Facility.

Mandatory Sinking Fund Installment Redemption

The Series 2013A-1 Bonds shall be subject to mandatory redemption prior to maturity, in part by lot, at a Redemption Price equal to the principal amount thereof, together with accrued interest to the date of redemption, from mandatory Sinking Fund Installments on July 1 of the years and in the principal amounts set forth below, provided that the amounts of such Sinking Fund Installments shall be reduced by the credits provided for in the Indenture:

<u>Year</u>	<u>Sinking Fund Installment</u>	<u>Year</u>	<u>Sinking Fund Installment</u>
2014	\$ 5,000	2027	\$355,000
2015	125,000	2028†	375,000
2016	210,000	2029	140,000
2017	215,000	2030	150,000
2018†	230,000	2031	160,000
2019	240,000	2032	165,000
2020	255,000	2033†	175,000
2021	265,000	2034	185,000
2022	275,000	2035	200,000
2023†	290,000	2036	210,000
2024	305,000	2037	220,000
2025	320,000	2038†	235,000
2026	335,000		

†Final maturity.

The Series 2013A-2 Bonds shall be subject to mandatory redemption prior to maturity, in part by lot, at a Redemption Price equal to the principal amount thereof, together with accrued interest to the date of redemption, from mandatory Sinking Fund Installments on July 1 of the years and in the principal amounts set forth below, provided that the amounts of such Sinking Fund Installments shall be reduced by the credits provided for in the Indenture:

<u>Year</u>	<u>Sinking Fund Installment</u>
2014	\$190,000
2015†	75,000

†Final maturity.

Mandatory Redemption from Excess Proceeds and Certain Other Amounts

The Series 2013A-1 Bonds allocable to a Participant are also subject to mandatory redemption prior to maturity in whole on any Business Day or in part by lot on any Interest Payment Date in the event and to the extent (i) excess proceeds of the Series 2013A-1 Bonds allocable to such Participant shall

remain after the completion of such Participant's Facility, (ii) excess title insurance or property insurance proceeds or condemnation awards shall remain after the application thereof pursuant to the applicable Loan Agreement and the Indenture, (iii) excess proceeds shall remain after the release or substitution by such Participant of its Facility Realty or its Facility Personalty pursuant to its applicable Loan Agreement, (iv) undisbursed Series 2013A-1 Bond proceeds allocable to a certain Facility with respect to which such Participant shall have given notice of its intent to abandon such Facility pursuant to its Loan Agreement, or (v) certain campaign funds received by such Participant and earmarked for specific Project Costs shall remain and not be required for completion of such Participant's Facility or related Project Costs, in each case at a Redemption Price equal to one hundred percent (100%) of the principal amount of the Series 2013A-1 Bonds to be redeemed, together with interest accrued thereon to the date of redemption.

Mandatory Redemption Upon Occurrence of Certain Other Events

The Series 2013A Bonds allocable to a Participant are also subject to mandatory redemption prior to maturity, on any Interest Payment Date, at the option of the Issuer, as a whole only or, in the event the operation described in clause (i)(w) below or failure described in clause (ii) below affects only a specific Facility and the remaining Facilities are unimpaired, in part with respect to the affected Facility, in the event (i) the Issuer shall determine that (w) such Participant is not operating any of the Facilities or any portion thereof as an Approved Project Operation, (x) such Participant, any Principal of such Participant or any Person that directly or indirectly Controls, is Controlled by or is under common Control with such Participant has committed a material violation of a material Legal Requirement, (y) any Conduct Representation is false, misleading or incorrect in any material respect at any date, as if made on such date, or (z) a Required Disclosure Statement delivered to the Issuer under any Project Document is not acceptable to the Issuer acting in its sole discretion, or (ii) such Participant shall fail to obtain or maintain the liability insurance with respect to the Facilities required under its Loan Agreement, and, in the case of clause (i) or (ii) above, such Participant shall fail to cure any such default or failure within the applicable time periods set forth in its Loan Agreement following the receipt by such Participant of written notice of such default or failure from the Issuer and a demand by the Issuer on such Participant to cure the same. Any such redemption shall be made upon notice or waiver of notice to the Bondholders as provided in the Indenture, at the Redemption Price of one hundred percent (100%) of the unpaid principal amount of the Series 2013A Bonds required to be redeemed, together with interest accrued thereon to the date of redemption.

Mandatory Redemption Pursuant to Termination of Prime Lease.

In the event a Prime Lease relating to a leased Facility shall terminate or expire prior to the retirement by the affected Participant of the allocable principal portion of the Series 2013A Bonds issued to finance costs with respect to such leased Facility (the "Allocable Principal Portion"), the Series 2013A Bonds shall be subject to mandatory redemption prior to maturity on any Business Day in a principal amount equal to the unpaid principal amount of the Allocable Principal Portion at a Redemption Price equal to one hundred percent (100%) of the principal amount of such Series 2013A Bonds to be redeemed, together with interest accrued thereon to the date of redemption. Further, if such leased Facility shall be the only Facility subject to the related Loan Agreement, the unpaid principal portion of such Series 2013A Bonds Outstanding allocable to such Participant shall be redeemed in whole on any Business Day at a Redemption Price equal to one hundred percent (100%) of such unpaid principal amount, together with interest accrued thereon to the date of redemption. If such Series 2013A Bonds allocable to a Participant are to be redeemed in whole or in part as a result of the occurrence of the event described above, such Participant is required by its Loan Agreement to deliver to the Issuer and the Trustee a certificate of an Authorized Representative of such Participant stating that the Prime Lease has expired or terminated prior to the payment of the principal portion of such Series 2013A Bonds allocated to such leased Facility.

General Redemption Provisions.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2013A BONDS, ALL PAYMENTS OF PRINCIPAL OR REDEMPTION PRICE OF, SINKING FUND INSTALLMENTS FOR, AND INTEREST ON THE SERIES 2013A BONDS WILL BE MADE DIRECTLY TO DTC. DISBURSEMENT OF SUCH PAYMENTS TO DIRECT PARTICIPANTS (AS HEREINAFTER DEFINED) WILL BE THE RESPONSIBILITY OF DTC, AND DISBURSEMENT OF SUCH PAYMENTS TO BENEFICIAL OWNERS (AS HEREINAFTER DEFINED) WILL BE THE RESPONSIBILITY OF THE DIRECT PARTICIPANTS AND INDIRECT PARTICIPANTS (AS HEREINAFTER DEFINED). SEE "BOOK-ENTRY ONLY SYSTEM" HEREIN.

In the event of redemption of less than all the Outstanding Series 2013A Bonds of a series and maturity, the particular Series 2013A Bonds or portions thereof to be redeemed shall be selected by the Trustee from among Series 2013A Bonds of each maturity to be redeemed in \$5,000 increments in such manner as the Trustee in its discretion may deem fair and equitable, except that Series 2013A Bonds to be redeemed from Sinking Fund Installments shall be redeemed by lot, provided, however, that the Trustee shall not select Series 2013A Bonds for redemption which would result in a Holder with a principal amount of Series 2013A Bonds less than the minimum denomination to the extent practicable. In the event of a redemption of less than all the Outstanding Series 2013A Bonds of the same Series stated to mature on different dates, the principal amount of such Series of Series 2013A Bonds to be redeemed from a given maturity shall be selected by the Participant causing the redemption applied in inverse order of maturity, in consultation with the Program Facilitator, of the Outstanding Series of Series 2013A Bonds to be redeemed and by lot within a maturity, provided that in selecting the principal amount of Series 2013A Bonds to be redeemed from a given maturity, the Participant shall specifically designate in writing principal amounts so as to minimize the number of Series 2013A Bonds Outstanding in amounts of less than \$100,000. The portion of Series 2013A Bonds of any Series to be redeemed in part shall be in the principal amount of an Authorized Denomination thereof to the extent practicable and, in selecting Series 2013A Bonds of a particular Series for redemption, the Trustee shall treat each such Series 2013A Bond as representing that number of Series 2013A Bonds of such Series which is obtained by dividing the principal amount of such registered Series 2013A Bond by \$5,000 (referred to below as a "unit"). If it is determined that one or more, but not all, of the units of principal amount represented by any such Series 2013A Bond is to be called for redemption, then, upon notice of intention to redeem such unit or units, the Holder of such Series 2013A Bond shall forthwith surrender such Series 2013A Bond to the Trustee for (a) payment to such Holder of the Redemption Price of the unit or units of principal amount called for redemption and (b) delivery to such Holder of a new Series 2013A Bond or Series 2013A Bonds in the aggregate unpaid principal amount of the unredeemed balance of the principal amount of such Series 2013A Bond. New Series 2013A Bonds of the same maturity and series representing the unredeemed balance of the principal amount of such Series 2013A Bond shall be issued to the registered Holder thereof, without charge therefor. If the Holder of any such Series 2013A Bond of a denomination greater than a unit shall fail to present such Series 2013A Bond to the Trustee for payment and exchange as aforesaid, such Series 2013A Bond shall, nevertheless, become due and payable on the date fixed for redemption to the extent of the unit or units of principal amount called for redemption (and to that extent only).

When redemption of any Series 2013A Bond is requested or required pursuant to the Indenture, the Trustee shall give notice of such redemption in the name of the Issuer, specifying the name of the Series 2013A Bonds, CUSIP number, Series 2013A Bond numbers, the date of original issue of such Series 2013A Bonds, the date of mailing of the notice of redemption, maturities, interest rates and principal amounts of the Series 2013A Bonds or portions thereof to be redeemed, the redemption date, the Redemption Price, and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at the Trustee) and specifying the series and principal amounts of the Series 2013A Bonds or portions thereof to be payable and, if less than

all of the Series 2013A Bonds of any series and maturity are to be redeemed, the numbers of such Series 2013A Bonds or portions thereof to be so redeemed. Such notice shall further state that on such date there shall become due and payable upon each Series 2013A Bond or portion thereof to be redeemed the Redemption Price thereof together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice may set forth any additional information relating to such redemption. The Trustee, in the name and on behalf of the Issuer, shall mail a copy of such notice by first class mail, postage prepaid, not more than sixty (60) nor less than thirty (30) days prior to the date fixed for redemption, to the registered owners of any Series 2013A Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registration books, but any defect in such notice shall not affect the validity of the proceedings for the redemption of such Series 2013A Bonds with respect to which proper mailing was effected. Any notice mailed as provided in the Indenture and described above shall be conclusively presumed to have been duly given, whether or not the registered owner receives the notice. In the event of a postal strike, the Trustee shall give notice by other appropriate means selected by the Trustee in its discretion. If any Series 2013A Bond shall not be presented for payment of the Redemption Price within sixty (60) days of the redemption date, the Trustee shall mail a second notice of redemption to such Holder by first class mail, postage prepaid. Any amounts held by the Trustee due to non-presentation of Series 2013A Bonds for payments on or after any redemption date shall be retained by the Trustee for a period of at least one year after the final maturity date of such Series 2013A Bonds. Further, if any Holders of Series 2013A Bonds shall constitute registered depositories, the notice of redemption described in the first sentence of this paragraph shall be mailed to such Holders at least two (2) days prior to the mailing of such notice to all Holders.

If notice of redemption shall have been given as aforesaid, the Series 2013A Bonds called for redemption shall become due and payable on the redemption date; provided, however, that with respect to any optional redemption of the Series 2013A Bonds, such notice shall state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, redemption premium, if any, and interest on the Series 2013A Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and the Issuer shall not be required to redeem the Series 2013A Bonds. In the event that such notice of optional redemption contains such a condition and such moneys are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received. If a notice of optional redemption shall be unconditional, or if the conditions of a conditional notice of optional redemption shall have been satisfied, then upon presentation and surrender of the Series 2013A Bonds so called for redemption at the place or places of payment, such Series 2013A Bonds shall be redeemed.

Notice having been given in the manner provided in the Indenture and described above, the Series 2013A Bonds or portions thereof so called for redemption shall become due and payable on the redemption dates so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date. If, on the redemption date, moneys for the redemption of all the Series 2013A Bonds or portions thereof to be redeemed, together with interest to the redemption date, shall be held by the Paying Agents so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date, (i) interest on the Series 2013A Bonds or portions thereof so called for redemption shall cease to accrue and become payable, (ii) the Series 2013A Bonds or portions thereof so called for redemption shall cease to be entitled to any lien, benefit or security under the Indenture, and (iii) the Holders of the Series 2013A Bonds or portions thereof so called for redemption shall have no rights in respect thereof, except to receive payment of the Redemption Price together with interest accrued to the redemption date. If said moneys shall not be so available on the redemption date, such Series 2013A Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Transfer and Exchange of Series 2013A Bonds

Exchange of Series 2013A Bonds

The holder of the Series 2013A Bonds may surrender the Series 2013A Bonds, at the designated corporate trust office of the Trustee, in exchange for an equal aggregate principal amount of the Series 2013A Bonds of Authorized Denominations of the same maturity and series as the Series 2013A Bond surrendered, subject to the conditions and upon payment of the charges provided in the Indenture; provided, that if the Series 2013A Bonds surrendered shall be in an aggregate principal amount less than the minimum Authorized Denomination, the Series 2013A Bond surrendered may be transferred in whole only. However, the Trustee will not be required to (i) transfer or exchange any Series 2013A Bonds during the period between a Record Date and the following Interest Payment Date or during the period of fifteen (15) days next preceding any day for the mailing of notice of redemption of Series 2013A Bonds of such series to be redeemed, or (ii) transfer or exchange any Series 2013A Bonds selected, called or being called for redemption in whole or in part.

Transfer of Series 2013A Bonds

A Series 2013A Bond is transferable, as provided in the Indenture, only upon the books of the Issuer kept for that purpose at the designated corporate trust office of the Trustee by the registered owner thereof in person, or by his duly authorized attorney-in-fact, upon surrender of a Series 2013A Bond (together with a written instrument of transfer in the form appearing on a Series 2013A Bond duly executed by the registered owner or his duly authorized attorney-in-fact with a guaranty of the signature thereon by a member of the Stock Exchange Medallion Program or the New York Stock Exchange, Inc. Medallion Signature Program in accordance with Securities and Exchange Commission Rule 17Ad-15), and thereupon a new fully registered Series 2013A Bond in the same aggregate principal amount, series and maturity and interest rate shall be issued to the transferee in exchange therefor as provided in the Indenture and upon payment of the charges therein prescribed. The Issuer, the Participants, the Bond Registrar, the Trustee and any Paying Agent may deem and treat the Person in whose name a Series 2013A Bond is registered as the absolute owner thereof for the purpose of receiving payment of, or on account of, the principal or Redemption Price hereof, the Sinking Fund Installments therefor, and interest due thereon and for all other purposes whatsoever, and all payments made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such a Series 2013A Bond to the extent of the sum or sums so paid, and none of the Issuer, the Participants, the Bond Registrar, the Trustee or any Paying Agent shall be affected by any notice to the contrary.

Non-presentment of Series 2013A Bonds

In the event any Series 2013A Bond shall not be presented for payment when the principal thereof becomes due, either at maturity, or at the date fixed for redemption thereof, or otherwise, together with interest to the date on which principal is due, and funds sufficient to pay any such Series 2013A Bonds shall have been made available to the Trustee for the benefit of the Holder or Holders thereof, all liability of the Issuer to the Holder thereof for the payment of such Series 2013A Bonds shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Trustee to pay such funds to the Person entitled thereto or if the Person is not known to the Trustee, to hold such funds, without liability for interest thereon, for the benefit of the Holder of such Series 2013A Bonds, who shall thereafter be restricted exclusively to such funds, for any claim of whatever nature, on his part under the Indenture or on, or with respect to, such Series 2013A Bond. Such amounts so held shall, pending payment to the Holder of such Series 2013A Bond, (y) be subject to any rebate requirement as set forth in the Tax Regulatory Agreement or the Indenture, and (z) shall be uninvested, or, if invested, invested or re-invested only in Government Obligations maturing within thirty (30) days. Funds remaining with the Trustee as provided above and unclaimed for the earlier of two years or one month less than the applicable statutory escheat period shall be paid to the applicable Participant. After the payment of such

unclaimed moneys to the applicable Participant, the Holder of such Series 2013A Bonds shall thereafter look only to the applicable Participant for the payment thereof, and all obligations of the Trustee or Paying Agent with respect to such money shall thereupon cease.

Mutilated, Destroyed, Lost or Stolen Series 2013A Bonds

In case any Series 2013A Bond shall become mutilated or be destroyed, stolen or lost, the Issuer shall execute, and thereupon the Trustee shall authenticate and deliver, a new Series 2013A Bond of like Series, maturity, unpaid principal amount and interest rate as the Series 2013A Bond so mutilated, destroyed, stolen or lost, in exchange and substitution for such mutilated Series 2013A Bond, upon surrender and cancellation of such mutilated Series 2013A Bond, or in lieu of and in substitution for the Series 2013A Bond destroyed, stolen or lost, upon filing with the Trustee evidence reasonably satisfactory to it that such Series 2013A Bond has been destroyed, stolen or lost, and upon furnishing the Issuer and the Trustee with indemnity (an undertaking from an insurance company acceptable to the Trustee and the Issuer) satisfactory to the Trustee and to the Issuer and complying with such other reasonable regulations as the Trustee may prescribe and paying such expenses as the Issuer and the Trustee may incur.

DTC Book-Entry-Only System

The following description of the procedures and record-keeping with respect to beneficial ownership interests in the Series 2013A Bonds, payment of principal of, and premium, if any, and interest and other payments with respect to the Series 2013A Bonds to Direct Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Series 2013A Bonds and other related transactions by and among DTC, the Direct Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the Direct Participants nor the Beneficial Owners should rely on the following information with respect to such matters, but should instead confirm the same with DTC or the Direct Participants, as the case may be. Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter, the Issuer or the Participants.

DTC will act as securities depository for the Series 2013A Bonds. The Series 2013A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each stated maturity of each series of the Series 2013A Bonds, in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC and its Participants

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company

for DTC, the National Securities Clearing Corporation and the 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 S&P's rating of AA+. The DTC Rules applicable to DTC Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests

Purchases of the Series 2013A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2013A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2013A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2013A Bonds, except in the event that use of the book-entry-only system for the Series 2013A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2013A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2013A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices

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. Beneficial Owners of Series 2013A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013A Bonds, such as redemptions, defaults and proposed amendments to bond documents. For example, Beneficial Owners of Series 2013A Bonds may wish to ascertain that the nominee holding the Series 2013A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2013A Bonds within a maturity of a series 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. (or such other DTC nominee) will consent or vote with respect to the Series 2013A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an omnibus proxy to the Trustee 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 2013A Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Payments of Principal, Premium, if any, and Interest

Principal (including sinking fund installments), premium, if any, and interest payments with respect to the Series 2013A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee on a 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 Participants and Indirect Participants and not of DTC or its nominee, the Trustee, the Participants or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal (including sinking fund installments), premium, if any, and interest 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 shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to any series of the Series 2013A Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, the Series 2013A Bonds of such series are required to be authenticated and delivered as described in the Indenture.

If the Issuer would like to discontinue the use of the system of book-entry transfers of a series of Series 2013A Bonds issued by it through DTC (or a successor securities depository), the Issuer shall make such request of DTC (or a successor securities depository). Upon receipt of any such withdrawal request, (i) DTC will issue an Important Notice notifying its Direct Participants of the receipt of a withdrawal request from the Issuer reminding Direct Participants that they may utilize DTC's withdrawal procedures if they wish to withdraw their securities from DTC and (ii) DTC will process withdrawal requests submitted by Direct Participants in the ordinary course of business, but will not effectuate withdrawals based upon a request from the Issuer.

THE ISSUER, THE PARTICIPANTS AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO THE DIRECT PARTICIPANTS OR THAT THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 2013A BONDS (I) PAYMENTS OF PRINCIPAL OR PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2013A BONDS, (II) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN SERIES 2013A BONDS OR (III) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 2013A BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS LIMITED OFFERING MEMORANDUM.

NONE OF THE ISSUER, THE PARTICIPANTS OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE SERIES 2013A BONDS UNDER OR THROUGH DTC OR ANY DIRECT PARTICIPANT, OR ANY OTHER PERSON WHO IS NOT SHOWN IN THE REGISTRATION BOOKS OF THE ISSUER KEPT BY THE TRUSTEE AS BEING A BONDHOLDER. THE ISSUER, THE PARTICIPANTS AND THE

TRUSTEE SHALL HAVE NO RESPONSIBILITY WITH RESPECT TO (I) ANY OWNERSHIP INTEREST IN THE SERIES 2013A BONDS; (II) THE PAYMENT BY DTC TO ANY PARTICIPANT OR BY ANY DIRECT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2013A BONDS; (III) THE DELIVERY TO ANY PARTICIPANT OR ANY BENEFICIAL OWNER OF ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS UNDER THE INDENTURE; (IV) THE SELECTION BY DTC OR ANY PARTICIPANTS OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2013A BONDS; OR (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR CEDE & CO. AS BONDHOLDER.

SO LONG AS CEDE & CO. IS REGISTERED OWNER OF THE SERIES 2013A BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS OR REGISTERED OWNERS OF THE SERIES 2013A BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2013A BONDS.

Transfer Fees

For every transfer and exchange of Series 2013A Bonds, Owners requesting such transfer or exchange may be charged a sum sufficient to cover any tax, governmental charge or transfer fees that may be imposed in relation thereto, which charge may include transfer fees imposed by the Issuer, the Trustee, DTC or the DTC Participant in connection with such transfers or exchanges.

Use of Certain Terms in Other Sections of this Limited Offering Memorandum; Certain Disclaimers

In reading this Limited Offering Memorandum it should be understood that while the Series 2013A Bonds are in the Book-Entry-Only System, references in other sections of this Limited Offering Memorandum to registered owners should be read to include the person for which the DTC Participant acquires an interest in the Series 2013A Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Indenture will be given only to DTC.

Issuance of Additional Bonds

As provided in the Indenture and Loan Agreement, upon complying with certain prescribed conditions and upon the Issuer's sole discretion, one or more series of Additional Bonds for a particular series of the Series 2013A Bonds may be issued, executed, authenticated and delivered under the Indenture for the purpose of (i) completing any Facility, as applicable, (ii) providing funds in excess of the Net Proceeds to repair, relocate, replace, rebuild or restore any Facility in the event of damage, destruction or taking by eminent domain, (iii) providing extensions, additions or improvements to any Facility, or (iv) refunding Outstanding Bonds. In connection with the issuance of any Additional Bonds under the Indenture, (a) the Issuer and the applicable Participant shall enter into an amendment to the applicable Loan Agreement, and the applicable Participant shall execute a new Promissory Note, which shall provide, among other things, that the loan payments payable under such Loan Agreement and the aggregate amount to be paid under the Promissory Note shall be increased and computed so as to amortize in full the principal of and interest on such Additional Bonds and any other costs in connection therewith and (b) only if the loan payment obligations with respect to such Additional Bonds constitute Non-PPA Indebtedness for a Participant, such Participant shall deliver to the Trustee either (I) a certificate of such Participant's chief executive officer or chief financial officer demonstrating a Total Debt Service Coverage Ratio of not less than 1.25x for the most recent Fiscal Year for which audited financial statements exist or (II) a certificate of an independent certified public accountant not unacceptable to the Trustee demonstrating that the estimated Total Net Revenues Available for Debt Service for the first full Fiscal Year following the estimated completion of the capital additions or repairs

financed with the proceeds of such additional Non-PPA Indebtedness, or following the incurrence of Non-PPA Indebtedness for other purposes, will support a Total Debt Service Coverage Ratio of not less than 1.25x. In calculating the required ratios for a Participant, the independent certified public accountant shall take into account the Additional Bonds allocable to such Participant. In addition, each of the applicable Participants and the Issuer shall enter into an amendment to each Security Document to which they are a party which shall provide that the amounts secured thereunder be increased accordingly so as to secure the Additional Bonds. See Appendix F – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

SECURITY FOR THE SERIES 2013A BONDS

The following contains summaries of certain provisions of the Indenture, the Loan Agreements and the Mortgage. Reference is made to the Mortgage, the Loan Agreements and the Indenture themselves, copies of which are available from the Underwriter during the offering period, for a more complete description of such documents. The discussion herein is qualified by such references.

Pledge Under Indenture

Pursuant to the Indenture, the Issuer has assigned to the Trustee as security for the Series 2013A Bonds all right, title and interest of the Issuer in and to:

- (a) the Loan Agreements, including all loan payments, revenues and receipts payable or receivable thereunder, excluding, however, the Issuer's Reserved Rights, which rights may be enforced by the Issuer and the Trustee jointly or severally,
- (b) the Promissory Notes;
- (c) all moneys and securities from time to time held by the Trustee under the terms of the Indenture including amounts set apart and transferred to the Earnings Fund, the Project Fund, the Renewal Fund, the Bond Fund, the Debt Service Reserve Fund or any special fund, and all investment earnings of any of the foregoing, subject to disbursements from the Earnings Fund, the Debt Service Reserve Fund, the Project Fund, the Renewal Fund or any such special fund in accordance with the provisions of the Loan Agreements and the Indenture, provided there is expressly excluded from any assignment, pledge, lien or security interest any amounts set apart and transferred to the Rebate Fund and provided further that amounts held in the Debt Service Reserve Fund shall be held in trust in favor of the holders of the Series 2013A-1 Bonds only, and
- (d) any and all property of every kind and nature from time to time which by delivery or by writing of any kind is conveyed, mortgaged, pledged, assigned or transferred, as and for additional security under the Indenture, by the Issuer or by any other person, firm or corporation with or without the consent of the Issuer, to the Trustee.

Limited Obligations

THE SERIES 2013A BONDS ARE SPECIAL, LIMITED REVENUE OBLIGATIONS OF THE ISSUER, PAYABLE AS TO PRINCIPAL, REDEMPTION PRICE, IF APPLICABLE, AND INTEREST SOLELY FROM THE TRUST ESTATE. NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY, SHALL BE OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE, IF APPLICABLE, OF, OR INTEREST ON, THE SERIES 2013A BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE

OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY, IS PLEDGED TO SUCH PAYMENT OF THE SERIES 2013A BONDS. THE SERIES 2013A BONDS WILL NOT BE PAYABLE OUT OF ANY FUNDS OF THE ISSUER OTHER THAN THOSE PLEDGED THEREFOR PURSUANT TO THE INDENTURE. THE SERIES 2013A BONDS WILL NOT GIVE RISE TO A PECUNIARY LIABILITY OR CHARGE AGAINST THE CREDIT OR TAXING POWERS OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY. NO RECOURSE WILL BE HAD FOR THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE, IF APPLICABLE, OR, OR INTEREST ON, THE SERIES 2013A BONDS AGAINST ANY MEMBER, OFFICER, DIRECTOR, EMPLOYEE OR AGENT OF THE ISSUER. THE ISSUER HAS NO TAXING POWERS.

Security and Sources of Payment – General

The Series 2013A Bonds are payable by the Issuer solely from the loan payments received from each applicable Participant under its Loan Agreement and from the funds established under the Indenture (other than the Rebate Fund) and the investment income thereon (other than the Rebate Fund and investment income or money in the Rebate Fund). As security for its obligations under its Loan Agreement, Eden II will grant, mortgage and pledge to the Trustee and the Issuer pursuant to the Mortgage (as assigned by the Issuer to the Trustee) a first lien and security interest on and in its Facility, subject only to Permitted Encumbrances. As security for its obligations under its Loan Agreement, ICL will grant a first security interest in the Facility Personalty, the acquisition, improvement or renovation of which is financed or refinanced with proceeds of the Series 2013A Bonds. (See generally, “THE PARTICIPANTS” and “SOURCES OF PARTICIPANT FUNDING” for a discussion of some of the sources of the Participants’ State funding. See also “BONDHOLDERS’ RISKS,” Appendix A – “DESCRIPTION OF PARTICIPANTS” and Appendix E – “SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS.”)

In its Loan Agreement, each Participant agrees to make monthly loan and other payments, and the aggregate of such payments to be made by the Participants will be sufficient to pay the principal of, redemption premium, if any, Sinking Fund Installments and interest on the Series 2013A Bonds when due. Each Participant’s Loan Agreement and related Promissory Note are full recourse, general obligations of the Participant. The Issuer will assign to the Trustee all of its rights, title and interest in and to the Promissory Note and the Loan Agreements, including all loan payments thereunder, except for the Issuer’s Reserved Rights. The obligations of a Participant under its Loan Agreement may not be prepaid except in connection with the redemption or defeasance of a similar amount of the Series 2013A Bonds.

On the date of the initial delivery of each of the Series 2013A Bonds, an amount equal to the least of (i) ten percent (10%) of the net proceeds of the Series 2013A-1 Bonds, (ii) the maximum annual principal and interest requirements of the Series 2013A-1 Bonds, or (iii) one hundred twenty-five percent (125%) of the average annual principal and interest requirements on the Series 2013A-1 Bonds, will be deposited into the Debt Service Reserve Fund, held by the Trustee under the Indenture. Moneys deposited in the Debt Service Reserve Fund and all investments made therewith are to be held by the Trustee in trust for the benefit of holders of the Series 2013A-1 Bonds and as part of the Trust Estate under the Indenture. Subject to the limitations set forth in the Indenture, moneys in the Debt Service Reserve Fund are to be used to pay any deficiency with respect to interest, principal and Sinking Fund Installments of the Series 2013A-1 Bonds if and to the extent moneys are not available in the Interest Account, Principal Account and Sinking Fund Installment Account, as applicable, at the time such interest, principal and Sinking Fund Installments are due and payable. Although the Indenture provides for a Debt Service Reserve Fund as security for payment of the Series 2013A-1 Bonds, the Trustee may not transfer moneys from any Subaccount in such Fund, due to a Participant’s failure to make timely loan payments under its Loan Agreement, in an amount greater than such Participant’s Tax-Exempt Bond Debt Service Reserve Subaccount Requirement. See “Debt Service Reserve Fund” below.

Payments Under the Loan Agreements

The payments under each Loan Agreement are to be remitted directly to the Trustee for deposit in the applicable account(s) in the Bond Fund as provided in the Indenture. Pursuant to their respective Loan Agreements, the Participants are each obligated to pay on a monthly basis to the Trustee, for deposit to their respective Loan Payment Accounts in the Bond Fund, amounts required thereunder in order to accumulate therein by each January 1 and July 1 an aggregate amount necessary to pay interest and principal amount of the Series 2013A Bonds maturing or to be redeemed from Sinking Fund Installments on the next Interest Payment Date, principal payment date on the Series 2013A Bonds or Sinking Fund Installment payment date, as applicable. The Loan Agreements, including all loan payments, revenues and receipts payable or receivable thereunder, excluding, however, the Issuer's Reserved Rights, are pledged by the Issuer for the payment of the Series 2013A Bonds.

Funds Under the Indenture

The Indenture creates the following funds which are to be held by the Trustee: (i) the Project Fund; (ii) the Bond Fund; (iii) the Debt Service Reserve Fund; (iv) the Renewal Fund; (v) the Earnings Fund; and (vi) the Rebate Fund.

Project Fund

The Indenture requires the deposit, in the aggregate, into the Project Accounts in the Project Fund on the date of initial delivery of the Series 2013A Bonds of the amount set forth in "Estimated Sources and Uses of Proceeds – Deposit into Project Accounts." Money on deposit in a Participant's Project Account shall be used exclusively for the purpose of paying, or refinancing, or for reimbursements to, the Participant for the payment of the Project Cost related to the Project(s) of such Participant. With respect to those Projects that are not completed on the date of original issuance of the Series 2013A Bonds, upon the filing by a Participant of a completion certificate, the balance in such Participant's Project Account in excess of the amount, if any, stated in such certificate for the payment of any remaining part of the costs of such Participant's Project, shall, after making any transfers to the Rebate Fund, be deposited in the Redemption Account of the Bond Fund to be applied to the extent sufficient to the redemption of the Series 2013A-1 Bonds allocable to such Participant at the earliest practicable date. Upon payment of all the costs and expenses incident to the completion of such Participant's Project, any balance of such remaining amount in such Participant's Project Account, together with any amount on deposit in the Earnings Fund derived from transfers made thereto from the Project Fund, shall, after making any such transfer to the Rebate Fund, and after depositing to the Debt Service Reserve Fund an amount equal to any deficiency attributable to such Participant, be deposited to the Redemption Account of the Bond Fund to be applied to the extent sufficient to the redemption of the Series 2013A Bonds allocable to such Participant at the earliest practicable date as provided in the Indenture.

Bond Fund

Regular monthly loan payments made by each Participant shall be deposited by the Trustee into the Loan Payment Account established with respect to such Participant in the Bond Fund. On the Business Day before each Interest Payment Date, the Trustee shall transfer from each Participant's Loan Payment Account to the Interest Account, Principal Account and Sinking Fund Installment Account, as applicable, the interest, principal, and Sinking Fund Installment coming due on such Interest Payment Date on the Series 2013A Bonds allocable to such Participant. The amount on deposit in the Interest Account, Principal Account and Sinking Fund Installment Account shall be applied by the Trustee to the payment of interest, principal and Sinking Fund Installment coming due on such Interest Payment Date.

Debt Service Reserve Fund

Pursuant to the Indenture, a Debt Service Reserve Fund is to be established as security for the Series 2013A-1 Bonds. If on any Interest Payment Date or redemption date for the Series 2013A-1 Bonds the amount in the Interest Account of the Bond Fund available to pay interest on the Series 2013A-1 Bonds (after taking into account amounts available to be transferred to the Interest Account from the Project Fund) shall be less than the amount of interest then due and payable on the Series 2013A-1 Bonds, or if on any principal payment date for the Series 2013A-1 Bonds the amount in the Principal Account available to pay principal on the Series 2013A-1 Bonds shall be less than the amount of the principal of the Series 2013A-1 Bonds then due and payable, or if on any Sinking Fund Installment payment date for the Series 2013A-1 Bonds the amount in the Sinking Fund Installment Account of the Bond Fund available to pay Sinking Fund Installments on the Series 2013A-1 Bonds shall be less than the amount of the Sinking Fund Installment then due and payable on the Series 2013A-1 Bonds, after giving effect to all payments received by the Trustee in immediately available funds on such date from or on behalf of the Participants or the Issuer on account of interest, principal or Sinking Fund Installment on the Series 2013A-1 Bonds, the Trustee shall transfer moneys from the Subaccount of the Tax-Exempt Bond Debt Service Reserve Account in the Debt Service Reserve Fund allocable to the Participant to which such deficiency shall relate, first, to such Interest Account, second to such Principal Account, and third, to such Sinking Fund Installment Account, all to the extent necessary to make good any such deficiency; provided, however, any such moneys so transferred from a Subaccount in the Tax-Exempt Bond Debt Service Reserve Account shall only be applied to the payment of the Series 2013A-1 Bonds. Each Participant is obligated pursuant to its Loan Agreement to pay to the Trustee amounts relating to any deficiency in such Participant's Tax-Exempt Bond Debt Service Reserve Subaccount.

Renewal Fund

Net Proceeds resulting from any Loss Event with respect to a Participant's applicable Facility, together with any other amounts so required to be deposited therein under a Participant's Loan Agreement or such Participant's Mortgage, if any, shall be deposited in the Renewal Fund and applied to replace, rebuild or restore the affected Facility or be transferred to the Redemption Account of the Bond Fund to the extent the applicable Participant will not replace, rebuild or restore its Facility to be applied to the extent sufficient to the redemption of the Series 2013A Bonds allocable to such Participant at the earliest practicable date as provided in the Indenture.

Earnings Fund

All investment income or earnings on amounts held in a Participant's Project Account in the Project Fund, a Participant's Tax-Exempt Bond Debt Service Reserve Subaccount, a Participant's Account in the Renewal Fund or any other special Fund, Account or Subaccount created for the benefit of a Participant (other than the Rebate Fund or the Bond Fund) shall be deposited upon receipt by the Trustee into the Participant's Account in the Earnings Fund. Such amounts as directed by the Program Facilitator shall be transferred to the Rebate Fund to the extent available. Any amount remaining in such Participant's Account of the Earnings Fund following such transfer will be deposited into such Participant's Project Account of the Project Fund until completion of such Participant's Project and to such Participant's Loan Payment Account thereafter.

Rebate Fund

Under the Indenture, a Rebate Fund is established as a designated trust fund, and deposits will be made into this fund pursuant to each Participant's Loan Agreement and Tax Regulatory Agreement to satisfy any arbitrage rebate obligations of a Participant in accordance with the Code. Amounts deposited in the Rebate Fund shall not be subject to a security interest, pledge, assignment, lien or charge in favor of the Trustee or any Bondholder or any other Person.

For a further description of the Funds and Accounts established under the Indenture, see Appendix F – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Acceleration

If an Event of Default occurs and is continuing under a Loan Agreement, the Trustee, as and to the extent provided in the Indenture, may cause all principal installments of loan payments payable under such Loan Agreement for the remainder of its term to be immediately due and payable, together with accrued interest thereon. If an Event of Default occurs under a Loan Agreement as a result of a Participant’s seeking relief under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, all principal installments of loan payments payable under its Loan Agreement for the remainder of the term of such Loan Agreement, together with accrued interest thereon, shall immediately become due and payable without any further action. Any principal installments of loan payments payable under the applicable Loan Agreement collected while such installments are accelerated shall, after payment of any unpaid rebate amount allocable to such Participant in accordance with the Tax Regulatory Agreement and after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Bond Fund and applied to the prepayment of interest, unpaid principal or Redemption Price, if any, of the applicable Bonds as provided in the Indenture. See Appendix E – “SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS” and Appendix F – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” In addition to or in lieu of acceleration of the payment of principal installments of loan payments payable under a Loan Agreement, the Trustee may take other remedial steps, including foreclosure of the applicable Facility securing payment of such principal installment under the Mortgage. See Appendix E – “SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS” and Appendix F – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Mortgage

In order to secure its obligations, Eden II will grant to the Issuer and the Trustee pursuant to the Mortgage (as assigned pursuant to the Assignment of Mortgage from the Issuer to the Trustee) a first mortgage on and first security interest in its owned Facility as described therein. Prior to delivery of the Series 2013A Bonds to the original purchaser(s) thereof, Eden II will obtain mortgagee title insurance in an amount not less than its portion of the principal amount of the Series 2013A Bonds insuring the Trustee’s interest under the Mortgage as holder of a mortgage lien on the Facility, subject to Permitted Encumbrances.

The liens and security interest granted by the Mortgage are subject to Permitted Encumbrances. The pledge of and security interest in Eden II’s Facility as described in the Mortgage may also be limited by certain factors. See “BONDHOLDERS’ RISKS” herein.

The obligations of ICL under its Loan Agreement and its Promissory Note to pay amounts sufficient to pay principal (including sinking fund installments) or Redemption Price of and interest on its portion of the Section 2013A Bonds are not secured by a mortgage.

Collateral Assignment of Lease

In order to secure its obligations, ICL will collaterally assign to the Issuer and the Trustee pursuant to a Collateral Assignment of Lease (as assigned pursuant to the Assignment of Collateral Assignment of Lease from the Issuer to the Trustee) its right, title and interest (but not its obligations) in the lease for its Facility. The landlord under the lease will consent to such collateral assignment.

BONDHOLDERS' RISKS

General

The Series 2013A Bonds involve a certain degree of risk. Prospective investors in the Series 2013A Bonds should review all of the information in this Limited Offering Memorandum and information pertaining to the Participants incorporated herein by reference carefully prior to purchasing any of the Series 2013A Bonds. This Limited Offering Memorandum contains only summaries of the Indenture, the Loan Agreements and the related documents. Prospective investors are urged to read such documents in their entirety prior to investing in the Series 2013A Bonds. Copies of such documents may be obtained from the Underwriter prior to the issuance of the Series 2013A Bonds. In addition, prospective investors should carefully review Appendix A for a discussion of the financial condition and results of operations of the Participants, Appendix B for copies of the audited financial statements of the Participants and Appendix C for copies of recent unaudited financial information for each of the Participants.

Set forth below are certain risk factors, among others, that could adversely affect a Participant's operation and revenues and expenses of its Facilities to an extent which cannot be determined at this time. Such risk factors should be considered before any investment in the Series 2013A Bonds is made. These risk factors should not be considered definitive or exhaustive.

Special, Limited Obligations of Issuer

The Series 2013A Bonds are special limited revenue obligations of the Issuer payable solely from the payments made by the Participants under the Loan Agreements and the Promissory Notes and from the Trust Estate, as described in the Indenture. Neither the State nor any political subdivision thereof, including the City, shall be obligated to pay the principal or Redemption Price, if applicable, of, or interest on, the Series 2013A Bonds. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof, including the City, is pledged to such payment of the Series 2013A Bonds. The Series 2013A Bonds will not be payable out of any funds of the Issuer other than those pledged therefor pursuant to the Indenture. The Series 2013A Bonds will not give rise to a pecuniary liability or charge against the credit or taxing powers of the State or any political subdivision thereof, including the City. No recourse will be had for the payment of the principal or Redemption Price, if applicable, or, or interest on, the Series 2013A Bonds against any member, officer, director, employee or agent of the Issuer. The Issuer has no taxing powers.

Several Obligations of Participants

The obligations of each Participant under its Loan Agreement are independent of the obligations of the other Participants under their respective Loan Agreements. An Event of Default under any Loan Agreement or any other Security Document is an Event of Default under the Indenture; but shall only constitute an Event of Default with respect to the Series 2013A Bonds allocable to the Participant(s) that caused such Event of Default. If the Event of Default is caused by a Participant under the Indenture, its Loan Agreement or, if applicable, its Mortgage, the Trustee may declare the principal installments of loan payments payable under its Loan Agreement to be immediately due and payable or take any other remedies provided for in such documents. However, there is no assurance that any of the remedies undertaken will result in moneys sufficient to pay the then outstanding principal and interest (or other amounts due) with respect to the Series 2013A Bonds allocable to such Participant. In such event none of the Issuer, the Trustee, the Program Facilitator or any Bondholder will have any recourse to, claim against or right of contribution from non-defaulting Participants.

Reliance on Credit of the Participants

The Series 2013A Bonds, which have not been rated by a national rating agency or similar independent service, are being issued without credit enhancement in the form of a letter of credit, bond insurance or any other form. The holders of the Series 2013A Bonds must therefore rely exclusively upon the credit of each Participant for the repayment of the Series 2013A Bonds (and not the credit of the Issuer, the Trustee, the Underwriter, the State, the City or any other municipality of the State) for all payments due to them under the Series 2013A Bonds. The Holders of the Series 2013A Bonds must, therefore, exclusively rely upon their own evaluation of the credit of each applicable Participant. There can be no assurance that the operation by a Participant of any Facility will generate sufficient cash flow to enable such Participant to pay when due its obligations under its Loan Agreement, including payment of its applicable portion of the Series 2013A Bonds.

Absence of Credit Rating

No rating of the creditworthiness of the Series 2013A Bonds has been requested. Typically, unrated bonds lack liquidity in the secondary market in comparison with rated bonds. As a result of the foregoing, the Series 2013A Bonds are believed to bear interest at higher rates than would normally prevail for bonds with comparable maturities and redemption provisions that have investment grade credit ratings. Nevertheless, the Series 2013A Bonds should not be purchased by any investor who, because of financial condition, investment policies or otherwise, does not desire to assume or have the ability to bear the risks inherent in an investment of the Series 2013A Bonds with no likely ability to dispose of such investment.

Revenues of Participants

Future revenues of each Participant are dependent upon, among other things, legislative appropriations, State policy, the outcome of current and potential litigation and other conditions that are unpredictable, some of which are discussed below. The ability to pay principal of and interest on the Series 2013A Bonds depends upon the receipt by the Trustee of the loan payments under the Loan Agreements. A number of risks that could prevent the Trustee from receiving such amounts are failure of (i) the State or the City Legislature to approve sufficient appropriations for the purchase of services from the Participants; (ii) the State and the City to make timely payments to the Participants of appropriated amounts caused by revenue short falls or other State and local fiscal considerations; (iii) the Participants to fulfill their obligations which entitle them to receive payments; (iv) the Participants to receive the appropriate certifications from the required licensing or certifying entity(ies) to provide services as required; and/or (v) the Participants to obtain the renewal of their contracts. In addition, a Participant's license and/or certification may be revoked for failure to comply with standards of operation applicable to the Participant. The loan payment obligation of a Participant may be accelerated in the event of such Participant's default. In the event a Participant's loan payment obligation is accelerated due to a default, the Participant's Portion of the Series 2013A Bonds may likewise be accelerated. Bondholders will only be entitled to receive payment as provided in the Indenture to the extent of the moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture or any other Security Document, after payment of amounts, costs, expenses, liabilities and advances set forth in the Indenture.

Non-Asset Bonds

Up to two percent (2%) of the principal amount of the Series 2013A-1 Bonds and all of the principal amount of the Series 2013A-2 Bonds is normally applied toward the costs of issuance of the Series 2013A Bonds. Consequently, immediately following the issuance of the Series 2013A Bonds, it is possible that the value of the assets in the Trust Estate will be less than the principal amount of the Series 2013A Bonds by an amount equal to the cost of issuance paid with the Series 2013A Bond proceeds. The

proceeds of the Series 2013A Bonds held for the account of each Participant pending disbursement, plus investment earnings thereon, will not be sufficient to pay the obligations of the applicable Participant under its Loan Agreement.

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

Upon the issuance of any series of Additional Bonds, each of the applicable Participants and the Issuer shall enter into an amendment to each Security Document to which they are a party which shall provide that the amounts secured thereunder be increased accordingly so as to secure such series of Additional Bonds. Monies obtained from the exercise of default remedies under a Participant's Loan Agreement and related Security Documents (after the payment of costs and expenses and application of the balance, if any, in accordance with the Participant's Loan Agreement and the Indenture) will be applied as provided in the Indenture. A deficiency in the payment of loan payments by a Participant, with respect to which Additional Bonds were issued under the Indenture and that is not otherwise cured, will result in a principal and interest short-fall as to all series of Bonds outstanding and allocable to such defaulting Participant to the extent of the payment deficiency.

Value of Property Being Financed or Refinanced; Deficiency May Be Affected by Bankruptcy

There is no assurance that, in the event of a default by a Participant, the amount collected with respect to the exercise of default remedies (after payment of fees and expenses) will be sufficient to satisfy in full the Participant's loan payments then due. Any deficiency with respect to the payment of a Participant's loan payments (after application of amounts collected upon exercise of default remedies) will result in a deficiency in the payment of principal and interest on the Series 2013A Bonds. If the value of real property pledged by a Participant is less than the principal amount of such Participant's total loan payment obligation at the time of a bankruptcy proceeding, the security interest of the Trustee in such property is subject to the claims of creditors that the mortgaged indebtedness in excess of the fair market value of the 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.

Lack of Geographic Diversification

The greater the number of Participants and the more uniform the principal amount of their financings from the Series 2013A Bonds, the greater the diversification among the Participants in the Pool and the greater the distribution of any deficiency with respect to a payment default generally among the Participants. However, Participants are limited to Participants with Facilities in the City. Thus, Participants are geographically concentrated, and the Pool lacks geographic diversification.

Federal Medicaid/Medicare Reform

The Participants receive funds from Medicaid and Medicare. Future Medicaid or Medicare reform may materially affect the revenues received by the Participants.

Non-Appropriation of State and City Departments' Funds

The Participants are subject to federal, State and local actions, including, among others, actions by various State and City departments. The Series 2013A Bonds are payable from operating revenues of the Participants, which depend in large measure upon the appropriations of the State for the funds of the various State and City departments that have contracts with the Participants. HOWEVER, THE OBLIGATION OF THE VARIOUS STATE 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 and City Departments to disburse Medicaid reimbursements, and other State and City Departments to fund contracts of the 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 Participants to generate sufficient revenues from other sources (or have access to sufficient fund balances) to make the scheduled loan payments that are to be used by the Trustee to repay the Series 2013A Bonds, will materially adversely affect a Participant's ability to make its loan payments and, consequently, the repayment of the Series 2013A Bonds attributable to such Participant.

Enforceability of Remedies

The remedies available to the Trustee or the Bondholders upon an Event of Default under the Indenture, the Loan Agreements, or other Security Documents are in many respects dependent upon judicial actions that are often subject to discretion and delay. Under existing constitutional and statutory law, including specifically the United States Bankruptcy Code and the New York Real Property Actions and Procedures Law, and judicial decisions, the remedies permitted by the Indenture, the Loan Agreements, and the other Security Documents may not be readily available or may be limited. The various legal opinions delivered concurrently with the delivery of the Series 2013A Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by principles of equity and by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting the rights of creditors generally.

Completion of the Projects; Zoning; Certificate of Occupancy

There can be no assurance that a Participant's Project will be completed, or that such Project can be completed for the cost and within the time estimated by the Participant. Failure to complete a Participant's Facility constituting part of its Project or failure to complete such Facility on time and for the cost estimated by such Participant, could materially adversely affect the financial position of such Participant and the ability of the Participant to satisfy its loan payment obligations, and in the event of an abandonment of its Project could result in a mandatory redemption of a portion of the Series 2013A-1 Bonds. In addition, a Project may require special use permits, building permits, zoning variances, certificates of occupancy or compliance or other zoning approval (each, a "Certificate") from the City. Failure of a Participant to obtain appropriate certificates where the same are required would have a material adverse effect on such Participant's ability to utilize the Series 2013A Bond proceeds allocated to such Participant with respect to such Project, and could materially adversely affect the financial position of such Participant. In the event of the failure to complete a Project or the abandonment of a Project, a portion of the Series 2013A-1 Bonds equal to the unused proceeds of such series of Series 2013A-1 Bonds would be subject to mandatory redemption from such excess proceeds. (See "THE SERIES 2013A BONDS - Redemption Provisions"). Moreover, the failure of a Participant's Facility to receive a Certificate when required could materially adversely impact either the Participant's, the Trustee's or another party's right to use or occupy the Facility, before or after the exercise of default remedies.

The Eden II Project will utilize Series 2013A Bond proceeds for land acquisition only, with other funds being used for renovation, but such renovations are not a condition to the disbursal of the proceeds

of the Series 2013A Bonds. There is no Certificate of Occupancy for this Facility, but is anticipated to receive one upon completion.

It is anticipated that ICL will receive a Certificate of Completion (NYC Directive 14) upon completion of its Facility.

Insufficiency of Mortgage Foreclosure Proceeds; Environmental Impairment of Property

One of the Trustee's options under each Participant's Loan Agreement, and one of the Trustee's options under the Indenture, is to institute proceedings to enforce its lien and sell the Participant's Mortgaged Property in the event of a default under its Loan Agreement, its Mortgage or the Indenture. However, due to the limited uses for which a Participant's Mortgaged Property may be utilized, none of the Issuer, the Program Facilitator, the Trustee, the applicable Participant, or the Underwriter makes any assurances or representations that the Trustee will be able to sell a Participant's Mortgaged Property or, if such Mortgaged Property is sold, that the proceeds received upon a foreclosure or other sale, along with all moneys on deposit in the various funds of such Participant established under the Indenture, would be sufficient to pay in full the principal of, or interest on, the Series 2013A Bonds attributable to such defaulting Participant.

In exercising the rights of foreclosure under the Mortgage, the Trustee, in accordance with current commercial lending practices, may perform a Phase I Environmental Audit in the case of the Eden II Project, or Transaction Screen in the case of the ICL Project, 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 may conclude that it is not in the best interests of the Bondholders or the Trustee to foreclose on such property due to liability for removal of hazardous materials. In such an event, the Trustee may decline to exercise foreclosure rights with respect to Mortgaged Property under the Mortgage without specific instructions from Bondholders and receipt of funds, security and/or indemnity from the Bondholders reasonably satisfactory to the Trustee 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 2013A Bonds that would otherwise have been available absent the existence of such hazardous materials.

Another of the Trustee's options under a Participant's Loan Agreement, and another of the Trustee's options under the Indenture, is to institute proceedings to enforce its lien and sell the Participant's Facility Personalty in the event of a default under its Loan Agreement, the Mortgage or the Indenture. However, due to the limited uses for which a Participant's Facility Personalty may be utilized, none of the Issuer, the Program Facilitator, the Trustee, the applicable Participant, or the Underwriter makes any assurances or representations that the Trustee will be able to sell a Participant's Facility Personalty or, if such Facility Personalty is sold, that the proceeds received upon a sale, along with all moneys on deposit in the various funds of such Participant established under the Indenture, would be sufficient to pay in full the principal of, or interest on, the Series 2013A Bonds attributable to such defaulting Participant.

The obligations of ICL under its Loan Agreement and its Promissory Note to pay amounts sufficient to pay principal (including sinking fund installments) or Redemption Price of and interest on its portion of the Section 2013A Bonds are not secured by a mortgage.

Additional Indebtedness

Under its Loan Agreement, each Participant agrees that it will 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), whether or not issued under the Indenture, except for: (a) Indebtedness evidenced by Additional Bonds issued under the Indenture; (b) Indebtedness (other than for working capital, other than loan payments payable under loan agreements with the Issuer or other payments 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; (c) Indebtedness in the form of rentals under leases which are not required to be capitalized in accordance with generally accepted accounting principles; (d) 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 Facility; (e) Indebtedness secured solely by the Accounts Receivable of the Participant, subject to the limitations set forth under the heading "Grant of Additional Security Interests" below; and (f) Indebtedness the proceeds of which will be applied to a purpose consistent with the Participant's corporate purposes; provided, however, that prior to incurring any Non-PPA Indebtedness described in this clause (f), the Participant shall deliver to the Trustee either (i) a certificate signed by the chief executive officer or chief financial officer of the Participant demonstrating a Total Debt Service Coverage Ratio of 1.25x for the most recent Fiscal Year for which audited financial statements exist or (ii) a certificate of an independent certified public accountant not unacceptable to the Trustee demonstrating that the estimated Total Net Revenues Available for Debt Service for the first full Fiscal Year following the estimated completion of the capital additions or repairs financed with the proceeds of such additional Non-PPA Indebtedness, or following the incurrence of Non-PPA Indebtedness for other purposes, will support a Total Debt Service Coverage Ratio of not less than 1.25x. 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. It should be noted that a substantial portion of the Participants' Accounts Receivables are pledged to secure working capital lines of credit from their respective banks and may not be available for debt service on the applicable Series 2013A Bonds.

Grant of Additional Security Interests

A 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; provided, however that the amount of Indebtedness which may be secured by such a security interest shall not exceed, in the aggregate, an amount equal to ninety percent (90%) of such Participant's Accounts Receivable. To the extent that on each January 1, April 1, July 1 or October 1, a Participant is not in compliance with such limitation, such Participant has agreed in its Loan Agreement to use its best efforts to repay such outstanding Indebtedness in an amount which will put it in compliance with such limitation.

A Participant may also grant a subordinate mortgage as security (i) for bonds issued by the Issuer after the date of issuance of the Series 2013A Bonds, in an amount up to the amount approved by OPWDD pursuant to the Prior Property Approval process, for the purpose of financing the cost of renovating, constructing, equipping or completing a Facility, and any loan agreement or amendment to the applicable Loan Agreement between such Participant and the Issuer in connection with such financing; (ii) for a lender providing Accounts Receivable financing as described in the preceding paragraph; or (iii) securing other permitted indebtedness.

Early Redemption Without Premium or Penalty

Each Loan Agreement and the Indenture provide various conditions for disbursement of moneys to a Participant from its Project Account in the Project Fund. In the event that the conditions are not satisfied in accordance with the terms of such Loan Agreement or the Indenture, the funds available for one or more Projects of such Participant may be used instead to prepay, in whole or in part, the principal installments of loan payments due under such Loan Agreement, and such prepayment will be applied to redeem a corresponding principal amount of the Series 2013A-1 Bonds at a Redemption Price equal to one hundred percent (100%) of the principal amount of the Series 2013A-1 Bonds to be redeemed, together with interest accrued thereon to the date of redemption. In addition, the Series 2013A Bonds are subject to certain other extraordinary and mandatory redemption provisions, all of which are at a Redemption Price equal to one hundred percent (100%) of the unpaid principal amount of Series 2013A Bonds to be redeemed, together with interest accrued thereon to the date of redemption, and certain optional redemption provisions. (See "SECURITY FOR THE SERIES 2013A BONDS" and "THE SERIES 2013A BONDS - Redemption Provisions").

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 Participant is subject to various requirements affecting its operation. The failure of a Participant to maintain its tax-exempt status may affect the Participant's ability to receive funds from State and federal sources, which could adversely affect its ability to pay its principal installments of loan payments under its Loan Agreement. Further, a loss of a Participant's status as a Section 501(c)(3) organization, failure of a Participant to comply with certain legal requirements of the Code, or adoption of amendments to the Code applicable to such Participant that restrict the use of tax-exempt bonds for facilities such as one or more of its Facilities, could cause interest on the Series 2013A-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 Series 2013A-1 Bonds. The opinion of Bond Counsel to the Issuer and the description of the tax law contained in this Limited Offering Memorandum are based on statutes, judicial decisions, regulations, rulings, and other official interpretations of law in existence on the date the Series 2013A-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 Series 2013A-1 Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the Series 2013A-1 Bonds. (See "TAX MATTERS" below). The Series 2013A-1 Bonds are not subject to redemption, nor will the interest rate on the Series 2013A-1 Bonds be changed, if interest on the Series 2013A-1 Bonds is included in the gross income of the Bondholders or former Bondholders.

Risk of Audit by IRS

The IRS has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the IRS, 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 IRS will commence an audit of the Series 2013A-1 Bonds.

No Approval by New York State Supreme Court

Section 510 of the New York Not-For-Profit Corporation Law ("NFPCL") requires New York State Supreme Court approval of any "sale, lease, exchange or other disposition" of "all, or substantially all, the assets" of a not-for-profit corporation such as the Participants. Such approval was not sought in connection with the execution, delivery and performance by Eden II of the Mortgage or the pledges of assets and revenues that are contemplated by the Indenture. It is the opinion of counsel to the 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.

Specific Risks Related to Eden II Facility

Restrictive Covenant

Pursuant to the Declaration of Restrictive Covenant dated as of April 23, 2012 (the "Declaration"), Eden II has agreed that the Eden II Facility is subject to a restrictive deed covenant for a period of thirty (30) years during which time the Eden II Facility be used for the benefit of the people of the City (i) to operate a school for children with autism, provide services to adults with autism, provide family-based programs for supporting families with children with autism, and house administrative departments, and which is operated for the benefit of not-for-profit entities; (ii) for purposes ancillary and incidental to the foregoing uses provided that such ancillary and incidental purposes relate to, promote, and do not derogate from, use of the Eden II Facility for the purposes in clause (i) above; and (iii) for such other cultural, educational, artistic, community, social service or recreational use for the benefit of the people of the City as the City shall approve through the Mayor of the City or the Mayor's designee.

Use of Insurance Proceeds

Under the Declaration, Eden II has agreed that if the Eden II Facility is damaged or destroyed by fire or other casualty, ordinary or extraordinary, foreseen or unforeseen, Eden II shall restore the Eden II Facility to the extent and the value of, and to the extent reasonably practicable, the character of the Eden II Facility as it existed prior to said casualty such that the Eden II Facility can continue to be used in accordance with the restrictive covenant described above under "– Restrictive Covenant." Eden II is required to restore the Eden II Facility whether or not (i) such damage or destruction has been insured or was insurable, (ii) Eden II is entitled to receive any insurance proceeds or (iii) the insurance proceeds are sufficient to pay the costs of the restoration of the Eden II Facility. If after a fire or other casualty, the Eden II Facility cannot be repaired or restored so that the Eden II Facility can continue to be used in accordance with the restrictive covenant described above under "– Restrictive Covenant," unless the City agrees otherwise, the insurance proceeds shall be allocated between Eden II and the City as follows: (a) to the City, an amount equal to the funds disbursed by the City to Eden II and (b) the balance, if any, to Eden II. As a result of this provision, there may be insufficient insurance proceeds to repay Eden II's allocable share of the Series 2013A Bonds in the event of damage or destruction to the Eden II Facility.

Subordination of Mortgage

Under the Declaration, the Mortgage is subject to and subordinate to the Declaration in all respects. As a result of the restrictive covenant described above under "– Restrictive Covenant" and the subordination of the Mortgage to the Declaration, the proceeds received from a foreclosure of the Eden II Facility (which may be difficult to obtain because of such restrictive covenant) may be insufficient to repay Eden II's allocable share of the Series 2013A Bonds.

Environmental Risks

A Phase I Environmental Site Assessment (the "Phase I") was prepared by Environmental Building Solutions, LLC on January 29, 2013 with respect to the Eden II Facility. The Phase I states that the assessment revealed no evidence of recognized environmental conditions in connection with the Eden II Facility. It also notes that the initial construction of the Eden II Facility was in 1929 and therefore it identified asbestos containing materials and lead based paint as business risk issues.

Specific Risks Related to ICL Facility

In order to secure its obligations, ICL will collaterally assign to the Issuer and the Trustee pursuant to a Collateral Assignment of Lease (as assigned pursuant to the Assignment of Collateral Assignment of Lease from the Issuer to the Trustee) its right, title and interest (but not its obligations) in the lease for its Facility (the "Prime Lease"). The landlord under the Prime Lease has consented to such collateral assignment. Upon and during an uncured Event of Default under ICL's Loan Agreement, the Trustee (at the direction of the Directing Party) may direct the Program Facilitator to locate a new tenant to replace ICL with another operator (the "Replacement Tenant") which satisfies the requirements for an operator under ICL's Loan Agreement and the Prime Lease, unless such requirements are waived by the appropriate parties. The Replacement Tenant would assume ICL's liabilities and obligations under the Prime Lease and shall be subject to the landlord's approval, which approval shall not be unreasonably withheld or delayed. Notwithstanding the Collateral Assignment of Lease, ICL shall remain liable under the Prime Lease to perform all of its obligations thereunder. Certain practical and legal considerations, however, could inhibit or materially delay the ability to locate a Replacement Tenant for the ICL Facility, or otherwise preclude the receipt of sufficient revenues to repay ICL's allocable share of the Series 2013A Bonds.

TAX MATTERS

Series 2013A-1 Bonds

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Issuer, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2013A-1 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the Series 2013A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Issuer, each of the Participants, as applicable, the Program Facilitator, and others, and Bond Counsel has assumed compliance by the Issuer, and each of the Participants, as applicable, with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2013A-1 Bonds from gross income under Section 103 of the Code. In addition, in rendering its opinion, Bond Counsel has relied on the opinion of counsel to the Participants regarding, among other matters, the current qualifications of the Participants as organizations described in Section 501(c)(3) of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Series 2013A-1 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including the City.

Bond Counsel expresses no opinion regarding any other federal or state tax consequences with respect to the Series 2013A -1 Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Series 2013A-1 Bonds, or under state and local tax law on the Series 2013A -1 Bonds.

Reference is made to Appendix G hereto for the proposed forms of the approving opinions, in substantially final form, expected to be rendered by Hawkins Delafield & Wood LLP, Bond Counsel to the Issuer, in connection with the issuance of the Series 2013A Bonds.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2013A-1 Bonds in order that interest on the Series 2013A-1 be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2013A-1 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Series 2013A-1 Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Issuer, the Participants, and the Program Facilitator have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2013A-1 Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Series 2013A-1 Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Series 2013A-1 Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2013A-1 Bonds.

Prospective owners of the Series 2013A-1 Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Series 2013A-1 Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Series 2013A-1 Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Series 2013A-1 Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Series 2013A-1 Bonds is expected to be the initial public offering price set forth on the inside cover page of this Limited Offering Memorandum. Bond Counsel further is of the opinion that, for any Series 2013A-1 Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the Series 2013A-1 Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis

in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

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

Bond Premium

In general, if an owner acquires a Series 2013A-1 Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2013A-1 Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Series 2013A-1 Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements will apply to interest paid on tax-exempt obligations, including the Series 2013A-1 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2013A-1 Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2013A-1 Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s federal income tax once the required information is furnished to the IRS.

Miscellaneous

Tax legislation, administrative action taken by tax authorities, and court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2013A-1 Bonds under federal or state law or otherwise prevent beneficial owners of the Series 2013A-1 Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) and such decisions could affect the market price or marketability of the Series 2013A-1 Bonds.

Prospective purchasers of the Series 2013A-1 Bonds should consult their own tax advisors regarding the foregoing matters.

Series 2013A-2 Bonds

General

The following discussion is a summary of the principal United States federal income tax consequences of the acquisition, ownership and disposition of the Series 2013A-2 Bonds by original purchasers thereof who are U.S. Holders (as defined below). This summary is based on the Code, Treasury regulations, revenue rulings and court decisions, all as now in effect and all subject to change at any time, possibly with retroactive effect. This summary assumes that the Series 2013A-2 Bonds will be held as “capital assets” under the Code, and it does not discuss all of the United States federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding any Series 2013A-2 Bonds as a position in a “hedge” or “straddle” for United States federal income tax purposes, holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, holders who acquire the Series 2013A-2 Bonds in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code. Each prospective purchaser of the Series 2013A-2 Bonds should consult with its own tax advisor concerning the United States federal income tax and other tax consequences to it of the acquisition, ownership and disposition of the Series 2013A-2 Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

As used herein, the term “U.S. Holder” means a beneficial owner of a Series 2013A-2 Bond that is for United States federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

U.S. Holders – Interest Income

In the opinion of Bond Counsel, under existing statutes, interest and original issue discount (as defined below) on the Series 2013A-2 Bonds (i) are included in gross income for United States federal income tax purposes and (ii) are exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including the City.

Original Issue Discount

For United States federal income tax purposes, a Series 2013A-2 Bond will be treated as issued with OID if the excess of a Series 2013A-2 Bond’s “stated redemption price at maturity” over its “issue price” equals or exceeds a statutorily determined *de minimis* amount. The “issue price” of each Series

2013A-2 Bond in a particular issue equals the first price at which a substantial amount of such issue is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The "stated redemption price at maturity" of a Series 2013A-2 Bond is the sum of all payments provided by such Series 2013A-2 Bond other than "qualified stated interest" payments. The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate. In general, if the excess of a Series 2013A-2 Bond's stated redemption price at maturity over its issue price is less than 0.25 percent of the Series 2013A-2 Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity (the "de minimis amount"), then such excess, if any, constitutes de minimis OID, and the Series 2013A-2 Bond is not treated as being issued with OID and all payments of stated interest (including stated interest that would otherwise be characterized as OID) is treated as qualified stated interest, as described below.

Payments of qualified stated interest on a Series 2013A-2 Bond are taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received in accordance with the U.S. Holder's regular method of tax accounting. A U.S. Holder of a Series 2013A-2 Bond having a maturity of more than one year from its date of issue generally must include OID in income as ordinary interest as it accrues on a constant-yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder's regular method of tax accounting. The amount of OID included in income by the U.S. Holder of a Series 2013A-2 Bond is the sum of the daily portions of OID with respect to such Series 2013A-2 Bond for each day during the taxable year (or portion of the taxable year) on which such U.S. Holder held such Series 2013A-2 Bond. The daily portion of OID on any Series 2013A-2 Bond is determined by allocating to each day in any "accrual period" a ratable portion of the OID allocable to the accrual period. All accrual periods with respect to a Series 2013A-2 Bond may be of any length and the accrual periods may vary in length over the term of the Series 2013A-2 Bond, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first or final day of an accrual period. The amount of OID allocable to an accrual period is generally equal to the difference between (i) the product of the Series 2013A-2 Bond's "adjusted issue price" at the beginning of such accrual period and such Series 2013A-2 Bond's yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Series 2013A-2 Bond at the beginning of any accrual period is the issue price of the Series 2013A-2 Bond plus the amount of accrued OID includable in income for all prior accrual periods minus the amount of any prior payments on the Series 2013A-2 Bond other than qualified stated interest payments. The amount of OID allocable to an initial short accrual period may be computed using any reasonable method if all other accrual periods other than a final short accrual period are of equal length. The amount of OID allocable to the final accrual period is the difference between (i) the amount payable at the maturity of the Series 2013A-2 Bond (other than a payment of qualified stated interest) and (ii) the Series 2013A-2 Bond's adjusted issue price as of the beginning of the final accrual period. Under the OID rules, U.S. Holders generally will have to include in income increasingly greater amounts of OID in successive accrual periods.

A U.S. Holder may elect to include in gross income all interest that accrues on a Series 2013A-2 Bond using the constant-yield method described above under the heading "Original Issue Discount," with the modifications described below. For purposes of this election, interest includes, among other things, stated interest, OID and de minimis OID, as adjusted by any amortizable bond premium described below under the heading "Bond Premium." In applying the constant-yield method to a Series 2013A-2 Bond with respect to which this election has been made, the issue price of the Series 2013A-2 Bond will equal its cost to the electing U.S. Holder, the issue date of the Series 2013A-2 Bond will be the date of its acquisition by the electing U.S. Holder, and no payments on the Series 2013A-2 Bond will be treated as payments of qualified stated interest. The election will generally apply only to the Series 2013A-2 Bond

with respect to which it is made and may not be revoked without the consent of the IRS. If this election is made with respect to a Series 2013A-2 Bond with amortizable bond premium, then the electing U.S. Holder will be deemed to have elected to apply amortizable bond premium against interest with respect to all debt instruments with amortizable bond premium (other than debt instruments the interest on which is excludable from gross income) held by the electing U.S. Holder as of the beginning of the taxable year in which the Series 2013A-2 Bond with respect to which the election is made is acquired or thereafter acquired. The deemed election with respect to amortizable bond premium may not be revoked without the consent of the IRS.

U.S. Holders of any Series 2013A-2 Bonds issued with OID should consult their own tax advisors with respect to the treatment of OID for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, and disposition of Series 2013A-2 Bonds.

Bond Premium

In general, if a U.S. Holder acquires a Series 2013A-2 Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2013A-2 Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Series 2013A-2 Bond (a "Taxable Premium Bond"). In general, if a U.S. Holder of a Taxable Premium Bond elects to amortize the premium as "amortizable bond premium" over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond), the amortizable premium is treated as an offset to interest income; the U.S. Holder will make a corresponding adjustment to such holder's basis in the Taxable Premium Bond. Any such election applies to all debt instruments of the U.S. Holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired, and is irrevocable without the IRS's consent. A U.S. Holder of a Taxable Premium Bond that so elects to amortize bond premium does so by offsetting the qualified stated interest allocable to each interest accrual period under the U.S. Holder's regular method of federal tax accounting against the bond premium allocable to that period. If the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is treated as a bond premium deduction under Section 171(a)(1) of the Code, subject to certain limitations. If a Taxable Premium Bond is optionally callable before maturity at a price in excess of its stated redemption price at maturity, special rules may apply with respect to the amortization of bond premium. Under certain circumstances, the U.S. Holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the U.S. Holder's original acquisition cost.

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

U.S. Holders – Disposition of Series 2013A-2 Bonds

Except as discussed above, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Series 2013A-2 Bond, a U.S. Holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such U.S. Holder's adjusted tax basis in the Series 2013A-2 Bond. A U.S. Holder's adjusted tax basis in a Series 2013A-2 Bond generally will equal such U.S. Holder's initial investment in the Series 2013A-2 Bond, increased by any

OID included in the U.S. Holder's income with respect to the Series 2013A-2 Bond and decreased by the amount of any payments, other than qualified stated interest payments, received and bond premium amortized with respect to such Series 2013A-2 Bond. Such gain or loss generally will be long-term capital gain or loss if the Series 2013A-2 Bond was held for more than one year.

U.S. Holders – Defeasance

U.S. Holders of the Series 2013A-2 Bonds should be aware that, for federal income tax purposes, the deposit of moneys or securities in escrow in such amount and manner as to cause the Series 2013A-2 Bonds to be deemed to be no longer outstanding under the Indenture (a "defeasance"), could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, for federal income tax purposes, the character and timing of receipt of payments on the Series 2013A-2 Bonds subsequent to any such defeasance could also be affected. U.S. Holders of the Series 2013A-2 Bonds are advised to consult with their own tax advisors regarding the consequences of a defeasance for federal income tax purposes, and for state and local tax purposes.

U.S. Holders – Backup Withholding and Information Reporting

In general, information reporting requirements will apply to non-corporate U.S. Holders with respect to payments of principal, payments of interest, and the accrual of OID on a Series 2013A-2 Bond and the proceeds of the sale of a Series 2013A-2 Bond before maturity within the United States. Backup withholding at a rate of 28% for the years 2003-2010 and at a rate of 31% for the year 2011 and thereafter, will apply to such payments and to payments of OID unless the U.S. Holder (i) is a corporation or other exempt recipient and, when required, demonstrates that fact, or (ii) provides a correct taxpayer identification number, certifies under penalties of perjury, when required, that such U.S. Holder is not subject to backup withholding and has not been notified by the IRS that it has failed to report all interest and dividends required to be shown on its United States federal income tax returns.

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

IRS Circular 230 Disclosure

The advice under the caption "Series 2013A-2 Bonds" concerning certain income tax consequences of the acquisition, ownership and disposition of the Series 2013A-2 Bonds, was written to support the marketing of the Series 2013A-2 Bonds. To ensure compliance with requirements imposed by the IRS, each prospective purchaser of the Series 2013A-2 Bonds is advised that (i) any federal tax advice contained in this Limited Offering Memorandum (including any attachments) or in writings furnished by Bond Counsel to the Issuer is not intended to be used, and cannot be used by any bondholder, for the purpose of avoiding penalties that may be imposed on the bondholder under the Code, and (ii) the bondholder should seek advice based on the bondholder's particular circumstances from an independent tax advisor.

Miscellaneous

Tax legislation, administrative action taken by tax authorities, and court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2013A-2 Bonds under state law or otherwise prevent the beneficial owners of the Series 2013A-2 Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) and such decisions could affect the market price or marketability of the Series 2013A-2 Bonds.

Prospective purchasers of the Series 2013A-2 Bonds should consult their own tax advisors regarding the foregoing matters.

See "Appendix G – PROPOSED FORM OF OPINION OF BOND COUNSEL."

UNDERWRITING

The Series 2013A Bonds are being purchased by Municipal Capital Markets Group, Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Series 2013A Bonds from the Issuer at a purchase price of \$5,682,528.40 (which amount represents the principal amount of the Series 2013A Bonds less net original discount of \$45,321.60 less the Underwriter's discount of \$177,150.00). The obligation of the Underwriter to accept delivery of the Series 2013A Bonds is subject to various conditions contained in the Bond Purchase Agreement. The Underwriter will be obligated to purchase all Series 2013A Bonds if any Series 2013A Bonds are purchased. The Series 2013A Bonds may be offered and sold to certain dealers (including dealers depositing such Series 2013A Bonds into investment trusts) at prices lower than the public offering prices set forth on the inside front cover page of this Limited Offering Memorandum, and such public offering prices may be changed, from time to time, by the Underwriter. Municipal Capital Markets Group, Inc. may also assist the Participants in connection with the investment of the proceeds of the Series 2013A Bonds and may earn a fee in that capacity, independent of its role as Underwriter.

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

LEGAL MATTERS

Legal matters in connection with the authorization, issuance and sale of the Series 2013A Bonds are subject to the approving opinion of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Issuer, which opinion will be substantially in the form included in Appendix G attached hereto. Certain legal matters will be passed upon for the Issuer by Richard E. Marshall, Esq., its Vice President for Legal Affairs, and for the Participants by Cullen and Dykman LLP, Albany, New York. Certain legal matters will be passed upon for the Underwriter by its counsel, McCarter & English, LLP, New York, New York and Newark, New Jersey.

The various legal opinions and/or certifications to be delivered concurrently with the delivery of the Series 2013A Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion and/or certification, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or the future performance of parties to the transaction. The rendering of an opinion and/or certification does not guarantee the outcome of any legal dispute that may arise out of the transaction.

ABSENCE OF LITIGATION

The Issuer

There is not now pending any litigation of which the Issuer has notice restraining or enjoining the issuance or delivery of the Series 2013A Bonds or questioning or affecting the validity of the Series 2013A Bonds or the proceedings and authority under which the Series 2013A Bonds are to be issued or the validity or enforceability of the Security Documents. Neither the creation, organization or existence of the Issuer, nor the title of the present directors or other officials of the Issuer to their respective offices, is, to the best knowledge of the Issuer, being contested.

The Participants

There is no controversy or litigation of any nature now pending or, to the best knowledge of their respective officers, threatened against any of the Participants restraining or enjoining the execution, sale or delivery of the Series 2013A Bonds or in any way contesting or affecting the validity of the Series 2013A Bonds, any proceedings of any of the Participants taken concerning the execution, sale or delivery thereof, or the application of any moneys or security provided for the payment of the Series 2013A Bonds or questioning the status of any Participant as an organization described in Section 501(c)(3) of the Code.

See Appendix A - "DESCRIPTION OF PARTICIPANTS" for a description of any litigation which has a material adverse affect on the Participants.

INDEPENDENT PUBLIC ACCOUNTANTS

Each of the Participants have provided its financial statements as of and for the years ended June 30, 2010, June 30, 2011 and June 30, 2012. These financial statements, included in Appendix B to this Limited Offering Memorandum, have been audited by independent certified public accounting firms, as stated in their respective reports appearing therein. Eden II has not obtained consent from its auditor to append the financial statements of Eden II for the year ended June 30, 2010 to this Limited Offering Memorandum. Notwithstanding the receipt of any consents to append the financial statements to this Limited Offering Memorandum, none of the auditors performed any procedures relating to any of the information contained in this Limited Offering Memorandum.

CONTINUING DISCLOSURE

In accordance with the requirements of Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), the Participants have undertaken the responsibility for any continuing disclosure to holders of the Series 2013A Bonds pursuant to a Continuing Disclosure Agreement in the form attached hereto as Appendix H. The Issuer shall have no liability to the holders of the Series 2013A Bonds or any other person with respect to Rule 15c2-12. Because the payment of principal and redemption price, if any, of and interest on the Series 2013A Bonds will be derived only from payments made by the Participants under their respective Loan Agreements, the financial condition of the Issuer is not material to any investment decision with respect to the Series 2013A Bonds. No financial information with respect to the Issuer is included in this Limited Offering Memorandum and the Issuer does not presently intend to furnish any continuing information with respect to itself or the Series 2013A Bonds.

MISCELLANEOUS

Information concerning the Participants contained in this Limited Offering Memorandum and information concerning the Facilities contained herein has, in each case, been furnished by the Participants. Neither of the Issuer nor the Underwriter makes any representation or warranty as to the accuracy or completeness of such information.

Any statements made in this Limited Offering Memorandum involving matters of opinion or estimates, whether or not expressly stated, are intended as such, and not as representations of facts. No representation is made that any of the opinions or estimates will be realized. This Limited Offering Memorandum is not intended to be construed as a contract or agreement between the Issuer or the Participants and the purchasers or holders of any of the Series 2013A Bonds.

The distribution of this Limited Offering Memorandum to prospective purchasers of the Series 2013A Bonds by the Underwriter has been duly authorized by the Issuer and each Participant. This Limited Offering Memorandum is made available only in connection with the sale of the Series 2013A Bonds and may not be used in whole or in part for any other purpose.

BUILD NYC RESOURCE CORPORATION

By: /s/ Jeffrey T. Lee
Executive Director

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

By: /s/ Joanne Gerenser
Executive Director

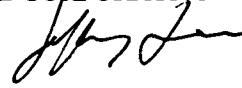
INSTITUTE FOR COMMUNITY LIVING, INC.

By: /s/ Peter C. Campanelli
Executive Director

The distribution of this Limited Offering Memorandum to prospective purchasers of the Series 2013A Bonds by the Underwriter has been duly authorized by the Issuer and each Participant. This Limited Offering Memorandum is made available only in connection with the sale of the Series 2013A Bonds and may not be used in whole or in part for any other purpose.

BUILD NYC RESOURCE CORPORATION

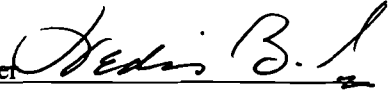
By: /s/ Jeffrey T. Lee
Executive Director



EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

By: /s/ Joanne Gerenser
~~Executive Director~~

Chief Operating Officer



INSTITUTE FOR COMMUNITY LIVING, INC.

By: /s/ Peter C. Campanelli
Executive Director

Dewey Howard
Chief Financial



APPENDIX A

DESCRIPTION OF PARTICIPANTS

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

General Operations. The Eden II School for Autistic Children, Inc. ("Eden II") was founded in 1976. Operating out of ten facilities, Eden II provides a wide range of services to individuals with autism spectrum disorders or individuals with autistic-like communication and behavior disorders, as defined by the Autism Society of America. Eden II students and adult consumers reside in New York City and the counties of Long Island. Eden II provides the following range of services:

- Day school programs for pre-school and school age children
- A vocational program for adolescents
- Residential programs for adolescents and adults
- Family support services
- Adult day training and day habilitation programs
- Community outreach services including parent training, community lectures and seminars, professional consultations, after-school services, and summer camps

Eden II's success in providing quality services lies in its commitment to state of the art programming. Applied Behavior Analysis, the only empirically validated intervention for individuals with autism, provides the framework for all Eden II programs. Treatment programs are tailored to fit the individual and are implemented within a community-based context, designed to facilitate community living. The goal for all consumers of Eden II is independence and community integration.

Eden II's primary funding sources for its 2012 Fiscal Year were: the State of New York Office for People with Developmental Disabilities ("OPWDD") (approximately 53%), the New York State Education Department ("SED") (approximately 40%), and miscellaneous other sources (approximately 7%).

Description of Facility and Financing Plan. The Issuer will lend Eden II approximately \$3,305,000 from the proceeds of the Series 2013A Bonds ("Eden II's Allocable Portion"). Such amount will be used to refinance debt incurred in the acquisition of the following facility (the "Facility") for developmentally disabled adults:

- 15 Beach Street, Staten Island, New York - approximately \$2,608,397 for the acquisition of a 30,000-square-foot 6-story building to be used as an educational and vocational training facility for developmentally disabled individuals and their families, together with administrative services.

The remaining Series 2013A Bond proceeds to be loaned in the amount of approximately \$696,603 will be used for legal fees, capitalized interest, original issue discount, costs of issuance and debt service reserve requirements.

The primary governmental funding source for the operation of the Facility is the SED. Additional revenue for the operation of the vocational portion of the Facility is expected to be provided by OPWDD. Eden II purchased the Facility in 2010, with plans to consolidate and update its operations from multiple other facilities at the Facility. The Facility was acquired from Sovereign Bank for \$2,821,000. Since its acquisition of the Facility, Eden II has commenced renovations at a cost of approximately \$4,351,000 and will install equipment and furnishings at a cost of approximately \$487,000, for total expenditures with respect to the Facility of approximately \$8,628,000. To build equity in the Facility, Eden II commenced a capital campaign and obtained grants from The City of New York in the aggregate amount of \$5,241,000, which was used to partially prepay its interim financing. The loan from the proceeds of the Series 2013A Bonds will refinance the acquisition cost of the Facility.

The Facility is expected to receive its Certificate of Occupancy or Letter of Completion within the next 15 months. (See the information in this Official Statement entitled "BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.")

Eden II owns the Facility, and will grant a first priority mortgage on the Facility to the Issuer.

Other Properties. Eden II also owns eight properties and leases another three properties throughout New York City.

Employees. Eden II employs a total of approximately 292 full-time and 110 part-time employees, of which approximately 79 full-time employees are expected to be employed at the Facility. Eden II does not expect that the operation of the Facility will require it to employ additional personnel.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between the Issuer and Eden II, the actual Debt Service Coverage for Fiscal Year 2012 and the Pro Forma Debt Service Coverage (which includes Eden II's Allocable Portion of the Series 2013A Bonds) are as follows:

	2012 Actual	2012 Pro Forma
Net Income (after adj.)	\$2,536,440	\$2,536,440
Rent Savings		201,756
Depreciation	832,536	832,536
Interest Expense	503,942	503,942
Cash Flow for Debt Service	3,872,918	4,074,674
Maximum Annual Debt Service	1,208,703	1,440,203
Debt Service Coverage	3.20	2.83

Financials.

Audited financial statements for Eden II's fiscal years ended June 30, 2011 and June 30, 2012 were prepared by Holtz Rubenstein Reminick LLP. Audited financial statements for Eden II's fiscal year ended June 30, 2010 were prepared by McGladrey & Pullen LLP. Such audited financial statements are attached as Appendix B-I. Interim unaudited financial information relating to Eden II, prepared by Eden II's Management and covering the period from July 1, 2012 through December 31, 2012 is attached as Appendix C-I. Significant accounting policies are contained in the audited financial statements.

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

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

The following is a combined summary of financial information for Eden II for the most recently ended five (5) fiscal years for which audited financial statements were available and has been prepared by Eden II's Management and derived from Eden II'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-I.

	Fiscal Year Ended June 30,				
	2008	2009	2010	2011	2012
Current Assets	\$ 4,383,382	\$ 5,556,983	\$ 7,329,182	\$ 6,480,741	\$ 7,563,747
Net Fixed Assets	11,090,245	10,425,481	9,602,661	13,626,925	13,551,088
Other	1,019,665	1,019,665	1,019,665	364,665	245,000
Total	16,493,292	17,002,129	17,951,508	20,472,331	21,359,835
Current Liabilities	3,227,990	4,009,298	5,311,696	4,507,125	3,035,210
Other Liabilities	14,663,242	11,239,019	10,834,055	13,802,612	13,796,698
Net Assets	1,602,060	1,753,812	1,805,757	2,162,594	4,527,927
Total	16,493,292	17,002,129	17,951,508	20,472,331	21,359,835
Operating Revenue:					
Program Revenue	19,130,908	21,013,761	22,731,998	23,535,084	23,708,485
Nonprogram Revenue	2,266,901	2,652,090	2,521,742	2,158,979	5,232,404
Total	21,397,809	23,665,851	25,253,740	25,694,063	28,940,889
Operating Expenses	21,082,744	23,514,099	25,055,711	25,983,811	26,319,646
Unrealized Gain/Loss	0	0	(146,084)	362	(84,803)
Change in Temporarily Restricted Net Assets	0	0	0	646,223	(171,107)
Change in Net Assets	315,065	151,752	51,945	35,837	2,365,333
Net Assets, Beginning of Year	1,286,995	1,602,060	1,753,812	1,805,757	2,162,594
Net Assets, End of Year	1,602,060	1,753,812	1,805,757	2,162,594	4,527,927
Cash & Equivalents	140,441	48,392	336,674	672,550	315,550

Management Discussion of Results of Operations.

(1) Known Trends or Uncertainties Likely to have an Impact on Liquidity: During the fiscal quarter ended December 31, 2012, Eden II's revenues were lower than expected due to the impact of Superstorm Sandy. Although management expects to recover a portion of these lost revenues, Eden II expects that its overall revenues for the fiscal year ending June 30, 2013 will be lower than budgeted.

(2) Sources of Liquidity: Eden II had current assets of \$6,480,741 and \$7,563,747 at the end of the fiscal years of 2011 and 2012 respectively.

(3) Known Trends or Uncertainties Likely to have an Impact on Revenue or Income: Eden II has not received any rate increases from OPWDD or tuition increases from SED since the fiscal year ended June 30, 2011. Although Eden II has been able to offset its increased costs of operation through contributions, grants and implementation of operational efficiencies, management cannot predict future levels OPWDD and SED funding or future contributions or grants. Eden II believes that the acquisition, renovation and equipping of the Facility will strengthen Eden II's financial position because a large portion of the funding therefor will be provided from grants and contributions, rather than revenues. (See the information in this Official Statement entitled "BONDHOLDERS' RISKS.")

(4) Income or Loss from Sources Other than Continuing Operations: Income from contributions, fund raising, and interest for fiscal years 2011 and 2012 were \$352,291 and \$948,887, respectively. See Appendix C-I for interim unaudited financial information through December 31, 2012.

(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. The number of persons served by Eden II'S total operations have not materially increased or decreased in recent years.

Liquidity and Capital Resources. As of June 30, 2012, Eden II had \$315,550 in unrestricted cash and cash equivalents and \$7,091,535 in net accounts receivable.

Long-Term Debt. As of June 30, 2012, Eden II had \$13,796,698 in outstanding long-term indebtedness. Approximately \$7.5 million of this indebtedness is secured by mortgages. The balance of approximately \$5.3 million is secured by a security interest in certain receivables of Eden II. Eden II has not incurred any long-term debt subsequent to June 30, 2012.

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 Eden II 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 Eden II to carry out the transactions contemplated in the Loan Agreement and the Mortgage.

Management.

Directors and Officers. A Board of Trustees (the "Board") whose members number no less than seven and no more than twenty-five governs the affairs of Eden II. There are currently twenty members of the Eden II Board.

The officers are comprised of: Shanx Ravisankar, Chair, Lenore Puleo, Vice Chair, Gregg Ilceto, CPA, Treasurer, and James Caldarella, Secretary. Other members of the Board of Directors are: Sheldon

Becher, Cafo Boga, Rick Chou, Chris Drewes, Stephanie Dussel, Robert Fitzsimmons, Michael Giangregorio, LouAnne Haley, Laura Moretti, Bernardo Pace, John Rudin, Donald Russo, Terry Tarangelo, Anthony Tucci and Joseph Votto.

The Board meets at least four times a year. A majority of the trustees in office shall constitute a quorum. The members of the Board serve without compensation.

Executive and Administrative Officers.

Joanne Gerenser, Ph.D., has been employed at Eden II since 1983, and has served as its Executive Director since 1996. Dr. Gerenser is a distinguished professional, having been credited with over 50 presentations and publications. She has won numerous awards for contributions in the field of autism. Dr. Gerenser earned a doctorate in Speech and Hearing Science at the City University of New York Graduate Center; a masters degree in Speech and Hearing Sciences at The Ohio State University, and a B.A. in Speech Pathology and Audiology from SUNY - Geneseo.

Other key employees include Frederick Bunker, Chief Operating and Financial Officer.

Continuing Disclosure.

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

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INSTITUTE FOR COMMUNITY LIVING, INC.

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

ICL's funding sources for its 2012 Fiscal Year were OPWDD (approximately 15%), the New York State Office of Mental Health (approximately 49%), the New York City Department of Health and Mental Hygiene (approximately 8%), the New York City Department of Homeless Services (approximately 15%), and miscellaneous other sources (approximately 13%).

Description of Facility and Financing Plan. The Issuer will lend ICL approximately \$2,600,000 from the proceeds of the Series 2013A Bonds ("ICL's Allocable Portion"). Such amount will be used to finance costs of the renovation and furnishing of the following leased facility (the "Facility"):

- 125 Broad Street, New York, New York - approximately \$2,153,007 for the renovation and furnishing of a 41,000 square-foot two-story space within an approximately 800,000 square-foot building to be used as ICL's primary administrative offices and staff training facility.

The remaining Series 2013A Bond proceeds to be loaned in the amount of approximately \$446,993 will be used for legal fees, original issue discount, costs of issuance and debt service reserve requirements.

Because the facility is to be used for administration purposes, there is no separate governmental funding source for the Facility. It is anticipated that the debt service with respect to ICL's Allocable Portion will be paid from the administration portion of ICL's operating contracts. The Facility is expected to receive its Certificate of Occupancy or Letter of Completion within the next 12 months. (See the information in this Official Statement entitled "BONDHOLDERS' RISKS - Completion of the Projects; Zoning; Certificate of Occupancy.").

ICL leases the Facility pursuant to a fifteen year lease with a five year renewal option.

Other Properties. ICL also owns 28 other properties and leases over 750 supported housing units in New York City.

Employees. ICL employs a total of approximately 900 full-time and 300 part-time employees, of which approximately 120 full-time and 5 part time employees are expected to be employed at the Facility. ICL expects that the operation of the Facility will require it to add approximately 50 additional full-time employees and approximately 15 additional part-time employees.

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between the Issuer and ICL, the actual Debt Service Coverage for Fiscal Year 2012 and the Pro Forma Debt Service Coverage (which includes ICL's Allocable Portion of the Series 2013A Bonds) are as follows:

	2012	2012
	Actual	Pro Forma
Net Income (after adj.)	\$ 478,411	\$ 478,411
Depreciation	2,556,785	2,556,785
Interest Expense	1,697,907	1,697,907
One time charge for Workers Comp pool	592,675	592,675
Cash Flow for Debt Service	5,325,778	5,325,778
Maximum Annual Debt Service	4,358,208	4,594,658
Debt Service Coverage	1.2220	1.1591

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

Financials. Audited financial statements for ICL'S fiscal year ended June 30, 2012 were prepared by Grassi & Co. Audited financial statements for ICL'S fiscal years ended June 30, 2010 and June 30, 2011 were prepared by Loeb & Troper LLP. Such audited financial statements are attached as Appendix B-II. Interim unaudited financial information prepared by ICL'S Management covering the period from July 1, 2012 through December 31, 2012 is attached as Appendix C-II. Significant accounting policies are contained in the audited financial statements.

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

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

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

	Fiscal Year Ended June 30,				
	2008	2009	2010	2011	2012
Current Assets	\$22,303,200	\$22,987,952	\$22,489,854	\$23,210,958	\$23,136,518
Net Fixed Assets	36,675,396	38,899,694	37,318,091	37,531,455	42,843,376
Other	<u>8,197,604</u>	<u>8,718,879</u>	<u>8,286,855</u>	<u>8,344,774</u>	<u>8,364,955</u>
Total	<u>67,176,200</u>	<u>70,606,525</u>	<u>68,094,800</u>	<u>69,087,187</u>	<u>74,344,849</u>
Current Liabilities	28,541,595	32,473,573	27,022,284	29,893,782	34,576,376
Other Liabilities	33,580,614	32,415,524	35,228,072	33,281,265	31,651,423
Net Assets	<u>5,053,991</u>	<u>5,717,428</u>	<u>5,844,444</u>	<u>5,912,140</u>	<u>8,117,050</u>
Total	<u>67,176,200</u>	<u>70,606,525</u>	<u>68,094,800</u>	<u>69,087,187</u>	<u>74,344,849</u>
Operating Revenue:					
Program Revenue	65,482,328	75,939,769	87,375,433	91,157,340	89,412,065
Nonprogram Revenue	<u>254,443</u>	<u>143,491</u>	<u>67,247</u>	<u>111,795</u>	<u>140,915</u>
Total	<u>65,736,771</u>	<u>76,083,260</u>	<u>87,442,680</u>	<u>91,269,135</u>	<u>89,552,980</u>
Operating Expenses	<u>65,342,319</u>	<u>75,200,440</u>	<u>87,081,842</u>	<u>91,135,214</u>	<u>89,074,569</u>
Loss on Swap Transaction	<u>(278,598)</u>	<u>(219,383)</u>	<u>(233,822)</u>	<u>(19,854)</u>	<u>(452,296)</u>
Change in Net Assets	<u>115,854</u>	<u>663,437</u>	<u>127,016</u>	<u>67,696</u>	<u>26,115</u>
Net Assets, Beginning of Year	<u>4,938,137</u>	<u>5,053,991</u>	<u>5,717,428</u>	<u>5,844,444</u>	<u>8,090,935</u>
Net Assets, End of Year	<u>5,053,991</u>	<u>5,717,428</u>	<u>5,844,444</u>	<u>5,912,140</u>	<u>8,117,050</u>
Cash & Equivalents	<u>11,829,518</u>	<u>6,966,536</u>	<u>7,382,651</u>	<u>6,688,334</u>	<u>4,451,998</u>

Management Discussion of Results of Operations.

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

(2) **Sources of Liquidity:** (a) **Internal** – ICL had current assets of \$23,136,518 and \$23,210,958 at the end of the fiscal years of June 30, 2012 and 2011, respectively. (b) **External** – ICL has available a \$5,000,000 line of credit with J.P. Morgan Chase Bank.

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

(4) **Income or Loss from Sources Other than Continuing Operations:** Income from contributions, fund raising, and interest for fiscal years 2011 and 2012 were \$111,795 and \$140,915, respectively. See Appendix C-II for interim unaudited financial information through December 31, 2012.

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

Liquidity and Capital Resources. As of June 30, 2012, ICL had \$4,451,998 in unrestricted cash and cash equivalents and \$16,527,198 in net accounts receivable.

As of June 30, 2012, ICL had an available line of credit of \$5,000,000 with J.P. Morgan Chase bank carrying an interest rate equal to 30-day LIBOR plus 2.50%. The loan with respect to the line of credit is secured by a third mortgage on certain properties of ICL. As of June 30, 2012, the outstanding balance on the line of credit was \$0.

Long-Term Debt. As of June 30, 2012, ICL had \$32,672,945 in outstanding long-term indebtedness. Of this amount, approximately \$24.5 million is secured by mortgages and approximately \$8 million is secured by ICL's leasehold interest in certain property. See Note 14 of ICL'S Audited Financial Statements under title "Mortgages Payable" and Note 16 of ICL'S Audited Financial Statements under title "Obligations under Capital Leases." Subsequent to June 30, 2012, ICL borrowed \$1,500,000 from Cisco Systems for a five-year term, at an interest rate of 4.00%, to finance a new telephone system.

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

Management.

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

Executive and Administrative Officers. Peter C. Campanelli, Psy. D. is the President and Chief Executive Officer of ICL. He holds a B.A. degree from St. Francis College, a B.S. degree from St. John's University, and a Psy. D. degree in clinical psychology from Rutgers, the State University of New Jersey. Prior to working at ICL, Dr. Campanelli was the Chief of Service at the South Beach Psychiatric Center in Staten Island, New York. ICL's other key employees are Dewey H. Howard, CPA, Executive Vice President and Chief Financial Officer, and Stella V. Pappas, LCSW, ACSW Executive Vice President and Chief Operating Officer.

Continuing Disclosure.

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

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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF SERIES 2013A PARTICIPANTS

APPENDIX B-I

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

AUDITED FINANCIAL STATEMENTS

(FOR THE YEARS ENDED JUNE 30, 2012, JUNE 30, 2011 AND JUNE 30, 2010)

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HOLTZ
RUBENSTEIN
REMINICK

**EDEN II SCHOOL FOR
AUTISTIC CHILDREN, INC.**

REPORT ON AUDIT OF FINANCIAL STATEMENTS

Year Ended June 30, 2012

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Contents

Year Ended June 30, 2012

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HOLTZ
RUBENSTEIN
REMINICK

Financial Statements

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125 Baylis Road | Melville, NY | 11747
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Independent Auditor's Report

Board of Trustees
Eden II School for Autistic Children, Inc.
Staten Island, New York

We have audited the accompanying statement of financial position of Eden II School for Autistic Children, Inc. (the "School") as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eden II School for Autistic Children, Inc. as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads 'Holly Rubenstein Reminick 220'.

New York, New York
November 20, 2012



Holtz Rubenstein Reminick LLP

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Statement of Financial Position

June 30, 2012

Assets

Current Assets:

Cash and cash equivalents	\$ 315,550
Program services receivable, net (Note 3)	4,629,314
Grants and contracts receivable, net (Note 4)	2,418,794
Pledges receivable	43,427
Prepaid expenses and other assets	156,662
Total Current Assets	<u>7,563,747</u>

Restricted Cash - Escrow	245,000
Debt Service Reserve Funds (Note 5)	1,039,572
Deferred Debt Issuance Costs, net of accumulated amortization of \$423,675	639,441
Property and Equipment, net (Note 6)	11,872,075
Total Assets	<u>\$ 21,359,835</u>

Liabilities and Net Assets

Current Liabilities:

Accounts payable and accrued expenses	\$ 1,098,775
Accrued compensation	1,127,542
Due to state and local agencies	118,832
Due to related party, current portion (Note 16)	25,000
Due to DASNY, current portion (Note 7)	28,300
Bonds payable, current portion (Note 8)	420,000
Long-term debt, current portion (Note 9)	216,761
Total Current Liabilities	<u>3,035,210</u>

Long-Term Liabilities:

Interest Rate Swap Agreement (Note 9)	252,623
Due to related party, long-term portion (Note 16)	2,146,950
Due to DASNY, long-term portion (Note 7)	82,900
Bonds payable, long-term portion (Note 8)	5,625,000
Long-term debt, long-term portion (Note 9)	5,689,225
Total Liabilities	<u>16,831,908</u>

Commitments and Contingencies (Note 17)

Unrestricted Net Assets	4,052,811
Temporarily Restricted Net Assets	475,116
Total Net Assets	<u>4,527,927</u>
Total Liabilities and Net Assets	<u>\$ 21,359,835</u>

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Statement of Activities

Year Ended June 30, 2012

Changes in Unrestricted Net Assets:

Revenue:

Program and public support services revenue (Note 11)	\$ 23,708,485
Grants and contract services (Note 12)	4,112,410
Contributions (Note 13)	660,458
Other revenue	288,429
Net assets released from restrictions	171,107
Total unrestricted revenue	<u>28,940,889</u>

Expenses:

Program services:

Educational services	11,092,557
Residential services	7,349,129
Adult habilitational services	4,902,578
Family support	283,900
Total program services	<u>23,628,164</u>

Supporting services:

Management and general	2,308,494
Fundraising	382,988
Total supporting services	<u>2,691,482</u>
Total expenses	<u>26,319,646</u>

Change in Unrestricted Net Assets before Other Changes	2,621,243
Other Changes in Unrestricted Net Assets:	
Unrealized loss on investments	(134,885)
Unrealized gain on debt service reserves	50,082
Increase in Unrestricted Net Assets	<u>2,536,440</u>

Changes in Temporarily Restricted Net Assets:

Net assets released from restrictions	(171,107)
Decrease in Temporarily Restricted Net Assets	<u>(171,107)</u>

Increase in Net Assets	2,365,333
Net Assets, beginning of year	2,162,594
Net Assets, end of year	<u>\$ 4,527,927</u>

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Statement of Functional Expenses

Year Ended June 30, 2012

	Program Services				Total Program Services	Supporting Services		Total
	Educational	Residential	Adult Habilitational	Family Support		Management and General	Fundraising	
Salaries and Wages	\$ 7,729,144	\$4,367,526	\$ 3,140,319	\$ 206,126	\$ 15,443,115	\$ 1,268,368	\$ 284,353	\$ 16,995,836
Fringe Benefits	2,190,715	1,263,120	918,537	56,156	4,428,528	337,088	97,868	4,863,484
Food	5,132	201,161	498	-	206,790	-	-	206,790
Repairs and Maintenance	150,311	167,166	148,853	11,403	477,733	24,863	-	502,596
Utilities	85,702	73,576	41,902	-	201,180	12,165	-	213,345
Travel	19,293	6,408	87,093	2,959	115,754	28,971	-	144,725
Client Expense	5,004	126,474	13,093	-	144,571	-	-	144,571
Equipment Rental	22,636	71,632	68,920	620	163,808	7,087	-	170,895
Staff Training and Development	26,411	5,504	6,954	-	38,869	47,210	-	86,079
Consultants and Contractual Services	44,845	31,070	-	-	75,915	156,349	-	232,264
Consumable Supplies	181,132	118,565	89,050	4,767	393,514	88,460	-	481,974
Telephone	30,752	27,607	14,959	120	73,437	15,946	-	89,383
Insurance	22,522	32,220	23,912	692	79,346	78,377	-	157,723
Dues and Subscriptions	-	-	-	-	-	24,388	-	24,388
Professional Fees	-	-	-	-	-	49,003	-	49,003
Rent	318,969	-	33,550	-	352,519	36,004	-	388,523
Interest	124,957	257,103	93,511	-	475,571	28,371	-	503,942
Facility Tax	-	105,604	-	-	105,604	-	-	105,604
Public Relations	-	-	-	-	-	9,668	-	9,668
Miscellaneous	35,094	24,654	14,558	1,057	75,363	40,187	767	116,317
Depreciation and Amortization	99,939	469,739	206,869	-	776,547	55,989	-	832,536
Total Functional Expenses	\$11,092,557	\$7,349,129	\$ 4,902,578	\$ 283,900	\$ 23,628,164	\$ 2,308,494	\$ 382,988	\$ 26,319,646

See notes to financial statements.

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Statement of Cash Flows

Year Ended June 30, 2012

Cash Flows from Operating Activities:	
Changes in net assets	\$ 2,365,333
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization	832,536
Unrealized loss on interest rate swap agreement	134,885
Unrealized gain on debt service reserves	(50,082)
Changes in operating assets and liabilities:	
Decrease (increase) in assets:	
Program services receivable	655,601
Grants and contracts receivable	(2,154,886)
Pledges receivable	31,573
Prepaid expenses and other assets	27,706
Debt service reserve	(3,699)
(Decrease) increase in liabilities:	
Accounts payable and accrued expenses	(388,719)
Accrued compensation	(148,793)
Due to state and local agencies	58,263
Due to related party	793,632
Net Cash Provided by Operating Activities	2,153,350
 Cash Flows from Investing Activities:	
Purchase of property, plant and equipment	(702,918)
Net Cash Used in Investing Activities	(702,918)
 Cash Flows from Financing Activities:	
Payments on long-term debt	(486,297)
Proceeds from line of credit	400,000
Repayments of line of credit	(1,400,000)
Payments to DASNY	(25,800)
Payments on bonds payable	(415,000)
Proceeds from escrow account	119,665
Net Cash Used in Financing Activities	(1,807,432)
 Decrease in Cash and Cash Equivalents	 (357,000)
Cash and Cash Equivalents, beginning of year	672,550
Cash and Cash Equivalents, end of year	\$ 315,550
 Supplemental Cash Flow Information:	
Cash paid during the year for interest	\$ 503,942

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2012

1. Description of Business

Eden II School for Autistic Children, Inc. (the "School") is a nonprofit organization whose purpose is to provide instruction, respite and socialization programs for autistic and autistic-like school age and preschool children and adults. Services are also provided for day and vocational training. In addition, the School operates an Intermediate Care Facility and five residential care facilities.

The School provides a wide range of services to individuals with autism spectrum disorders or individuals with autistic-like communication and behavior disorders, as defined by the Autism Society of America. The School's students and adult consumers reside in New York City and the counties of Long Island.

Success in providing quality services lies in the School's commitment to state of the art programming. Applied Behavior Analysis, the only empirically validated intervention for individuals with autism, provides the framework for all of the School's programs. Treatment programs are tailored to fit the individual, and are implemented within a community-based context designed to facilitate community living. The goal for all of the School's consumers is independence and community integration.

The School provides the following range of services:

- Day school programs for pre-school and school age children.
- A vocational program for adolescents.
- Adult day training and day habilitation programs.
- Residential programs for adolescents and adults.
- Family support services.
- Community outreach services including parent training, community lectures and seminars, professional consultations, after-school services, and summer camps.

2. Significant Accounting Policies

Basis of presentation - The financial statements of the School have been prepared on the accrual basis. The net assets of the School are classified and reported as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in achieving the primary objectives of the School.

Temporarily restricted - Net assets that are subject to donor-imposed stipulations that will be met either by the actions of the School and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the accompanying statement of activities as net assets released from restrictions.

Permanently restricted - Net assets that are subject to donor-imposed restrictions which will never lapse, thus requiring that the funds be permanently retained. At June 30, 2012, the School had no permanently restricted net assets.

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

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2012

Cash and cash equivalents - All highly liquid investments with maturities of three months or less are considered to be cash equivalents.

Program service receivables and allowance for doubtful accounts - Program service receivables are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts.

Pledges receivable - Pledges receivable consist of unconditional promises to give. Pledges receivable expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a discount rate applicable to the year in which the promises are received. Pledges receivable at June 30, 2012 are \$43,427, of which \$29,360 is due within one year and \$14,067 is due within two to five years. These amounts are restricted for construction of the new facility.

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 School 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.

Derivative instruments and hedging activities - The School accounts for interest rate swaps in accordance with ASC 815, "Accounting for Derivative Instruments and Certain Hedging Activities", as amended, which requires that all derivative instruments be recorded on the statement of financial position at their respective fair values. The fair value of the interest rate swap held is based on a value provided by a third-party financial institution. The School does not enter into derivative instruments for any purpose other than to limit the variability of a portion of its interest payments. That is, the School does not speculate using derivative instruments.

Property and equipment, net - Purchases of property and equipment with a cost of \$1,000 or higher are recorded at cost. Donated assets are recorded at fair market value at the date of donation. Property and equipment is depreciated or amortized over the estimated useful lives of the underlying assets ranging from 5 to 25 years, using the straight-line method. Repairs and maintenance are charged to expense in the period incurred. Construction-in-progress is recorded at cost and includes capitalization of architecture, construction fees and interest cost during the construction period. Depreciation commences when construction is complete and the asset is placed into service.

Debt issuance costs - Debt issuance costs are deferred and amortized on a straight-line basis over the life of the related debt. Amortization expense for the year ended June 30, 2012 was \$57,949.

Contributions - Contributions received and unconditional promises to give that are reasonably determinable are recorded as public support at fair value, as determined by management, in the period received and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recorded net of estimated uncollectible amounts. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

It is the School's policy to record temporarily restricted donations and contributions received in the same accounting period that the restriction is satisfied in unrestricted net assets at the time of donation.

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2012

The School reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Income taxes - The School was incorporated as a not-for-profit corporation under the laws of the State of New York and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal or state income taxes is required.

Uncertain tax positions - As of June 30, 2012, the School evaluated its tax positions and concluded that has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of ASC No. 740, "Accounting for Uncertainty in Income Taxes". Generally, the School is no longer subject to income tax examinations by the United States federal, state or local tax authorities for the years before 2009, which is the standard statute of limitations look-back period.

Doubtful accounts - Management must make estimates of the uncollectability of accounts receivable. Management specifically analyzes accounts receivable, historical bad debts, current funding trends and changes in payment terms and rates when evaluating the need for any allowance for doubtful accounts.

Functional allocation of expenses - Expenses are recorded in the period incurred. Expenses are allocated into functional categories depending on the ultimate purpose of the expense.

Evaluation of subsequent events - Management has evaluated subsequent events through November 20, 2012, the date the financial statements are available for issuance, for inclusion or disclosure in the financial statements.

3. Program Services Receivable

Program services receivable as of June 30, 2012 consists of the following:

	Amount
New York City Board of Education	\$ 2,320,776
Medicaid	1,721,052
Long Island School Districts	549,395
Other	837,538
	5,428,761
Less Allowance for Doubtful Accounts	799,447
	\$ 4,629,314

4. Grants and Contracts Receivable

Grants and contracts receivable as of June 30, 2012 consist of the following:

	Amount
New York City Department of Health and Mental Hygiene	\$ 393,151
Individuals with Disabilities Education Act ("IDEA")	156,367
New York State Office for People With Developmental Disabilities	
Family Support Services	69,505
Other	2,170,125
	2,789,148
Less Allowance for Doubtful Accounts	370,354
	\$ 2,418,794

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2012

5. Debt Service Reserve Funds

The School has debt service reserve funds in connection with the Dormitory Authority of the State of New York ("DASNY") and the New York City Industrial Development Agency ("IDA") bond issuances. These balances are limited under terms of debt indentures. The funds as of June 30, 2012 are as follows:

			Amount
DASNY		381 Carlton Boulevard	\$ 32,282
IDA	2004C	150 Granite Avenue	412,108
IDA	2005A	106 Grayson Street and 94 Wright Avenue	346,500
IDA	2006D	155 Dix Hills Road	115,854
IDA	2007C	131 Cambon Avenue	132,828
			\$ 1,039,572

The debt service reserve funds are held with a financial institution and consist of various United States treasuries and bonds. These investments are considered to be Level 1 under the fair value hierarchy.

6. Property and Equipment, Net

Property and equipment, net, at cost, consists of the following at June 30, 2012:

	Amount
Land	\$ 1,487,524
Building and Improvements	11,396,596
Equipment	1,213,176
Construction in Progress	5,727,365
	19,824,661
Less Accumulated Depreciation	(7,952,586)
	\$ 11,872,075

Depreciation and amortization expense for the year ended June 30, 2012 was \$774,589.

7. Due to DASNY

Due to DASNY as of June 30, 2012 consists of the following:

The School has entered into a bond financing with DASNY in the amount of \$399,500. This tax-exempt bond covers the purchase and renovation of the Carlton Boulevard Intermediate Care Facility located on Staten Island, New York, which serves as collateral against the bond. The bond will be paid to DASNY over a period of 25 years through June 1, 2015.

	\$ 111,200
Less Current Maturities	(28,300)
	\$ 82,900

The aggregate amounts of principal payments due to DASNY during each of the five years following June 30, 2012 and thereafter are as follows:

<i>Years Ending June 30,</i>	Amount
2013	\$ 28,300
2014	30,600
2015	33,000
2016	19,300
	\$ 111,200

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2012

8. Bonds Payable

Bonds payable as of June 30, 2012 consist of the following:

In August 2004, the School refinanced the IDA bonds with the New York City Industrial Development Agency. These bonds are Special Needs Facilities Pooled Series 2004 C and 2004 D bond issues. The bonds consist of (Series 2004 C-1 and 2004 D-1 tax-exempt in the amount of \$3,630,000 and Series 2004 C-2 and 2004 D-2 taxable in the amount of \$170,000). The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating a building purchased by the School at 150 Granite Avenue, Staten Island, which serves as collateral for the bonds. Interest is at 6.50% through July 1, 2029. The Debt Service Reserve Fund will receive a guaranteed investment earning rate of 4.00%, which will be credited every six months and will help to offset the net loan repayments. During the year ended June 30, 2011, approximately \$900,000 of the restricted cash was redeemed and applied towards the outstanding bond principal.

\$ 2,300,000

In March 2005, the School, through the InterAgency Council of Mental Retardation and Developmental Disabilities and the New York City Special Needs Facilities Program, issued Series 2005 A-1, B-1 and C-1 tax-exempt bonds in the amount of \$3,465,000 and Series 2005 A-2, B-2 and C-2 taxable bonds in the amount of \$170,000. The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating buildings purchased by the School at 106 Grayson Avenue and 94 Wright Avenue; the properties serve as collateral for the bonds. Interest is at 4.53% through July 1, 2020. The Debt Service Reserve Fund will receive a guaranteed investment earning rate of 4.03%, which will be credited every six months and will help to offset the net loan repayments.

2,100,000

In June 2006, the School, through the InterAgency Council of Mental Retardation and Developmental Disabilities and the Suffolk County Industrial Development Agency Special Needs Facilities Program, issued Series 2006 D tax-exempt bonds in the amount of \$965,000 and Series 2006 D taxable bonds in the amount of \$55,000. The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating a building, which is included in property and equipment, purchased by the School at 155 Dix Hills Road. The property serves as collateral for the bonds. The facility is leased to the School for a period of 13 years, expiring July 1, 2019. Lease payments are equal to IDA's interest and principal on the bonds. At the expiration of the 13 year term to IDA's interest and principal on the bonds, ownership of the facility reverts to the School for \$1. Interest is at 4.72% through July 1, 2019. The debt service reserve fund will receive a guaranteed investment earning rate of 5.14%, which will be credited every six months and will help to offset the net loan payments.

610,000

In January 2008, the School and the Suffolk County Industrial Development Agency Special Needs Facilities Program issued Series 2007 C tax-exempt bonds in the amount of \$1,332,800 and Series 2007 C taxable bonds in the amount of \$98,000. The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating a building purchased by the School at 131 Cambon Avenue. The property serves as collateral for the bonds. Interest is at 4.93%, through July 1, 2022. The Debt Service Reserve Fund will receive a guaranteed investment earning rate of 2.00%, which will be credited every six months and will help to offset the net loan repayments.

1,035,000

Subtotal
Less Current Maturities

6,045,000
(420,000)
\$ 5,625,000

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2012

The aggregate amounts of principal payments on the bond payable during each of the five years following June 30, 2012 and thereafter are as follows:

<i>Years Ending June 30.</i>	<i>Amount</i>
2013	\$ 420,000
2014	435,000
2015	455,000
2016	470,000
2017	490,000
Thereafter	3,775,000
	\$ 6,045,000

9. Long-Term Debt

Long-term debt as of June 30, 2012 consists of the following:

The School received a \$354,750 mortgage loan from a financial institution for a building. The mortgage, due September 1, 2017, is payable in monthly installments of \$3,263, including interest at 7.375% per annum. The School has the option to renew the loan for an additional five years. The loan is secured by the property on Dixon Avenue, Staten Island.

\$ 170,022

The School executed a 15 year term note (the "Collfield Note") adjustable every five years, interest to be charged at a rate equal to one (1) month LIBOR, plus 4.00% per annum (7.85% as of June 30, 2011), which matures on December 15, 2024. The monthly payment approximates \$14,160. This debt is secured by the property at 682 Collfield Avenue, Staten Island, and with a general lien.

1,390,964

The School executed a five year term note, interest to be charged at a rate equal to the prime rate, plus 3.00% per annum (6.25% as of June 30, 2012), which matures on March 31, 2016. Interest is payable quarterly and the total principal balance is due at maturity. This debt is secured by the property at 15-65 Beach Street, Staten Island, and with a general lien.

4,345,000

Subtotal

5,905,986

Less Current Maturities

(216,761)

\$ 5,689,225

The aggregate amounts of principal payments on the long-term debt during each of the five years following June 30, 2012 and thereafter are as follows:

<i>Years Ending June 30.</i>	<i>Amount</i>
2013	\$ 216,761
2014	216,761
2015	216,761
2016	4,561,565
2017	191,174
Thereafter	502,964
	\$ 5,905,986

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2012

The Collfield Note has a variable rate which exposes the School to a variability in interest payments due to changes in interest rates. The School believes that it is prudent to limit the variability of a portion of its interest payments. To meet this objective, the School entered into an interest rate swap agreement to manage fluctuations in cash flows resulting from interest rate risk. The swap changes a portion of the variable rate cash flow exposure on the note to fixed cash flows. Under the terms of the interest rate swap, the School receives variable interest rate payments and makes fixed interest rate payments on a notional principal amount, thereby creating the equivalent of fixed-rate debt.

The interest rate swap contract effective December 15, 2009 requires that the School pay fixed-rates of interest (8.05%) and receive interest variable rates of interest on a \$1,535,000 notional amount of indebtedness through December 15, 2024. At June 30, 2012, the value of the swap contract was a liability of \$252,623.

The swap interest agreement is valued based on discounted cash flows and prevailing interest rates. The swap interest agreement is considered to be a Level 2 instrument under the fair value hierarchy. Changes in the value of the interest rate swap are reflected as a charge based on an allocation between various programs in the accompanying statement of activities.

Interest expense and the settlement of the swap for the year ended June 30, 2012 amounted to approximately \$121,000.

10. Line of Credit

The School has executed a line of credit for \$2,000,000 with a bank, which expired on January 1, 2012. The agreement requires interest to be charged at a rate equal to the bank's prime rate plus 1.75%, with a minimum rate of 6.00% (6.00% as of June 30, 2012). This debt is secured with a general lien. As of June 30, 2012, there was no balance outstanding on the line of credit.

11. Program and Public Support Services Revenue

For the year ended June 30, 2012, program and public support services revenue consists of the following:

	Amount
New York City Office of People With Developmental Disabilities:	
Medicaid	\$ 12,882,731
Other	657,917
New York City Board of Education	8,243,748
Long Island School Districts	1,794,017
Other	130,072
	\$ 23,708,485

Medicaid revenue is reimbursed to the School at the net reimbursement rates as determined by each program's cost report. Reimbursement rates are subject to revisions under the provisions of cost reimbursement regulations. Adjustments for State Education Department rate reconciliation are recognized in the year reconciled.

Certain programs of the School are funded by the Office of People With Developmental Disabilities ("OPWDD") and are eligible for property cost reimbursement. Once the rates have been finalized by OPWDD, the School receives additional revenue through a rate adjustment for these programs. The financial statements include the cost of the projects. The revenue is recorded once received by the School.

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2012

12. Grants and Contract Services

For the year ended June 30, 2012, grants and contract services revenue consists of the following:

	Amount
Consulting and Outreach	\$ 1,159,500
Education:	
IDEA	324,837
Other	237,075
OPWDD and NYC-DOHMH	241,998
Other (a)	2,149,000
	\$ 4,112,410

(a) Other represents a grant in the amount of \$2,149,000 that was restricted to and used for purchase and rehabilitation of a new facility in the Stapleton section of Staten Island, New York.

13. Contributions

Included in contributions are amounts of \$556,700 that were restricted to and used for purchase and rehabilitation of a new facility in the Stapleton section of Staten Island, New York.

14. Pension Plan

The School has a federally qualified defined contribution pension plan covering substantially all full-time employees who meet certain eligibility requirements. The amount contributed to the Plan is a fixed percentage of participants' compensation. Pension expense amounted to approximately \$420,000 for the year ended June 30, 2012.

15. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2012 are available for the following purposes:

	Amount
NYC Adult Services	\$ 425,116
Wright Avenue Facility	50,000
	\$ 475,116

16. Related Party Transactions

The Foundation for the Advancement of Autistic Persons, Inc. (the "Foundation"), which was established to solicit charitable contributions and other funds, and provide other benefits and support the mission of the School and other organizations dedicated to the support of individuals with autism, shares certain members of management with the School. The School provides management and personnel services to the Foundation. Income for these services was \$100,000 for the year ended June 30, 2012.

The Foundation has provided an advance with no stated due date to the School. At June 30, 2012, the balance of this advance was \$3,749,997. The Foundation requires that \$25,000 be repaid each year. The remaining portion has no specified due date. The amount presented on the statement of position is offset by amounts due from the Foundation, which at June 30, 2012 totaled \$1,578,047. The balance on the statement of financial position is \$2,171,950.

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2012

17. Commitments and Contingencies

The School's program costs are subject to audit by various government agencies. In the opinion of the School management, any liabilities which might be incurred would not have a material effect on the School's financial position or results of operations.

The School has lease agreements for rental space which expire at various dates through 2017. Rent expense for the year ended June 30, 2012 was \$388,523. In addition to these facilities, the School leases equipment and vehicles under noncancelable operating leases. Non-cancelable minimum lease payments are as follows:

<i>Years Ending June 30,</i>	<i>Amount</i>
2013	\$ 332,073
2014	149,114
2015	106,680
2016	87,515
2017	22,606
	<u>\$ 697,988</u>

18. Concentrations of Credit Risk

Financial instruments, which potentially subject the School to credit risk, consist principally of temporary cash investments. The School places its temporary cash investments with various financial institutions. The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits.

**EDEN II SCHOOL FOR
AUTISTIC CHILDREN, INC.**

REPORT ON AUDIT OF FINANCIAL STATEMENTS

Year Ended June 30, 2011

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

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Year Ended June 30, 2011

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Independent Auditor's Report

Board of Trustees
Eden II School for Autistic Children, Inc.
Staten Island, New York

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

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

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

Holtz Rubenstein Reminick LLP

New York, New York
November 30, 2011



Holtz Rubenstein Reminick LLP

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Financial Statements

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Statement of Financial Position

June 30, 2011

Assets

Current Assets:

Cash and cash equivalents	\$ 672,550
Program services receivable, net (Note 3)	5,284,915
Grants and contracts receivable, net (Note 4)	263,908
Pledges receivable	75,000
Prepaid expenses and other assets	184,368
Total Current Assets	6,480,741

Restricted Cash - Escrow	364,665
Debt Service Reserve Funds (Note 5)	985,791
Deferred Debt Issuance Costs, net of accumulated amortization of \$370,458	697,390
Property and Equipment, net (Note 6)	11,943,744
Total Assets	\$ 20,472,331

Liabilities and Net Assets

Current Liabilities:

Accounts payable and accrued expenses	\$ 1,487,494
Accrued compensation	1,276,335
Due to state and local agencies	60,569
Due to related party (Note 15)	25,000
Line of credit (Note 10)	1,000,000
Due to DASNY, current portion (Note 7)	25,966
Bonds payable, current portion (Note 8)	415,000
Long-term debt, current portion (Note 9)	216,761
Total Current Liabilities	4,507,125

Long-term Liabilities:

Interest Rate Swap Agreement (Note 9)	117,738
Due to related party (Note 15)	1,353,318
Due to DASNY, long-term portion (Note 7)	111,034
Bonds payable, long-term portion (Note 8)	6,045,000
Long-term debt, long-term portion (Note 9)	6,175,522
Total Liabilities	18,309,737

Commitments and Contingencies (Note 16)

Unrestricted Net Assets	1,516,371
Temporarily Restricted Net Assets	646,223
Total Net Assets	2,162,594
Total Liabilities and Net Assets	\$ 20,472,331

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Statement of Activities

Year Ended June 30, 2011

Changes in Unrestricted Net Assets:	
Revenue:	
Program and public support services revenue (Note 11)	\$ 23,535,084
Grants and contract services (Note 12)	1,806,688
Contributions	83,052
Other revenue	269,239
Total Unrestricted Revenue	<u>25,694,063</u>
Expenses:	
Program services:	
Educational services	10,580,073
Residential services	7,367,640
Adult habilitational services	4,516,698
Family support	278,048
Total program services	<u>22,742,459</u>
Supporting services:	
Management and general	3,031,107
Fundraising	210,245
Total supporting services	<u>3,241,352</u>
Total Expenses	<u>25,983,811</u>
Change in Unrestricted Net Assets before Other Changes	<u>(289,748)</u>
Other Changes in Unrestricted Net Assets:	
Unrealized gain on change in interest swap	28,346
Unrealized loss on debt service reserves	(27,984)
	<u>400</u>
Decrease in Unrestricted Net Assets	<u>(289,386)</u>
Changes in Temporarily Restricted Net Assets:	
Contributions	646,223
	<u>646,223</u>
Increase in Temporarily Restricted Net Assets	<u>646,223</u>
Increase in Net Assets	356,837
Net Assets, beginning of year	1,805,757
Net Assets, end of year	<u>\$ 2,162,594</u>

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Statement of Functional Expenses

Year Ended June 30, 2011

	Program Services				Total Program Services	Supporting Services		
	Educational	Residential	Adult Habilitational	Family Support		Management and General	Fundraising	Total
Salaries and Wages	\$ 7,340,629	\$4,333,249	\$ 2,876,097	\$ 210,715	\$ 14,760,690	\$ 1,343,953	\$ 175,350	\$16,279,993
Fringe Benefits	1,875,037	1,207,672	809,465	51,004	3,943,178	263,339	34,895	4,241,412
Food	3,878	198,348	210	-	202,436	-	-	202,436
Repairs and Maintenance	146,229	203,498	130,008	8,615	488,350	28,748	-	517,098
Utilities	85,805	80,548	52,578	-	218,931	15,445	-	234,376
Travel	30,821	5,508	73,308	2,661	112,298	14,046	-	126,344
Client Expense	13,661	112,718	12,099	-	138,478	-	-	138,478
Equipment Rental	19,330	66,147	78,077	293	163,847	4,131	-	167,978
Staff Training and Development	69,858	6,319	8,616	-	84,793	15,935	-	100,728
Consultants and Contractual Services	74,861	30,094	-	-	104,955	173,345	-	278,300
Consumable Supplies	250,115	124,708	93,922	3,681	472,426	69,916	-	542,342
Telephone	32,618	29,226	16,820	403	79,067	13,868	-	92,935
Insurance	19,743	32,749	22,997	-	75,489	78,157	-	153,646
Dues and Subscriptions	-	-	-	-	-	28,096	-	28,096
Professional Fees	-	-	-	-	-	50,999	-	50,999
Rent	324,881	-	19,243	500	344,624	-	-	344,624
Interest	131,983	275,498	95,064	-	502,545	62,946	-	565,491
Facility Tax	-	122,937	-	-	122,937	-	-	122,937
Public Relations	-	-	-	-	-	12,520	-	12,520
Bad Debt	-	-	-	-	-	632,354	-	632,354
Miscellaneous	33,347	17,507	7,216	176	58,246	36,728	-	94,974
Depreciation and Amortization	127,277	520,914	220,978	-	869,169	186,581	-	1,055,750
Total Functional Expenses	\$10,580,073	\$7,367,640	\$ 4,516,698	\$ 278,048	\$ 22,742,459	\$ 3,031,107	\$ 210,245	\$25,983,811

See notes to financial statements.

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Statement of Cash Flows

Year Ended June 30, 2011

Cash Flows from Operating Activities:	
Changes in net assets	\$ 356,837
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization	1,055,750
Unrealized gain on interest rate swap agreement	(28,346)
Unrealized loss on debt service reserves	27,984
Change in allowance for doubtful accounts	632,354
Changes in operating assets and liabilities:	
Decrease (increase) in assets:	
Program services receivable	522,518
Grants and contracts receivable	(14,013)
Pledges receivable	(75,000)
Prepaid expenses and other assets	118,458
Debt service reserve	(28,245)
(Decrease) increase in liabilities:	
Accounts payable and accrued expenses	(194,758)
Accrued compensation	101,812
Due to state and local agencies	(85,044)
Due to related party	(222,952)
Net Cash Provided by Operating Activities	2,167,355
Cash Flows from Investing Activities:	
Purchase of property, plant and equipment	(5,079,753)
Net Cash Used in Investing Activities	(5,079,753)
Cash Flows from Financing Activities:	
Proceeds from long-term debt	4,745,000
Payments on long-term debt	(80,343)
Repayments of line of credit	(750,000)
Payments to DASNY	(24,300)
Payments on bonds payable	(1,297,083)
Proceeds from escrow account	900,000
Payments to escrow account	(245,000)
Net Cash Provided by Financing Activities	3,248,274
Increase in Cash and Cash Equivalents	335,876
Cash and Cash Equivalents, beginning of year	336,674
Cash and Cash Equivalents, end of year	\$ 672,550
Supplemental Cash Flow Information:	
Cash paid during the year for interest	\$ 565,490

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2011

1. Description of Business

Eden II School for Autistic Children, Inc. (the "School") is a nonprofit organization whose purpose is to provide instruction, respite and socialization programs for autistic and autistic-like school age and preschool children and adults. Services are also provided for day and vocational training. In addition, the School operates an Intermediate Care Facility and five residential care facilities.

The School provides a wide range of services to individuals with autism spectrum disorders or individuals with autistic-like communication and behavior disorders, as defined by the Autism Society of America. The School students and adult consumers reside in New York City and the counties of Long Island.

Success in providing quality services lies in the School's commitment to state of the art programming. Applied Behavior Analysis, the only empirically validated intervention for individuals with autism, provides the framework for all of the School's programs. Treatment programs are tailored to fit the individual, and are implemented within a community-based context designed to facilitate community living. The goal for all of the School's consumers is independence and community integration.

The School provides the following range of services:

- Day school programs for pre-school and school age children.
- A vocational program for adolescents.
- Adult day training and day habilitation programs.
- Residential programs for adolescents and adults.
- Family support services.
- Community outreach services including parent training, community lectures and seminars, professional consultations, after-school services, and summer camps.

2. Significant Accounting Policies

Basis of presentation - The financial statements of the School have been prepared on the accrual basis. The net assets of the School are classified and reported as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in achieving the primary objectives of the School.

Temporarily restricted - Net assets that are subject to donor-imposed stipulations that will be met either by the actions of the School and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the accompanying statement of activities as net assets released from restrictions.

Permanently restricted - Net assets that are subject to donor-imposed restrictions which will never lapse, thus requiring that the funds be permanently retained. At June 30, 2011, the School had no permanently restricted net assets.

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

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2011

Cash and cash equivalents - All highly liquid investments with maturities of three months or less are considered to be cash equivalents.

Program service receivables and allowance for doubtful accounts - Program service receivables are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts.

Pledges receivable - Pledges receivable consist of unconditional promises to give. Pledges receivable expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a discount rate applicable to the year in which the promises are received. Pledges receivable at June 30, 2011 are \$75,000 which are due within one year and are restricted for construction of the new facility.

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 School 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.

Derivative instruments and hedging activities - The School accounts for interest rate swaps in accordance with ASC 815, "Accounting for Derivative Instruments and Certain Hedging Activities", as amended, which requires that all derivative instruments be recorded on the statement of financial position at their respective fair values. The fair value of the interest rate swap held is based on a value provided by a third-party financial institution. The School does not enter into derivative instruments for any purpose other than to limit the variability of a portion of its interest payments. That is, the School does not speculate using derivative instruments.

Property and equipment, net - Purchases of property and equipment with a cost of \$1,000 or higher are recorded at cost. Donated assets are recorded at fair market value at the date of donation. Property and equipment is depreciated or amortized over the estimated useful lives of the underlying assets ranging from 5 to 25 years, using the straight-line method. Repairs and maintenance are charged to expense in the period incurred.

Construction-in-progress is recorded at cost and includes capitalization of architecture, construction fees and interest cost during the construction period. Depreciation commences when construction is complete and the asset is placed into service.

Debt issuance costs - Debt issuance costs are deferred and amortized on a straight-line basis over the life of the related debt. Amortization expense for the year ended June 30, 2011 was \$184,790.

Contributions - Contributions received and unconditional promises to give that are reasonably determinable are recorded as public support at fair value, as determined by management, in the period received and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recorded net of estimated uncollectible amounts. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

It is the School's policy to record temporarily restricted donations and contributions received in the same accounting period that the restriction is satisfied in unrestricted net assets at the time of donation.

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2011

The School reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Income taxes - The School was incorporated as a not-for-profit corporation under the laws of the State of New York and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal or state income taxes is required.

Uncertain tax positions - As of June 30, 2011, the School evaluated its tax positions and concluded that has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of ASC No. 740, "Accounting for Uncertainty in Income Taxes". Generally, the School is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for the years before 2008, which is the standard stature of limitations look-back period.

Doubtful accounts - Management must make estimates of the uncollectability of accounts receivable. Management specifically analyzes accounts receivable, historical bad debts, current funding trends and changes in payment terms and rates when evaluating the need for any allowance for doubtful accounts.

Functional allocation of expenses - Expenses are recorded in the period incurred. Expenses are allocated into functional categories depending on the ultimate purpose of the expense.

Evaluation of subsequent events - Management has evaluated subsequent events through November 30, 2011, the date the financial statements are available for issuance, for inclusion or disclosure in the financial statements.

3. Program Services Receivable

Program services receivable as of June 30, 2011 consists of the following:

	Amount
New York City Board of Education	\$ 2,621,394
Medicaid	2,159,244
Long Island School Districts	796,141
Other	507,583
	<u>6,084,362</u>
Less Allowance for Doubtful Accounts	799,447
	<u>\$ 5,284,915</u>

4. Grants and Contracts Receivable

Grants and contracts receivable as of June 30, 2011 consist of the following:

	Amount
New York City Department of Health and Mental Hygiene	\$ 456,075
Individuals with Disabilities Education Act ("IDEA")	87,086
New York State Office for People With Developmental Disabilities	75,601
Family Support Services	15,500
Other	<u>634,262</u>
	370,354
Less Allowance for Doubtful Accounts	<u>\$ 263,908</u>

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2011

5. Debt Service Reserve Funds

The School has debt service reserve funds in connection with the Dormitory Authority of the State of New York ("DASNY") and the New York City Industrial Development Agency ("IDA") bond issuances. These balances are limited under terms of debt indentures. The funds as of June 30, 2011 are as follows:

			Amount
DASNY		381 Carlton Boulevard	\$ 32,282
IDA	2004C	150 Granite Avenue	375,374
IDA	2005A	106 Grayson Street and 94 Wright Avenue	346,500
IDA	2006D	155 Dix Hills Road	109,951
IDA	2007C	131 Cambon Avenue	121,684
			\$ 985,791

The debt service reserve funds are held with a financial institution and consist of various U.S. treasuries and bonds. These investments are considered to be Level 1 under the fair value hierarchy.

6. Property and Equipment, Net

Property and equipment, net, at cost, consists of the following at June 30, 2011:

	Amount
Land	\$ 1,487,524
Building and Improvements	11,337,722
Equipment	1,165,106
Construction in Progress	5,131,389
	19,121,741
Less Accumulated Depreciation	(7,177,997)
	\$ 11,943,744

Depreciation and amortization expense for the year ended June 30, 2011 was \$870,960.

7. Due to DASNY

Due to DASNY as of June 30, 2011 consists of the following:

The School has entered into a bond financing with DASNY in the amount of \$399,500. This tax-exempt bond covers the purchase and renovation of the Carlton Boulevard Intermediate Care Facility located on Staten Island, New York, which serves as collateral against the bond. The bond will be paid to DASNY over a period of 25 years through June 1, 2015.

	\$ 137,000
Less Current Maturities	(25,966)
	\$ 111,034

The aggregate amounts of principal payments due to DASNY during each of the five years following June 30, 2011 and thereafter are as follows:

<i>Years Ending June 30,</i>	Amount
2012	\$ 25,966
2013	27,967
2014	30,200
2015	31,966
2016	20,901
	\$ 137,000

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2011

8. Bonds Payable

Bonds payable as of June 30, 2011 consist of the following:

<p>On August 19, 2004, the School refinanced the IDA bonds with the New York City Industrial Development Agency. These bonds are Special Needs Facilities Pooled Series 2004 C and 2004 D bond issues. The bonds consist of (Series 2004 C-1 and 2004 D-1 tax-exempt in the amount of \$3,630,000 and Series 2004 C-2 and 2004 D-2 taxable in the amount of \$170,000). The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating a building purchased by the School at 150 Granite Avenue, Staten Island, that serves as collateral for the bonds. Interest is at 6.48% through July 1, 2020. The Debt Service Reserve Fund will receive a guaranteed investment earning rate of 4.00%, which will be credited every six months and will help to offset the net loan repayments. During the year ended June 30, 2011, approximately \$900,000 of the restricted cash was redeemed and applied towards the outstanding bond principal.</p>	<p>\$ 2,365,000</p>
<p>In March 2005, the School, through the InterAgency Council of Mental Retardation and Developmental Disabilities and the New York City Special Needs Facilities Program, issued Series 2005 A-1; B-1 and C-1 tax-exempt bonds in the amount of \$3,465,000 and Series 2005 A-2, B-2 and C-2 taxable bonds in the amount of \$170,000. The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating buildings purchased by the School at 106 Grayson Avenue and 94 Wright Avenue; the properties serve as collateral for the bonds. Interest is at 6.48% through July 1, 2020. The Debt Service Reserve Fund will receive a guaranteed investment earning rate of 4.03%, which will be credited every six months and will help to offset the net loan repayments.</p>	<p>2,285,000</p>
<p>In June 2006, the School, through the InterAgency Council of Mental Retardation and Developmental Disabilities and the Suffolk County Industrial Development Agency Special Needs Facilities Program, issued Series 2006 D tax-exempt bonds in the amount of \$965,000 and Series 2006 D taxable bonds in the amount of \$55,000. The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating a building, which is included in property and equipment, purchased by the School at 155 Dix Hills Road. The property serves as collateral for the bonds. The facility is leased to the School for a period of 13 years, expiring July 1, 2019. Lease payments are equal to IDA's interest and principal on the bonds. At the expiration of the 13 year term to IDA's interest and principal on the bonds, ownership of the facility reverts to the School for \$1. Interest is at 4.72% through July 1, 2019. The debt service reserve fund will receive a guaranteed investment earning rate of 5.14%, which will be credited every six months and will help to offset the net loan payments.</p>	<p>680,000</p>
<p>In 2008, the School and the Suffolk County Industrial Development Agency Special Needs Facilities Program issued Series 2007 C tax-exempt bonds in the amount of \$1,332,800 and Series 2007 C taxable bonds in the amount of \$98,000. The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating a building purchased by the School at 131 Cambon Avenue. The property serves as collateral for the bonds. Interest is at 2.00%, through July 1, 2022. The Debt Service Reserve Fund will receive a guaranteed investment earning rate of 2.00%, which will be credited every six months and will help to offset the net loan repayments.</p>	<p>1,130,000</p>
<p>Subtotal</p>	<p>6,460,000</p>
<p>Less Current Maturities</p>	<p>(415,000)</p>
	<p>\$ 6,045,000</p>

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2011

The aggregate amounts of principal payments on the bond payable during each of the five years following June 30, 2011 and thereafter are as follows:

<i>Years Ending June 30,</i>	<i>Amount</i>
2012	\$ 415,000
2013	420,000
2014	435,000
2015	455,000
2016	470,000
Thereafter	4,265,000
	\$ 6,460,000

9. Long-Term Debt

Long-term debt as of June 30, 2011 consists of the following:

The School received a \$354,750 mortgage loan from a financial institution for a building. The mortgage, due September 1, 2017, is payable in monthly installments of \$3,263, including interest at 7.375% per annum. The School has the option to renew the loan for an additional five years. The loan is secured by the property on Dixon Avenue, Staten Island.

\$ 195,609

The School executed a 15 year term note (the "Collfield Note") adjustable every five years, interest to be charged at a rate equal to one (1) month LIBOR, plus 4.00% per annum (7.85% as of June 30, 2011), which matures on December 15, 2024. The monthly payment approximates \$14,160. This debt is secured by the property at 682 Collfield Avenue, Staten Island, and with a general lien.

1,451,674

The School executed a five year term note, interest to be charged at a rate equal to the Prime rate, plus 3.00% per annum (6.25% as of June 30, 2011), which matures on March 31, 2016. Interest is payable quarterly and the total principal balance is due at maturity. This debt is secured by the property at 15-65 Beach Street, Staten Island, and with a general lien.

4,745,000

Subtotal

6,392,283

Less Current Maturities

(216,761)

\$ 6,175,522

The aggregate amounts of principal payments on the long-term debt during each of the five years following June 30, 2011 and thereafter are as follows:

<i>Years Ending June 30,</i>	<i>Amount</i>
2012	\$ 216,761
2013	216,761
2014	216,761
2015	216,761
2016	4,961,564
Thereafter	563,675
	\$ 6,392,283

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2011

The Collfield Note has a variable rate which exposes the School to a variability in interest payments due to changes in interest rates. The School believes that it is prudent to limit the variability of a portion of its interest payments. To meet this objective, the School entered into an interest rate swap agreement to manage fluctuations in cash flows resulting from interest rate risk. The swap changes a portion of the variable rate cash flow exposure on the note to fixed cash flows. Under the terms of the interest rate swap, the School receives variable interest rate payments and makes fixed interest rate payments on a notional principal amount, thereby creating the equivalent of fixed-rate debt.

The interest rate swap contract effective December 15, 2009 requires that the School pay fixed rates of interest (8.05%) and receive interest variable rates of interest on a \$1,535,000 notional amount of indebtedness through December 15, 2024. At June 30, 2011, the value of the swap contract was a liability of \$117,738.

The swap interest agreement is valued based on discounted cash flows and prevailing interest rates. The swap interest agreement is considered to be a Level 2 instrument under the fair value hierarchy. Changes in the value of the interest rate swap are reflected as a charge based on an allocation between various programs in the accompanying statement of activities.

Interest expense and the settlement of the swap for the year ended June 30, 2011 amounted to approximately \$121,000.

10. Line of Credit

The School has executed a line of credit for \$2,000,000 with a bank expiring on January 1, 2012. The agreement requires interest to be charged at a rate equal to the bank's prime rate plus 1.75%, with a minimum rate of 6.00% (6.00% as of June 30, 2011). This debt is secured with a general lien. As of June 30, 2011, there was \$1,000,000 outstanding on the line of credit.

11. Program and Public Support Services Revenue

For the year ended June 30, 2011, program and public support services revenue consists of the following:

	Amount
New York City Office of People With Developmental Disabilities:	
Medicaid	\$ 12,642,192
Other	822,623
New York City Board of Education	8,126,330
Long Island School Districts	1,553,429
Other	390,510
	<u>\$ 23,535,084</u>

Medicaid revenue is reimbursed to the School at the net reimbursement rates as determined by each program's cost report. Reimbursement rates are subject to revisions under the provisions of cost reimbursement regulations. Adjustments for State Education Department rate reconciliation are recognized in the year reconciled.

Certain programs of the School are funded by the Office of People With Developmental Disabilities ("OPWDD") and are eligible for property cost reimbursement. Once the rates have been finalized by OPWDD, the School receives additional revenue through a rate adjustment for these programs. The financial statements include the cost of the projects. The revenue is recorded once received by the School.

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2011

12. Grants and Contract Services

For the year ended June 30, 2011, grants and contract services revenue consists of the following:

	Amount
Consulting and Outreach	\$ 1,057,642
Education:	
IDEA	265,806
Other	164,126
OPWDD and NYC-DOHMH	319,114
	\$ 1,806,688

13. Pension Plan

The School has a federally qualified defined contribution pension plan covering substantially all full-time employees who meet certain eligibility requirements. The amount contributed to the Plan is a fixed percentage of participants' compensation. Pension expense amounted to approximately \$342,000 for the year ended June 30, 2011.

14. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2011 are available for the following purposes:

	Amount
NYC Adult Services	\$ 425,116
Wright Avenue Facility	50,000
Stapleton Avenue Project	171,107
	\$ 646,223

15. Related Party Transactions

The Foundation for the Advancement of Autistic Persons, Inc. (the "Foundation"), which was established to solicit charitable contributions and other funds, and provide other benefits and support the mission of the School and other organizations dedicated to the support of individuals with autism, shares certain members of management with the School.

The Foundation has provided an advance with no stated due date to the School. At June 30, 2011, the balance of this advance was \$2,539,933. The Foundation requires that \$25,000 be repaid each year. The remaining portion has no specified due date. The amount presented on the statement of position is offset by amounts due from the Foundation, which at June 30, 2011 totaled \$1,161,115. The balance on the statement of financial position is \$1,378,318.

16. Commitments and Contingencies

The School's program costs are subject to audit by various government agencies. In the opinion of the School management, any liabilities which might be incurred would not have a material effect on the School's financial position or results of operations.

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.

Notes to Financial Statements

Year Ended June 30, 2011

The School has lease agreements for rental space which expire at various dates through 2016. Rent expense for the year ended June 30, 2011 was \$344,624. In addition to these facilities, the School leases equipment and vehicles under noncancelable operating leases. Non-cancelable minimum lease payments are as follows:

<i>Years Ending June 30,</i>	<i>Amount</i>
2012	\$ 364,034
2013	176,332
2014	93,987
2015	84,612
2016	87,150
Thereafter	502,017
	<u>\$ 1,308,132</u>

17. Concentrations of Credit Risk

Financial instruments, which potentially subject the school to credit risk, consist principally of temporary cash investments. The School places its temporary cash investments with various financial institutions. The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits.

Eden II School for Autistic Children, Inc.

Financial Report

June 30, 2010

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Independent Auditor's Report

To the Board of Directors
Eden II School for Autistic Children, Inc.
Staten Island, New York

We have audited the accompanying statement of financial position of Eden II School for Autistic Children, Inc. (the "School") as of June 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

McGladrey & Pullen, LLP

New York, New York
January 31, 2011

Eden II School for Autistic Children, Inc.

Statement of Financial Position
June 30, 2010

ASSETS

Current Assets:

Cash and cash equivalents	\$ 336,674
Program services receivable (Note 4)	6,069,433
Grants and contracts receivable (Note 5)	620,249
Prepaid expenses and other assets	<u>302,826</u>

Total current assets 7,329,182

Restricted Cash - escrow 1,019,665

Debt Service Reserve Funds (Note 6) 985,530

Deferred Debt Issuance Costs, net of accumulated amortization of \$191,374 882,177

Property and Equipment, net (Note 7) 7,734,954

Total assets \$ 17,951,508

LIABILITIES AND UNRESTRICTED NET ASSETS

Current Liabilities:

Accounts payable and accrued expenses	\$ 1,682,252
Accrued compensation	1,174,523
Due to state and local agencies	145,613
Due to related party (Note 15)	25,000
Line of credit (Note 11)	1,750,000
Due to DASNY, current portion (Note 8)	24,000
Bonds payable, current portion (Note 9)	430,000
Long-term debt, current portion (Note 10)	<u>80,308</u>

Total current liabilities 5,311,696

Long-Term Liabilities:

Interest Rate Swap Agreement (Note 10)	146,084
Due to related party (Note 15)	1,576,270
Due to DASNY, less current portion (Note 8)	137,300
Bonds payable, less current portion (Note 9)	7,327,083
Long-term debt, less current portion (Note 10)	<u>1,647,318</u>

Total liabilities 16,145,751

Commitments and Contingencies (Note 16)

Unrestricted Net Assets 1,805,757

Total liabilities and unrestricted net assets \$ 17,951,508

See Notes to Financial Statements.

Eden II School for Autistic Children, Inc.

**Statement of Activities
Year Ended June 30, 2010**

Revenue:	
Program and public support services revenue, net (Note 12)	\$ 22,731,998
Grants and contract services (Note 13)	2,253,557
Contributions	95,472
Other revenue	<u>172,713</u>
Total revenue	<u>25,253,740</u>
Expenses:	
Family support	2,213,411
Residential services	7,205,190
Educational services	10,195,964
Adult habilitational services	2,136,759
Management and general	<u>3,304,387</u>
Total expenses	<u>25,055,711</u>
Revenue over expenses before other item	198,029
Other Item:	
Unrealized loss on change in interest swap	<u>(146,084)</u>
Increase in net assets	51,945
Unrestricted Net Assets:	
Beginning	<u>1,753,812</u>
Ending	<u>\$ 1,805,757</u>

See Notes to Financial Statements.

Eden II School for Autistic Children, Inc.

Statement of Functional Expenses
Year Ended June 30, 2010

	Program Services				Total Program Services	Management and General	Total
	Family Support	Residential Services	Educational Services	Adult Habilitational Services			
Salaries and wages	\$ 1,624,920	\$ 4,428,259	\$ 7,153,996	\$ 1,227,145	\$ 14,434,320	\$ 1,736,808	\$ 16,171,128
Fringe benefits	421,751	1,052,630	1,783,464	296,299	3,554,144	658,167	4,212,311
Food	1,730	196,839	1,240	250	200,059	-	200,059
Repairs and maintenance	20,579	150,889	117,864	83,129	372,461	28,704	401,165
Utilities	9,673	69,288	76,688	38,678	194,327	17,197	211,524
Travel	34,070	5,896	29,685	5,353	75,004	11,322	86,326
Participants' incidentals	818	131,921	8,738	12,750	154,227	-	154,227
Equipment	2,401	21,569	30,730	10,557	65,257	9,963	75,220
Staff training and development	3,553	7,236	34,109	3,830	48,728	61,573	110,301
Consultants and contractual services	2,320	31,155	65,716	180	99,371	111,903	211,274
Consumable supplies	21,866	108,374	194,174	40,503	364,917	31,744	396,661
Telephone and communication	6,785	29,155	33,427	10,615	79,982	15,331	95,313
Insurance	2,351	34,930	12,654	12,295	62,230	94,005	156,235
Advertising	-	-	75	-	75	8,075	8,150
Payroll processing	-	-	-	-	-	32,659	32,659
Dues and subscriptions	-	55	355	-	410	108,803	109,213
Professional fees	810	13,713	10,985	3,326	28,834	49,516	78,350
Leased vehicles	-	72,887	132	42,843	115,862	23	115,885
Leased equipment	3,189	16,152	25,151	9,907	54,399	5,312	59,711
Rent	-	-	343,200	18,363	361,563	-	361,563
Interest	16,457	219,956	144,820	86,933	468,166	58,147	526,313
Miscellaneous	525	115,921	8,854	1,347	126,647	27,634	154,281
Bad debt expense	-	-	-	-	-	161,337	161,337
Depreciation and amortization	39,613	498,365	119,907	232,456	890,341	76,164	966,505
Total functional expenses	\$ 2,213,411	\$ 7,205,190	\$ 10,195,964	\$ 2,136,759	\$ 21,751,324	\$ 3,304,387	\$ 25,055,711

See Notes to Financial Statements.

Eden II School for Autistic Children, Inc.

**Statement of Cash Flows
Year Ended June 30, 2010**

Cash Flows From Operating Activities:	
Cash received from program services	\$ 21,654,355
Cash received from grants and contracts	2,024,013
Cash received from other revenue	168,068
Cash received from interest income	4,645
Cash received from contributions	95,472
Cash paid for other than personnel costs	(6,942,538)
Cash paid for personnel costs	(16,192,976)
Cash paid for interest	(547,421)
	<u>263,618</u>
Net cash provided by operating activities	<u>263,618</u>
Cash Flows Used in Investing Activity - payments for construction-in-progress, property and equipment	<u>(143,685)</u>
Cash Flows From Financing Activities:	
Proceeds from bonds payable	
Repayment of bonds payable	(500,000)
Proceeds from long-term debt	1,535,000
Payments of long-term debt	(1,544,051)
Payments due to DASNY	(22,600)
Proceeds from line of credit	700,000
	<u>168,349</u>
Net cash provided by financing activities	<u>168,349</u>
Net increase in cash and cash equivalents	<u>288,282</u>
Cash and Cash Equivalents.	
Beginning	<u>48,392</u>
Ending	<u>\$ 336,674</u>
Reconciliation of Increase in Unrestricted Net Assets to Net Cash Provided by Operating Activities.	
Increase in unrestricted net assets	<u>\$ 51,945</u>
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:	
Depreciation and amortization	966,505
Bad debt expense	161,337
Change in interest rate swap	146,084
Changes in operating assets and liabilities.	
Increase in program services receivable	(1,238,980)
Increase in grants and contracts receivable	(229,544)
Increase in prepaid expenses and other assets	(176,730)
Increase in accounts payable and accrued expenses	419,567
Decrease in accrued compensation	(21,848)
Increase in due to state and local agencies	99,945
Increase in interest rate swap liability	146,084
Decrease in due to related party	(60,747)
	<u>211,673</u>
Total adjustments	<u>211,673</u>
Net cash provided by operating activities	<u>\$ 263,618</u>

See Notes to Financial Statements.

Eden II School for Autistic Children, Inc.

Notes to Financial Statements

Note 1. Description of Business

Eden II School for Autistic Children, Inc. ("Eden II" or the "School") is a nonprofit organization that provides education, vocational support and training, as well as family support programs to children and adults with autism. Services also include day habilitation and training for adults with autism, parent training, and consultation support to schools and agencies serving the autism population. The School operates one Intermediate Care Facility and five Individualized Residential Alternatives.

Eden II provides a wide range of services to individuals on the autism spectrum. The focus of these services is to provide education, training, and support to individuals with autism and their families across the lifespan with the goal of achieving the highest quality of life. Eden II participants reside in New York City and the counties of Long Island.

Success in providing quality services lies in Eden II's commitment to state of the art programming. Applied Behavior Analysis, the only empirically validated intervention for individuals with autism, provides the framework for all Eden II programs. Treatment programs are tailored to fit the individual, and are implemented within a community-based context designed to facilitate community living. The goal for all Eden II consumers is independence and community integration.

Eden II provides the following range of services:

- Day school programs for pre-school and school age children
- A vocational program for adolescents
- Adult day training and day habilitation programs
- Residential programs for adolescents and adults
- Family support services
- Community outreach services including parent training, community lectures and seminars, professional consultations, after-school services, and summer camps

Note 2. Significant Accounting Policies

Contributions received and unconditional promises to give that are reasonably determinable are recorded as public support at fair market value, as determined by management, in the period received and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recorded net of estimated uncollectible amounts. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. It is the School's policy to record temporarily restricted donations and contributions received in the same accounting period that the restriction is satisfied as an unrestricted contribution at the time received.

Contributions that the donor requires to be used to acquire long-lived assets (e.g., buildings and improvements, furniture, fixtures and equipment) are reported as temporarily restricted. Once the long-lived assets have been acquired or constructed, it is the School's policy to reflect the contribution or donation of the long-lived asset in its unrestricted net assets through a reclassification of net assets.

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

Eden II School for Autistic Children, Inc.

Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. All highly liquid investments with maturities of three months or less are considered to be cash equivalents.

Program services receivable are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The School estimates doubtful accounts based on historical bad debts, factors related to specific payors' ability to pay and current economic trends.

Investments are stated at their fair value in the statement of financial position. Realized and unrealized gains and losses are recognized as changes in net assets in the periods in which they occur, and investment income is recognized as revenue in the period earned.

Property and equipment is recorded at cost, except for donated assets which are recorded at fair market value at the date of donation, and are depreciated or amortized over the estimated useful lives of the underlying assets ranging from 5 to 25 years, using the straight-line method. Repairs and maintenance are charged to expense in the period incurred.

Construction-in-progress is recorded at cost and includes capitalization of architecture and construction fees. Depreciation is recorded when construction is complete and the asset is placed into service.

Debt issuance costs are deferred and amortized on a straight-line basis over the term of the related debt.

Net program and public support services revenue represents estimated net realizable amounts to be received from consumers and third-party payors for services rendered at the School. Such revenue for the year ended June 30, 2010, is principally related to consumers participating in the School's educational, residential, and day treatment programs, who are covered principally by Medicaid and the New York City Department of Education.

The School was incorporated as a not-for-profit corporation under the laws of the State of New York and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes.

In June 2009, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Codification ("ASC") 105, generally accepted accounting principles ("GAAP"), which establishes the FASB Accounting Standards Codification as the source of authoritative generally accepted accounting principles. Pursuant to the provisions of ASC 105, the School has updated references to GAAP in its financial statements issued for the year ended June 30, 2010. The adoption of ASC 105 did not impact the School's financial position or results of operations.

On July 1, 2009, the School adopted the accounting standard on accounting for uncertainty in income taxes codified in ASC 740, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the School may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated the School's tax positions and concluded that the School had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the School is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2006, which is the standard statute of limitations look-back period.

Eden II School for Autistic Children, Inc.

Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

The School evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available to be issued, which was January 31, 2011 for these financial statements.

Note 3. Investments and Fair Value of Financial Instruments

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs may be observable, based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The School's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. The following section describes the valuation techniques used by the School to measure different financial instruments at fair value and includes the level within the fair value hierarchy in which the financial instrument is categorized.

Derivative Instruments and Hedging Activities: The School accounts for interest rate swaps in accordance with ASC 815, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended, which requires that all derivative instruments be recorded on the statement of financial position at their respective fair values. The fair value of the interest rate swaps held is based on values provided by a third-party financial institution.

The School does not enter into derivative instruments for any purpose other than to limit the variability of a portion of its interest payments. That is, the School does not speculate using derivative instruments.

The fair value of the mortgage notes payable is estimated based on interest rates for similar debt offered to the School having similar remaining maturities and collateral requirements.

Cash and Cash Equivalents: The carrying amount approximates fair value because the instruments are liquid in nature.

Eden II School for Autistic Children, Inc.

Notes to Financial Statements

Note 3. Investments and Fair Value of Financial Instruments (Continued)

Accounts Receivable and Accounts Payable: The estimated fair value of the School's short-term financial instruments approximates their individual carrying amounts due to the relatively short period of time between their origination and expected realization.

Debt Service Reserve Fund: The fair value of government institutional money funds is estimated using prevailing interest rates.

Swap Interest Agreement: Fair value is based on discounted cash flows and prevailing interest rates.

Bond Payable: The carrying value of the bond payable approximates fair value based on the weekly change of interest rates.

The following table presents the School's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2010:

Description	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market fund	\$ 1,058,047	\$ 1,058,047	\$ -	\$ -
Government obligations	738,349	-	738,349	-
Fixed income	208,799	208,799	-	-
	<u>\$ 2,005,195</u>	<u>\$ 1,266,846</u>	<u>\$ 738,349</u>	<u>\$ -</u>
Financial Liabilities:				
Interest rate swap liability	\$ 146,084	\$ -	\$ 146,084	\$ -

Included in the above cash and cash equivalents and debt service reserve fund table are the following:

Restricted cash - escrow	\$ 1,019,665
Debt service reserve fund	985,530
	<u>\$ 2,005,195</u>

Eden II School for Autistic Children, Inc.

Notes to Financial Statements

Note 4. Program Services Receivable

Program services receivable as of June 30, 2010 consists of the following:

New York City Board of Education	\$ 1,868,424
Medicaid	3,537,736
Long Island districts	679,258
Other	<u>521,462</u>
	6,606,880
Less allowance for doubtful accounts	<u>(537,447)</u>
	<u><u>\$ 6,069,433</u></u>

Note 5. Grants and Contracts Receivable

Grants and contracts receivable as of June 30, 2010 consist of the following:

New York City Department of Mental Health	\$ 471,683
Individuals with Disabilities Education Act ("IDEA")	31,880
Family Support Services	102,186
Other	<u>14,500</u>
	<u><u>\$ 620,249</u></u>

Note 6. Debt Service Reserve Funds

The School has debt service reserve funds in connection with the Dormitory Authority of the State of New York ("DASNY") and the New York City Industrial Development Agency ("IDA") bond issuances. These balances are limited under terms of debt indentures. The funds as of June 30, 2010 are as follows:

DASNY	381 Carlton Boulevard, Staten Island	\$ 32,282
IDA 2004C	150 Granite Avenue, Staten Island	363,900
IDA 2005A	106 Grayson Street and 94 Wright Avenue, Staten Island	372,934
IDA 2006D	155 Dix Hills Road, Huntington	96,500
IDA 2007C	131 Cambon Avenue, Saint James	<u>119,914</u>
		<u><u>\$ 985,530</u></u>

Eden II School for Autistic Children, Inc.

Notes to Financial Statements

Note 7. Property and Equipment, Net

Property and equipment, net, at cost, consists of the following at June 30, 2010:

Land	\$ 1,487,524
Building and improvements	11,329,740
Equipment	1,159,930
Construction-in-progress	<u>64,797</u>
	14,041,991
Less accumulated depreciation and amortization	<u>(6,307,037)</u>
	<u>\$ 7,734,954</u>

Note 8. Due to DASNY

Due to DASNY at June 30, 2010 consists of the following:

The School has entered into a bond financing with DASNY in the amount of \$399,500. This tax-exempt bond covers the purchase and renovation of the Carlton Boulevard Intermediate Care Facility located on Staten Island, New York, which serves as collateral against the bond. The bond will be paid to DASNY over a period of 25 years through June 1, 2015.

	\$ 161,300
Less current maturities	<u>(24,000)</u>
	<u>\$ 137,300</u>

The aggregate amounts of principal payments due to DASNY during each of the five years following June 30, 2010 and thereafter are as follows:

Year ending June 30,

2011	\$ 24,000
2012	25,966
2013	27,967
2014	30,200
2015	31,966
Thereafter	<u>21,201</u>
	<u>\$ 161,300</u>

Eden II School for Autistic Children, Inc.

Notes to Financial Statements

Note 9. Bonds Payable

Bonds payable as of June 30, 2010 consist of the following:

On August 19, 2004, the School refinanced the IDA bonds with the New York City Industrial Development Agency. These bonds are Special Needs Facilities Pooled Series 2004 C and D Bond Issues. The bonds consist of (Series 2004 C-1 and D-1 tax exempt in the amount of \$3,630,000 and Series 2004 C-2 and D-2 taxable in the amount of \$170,000). The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating a building, which is included in property and equipment, purchased by the School at 150 Granite Avenue, Staten Island, that serves as collateral for the bonds. This facility is leased to the School for a period of 24 years expiring July 1, 2029. Lease payments are equal to IDA's interest and principal on the bonds. At the expiration of the 24-year term, ownership of the facility reverts to the School for \$1. Interest is at 6.48% through July 1, 2020. The debt service reserve fund will receive a guaranteed investment earning rate of 4%, which will be credited every six months and will help to offset the net loan repayments.

\$ 3,317,083

In March 2005, the School, through the InterAgency Council of Mental Retardation and Developmental Disabilities and the New York City Special Needs Facilities Program, issued Series 2005 A-1, B-1 and C-1 tax exempt bonds in the amount of \$3,465,000 and Series 2005 A-2, B-2 and C-2 taxable bonds in the amount of \$170,000. The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating buildings, which is included in property and equipment, purchased by the School at 106 Grayson Street and 94 Wright Avenue, the properties serve as collateral for the bonds. The facility is leased to the School for a period of 15 years expiring July 1, 2020. Lease payments are equal to IDA's interest and principal on the bonds. At the expiration of the 15-year term, ownership of the facility reverts to the School for \$1. Interest is at 6.48% through July 1, 2020. The debt service reserve fund will receive a guaranteed investment earning rate of 4.03%, which will be credited every six months and will help to offset the net loan repayments.

2,465,000

In June 2006, the School, through the InterAgency Council of Mental Retardation and Developmental Disabilities and the Suffolk County Industrial Development Agency Special Needs Facilities Program, issued Series 2006 D tax-exempt bonds in the amount of \$965,000 and series 2006 D taxable bonds in the amount of \$55,000. The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating a building, which is included in property and equipment, purchased by the school at 155 Dix Hills Road. The property serves as collateral for the bonds. The facility is leased to the School for a period of 13 years, expiring July 1, 2019. Lease payments are equal to IDA's interest and principal on the bonds. At the expiration of the 13-year term to IDA's interest and principal on the bonds, ownership of the facility reverts to the School for \$1. Interest is at 4.72% through July 1, 2019. The debt service reserve fund will receive a guaranteed investment earning rate of 5.14%, which will be credited every six months and will help to offset the net loan payments.

750,000

(continued)

Eden II School for Autistic Children, Inc.

Notes to Financial Statements

Note 9. Bonds Payable (Continued)

In 2008, the School and the Suffolk County Industrial Development Agency Special Needs Facilities Program issued Series 2007 C tax exempt bonds in the amount of \$1,332,800 and Series 2007 C taxable bonds in the amount of \$98,000. The proceeds of the bonds are to finance the cost of acquiring, equipping and renovating a building, which is included in property and equipment, purchased by the School at 131 Cambon Avenue. The property serves as collateral for the bonds. The facility is leased to the School for a period of 15 years, expiring July 1, 2022. Lease payments are equal to IDA's interest and principal on the bonds. At the expiration of the 15-year term, ownership of the facility reverts to the School for \$1. Interest is at 2.00%, through July 1, 2022. The debt service reserve fund will receive a guaranteed investment earning rate of 2.00%, which will be credited every six months and will help to offset the net loan repayments.

	<u>\$ 1,225,000</u>
Subtotal	7,757,083
Less current maturities	<u>(430,000)</u>
	<u><u>\$ 7,327,083</u></u>

The aggregate amounts of principal payments on the bond payable during each of the five years following June 30, 2010 and thereafter are as follows:

Year ending June 30,

2011	\$ 430,000
2012	440,000
2013	445,000
2014	460,000
2015	465,000
Thereafter	<u>5,517,083</u>
	<u><u>\$ 7,757,083</u></u>

Eden II School for Autistic Children, Inc.

Notes to Financial Statements

Note 10. Long-Term Debt

Long-term debt as of June 30, 2010 consists of the following:

The School received a \$354,750 mortgage loan from a financial institution for a building. The mortgage, due September 1, 2017, is payable in monthly installments of \$3,263, including interest at 7.375% per annum. The School has the option to renew the loan for an additional five years. The loan is secured by the property at 2102 Dixon Avenue, Staten Island.

\$ 219,394

The School executed a 15-year term note adjustable every 5 years, interest to be charged at a rate equal to one (1) month LIBOR, plus 4.0% per annum (7.85%), which matures on December 15, 2024. The monthly payment approximates \$14,160. This debt is secured by the property at 682 Collfield Avenue, Staten Island, and with a general lien.

1,508,232

Subtotal

1,727,626

Less current maturities

(80,308)

\$ 1,647,318

The aggregate amounts of principal payments on the long-term debt during each of the five years following June 30, 2010 and thereafter are as follows:

Year ending June 30,

2011	\$ 80,308
2012	86,274
2013	94,346
2014	101,772
2015	110,151
Thereafter	<u>1,254,775</u>
	<u>\$ 1,727,626</u>

The note has a variable rate which exposes the School to variability in interest payments due to changes in interest rates. The School believes that it is prudent to limit the variability of a portion of its interest payments. To meet this objective, the School entered into an interest rate swap agreement to manage fluctuations in cash flows resulting from interest rate risk. This swap changes a portion of the variable rate cash flow exposure on the note to fixed cash flows. Under the terms of the interest rate swap, the School receives variable interest rate payments and makes fixed interest rate payments on a notional principal amount, thereby creating the equivalent of fixed-rate debt.

The interest rate swap contract in effect at December 15, 2009 requires the School to pay fixed rates of interest (8.05%) and receive interest variable rates of interest on a \$1,535,000 notional amount of indebtedness through December 15, 2024. At June 30, 2010, the value of the swap contract was a liability of \$146,084.

Eden II School for Autistic Children, Inc.

Notes to Financial Statements

Note 10. Long-Term Debt (Continued)

Changes in the value of the interest rate swap are reflected as a charge based on an allocation between various programs in the accompanying statements of activities.

Interest expense and the settlement of the swap for the year ended June 30, 2010 amounted to approximately \$77,000.

Note 11. Line of Credit

The School has executed a line of credit for \$2,000,000 from a bank expiring on December 31, 2010. The School is in the process of negotiating with the bank to extend the line of credit. The agreement requires interest to be charged at a rate equal to the bank's prime rate plus 1.75%, with a minimum rate of 6.00% (6.00% as of June 30, 2010). This debt is secured with a general lien. As of June 30, 2010, there was \$1,750,000 outstanding on the line of credit.

Note 12. Program and Public Support Services Revenue

For the year ended June 30, 2010, program and public support services revenue, net, consist of the following:

New York State Office for People with Developmental Disabilities:	
Medicaid	\$ 11,398,676
Other	1,091,530
New York City Department of Education	8,292,678
Long Island school districts	1,534,181
Other	<u>414,933</u>
	<u>\$ 22,731,998</u>

Medicaid revenue is reimbursed to the School at the net reimbursement rates as determined by each program's cost report. Reimbursement rates are subject to revisions under the provisions of cost reimbursement regulations. Adjustments for State Education Department rate reconciliation are recognized in the year reconciled.

Certain programs of the School are funded by the Office for People with Developmental Disabilities ("OPWDD") and are eligible for property cost reimbursement. Once the rates have been finalized by OPWDD, the School will receive additional revenue through a rate adjustment for these programs. The financial statements include the cost of the projects. The revenue will be recorded once earned by the School through services being provided.

Note 13. Grants and Contract Services

For the year ended June 30, 2010, grants and contract services revenue consists of the following:

Consulting and Outreach	\$ 789,302
Education:	
IDEA	329,932
Other	100,772
OPWDD and NYC-DOHMH	<u>1,033,551</u>
	<u>\$ 2,253,557</u>

Eden II School for Autistic Children, Inc.

Notes to Financial Statements

Note 14. Pension Plan

The School has a federally qualified defined contribution pension plan covering substantially all full-time employees who meet certain eligibility requirements. The amount contributed to the plan is a fixed percentage of participants' compensation. Pension expense amounted to \$291,432 for the year ended June 30, 2010.

Note 15. Related Party Transactions

The Foundation for the Advancement of Autistic Persons, Inc. (the "Foundation") shares certain members of management with the School, which was established to solicit charitable contributions and other funds, and provide other benefits and support the mission of the School.

The Foundation has provided an advance with no stated due date to the School. At June 30, 2010, the balance of this loan was \$2,133,983. The Foundation requires that \$25,000 be repaid within a year. The remaining portion of the debt has no specified due date. The amount presented on the statement position is offset by amounts due from the Foundation, which at June 30, 2010 totaled \$532,713. The loan balance on the statement of financial position is \$1,601,270.

Note 16. Commitments and Contingencies

The School's program costs are subject to audit by various government agencies. In the opinion of the School management, any liabilities which might be incurred would not have a material effect on the School's financial position or results of operations.

The School has lease agreements for rental space which expire at various dates through 2012. Rent expense for the year ended June 30, 2010 was \$361,563. In addition to this facility, the School leases equipment and vehicles under noncancelable operating leases. Future minimum lease payments for the years following June 30, 2010 are as follows:

Year ending June 30.

2011	\$ 105,996
2012	115,777
2013	96,120
2014	82,148
2015	84,612
Thereafter	<u>589,168</u>
	<u>\$ 1,073,821</u>

APPENDIX B-II
INSTITUTE FOR COMMUNITY LIVING, INC.
AUDITED FINANCIAL STATEMENTS
(FOR THE YEARS ENDED JUNE 30, 2012, JUNE 30, 2011 AND JUNE 30, 2010)

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**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES**

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Institute for Community Living, Inc.
and Related Entities
New York, New York

We have audited the accompanying consolidated statement of financial position of The Institute for Community Living, Inc. and Related Entities (the "Consolidated Group") at June 30, 2012, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Consolidated Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements as of June 30, 2011, were audited by other auditors whose report dated November 11, 2011, expressed an unqualified opinion on those statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Institute for Community Living, Inc. and Related Entities at June 30, 2012, and the consolidated changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Grassi & Co., CPAs, P.C.

GRASSI & CO., CPAs, P.C.

Jericho, New York
November 29, 2012

INSTITUTE FOR COMMUNITY LIVING, INC
AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 4,451,998	\$ 6,688,334
Investments in mutual funds	1,165,358	2,444,470
Accounts receivable - government contracts	4,340,398	5,022,823
Accounts receivable - Medicaid/Medicare, net	7,588,418	7,813,241
Accounts receivable - other (net of allowance for bad debt of \$902,000)	4,589,382	647,651
Loan Receivable	519,812	
Prepaid expenses and other assets	481,152	594,439
Limited use assets		
Lease payment fund - cash	260,000	296,397
Debt service reserve fund - cash	1,075,781	1,075,781
Fixed assets, net	42,843,376	37,531,455
Deferred charge	7,029,174	6,972,596
Total Assets	\$ 74,344,849	\$ 69,087,187
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable and accrued expenses	\$ 7,120,069	\$ 7,445,591
Accrued salaries payable	1,449,700	1,271,203
Deferred compensation payable	1,249,355	2,536,455
Advances from government agencies	3,102,787	3,795,071
Due to New York State Office of Mental Health - capital advances	14,443,522	8,333,827
Due to New York State	6,246,943	5,080,635
Mortgages payable	24,584,491	26,236,629
Swap liability	1,216,932	764,636
Capital lease payable	5,850,000	6,280,000
Reserve for rate adjustments	964,000	1,431,000
Total Liabilities	66,227,799	63,175,047
Commitments and Contingencies		
Net assets		
Unrestricted - undesignated	5,251,288	2,969,445
Unrestricted - capital reserve	777,458	797,786
Unrestricted - depreciation	1,571,219	1,581,453
Total Unrestricted Net Assets	7,599,965	5,348,684
Temporarily Restricted	517,085	563,456
Total Net Assets	8,117,050	5,912,140
Total Liabilities and Net Assets	\$ 74,344,849	\$ 69,087,187

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

INSTITUTE FOR COMMUNITY LIVING, INC
AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2012 AND 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating revenues and other support						
MH residential	\$ 45,049,154	\$ -	\$ 45,049,154	\$ 43,754,726	\$ -	\$ 43,754,726
Homeless services	13,108,359	-	13,108,359	14,275,332	-	14,275,332
MR residential services	13,431,858	-	13,431,858	12,088,678	-	12,088,678
Children and family services	9,488,778	-	9,488,778	9,767,314	-	9,767,314
Community support services	3,382,030	-	3,382,030	3,419,383	-	3,419,383
Continuing day treatment	-	-	-	211,891	-	211,891
Clinic	3,193,485	-	3,193,485	7,058,647	-	7,058,647
Other programs	1,758,401	-	1,758,401	534,998	-	534,998
Net assets released from restrictions	46,371	(46,371)	-	46,371	(46,371)	-
Total Operating Revenues and Other Support	89,458,436	(46,371)	89,412,065	91,157,340	(46,371)	91,110,969
Operating expenses						
Program services						
MH residential services	38,874,845	-	38,874,845	38,247,938	-	38,247,938
Homeless services	11,956,126	-	11,956,126	12,384,220	-	12,384,220
MR residential services	11,104,180	-	11,104,180	9,702,458	-	9,702,458
Children and family services	9,077,716	-	9,077,716	8,652,918	-	8,652,918
Community support services	2,645,133	-	2,645,133	3,316,974	-	3,316,974
Continuing day treatment	-	-	-	293,716	-	293,716
Clinic programs	3,283,623	-	3,283,623	6,898,668	-	6,898,668
Other programs	2,749,108	-	2,749,108	2,017,868	-	2,017,868
Total Program Services	79,690,731	-	79,690,731	81,514,760	-	81,514,760
Supporting services						
Management and general	9,383,838	-	9,383,838	9,620,454	-	9,620,454
Total Operating Expenses	\$ 89,074,569	\$ -	\$ 89,074,569	\$ 91,135,214	\$ -	\$ 91,135,214

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

INSTITUTE FOR COMMUNITY LIVING, INC
AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2012 AND 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Change in net assets from operations	\$ 383,867	\$ (46,371)	\$ 337,496	\$ 22,128	\$ (46,371)	\$ (24,245)
Nonoperating revenues						
Contributions	9,481	-	9,481	19,823	-	19,823
Special events revenue	\$ 224,540	-	224,540	259,099	-	259,099
Cost of special events	(100,742)	-	(100,742)	(178,443)	-	(178,443)
Interest	7,656	-	7,656	11,318	-	11,318
Total Nonoperating Revenues	140,915	-	140,915	111,795	-	111,795
Change in Net Assets before Swap Transaction	524,782	(46,371)	478,411	133,921	(46,371)	87,550
Loss on Swap Agreement	(452,296)	-	(452,296)	(19,854)	-	(19,854)
Change in Net Assets	72,486	(46,371)	26,115	114,067	(46,371)	67,696
Net Assets - Beginning of Year- deconsolidated	7,527,479	563,456	8,090,935	5,234,817	609,827	5,844,644
Net Assets - End of Year	\$ 7,599,965	\$ 517,085	\$ 8,117,050	\$ 5,348,884	\$ 563,456	\$ 5,912,340

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

INSTITUTE FOR COMMUNITY LIVING INC
AND RELATED ENTITIES
STATEMENT OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30 2012 AND 2011

2012

	Program Services							Supporting Services				
	MH Residential Services	Homeless Services	MR Residential Services	Children and Family Services	Community Support Services	Clinic Programs	Other Programs	Total	Management and General	Costs of Special Events	Total	Total
Salaries	\$ 16,144,850	\$ 3,884,628	\$ 5,384,440	\$ 4,865,581	\$ 1,744,413	\$ 2,015,039	\$ 1,078,283	\$ 34,697,014	\$ 5,252,568	\$ -	\$ 5,252,568	\$ 39,949,582
Fringe benefits	3,984,243	890,867	1,316,966	1,056,765	453,533	670,449	289,044	8,641,887	1,133,958	-	1,133,958	9,775,845
Total Salaries and Related Expenses	20,108,893	4,575,515	6,681,406	5,722,346	2,197,946	2,685,488	1,367,307	43,338,901	6,386,526	-	6,386,526	49,725,427
Rent	8,169,727	2,726,683	15,529	817,389	-	324,428	-	12,053,764	749,919	-	749,919	12,803,683
Professional fees and contract service payments	568,144	2,023,500	517,649	316,634	11,012	9,555	567,969	4,014,483	487,197	400	487,597	4,502,060
Depreciation and amortization	1,678,749	-	257,236	272,064	15,823	10,311	161,445	2,395,628	161,157	-	161,157	2,556,785
Interest	1,223,854	-	112,314	83,895	18,148	-	259,385	1,687,596	311	-	311	1,687,907
Utilities	1,049,624	287,941	191,416	219,087	25,294	30,109	-	1,803,671	61,080	-	61,080	1,864,751
Maintenance repairs and other property costs	1,041,054	458,279	208,822	533,144	12,868	9,780	82,792	2,348,839	89,440	-	89,440	2,438,279
Food	1,328,573	1,143,823	249,167	54,951	2,108	-	-	2,778,620	11,462	-	11,462	2,790,082
Supplies	690,393	286,188	295,188	88,273	79,506	24,874	37,500	1,498,918	106,316	-	106,316	1,605,234
Furniture and equipment	442,160	38,725	76,520	56,190	11,066	426	-	625,087	17,138	-	17,138	642,225
Insurance	485,455	114,511	67,672	57,330	44,773	3,528	-	803,287	62,969	-	62,969	866,256
Client activities	343,121	1,455	20,832	115,581	93,306	-	78	574,371	-	-	-	574,371
Data processing	139,375	89,152	34,387	72,852	32,638	19,894	7,202	395,500	320,259	-	320,259	715,759
Telephone	375,369	71,204	49,519	106,355	42,200	67,275	16,239	728,161	231,263	-	231,263	959,424
Clothing	146,908	-	18,819	7,938	200	-	-	173,665	-	-	-	173,665
Vehicle expense	102,711	44,655	113,977	5,647	12,414	-	22,570	301,874	80,243	-	80,243	382,217
New York State tax assessment	-	-	204,396	-	-	-	-	204,396	-	-	-	204,396
Day habilitation	-	-	1,838,444	-	-	-	-	1,838,444	-	-	-	1,838,444
Equipment rental	134,198	22,288	41,342	39,836	13,352	12,941	11,831	275,786	62,534	-	62,534	338,300
Postage and printing	88,917	7,684	39,025	31,613	3,880	-	3,584	164,703	74,439	17,699	92,138	276,841
Client travel	108,335	37,000	6,835	81,956	3,949	50,243	-	288,118	-	-	-	288,118
Special events - catering	-	-	-	-	-	-	-	-	-	81,947	81,947	81,947
Employee travel	63,120	884	10,367	29,480	26,821	3,347	11,273	145,292	80,171	-	80,171	235,463
Dues and subscriptions	-	8,625	880	696	-	11,715	1,417	23,333	167,710	-	167,710	191,043
Conferences and meetings	4,983	1,318	3,052	1,812	89	-	-	11,244	45,218	406	46,424	56,888
Staff training	7,431	2,107	5,510	9,941	284	-	108	25,381	99,572	-	99,572	124,933
Personnel recruitment	9,214	14,570	5,089	2,305	400	-	8,670	40,248	47,100	-	47,100	87,348
Miscellaneous	7,843	41	9,089	391	68	19,713	9,740	46,685	11,814	290	12,104	58,789
Subcontractor	548,716	-	-	-	-	-	-	548,716	-	-	-	548,716
Bad debt	-	-	-	350,000	-	-	180,000	530,000	-	-	-	530,000
Total Expenses	38,874,845	11,956,126	11,104,180	9,077,718	2,645,133	3,283,623	2,749,108	79,690,731	9,383,838	100,742	9,484,580	89,175,311
Less cost of special events	-	-	-	-	-	-	-	-	-	(100,742)	(100,742)	(100,742)
Total Expenses Reported by Function on the Statement of Activities	\$ 38,874,845	\$ 11,956,126	\$ 11,104,180	\$ 9,077,718	\$ 2,645,133	\$ 3,283,623	\$ 2,749,108	\$ 79,690,731	\$ 9,383,838	\$ -	\$ 9,383,838	\$ 89,074,569

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

INSTITUTE FOR COMMUNITY LIVING, INC
AND RELATED ENTITIES
STATEMENT OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2012 AND 2011

2011

	Program Services								Supporting Services				
	MH Residential Services	Homeless Services	MR Residential Services	Children and Family Services	Community Support Services	Continuing Day Treatment	Clinic Programs	Other Programs	Total	Management and General	Costs of Special Events	Total	Total
Salaries	\$ 15,502,860	\$ 3,631,517	\$ 5,274,095	\$ 4,759,531	\$ 1,915,231	\$ 182,718	\$ 3,982,849	\$ 846,910	\$ 36,095,711	\$ 4,951,015	\$ -	\$ 4,951,015	\$ 41,048,726
Fringe benefits	4,093,531	957,991	1,401,475	1,184,651	505,238	46,201	1,019,237	284,146	9,504,468	1,089,824	-	1,089,824	10,594,292
Total Salaries and Related Expenses	19,596,391	4,589,508	8,675,570	5,944,182	2,420,467	230,919	5,002,086	1,141,056	45,600,179	6,040,839	-	6,040,839	51,641,018
Rent	7,597,345	2,785,318	19,332	794,736	4,181	934	459,193	-	11,641,019	745,192	-	745,192	12,386,211
Professional fees and contract service payments	486,087	1,580,875	465,361	412,769	28,538	9,838	531,287	87,850	3,602,603	1,252,213	14,383	1,266,596	4,869,199
Depreciation and amortization	1,763,650	-	268,142	218,588	-	450	185,331	150,846	2,569,007	169,142	-	169,142	2,734,149
Interest	1,319,277	-	124,931	82,227	-	-	-	288,639	1,805,074	-	-	-	1,805,074
Utilities	1,085,105	320,409	195,788	167,813	37,815	8,702	48,627	-	1,882,039	73,981	-	73,981	1,956,020
Maintenance, repairs and other property costs	1,131,354	1,336,233	102,048	211,263	24,632	6,387	54,807	69,049	2,935,773	123,156	-	123,156	3,058,931
Food	1,304,306	1,151,621	235,832	51,160	7,798	-	-	-	2,754,855	11,252	-	11,252	2,766,207
Supplies	694,934	295,335	270,981	85,396	462,384	1,705	129,774	-	1,910,489	102,980	-	102,980	2,013,469
Furniture and equipment	329,579	25,771	87,240	72,143	14,829	-	-	5,896	524,483	9,236	-	9,236	533,899
Insurance	356,491	83,335	72,370	53,363	38,122	6,638	8,464	2,217	620,998	45,386	-	45,386	666,384
Client activities	354,853	1,428	12,935	134,885	116,621	-	-	224,420	845,540	1,207	-	1,207	846,747
Data processing	235,567	68,194	84,209	84,110	38,947	2,531	73,820	6,884	594,282	339,351	-	339,351	933,613
Telephone	375,326	72,140	57,645	107,291	52,069	3,067	100,859	9,485	777,882	185,154	-	185,154	963,036
Clothing	296,799	-	17,390	15,198	1,787	-	-	-	333,174	-	-	-	333,174
Vehicle expense	80,974	85,393	118,872	5,819	13,335	70	-	8,199	290,482	88,255	-	88,255	378,717
New York State tax assessment	-	-	218,372	-	-	-	-	-	218,372	-	-	-	218,372
Day habilitation	-	-	592,580	-	-	-	-	-	592,580	-	-	-	592,580
Equipment rental	122,515	19,986	38,590	38,890	20,540	7,173	24,740	4,431	274,885	56,314	-	56,314	331,179
Postage and printing	124,572	4,093	30,917	28,758	4,457	528	-	3,870	196,695	104,718	18,501	123,219	319,914
Client travel	91,797	25,630	4,523	88,252	1,917	10,350	58,532	-	277,001	-	-	-	277,001
Special events - catering	-	-	-	-	-	-	-	-	-	-	138,184	-	138,184
Employee travel	62,818	3,872	8,893	26,260	26,225	21	5,513	8,697	140,199	52,479	-	52,479	192,678
Dues and subscriptions	33,196	1,000	14,000	3,894	-	-	7,881	-	60,071	103,849	-	103,849	163,920
Conferences and meetings	3,576	1,137	528	1,115	1,541	-	-	500	8,397	19,198	7,125	26,323	34,720
Staff training	3,471	1,478	981	9,708	544	-	-	9,672	25,854	62,955	-	62,955	88,609
Personnel recruitment	8,965	1,450	2,813	2,305	293	107	2,417	-	18,350	21,875	-	21,875	40,225
Miscellaneous	14,710	18	7,875	459	54	60	22,955	16,557	62,688	11,720	250	11,970	74,856
Subcontractor	772,480	-	-	-	-	-	-	-	772,480	-	-	-	772,480
Bad debt	-	-	-	8,334	-	-	196,977	-	203,311	-	-	-	203,311
Total Expenses	38,247,938	12,384,220	9,702,458	8,652,918	3,318,974	293,716	8,898,688	2,017,868	81,514,760	9,620,454	178,443	9,798,897	91,313,657
Less cost of special events	-	-	-	-	-	-	-	-	-	-	(178,443)	-	(178,443)
Total Expenses Reported by Function on the Statement of Activities	\$ 38,247,938	\$ 12,384,220	\$ 9,702,458	\$ 8,652,918	\$ 3,318,974	\$ 293,716	\$ 8,898,688	\$ 2,017,868	\$ 81,514,760	\$ 9,620,454	\$ -	\$ 9,620,454	\$ 91,135,214

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

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets	\$ 26,115	\$ 67,696
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss on swap agreement	452,296	19,854
Depreciation and amortization	2,556,785	2,734,149
Bad debts	530,000	203,311
Deferred charge	(56,578)	(73,063)
Decrease (increase) in assets		
Accounts receivable	(1,741,273)	(1,436,355)
Prepaid expenses and other assets	103,214	(39,481)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(120,309)	1,534,850
Accrued salaries payable	178,497	(33,299)
Deferred compensation payable	(1,287,100)	(236,957)
Advances from government agencies	(692,284)	(328,734)
Due to New York State	1,166,308	185,228
Reserve for rate adjustments	(393,000)	(194,000)
Net cash provided by operating activities	<u>722,671</u>	<u>2,403,199</u>
Cash flows from investing activities		
Deconsolidation of ICL Healthcare Choices, Inc. - cash	(118,670)	
Fixed asset acquisitions	(8,183,403)	(2,947,513)
Purchase of investments	(181,104)	(1,279,766)
Sales of investments	1,460,216	1,352,646
Decrease in limited use assets	36,397	15,144
Net cash used in investing activities	<u>(6,986,564)</u>	<u>(2,859,489)</u>
Cash flows from financing activities		
Proceeds from New York State OMH - capital advances	6,109,695	1,944,410
Principal payments on capital lease payable	(430,000)	(405,000)
Principal payments on mortgages payable	(1,652,138)	(1,561,661)
Net cash provided by (used in) financing activities	<u>4,027,557</u>	<u>(22,251)</u>
Net decrease in cash and cash equivalents	(2,236,336)	(478,541)
Cash and cash equivalents - beginning of year	<u>6,688,334</u>	<u>7,166,875</u>
Cash and cash equivalents - end of year	<u>\$ 4,451,998</u>	<u>\$ 6,688,334</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 1,697,907</u>	<u>\$ 1,805,074</u>

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

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

Note 1 - Nature of Entities and Principles of Consolidation

Institute for Community Living, Inc. ("ICL"), located in New York City, was incorporated under New York State Law in 1986. Its mission is to assist people with mental and developmental disabilities who need opportunities to improve their quality of life and to participate in community living by providing high-quality services and support. ICL is funded primarily by fees paid by the New York State Office of Mental Health ("OMH"), Office for People with Developmental Disabilities ("OPWDD") and Medicaid.

ICL Joselow House, Inc. ("Joselow"), located in New York City, was incorporated in 1999 under the New York State Not-for-Profit Corporation Law. Joselow began operations on May 3, 1999. Its mission is to provide residential services to developmentally disabled people. Joselow is supported primarily by service fees paid by Medicaid.

The Guidance Center of Brooklyn, Inc. ("GCB") was incorporated under New York State Law in 1970. GCB maintains and operates a mental health treatment program, a substance abuse treatment program and a substance abuse prevention program. GCB is supported primarily by service fees paid by Medicaid. Effective January 29, 1999, OMH approved a change in sponsorship whereby ICL was named the new sponsor of services provided by GCB. On February 8, 1999, the Board of Directors of ICL accepted the resignation of the former Board of GCB and appointed a new Board of Directors for GCB.

ICL Real Property Holding Corporation ("ICLRPHC"), located in New York City, was incorporated under New York State Law in 1994. Its mission is to own, purchase, acquire, lease and/or mortgage real property and premises thereon to further the exempt purpose of ICL. Its primary source of funding is rental income from ICL.

Phoenix Recycling and Maintenance, Inc. ("Phoenix") is a for-profit organization that was incorporated under the New York State Business Corporation Law in 1998. Phoenix is a full-service cleaning, maintenance and waste management company. Its purpose is to provide training and opportunities for persons who are disabled or who have histories of homelessness or welfare. Phoenix is supported primarily by revenue received from cleaning, maintenance and waste management services.

ICL HealthCare Choices, Inc. ("ICLHCC") locate in New York City, was incorporated in 2001 under New York State Not-for-Profit Corporation Law. ICLHCC began operations on July 9, 2001. Its mission is to assist people with mental and developmental disabilities by providing an Article 28 medical clinic. Its primary source of revenues is clinic fees paid by Medicaid.

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

Note 1 - Nature of Entities (cont'd.)

Pennsylvania Institute for Community Living, Inc. ("PICL") is a not-for-profit corporation formed in the Commonwealth of Pennsylvania that has been established to develop and operate residential and outpatient treatment, rehabilitation and support services for individuals with mental disabilities. Its mission is to assist people with mental and developmental disabilities who need opportunities to improve their quality of life and to participate in community living by providing high-quality services and support. PICL is funded primarily through the Montgomery County Office of Mental Health.

During 2012, ICL is the sole member of ICL Real Property Holding Corporation, ICL Joselow House, Inc., The Guidance Center of Brooklyn, Inc., Pennsylvania Institute for Community Living, Inc. and Phoenix Recycling and Maintenance, Inc. and appoints the various boards of directors. During 2011, ICL was also the sole member of ICLHCC and appointed their board of directors. During 2012, the corporate structure changed and ICL is no longer the sole member of ICLHCC and does not appoint their board of directors.

ICL, Joselow, GCB, and PICL are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code ("IRC"). ICLRPHC is a tax-exempt organization under Section 501(c)(2) of the IRC.

Consolidated Financial Statements

During 2011, the consolidated financial statements include the financial position, changes in net assets and cash flows of ICL, Joselow, GCB, ICLRPHC, ICLHCC, PICL, and Phoenix (the "Consolidated Group"). In 2012, ICLHCC was deconsolidated, therefore are not included. Intercompany transactions and balances have been eliminated.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

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

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 - Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Valuations based on unobservable inputs reflecting the Consolidated Group's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

At June 30, 2012, the fair value of the Consolidated Group's financial instruments including cash and cash equivalents, certificates of deposit, accounts receivable, loan receivable, limited use assets, accounts payable and accrued expenses, and accrued salaries payable, approximated book value due to the short maturity of these instruments.

Refer to Note 7 - Fair Value Measurements for assets measured at fair value.

Cash and Cash Equivalents

The Consolidated Group classifies as cash and cash equivalents all highly liquid investments with initial maturities of three months or less when purchased which are not deemed to be assets limited as to use.

INSTITUTE FOR COMMUNITY LIVING, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Investments

Investments are stated at the readily determinable fair market value in accordance with the Not-for-Profit Entities topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). All interest, dividends and realized and unrealized gains and losses are reported in the statement of activities as increases or decreases in unrestricted net assets.

Accounts Receivable, Allowance for Doubtful Accounts and Revenue Recognition

The Consolidated Group records receivables and revenue based on established third-party reimbursement rates for services provided. Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed the amounts spent, The Consolidated Group establishes advances from government funders. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include management's assessments of the creditworthiness of its funders, the age of the receivable, a review of payments subsequent to year end as well as current economic conditions and historical information. Interest income is not accrued or recorded on outstanding receivables. The Consolidated Group has established an allowance for doubtful accounts of \$2,842,000 and \$3,287,000 for June 30, 2012 and 2011, respectively.

Limited Use Assets

These amounts represent cash which is set aside under the terms of the mortgage or bond agreements.

Property and Equipment

Property and equipment is recorded at cost. The Consolidated Group capitalizes all purchases of property and equipment equal to or in excess of \$5,000 and an estimated useful life of more than one year. Repairs and maintenance are charged to expense in the period incurred. Depreciation of property and equipment is provided utilizing the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the term of the lease.

INSTITUTE FOR COMMUNITY LIVING, INC.
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JUNE 30, 2012 AND 2011

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Property and Equipment (cont'd.)

Useful lives are as follows:

Land	
Building and improvements	5-25 years
Leasehold improvements	5-25 years
Vehicles and equipment	3-5 years
Furniture and equipment	3-15 years

Deferred Charge

OMH and OPWDD include in the reimbursement rate paid to service providers interest and principal amortization on loans from the Dormitory Authority of the State of New York ("DASNY"). The Consolidated Group recognizes revenues, however, based upon interest and depreciation of the facility. The difference between the revenues recognized and the reimbursement from OMH and OPWDD is reflected as a deferred charge on the statement of financial position. This deferred charge represents a timing difference which will accumulate over the early periods of the loan repayments and will reverse during the latter periods of the loan repayments.

Derivative Financial Instruments

ICL entered into an interest rate swap agreement relating to financing from the Industrial Development Agency ("IDA") (see Note 6). ICL accounts for and discloses this interest rate swap agreement in accordance with FASB ASC Subtopic 815-10, *Derivatives and Hedging*. In accordance with FASB ASC Subtopic 815-10, ICL has determined that the interest rate swap is a derivative instrument, and therefore the gain or loss in the fair value of the derivative is recognized as a gain or loss.

Net Assets

Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Board designated funds (capital reserve and depreciation) are resources restricted by the board for the future purchase of capital assets.

INSTITUTE FOR COMMUNITY LIVING, INC.
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Note 2 - Summary of Significant Accounting Policies (cont'd.)

Contributions

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

Functional Expenses

The costs of providing the Consolidated Group's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefits.

Rental Property Revenue

ICLRPHC recognized rental property revenue based on lease agreements. ICLRPHC leases space to tenants under cancel able leases that expire in 2013.

Measure of Operations

Changes in net assets from operations include all revenues and expenses relating to consumer care, including management fee revenue. Contributions, special events, interest income and gain or loss on swap agreement are considered nonoperating.

Credit Quality of Receivables

ICL carries its loan receivable at the principal amount due reduced by a loan loss allowance. ICL evaluates its loan receivable based on past payment history and the creditworthiness of the borrower, and establishes, as necessary, a loan loss allowance during the year, when it determines that contractual payments of interest and principal on the loan will not be collected in accordance with terms of the loan agreement. Amounts receivable will be charged off against the allowance only if all reasonable attempts at collection fail. At June 30, 2012, ICL has determined that no loan loss allowance is necessary.

INSTITUTE FOR COMMUNITY LIVING, INC.
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Note 2 - Summary of Significant Accounting Policies (cont'd.)

Uncertainty in Income Taxes

The Consolidated Group has adopted the provisions pertaining to certain tax provisions (FASB ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Note 3 - Concentration of Credit Risk

The Consolidated Group maintains cash balances in several financial institutions. Interest-bearing balances are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to \$250,000 per institution. In addition, all funds in noninterest-bearing accounts are insured by the FDIC through December 31, 2012. From time to time, the Consolidated Group's balances may exceed these limits.

A significant portion of ICL's operating revenues are paid by Medicaid and the New York State Office of Mental Health.

	<u>2012</u>	<u>2011</u>
New York State Office of Mental Health	<u>24%</u>	<u>25%</u>
Medicaid	<u>30%</u>	<u>31%</u>

Note 4 - Loan Receivable

During 2005, ICL loaned \$1,561,173 to ICL Healthcare Choices for real property acquisition and the refinancing of existing debt. At June 30, 2012 and 2011, the balance due is \$519,812, respectively. Principal is paid annually. Interest is paid monthly at a variable interest rate between the ranges of 4.09% and 4.23%. The loan matures November 2014. Principal payment of \$155,000, \$165,000 and \$199,812 are due in fiscal years 2013, 2014 and 2015, respectively.

INSTITUTE FOR COMMUNITY LIVING, INC.
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Note 5 - Property and Equipment

Property and equipment, net is summarized as follows:

	<u>2012</u>	<u>2011</u>
Land	\$ 1,270,355	\$ 1,270,355
Building and improvements	67,291,121	59,273,902
Leasehold improvements	2,427,605	3,856,337
Vehicles and equipment	1,646,967	1,442,389
Furniture and equipment	<u>32,956</u>	<u>533,494</u>
	72,669,004	66,376,477
Less: Accumulated depreciation and amortization	<u>(29,825,628)</u>	<u>(28,845,022)</u>
	<u>\$ 42,843,376</u>	<u>\$ 37,531,455</u>

Depreciation and amortization expense related to property and equipment amounted to \$2,556,785 and \$2,734,149 for the years ended June 30, 2012 and 2011, respectively. In September 2006, ICLRPHC received a donated building from OMH to operate one of its programs. The building was recorded at fair value at the date of donation. OMH has stipulated that if the program is not operated for a period of twenty years, the building will revert to OMH.

ICL reviews the carry value of the long-lived assets to determine if any facts and circumstances exist, which would suggest that the assets might be impaired. If impairment is indicated, an adjustment will be made to reduce the carry amount of the long-lived asset to their fair value. Based on ICL's review at June 30, 2012, no impairment of long-lived assets was evident.

Note 6 - Derivative Financial Instruments

On September 14, 2004, ICL, in conjunction with securing financing from the IDA, entered into an interest-rate swap agreement with HBSC Bank, USA in order to convert the interest rate on its tax-exempt Series A Bond to a fixed rate of 4.09%. Under the swap contract, ICL pays interest at 4.09% and receives interest at varying rates. The swap is designated to hedge the risk of changes in interest payments on the note caused by changes in the Bond Market Association ("BMA"). The notional amounts do not represent actual amounts exchanged by the parties, but instead represent the amounts on which the contracts are based. On December 30, 2010, ICL entered into an agreement with JP Morgan Chase for a swap agreement whereby ICL will pay JP Morgan Chase 4.34% annual interest on the outstanding balance of the bond issued under the IDA and JP Morgan Chase will assume all responsibility for the swap agreement from HSBC Bank.

INSTITUTE FOR COMMUNITY LIVING, INC.
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Note 6 - Derivative Financial Instruments (cont'd.)

The swap was issued at market terms so that it had no fair value or carrying value at its inception. The carrying amount of the swap has been adjusted to its fair value at the end of the year which, because of changes in forecasted levels of BMA, resulted in reporting a liability for the fair value of the future net payments forecasted under the swap. The swap contract permits settlement prior to maturity only through termination by ICL. The settlement amount is determined based on forecasted changes in interest rates required under fixed and variable legs of the swap. ICL believes the settlement amount is the best representation of the fair value of the swap and has adjusted its carrying amount to the settlement amount at the end of the year.

Since the critical terms of the swap and the capital lease is approximately the same, the swap is assumed to be effective as a hedge, and the changes in fair values are included as an "other change in net assets." If the swap is terminated early, the corresponding carrying amount would be reclassified into revenues and gains or expenses before other changes. The swap agreement resulted in a market-to-market unrestricted loss of \$452,296 and \$19,854 in 2012 and 2011, respectively. At June 30, 2012 and 2011, the fair value of the swap agreement was a liability of \$1,216,932 and \$764,636, respectively.

Note 7 - Fair Value Measurements

The Consolidated Group measures its marketable securities at fair value. Fair value is an exit price, representing the amount that would be received on the sale of an asset or that would be paid to transfer a liability in an orderly transaction between market participants. As a basis for considering such assumptions, a three-tier fair value hierarchy is used which prioritizes the inputs in the valuation methodologies in measuring fair value.

Fair Value Hierarchy

The methodology for measuring fair value specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect the Consolidated Group's own assumptions of market participant valuation (unobservable inputs).

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Note 7 - Fair Value Measurements (cont'd.)

Items Measured at Fair Value on a Recurring Basis

The following tables present the Consolidated Group's assets and liabilities that are measured at fair value on a recurring basis at June 30, 2012 and 2011:

	<u>2012</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Cash	\$ 16,099	\$ -0-	\$ -0-	\$ 16,099
Mutual funds:				
Equities	624,089	-0-	-0-	624,089
Fixed income	525,170	-0-	-0-	525,170
Total	<u>\$ 1,165,358</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,165,358</u>
Liabilities:				
Swap agreements	<u>\$ -0-</u>	<u>\$ 1,216,932</u>	<u>\$ -0-</u>	<u>\$ 1,216,932</u>

	<u>2011</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Cash	\$ 31,045	\$ -0-	\$ -0-	\$ 31,045
Mutual funds:				
Equities	1,291,169	-0-	-0-	1,291,169
Fixed income	1,122,256	-0-	-0-	1,122,256
Total	<u>\$ 2,444,470</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,444,470</u>
Liabilities:				
Swap agreements	<u>\$ -0-</u>	<u>\$ 764,636</u>	<u>\$ -0-</u>	<u>\$ 764,636</u>

Note 8 - Debt Service Reserve

Under the terms of the DASNY mortgage, the Consolidated Group was required to deposit with the DASNY bond trustee amounts to be held in reserve, which will be withdrawn to satisfy the last installments on the DASNY mortgages. Interest earned on this reserve fund will be used to reduce the Consolidated Group's payment obligation under the mortgages. The balance of the reserve fund at June 30, 2012 and 2011 is \$1,075,781.

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Note 9 - Escrow Funds Held on Behalf of ICL

On March 30, 2005, ICL began operations of an OMH-funded program (known as "Milestone Residence") on the grounds of Creedmoor Psychiatric Center ("Center"). This program was previously operated by a nonrelated not-for-profit organization. ICL entered into a revocable permit agreement with the Center, effective March 30, 2005. The agreement allows ICL to use and occupy the premises and operate the program in accordance with the provisions of a license issued by OMH. The agreement stipulates responsibility of facility-related costs between the parties. ICL is granted exclusive permission to use and occupy the premises from the effective date, continuing through (1) the expiration date of the OMH license, or (2) the effective date of a long-term lease of the premises between ICL and DASNY, as landlord. There is no payment of rent, permit fees, license fees or any other amounts between the Center and ICL.

On the same date, ICL and OMH entered into an escrow agreement. The agreement stipulates that monies will be held by an escrow agent who will be required to receive, disburse and account for such monies. The escrow agent is required to establish a bank account to which the agent is the signatory. The escrow agent is also required to receive written consent to disburse such monies from both ICL and OMH. These monies are for facility-related expenditures of the Milestone Residence. The initial deposit was \$2,321,942. At June 30, 2012 and 2011, \$987,480 and \$1,026,824, respectively, remained with the escrow agent, and is not recorded in these financial statements.

Note 10 - Due To New York State

The Consolidated Group has entered into contracts with The New York State OPWDD for the operation of two intermediate care facilities ("ICFs") and six individualized residential alternatives ("IRAs"). As part of the agreement, OPWDD advanced funds to the Consolidated Group and expended funds on the Consolidated Group's behalf for preoperational start-up costs, buildings, equipment, renovations, lease costs, real estate taxes and operations. The Consolidated Group has agreed to pay back to OPWDD all of the above funds to the extent that such costs are reimbursed by Medicaid.

INSTITUTE FOR COMMUNITY LIVING, INC.
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Note 10 - Due To New York State (cont'd.)

Medicaid payments for these costs are withheld from remittances. The amounts due to OPWDD at June 30, 2012 and 2011 are \$2,402,648 and \$1,173,542, respectively.

ICL and GCB receives additional Medicaid funding for its clinic services in the form of a Comprehensive Outpatient Provider System ("COPS") and CSP add-on. The COPS and CSP add-ons are derived from a formula calculated by OMH. After certain thresholds are met, a COPS and CSP Medicaid liability becomes due. ICL and GCB have estimated the potential liability however the estimate may change based upon final settlement. The amount due is withheld from Medicaid remittances in increments of 10% of the total Medicaid payment. The amounts due to OMH at June 30, 2012 and 2011 are \$3,844,295 and \$3,907,093, respectively.

Note 11 - Advances from Government Agencies

Advances from government agencies represent funds advanced by the New York State OMH and Medicaid through the New York State OMH for the Institute's future OMH contracts.

Note 12 - New York State Office of Mental Health - Capital Advance

ICL has been advanced funds by OMH under a contract for the construction and rehabilitation of two residences. These residences are located at Livonia Avenue, Brooklyn, New York, and West 37th Street, Brooklyn, New York. These advances bear no interest and will not be repaid until they are replaced with long-term mortgages financed through the Dormitory Authority of the State of New York ("DASNY").

Note 13 - Line of Credit

ICL maintains a \$5,000,000 revolving line of credit payable with interest, which at June 30, 2012 was the higher of prime or the one month LIBOR rate plus 2.50%. The line of credit expires on December 30, 2012. There is no outstanding balance at June 30, 2012 and 2011. The line is secured by Medicaid receivables.

INSTITUTE FOR COMMUNITY LIVING, INC.
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Note 14 - Mortgages Payable

	<u>2012</u>	<u>2011</u>
<u><i>Dormitory Authority of the State of New York ("DASNY")</i></u>		
<p>ICL entered into loan agreements with DASNY, a body corporate and public of the State of New York, constituting a public benefit corporation of the New York State Office of Mental Health and the Office of People with Developmental Disabilities.</p>		
<p>1. The principal amount shall bear interest at the rate of 6.19% per annum and shall be payable to DASNY in semiannual installments until December 2018. The property secured is the land and building located at Washington Avenue, Brooklyn, New York, with a net book value of \$304,222.</p>	\$ 346,406	\$ 389,270
<p>2. The principal amount shall bear interest at the rate of 6.87% per annum and shall be payable to DASNY in semiannual installments until November 2017. The property secured is the land and building located at State Street, Brooklyn, New York, with a net book value of \$839,449.</p>	1,285,021	1,484,660
<p>3. The principal amount shall bear interest at the rate of 6.73% per annum and shall be payable to DASNY in semiannual installments until December 2015. The property secured is the land and building located at Halsey Street, Brooklyn, New York, with a net book value of \$338,067.</p>	345,374	441,268
<p>4. The principal amount shall bear interest at the rate of 6.36% per annum and shall be payable to DSANY in semiannual installments until August 2018. The property secured is the land and building located at Avenue K, Brooklyn, New York, with a net book value of \$211,306.</p>	285,950	323,075

INSTITUTE FOR COMMUNITY LIVING, INC.
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Note 14 - Mortgages Payable (cont'd.)

	2012	2011
<u><i>Dormitory Authority of the State of New York (DASNY)</i></u> <i>(cont'd.)</i>		
5. The principal amount shall bear interest at the rate of 6.42% per annum and shall be payable to DASNY in semiannual installments until August 2018. The property secured is the land and building located at Rugby Road, Brooklyn, New York, with a net book value of \$329,385.	\$ 385,250	\$ 435,250
6. The principal amount shall bear interest at the rate of 6.41% per annum and shall be payable to DASNY in semiannual installments until February 2019. The property secured is the land and building located at West 12th Street, Brooklyn, New York, with net book value of \$297,858.	303,000	343,000
7. The principal amount shall bear interest at the rate of 6.42% per annum and shall be payable to DASNY in semiannual installments until February 2019. The property secured is the land and building located at Avenue D, Brooklyn, New York, with a net book value of \$519,886.	608,500	682,250
8. The principal amount shall bear interest at the rate of 6.19% per annum and shall be payable to DASNY in semiannual installments until June 2019. The property secured is the land and building located at Emerson Place, Brooklyn, New York, with a net book value of \$1,149,263.	1,248,190	1,388,965
9. The principal amount shall bear interest at the rate of 4.91% per annum and shall be payable to DASNY in semiannual installments until December 2027. The property secured is the land and building located at First Street, Brooklyn, New York, with a net book value of \$558,050.	1,650,528	1,720,253

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Note 14 - Mortgages Payable (cont'd.)

	2012	2011
<u><i>Dormitory Authority of the State of New York ("DASNY")</i></u>		
<i>(cont'd.)</i>		
10. The principal amount shall bear interest at the rate of 5.01% per annum and shall be payable to DASNY in semiannual installments until December 2032. The property secured is the land and building located at First Street, Brooklyn, New York, with a net book value of \$304,582.	\$ 355,922	\$ 365,702
11. The principal amount shall bear interest at the rate of 5.66% and shall be payable by ICL to DASNY in semiannual installments until June 2022. The property secured is the building located at 25-29 Lawton Street, Brooklyn, New York, with a net book value of \$1,192,126.	1,811,258	1,940,231
12. The principal amount shall bear interest at the rate of 5.60% and shall be payable to DASNY in semiannual installments until December 2022. The property secured is the building located at 948 Eastern Parkway, Brooklyn, New York, with a net book value of \$908,657.	1,385,632	1,478,415
13. The principal amount shall bear interest at the rate of 5.44% and shall be payable to DASNY in semiannual installments until December 2023. The property secured is the building located at 50 Nevins Street, Brooklyn, New York, with a net book value of \$4,068,690.	5,203,397	5,525,002

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Note 14 - Mortgages Payable (cont'd.)

	<u>2012</u>	<u>2011</u>
<u>Dormitory Authority of the State of New York ("DASNY")</u>		
<i>(cont'd.)</i>		
14. The principal amount shall bear interest at the rate of 6.07% and shall be payable to DASNY in semiannual installments until June 2026. The property secured is the building located at 839 St. Marks Avenue, Brooklyn, New York, with a net book value of \$2,360,462.	\$ 3,021,510	\$ 3,155,449
15. The principal amount shall bear interest at the rate of 5.15% and shall be payable to DASNY in semiannual installments until December 2029. The property secured is the building located at 518 Flatbush Avenue, Brooklyn, New York, with a net book value of \$1,129,622.	1,432,502	1,482,014
16. The principal amount shall bear interest at the rate of 5.15% and shall be payable by ICL to DASNY in semiannual installments until December 2031. The property secured is the building located at 198 Linden Boulevard, Brooklyn, New York, with a net book value of \$1,300,081.	894,221	920,989
17. The principal amount shall bear interest at the rate of 5.15% and shall be payable by ICL to DASNY in semiannual installments until December 2029. The property secured is the building located at 44 Lewis Avenue, Brooklyn, New York, with a net book value of \$3,449,096.	<u>4,021,830</u>	<u>4,160,836</u>
	24,584,491	26,236,629
Less current portion	<u>(1,752,798)</u>	<u>(1,652,138)</u>
	<u>\$22,831,693</u>	<u>\$24,584,491</u>

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Note 14 - Mortgages Payable (cont'd.)

Aggregate maturities of mortgages payable are as follows:

Years Ending June 30:

2013	1,752,798
2014	1,859,060
2015	1,970,038
2016	1,998,910
2017	2,069,655
Thereafter	<u>14,934,030</u>
	<u>\$ 24,584,491</u>

Note 15 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the future periods:

	<u>2012</u>	<u>2011</u>
For the periods after June 30	<u>\$ 517,085</u>	<u>\$ 563,456</u>

Temporarily restricted net assets were released from restriction as follows:

	<u>2012</u>	<u>2011</u>
Expiration of time restriction	<u>\$ 46,371</u>	<u>\$ 46,371</u>

Note 16 - Obligations Under Capital Leases

On September 14, 2004, in order to finance the acquisition of an Intermediate Care Facility ("ICF") and refinance existing debt, ICL secured financing of \$8,380,000 from the IDA. The financing consists of a Series A tax-exempt bond of \$7,980,000 and a Series B taxable bond of \$400,000 at variable interest rates. As part of the agreement with IDA, ICL leased or subleased four properties to IDA. IDA has sold its leasehold interest in these facilities back to ICL pursuant to an installment sale agreement for a term concurrent with the bond repayment schedule. During the term of the installment sale agreement, ICL is responsible for maintaining the property.

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Note 16 - Obligations Under Capital Leases (cont'd.)

The bonds are issued by IDA as a conduit issuer. ICL has the obligation under the installment sale agreement to make payments to the Bond Trustee equal to the amounts payable as principal and interest on the outstanding bonds. Interest on the bonds vary and is calculated weekly. ICL entered into an interest-rate swap on the Series A tax-exempt bond (see Note 5). Interest on the Series A bond at June 30, 2012 is 4.34%. Interest on the Series B bond, which is based on the one-month LIBOR at June 30, 2012 is .44%. The average interest rate during the year was 4.33%. Principal and interest are due annually and every 35 days, respectively. The final payment is due November 1, 2033. The payment of the bonds is secured by a direct pay letter of credit issued by JP Morgan Chase Bank and payments of obligations due to JP Morgan Chase under the letter of credit reimbursement agreement are secured by a mortgage, security agreement and property with a net book value of \$4,053,234. ICL as well as ICL Healthcare Choices, Inc., ICL Joselow House, Inc., ICL Real Property Holding Corporation, Inc. and The Guidance Center at Brooklyn, Inc. have unconditionally guaranteed payment of the bonds. In conjunction with this financing, ICL is required to maintain and have available for use a lease payments fund.

Future minimum lease payments under the capital leases at June 30, 2012 are as follows:

<u>Years Ending June 30:</u>	
2013	\$ 673,652
2014	680,244
2015	690,264
2016	518,755
2017	528,394
Thereafter	<u>4,897,148</u>
	7,988,457
Less amount representing interest	<u>(2,138,457)</u>
Present value of minimum lease payments	<u>\$ 5,850,000</u>

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Note 17 - Revenues from Government Agencies and Contingencies

The Consolidated Group is responsible for reporting to and is regulated by various governmental third parties, among which are the Centers for Medicare and Medicaid Services ("CMS"), OMH, OPWDD and the New York State Department of Health ("DOH"). These agencies, as well as the New York State Office of Attorney General's Medicaid Fraud Control Unit ("MFCU"), the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the Office of Inspector General ("OIG") and the New York State Department of Health's Independent Office of Medicaid Inspector General ("OMIG"), and other agencies have the right to audit fiscal as well as programmatic compliance, i.e., clinical documentation and physician certifications, amongst other compliance requirements. Revenues and receivables arising from programs funded by government agencies are dependent upon final audit and negotiations between ICL and the various government agencies. At June 30, 2012 and 2011, management has estimated that the reserve for potential rate adjustments is \$964,000 and \$1,431,000 respectively. Estimates may change based on final audit results.

Note 18 - Leases

ICL and related entities lease various buildings under operating leases. The leases terminate between 2013 and 2024. Rent is recorded monthly based on signed lease agreements. Rent expense for the years ended June 30, 2012 and 2011 was \$12,803,683 and \$12,386,211 respectively. The commitments under these leases are as follows:

Years Ending June 30:

2013	\$ 13,938,438
2014	2,881,603
2015	164,301
2016	131,911
2017	130,749
Thereafter	<u>404,109</u>
Total	<u>\$ 17,651,111</u>

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JUNE 30, 2012 AND 2011

Note 19 - Retirement Plans

The Consolidated Groups' employees are covered under a noncontributory defined contribution pension plan. Contributions to the plan for 2012 and 2011 were based on 1.5% and 2% of each covered employee's salary, respectively. In addition, ICL makes additional contributions to the plan for various cabinet members and key employees ranging from 1% to 9% based on their respective length of employment and/or their employed position. Pension expense for the years ended June 30, 2012 and 2011 was \$319,569 and \$762,230, respectively .

Union employees of GCB are covered by an employer contributory pension plan administered by the union. Union pension expense for the years ended June 30, 2012 and 2011 was \$88,621 and \$82,215, respectively.

GCB make contributions to multiemployer defined benefit pension plan under a collectively bargained agreement. If GCB were to withdraw from this plan or should the plan be terminated, GCB could be liable for a proportionate share of the unfunded actuarial present value of plan benefits at the date of withdrawal or termination. The amount of such unfunded liability is not known.

During 2005 and 2004, ICL's Board of Directors approved two nonqualified deferred compensation plans established under IRC Section 457(f). The plans are subject to a substantial risk of forfeiture and provide for benefits to be paid upon retirement or the occurrence of other specified events. During 2005 and 2004, the Board of Directors also approved two nonqualified deferred compensation plans under IRC Section 457(b). During 2012, ICL made a contribution of \$225,000 and made distributions of \$1,460,000 to eligible employees.

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

Note 20 - Net Assets - Beginning of Year - Deconsolidated

During 2012, ICLHCC was approved to become a Federally Qualified Community Health Center ("FQHC"). As such, they were required to amend their governing documents and create an independent governing board. This was done during 2012. The creation of an independent governing board resulting in the deconsolidation of ICLHCC from the Consolidated Group. Accordingly, net assets at the beginning of the year have been adjusted to reflect the deconsolidation, as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net assets - beginning of year before adjustment	\$ 5,348,684	\$ 563,456	\$ 5,912,140
ICL Healthcare Choices deconsolidation	<u>2,178,795</u>	<u>-0-</u>	<u>2,178,795</u>
Net assets - beginning of year after adjustments	<u>\$ 7,527,479</u>	<u>\$ 563,456</u>	<u>\$ 8,090,935</u>

Note 21 - Subsequent Events

The Consolidated Group has evaluated all events or transactions that occurred after June 30, 2012 through the date of these financial statements, which is the date that the financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure.

**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES**

**CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

JUNE 30, 2011 AND 2010

**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES**

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- C - Consolidated Statement of Functional Expenses**
- D - Consolidated Statement of Cash Flows**

Notes to Consolidated Financial Statements



Independent Auditor's Report

**Board of Directors
Institute for Community Living, Inc.**

We have audited the accompanying consolidated balance sheet of Institute for Community Living, Inc. and related entities as of June 30, 2011 and 2010, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Institute for Community Living, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Pennsylvania Institute for Community Living, Inc., which statements reflect revenues and assets constituting 1 percent of the respective related totals. These statements were audited by another auditor, whose report has been furnished to us and, in our opinion, insofar as it relates to the amounts included for Pennsylvania Institute for Community Living, Inc., is based solely upon the report of the other auditor.

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

In our opinion, based upon our audits and the report of the other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Institute for Community Living, Inc. and related entities as of June 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Loeb & Troper LLP

November 11, 2011

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

CONSOLIDATED BALANCE SHEET

JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Cash and cash equivalents	\$ 6,688,334	\$ 7,166,875
Investments in mutual funds (Note 2)	2,444,470	2,517,350
Accounts receivable - government contracts	5,022,823	3,670,637
Accounts receivable - Medicaid/Medicare (net of allowance for bad debts of \$3,287,000 in 2011 and \$3,109,000 in 2010)	7,813,241	8,008,509
Accounts receivable - other	647,651	571,525
Prepaid expenses and other assets	594,439	554,958
Limited use assets		
Lease payment fund - cash (Note 15)	296,397	311,541
Debt service reserve fund - cash (Note 4)	1,075,781	1,075,781
Fixed assets - net (Note 3)	37,531,455	37,318,091
Deferred charge (Note 2)	6,972,596	6,899,533
	\$ 69,087,187	\$ 68,094,800
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 7,445,591	\$ 5,910,741
Accrued salaries payable	1,271,203	1,304,502
Deferred compensation payable (Note 14)	2,536,455	2,773,412
Advances from government agencies (Note 9)	3,795,071	4,123,805
Due to New York State Office of Mental Health - capital advances (Note 13)	8,333,827	6,389,417
Due to New York State (Note 8)	5,080,635	4,895,407
Reserve for rate adjustments (Note 5)	1,431,000	1,625,000
Mortgages payable (Note 6)	26,236,629	27,798,290
Swap liability (Note 17)	764,636	744,782
Capital lease payable (Note 15)	6,280,000	6,685,000
	63,175,047	62,250,356
Net assets (Exhibit B)		
Unrestricted - undesignated	2,969,445	2,884,829
Unrestricted - capital reserve	797,786	792,830
Unrestricted - depreciation	1,581,453	1,556,958
	5,348,684	5,234,617
Temporarily restricted (Note 10)	563,456	609,827
	5,912,140	5,844,444
	\$ 69,087,187	\$ 68,094,800

See independent auditor's report.

The accompanying notes are an integral part of these statements.

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

EXHIBIT B

CONSOLIDATED STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2011 AND 2010

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating revenues and other support						
MH residential	\$ 43,754,726		\$ 43,754,726	\$ 41,568,153		\$ 41,568,153
Homeless services	14,275,332		14,275,332	12,860,391		12,860,391
MR residential services	12,088,678		12,088,678	11,649,278		11,649,278
Children and family services	9,767,314		9,767,314	9,428,759		9,428,759
Community support services	3,419,383		3,419,383	3,995,549		3,995,549
Continuing day treatment	211,891		211,891	1,036,717		1,036,717
Clinic	7,058,647		7,058,647	6,551,312		6,551,312
Other programs	534,998		534,998	285,274		285,274
Net assets released from restrictions (Note 10)	46,371	\$ (46,371)		46,371	\$ (46,371)	
Total operating revenues and other support	91,157,340	(46,371)	91,110,969	87,421,804	(46,371)	87,375,433
Operating expenses (Exhibit C)						
Program services						
MH residential services	38,247,938		38,247,938	35,910,339		35,910,339
Homeless services	12,384,220		12,384,220	11,096,407		11,096,407
MR residential services	9,702,458		9,702,458	9,136,806		9,136,806
Children and family services	8,652,918		8,652,918	8,657,074		8,657,074
Community support services	3,316,974		3,316,974	3,480,248		3,480,248
Continuing day treatment	293,716		293,716	966,610		966,610
Clinic programs	6,898,668		6,898,668	6,248,570		6,248,570
Other programs	2,017,868		2,017,868	1,717,764		1,717,764
Total program services	81,514,760		81,514,760	77,213,818		77,213,818
Supporting services						
Management and general	9,620,454		9,620,454	9,868,024		9,868,024
Total operating expenses	91,135,214		91,135,214	87,081,842		87,081,842

-continued-

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

EXHIBIT B
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CONSOLIDATED STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2011 AND 2010

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Change in net assets from operations	\$ 22,126	\$ (46,371)	\$ (24,245)	\$ 339,962	\$ (46,371)	\$ 293,591
Nonoperating revenues						
Contributions	19,823		19,823	7,727		7,727
Special events revenue	\$ 259,099		\$ 142,736			
Cost of special events	(178,443)		(92,984)	49,752		49,752
Interest	11,316		11,316	9,768		9,768
Total nonoperating revenues	111,795		111,795	67,247		67,247
Change in net assets before swap transaction	133,921	(46,371)	87,550	407,209	(46,371)	360,838
Loss on swap agreement (Note 17)	(19,854)		(19,854)	(233,822)		(233,822)
Change in net assets (Exhibit D)	114,067	(46,371)	67,696	173,387	(46,371)	127,016
Net assets - beginning of year	5,234,617	609,827	5,844,444	5,061,230	656,198	5,717,428
Net assets - end of year (Exhibit A)	\$ 5,348,684	\$ 563,456	\$ 5,912,140	\$ 5,234,617	\$ 609,827	\$ 5,844,444

See independent auditor's report.

The accompanying notes are an integral part of these statements.

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2011 AND 2010

	2011												
	Program Services								Supporting Services				
	MH Residential Services	Homeless Service	MR Residential Services	Children and Family Services	Community Support Services	Continuing Day Treatment	Clinic Programs	Other Programs	Total	Management and General	Costs of Special Events	Total	Total
Salaries	\$ 15,502,860	\$ 3,631,517	\$ 5,274,095	\$ 4,759,531	\$ 1,915,231	\$ 182,718	\$ 3,982,849	\$ 846,910	\$ 36,095,711	\$ 4,951,015		\$ 4,951,015	\$ 41,046,726
Fringe benefits	4,093,531	957,991	1,401,475	1,184,651	505,236	48,201	1,019,237	294,146	9,504,468	1,089,824		1,089,824	10,594,292
Total salaries and related expenses	19,596,391	4,589,508	6,675,570	5,944,182	2,420,467	230,919	5,002,086	1,141,056	45,600,179	6,040,839		6,040,839	51,641,018
Rent (Note 11)	7,597,345	2,765,318	19,332	794,736	4,161	934	459,193		11,641,019	745,192		745,192	12,386,211
Professional fees and contract service payments	486,087	1,580,875	465,361	412,769	28,536	9,838	531,287	87,850	3,602,603	1,252,213	\$ 14,383	1,266,596	4,869,199
Depreciation and amortization	1,763,650		268,142	216,588		450	165,331	150,846	2,565,007	169,142		169,142	2,734,149
Interest	1,319,277		124,931	92,227				268,639	1,805,074				1,805,074
Utilities	1,085,105	320,409	195,768	167,813	37,615	8,702	46,627		1,862,039	73,981		73,981	1,936,020
Maintenance, repairs and other property costs	1,131,354	1,336,233	102,048	211,263	24,632	6,387	54,807	69,049	2,935,773	123,158		123,158	3,058,931
Food	1,304,306	1,151,621	235,832	51,160	7,798	4,238			2,754,955	11,252		11,252	2,766,207
Supplies	694,934	265,335	270,961	85,396	462,384	1,705	129,774		1,910,489	102,980		102,980	2,013,469
Furniture and equipment	329,579	25,771	67,240	72,143	14,629		9,405	5,696	524,463	9,236		9,236	533,699
Insurance	356,491	83,335	72,370	53,363	38,122	6,636	8,464		620,998	45,386		45,386	666,384
Client activities	354,853		1,426	12,935	134,983			224,420	845,540	1,207		1,207	846,747
Data processing	235,567	68,194	84,209	84,110	38,947	2,531	73,820	6,884	594,262	339,351		339,351	933,613
Telephone	375,326	72,140	57,645	107,291	52,069	3,067	100,859	9,485	777,882	185,154		185,154	963,036
Clothing	298,799		17,390	15,198	1,787				333,174				333,174
Vehicle expense	80,974	65,393	116,872	5,619	13,335	70		8,199	290,462	88,255		88,255	378,717
New York State tax assessment			218,372						218,372				218,372
Day Habilitation			592,560						592,560				592,560
Equipment rental	122,515	19,986	36,590	38,890	20,540	7,173	24,740	4,431	274,865	56,314		56,314	331,179
Postage and printing	124,572	4,093	30,617	28,758	4,457	528		3,670	196,695	104,718	18,501	123,219	319,914
Client travel	91,797	25,630	4,523	86,252	1,917	10,350	56,532		277,001				277,001
Special events - catering											138,184	138,184	138,184
Employee travel	62,618	3,872	6,993	26,260	26,225	21	5,513	8,697	140,199	52,479		52,479	192,678
Dues and subscriptions	33,196	1,000	14,000	3,994			7,881		60,071	103,849		103,849	163,920
Conferences and meetings	3,576	1,137	528	1,115	1,541			500	8,397	19,198	7,125	26,323	34,720
Staff training	3,471	1,478	981	9,708	544			9,672	25,854	62,955		62,955	88,809
Personnel recruitment	8,965	1,450	2,813	2,305	293	107	2,417		18,350	21,875		21,875	40,225
Miscellaneous	14,710	16	7,875	459	54	60	22,955	16,557	62,686	11,720	250	11,970	74,656
Subcontractor	772,480								772,480				772,480
Bad debt				6,334			196,977		203,311				203,311
Total expenses	38,247,938	12,384,220	9,702,458	8,652,918	3,316,974	293,716	6,898,668	2,017,868	81,514,760	9,620,454	178,443	9,798,897	91,313,657
Less cost of special events										(178,443)		(178,443)	(178,443)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 38,247,938	\$ 12,384,220	\$ 9,702,458	\$ 8,652,918	\$ 3,316,974	\$ 293,716	\$ 6,898,668	\$ 2,017,868	\$ 81,514,760	\$ 9,620,454	\$ -	\$ 9,620,454	\$ 91,135,214

-continued-

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

EXHIBIT C
-2-

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2011 AND 2010

	2010												
	Program Services								Supporting Services				
	ME Residential Services	Homeless Service	MR Residential Services	Children and Family Services	Community Support Services	Continuing Day Treatment	Clinic Programs	Other Programs	Total	Management and General	Costs of Special Events	Total	Total
Salaries	\$ 14,421,294	\$ 3,540,149	\$ 5,302,895	\$ 4,507,073	\$ 2,181,459	\$ 579,358	\$ 3,507,203	\$ 851,224	\$ 34,890,655	\$ 4,951,580		\$ 4,951,580	\$ 39,842,235
Fringe benefits	3,780,819	919,514	1,384,506	1,053,826	566,616	144,010	862,108	217,175	8,928,574	1,184,720		1,184,720	10,113,294
Total salaries and related expenses	18,202,113	4,459,663	6,687,401	5,560,899	2,748,075	723,368	4,369,311	1,068,399	43,819,229	6,136,300		6,136,300	49,955,529
Rent (Note 11)	7,136,230	2,650,978	19,207	750,523	3,692	5,604	491,264		11,057,498	708,530		708,530	11,766,028
Professional fees and contract service payments	442,373	1,591,751	552,142	511,425	36,244	23,860	385,193	63,669	3,606,657	1,491,243		1,491,243	5,097,900
Depreciation and amortization	1,745,778		259,402	164,240		450	152,303	124,864	2,447,037	139,375		139,375	2,586,412
Interest	1,392,195		136,439	100,065				279,632	1,908,331	6,501		6,501	1,914,832
Utilities	965,658	283,471	180,671	191,159	47,080	37,342	41,828	535	1,747,744	79,550		79,550	1,827,294
Maintenance, repairs and other property costs	1,010,417	255,509	128,818	442,746	43,630	23,894	75,139	113,530	2,093,683	111,444		111,444	2,205,127
Food	1,253,711	1,150,416	225,469	46,836	38,784	21,541		729	2,737,486	11,480		11,480	2,748,966
Supplies	617,808	262,485	275,477	129,351	214,556	14,014	143,516	48	1,657,255	105,900		105,900	1,763,155
Furniture and equipment	642,438	108,265	23,713	80,753	19,093	69	10,771	3,325	888,427	16,782		16,782	905,209
Insurance	362,648	53,128	66,559	40,175	29,776	10,707	12,562	3,604	579,159	82,050		82,050	661,209
Client activities	329,860	2,864	19,181	77,571	122,850	23,214	6,748		582,288	1,080		1,080	583,368
Data processing	163,782	93,156	80,606	73,635	29,597	8,650	70,273	6,333	526,032	305,655		305,655	831,687
Telephone	382,207	83,984	60,117	111,307	72,757	13,083	98,432	12,909	834,796	152,696		152,696	987,492
Clothing	304,300	89	18,326	14,342					337,057				337,057
Vehicle expense		21,740	141,414	7,664	14,290	734	145	9,130	286,392	93,389		93,389	379,781
New York State tax assessment			179,267						179,267				179,267
Equipment rental	113,621	23,960	39,683	35,182	18,857	6,474	27,983	4,160	269,920	51,837		51,837	321,757
Postage and printing	127,702	1,934	19,955	26,813	2,507	907		1,337	181,155	69,228		69,228	250,383
Client travel	19,403	35,320	2,102	92,341	14,994	51,525	65,921	223	281,829	54		54	281,883
Special events - catering											\$ 92,984	92,984	92,984
Employee travel	55,010	2,571	9,639	25,215	21,682	255	2,253	6,257	122,882	64,669		64,669	187,551
Dues and subscriptions		9,675	300	2,918			4,029		16,922	101,189		101,189	118,111
Conferences and meetings	3,907	2,148	1,406	1,153	462	55		141	9,272	14,184		14,184	23,456
Staff training	16,840	1,795	88	6,623	1,215	807		1,074	28,442	89,662		89,662	118,104
Personnel recruitment	1,860	1,392	807	418	49		2,220		6,746	21,481		21,481	28,227
Miscellaneous	3,650	113	3,385	1,028	58	57	21,461	11,117	40,869	13,745		13,745	54,614
Subcontractor	525,553		5,232						530,785				530,785
Bad debt				162,692			273,966		436,658				436,658
Total expenses	35,910,339	11,096,407	9,136,806	8,657,074	3,480,248	966,610	6,248,570	1,717,764	77,213,818	9,868,024	92,984	9,961,008	87,174,826
Less cost of special events											(92,984)	(92,984)	(92,984)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 35,910,339	\$ 11,096,407	\$ 9,136,806	\$ 8,657,074	\$ 3,480,248	\$ 966,610	\$ 6,248,570	\$ 1,717,764	\$ 77,213,818	\$ 9,868,024	\$ -	\$ 9,868,024	\$ 87,081,842

See independent auditor's report.

The accompanying notes are an integral part of these statements.

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 67,696	\$ 127,016
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss on swap agreement	19,854	233,822
Depreciation and amortization	2,734,149	2,586,412
Decrease (increase) in assets		
Accounts receivable	(1,233,044)	574,773
Prepaid expenses and other assets	(39,481)	842,328
Deferred charge	(73,063)	463,061
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	1,534,850	(844,400)
Accrued salaries payable	(33,299)	(1,397,396)
Deferred compensation payable	(236,957)	816,241
Advances from government agencies	(328,734)	33,248
Due to New York State	185,228	263,464
Reserve for rate adjustments	(194,000)	61,000
Net cash provided by operating activities	<u>2,403,199</u>	<u>3,759,569</u>
Cash flows from investing activities		
Fixed asset acquisitions	(2,947,513)	(1,004,809)
Purchase of investments	(1,279,766)	(718,664)
Sales of investments	1,352,646	
Increase in limited use assets	15,144	(31,037)
Net cash used by investing activities	<u>(2,859,489)</u>	<u>(1,754,510)</u>
Cash flows from financing activities		
Proceeds from New York State OMH - capital advances	1,944,410	477,472
Proceeds from mortgages payable		4,811,000
Principal payments to New York State OMH - capital advances		(4,860,918)
Principal payments on capital lease payable	(405,000)	(380,000)
Principal payments on mortgages payable	(1,561,661)	(1,852,274)
Net cash used by financing activities	<u>(22,251)</u>	<u>(1,804,720)</u>
Net change in cash and cash equivalents	(478,541)	200,339
Cash and cash equivalents - beginning of year	<u>7,166,875</u>	<u>6,966,536</u>
Cash and cash equivalents - end of year	\$ <u>6,688,334</u>	\$ <u>7,166,875</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ <u>1,805,074</u>	\$ <u>1,914,832</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 1 - NATURE OF ENTITY

Institute for Community Living, Inc. (ICL), located in New York City, was incorporated under New York State Law in 1986. Its mission is to assist people with mental and developmental disabilities who need opportunities to improve their quality of life and to participate in community living by providing high-quality services and support. ICL is funded primarily by fees paid by the New York State Office of Mental Health (OMH), Office for People with Developmental Disabilities (OPWDD) and Medicaid.

ICL is the sole member of ICL Real Property Holding Corporation, ICL Joselow House, Inc., The Guidance Center of Brooklyn, Inc., Pennsylvania Institute for Community Living, Inc., ICL HealthCare Choices, Inc. and Phoenix Recycling and Maintenance, Inc. and appoints the various boards of directors.

ICL Joselow House, Inc. (Joselow), located in New York City, was incorporated in 1999 under the New York State Not-for-Profit Corporation Law. Joselow began operations May 3, 1999. Its mission is to provide residential services to developmentally disabled people. Joselow is supported primarily by service fees paid by Medicaid.

The Guidance Center of Brooklyn, Inc. (GCB) was incorporated under New York State Law in 1970. GCB maintains and operates a mental health treatment program, a substance abuse treatment program and a substance abuse prevention program. GCB is supported primarily by service fees paid by Medicaid. Effective January 29, 1999, OMH approved a change in sponsorship whereby ICL was named the new sponsor of services provided by GCB. On February 8, 1999, the Board of Directors of ICL accepted the resignation of the former Board of GCB and appointed a new Board of Directors for GCB.

ICL Real Property Holding Corporation (ICLRPHC), located in New York City, was incorporated under New York State Law in 1994. Its mission is to own, purchase, acquire, lease and/or mortgage real property and premises thereon to further the exempt purpose of ICL. Its primary source of funding is rental income from ICL.

Phoenix Recycling and Maintenance, Inc. (Phoenix) is a for-profit organization that was incorporated under the New York State Business Corporation Law in 1998. Phoenix is a full-service cleaning, maintenance and waste management company. Its purpose is to provide training and opportunities for persons who are disabled or who have histories of homelessness or welfare. Phoenix is supported primarily by revenue received from cleaning, maintenance and waste management services.

-continued-

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 1 - NATURE OF ENTITY (continued)

Pennsylvania Institute for Community Living, Inc. (PICL) is a not-for-profit corporation formed in the Commonwealth of Pennsylvania that has been established to develop and operate residential and outpatient treatment, rehabilitation and support services for individuals with mental disabilities. Its mission is to assist people with mental and developmental disabilities who need opportunities to improve their quality of life and to participate in community living by providing high-quality services and support. PICL is funded primarily through the Montgomery County Office of Mental Health.

ICL HealthCare Choices, Inc. (ICLHCC), located in New York City, was incorporated in 2001 under the New York State Not-for-Profit Corporation Law. ICLHCC began operations July 9, 2001. Its mission is to assist people with mental and developmental disabilities by providing an Article 28 medical clinic. Its primary source of revenues is clinic fees paid by Medicaid.

ICL, Joselow, GCB, ICLHCC and PICL are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. ICLRPHC is a tax-exempt organization under Section 501(c)(2) of the Internal Revenue Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements - The consolidated financial statements include the financial position, changes in net assets and cash flows of ICL, Joselow, GCB, ICLRPHC, PICL, ICLHCC and Phoenix (the Consolidated Group). Intercompany transactions and balances have been eliminated.

Basis of accounting - The financial statements are prepared on the accrual basis.

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

Reclassification - Certain mutual funds which have previously been combined with cash and cash equivalents are now being combined with investments.

-continued-

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Investments - Investments are stated at fair value. Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reflected in the financial statements.

Receivables, advances and revenue - Receivables and revenue are recorded when earned based on established rates multiplied by the number of units of service provided. Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed amounts spent, the Consolidated Group establishes advances from government funders. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. Interest income is not accrued or recorded on accounts receivable. Laws and regulations related to government programs are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from the government programs.

Allowance for doubtful accounts - The Consolidated Group has determined that an allowance for uncollectible accounts for certain receivables is necessary as of June 30, 2011 and 2010. Such estimate is based on management's assessments of the creditworthiness of its funders, the aged basis of its receivables, subsequent collections as well as current economic conditions and historical information.

Limited use assets - These amounts represent cash which is set aside under the terms of the mortgage or bond agreements to be used to satisfy the last installment of the mortgage or bond.

Fixed assets - Fixed assets are recorded at cost. Individual items with a cost in excess of \$5,000 and a useful life of greater than one year are capitalized. Depreciation and amortization of fixed assets are recorded on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is recorded on the straight-line method over the term of the lease or its estimated useful life.

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred charge - OMH and OPWDD include in reimbursement rate paid to service providers interest and principal amortization on loans from the Dormitory Authority of the State of New York (DASNY). ICL recognizes revenues, however, based upon interest and depreciation of the facility. The difference between the revenues recognized and the reimbursement from OMH and OPWDD is reflected as a deferred charge on the consolidated balance sheet. This deferred charge represents a timing difference which will accumulate over the early periods of the loan repayments and will reverse during the latter periods of the loan repayments.

GCB records a deferred charge that represents the difference between reimbursement and recording of start-up expenses. Start-up expenses are recorded in the period incurred and reimbursement of start-up expenses is recorded over an approved period by the funder.

Derivative financial instruments - ICL's interest rate swap agreement qualifies as a derivative financial instrument. The swap asset or liability is recognized at its fair value. The change in fair value during the year is recognized as a gain or loss.

Contributions - ICL reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

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

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

Temporarily restricted net assets - Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose.

Measure of operations - Operations include all revenues and expenses relating to consumer care. Contributions, special events and interest income are considered nonoperating.

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements and Disclosures

In accordance with generally accepted accounting principles, ICL adopted provisions of *Fair Value Measurements and Disclosures* (ACS 820), which establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that ICL has the ability to access. Level 2 inputs to the valuation methodology include:

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

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2011 and 2010.

Mutual funds - Valued at the net asset value (NAV) of shares held at year end.

Swap agreements - ICL recognizes the fair value of the difference between the interest payments due on its mortgage agreement and the present value of the estimated interest payments on its swap agreement, discounted to present value as either an asset or liability based on the calculated value.

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**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements and Disclosures (continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while ICL believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Assets			
Mutual funds	\$ <u>2,444,470</u>	\$ <u>-</u>	\$ <u>2,444,470</u>
Liabilities			
Swap agreements	\$ <u>-</u>	\$ <u>764,636</u>	\$ <u>764,636</u>

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Assets			
Mutual funds	\$ <u>2,517,350</u>	\$ <u>-</u>	\$ <u>2,517,350</u>
Liabilities			
Swap agreements	\$ <u>-</u>	\$ <u>744,872</u>	\$ <u>744,872</u>

Uncertainty in income taxes - ICL has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2008 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through November 11, 2011, which is the date the financial statements were available to be issued.

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 3 - FIXED ASSETS

	2011			Estimated Useful Lives
	Cost	Accumulated Depreciation and Amortization	Net	
Land	\$ 1,270,355		\$ 1,270,355	
Building and improvements	59,273,902	\$ 24,507,215	34,766,687	5 - 25 years
Leasehold improvements	3,856,337	3,095,236	761,101	5 - 25 years
Vehicles and equipment	1,442,389	853,412	588,977	3 - 5 years
Furniture and equipment	<u>533,494</u>	<u>389,159</u>	<u>144,335</u>	3 - 15 years
	<u>\$ 66,376,477</u>	<u>\$ 28,845,022</u>	<u>\$ 37,531,455</u>	
	2010			
	Cost	Accumulated Depreciation and Amortization	Net	Estimated Useful Lives
Land	\$ 1,270,355		\$ 1,270,355	
Building and improvements	57,054,445	\$ 22,366,172	34,688,273	5 - 25 years
Leasehold improvements	3,660,734	2,791,752	868,982	5 - 25 years
Vehicles and equipment	1,018,146	584,545	433,601	3 - 5 years
Furniture and equipment	<u>411,587</u>	<u>354,707</u>	<u>56,880</u>	3 - 15 years
	<u>\$ 63,415,267</u>	<u>\$ 26,097,176</u>	<u>\$ 37,318,091</u>	

In September 2006, ICLRPHC received a donated building from OMH to operate one of its programs. The building was recorded at fair value at the date of donation. OMH has stipulated that if the program is not operated for a period of twenty years, the building will revert to OMH.

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 4 - DEBT SERVICE RESERVE

Under the terms of the Dormitory Authority of the State of New York (DASNY) mortgage, ICL was required to deposit with the MCFFA bond trustee amounts to be held in reserve which will be withdrawn to satisfy the last installments on the DASNY mortgages. Interest earned on this reserve fund will be used to reduce ICL's payment obligation under the mortgages. The balance of the reserve fund as of June 30, 2011 and 2010 is \$1,075,781.

NOTE 5 - REVENUES FROM GOVERNMENT AGENCIES

Revenues and receivables arising from programs funded by government agencies are dependent upon final audit and negotiations between the entities and the various government agencies. As of June 30, 2011 and 2010, management has estimated that the reserve for potential rate adjustments is \$1,431,000 and \$1,625,000, respectively.

NOTE 6 - MORTGAGES PAYABLE

	2011	2010
<u><i>Dormitory Authority of the State of New York (DASNY)</i></u>		
ICL entered into loan agreements with DASNY, a body corporate and public of the State of New York, constituting a public benefit corporation of the New York State Office of Mental Health and the Office for People with Developmental Disabilities.		
1. The principal amount shall bear interest at the rate of 6.19% per annum and shall be payable by ICL to DASNY in semiannual installments until December 2018. The property secured is the land and building located at Washington Avenue, Brooklyn, New York.	\$ 389,270	\$ 429,597
2. The principal amount shall bear interest at the rate of 6.87% per annum and shall be payable by ICL to DASNY in semiannual installments until November 2017. The property secured is the land and building located at State Street, Brooklyn, New York.	1,484,660	1,670,904

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 6 - MORTGAGES PAYABLE (continued)

	2011	2010
<i><u>Dormitory Authority of the State of New York (DASNY)</u></i>		
<i>(continued)</i>		
3. The principal amount shall bear interest at the rate of 6.73% per annum and shall be payable by ICL to DASNY in semiannual installments until December 2015. The property secured is the land and building located at Halsey Street, Brooklyn, New York.	\$ 441,268	\$ 530,916
4. The principal amount shall bear interest at the rate of 6.36% per annum and shall be payable by ICL to DASNY in semiannual installments until August 2018. The property secured is the land and building located at Avenue K, Brooklyn, New York.	323,075	358,000
5. The principal amount shall bear interest at the rate of 6.42% per annum and shall be payable by ICL to DASNY in semiannual installments until August 2018. The property secured is the land and building located at Rugby Road, Brooklyn, New York.	435,250	485,250
6. The principal amount shall bear interest at the rate of 6.41% per annum and shall be payable by ICL to DASNY in semiannual installments until February 2019. The property secured is the land and building located at West 12th Street, Brooklyn, New York.	343,000	381,750
7. The principal amount shall bear interest at the rate of 6.42% per annum and shall be payable by ICL to DASNY in semiannual installments until February 2019. The property secured is the land and building located at Avenue D, Brooklyn, New York.	682,250	752,250

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 6 - MORTGAGES PAYABLE (continued)

	2011	2010
<i><u>Dormitory Authority of the State of New York (DASNY)</u></i>		
<i>(continued)</i>		
8. The principal amount shall bear interest at the rate of 6.19% per annum and shall be payable by ICL to DASNY in semiannual installments until June 2019. The property secured is the land and building located at Emerson Place, Brooklyn, New York.	\$ 1,388,965	\$ 1,521,407
9. The principal amount shall bear interest at the rate of 4.91% per annum and shall be payable by ICL to DASNY in semiannual installments until December 2027. The property secured is the land and building located at First Street, Brooklyn, New York.	1,720,253	1,786,676
10. The principal amount shall bear interest at the rate of 5.01% per annum and shall be payable by ICL to DASNY in semiannual installments until December 2032. The property secured is the land and building located at First Street, Brooklyn, New York.	365,702	375,010
11. The principal amount shall bear interest at the rate of 5.66% and shall be payable by ICL to DASNY in semiannual installments until June 2022. The property secured is the building located at 25-29 Lawton Street, Brooklyn, New York.	1,940,231	2,061,077
12. The principal amount shall bear interest at the rate of 5.60% and shall be payable by ICL to DASNY in semiannual installments until December 2022. The property secured is the building located at 948 Eastern Parkway, Brooklyn, New York.	1,478,415	1,565,539

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 6 - MORTGAGES PAYABLE (continued)

	2011	2010
<i><u>Dormitory Authority of the State of New York (DASNY)</u></i>		
<i>(continued)</i>		
13. The principal amount shall bear interest at the rate of 5.44% and shall be payable to DASNY in semiannual installments until December 2023. The property secured is the building located at 50 Nevins Street, Brooklyn, New York.	\$ 5,525,002	\$ 5,829,790
14. The principal amount shall bear interest at the rate of 6.07% and shall be payable to DASNY in semiannual installments until June 2026. The property secured is the building located at 839 St. Marks Avenue, Brooklyn, New York.	3,155,449	3,281,617
15. The principal amount shall bear interest at the rate of 5.15% and shall be payable to DASNY in semiannual installments until December 2029. The property secured is the building located at 518 Flatbush Avenue, Brooklyn, New York.	1,482,014	1,529,074
16. The principal amount shall bear interest at the rate of 5.15% and shall be payable by ICL to DASNY in semiannual installments until December 2031. The property secured is the building located at 198 Linden Boulevard, Brooklyn, New York.	920,989	946,480
17. The principal amount shall bear interest at the rate of 5.15% and shall be payable by ICL to DASNY in semiannual installments until December 2029. The property secured is the building located at 44 Lewis Avenue, Brooklyn, New York.	<u>4,160,836</u>	<u>4,292,953</u>
Less current portion	<u>26,236,629</u> <u>(1,652,138)</u>	<u>27,798,290</u> <u>(1,561,661)</u>
	<u>\$ 24,584,491</u>	<u>\$ 26,236,629</u>

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**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 6 - MORTGAGES PAYABLE (continued)

Combined payments of principal are as follows:

2012	\$ 1,652,138
2013	1,752,798
2014	1,859,060
2015	1,970,037
2016	1,998,910
Thereafter	<u>17,003,686</u>
	<u>\$ 26,236,629</u>

NOTE 7 - LOAN PAYABLE

ICL maintains a revolving line of credit payable with interest at the higher of the prime rate or the LIBOR rate plus 2.5%, which at June 30, 2011 was 5.75%. The line of credit matures December 2011. There is no outstanding balance as of June 30, 2011 and 2010.

NOTE 8 - DUE TO NEW YORK STATE

ICL and Joselow have entered into contracts with OPWDD. As part of the agreement, OPWDD advanced funds to ICL and Joselow and expended funds on their behalf for preoperational start-up costs, buildings, equipment, renovations, lease costs, real estate taxes and operations. ICL and Joselow have agreed to pay back to OPWDD all of the above funds to the extent that such costs are reimbursed by Medicaid. Medicaid payments for these costs are withheld from remittances. The amounts due to OPWDD as of June 30, 2011 and 2010 are \$1,173,542 and \$1,027,915, respectively.

ICL and GCB receive additional Medicaid funding for their clinic services in the form of a Comprehensive Outpatient Provider System (COPS) and CSP add-on. The COPS and CSP add-ons are derived from a formula calculated by OMH. After certain thresholds are met, a COPS and CSP Medicaid liability becomes due. The amount due is withheld from Medicaid remittances in amounts equal to 10% of the total Medicaid payment. The amounts due to OMH as of both June 30, 2011 and 2010 are \$3,907,093 and \$3,867,492, respectively.

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**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 9 - ADVANCES FROM GOVERNMENT AGENCIES

Advances from government agencies represent funds advanced by the New York State Office of Mental Health and Medicaid through the New York State Office of Mental Health for ICL's future OMH contracts.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following periods:

	<u>2011</u>	<u>2010</u>
For the periods after June 30	\$ <u>563,456</u>	\$ <u>609,827</u>

Temporarily restricted net assets were released from restriction as follows:

	<u>2011</u>	<u>2010</u>
Expiration of time restriction	\$ <u>46,371</u>	\$ <u>46,371</u>

NOTE 11 - LEASES

ICL and related entities lease various buildings under operating leases. The leases terminate between 2011 and 2021. Rent is recorded monthly based on signed lease agreements. Rent expense for the years ended June 30, 2011 and 2010 was \$12,386,211 and \$11,766,028, respectively. The commitments under these leases are as follows:

2012	\$ 13,389,122
2013	8,794,567
2014	1,750,201
2015	202,069
2016	96,103
Thereafter	505,018

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 12 - PENSION PLANS

ICL and related entities' employees are covered under a noncontributory defined contribution pension plan. Contributions to the plan for 2011 and 2010 were based on 2% and 4% of each covered employee's salary, respectively. In addition, ICL makes additional contributions to the plan for various cabinet members and key employees ranging from 1% to 9% based on their respective length of employment and/or their employed position. Pension expense for the years ended June 30, 2011 and 2010 was \$762,230 and \$1,317,963, respectively.

Union employees of GCB are covered by an employer contributory pension plan administered by the union. Union pension expense for the years ended June 30, 2011 and 2010 was \$82,215 and \$74,667, respectively.

NOTE 13 - NEW YORK STATE OFFICE OF MENTAL HEALTH - CAPITAL ADVANCE

ICL and ICLRPHC have been advanced funds by OMH under a contract for the construction and rehabilitation of various residences. The advances will be replaced with a long-term mortgage financed through DASNY.

NOTE 14 - DEFERRED COMPENSATION PLANS

During 2005 and 2004, ICL's Board of Directors approved two nonqualified deferred compensation plans established under Internal Revenue Code Section 457(f). The plans are subject to a substantial risk of forfeiture and provide for benefits to be paid upon retirement or the occurrence of other specified events. The Board of Directors also approved two nonqualified deferred compensation plans under Internal Revenue Code Section 457(b). Supplemental retirement expense for the years' ended June 30, 2011 and 2010 was \$844,197 and \$640,976, respectively.

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**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 15 - CAPITAL LEASES PAYABLE

On September 14, 2004, in order to finance the acquisition of an Intermediate Care Facility (ICF) and refinance existing debt, ICL secured financing of \$8,380,000 from the Industrial Development Agency of New York (IDA). The financing consists of a Series A tax-exempt bond of \$7,980,000 and a Series B taxable bond of \$400,000 at variable interest rates. As part of the agreement with IDA, ICL leased or subleased four properties to IDA. IDA has sold its leasehold interest in these facilities back to ICL pursuant to an installment sale agreement for a term concurrent with the bond repayment schedule. During the term of the installment sale agreement, ICL is responsible for maintaining the property.

The bonds are issued by IDA as a conduit issuer. ICL has the obligation under the installment sale agreement to make payments to the Bond Trustee equal to the amounts payable as principal and interest on the outstanding bonds. Interest on the bonds vary and is calculated weekly. ICL entered into an interest rate swap on the Series A tax-exempt bond (see Note 17). Interest on the Series A bond as of June 30, 2011 is 4.34%. Interest on the Series B bond, which is based on the one-month LIBOR as of June 30, 2011 is .44%. The average interest rate during the year was 4.18%. Principal and interest are due annually and every 35 days, respectively. The final payment is due November 1, 2033. The payment of the bonds is secured by a direct pay letter of credit issued by JPMorgan Chase, and payment of obligations due to JPMorgan Chase under the letter of credit reimbursement agreement are secured by a mortgage and security agreement. ICL, as well as ICL HealthCare Choices, Inc., ICL Joselow House, Inc., ICL Real Property Holding Corporation, Inc. and The Guidance Center of Brooklyn, Inc. have unconditionally guaranteed payment of the bonds. In conjunction with this financing, ICL is required to maintain and have available for use a lease payment fund.

Annual payments of principal and interest are as follows:

2012	\$ 677,501
2013	673,652
2014	680,244
2015	690,264
2016	518,755
Thereafter	<u>5,425,542</u>
	8,665,958
Less amount representing interest	<u>(2,385,958)</u>
Present value of minimum lease payments	<u>\$ 6,280,000</u>

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**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 16 - ESCROW FUNDS HELD ON BEHALF OF ICL

On March 30, 2005, ICL began operations of an OMH funded program (known as "Milestone Residence") on the grounds of Creedmoor Psychiatric Center ("Center"). This program was previously operated by a non-related not-for-profit organization. ICL entered into a revocable permit agreement with the Center, effective March 30, 2005. The agreement allows ICL to use and occupy the premises and operate the program in accordance with the provisions of a license issued by OMH. The agreement stipulates responsibility for facility-related costs between the parties. ICL is granted exclusive permission to use and occupy the premises from the effective date, continuing through (1) the expiration date of the OMH license, or (2) the effective date of a long-term lease of the premises between ICL and DASNY, as landlord. There is no payment of rent, permit fees, license fees or any other amounts between the Center and ICL.

On the same date, ICL and OMH entered into an escrow agreement. The agreement stipulates that monies will be held by an escrow agent who will be required to receive, disburse and account for such monies. The escrow agent is required to establish a bank account to which the agent is the signatory. The escrow agent is also required to receive written consent to disburse such monies from both ICL and OMH. These monies are for facility-related expenditures of the Milestone Residence. The initial deposit was \$2,321,942. As of June 30, 2011 and 2010, \$1,026,824 and \$1,490,375, respectively, remained with the escrow agent and is not recorded in these financial statements.

NOTE 17 - DERIVATIVE FINANCIAL INSTRUMENTS

On September 14, 2004, ICL, in conjunction with securing financing from the IDA, entered into an interest rate swap agreement with HSBC Bank, USA in order to convert the interest rate on its Series A tax-exempt bond to a fixed rate of 4.09%. On December 30, 2010, ICL entered into an agreement with JPMorgan Chase for a swap agreement whereby ICL will pay JPMorgan Chase Bank 4.34% annual interest on the outstanding balance of the bond issued under the Industrial Development Agency and JPMorgan Chase will assume all responsibility for the SWAP agreement with HSBC bank.

The swap agreement resulted in a market-to-market unrestricted loss of \$19,854 and \$233,822 in 2011 and 2010, respectively. At June 30, 2011 and 2010, the fair value of the swap agreement was a liability of \$764,636 and \$744,782, respectively.

Under the swap contract, ICL pays interest at 4.34% and receives interest at varying rates. The swap is designated to hedge the risk of changes in interest payments on the note caused by changes in the Bond Market Association (BMA). The notional amounts do not represent actual amounts exchanged by the parties, but instead represent the amounts on which the contracts are based.

-continued-

**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 17 - DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The swap was issued at market terms so that it had no fair value or carrying value at its inception. The carrying amount of the swap has been adjusted to its fair value at the end of the year which, because of changes in forecasted levels of BMA, resulted in reporting a liability for the fair value of the future net payments forecasted under the swap. The swap contract permits settlement prior to maturity only through termination by ICL. The settlement amount is determined based on forecasted changes in interest rates required under fixed and variable legs of the swap. ICL believes the settlement amount is the best representation of the fair value of the swap and has adjusted its carrying amount to the settlement amount at the end of the year.

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reported on the balance sheet approximate their fair value.

NOTE 19 - CONCENTRATIONS

Financial instruments which potentially subject the Consolidated Group to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.

A significant portion of the Consolidated Group's operating revenues are paid by Medicaid and the New York State Office of Mental Health.

	<u>2011</u>	<u>2010</u>
New York State Office of Mental Health	25%	28%
Medicaid	31%	32%

NOTE 20 - CONTINGENCIES

ICL is responsible to report to and is regulated by various governmental third parties, among which are the Centers for Medicare and Medicaid Services (CMS), the New York State Office of Mental Health (OMH) and the Office for People with Development Disabilities (OPWDD). These agencies as well as the New York State Office of the Attorney General's Medicaid Fraud Control Unit (MFCU), the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the New York State Department of Health's Independent Office of Medicaid Inspector General (OMIG), and other agencies have the right to audit fiscal as well as programmatic compliance.

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**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES**

**CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

JUNE 30, 2010 AND 2009

**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES**

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A - Consolidated Balance Sheet

B - Consolidated Statement of Activities

C - Consolidated Statement of Functional Expenses

D - Consolidated Statement of Cash Flows

Notes to Consolidated Financial Statements



LOEB & TROPER LLP

Independent Auditor's Report

Board of Directors
Institute for Community Living, Inc.

We have audited the accompanying consolidated balance sheet of Institute for Community Living, Inc. and related entities as of June 30, 2010 and 2009, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Institute for Community Living, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Pennsylvania Institute for Community Living, Inc., which statements reflect revenues and assets constituting 1 percent of the respective related totals. These statements were audited by another auditor, whose report has been furnished to us and, in our opinion, insofar as it relates to the amounts included for Pennsylvania Institute for Community Living, Inc., is based solely upon the report of the other auditor.

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

In our opinion, based upon our audits and the report of the other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Institute for Community Living, Inc. and related entities as of June 30, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Loeb & Troper LLP

October 28, 2010

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

CONSOLIDATED BALANCE SHEET

JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
Cash and cash equivalents	\$ 7,382,651	\$ 6,966,536
Investments in mutual funds (Note 2)	2,301,574	1,798,686
Accounts receivable - government contracts	3,670,637	4,059,265
Accounts receivable - Medicaid/Medicare (net of allowance for bad debts of \$3,109,000 in 2010 and \$2,370,000 in 2009)	8,008,509	8,036,090
Accounts receivable - other	571,525	730,089
Prepaid expenses and other assets	554,958	1,397,286
Limited use assets		
Lease payment fund - cash (Note 15)	311,541	280,504
Debt service reserve fund - cash (Note 4)	1,075,781	1,075,781
Fixed assets - net (Note 3)	37,318,091	38,899,694
Deferred charge (Note 2)	6,899,533	7,362,594
	<u>\$ 68,094,800</u>	<u>\$ 70,606,525</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 5,910,741	\$ 6,755,141
Accrued salaries payable	1,304,502	2,701,898
Deferred compensation payable (Note 14)	2,773,412	1,957,171
Advances from government agencies (Note 9)	4,123,805	4,090,557
Due to New York State Office of Mental Health - capital advances (Note 13)	6,389,417	10,772,863
Due to New York State (Note 8)	4,895,407	4,631,943
Reserve for rate adjustments (Note 5)	1,625,000	1,564,000
Mortgages payable (Note 6)	27,798,290	24,839,564
Swap liability (Note 17)	744,782	510,960
Capital lease payable (Note 15)	6,685,000	7,065,000
	<u>62,250,356</u>	<u>64,889,097</u>
Net assets (Exhibit B)		
Unrestricted - undesignated	2,884,829	2,640,164
Unrestricted - capital reserve	792,830	792,830
Unrestricted - depreciation	1,556,958	1,628,236
	<u>5,234,617</u>	<u>5,061,230</u>
Temporarily restricted (Note 10)	609,827	656,198
	<u>5,844,444</u>	<u>5,717,428</u>
Total liabilities and net assets	<u>\$ 68,094,800</u>	<u>\$ 70,606,525</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

EXHIBIT B

CONSOLIDATED STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2010 AND 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating revenues and other support						
MH residential	\$ 41,568,153		\$ 41,568,153	\$ 37,967,660		\$ 37,967,660
Homeless Services	12,860,391		12,860,391	5,422,859		5,422,859
MR residential services	11,649,278		11,649,278	11,467,578		11,467,578
Children and family services	9,428,759		9,428,759	9,439,389		9,439,389
Community support services	3,995,549		3,995,549	4,214,285		4,214,285
Continuing day treatment	1,036,717		1,036,717	1,209,203		1,209,203
Clinic	6,551,312		6,551,312	5,939,973		5,939,973
Other programs	285,274		285,274	278,822		278,822
Net assets released from restrictions (Note 10)	46,371	\$ (46,371)		46,371	\$ (46,371)	
Total operating revenues and other support	87,421,804	(46,371)	87,375,433	75,986,140	(46,371)	75,939,769
Operating expenses (Exhibit C)						
Program services						
MH residential services	35,910,339		35,910,339	32,657,679		32,657,679
Homeless Services	11,096,407		11,096,407	5,002,292		5,002,292
MR residential services	9,136,806		9,136,806	9,009,653		9,009,653
Children and family services	8,657,074		8,657,074	8,197,983		8,197,983
Community support services	3,480,248		3,480,248	3,648,068		3,648,068
Continuing day treatment	966,610		966,610	927,568		927,568
Clinic programs	6,248,570		6,248,570	5,129,093		5,129,093
Other programs	1,717,764		1,717,764	1,815,221		1,815,221
Total program services	77,213,818		77,213,818	66,387,557		66,387,557
Supporting services						
Management and general	9,868,024		9,868,024	8,812,883		8,812,883
Total operating expenses	87,081,842		87,081,842	75,200,440		75,200,440

-continued-

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

EXHIBIT B

-2-

CONSOLIDATED STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2010 AND 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Change in net assets from operations	\$ 339,962	\$ (46,371)	\$ 293,591	\$ 785,700	\$ (46,371)	\$ 739,329
Nonoperating revenues						
Contributions	7,727		7,727	5,957		5,957
Special events revenue	\$ 142,736		\$ 142,736	\$ 123,077		\$ 123,077
Cost of special events	(92,984)		(92,984)	(52,769)		(52,769)
Interest	9,768		9,768	67,226		67,226
Total nonoperating revenues	67,247		67,247	143,491		143,491
Change in net assets before swap transaction	407,209	(46,371)	360,838	929,191	(46,371)	882,820
Loss on swap agreement (Note 17)	(233,822)		(233,822)	(219,383)		(219,383)
Change in net assets (Exhibit D)	173,387	(46,371)	127,016	709,808	(46,371)	663,437
Net assets - beginning of year	5,061,230	656,198	5,717,428	4,351,422	702,569	5,053,991
Net assets - end of year (Exhibit A)	\$ 5,234,617	\$ 609,827	\$ 5,844,444	\$ 5,061,230	\$ 656,198	\$ 5,717,428

See independent auditor's report.

The accompanying notes are an integral part of these statements.

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2010 AND 2009

	2010									2009			
	Program Services						Supporting Services			Total	Total		
	MR Residential Services	Homeless Service	MR Residential Services	Children and Family Services	Community Support Services	Continuing Day Treatment	Clinic Programs	Other Programs	Total			Management and General	Costs of Special Events
Salaries	\$ 14,421,294	\$ 3,540,149	\$ 5,302,895	\$ 4,507,073	\$ 2,181,459	\$ 579,358	\$ 3,507,203	\$ 851,224	\$ 34,890,655	\$ 4,951,580		\$ 4,951,580	\$ 39,842,235
Fringe benefits	3,780,819	919,514	1,384,506	1,053,826	566,616	144,010	862,108	217,175	8,928,574	1,184,720		1,184,720	10,113,294
Total salaries and related expenses	18,202,113	4,459,663	6,687,401	5,560,899	2,748,075	723,368	4,369,311	1,068,399	43,819,229	6,136,300		6,136,300	49,955,529
Rent (Note 11)	7,136,230	2,650,978	19,207	750,523	3,692	5,604	491,264		11,057,498	708,530		708,530	11,766,028
Professional fees and contract service payments	442,373	1,591,751	552,142	511,425	36,244	23,860	385,193	63,669	3,606,657	1,491,243		1,491,243	5,097,900
Depreciation and amortization	1,745,778		259,402	164,240		450	152,303	124,864	2,447,037	139,375		139,375	2,586,412
Interest	1,392,195		136,439	100,065				279,632	1,908,331	6,501		6,501	1,914,832
Utilities	965,658	283,471	180,671	191,159	47,080	37,342	41,828	535	1,747,744	79,550		79,550	1,827,294
Maintenance, repairs and other property costs	1,010,417	255,509	128,818	442,746	43,630	23,894	75,139	113,530	2,093,683	111,444		111,444	2,205,127
Food	1,253,711	1,150,416	225,469	46,836	38,784	21,541		729	2,737,486	11,480		11,480	2,748,966
Supplies	617,808	262,485	275,477	129,351	214,556	14,014	143,516	48	1,657,255	105,900		105,900	1,763,155
Furniture and equipment	642,438	108,265	23,713	80,753	19,093	69	10,771	3,325	888,427	16,782		16,782	905,209
Insurance	362,648	53,128	66,559	40,175	29,776	10,707	12,562	3,604	579,159	82,050		82,050	661,209
Client activities	329,860	2,864	19,181	77,571	122,850	23,214		6,748	582,288	1,080		1,080	583,368
Data processing	163,782	93,156	80,606	73,635	29,597	8,650	70,273	6,333	526,032	305,655		305,655	831,687
Telephone	382,207	83,984	60,117	111,307	72,757	13,083	98,432	12,909	834,796	152,696		152,696	987,492
Clothing	304,300	89	18,326	14,342					337,057				337,057
Vehicle expense	91,275	21,740	141,414	7,664	14,290	734	145	9,130	286,392	93,389		93,389	379,781
New York State tax assessment			179,267						179,267				179,267
Equipment rental	113,621	23,960	39,683	35,182	18,857	6,474	27,983	4,160	269,920	51,837		51,837	321,757
Postage and printing	127,702	1,934	19,955	26,813	2,507	907		1,337	181,155	69,228		69,228	250,383
Client travel	19,403	35,320	2,102	92,341	14,994	51,525	65,921	223	281,829	54		54	281,883
Special events - catering											\$ 92,984		92,984
Employee travel	55,010	2,571	9,639	25,215	21,682	255	2,253	6,257	122,882	64,669		64,669	187,551
Dues and subscriptions		9,675	300	2,918			4,029		16,922	101,189		101,189	118,111
Conferences and meetings	3,907	2,148	1,406	1,153	462	55		141	9,272	14,184		14,184	23,456
Staff training	16,840	1,795	88	6,623	1,215	807		1,074	28,442	89,662		89,662	118,104
Personnel recruitment	1,860	1,392	807	418	49		2,220		6,746	21,481		21,481	28,227
Miscellaneous	3,650	113	3,385	1,028	58	57	21,461	11,117	40,869	13,745		13,745	54,614
Subcontractor	525,553		5,232						530,785				530,785
Bad debt				162,692			273,966		436,658				436,658
Total expenses	35,910,339	11,096,407	9,136,806	8,657,074	3,480,248	966,610	6,248,570	1,717,764	77,213,818	9,868,024		9,868,024	87,174,826
Less cost of special events											\$ (92,984)	\$ (92,984)	\$ (92,984)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 35,910,339	\$ 11,096,407	\$ 9,136,806	\$ 8,657,074	\$ 3,480,248	\$ 966,610	\$ 6,248,570	\$ 1,717,764	\$ 77,213,818	\$ 9,868,024	\$ -	\$ 9,868,024	\$ 87,081,842

-continued-

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

EXHIBIT C
-2-

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2010 AND 2009

	2009												
	Program Services							Supporting Services					
	MH Residential Services	Homeless Service	MR Residential Services	Children and Family Services	Community Support Services	Continuing Day Treatment	Clinic Programs	Other Programs	Total	Management and General	Costs of Special Events	Total	Total
Salaries	\$ 13,800,068	\$ 1,918,059	\$ 5,059,748	\$ 4,466,269	\$ 2,278,868	\$ 546,301	\$ 2,830,715	\$ 858,628	\$ 31,758,656	\$ 4,285,434		\$ 4,285,434	\$ 36,044,090
Fringe benefits	3,635,065	479,624	1,324,837	1,066,856	583,517	144,615	706,214	233,094	8,173,822	~986,143		986,143	9,159,965
Total salaries and related expenses	17,435,133	2,397,683	6,384,585	5,533,125	2,862,385	690,916	3,536,929	1,091,722	39,932,478	5,271,577		5,271,577	45,204,055
Rent (Note 11)	5,923,782		35,210	690,614	4,396	7,606	578,107	127	7,239,842	792,382		792,382	8,032,224
Professional fees and contract service payments	245,834	953,649	636,954	512,944	31,444	15,680	356,167	55,032	2,807,704	1,231,299		1,231,299	4,039,003
Depreciation and amortization	1,738,574		282,861	150,047		450	155,838	124,864	2,452,634	111,400		111,400	2,564,034
Interest	1,227,250		146,884	107,440			842	308,980	1,791,396	3,756		3,756	1,795,152
Utilities	975,829		213,846	196,023	52,850	43,753	44,171	315	1,526,787	99,424		99,424	1,626,211
Maintenance, repairs and other property costs	894,288	186,384	105,125	175,001	23,587	27,877	77,304	8,560	1,498,126	143,603		143,603	1,641,729
Food	1,308,685	685,300	231,888	46,853	42,791	18,666	3,648	114	2,337,945				2,337,945
Supplies	593,402	272,890	268,824	124,701	225,758	11,807	132,099	154,749	1,784,230	107,121		107,121	1,891,351
Furniture and equipment	442,268	168,482	55,611	141,898	92,186	1,500	10,834	1,191	913,970	8,417		8,417	922,387
Insurance	356,799	28,031	79,135	40,486	31,371	12,200	15,298	4,668	567,988	80,742		80,742	648,730
Client activities	312,156	55,387	8,310	89,456	93,781	17,170		1,000	577,260				577,260
Data processing	168,468	142,517	95,118	103,782	36,635	13,540	81,600	7,456	649,116	342,691		342,691	991,807
Telephone	286,605	14,908	41,457	54,903	64,377	9,564	31,827	13,168	516,809	111,258		111,258	628,067
Clothing	302,014	2,774	17,911	22,243					344,942				344,942
Vehicle expense	80,871	19,258	117,156		10,953	832	875	12,104	242,049	77,357		77,357	319,406
New York State tax assessment			184,256						184,256				184,256
Equipment rental	146,350	17,721	50,224	42,673	27,120	7,570	29,160	3,438	324,256				324,256
Postage and printing	135,853	3,299	20,054	37,962	2,598	2,040	11,241	1,275	214,322	68,174		68,174	282,496
Client travel	21,319	34,798	5,311	89,171	17,071	45,270	47,825	100	260,865				260,865
Special events - catering											\$ 52,769	52,769	52,769
Employee travel	43,479	2,536	10,653	21,055	24,145	472	1,664	4,009	108,013	48,694		48,694	156,707
Dues and subscriptions	230	2,300	247	9,528	211		5,058		17,574	150,668		150,668	168,242
Conferences and meetings			2,094					300	2,394	85,896		85,896	88,290
Staff training	13,544	11,732	11,885	6,401	2,000	133	199	5	45,899				45,899
Personnel recruitment	1,547	2,498	109	1,289	1,426	25	386		7,280	7,991		7,991	15,271
Miscellaneous	3,399	145	3,945	388	983	497	8,021	22,044	39,422	70,433		70,433	109,855
Total expenses	32,657,679	5,002,292	9,009,653	8,197,983	3,648,068	927,568	5,129,093	1,815,221	66,387,557	8,812,883	52,769	8,865,652	75,253,209
Less costs of special events deducted from revenues on the statement of activities											52,769	(52,769)	(52,769)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 32,657,679	\$ 5,002,292	\$ 9,009,653	\$ 8,197,983	\$ 3,648,068	\$ 927,568	\$ 5,129,093	\$ 1,815,221	\$ 66,387,557	\$ 8,812,883	\$ -	\$ 8,812,883	\$ 75,200,440

See independent auditor's report.

The accompanying notes are an integral part of these statements.

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 127,016	\$ 663,437
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss on swap agreement	233,822	219,383
Depreciation and amortization	2,586,412	2,564,034
Decrease (increase) in assets		
Accounts receivable	574,773	(4,264,425)
Prepaid expenses and other assets	842,328	(1,034,601)
Deferred charge	463,061	(485,195)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(844,400)	1,994,949
Accrued salaries payable	(1,397,396)	419,625
Deferred compensation payable	816,241	282,067
Advances from government agencies	33,248	204,518
Due to New York State	263,464	117,543
Reserve for rate adjustments	61,000	457,252
Net cash provided by operating activities	3,759,569	1,138,587
Cash flows from investing activities		
Fixed asset acquisitions	(1,004,809)	(4,788,332)
Purchase of investments	(502,888)	(248,708)
Increase in limited use assets	(31,037)	(36,080)
Net cash used by investing activities	(1,538,734)	(5,073,120)
Cash flows from financing activities		
Proceeds from New York State OMH - capital advances	477,472	456,024
Proceeds from mortgages payable	4,811,000	392,300
Principal payments to New York State OMH - capital advances	(4,860,918)	
Principal payments on capital lease payable	(380,000)	(355,000)
Principal payments on mortgages payable	(1,852,274)	(1,256,859)
Principal payments on loans payable		(164,914)
Net cash used by financing activities	(1,804,720)	(928,449)
Net increase (decrease) in cash and cash equivalents	416,115	(4,862,982)
Cash and cash equivalents - beginning of year	6,966,536	11,829,518
Cash and cash equivalents - end of year	\$ 7,382,651	\$ 6,966,536
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 1,914,832	\$ 1,795,152

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 1 - NATURE OF ENTITY

Institute for Community Living, Inc. (ICL), located in New York City, was incorporated under New York State Law in 1986. Its mission is to assist people with mental and developmental disabilities who need opportunities to improve their quality of life and to participate in community living by providing high-quality services and support. ICL is funded primarily by fees paid by the New York State Office of Mental Health (OMH), Office of Mental Retardation and Developmental Disabilities (OMRDD) and Medicaid.

ICL is the sole member of ICL Real Property Holding Corporation, ICL Joselow House, Inc., The Guidance Center of Brooklyn, Inc., Pennsylvania Institute for Community Living, Inc., ICL HealthCare Choices, Inc. and Phoenix Recycling and Maintenance, Inc. and appoints the various boards of directors.

ICL Joselow House, Inc. (Joselow), located in New York City, was incorporated in 1999 under the New York State Not-for-Profit Corporation Law. Joselow began operations May 3, 1999. Its mission is to provide residential services to developmentally disabled people. Joselow is supported primarily by service fees paid by Medicaid.

The Guidance Center of Brooklyn, Inc. (GCB) was incorporated under New York State Law in 1970. GCB maintains and operates a mental health treatment program, a substance abuse treatment program and a substance abuse prevention program. GCB is supported primarily by service fees paid by Medicaid. Effective January 29, 1999, OMH approved a change in sponsorship whereby ICL was named the new sponsor of services provided by GCB. On February 8, 1999, the Board of Directors of ICL accepted the resignation of the former Board of GCB and appointed a new Board of Directors for GCB.

ICL Real Property Holding Corporation (ICLRPHC), located in New York City, was incorporated under New York State Law in 1994. Its mission is to own, purchase, acquire, lease and/or mortgage real property and premises thereon to further the exempt purpose of ICL. Its primary source of funding is rental income from ICL.

Phoenix Recycling and Maintenance, Inc. (Phoenix) is a for-profit organization that was incorporated under the New York State Business Corporation Law in 1998. Phoenix is a full-service cleaning, maintenance and waste management company. Its purpose is to provide training and opportunities for persons who are disabled or who have histories of homelessness or welfare. Phoenix is supported primarily by revenue received from cleaning, maintenance and waste management services.

-continued-

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 1 - NATURE OF ENTITY (continued)

Pennsylvania Institute for Community Living, Inc. (PICL) is a not-for-profit corporation formed in the Commonwealth of Pennsylvania that has been established to develop and operate residential and outpatient treatment, rehabilitation and support services for individuals with mental disabilities. Its mission is to assist people with mental and developmental disabilities who need opportunities to improve their quality of life and to participate in community living by providing high-quality services and support. PICL is funded primarily through the Montgomery County Office of Mental Health.

ICL HealthCare Choices, Inc. (ICLHCC), located in New York City, was incorporated in 2001 under the New York State Not-for-Profit Corporation Law. ICLHCC began operations July 9, 2001. Its mission is to assist people with mental and developmental disabilities by providing an Article 28 medical clinic. Its primary source of revenues is clinic fees paid by Medicaid.

ICL, Joselow, GCB, ICLHCC and PICL are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. ICLRPHC is a tax-exempt organization under Section 501(c)(2) of the Internal Revenue Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements - The consolidated financial statements include the financial position, changes in net assets and cash flows of ICL, Joselow, GCB, ICLRPHC, PICL, ICLHCC and Phoenix (the Consolidated Group). Intercompany transactions and balances have been eliminated.

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

Certain 2009 amounts have been reclassified to conform with the current year's presentation.

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

-continued-

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Investments - Investments are stated at fair value. Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reflected in the financial statements.

Receivables and revenue - Receivables and revenue are recorded when earned, based on established rates multiplied by the number of units of service provided or signed agreements. Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed amounts spent, the Consolidated Group establishes advances from government funders. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. Interest income is not accrued or recorded on accounts receivable. Laws and regulations related to government programs are subject to interpretation. As a result, there is at least a possibility that recorded estimates may change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from the government programs.

Allowance for doubtful accounts - The Consolidated Group has determined that an allowance for uncollectible accounts for certain receivables is necessary as of June 30, 2010 and 2009. Such estimate is based on management's assessments of the creditworthiness of its funders, the aged basis of its receivables, subsequent collections as well as current economic conditions, and historical information.

Limited use assets - These amounts represent cash which is set aside under the terms of the mortgage or bond agreements.

-continued-

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets - Fixed assets are recorded at cost. Individual items with a cost in excess of \$5,000 and a useful life of greater than one year are capitalized. Depreciation and amortization of fixed assets are recorded on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is recorded on the straight-line method over the term of the lease or its estimated useful life.

Deferred charge - OMH and OMRDD include in the reimbursement rate paid to service providers interest and principal amortization on loans from the Dormitory Authority of the State of New York (DASNY). ICL recognizes revenues, however, based upon interest and depreciation of the facility. The difference between the revenues recognized and the reimbursement from OMH and OMRDD is reflected as a deferred charge on the consolidated balance sheet. This deferred charge represents a timing difference which will accumulate over the early periods of the loan repayments and will reverse during the latter periods of the loan repayments.

GCB records a deferred charge that represents the difference between reimbursement and recording of start-up expenses. Start-up expenses are recorded in the period incurred and reimbursement of start-up expenses is recorded over an approved period by the funder.

Derivative financial instruments - ICL's interest rate swap agreement qualifies as a derivative financial instrument. The swap asset or liability is recognized at its fair value. The change in fair value during the year is recognized as a gain or loss.

Contributions - ICL reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Rental property revenue - ICLRPHC recognizes rental property revenue based on lease agreements. ICLRPHC leases space to tenants under cancelable leases that expire in 2013.

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

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

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Temporarily restricted net assets - Temporarily restricted net assets are those whose use by ICLRPHC has been limited by donors to a specific time period or purpose. Temporarily restricted net assets are available for periods after June 30, 2010. Net assets are released from restriction based on the expiration of time.

Measure of operations - Operations include all revenues and expenses relating to consumer care. Contributions, special events and interest income and loss on swap agreement are considered nonoperating.

Fair Value Measurements

In accordance with generally accepted accounting principles, ICL adopted provisions of *Fair Value Measurements and Disclosures*, ASC Topic 820, which establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that ICL has the ability to access. Level 2 inputs to the valuation methodology include:

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

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

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

Mutual funds - Valued at the net asset value (NAV) of shares held at year end.

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

Swap agreements - ICL recognizes the fair value of the difference between the interest payments due on its mortgage agreement and the present value of the estimated interest payments on its swap agreement, discounted to present value as either an asset or liability based on the calculated value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while ICL believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Mutual funds	\$ <u>2,301,574</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,301,574</u>
Liabilities				
Swap agreements	\$ <u>-</u>	\$ <u>744,872</u>	\$ <u>-</u>	\$ <u>744,872</u>

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Mutual funds	\$ <u>1,798,686</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,798,686</u>
Liabilities				
Swap agreements	\$ <u>-</u>	\$ <u>510,960</u>	\$ <u>-</u>	\$ <u>510,960</u>

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

Subsequent events - Subsequent events have been evaluated through October 28, 2010, which is the date the financial statements were available to be issued.

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 3 - FIXED ASSETS

	2010			Estimated Useful Lives
	Cost	Accumulated Depreciation and Amortization	Net	
Land	\$ 1,270,355		\$ 1,270,355	
Building and improvements	57,054,445	\$ 22,366,172	34,688,273	5 - 25 years
Leasehold improvements	3,660,734	2,791,752	868,982	5 - 25 years
Vehicles and equipment	1,018,146	584,545	433,601	3 - 5 years
Furniture and equipment	<u>411,587</u>	<u>354,707</u>	<u>56,880</u>	3 - 15 years
	<u>\$ 63,415,267</u>	<u>\$ 26,097,176</u>	<u>\$ 37,318,091</u>	
	2009			
	Cost	Accumulated Depreciation and Amortization	Net	Estimated Useful Lives
Land	\$ 1,270,355		\$ 1,270,355	
Building and improvements	56,272,705	\$ 20,200,996	36,071,709	5 - 25 years
Leasehold improvements	3,649,109	2,514,749	1,134,360	5 - 25 years
Vehicles and equipment	812,102	461,734	350,368	3 - 5 years
Furniture and equipment	<u>406,187</u>	<u>333,285</u>	<u>72,902</u>	3 - 15 years
	<u>\$ 62,410,458</u>	<u>\$ 23,510,764</u>	<u>\$ 38,899,694</u>	

In September 2006, ICLRPHC received a donated building from OMH to operate one of its programs. The building was recorded at fair value at the date of donation. OMH has stipulated that if the program is not operated for a period of twenty years, the building will revert to OMH.

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**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 4 - DEBT SERVICE RESERVE

Under the terms of the Dormitory Authority of the State of New York (DASNY) mortgage, ICL was required to deposit with the DASNY bond trustee amounts to be held in reserve which will be withdrawn to satisfy the last installments on the DASNY mortgages. Interest earned on this reserve fund will be used to reduce ICL's payment obligation under the mortgages. The balance of the reserve fund as of June 30, 2010 and 2009 is \$1,075,781.

NOTE 5 - REVENUES FROM GOVERNMENT AGENCIES

Revenues and receivables arising from programs funded by government agencies are dependent upon final audit and negotiations between the entities and the various government agencies. As of June 30, 2010 and 2009, management has estimated that the reserve for potential rate adjustments is \$1,625,000 and \$1,564,000, respectively.

NOTE 6 - MORTGAGES PAYABLE

	2010	2009
<u>Dormitory Authority of the State of New York (DASNY)</u>		
<p>ICL entered into loan agreements with DASNY, a body corporate and public of the State of New York, constituting a public benefit corporation of the New York State Office of Mental Health and the Office of Mental Retardation and Developmental Disabilities.</p>		
<p>1. The principal amount shall bear interest at the rate of 6.19% per annum and shall be payable by ICL to DASNY in semiannual installments until December 2018. The property secured is the land and building located at Washington Avenue, Brooklyn, New York.</p>	\$ 429,597	\$ 467,540
<p>2. The principal amount shall bear interest at the rate of 6.87% per annum and shall be payable by ICL to DASNY in semiannual installments until November 2017. The property secured is the land and building located at State Street, Brooklyn, New York.</p>	1,670,904	1,844,652

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 6 - MORTGAGES PAYABLE (continued)

	2010	2009
<u>Dormitory Authority of the State of New York (DASNY)</u>		
<u>(continued)</u>		
3. The principal amount shall bear interest at the rate of 6.73% per annum and shall be payable by ICL to DASNY in semiannual installments until December 2015. The property secured is the land and building located at Halsey Street, Brooklyn, New York.	\$ 530,916	\$ 614,726
4. The principal amount shall bear interest at the rate of 6.36% per annum and shall be payable by ICL to DASNY in semiannual installments until August 2018. The property secured is the land and building located at Avenue K, Brooklyn, New York.	358,000	390,850
5. The principal amount shall bear interest at the rate of 6.42% per annum and shall be payable by ICL to DASNY in semiannual installments until August 2018. The property secured is the land and building located at Rugby Road, Brooklyn, New York.	485,250	529,000
6. The principal amount shall bear interest at the rate of 6.41% per annum and shall be payable by ICL to DASNY in semiannual installments until February 2019. The property secured is the land and building located at West 12th Street, Brooklyn, New York.	381,750	411,750
7. The principal amount shall bear interest at the rate of 6.42% per annum and shall be payable by ICL to DASNY in semiannual installments until February 2019. The property secured is the land and building located at Avenue D, Brooklyn, New York.	752,250	816,000

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 6 - MORTGAGES PAYABLE (continued)

	2010	2009
<i><u>Dormitory Authority of the State of New York (DASNY)</u></i>		
<i>(continued)</i>		
8. The principal amount shall bear interest at the rate of 6.19% per annum and shall be payable by ICL to DASNY in semiannual installments until June 2019. The property secured is the land and building located at Emerson Place, Brooklyn, New York.	\$ 1,521,407	\$ 1,646,012
9. The principal amount shall bear interest at the rate of 4.91% per annum and shall be payable by ICL to DASNY in semiannual installments until December 2027. The property secured is the land and building located at First Street, Brooklyn, New York.	1,786,676	1,849,956
10. The principal amount shall bear interest at the rate of 5.01% per annum and shall be payable by ICL to DASNY in semiannual installments until December 2032. The property secured is the land and building located at First Street, Brooklyn, New York.	375,010	383,869
11. The principal amount shall bear interest at the rate of 5.66% and shall be payable by ICL to DASNY in semiannual installments until June 2022. The property secured is the building located at 25-29 Lawton Street, Brooklyn, New York.	2,061,077	2,174,238
12. The principal amount shall bear interest at the rate of 5.60% and shall be payable by ICL to DASNY in semiannual installments until December 2022. The property secured is the building located at 948 Eastern Parkway, Brooklyn, New York.	1,565,539	1,647,307

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 6 - MORTGAGES PAYABLE (continued)

	2010	2009
<i><u>Dormitory Authority of the State of New York (DASNY)</u></i>		
<i>(continued)</i>		
13. The principal amount shall bear interest at the rate of 5.44% and shall be payable to DASNY in semiannual installments until December 2023. The property secured is the building located at 50 Nevins Street, Brooklyn, New York.	\$ 5,829,790	\$ 6,118,642
14. The principal amount shall bear interest at the rate of 6.07% and shall be payable to DASNY in semiannual installments until June 2026. The property secured is the building located at 839 St. Marks Avenue, Brooklyn, New York.	3,281,617	3,400,466
15. The principal amount shall bear interest at the rate of 5.15% and shall be payable to DASNY in semiannual installments until December 2029. The property secured is the building located at 518 Flatbush Avenue, Brooklyn, New York.	1,529,074	1,573,801
16. The principal amount shall bear interest at the rate of 5.15% and shall be payable by ICL to DASNY in semiannual installments until December 2031. The property secured is the building located at 198 Linden Boulevard, Brooklyn, New York.	946,480	970,755
17. The principal amount shall bear interest at the rate of 5.15% and shall be payable by ICL to DASNY in semiannual installments until December 2029. The property secured is the building located at 44 Lewis Avenue, Brooklyn, New York.	<u>4,292,953</u>	<u> </u>
Less current portion	<u>27,798,290</u> <u>(1,561,661)</u>	<u>24,839,564</u> <u>(1,334,228)</u>
	<u>\$ 26,236,629</u>	<u>\$ 23,505,336</u>

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**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 6 - MORTGAGES PAYABLE (continued)

Combined payments of principal are as follows:

2011	\$ 1,561,661
2012	1,652,138
2013	1,752,798
2014	1,859,060
2015	1,970,037
Thereafter	<u>19,002,596</u>
	<u>\$ 27,798,290</u>

NOTE 7 - LOAN PAYABLE

ICL maintains a revolving line of credit payable with interest at prime, which at June 30, 2010 was 3.25%. The line of credit matures March 2011. There is no outstanding balance as of June 30, 2010 and 2009.

NOTE 8 - DUE TO NEW YORK STATE

ICL and Joselow have entered into contracts with OMRDD. As part of the agreement, OMRDD advanced funds to ICL and Joselow and expended funds on their behalf for preoperational start-up costs, buildings, equipment, renovations, lease costs, real estate taxes and operations. ICL and Joselow have agreed to pay back to OMRDD all of the above funds to the extent that such costs are reimbursed by Medicaid. Medicaid payments for these costs are withheld from remittances. The amounts due to OMRDD as of June 30, 2010 and 2009 are \$1,027,915 and \$764,451, respectively.

ICL and GCB receive additional Medicaid funding for their clinic services in the form of a Comprehensive Outpatient Provider System (COPS) and CSP add-on. The COPS and CSP add-ons are derived from a formula calculated by OMH. After certain thresholds are met, a COPS and CSP Medicaid liability becomes due. The amount due is withheld from Medicaid remittances in amounts equal to 10% of the total Medicaid payment. The amounts due to OMH as of both June 30, 2010 and 2009 are \$3,867,492. This approach and the underlying support are subject to audit by New York State Department of Health (DOH) and New York State Office of the Medicaid Inspector General (OMIG).

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**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 9 - ADVANCES FROM GOVERNMENT AGENCIES

Advances from government agencies represent funds advanced by the New York State Office of Mental Health and Medicaid through the New York State Office of Mental Health for ICL's future OMH contracts.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2010 and 2009, temporarily restricted net assets are available for:

	<u>2010</u>	<u>2009</u>
Future periods	\$ <u>609,827</u>	\$ <u>656,198</u>

During the year, net assets were released from restriction by satisfying the restricted purpose as follows:

	<u>2010</u>	<u>2009</u>
Expiration of time	\$ <u>46,371</u>	\$ <u>46,371</u>

NOTE 11 - LEASES

ICL and related entities lease various buildings under operating leases. The leases expire at various periods through December 2014. Rent is recorded monthly based on signed lease agreements. Rent expense for the years ended June 30, 2010 and 2009 was \$11,766,028 and \$8,032,224, respectively. The commitments under these leases are as follows:

2011	\$ 12,890,611
2012	8,705,647
2013	6,799,878
2014	1,576,910
2015	110,542

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INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 12 - PENSION PLAN

ICL and related entities' employees are covered under a noncontributory defined contribution pension plan. Contributions to the plan for 2010 and 2009 were based on 4% and 5% of each covered employee's salary, respectively. In addition, ICL makes additional contributions to the plan for various cabinet members and key employees ranging from 1% to 9% based on their respective length of employment and/or their employed position. Pension expense for the years ended June 30, 2010 and 2009 was \$1,317,963 and \$1,457,057, respectively.

Union employees of GCB are covered by an employer contributory pension plan administered by the Union. Union pension expense for the years ended June 30, 2010 and 2009 was \$74,667 and \$59,765, respectively.

NOTE 13 - NEW YORK STATE OFFICE OF MENTAL HEALTH - CAPITAL ADVANCE

ICL and ICLRPHC have been advanced funds by OMH under a contract for the construction and rehabilitation of various residences. These advances will be replaced with long-term mortgages financed through DASNY.

NOTE 14 - DEFERRED COMPENSATION PLANS

During 2005 and 2004, ICL's Board of Directors approved two nonqualified unfunded deferred compensation plans covering certain executives, which was established under Internal Revenue Code Section 457(f). The plans are subject to a substantial risk of forfeiture and provide for benefits to be paid upon retirement or the occurrence of other specified events. During both years, the Board of Directors also approved a nonqualified unfunded deferred compensation plan for certain executives under Internal Revenue Code Section 457(b).

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**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 15 - CAPITAL LEASES PAYABLE

On September 14, 2004, in order to finance the acquisition of an Intermediate Care Facility (ICF) and refinance existing debt, ICL secured financing of \$8,380,000 from the Industrial Development Agency of New York (IDA). The financing consists of a Series A tax-exempt bond of \$7,980,000 and a Series B taxable bond of \$400,000 at variable interest rates. As part of the agreement with IDA, ICL leased or subleased four properties to IDA. IDA has sold its leasehold interest in these facilities back to ICL pursuant to an installment sale agreement for a term concurrent with the bond repayment schedule. During the term of the installment sale agreement, ICL is responsible for maintaining the property.

The bonds are issued by IDA as a conduit issuer. ICL has the obligation under the installment sale agreement to make payments to the Bond Trustee equal to the amounts payable as principal and interest on the outstanding bonds. Interest on the bonds vary and is calculated weekly. ICL entered into an interest rate swap on the Series A tax-exempt bond (see Note 17). Interest on the Series A bond as of June 30, 2010 is 4.09%. Interest on the Series B bond, which is based on the one-month LIBOR as of June 30, 2010 is .70%. The average interest rate during the year was 4.10%. Principal and interest are due annually and every 35 days, respectively. The final payment is due November 1, 2033. The payment of the bonds is secured by a direct pay letter of credit issued by HSBC Bank USA, National Association ("HSBC"), and payment of obligations due to HSBC under the letter of credit reimbursement agreement are secured by a mortgage and security agreement. ICL, as well as ICL HealthCare Choices, Inc., ICL Joselow House, Inc., ICL Real Property Holding Corporation, Inc. and The Guidance Center of Brooklyn, Inc. have unconditionally guaranteed payment of the bonds. In conjunction with this financing, ICL is required to maintain and have available for use a lease payment fund.

Annual payments of principal and interest are as follows:

2011	\$ 669,260
2012	677,501
2013	673,652
2014	680,244
2015	690,264
Thereafter	<u>5,944,297</u>
	9,335,218
Less amount representing interest	<u>(2,650,218)</u>
Present value of minimum lease payments	<u>\$ 6,685,000</u>

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INSTITUTE FOR COMMUNITY LIVING, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 16 - ESCROW FUNDS HELD ON BEHALF OF ICL

On March 30, 2005, ICL began operations of an OMH funded program (known as "Milestone Residence") on the grounds of Creedmoor Psychiatric Center ("Center"). This program was previously operated by a non-related not-for-profit organization. ICL entered into a revocable permit agreement with the Center, effective March 30, 2005. The agreement allows ICL to use and occupy the premises and operate the program in accordance with the provisions of a license issued by OMH. The agreement stipulates responsibility for facility-related costs between the parties. ICL is granted exclusive permission to use and occupy the premises from the effective date, continuing through (1) the expiration date of the OMH license, or (2) the effective date of a long-term lease of the premises between ICL and DASNY, as landlord. There is no payment of rent, permit fees, license fees or any other amounts between the Center and ICL.

On the same date, ICL and OMH entered into an escrow agreement. The agreement stipulates that monies will be held by an escrow agent who will be required to receive, disburse and account for such monies. The escrow agent is required to establish a bank account to which the agent is the signatory. The escrow agent is also required to receive written consent to disburse such monies from both ICL and OMH. These monies are for facility-related expenditures of the Milestone Residence. The initial deposit was \$2,321,942. As of June 30, 2010 and 2009, \$1,490,375 and \$1,619,346, respectively, remained with the escrow agent and is not recorded in these financial statements.

NOTE 17 - DERIVATIVE FINANCIAL INSTRUMENTS

On September 14, 2004, ICL, in conjunction with securing financing from the IDA, entered into an interest rate swap agreement with HBSC Bank, USA in order to convert the interest rate on its Series A tax-exempt bond to a fixed rate of 4.09%.

The swap agreement resulted in a market-to-market unrestricted loss of \$233,822 and \$219,383 in 2010 and 2009, respectively. At June 30, 2010 and 2009, the fair value of the swap agreement was a liability of \$744,782 and \$510,960, respectively.

Under the swap contract, ICL pays interest at 4.09% and receives interest at varying rates. The swap is designated to hedge the risk of changes in interest payments on the note caused by changes in the Bond Market Association (BMA). The notional amounts do not represent actual amounts exchanged by the parties, but instead represent the amounts on which the contracts are based.

-continued-

INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 17 - DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The swap was issued at market terms so that it had no fair value or carrying value at its inception. The carrying amount of the swap has been adjusted to its fair value at the end of the year which, because of changes in forecasted levels of BMA, resulted in reporting a liability for the fair value of the future net payments forecasted under the swap. The swap contract permits settlement prior to maturity only through termination by ICL. The settlement amount is determined based on forecasted changes in interest rates required under fixed and variable legs of the swap. ICL believes the settlement amount is the best representation of the fair value of the swap and has adjusted its carrying amount to the settlement amount at the end of the year.

Since the critical terms of the swap and the capital lease is approximately the same, the swap is assumed to be effective as a hedge, and the changes in fair values are included as an "other change in net assets." If the swap is terminated early, the corresponding carrying amount would be reclassified into revenues and gains or expenses before other changes.

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by ICL in estimating the fair value of its financial instruments:

Cash and cash equivalents - The carrying amount approximates fair value because the instrument is liquid in nature.

Investments in mutual funds - The carrying value approximates fair value based on quoted market.

Mortgages and loans payable - The carrying value approximates fair value because interest rates are market driven.

Capital lease payable - The fair value is estimated using discounted cash flow analysis based on the anticipated borrowing rates for similar types of borrowings.

Swap liability - The carrying value approximates fair value based on the cost to buy out the option.

-continued-

**INSTITUTE FOR COMMUNITY LIVING, INC.
AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	<u>2010</u>		<u>2009</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 7,382,651	\$ 7,382,651	\$ 6,966,536	\$ 6,966,536
Investments in mutual funds	2,301,574	2,301,574	1,798,686	1,798,686
Mortgage and loans payable	27,798,290	27,798,290	24,839,564	24,839,564
Capital lease payable	6,685,000	6,685,000	7,065,000	7,065,000
Swap liability	744,782	744,782	510,960	510,960

NOTE 19 - CONCENTRATIONS

Financial instruments which potentially subject the Consolidated Group to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that the credit risk related to these accounts is minimal.

A significant portion of the Consolidated Group's operating revenues are paid by Medicaid and the New York State Office of Mental Health.

	<u>2010</u>	<u>2009</u>
New York State Office of Mental Health	28%	29%
Medicaid	32%	33%

APPENDIX C

UNAUDITED FINANCIAL INFORMATION OF SERIES 2013A PARTICIPANTS

APPENDIX C-I
EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.
UNAUDITED FINANCIAL INFORMATION
(FOR THE PERIOD JULY 1, 2012 – DECEMBER 31, 2012)

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Eden II School For Autistic Children, Inc.
Statement of Financial Position

December 31, 2012

ASSETS

Current Assets	
Cash and cash equivalents	\$ 513,839
Program services receivable	3,732,622
Grants, contracts, and pledges receivable	2,263,284
Prepaid expense and other assets	160,240
<hr/>	
Total current assets	6,669,985
Restricted Cash- escrow	245,000
Debt service reserve fund	1,050,369
Deferred debt issuance costs, net of accumulated amortization	610,448
Property and equipment, net	11,929,730
<hr/>	
Total assets	20,505,531

LIABILITIES AND UNRESTRICTED NET ASSETS

Current Liabilities	
Accounts payable and accrued expenses	1,076,429
Accrued compensation	1,167,897
Due to state and local agencies	76,374
Due to related party	25,000
Line of credit	-
Due to DASNY, current portion	28,300
Bonds payable, current portion	420,000
Long-term debt, current portion	216,761
<hr/>	
Total current liabilities	3,010,761
Long-term Liabilities:	
Interest rate swap agreement	252,623
Due to related party	2,393,845
Due to DASNY, less current portion	69,000
Bonds payable, less current portion	5,415,000
Long-term debt, less current portion	4,142,965
<hr/>	
Total Liabilities	15,284,194
Commitments and Contingencies	
Unrestricted Net Assets	4,746,221
Temporarily Restricted Assets	475,116
<hr/>	
Total Net Assets	5,221,337

Total Liabilities and Net Assets \$ 20,505,531

**Eden II School For Autistic Children Inc.
Statement of Activities**

Period Ended December 31, 2012

Revenue

Program and public support services revenue, net	\$	11,377,659
Grants and contract services		758,282
Interest income		1,379
Contributions		24,609
Other Revenue		1,545,104

Total Unrestricted Revenue 13,707,034

Expenses

Family support		991,598
Residential services		3,633,480
Educational services		5,311,721
Adult Habilitational services		1,307,660
Management and general		1,767,509

Total Expenses 13,011,968

Change in unrestricted net assets before other changes 695,066

Other Changes in Unrestricted Net Assets:

Unrealized gain/(Loss) on investments (1,656)

Changes in Temporarily Restricted Net Assets:

Net assets released from restriction -

Change in net assets 693,410

Net Assets as of June 30, 2012 4,527,927

Fiscal year to date Net Assets as of December 31, 2012 \$ 5,221,337

APPENDIX C-II
INSTITUTE FOR COMMUNITY LIVING, INC.
UNAUDITED FINANCIAL INFORMATION
(FOR THE PERIOD JULY 1, 2012 – DECEMBER 31, 2012)

Institute for Community Living and related entities

Six Months Ended December 31, 2012

Statement of Financial Position and Results of Operations

Assets:

Current Assets	31,996,527
Net Fixed Assets	42,461,268
Other	8,169,811
Total	82,627,606

Liabilities and Net Assets:

Current Liabilities	43,262,738
Other Liabilities	31,316,870
Net Assets	8,047,998
Total	82,627,606

Operating Revenue:

Program Revenue	45,304,319
Nonprogram Revenue	43,002
Total	45,347,321

Operating expenses

	45,499,768
Gain on Swap	83,395

Change in net assets

	(69,052)
Net Assets, Beginning of year	8,117,050
Net Assets, End of period	8,047,998
Cash and Equivalents	6,309,231

APPENDIX D
CERTAIN DEFINITIONS

APPENDIX D

CERTAIN DEFINITIONS

As used in this Limited Offering Memorandum, the following terms shall have the meanings set forth below:

Accounts Receivable shall mean all of a Participant's accounts receivable derived from the use or operation of any of its properties, including its Facility.

Additional Bonds shall mean one or more Series of additional bonds issued, executed, authenticated and delivered under the Indenture.

Administration Agreement shall mean the Administration Agreement, dated as of April 1, 2013, among the Issuer, the Program Facilitator and the Participants.

An Affiliate of a Person shall mean a Person that directly or indirectly through one or more intermediaries Controls, or is under common Control with, or is Controlled by, such Person.

Approved Facility shall mean each Facility as occupied, used and operated by a Participant substantially for the Approved Project Operations, including such other activities as may be substantially related to or substantially in support of such operations, all to be effected in accordance with a Loan Agreement.

Assignment of Collateral Assignment of Lease shall mean the Assignment of Collateral Assignment of Lease, dated as of April 1, 2013, from the Issuer to the Trustee, and shall include any and all amendments thereof and supplements thereto hereafter made in conformity therewith and with the Indenture.

Assignment of Mortgage shall mean the Assignment of Mortgage and Security Agreement, dated as of April 1, 2013, from the Issuer to the Trustee, and shall include any and all amendments thereof and supplements thereto hereafter made in conformity therewith and with the Indenture.

Authorized Denomination shall mean, in the case of the Series 2013A Bonds, \$100,000 or any integral multiple of \$5,000 in excess thereof.

Authorized Representative shall mean, (i) in the case of the Issuer, the Chairperson, Vice Chairperson, Treasurer, Assistant Treasurer, Secretary, Assistant Secretary, Executive Director, Deputy Executive Director, General Counsel or Vice President for Legal Affairs, or any other officer or employee of the Issuer who is authorized to perform specific acts or to discharge specific duties, and (ii) in the case of a Participant, a person named in its Loan Agreement as an "Authorized Representative", or any other officer or employee of a Participant who is authorized to perform specific duties under any Project Document and of whom another Authorized Representative of a Participant has given written notice to the Issuer and the Trustee; provided, however, that in each case for which a certification or other statement of fact or condition is required to be submitted by an Authorized Representative to any Person pursuant to the terms of any Project Document, such certificate or statement shall be executed only by an Authorized Representative in a position to know or to obtain knowledge of the facts or conditions that are the subject of such certificate or statement.

Balloon Indebtedness shall mean (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 Representative of a Participant delivered to 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 Representative of a Participant delivered to 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 Representative of a Participant delivered to the Trustee stating that such portion shall be deemed to constitute a separate issue of Balloon Indebtedness.

Beneficial Owner shall mean, whenever used with respect to a Series 2013A Bond, the Person in whose name such Series 2013A Bond is recorded as the beneficial owner of such Series 2013A Bond by the respective systems of DTC and each of the DTC Participants. If at any time the Series 2013A Bonds are not held in the Book-Entry System, Beneficial Owner shall mean "Holder" for purposes of the Security Documents.

Bond Fund shall mean the Bond Fund established by the Indenture.

Bondholder, Holder of Bonds, Holder, holder, or owner shall mean any Person who shall be the registered owner of any Bond or Bonds.

Bond Registrar shall mean the Trustee acting as registrar as provided in the Indenture.

Bond Resolution shall mean the resolution of the Issuer adopted on January 8, 2013 authorizing the issuance of the Series 2013A Bonds.

Bonds shall mean the Series 2013A Bonds and any Additional Bonds.

Bonds allocable to a Participant shall mean, with respect to each Participant and each relevant Series of Bonds at any time, such Participant's Portion of such Bonds as set forth in such Participant's Loan Agreement reduced by the aggregate principal amount of such Bonds allocable to such Participant that are no longer Outstanding at such time.

Business Day shall mean any day that shall not be: (i) a Saturday, Sunday, or legal holiday; (ii) a day on which banking institutions in the City are authorized by law or executive order to close; or (iii) a day on which the New York Stock Exchange is closed.

Capitalized Interest Account shall mean the special trust account of the Project Fund so designated, established pursuant to the Indenture.

Capitalized Interest Period shall mean the period from the payment of interest on the Tax-Exempt Bonds as the same shall become due until the earlier of the Completion Date for a Participant's Project or the exhaustion of amounts in such Capitalized Interest Account.

Cede & Co. shall mean Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Series 2013A Bonds.

City shall mean The City of New York, New York.

Closing Date shall mean the date of issuance and delivery of the Series 2013A Bonds.

Collateral Assignment of Lease shall mean the Collateral Assignment of Lease, dated as of April 1, 2013, from Institute for Community Living, Inc. to the Issuer and the Trustee, and shall include any and all amendments thereof and supplements thereto hereafter made in conformity therewith and with the Indenture.

Earnings Fund shall mean the Earnings Fund established by the Indenture.

Entity shall mean any of a corporation, general partnership, limited liability company, limited liability partnership, joint stock company, trust, estate, unincorporated organization, business association, tribe, firm, joint venture, governmental authority or governmental instrumentality, but shall not include an individual.

Event of Default shall have the meaning specified in the Indenture and the Loan Agreements.

Facility shall mean, collectively, the Facility Personalty and the Facility Realty.

Facility Component shall mean, individually, the Facility Component as defined in a Participant's Loan Agreement or, collectively, all of such Facility Component, as the context requires.

Facility Personalty shall mean, individually, the Facility Personalty as defined in a Participant's Loan Agreement or, collectively, all of such Facility Personalty, as the context requires.

Facility Realty shall mean, individually, the Facility Realty as defined in a Participant's Loan Agreement or, collectively, all of such Facility Realty, as the context requires.

Fiscal Year of a Participant shall mean a year of 365 or 366 days, as the case may be, as specified in such Participant's Loan Agreement.

Fitch shall mean Fitch, Inc., a Delaware corporation, its successors and assigns and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee (at the direction of the Directing Party), by notice to the other Notice Parties.

Governing Body shall mean, when used with respect to any Entity, its board of directors, board of trustees or individual or group of individuals by, or under the authority of which, the powers of such Entity are exercised.

Government Obligations shall mean the following: (i) direct and general obligations of, or obligations unconditionally guaranteed by, the United States of America; (ii) obligations of an Entity controlled or supervised by and acting as an agency or instrumentality of the United States of America, the payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States of America for the timely payment thereof; or (iii) securities or receipts evidencing ownership interests in obligations or specified portions (such as principal or interest) of obligations described in clauses (i) or (ii) above.

Improvements shall mean: (i) all buildings, structures, foundations, related facilities, fixtures and other improvements existing on the Closing Date and erected or situated on the Land; (ii) any other buildings, structures, foundations, related facilities, fixtures and other improvements constructed or erected on the Land (including any improvements or demolitions made as part of the Project Work pursuant to each Loan Agreement); and (iii) all replacements, improvements, additions, extensions, substitutions, restorations and repairs to any of the foregoing.

Indebtedness shall mean 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, such Participant may, at its option, by a certificate of an Authorized Representative of such Participant delivered to 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 Representative of such Participant delivered to the Trustee; provided that if such index is at such time not being published a comparable index reasonably acceptable to the Majority Holders may be used.

Indenture shall mean the Indenture of Trust, dated as of April 1, 2013, between the Issuer and the Trustee, as from time to time amended or supplemented by Supplemental Indentures in accordance with the Indenture.

Independent Accountant shall mean an independent certified public accountant or firm of independent certified public accountants selected by the applicable Participant and approved by the Issuer and the Trustee (such approvals not to be unreasonably withheld or delayed).

Independent Engineer shall mean a Person (not an employee of either the Issuer, any Participant or any Affiliate of any thereof) registered and qualified to practice engineering or architecture under the laws of the State, selected by a Participant, and approved in writing by the Program Facilitator (which approval shall not be unreasonably withheld).

Interest Account shall mean the special trust account of the Bond Fund so designated, established pursuant to the Indenture.

Interest Payment Date shall mean, with respect to the Series 2013A Bonds, the first day of January and the first day of July of each year, commencing July 1, 2013.

Issuer shall mean Build NYC Resource Corporation, a local development corporation created pursuant to the Not-for-Profit Corporation Law of the State at the direction of the Mayor of the City, and its successors and assigns.

Issuer's Reserved Rights shall mean, collectively,

- (i) the right of the Issuer on its own behalf to receive all Opinions of Counsel, reports, financial statements, certificates, insurance policies, binders or certificates, or other notices or communications required to be delivered to the Issuer under any Loan Agreement;
- (ii) the right of the Issuer to grant or withhold any consents or approvals required of the Issuer under any Loan Agreement;
- (iii) the right of the Issuer to enforce on its own behalf the obligation of the Participants under any Loan Agreement to complete the Project Work Facility;
- (iv) the right of the Issuer to enforce or otherwise exercise on its own behalf all agreements of the Participants under any Loan Agreement with respect to ensuring that each Facility shall always constitute an Approved Facility;
- (v) the right of the Issuer to amend with the Participants the provisions of each Loan Agreement regarding recapture of Issuer benefits without the consent of the Trustee or any Bondholder;
- (vi) the right of the Issuer on its own behalf (or on behalf of the appropriate taxing authorities) to enforce, receive amounts payable under or otherwise exercise its rights under each Loan Agreement relating to, among other things, insurance, advances, employment information, certain redemptions, assignments of the related Loan Agreement and inspection of the related Facility; and
- (vii) the right of the Issuer on its own behalf to declare a default with respect to any of the Issuer's Reserved Rights and exercise the remedies set forth in each Loan Agreement.

Land shall mean, for each Facility, that certain lot, piece or parcel of land as set forth in each Loan Agreement, together with all easements, rights and interests now or hereafter appurtenant or beneficial thereto; but excluding, however, any real property or interest therein released pursuant to the applicable Loan Agreement.

Legal Requirements shall mean the Constitutions of the United States and the State and all laws, statutes, codes, acts, ordinances, resolutions, orders, judgments, decrees, injunctions, rules, regulations, permits, licenses, authorizations, certificates of occupancy, directions and requirements (including zoning, land use, planning, environmental protection, air, water and land pollution, toxic wastes, hazardous wastes, solid wastes, wetlands, health, safety, equal opportunity, minimum wages, and employment practices) of all governments, departments, commissions, boards, courts, authorities, agencies, officials and officers, including those of the City, foreseen or unforeseen, ordinary or extraordinary, that are applicable now or may be applicable at any time hereafter to (i) the Participants, (ii) each Facility or any part thereof, or (iii) any use or condition of each Facility or any part thereof.

Loan shall mean each loan made by the Issuer to each Participant pursuant to its Loan Agreement as described therein.

Loan Agreement shall mean, collectively or individually, any Loan Agreement, dated as of April 1, 2013, between the Issuer and a Participant, and shall include any and all amendments thereof and supplements thereto hereafter made in conformity therewith and with the Indenture.

Loan Payment Account shall mean the special trust account of the Bond Fund so designated, established pursuant to the Indenture.

Loan Payment Date shall mean the first day of each month, commencing June 1, 2013.

Loss Event shall mean an event which occurs at any time during the term of a Loan Agreement where any Facility Component shall be damaged or destroyed, or taken or condemned by a competent authority for any public use or purpose, or by agreement between a Participant and those authorized to exercise such right are parties, or if the temporary use of the affected Facility Component shall be so taken by condemnation or agreement.

Majority Holders shall mean the Beneficial Owners of at least a majority in aggregate principal amount of the Bonds Outstanding, or, if the Bonds shall cease to be in book-entry form, the Holders of at least a majority in aggregate principal amount of the Bonds Outstanding.

Moody's shall mean Moody's Investors Service Inc., a Delaware corporation, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee (at the direction of the Directing Party), by notice to the other Notice Parties.

Mortgage shall mean the Mortgage and Security Agreement, dated as of April 1, 2013, from Eden II School for Autistic Children, Inc. to the Issuer and the Trustee, and shall include any and all amendments thereof and supplements thereto hereafter made in conformity therewith and with the Indenture.

Mortgage Amount shall mean the amount set forth in Eden II School for Autistic Children, Inc.'s Loan Agreement.

Mortgaged Property shall mean the Facility and other property mortgaged under the Mortgage.

Nationally Recognized Bond Counsel shall mean Hawkins Delafield & Wood LLP or other counsel acceptable to the Issuer and the Trustee and experienced in matters relating to tax exemption of interest on bonds issued by states and their political subdivisions.

Net Proceeds shall mean, when used with respect to any insurance proceeds or condemnation award, compensation or damages, the gross amount of any such proceeds, award, compensation or damages less all expenses (including reasonable attorneys' fees and any extraordinary expenses of the Issuer or the Trustee) incurred in the collection thereof.

Non-PPA Expenses shall mean all operating and nonoperating expenses of a Participant other than PPA Expenses.

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

Non-PPA Indebtedness shall mean any Indebtedness incurred by a Participant to finance, in whole or in part, a Non-PPA Facility. Indebtedness incurred by a 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 shall mean all operating and nonoperating revenues of a Participant other than PPA Revenues.

Notice Parties shall mean the Issuer, the Participants, the Program Facilitator, the Bond Registrar, the Paying Agents and the Trustee.

Opinion of Counsel shall mean a written opinion of counsel for the Participants or any other Person (which counsel shall be reasonably acceptable to the Issuer and the Trustee) with respect to such matters as required under any Project Document or as the Issuer or the Trustee may otherwise reasonably require, and which shall be in form and substance reasonably acceptable to the Issuer and the Trustee.

Organizational Documents shall mean, (i) in the case of an Entity constituting a limited liability company, the articles of organization or certificate of formation, and the operating agreement of such Entity, (ii) in the case of an Entity constituting a corporation, the charter, articles of incorporation or certificate of incorporation, and the bylaws of such Entity, and (iii) in the case of an Entity constituting a general or limited partnership, the partnership agreement of such Entity.

Outstanding, when used with reference to a Bond or Bonds or Bonds allocable to a Participant, as of any particular date, shall mean such Bonds which have been issued, executed, authenticated and delivered under the Indenture, except:

(i) such Bonds cancelled by the Trustee because of payment or redemption prior to maturity or surrendered to the Trustee under the Indenture for cancellation;

(ii) any such Bond (or portion of a Bond) for the payment or redemption of which, in accordance with Indenture, there has been separately set aside and held in the Redemption Account of the Bond Fund either:

(A) moneys, and/or

(B) Defeasance Obligations in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys,

in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the payment or redemption date, which payment or redemption date shall be specified in irrevocable instructions given to the Trustee to apply such moneys and/or Defeasance Obligations to such payment on the date so specified, provided, that, if such Bond or portion thereof is to be redeemed, notice of such redemption shall have been given as provided in the Indenture; and

(iii) such Bonds in exchange for or in lieu of which other Bonds shall have been authenticated and delivered under the Indenture,

provided, however, that in determining whether the Holders of the requisite principal amount of Bonds Outstanding have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture or under any other Security Document, Bonds owned by a Participant or any Affiliate of a Participant shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Trustee knows to be so owned shall be so disregarded. Bonds

which have been pledged in good faith may be regarded as Outstanding for such purposes if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is not a Participant or any Affiliate of a Participant.

Participants shall mean each of Eden II School for Autistic Children, Inc. and Institute for Community Living, Inc., and each of their permitted successors and assigns pursuant to each such Participant's Loan Agreement.

Participant's Allocable Interest shall mean, with respect to any Series of Bonds at any time, a fraction, the numerator of which is equal to the aggregate principal amount of such Bonds allocable to such Participant that are then Outstanding and the denominator of which is equal to the aggregate principal amount of all Outstanding Bonds of such Series.

Participant's Earnings Account shall mean the Account established in the Earnings Fund for the benefit of a Participant.

Participant's Loan Payment Account shall mean the Loan Payment Account established in the Bond Fund for the benefit of a Participant.

Participant's Portion shall mean, (i) with respect to the initial aggregate principal of the Series 2013A Bonds, the aggregate principal amount set forth in the related Loan Agreement, (ii) with respect to the principal amount of the Series 2013A Bonds coming due on each principal payment date, the principal amounts set forth in the related Loan Agreement, and (iii) with respect to any fees, expenses or other amounts required to be paid or calculated under the related Loan Agreement, an amount equal to the product of (a) the total aggregate amount due or available and (b) the Participant's Allocable Interest, provided that if the amount incurred is due, in the sole judgment of the Program Facilitator, solely to the action or inaction of the applicable Participant, the Participant's Portion shall equal the entire amount incurred.

Participant's Project Account shall mean the Account established of the Project Fund for the benefit of a Participant.

Participant's Renewal Account shall mean the Account established in the Renewal Fund for the benefit of a Participant.

Participant's Share of the Issuer's Project Fee shall mean the amount set forth in the applicable Loan Agreement.

Participant's Subaccount of the Tax-Exempt Bond Debt Service Reserve Account shall mean the Subaccount of the Tax-Exempt Bond Debt Service Reserve Account established in the Debt Service Reserve Fund for the benefit of a Participant.

Participant's Tax-Exempt Bond Debt Service Reserve Subaccount Requirement or Tax-Exempt Bond Debt Service Reserve Account Requirement shall mean the amount set forth in the applicable Loan Agreement.

Paying Agent shall mean any paying agent for the Bonds appointed pursuant to the Indenture (and may include the Trustee) and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Indenture.

Permitted Encumbrances shall mean, as of any particular time and with respect to any Participant's Facility, as applicable,

- (i) any Project Document and any Underlying Facility Realty Document;
- (ii) liens for real estate taxes, assessments, levies and other governmental charges, the payment of which is not yet due and payable;
- (iii) any mechanic's, workmen's, repairmen's, materialmen's, contractors', warehousemen's, carriers', suppliers' or vendors' lien, security interest, encumbrance or charge or right in respect thereof, placed on or with respect to the Facility or any part thereof, if payment is not yet due and payable, or if such payment is being disputed pursuant to of each Loan Agreement;
- (iv) utility, access and other easements and rights of way, restrictions and exceptions that an Authorized Representative of the Participant certifies to the Issuer and the Trustee will not materially interfere with or impair the Participant's use and enjoyment of the Facility as provided in each Loan Agreement;
- (v) such minor defects, irregularities, encumbrances, easements, rights of way and clouds on title as normally exist with respect to property similar in character to the Facility as do not, as set forth in a certificate of an Authorized Representative of a Participant delivered to the Issuer and the Trustee, either singly or in the aggregate, render title to the Facility unmarketable or materially impair the property affected thereby for the purpose for which it was acquired or purport to impose liabilities or obligations on the Issuer;
- (vi) those exceptions to title to the Mortgaged Property enumerated in the title insurance policy delivered pursuant to each Loan Agreement insuring the Trustee's mortgagee interest in the Facility Realty, a copy of which is on file at the offices of the Issuer and at the designated corporate trust office of the Trustee;
- (vii) liens arising by reason of good faith deposits with the Participant in connection with the tenders, leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by the Participant to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;
- (viii) any lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the Participant to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workmen's compensation, unemployment insurance, old age pensions or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;
- (ix) any judgment lien against the Participant, so long as the finality of such judgment is being contested in good faith and execution thereon is stayed;
- (x) any purchase money security interest in movable personal property, including equipment leases and financing;

(xi) liens on property due to rights of governmental entities or third party payors for recoupment of excess reimbursement paid;

(xii) a lien, restrictive declaration or performance mortgage with respect to the operation of the Facility arising by reason of a grant or other funding received by the Participant from the City, the State or any governmental agency or instrumentality;

(xiii) any lien, security interest, encumbrances or charge which exists in favor of the Trustee or to which the Trustee shall consent in writing; and

(xiv) any subordinate lien securing any security interest permitted in each Loan Agreement and any additional Indebtedness permitted in each Loan Agreement.

Person shall mean an individual or any Entity.

Plans and Specifications shall mean the plans and specifications prepared for a Project Work Facility by or on behalf of a Participant, as amended from time to time by or on behalf of a Participant to reflect any remodeling or relocating of its Project Work Facility or substitutions, additions, modifications and improvements to its Project Work Facility made by such Participant in compliance with its Loan Agreement, said plans and specifications being duly certified by an Authorized Representative of such Participant and filed in the designated corporate trust office of the Trustee and available to the Issuer.

PPA Expenses shall mean all operating and nonoperating expenses properly incurred by a 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 shall mean any facility of a Participant which was, or will be, approved by the New York State Office For People With Developmental Disabilities pursuant to the Prior Property Approval process incorporated in New York State Codes, Rules and Regulations Parts 681, 686 and 690, as amended from time to time.

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

Prime Lease shall have the meaning specified in Institute for Community for Community Living, Inc.'s Loan Agreement.

Principal Account shall mean the special trust account of the Bond Fund so designated, established pursuant to the Indenture.

Principals shall mean, with respect to any Entity, the most senior three officers of such Entity, any Person with a ten percent (10%) or greater ownership interest in such Entity and any Person as shall have the power to Control such Entity, and "principal" shall mean any of such Persons.

Program Facilitator shall mean Interagency Council of Developmental Disabilities Agencies, Inc., and its successors and assigns under the Administration Agreement.

Project shall mean, individually, the Project as defined in a Participant's Loan Agreement or, collectively, all of them, as the context requires.

Project Account shall mean any of the special trust accounts of the Project Fund so designated, established pursuant to the Indenture.

Project Costs shall mean, with respect to each Project, as applicable,

- (i) costs to refinance debt of each Participant with respect to any Facility;
- (ii) all costs of engineering and architectural services with respect to the Project, including the cost of test borings, surveys, estimates, permits, plans and specifications and for supervising demolition, construction and renovation, as well as for the performance of all other duties required by or consequent upon the proper construction of, and the making of alterations, renovations, additions and improvements in connection with, the completion of the Project Work;
- (iii) all costs paid or incurred for labor, materials, services, supplies, machinery, equipment and other expenses and to contractors, suppliers, builders and materialmen in connection with the completion of the Project Work;
- (iv) the interest on the Tax-Exempt Bonds during the construction and renovation of the Project Work Facility;
- (v) all costs of contract bonds and of insurance that may be required or necessary during the period of Project construction and renovation;
- (vi) the cost of acquisition of the applicable Facility Realty;
- (vii) all costs of title insurance as provided in each Loan Agreement;
- (viii) the payment of the Costs of Issuance with respect to the Series 2013A Bonds;
- (ix) the payment of the fees and expenses of the Trustee during the period of construction and renovation of the Project Work Facility;
- (x) all costs which the applicable Participant shall be required to pay, under the terms of any contract or contracts, for the completion of the Project Work Facility, including any amounts required to reimburse such Participant for advances made for any item otherwise constituting a Project Cost or for any other costs incurred and for work done which are properly chargeable to the Project Work Facility; and
- (xi) all other costs and expenses relating to the completion of the Project Work Facility or the issuance of a Series of Additional Bonds.

“Project Costs” shall not include (i) fees or commissions of real estate brokers, (ii) moving expenses, or (iii) operational costs.

Project Documents shall mean, collectively, the Administrative Agreement and the Security Documents.

Project Fund shall mean the Project Fund established by the Indenture.

Project Work shall mean, with respect to the Project Work Facility, (i) the design, construction and/or renovation of the Improvements, including the acquisition of building materials and fixtures, and

(ii) the acquisition, whether by title or lease, of the Facility Personalty and any work required to install same.

Project Work Facility shall mean the applicable Facility identified as such in a Loan Agreement.

Promissory Note shall mean, collectively or individually, the Promissory Note delivered by a Participant pursuant to its Loan Agreement with respect to such Participant's Portion of the Series 2013A Bonds and any Series of Additional Bonds, and shall include in each case any and all amendments thereof and supplements thereto made in conformity with the related Loan Agreement and the Indenture.

Qualified Investments shall mean, to the extent permitted by applicable law, the following:

(A) 1. Cash deposits (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in (A)2 below).

2. Direct obligations of (including obligations issued or held in book entry form on the books of the Department of Treasury) the United States of America. In the event these securities are used for defeasance, they shall be non-callable and non-prepayable.

3. Obligations of the following federal agencies so long as such obligations are backed by the full faith and credit of the United States of America (in the event these securities are used for defeasance, they shall be non-callable and non-prepayable):

- a. U.S. Export-Import Bank (Eximbank)
- b. Rural Economic Community Development Administration
- c. Federal Financing Bank
- d. U.S. Maritime Administration
- e. U.S. Department of Housing and Urban Development (PHAs)
- f. General Services Administration
- g. Small Business Administration
- h. Government National Mortgage Association (GNMA)
- i. Federal Housing Administration
- j. Farm Credit System Financial Assistance Corporation

(B) To the extent permitted by law, the following obligations are "Qualified Investments" for all purposes other than defeasance investments in refunding escrow accounts:

1. Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: (a) Senior debt obligations rated in the highest long-term rating category by at least two nationally recognized rating agencies issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC) and (b) Senior debt obligations of the Federal Home Loan Bank System.

2. U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which either (a) have a rating on their short-term certificates of deposit on the date of purchase in the highest short-term rating category of at least two nationally recognized rating agencies, (b) are insured at all times by the Federal Deposit Insurance Corporation, or (c) are collateralized with direct obligations of the United States of America at one hundred two percent (102%) valued daily. All such certificates must mature no more than three hundred sixty (360) days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank).

3. "Prime quality" commercial paper, with a maturity of 270 days or less, of issuing corporations organized under the laws of the United States, or of any state thereof, including paper issued by banks and bank holding companies. "Prime quality" shall be as rated by Moody's within its ratings of "P-1" or "P-2" or by S&P within its ratings of "A-1" or "A-2".

4. Investments in (a) money market funds subject to SEC Rule 2a-7 and rated in the highest short-term rating category of at least two nationally recognized rating agencies, including such funds for which the Trustee or an affiliate of the Trustee serves as investment advisor, administrator, shareholder, servicing agent and/or custodian or sub-custodian, notwithstanding that (i) the Trustee charges and collects fees and expenses from such funds for services rendered, (ii) the Trustee charges and collects fees and expenses for services rendered pursuant to the Indenture and (iii) services performed for such funds and pursuant to the Indenture may converge at any time, and (b) public sector investment pools operated pursuant to SEC Rule 2a-7 in which the Issuer's deposit shall not exceed 5% of the aggregate pool balance at any time and such pool is rated in one of the two highest short-term rating categories of at least two nationally recognized rating agencies.

5. Pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and, (a) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest long-term rating category of at least two (2) nationally recognized rating agencies; or (b) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or direct obligations of the United States of America, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

6. General obligations of states with a short-term rating in one of the two (2) highest rating categories and a long-term rating in one (1) of the two (2) highest rating categories of at least two (2) nationally recognized rating agencies. In the event such obligations are variable rate obligations, the interest rate on such obligations must be reset not less frequently than annually.

7. Investment agreements with any bank, registered broker/dealer, insurance company or any other financial institution or corporation, or any subsidiary thereof, rated at least "Aa3" by Moody's or "AA-" by S&P or "AA-" by Fitch. The credit rating may be at either the parent or subsidiary level.

8. Repurchase agreements collateralized by securities described in sub-sections 1-7 above, with any registered broker/dealer subject to the Securities Protection Corporation jurisdiction or any commercial bank, if such broker/dealer or bank has an uninsured, unsecured and un-guaranteed obligation

rated at the time of purchase thereof, in one of the two highest rating categories by a rating agency, provided: (i) a master repurchase agreement or specific written repurchase agreement governs the transaction, (ii) the securities are held, free and clear of liens or claims by third parties by the Trustee or an independent party acting solely as agent for the Trustee, and such agent is (A) a Federal Reserve Bank or (B) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25,000,000, and the Trustee shall have received written confirmation from such third party that it holds such securities as agent for the Trustee, free of liens or claims by third parties, (iii) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 CFR 306.1 et seq. or 31 CFR 350.0 et seq. in such securities is created for the benefit of the Trustee, (iv) the repurchase agreement has a term of thirty days or less, or the Trustee will value the collateral securities at the current market value thereof no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation, and (v) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%.

9. Other forms of investments provided to the Trustee by the written direction of the Directing Party.

The value of the above investments, other than cash, shall be determined as follows: "Value," which shall be determined as of the end of each month, means that the value of any investments shall be calculated as follows:

1. As to investments the bid and asked prices of which are published on a regular basis in *The Wall Street Journal* (or, if not there, then in *The New York Times*): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination;

2. As to investments the bid and asked prices of which are not published on a regular basis in *The Wall Street Journal* or *The New York Times*: the average bid price at such price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee at the direction of the Directing Party) at the time making a market in such investments or the bid price published by a nationally recognized pricing service; and

3. As to certificates of deposit and bankers acceptances, the face amount thereof, plus accrued interest.

Rebate Fund shall mean the Rebate Fund established by the Indenture.

Record Date shall mean, with respect to any Interest Payment Date for the Series 2013A Bonds, the close of business on the fifteenth (15th) day of the month next preceding such Interest Payment Date, or, if such day is not a Business Day, the next preceding Business Day.

Redemption Account shall mean the special trust account of the Bond Fund so designated, established pursuant to the Indenture.

Redemption Date shall mean the date fixed for redemption of Bonds subject to redemption in any notice of redemption given in accordance with the terms of the Indenture.

Redemption Price shall mean, with respect to any Bond or a portion thereof, the principal amount thereof to be redeemed in whole or in part, plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond or the Indenture.

Refunding Bonds shall mean one or more Series of Additional Bonds issued pursuant to the Indenture to refund all the Outstanding Bonds or any Series of Outstanding Bonds or any part of one or more Series of Outstanding Bonds.

Related Security Documents shall mean all Security Documents other than the Indenture.

Renewal Fund shall mean the Renewal Fund established by the Indenture.

Representation Letter shall mean the Blanket Issuer Letter of Representations from the Issuer to DTC with respect to the Series 2013A Bonds.

Required Disclosure Statement shall mean that certain Required Disclosure Statement in the form attached to each Loan Agreement.

Responsible Officer shall mean, with respect to the Trustee, any officer within the corporate trust office of the Trustee, including any vice-president, any assistant vice-president, any secretary, any assistant secretary, the treasurer, any assistant treasurer or other officer of the corporate trust office of the Trustee customarily performing functions similar to those performed by any of the above designated officers, who has direct responsibility for the administration of the trust granted in the Indenture, and shall also mean, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of that officer's knowledge of and familiarity with the particular subject.

S&P shall mean Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc., a corporation organized and existing under the laws of the State, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee (at the direction of the Directing Party), by notice to the other Notice Parties.

Securities Act shall mean the Securities Act of 1933, as amended, together with any rules and regulations promulgated thereunder.

Securities Depository shall mean any securities depository that is a clearing agency under federal law operating and maintaining, with its DTC Participants or otherwise, a book-entry system to record ownership of book-entry interests in the Bonds, and to effect transfers of book-entry interests in the Bonds in book-entry form, and includes and means initially DTC.

Securities Exchange Act shall mean the Securities Exchange Act of 1934, as amended, together with any rules and regulations promulgated thereunder.

Security Documents shall mean the Loan Agreements, the Promissory Note, the Indenture, the Tax Regulatory Agreement, the Mortgage (as assigned pursuant to the Assignment of Mortgage) and the Collateral Assignment of Lease (as assigned pursuant to the Assignment of Collateral Assignment of Lease).

Series shall mean all of the Bonds designated as being of the same series authenticated and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter authenticated and delivered in lieu thereof or in substitution therefor pursuant to the Indenture.

Series 2013A Bonds shall mean, collectively, the Series 2013A-1 Bonds and the Series 2013A-2 Bonds; provided however, that the Series 2013A-1 Bonds and the Series 2013A-2 Bonds shall be separate Series of Bonds for purposes of the Indenture.

Series 2013A-1 Bonds shall mean the \$5,640,000 Revenue Bonds (Special Needs Facilities Pooled Program), Series 2013A-1, of the Issuer issued under the Indenture.

Series 2013A-2 Bonds shall mean the \$265,000 Revenue Bonds (Special Needs Facilities Pooled Program), Series 2013A-2 (Federally Taxable), of the Issuer issued under the Indenture.

Sinking Fund Installment shall mean an amount so designated and which is established for mandatory redemption on a date certain of the Bonds of any Series of Bonds pursuant to the Indenture. The portion of any such Sinking Fund Installment of a Series of Bonds remaining after the deduction of any amounts credited pursuant to the Indenture toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments of such Series of Bonds due on a future date.

Sinking Fund Installment Account shall mean the special trust account of the Bond Fund so designated, which is established pursuant to the Indenture.

State shall mean the State of New York.

Supplemental Indenture shall mean any indenture supplemental to or amendatory of the Indenture, executed and delivered by the Issuer and the Trustee in accordance with the Indenture.

Taxable Bonds shall mean the Series 2013A-2 Bonds and any Additional Bonds which are not Tax-Exempt Bonds.

Tax-Exempt Bond Debt Service Reserve Account shall mean the special trust account of the Debt Service Reserve Fund so designated, established pursuant to the Indenture.

Tax-Exempt Bond Debt Service Reserve Subaccount shall mean each special trust subaccount of the Tax-Exempt Bond Debt Service Reserve Account, established pursuant to the Indenture.

Tax-Exempt Bonds shall mean the Series 2013A-1 Bonds and any Additional Bonds as to which, at the time of original issuance, there shall be delivered to the Issuer an opinion of Nationally Recognized Bond Counsel to the effect that the interest on such Bonds is excluded from gross income for federal income tax purposes, other than with respect to a Person who is a "substantial user" of the Facility or a "related person" within the meaning of Section 147 of the Code.

Tax-Exempt Organization shall mean an Entity organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code and exempt from federal income taxes under Section 501(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

Tax Regulatory Agreement shall mean the Tax Regulatory Agreement, dated the Closing Date, from the Issuer, the Program Facilitator and each Participant to the Trustee, and shall include any and all amendments thereof and supplements thereto hereafter made in conformity therewith and with the Indenture.

Total Debt Service Coverage Ratio shall mean 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 shall mean the greatest amount required in the then current or any future Fiscal Year to pay the debt service on any outstanding Non-PPA Indebtedness of a Participant; provided, however, that any Non-PPA Indebtedness secured solely by a security interest in its Accounts Receivable in accordance with its Loan Agreement shall not be included in "Non-PPA Indebtedness" for the purposes of this definition; provided further, that the debt service for the final year of amortization of any Non-PPA 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 shall mean, for any Fiscal Year, the excess of Non-PPA Revenues, including the proceeds of business interruption insurance, over the Non-PPA Expenses accrued or paid by a 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 Non-PPA Revenues and Non-PPA Expenses, (ii) depreciation, amortization and current interest expenses shall be excluded from Non-PPA 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 the applicable Loan Agreement provision regarding additional indebtedness shall include the bona fide loan payments made by such Participant with respect to such Facility in the Fiscal Year for which the determination is made.

Trustee shall mean The Bank of New York Mellon, New York, New York, in its capacity as trustee under the Indenture, and its successors in such capacity and their assigns hereafter appointed in the manner provided in the Indenture.

Trust Estate shall mean all property, interests, revenues, funds, contracts, rights and other security granted to the Trustee under the Security Documents in accordance with the Indenture.

Underlying Facility Realty Documents shall mean such documents, if any, set forth in the applicable Loan Agreement.

Underwriter shall mean, with respect to each Series of Bonds, Municipal Capital Markets Group, Inc. or any firm that either (i) is an underwriter of such Series of Bonds within the meaning of Section 2(a)(ii) of the Securities Act of 1933, as amended, or (ii) acts as placement agent with respect to such Series of Bonds.

Valuation Date shall mean the fifteenth day of the calendar month preceding each Interest Payment Date.

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APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS

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SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS

The following is a summary of certain provisions of one Loan Agreement that is similar to but not identical to the two Loan Agreements. The Loan Agreements differ as to provisions regarding leased or owned Facility and such other related differences with respect to each Project. This summary is qualified in its entirety by reference to each Loan Agreement.

Agreement to Undertake Project Work. The Participant covenants and agrees to undertake and complete the Project Work in accordance with the Loan Agreement, including, without limitation: (i) effecting the Project Work, (ii) making, executing, acknowledging and delivering any contracts, orders, receipts, writings and instructions with any other Persons, and in general doing all things which may be requisite or proper, all for the purposes of undertaking the Project Work, (iii) paying all fees, costs and expenses incurred in the Project Work from funds made available therefor in accordance with or as contemplated by the Loan Agreement and the Indenture, and (iv) asking, demanding, suing for, levying, recovering and receiving all such sums of money, debts due and other demands whatsoever that may be due, owing and payable to the Participant under the terms of any contract, order, receipt or writing in connection with the Project Work and to enforce the provisions of any contract, agreement, obligation, bond or other performance security entered into or obtained in connection with the Project Work.

If the Participant elects not to proceed with the Project Work and has not requisitioned the proceeds of any of the Series 2013A Bonds allocated to such Project, the Participant shall give written notice to the Issuer and the Trustee that it has abandoned such Project and shall direct, in such written notice, the Issuer and the Trustee to redeem such Series 2013A Bonds allocated to such Project pursuant to the Indenture. In addition, the Participant shall effect the release of such abandoned Facility from the Loan Agreement and the Mortgage, if applicable.

Maintenance. During the term of the Loan Agreement, the Participant will: (i) keep each Facility in good and safe operating order and condition, ordinary wear and tear excepted, (ii) occupy, use and operate each Facility, or cause each Facility to be occupied, used and operated, as an Approved Facility, and (iii) make or cause to be made all replacements, renewals and repairs thereto (whether ordinary or extraordinary, structural or nonstructural, foreseen or unforeseen) necessary to ensure that (x) the interest on the Tax-Exempt Bonds shall not cease to be excludable from gross income for federal income tax purposes, (y) the operations of the Participant at each Facility shall not be materially impaired or diminished in any way, and (z) the security for the Bonds shall not be materially impaired.

All replacements, renewals and repairs shall be similar in quality, class and value to the original work and be made and installed in compliance with all applicable Legal Requirements. The Issuer shall be under no obligation to replace, service, test, adjust, erect, maintain or effect replacements, renewals or repairs of any Facility, to effect the replacement of any inadequate, obsolete, worn out or unsuitable parts of any Facility, or to furnish any utilities or services for any Facility, and the Participant agrees to assume full responsibility therefor.

Alterations and Improvements. The Participant shall have the privilege of making such alterations of or additions to any Facility Realty ("Additional Improvements") or any part thereof from time to time as it in its discretion may determine to be desirable for its uses and purposes, provided that: (i) as a result of the Additional Improvements, the fair market value of the Facility is not reduced below its value immediately before the Additional Improvements are made and the usefulness, structural integrity or operating efficiency of the Facility is not materially impaired, (ii) the Additional Improvements are effected with due diligence, in a good and workmanlike manner and in compliance

with all applicable Legal Requirements, (iii) the Additional Improvements are promptly and fully paid for by the Participant in accordance with the terms of the applicable contract(s) therefor, and (iv) the Additional Improvements do not change the nature of the Facility so that it would not constitute an Approved Facility.

All Additional Improvements shall constitute a part of the Facility, subject to the Loan Agreement and the Mortgage, if applicable.

If at any time after the Operations Commencement Date with respect to the Project Work Facility or the Closing Date with respect to the Completed Facility, the Participant shall make any Additional Improvements, the Participant shall notify an Authorized Representative of the Issuer of such Additional Improvements by delivering written notice thereof within thirty (30) days after the completion of the Additional Improvements.

In addition to the Facility Personalty, the Participant shall have the right to install or permit to be installed at the Facility Realty, machinery, equipment and other personal property at the Participant's own cost and expense (the "Participant's Property"). Once so installed, the Participant's Property shall not constitute part of the Facility Personalty and shall not be subject to the Loan Agreement, nor constitute part of the Facility, or subject to the lien and security interest of the Mortgage, provided that the same is not made fixtures appurtenant to the Facility Realty. The Participant shall have the right to create or permit to be created any mortgage, encumbrance, lien or charge on, or conditional sale or other title retention agreement with respect to, the Participant's Property, without the consent of or notice to the Issuer or the Trustee.

Removal of Property of the Facility. The Participant shall have the right from time to time to remove from that property constituting part of any Facility any fixture constituting part of the Facility Realty or any machinery, equipment or other item of personal property constituting part of the Facility Personalty (in any such case, the "Existing Facility Property") and thereby removing such Existing Facility Property from that property constituting part of any Facility and the lien and security interest of the Mortgage, as applicable, provided, however:

(i) such Existing Facility Property is substituted or replaced by property (y) having equal or greater fair market value, operating efficiency and utility and (z) free of all mortgages, liens, charges, encumbrances, claims and security interests other than Permitted Encumbrances, or

(ii) if such Existing Facility Property is not to be substituted or replaced by other property but is instead to be sold, scrapped, traded-in or otherwise disposed of in an arms'-length bona fide transaction for consideration, the Participant shall pay to the Trustee for deposit in the Redemption Account of the Bond Fund and thereby cause a redemption of the Participant's Portion of the Bonds to be effected in an amount (to the nearest integral multiple of Authorized Denomination) equal to the amounts derived from such sale or scrapping, the trade-in value credit received or the proceeds received from such other disposition; provided that no such redemption shall be required when such amount received in connection with any removal or series of removals does not exceed, in the aggregate, \$25,000.

No such removal set forth in paragraph (i) or (ii) above shall be effected if (v) such removal would cause the interest on the Series 2013A-1 Bonds to cease to be excludable from gross income for federal income tax purposes, (w) such removal would change the nature of the Facility as the Approved Facility, (x) such removal would materially impair the usefulness, structural integrity or operating efficiency of the Facility, (y) such removal would materially reduce the fair market value of the Facility below its value

immediately before such removal (except by the amount by which the Bonds are to be redeemed as provided in paragraph (ii) above), or (z) there shall exist and be continuing an Event of Default under the Loan Agreement. Any amounts received pursuant to paragraph (ii) above in connection with any removal or series of removals, which are not in excess of \$25,000, shall be retained by the Participant.

The removal from the Facility of any Existing Facility Property pursuant to the provisions of the Loan Agreement as described above shall not entitle the Participant to any abatement or reduction in the loan payments and other amounts payable by the Participant under the Loan Agreement, under the Promissory Note or under any other Project Document.

Implementation of Additional Improvements and Removals. In the event of any Additional Improvements or substitution or replacement of property pursuant to the Loan Agreement as described under the heading "Alterations and Improvements" or "Removal of Property of the Facility" above, the Participant shall deliver or cause to be delivered to the Issuer and the Trustee any necessary documents in order to subject such Additional Improvements or substitute or replacement property to the lien and security interest of the Mortgage, if applicable, and cause all of same to be made part of the Facility.

Loan of Proceeds. The Issuer agrees, upon the terms and conditions contained in the Loan Agreement and the Indenture, to make the Loan and lend to the Participant an amount equal to the aggregate principal amount of the Participant's Portion of the Series 2013A Bonds. The Loan shall be made by depositing on the Closing Date a portion of the proceeds from the sale of the Series 2013A Bonds into the Participant's Project Account in accordance with the Indenture. Such proceeds shall be disbursed to or on behalf of the Participant as provided in the Loan Agreement and the Indenture.

Promissory Note. The Participant's obligation to repay the Loan shall be evidenced by the Loan Agreement and the Promissory Note. On the Closing Date, the Participant shall execute and deliver the Promissory Note payable to the Issuer and the Trustee, and the Issuer will endorse the Promissory Note to the Trustee.

Loan Payments; Pledge of the Loan Agreement and of the Promissory Note. The Participant covenants to pay the Promissory Note and repay the Loan made pursuant to the Loan Agreement by making loan payments which the Issuer agrees shall be paid in immediately available funds by the Participant directly to the Trustee on each Loan Payment Date for deposit in the Participant's Loan Payment Account in an amount equal to the sum of, as applicable:

(i) with respect to interest due and payable on the Series 2013A Bonds, equal amounts on each Loan Payment Date such that the aggregate amount so paid with respect to interest on the Participant's Portion of the Series 2013A Bonds on or before the Loan Payment Date immediately preceding an Interest Payment Date shall be an amount sufficient to pay the interest next becoming due on the Participant's Portion of the Series 2013A Bonds on such immediately succeeding Interest Payment Date; plus

(ii) with respect to Sinking Fund Installment payments due on the Participant's Portion of the Series 2013A-2 Bonds (including the final maturity Sinking Fund Installment for the Series 2013A-2 Bonds constituting term bonds), equal amounts on each Loan Payment Date such that the aggregate amount so paid with respect to the Participant's Portion of the Sinking Fund Installments on the Series 2013A-2 Bonds on or before the Loan Payment Date immediately preceding a Sinking Fund Installment payment date of the Series 2013A-2 Bonds shall be an amount sufficient to pay the Sinking Fund Installment of the Participant's Portion of the Series 2013A-2 Bonds Outstanding becoming due on such next succeeding Sinking Fund Installment payment date; plus

(iii) with respect to Sinking Fund Installment payments due on the Participant's Portion of the Series 2013A-1 Bonds (including the final maturity Sinking Fund Installments for the Series 2013A-1 Bonds constituting term bonds), equal amounts on each Loan Payment Date such that the aggregate amount so paid with respect to the Participant's Portion of the Sinking Fund Installments on the Series 2013A-1 Bonds on or before the Loan Payment Date immediately preceding a Sinking Fund Installment payment date of the Series 2013A-1 Bonds shall be an amount sufficient to pay the Sinking Fund Installment of the Participant's Portion of the Series 2013A-1 Bonds Outstanding becoming due on such next succeeding Sinking Fund Installment payment date; plus

(iv) with respect to principal due on the Participant's Portion of the Series 2013A Bonds (other than such principal amounts as shall become due as a mandatory Sinking Fund Installment payment), equal amounts on each Loan Payment Date such that the aggregate amount so paid with respect to principal on such Participant's Portion of the Series 2013A Bonds on or before the Loan Payment Date immediately preceding a principal payment date of the Series 2013A Bonds shall be an amount sufficient to pay the principal of the Participant's Portion of the Series 2013A Bonds Outstanding becoming due on such next succeeding principal payment date.

Upon receipt by the Participant of notice from the Trustee pursuant to the Indenture that the amount on deposit in the Participant's Subaccount of the Tax-Exempt Bond Debt Service Reserve Account shall be less than the Participant's Tax-Exempt Bond Debt Service Reserve Subaccount Requirement by reason of the occurrence of either of the circumstances set forth in clause (i) or (ii) below, the Participant shall pay to the Trustee, for deposit in the Participant's Subaccount of the Tax-Exempt Bond Debt Service Reserve Account on the first day of each month, commencing on the first day of the month immediately following receipt by the Participant of notice of such deficiency, until the amount of such deficiency has been satisfied, either (i) one-twelfth (1/12) of the amount of such deficiency if such deficiency is due to a withdrawal from the Participant's Subaccount of the Tax-Exempt Bond Debt Service Reserve Account on account of the Participant's failure to make timely payments pursuant to the Loan Agreement as described in the paragraph above or (ii) one-quarter (1/4) of the deficiency if such deficiency is due to a decrease in the value of the Qualified Investments held in the Participant's Subaccount of the Tax-Exempt Bond Debt Service Reserve Account.

Notwithstanding anything in the foregoing to the contrary, if the amount on deposit and available in the Participant's Loan Payment Account on the twenty-eighth day prior to a payment date with respect to the Bonds is not sufficient to pay the principal of, Sinking Fund Installments for, redemption premium, if any, and interest on the Participant's Portion of the Bonds when due (whether at maturity or by redemption or acceleration or otherwise as provided in the Indenture), the Participant shall forthwith pay the amount of such deficiency in immediately available funds to the Trustee for deposit in the Participant's Loan Payment Account and such payment shall constitute Loan Payments under the Loan Agreement as described under this heading. The Participant shall have no obligation to satisfy any deficiency in any Loan Payment Account held by the Trustee other than the Participant's Loan Payment Account.

In the event the Participant should fail to make or cause to be made any of the payments required under the Loan Agreement as described under this heading, the item or installment not so paid shall continue as an obligation of the Participant until the amount not so paid shall have been fully paid.

The Participant has the option to make advance loan payments for deposit in the Bond Fund to effect the retirement, defeasance or redemption of the Participant's Portion of the Bonds in whole or in part, all in accordance with the terms of the Indenture; provided, however, that no partial redemption of the Participant's Portion of the Bonds may be effected through advance loan payments under the Loan

Agreement if there shall exist and be continuing an Event of Default. The Participant shall exercise its option to make such advance loan payments by delivering a written notice of an Authorized Representative of the Participant to the Trustee in accordance with the Indenture, with a copy to the Issuer, setting forth (i) the amount of the advance loan payment, (ii) the principal amount of the Participant's Portion of the Bonds Outstanding requested to be redeemed with such advance loan payment (which principal amount shall be in such minimum amount or integral Authorized Denomination as shall be permitted in the Indenture), and (iii) the date on which such principal amount of the Participant's Portion of the Bonds are to be redeemed (which date shall be not earlier than forty-five (45) days after the date of such notice). In the event the Participant shall exercise its option to make advance loan payments to effect the redemption in whole of the Participant's Portion of the Bonds, and such redemption is expressly permitted under the Indenture as a result of the damage, destruction or condemnation of the Facility, or changes in law, or executive or judicial action, the Participant shall further deliver to the Issuer and the Trustee a certificate of an Authorized Representative of the Participant stating that, as a result of the occurrence of the event giving rise to such redemption, the Participant has discontinued, or at the earliest practicable date will discontinue, its operation of the Facility for its intended purposes. Such advance loan payment shall be paid to the Trustee in legal tender, for deposit in the Participant's Loan Payment Account on or before the redemption date and shall be an amount which, when added to the amounts on deposit in the Participant's Loan Payment Account and available therefor, and in the Participant's Subaccount of the Tax-Exempt Bond Debt Service Reserve Account and available therefor, will be sufficient to pay the Redemption Price of the Participant's Portion of the Bonds to be redeemed, together with interest to accrue to the date of redemption and all expenses of the Issuer, the Trustee, the Bond Registrar and the Paying Agents in connection with such redemption. In the event the Participant's Portion of the Bonds are to be redeemed in whole or otherwise retired, the Participant shall further pay on or before such redemption date, in legal tender, to the Issuer, the Trustee, the Bond Registrar and the Paying Agent all fees and expenses owed such party or any other party entitled thereto under the Loan Agreement or the Indenture together with (i) all other amounts due and payable under the Loan Agreement and the other Security Documents, and (ii) any amounts required to be rebated to the federal government pursuant to the Indenture or the Tax Regulatory Agreement.

At its option, to be exercised on or before the forty-fifth (45th) day next preceding the date any Bonds of a Series are to be redeemed from mandatory Sinking Fund Installments, the Participant may deliver to the Trustee Bonds of such Series which are subject to mandatory Sinking Fund Installment redemption in an aggregate principal amount not in excess of the Participant's Portion of the principal amount of Bonds of such Series to be so redeemed on such date. Each such Bond so delivered shall be credited by the Trustee at one hundred percent (100%) of the principal amount thereof against the obligation of the Issuer on such Sinking Fund Installment payment date and any excess over the Participant's Portion of such Sinking Fund Installment shall be credited against the Participant's Portion of future Sinking Fund Installments in direct chronological order, and the principal amount of the Participant's Portion of the Bonds to be redeemed by operation of the mandatory Sinking Fund Installments shall be accordingly reduced.

No further loan payments need be made to the Issuer on account of Participant's Portion of the Bonds when and so long as the aggregate amount of cash and/or Defeasance Obligations on deposit in the Participant's Loan Payment Account and the Participant's Subaccount of the Tax-Exempt Bond Debt Service Reserve Account are sufficient to satisfy and discharge the obligations of the Issuer under the Indenture and pay the Participant's Portion of the Bonds as provided in the Indenture.

Any amounts remaining in the Participant's Earnings Account, the Rebate Fund allocated to the Participant's Portion of the Bonds, the Participant's Loan Payment Account, the Participant's Subaccount in the Tax-Exempt Bond Debt Service Reserve Account, the Participant's Project Account or Participant's Renewal Account after payment in full of (i) the Participant's Portion of the Bonds (in

accordance with the Indenture), (ii) the fees, charges and expenses of the Issuer, the Trustee, the Bond Registrar and the Paying Agents in accordance with the Indenture, (iii) all loan payments and all other amounts payable under the Loan Agreement and under the Promissory Note, and all amounts required to be rebated to the federal government pursuant to the Tax Regulatory Agreement or the Indenture, and (iv) all amounts required to be paid under any Project Document, shall have been so paid, shall belong to and be paid to the Participant by the Trustee as overpayment of the loan payments.

Notwithstanding anything in the foregoing to the contrary, if the amount on deposit and available in the Bond Fund is not sufficient to pay the principal of, Sinking Fund Installments for, redemption premium, if any, and interest on the Participant's Portion of the Bonds when due (whether at maturity or by redemption or acceleration or otherwise as provided in the Indenture), the Participant shall forthwith pay the amount of such deficiency in immediately available funds to the Trustee for deposit in the Bond Fund.

Loan Payments and Other Payments Payable Absolutely Net. The obligation of the Participant to pay the loan payments and other payments under the Loan Agreement and under the Promissory Note shall be absolutely net to the Issuer and to the Trustee without any abatement, recoupment, diminution, reduction, deduction, counterclaim, set-off or offset whatsoever, so that the Loan Agreement and the Promissory Note shall yield, net, to the Issuer and to the Trustee, the loan payments and other payments provided for in the Loan Agreement, and all costs, expenses and charges of any kind and nature relating to the Facility, arising or becoming due and payable under the Loan Agreement, shall be paid by the Participant and the Indemnified Parties shall be indemnified by the Participant for, and the Participant shall hold the Indemnified Parties harmless from, any such costs, expenses and charges.

Nature of Participant's Obligation Unconditional. The Participant's obligation under the Loan Agreement and under the Promissory Note to pay the loan payments and all other payments provided for in the Loan Agreement and in the Promissory Note shall be absolute, unconditional and a general obligation of the Participant, irrespective of any defense or any rights of set-off, recoupment or counterclaim or deduction and without any rights of suspension, deferment, diminution or reduction it might otherwise have against the Issuer, the Trustee or the Holder of any Bond and the obligation of the Participant shall arise whether or not the Project Work has been completed as provided in the Loan Agreement and whether or not any provider of a credit facility or liquidity facility with respect to the Bonds shall be honoring its obligations thereunder. The Participant will not suspend or discontinue any such payment or terminate the Loan Agreement (other than such termination as is provided for under the Loan Agreement), or suspend the performance or observance of any covenant or agreement required on the part of the Participant thereunder, for any cause whatsoever, and the Participant waives all rights now or hereafter conferred by statute or otherwise to quit, terminate, cancel or surrender the Loan Agreement or any obligation of the Participant under the Loan Agreement except as provided in the Loan Agreement or to any abatement, suspension, deferment, diminution or reduction in the loan payments or other payments under the Loan Agreement or under the Promissory Note.

Advances by the Issuer or the Trustee. In the event the Participant fails to make any payment or to perform or to observe any obligation required of it under the Loan Agreement, under the Promissory Note or under any other Security Document, the Issuer or the Trustee, after first notifying the Participant in writing of any such failure on its part (except that no prior notification of the Participant shall be required in the event of an emergency condition that, in the reasonable judgment of the Issuer or the Trustee, necessitates immediate action), may (but shall not be obligated to), and without waiver of any of the rights of the Issuer or the Trustee under the Loan Agreement or any other Security Document to which the Issuer or the Trustee is a party, make such payment or otherwise cure any failure by the Participant to perform and to observe its other obligations thereunder. All amounts so advanced therefor by the Issuer or the Trustee shall become an additional obligation of the Participant to the Issuer or the Trustee, as the

case may be, which amounts, together with interest thereon at the rate of twelve percent (12%) per annum, compounded daily, from the date advanced, the Participant will pay upon demand therefor by the Issuer or the Trustee, as applicable. Any remedy vested in the Issuer or the Trustee in the Loan Agreement or in any other Security Document for the collection of the loan payments or other payments or other amounts due under the Loan Agreement, under the Promissory Note or under any other Security Document shall also be available to the Issuer or the Trustee for the collection of all such amounts so advanced. No advance shall be made by the Trustee except upon the written direction of the Majority Holders.

No Warranty of Condition or Suitability. THE ISSUER HAS MADE AND MAKES NO REPRESENTATION OR WARRANTY WHATSOEVER, EITHER EXPRESS OR IMPLIED, WITH RESPECT TO THE MERCHANTABILITY, CONDITION, FITNESS, DESIGN, OPERATION OR WORKMANSHIP OF ANY PART OF THE FACILITY, ITS FITNESS FOR ANY PARTICULAR PURPOSE, THE QUALITY OR CAPACITY OF THE MATERIALS IN THE FACILITY, OR THE SUITABILITY OF THE FACILITY FOR THE PURPOSES OR NEEDS OF THE PARTICIPANT OR THE EXTENT TO WHICH PROCEEDS DERIVED FROM THE SALE OF THE PARTICIPANT'S PORTION OF THE BONDS WILL BE SUFFICIENT TO REFINANCE IN WHOLE THE EXISTING INDEBTEDNESS INCURRED BY THE PARTICIPANT WITH RESPECT TO THE COMPLETED FACILITY AND TO PAY THE COST OF COMPLETION OF THE PROJECT WORK FACILITY. THE PARTICIPANT ACKNOWLEDGES THAT THE ISSUER IS NOT THE MANUFACTURER OF THE FACILITY PERSONALTY NOR THE MANUFACTURER'S AGENT NOR A DEALER THEREIN. THE PARTICIPANT IS SATISFIED THAT THE FACILITY IS SUITABLE AND FIT FOR PURPOSES OF THE PARTICIPANT. THE ISSUER SHALL NOT BE LIABLE IN ANY MANNER WHATSOEVER TO THE PARTICIPANT OR ANY OTHER PERSON FOR ANY LOSS, DAMAGE OR EXPENSE OF ANY KIND OR NATURE CAUSED, DIRECTLY OR INDIRECTLY, BY THE PROPERTY OF THE FACILITY OR THE USE OR MAINTENANCE THEREOF OR THE FAILURE OF OPERATION THEREOF, OR THE REPAIR, SERVICE OR ADJUSTMENT THEREOF, OR BY ANY DELAY OR FAILURE TO PROVIDE ANY SUCH MAINTENANCE, REPAIRS, SERVICE OR ADJUSTMENT, OR BY ANY INTERRUPTION OF SERVICE OR LOSS OF USE THEREOF OR FOR ANY LOSS OF BUSINESS HOWSOEVER CAUSED.

Damage, Destruction and Condemnation. In the event that any Facility Component shall be damaged or destroyed, or taken or condemned by a competent authority for any public use or purpose, or by agreement to which the Participant and those authorized to exercise such right are parties, or if the temporary use of the affected Facility Component shall be so taken by condemnation or agreement (a "Loss Event"): (i) the Issuer shall have no obligation to rebuild, replace, repair or restore said Facility or to advance funds therefor, (ii) there shall be no abatement, postponement or reduction in the loan payments or other amounts payable by the Participant under the Loan Agreement or the Promissory Note or any other Security Document to which it is a party, and the Participant waives, to the extent permitted by law, any provisions of law which would permit the Participant to terminate the Loan Agreement, the Promissory Note or any other Security Document, or eliminate or reduce its payments under the Loan Agreement, under the Promissory Note or under any other Security Document, and (iii) the Participant will promptly give written notice of such Loss Event to the Issuer and the Trustee, generally describing the nature and extent thereof.

Loss Proceeds. The Issuer, the Trustee and the Participant shall cooperate and consult with each other in all matters pertaining to the settlement, compromise, arbitration or adjustment of any claim or demand on account of any Loss Event, and the settlement, compromise, arbitration or adjustment of any such claim or demand shall, as between the Issuer and the Participant, be subject to the written approval of the Participant and the Trustee (such approvals not to be unreasonably withheld).

The Net Proceeds with respect to the Facility shall be paid to the Trustee and deposited in Participant's Renewal Account (except as provided in the Mortgage and subject to the terms of the Underlying Facility Realty Documents, if applicable). Pending the disbursement or transfer thereof, the Net Proceeds in Participant's Renewal Account shall be applied, and may be invested, as provided in the Indenture. The Participant shall be entitled to the Net Proceeds of any insurance proceeds or condemnation award, compensation or damages attributable to the Participant's Property.

Election to Rebuild or Terminate. In the event a Loss Event shall occur, the Participant shall either (subject to the terms of the Underlying Facility Realty Documents, if applicable):

(i) at its own cost and expense (except to the extent paid from the Net Proceeds deposited in the Participant's Renewal Account as provided below and in the Indenture) upon a determination by the Participant that (a) the Facility Component can be restored within a one year period to its condition preceding such damage or destruction, (b) the normal operation of the Participant at the Facility Component will not be restricted for a period of one year or more, and (c) it would be economically feasible for the Participant to restore or repair the Facility Component, the Participant shall, promptly and diligently rebuild, replace, repair or restore the Facility Component to substantially its condition immediately prior to the Loss Event, or to a condition of at least equivalent value, operating efficiency and function, regardless of whether or not the Net Proceeds derived from the Loss Event shall be sufficient to pay the cost thereof, and the Participant shall not by reason of payment of any such excess costs be entitled to any reimbursement from the Issuer, the Trustee or any Bondholder, nor shall the loan payments or other amounts payable by the Participant under the Loan Agreement or the Promissory Note or any other Security Document be abated, postponed or reduced, or

(ii) cause the redemption of the Participant's Portion of the Series 2013A Bonds in the principal amount allocated to the affected Facility Component by directing the Trustee to deposit the Net Proceeds to the Redemption Account of the Bond Fund (or, if there shall be no Net Proceeds or a reduced amount thereof by reason of the Participant not having maintained the insurance with respect to the affected Facility as required under the Loan Agreement, the Participant shall pay to the Trustee for deposit in the Redemption Account of the Bond Fund such amount as would have been received had such required insurance coverage been so maintained); provided, however, that if the Participant shall so direct the Trustee with respect to the last Facility remaining under the Loan Agreement, the Participant shall exercise its option to terminate the Loan Agreement and make advance loan payments to redeem the Participant's Portion of the Bonds in whole in accordance with the Indenture.

If the Participant shall elect to or shall otherwise be required to rebuild, replace, repair or restore the affected Facility as set forth in subparagraph (i) above, the Trustee shall disburse the Net Proceeds from the Participant's Renewal Account in the manner set forth in the Indenture to pay or reimburse the Participant, at the election of the Participant, either as such work progresses or upon the completion thereof, provided, however, the amounts so disbursed by the Trustee to the Participant shall not exceed the actual cost of such work.

If the Participant shall exercise its option in subparagraph (ii) above, the amount of the Net Proceeds so recovered shall be transferred from the Participant's Renewal Account and deposited in the Participant's Loan Payment Account, and the Participant shall thereupon pay to the Trustee for deposit in the Participant's Loan Payment Account an amount which, when added to any amounts then in the Bond Fund attributable to the Participant and available for that purpose, and on deposit in the Participant's Subaccount in the Tax-Exempt Bond Debt Service Reserve Account, shall be sufficient to retire and redeem the unpaid principal amount the Participant's Portion of the Bonds allocated to the affected

Facility Component at the earliest possible date (including, without limitation, principal and interest to the maturity or redemption date and redemption premium, if any), and shall pay the expenses of redemption, the fees and expenses of the Issuer, the Bond Registrar, the Trustee and the Paying Agents, together with all other amounts due under the Indenture (with respect to the Participant), under the Loan Agreement, under each of the Security Documents to which the Participant is a party, and such aggregate sum shall be applied to such redemption or retirement of the Participant's Portion of the Bonds on said redemption or maturity date.

The Participant shall be entitled to any insurance proceeds or condemnation award, compensation or damages attributable to moving expenses, Participant's Property or other improvements, machinery, equipment or other property installed on or about the Facility Realty but which, at the time of such damage or taking, is not part of the Facility nor subject to the Mortgage.

Effect of Election to Build. All rebuilding, replacements, repairs or restorations of the Facility Component in respect of or occasioned by a Loss Event shall: (i) automatically be deemed a part of the Facility Component under the Loan Agreement and, in the case of the Mortgaged Property, shall be subject to the lien and security interest of the Mortgage, (ii) be effected only if the Participant shall deliver to the Issuer and the Trustee a certificate from an Authorized Representative of the Participant acceptable to the Issuer and the Trustee to the effect that such rebuilding, replacement, repair or restoration shall not change the nature of the Facility Component as an Approved Facility, (iii) be effected with due diligence in a good and workmanlike manner, in compliance with all applicable Legal Requirements and be promptly and fully paid for by the Participant in accordance with the terms of the applicable contract(s) therefor, (iv) restore the Facility Component to substantially its condition immediately prior to the Loss Event, or to a condition of at least equivalent value, operating efficiency and function, and to a state and condition that will permit the Participant to use and operate the Facility Component as an Approved Facility, (v) be effected only if the Participant shall have complied with the insurance requirements set forth in the Loan Agreement, (vi) be preceded by the furnishing by the Participant to the Trustee of a labor and materials payment bond, or other security, satisfactory to the Trustee, and (vii) if the estimated cost of such rebuilding, replacement, repair or restoration is in excess of \$250,000, be effected under the supervision of an Independent Engineer.

Assignments of Certain Security Documents. On the Closing Date, the Issuer will endorse and assign the Promissory Note to the Trustee and will execute and deliver to the Trustee the Assignment of Mortgage and the Assignment of Collateral Assignment of Lease, if applicable.

Issuance of Additional Bonds. The Issuer and the Participant recognize that under the provisions of and subject to the conditions set forth in the Indenture, the Issuer is authorized to enter into a Supplemental Indenture and issue one or more Series of Additional Bonds on a parity with the Series 2013A Bonds for the purpose of (w) completing the Project Work, (x) providing funds in excess of the Net Proceeds of insurance or eminent domain to repair, relocate, replace, rebuild or restore any Facility in the event of damage, destruction or taking by eminent domain, (y) providing extensions, additions or improvements to any Facility, or (z) refunding Outstanding Bonds. If the Participant is not in default under the Loan Agreement or under any other Project Document, the Issuer will consider the issuance of a Series of Additional Bonds in a principal amount as is specified in a written request in accordance with the applicable provisions set forth in the Indenture.

Pledge and Assignment to Trustee. As security for the payment of the Participant's Portion of the Bonds and the obligations of the Participant under the Security Documents, (i) the Participant (and/or an Affiliate of the Participant) shall, pursuant to the Mortgage, grant to the Issuer and the Trustee a mortgage lien on and security interest in its fee interest in the Mortgaged Property, if any, (ii) the Participant shall, pursuant to the Collateral Assignment of Lease, assign its right, title and interest (but not its obligations)

in the Prime Lease, if any, to the Issuer and the Trustee, (iii) the Issuer shall assign to the Trustee its right, title and interest in (y) the Mortgage, if any, pursuant to the Assignment of Mortgage and (z) the Collateral Assignment of Lease, if any, pursuant to the Assignment of Collateral Assignment of Lease, (iv) the Issuer shall pledge and assign to the Trustee pursuant to the Indenture all of the Issuer's right, title and interest in the Promissory Note and all of the Issuer's right, title and interest (except for the Issuer's Reserved Rights) in the Lease Agreement, including all loan payments thereunder, and (v) in furtherance of said pledge, the Issuer will unconditionally assign such loan payments to the Trustee for deposit in the Bond Fund in accordance with the Indenture. The Participant consents to the pledge and assignment of the Mortgage, the Collateral Assignment of Lease, the Lease Agreement and the Promissory Note described in this paragraph.

Indemnity. The Participant shall at all times indemnify, defend, protect and hold the Issuer, the Trustee, the Bond Registrar, the Paying Agents, the Underwriter and the Program Facilitator and any director, member, officer, employee, servant, agent (excluding for this purpose the Participant, which is not obligated to indemnify its own employees, Affiliates or affiliated individuals) thereof and persons under the Issuer's control or supervision (collectively, the "Indemnified Parties" and each an "Indemnified Party") harmless of, from and against any and all claims (whether in tort, contract or otherwise), taxes (of any kind and by whomsoever imposed), demands, penalties, fines, liabilities, lawsuits, actions, proceedings, settlements, costs and expenses, including attorney and consultant fees, investigation and laboratory fees, court costs, and litigation expenses (collectively, "Claims") of any kind for losses, damage, injury and liability (collectively, "Liability") of every kind and nature and however caused (except, with respect to any Indemnified Party, Liability arising from the gross negligence or willful misconduct of such Indemnified Party), arising during the period commencing on the Indemnification Commencement Date, and continuing until the termination of the Loan Agreement, arising upon, about, or in any way connected with the Facility, the Project, or any of the transactions with respect thereto, including:

- (i) the financing of the costs of each Facility or the Project and the marketing, offering, issuance, sale and remarketing of the Bonds for such purpose,
- (ii) the planning, design, acquisition, site preparation, Project Work, construction, renovation, equipping, furnishing, installation or completion of the Project Work or any part thereof or the effecting of any work done in or about any Facility, or any defects (whether latent or patent) in any Facility,
- (iii) the maintenance, repair, replacement, restoration, rebuilding, construction, renovation, upkeep, use, occupancy, ownership, leasing, subletting or operation of any Facility or any portion thereof,
- (iv) the execution and delivery by an Indemnified Party, the Participant or any other Person of, or performance by an Indemnified Party, the Participant or any other Person, as the case may be, of, any of their respective obligations under, the Loan Agreement, any of the Underlying Facility Realty Documents, or any other Project Document, or other document or instrument delivered in connection with the Loan Agreement or therewith or the enforcement of any of the terms or provisions thereof or the transactions contemplated thereby,
- (v) any damage or injury to the person or property of any Person in or on the premises of any Facility,

(vi) any imposition arising from, burden imposed by, violation of, or failure to comply with any Legal Requirement, including failure to comply with the requirements of the City's zoning resolution and related regulations, or

(vii) the presence, disposal, release, or threatened release of any Hazardous Materials that are on, from, or affecting any Facility; any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to such Hazardous Materials; any lawsuit brought or threatened, settlement reached, or government order relating to such Hazardous Materials, and/or any violation of Legal Requirements, including demands of government authorities, or any policies or requirements of the Issuer, which are based upon or in any way related to such Hazardous Materials.

The Participant releases each Indemnified Party from, and agrees that no Indemnified Party shall be liable to the Participant or its Affiliates for, any Claim or Liability arising from or incurred as a result of action taken or not taken by such Indemnified Party with respect to any of the matters set forth in the Loan Agreement as described above including any Claim or Liability arising from or incurred as a result of the gross negligence or willful misconduct of such Indemnified Party, or at the direction of the Participant with respect to any of such matters above referred to.

An Indemnified Party shall promptly notify the Participant in writing of any claim or action brought against such Indemnified Party in which indemnity may be sought against the Participant pursuant to the Loan Agreement as described under this heading; such notice shall be given in sufficient time to allow the Participant to defend or participate in such claim or action, but the failure to give such notice in sufficient time shall not constitute a defense under the Loan Agreement nor in any way impair the obligations of the Participant under the Loan Agreement as described under this heading.

Anything to the contrary in the Loan Agreement notwithstanding, the covenants of the Participant contained in the Loan Agreement as described under this heading shall be in addition to any and all other obligations and liabilities that the Participant may have to any Indemnified Party in any other agreement or at common law, and shall remain in full force and effect after the termination of the Loan Agreement until the later of (i) the expiration of the period stated in the applicable statute of limitations during which a claim or cause of action may be brought and (ii) payment in full or the satisfaction of such claim or cause of action and of all expenses and charges incurred by the Indemnified Party relating to the enforcement of the provisions specified in the Loan Agreement.

Environmental Matters. The Participant shall not cause or permit any Facility or any part thereof to be used to generate, manufacture, refine, transport, treat, store, handle, dispose, transfer, produce or process Hazardous Materials, except in compliance with all applicable Legal Requirements, nor shall the Participant cause or permit, as a result of any intentional or unintentional act or omission on the part of the Participant or any occupant or user of any Facility, a release of Hazardous Materials onto any Facility or onto any other property.

The Participant shall comply with, and require and enforce compliance by, all occupants and users of each Facility with all applicable Legal Requirements pertaining to Hazardous Materials, whenever and by whomever triggered, and shall obtain and comply with, and ensure that all occupants and users of each Facility obtain and comply with, any and all approvals, registrations or permits required thereunder.

The Participant shall conduct and complete all investigations, studies, sampling, and testing, and all remedial, removal and other actions necessary to clean up and remove all Hazardous Materials, on, from, or affecting each Facility in accordance with all applicable Legal Requirements.

In the event the Mortgage is foreclosed, or a deed in lieu of foreclosure is tendered, or the Loan Agreement is terminated as provided therein, the Participant shall deliver the Facility so that the conditions of the Facility with respect to any and all Hazardous Materials shall conform with all applicable Legal Requirements affecting the Facility.

Assignment of the Loan Agreement or Lease of Facility. The Participant shall not at any time, except as permitted by the Loan Agreement as described under the heading "Restrictions on Dissolution and Merger" below, assign or transfer the Loan Agreement without the prior written consents of the Issuer (which consent may be withheld by the Issuer in its absolute discretion) and the Trustee (at the direction of the Directing Party); provided further, that the following conditions must be satisfied on or prior to the date the Issuer and the Trustee consent to any such assignment or transfer:

(i) the Participant shall have delivered to the Issuer and the Trustee a certificate of an Authorized Representative to the effect that the transfer or assignment to the assignee or transferee (the "New Participant") shall not cause the Facility to cease being the Approved Facility;

(ii) the New Participant shall be liable to the Issuer for the payment of all loan and other payments and for the full performance of all of the terms, covenants and conditions of the Loan Agreement and of any other Project Document to which it shall be a party;

(iii) the New Participant shall have assumed in writing (and shall have executed and delivered to the Issuer and the Trustee such document and have agreed to keep and perform) all of the terms of the Loan Agreement and each other Project Document on the part of the New Participant to be kept and performed, shall be subject to service of process in the State, and, if a corporation, shall be qualified to do business in the State;

(iv) the New Participant shall be a not-for-profit corporation or a limited liability company constituting a Tax-Exempt Organization;

(v) such assignment or transfer shall not violate any provision of the Loan Agreement or any other Project Document;

(vi) an Opinion of Counsel shall have been delivered and addressed to the Issuer and the Trustee, to the effect that, (x) such assignment or transfer shall constitute the legally valid, binding and enforceable obligation of the New Participant and shall not legally impair in any respect the obligations of the New Participant for the payment of all loan payments nor for the full performance of all of the terms, covenants and conditions of the Loan Agreement, of the Promissory Note or of any other Project Document to which the New Participant shall be a party, nor impair or limit in any respect the obligations of any other obligor under any other Project Document, and (y) the Loan Agreement and each of the other Project Documents to which the New Participant is a party constitute the legally valid, binding and enforceable obligation of the New Participant;

(vii) the New Participant shall have delivered to the Issuer the Required Disclosure Statement in form and substance satisfactory to the Issuer;

(viii) each such assignment shall contain such other provisions as the Issuer or the Trustee may reasonably require; and

(ix) an opinion of Nationally Recognized Bond Counsel shall have been delivered and addressed to the Issuer and the Trustee, to the effect that such assignment or transfer shall not affect the exclusion of the interest on any Tax-Exempt Bonds then Outstanding from gross income for federal income tax purposes.

The Participant shall furnish or cause to be furnished to the Issuer and the Trustee a copy of any such assignment or transfer in substantially final form at least thirty (30) days prior to the date of execution thereof.

The Participant shall not at any time lease all or substantially all of any Facility, without the prior written consents of the Issuer and the Trustee (which consents may be withheld by the Issuer or the Trustee in their absolute discretion); nor shall the Participant lease part (*i.e.*, not constituting substantially all) of any Facility without the prior written consents of the Issuer and the Trustee (which consents shall, in such case, not be unreasonably withheld and, in the case of the Issuer, such consent to be requested by the Participant of the Issuer in the form prescribed by the Issuer, and such consent of the Issuer to take into consideration the Issuer's policies as in effect from time to time); provided further, that the following conditions must be satisfied on or prior to the date the Issuer and the Trustee consent to any such letting:

(i) the Participant shall have delivered to the Issuer and the Trustee a certificate of an Authorized Representative to the effect that the lease shall not cause any Facility to cease being an Approved Facility;

(ii) the Participant shall remain primarily liable to the Issuer for the payment of all loan and other payments and for the full performance of all of the terms, covenants and conditions of the Loan Agreement and of the Promissory Note and of any other Project Document to which it shall be a party;

(iii) any lessee in whole or substantially in whole of any Facility shall have assumed in writing (and shall have executed and delivered to the Issuer and the Trustee such document) and have agreed to keep and perform all of the terms of the Loan Agreement and each other Project Document on the part of the Participant to be kept and performed, shall be jointly and severally liable with the Participant for the performance thereof, shall be subject to service of process in the State, and, if a corporation, shall be qualified to do business in the State;

(iv) any lessee shall utilize the Facility as an Approved Facility and shall constitute a Tax-Exempt Organization;

(v) such lease shall not violate any provision of the Loan Agreement or any other Project Document;

(vi) with respect to any letting in part of any Facility, the term of each such lease shall not exceed five (5) years at any given date, and no more than an aggregate of twenty percent (20%) of the Rentable Square Footage shall be leased by the Participant;

(vii) an Opinion of Counsel shall have been delivered and addressed to the Issuer and the Trustee, to the effect that such lease shall constitute the legally valid, binding and enforceable obligation of the lessee and shall not legally impair in any respect the obligations of the Participant for the payment of all loan or other payments nor for the full performance of all of the terms, covenants and conditions of the Loan Agreement, of the Promissory Note or of any other Project Document to which the Participant shall be a party, nor impair or limit in any respect the obligations of any other obligor under any other Project Document;

(viii) such lease shall in no way diminish or impair the obligation of the Participant to carry the insurance required under the Mortgage, if applicable, or under the Loan Agreement, and the Participant shall furnish written evidence satisfactory to the Issuer and the Trustee that such insurance coverage shall in no manner be diminished or impaired by reason of such assignment, transfer or lease;

(ix) any such lessee shall have delivered to the Issuer the Required Disclosure Statement in form and substance satisfactory to the Issuer;

(x) each such lease shall contain such other provisions as the Issuer or the Trustee may reasonably require; and

(xi) an opinion of Nationally Recognized Bond Counsel shall have been delivered and addressed to the Issuer and the Trustee, to the effect that such lease shall not affect the exclusion of the interest on any Tax-Exempt Bonds then Outstanding from gross income for federal income tax purposes.

The Participant shall furnish or cause to be furnished to the Issuer and the Trustee a copy of any such lease in substantially final form at least thirty (30) days prior to the date of execution thereof.

Notwithstanding anything in the Loan Agreement to the contrary, each Facility may be occupied by individuals invited by the Participant for the purpose of operating such Facility by the Participant as an Approved Facility without the consent of the Issuer or the Trustee.

Retention of Title to or of Interest in Facility; Grant of Easements; Release of Portions of Facility; Release of a Facility. The Participant shall not sell, assign, encumber (other than Permitted Encumbrances), convey or otherwise dispose of its title to or interest in any Facility, including the Improvements, or any part of any Facility or interest therein, except as set forth in the Loan Agreement, without the prior written consents of the Issuer and of the Trustee (at the direction of the Directing Party), and any purported disposition without such consents shall be void.

The Participant may, with the prior written consents of the Issuer and the Trustee (such consents not to be unreasonably withheld or delayed), so long as there exists no Event of Default under the Loan Agreement, grant such rights of way or easements over, across, or under, any Facility Realty, or grant such permits or licenses in respect to the use thereof, free from the lien and security interest of the Mortgage in the case of the Mortgaged Property, as shall be necessary or convenient in the opinion of the Participant for the operation or use of any Facility, or required by any utility company for its utility business, provided that, in each case, such rights of way, easements, permits or licenses shall not adversely affect the use or operation of any Facility as an Approved Facility, and provided, further, that any consideration received by the Participant from the granting of said rights-of-way, easements, permits or licenses shall be paid to the Trustee and deposited in the Redemption Account and applied to the redemption of the Participant's Portion of the Bonds. The Issuer agrees, at the sole cost and expense of the Participant, to execute and deliver, and to cause and direct the Trustee to execute and deliver, any and all instruments necessary or appropriate to confirm and grant any such right of way or easement or any such permit or license and to release the same from the lien and security interest of the Mortgage in the case of the Mortgaged Property.

So long as there exists no Event of Default under the Loan Agreement, and the Participant delivers to the Trustee and the Issuer an opinion of Nationally Recognized Bond Counsel to the effect that the following action will not affect the exclusion of the interest on any Tax-Exempt Bonds then Outstanding from gross income for federal income tax purposes, the Participant may from time to time

request in writing to the Issuer and the Trustee the release of and removal from the property comprising any Facility under the Loan Agreement and the lien and security interest of the Mortgage in the case of the Mortgaged Property, of any unimproved part of the Land (on which none of the Improvements, including the buildings, structures, major appurtenances, fixtures or other property comprising any Facility Realty, is situated); provided that such release and removal will not adversely affect the use or operation of any Facility as an Approved Facility. Upon any such request by the Participant, the Issuer shall, at the sole cost and expense of the Participant, cause and direct the Trustee to execute and deliver any and all instruments necessary or appropriate to so release and remove such unimproved Land from the property comprising the Facility under the Loan Agreement and the lien and security interest of the Mortgage in case of the Mortgaged Property, subject to the following: (i) any liens, easements, encumbrances and reservations to which title to said property was subject on the Closing Date; (ii) any liens, easements and encumbrances created at the request of the Participant or to the creation or suffering of which the Participant consented; (iii) any liens and encumbrances or reservations resulting from the failure of the Participant to perform or observe any of the agreements on its respective part contained in the Loan Agreement or any other Project Document; (iv) Permitted Encumbrances (other than the lien of the Mortgage); and (v) any liens for taxes or assessments not then delinquent; provided, that, no such release shall be effected unless there shall be deposited with the Trustee the following:

(1) a certificate of an Independent Engineer, dated not more than sixty (60) days prior to the date of the release, stating that, in the opinion of the person signing such certificate, the unimproved Land and the release thereof so proposed to be made is not needed for the operation of the remaining Facility, will not adversely affect the use or operation of such Facility as an Approved Facility and will not destroy the means of ingress thereto and egress therefrom;

(2) an amount of cash for deposit in the Redemption Account of the Bond Fund (to be applied to the redemption of the Participant's Portion of the Bonds allocated to such Facility) equal to the greatest of (A) the original cost of the unimproved Land so released, such allocable cost to be determined by the appraisal of an independent real estate brokerage firm of recognized standing within the City, (B) the fair market value of such unimproved Land, such value to be determined by the appraisal of an independent real estate brokerage firm of recognized standing within the City, and (C) if such unimproved Land is released in connection with its sale, the amount received by the Participant upon such sale; and

(3) the Facility Realty, if a Mortgaged Property, as shall remain subject to the Mortgage shall not constitute a portion of a tax lot.

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, and the Participant delivers to the Trustee and the Issuer an opinion of Nationally Recognized Bond Counsel to the effect that the following action will not affect the exclusion of the interest on any Tax-Exempt Bonds then Outstanding from gross income for federal income tax purposes, the Participant may, upon written notice to the Issuer and the Trustee and compliance with the following, effect the release of a Facility from the Loan Agreement and, if a Mortgaged Property, the lien of the Mortgage. Upon receipt of such notice, the Issuer 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 Facility from the Loan Agreement and, if a Mortgaged Property, the lien of the Mortgage; provided, that, no such release shall be effected unless the Participant shall cause Bonds to cease to be Outstanding (either through the redemption provisions of the Indenture or the defeasance provisions of the Indenture) in a principal amount equal to the Participant's Portion of the Bonds Outstanding allocated to the Facility to be released; provided, however, that in the event the release is of the last remaining Facility, the Participant must further exercise its option to

terminate the Loan Agreement and make all payments necessary to effect the redemption or defeasance in whole of the Participant's Portion of the Bonds.

No conveyance or release effected under the provisions of the Loan Agreement as described under this heading shall entitle the Participant to any abatement or diminution of the loan payments or other amounts payable by the Participant under the Loan Agreement or any other Project Document to which it shall be a party.

Discharge of Liens. If any lien, encumbrance or charge is filed or asserted (including any lien for the performance of any labor or services or the furnishing of materials), or any judgment, decree, order, levy or process of any court or governmental body is entered, made or issued or any claim (such liens, encumbrances, charges, judgments, decrees, orders, levies, processes and claims being herein collectively called "Liens"), whether or not valid, is made against the Trust Estate, the Facility or any part thereof or the interest therein of the Participant or against any of the loan payments or other amounts payable under the Loan Agreement, the Promissory Note or any of the other Security Documents, or the interest of the Issuer or the Participant in any Security Document, other than Liens for Impositions not yet payable, Permitted Encumbrances, or Liens being contested as permitted by the Loan Agreement as described in the next paragraph, the Participant forthwith upon receipt of notice of the filing, assertion, entry or issuance of such Lien (regardless of the source of such notice) shall give written notice thereof to the Issuer and the Trustee and take all action (including the payment of money and/or the securing of a bond with respect to any such Lien) at its own cost and expense as may be necessary or appropriate to obtain the discharge in full of such Lien and to remove or nullify the basis therefor. Nothing contained in the Loan Agreement shall be construed as constituting the express or implied consent to or permission of the Issuer for the performance of any labor or services or the furnishing of any materials that would give rise to any Lien not permitted under this paragraph.

The Participant may at its sole cost and expense contest (after prior written notice to the Issuer and the Trustee), by appropriate action conducted in good faith and with due diligence, the amount or validity or application, in whole or in part, of any Lien, if (i) such proceeding shall suspend the execution or enforcement of such Lien against the Trust Estate, the Facility or any part thereof or interest therein, or against any of the loan payments or other amounts payable under the Loan Agreement, the Promissory Note or any of the other Project Documents or the interest of the Issuer or the Participant in any Project Document, (ii) neither the Facility nor any part thereof or interest therein, the Trust Estate or any portion thereof, the loan payments or other amounts payable under the Loan Agreement, the Promissory Note or any of the other Security Documents or the interest of the Issuer or the Participant in any Security Document would be in any danger of being sold, forfeited or lost, (iii) neither the Participant, the Issuer nor the Trustee would be in any danger of any civil or any criminal liability, other than normal accrual of interest, for failure to comply therewith, and (iv) the Participant shall have furnished such security, if any, as may be required in such proceedings or as may be reasonably requested by the Issuer or the Trustee to protect the security intended to be offered by the Security Documents.

No Further Encumbrances Permitted. The Participant shall not create, permit or suffer to exist any mortgage, encumbrance, lien, security interest, claim or charge against (i) any Facility or any part thereof, or the interest of the Participant in any Facility, except for Permitted Encumbrances, or (ii) the Trust Estate or any portion thereof, the loan payments or other amounts payable under the Loan Agreement, the Promissory Note or any of the other Security Documents or the interest of the Issuer or the Participant in any Security Document. The Participant covenants that it shall take or cause to be taken all action, including all filing and recording, as may be necessary to ensure that there are no mortgage liens on, or security interests in, the Mortgaged Property (other than Permitted Encumbrances) prior to the mortgage liens thereon, and security interests therein, granted by the Mortgage.

Taxes, Assessments and Charges. The Participant shall pay when the same shall become due all taxes and assessments, general and specific, if any, levied and assessed upon or against the Trust Estate, the Facility Realty or any part thereof, or interest of the Participant in the Facility, or against any of the loan payments or other payments or other amounts payable under the Loan Agreement, the Promissory Note or any of the other Project Documents, or the interest of the Issuer or the Participant in any Project Document, and all water and sewer charges, special district charges, assessments and other governmental charges and impositions whatsoever, foreseen or unforeseen, ordinary or extraordinary, under any present or future law, and charges for public or private utilities or other charges incurred in the occupancy, use, operation, maintenance or upkeep of the Facility Realty, all of which are herein called "Impositions". The Participant may pay any Imposition in installments if so payable by law, whether or not interest accrues on the unpaid balance.

In the event the Facility Realty is exempt from Impositions solely due to the Issuer's involvement with the Project and the Facility Realty, the Participant shall pay all Impositions to the appropriate taxing authorities equivalent to the Impositions that would have been imposed on the Facility Realty as if the Issuer had no involvement with the Project and the Facility Realty.

The Participant may at its sole cost and expense contest (after prior written notice to the Issuer and the Trustee), by appropriate action conducted in good faith and with due diligence, the amount or validity or application, in whole or in part, of any Imposition, if (i) such proceeding shall suspend the execution or enforcement of such Imposition against the Trust Estate, the Facility or any part thereof, or interest of the Participant in the Facility, or against any of the loan payments or other amounts payable under the Loan Agreement, the Promissory Note or any of the other Project Documents, or the interest of the Issuer or the Participant in any Project Document, (ii) none of the Trust Estate, the Facility or any part thereof or interest of the Participant in the Facility, or any of the loan payments or other amounts payable under the Loan Agreement, the Promissory Note or any of the other Project Documents, or the interest of the Issuer or the Participant in any Project Document, would be in any danger of being sold, forfeited or lost, (iii) none of the Participant, the Issuer or the Trustee would be in any danger of any civil or any criminal liability, other than normal accrual of interest, for failure to comply therewith, and (iv) the Participant shall have furnished such security, if any, as may be required in such proceedings or as may be reasonably requested by the Issuer or the Trustee to protect the security intended to be offered by the Security Documents.

Compliance with Legal Requirements. The Participant shall not occupy, use or operate any Facility, or allow any Facility or any part thereof to be occupied, used or operated, for any unlawful purpose or in violation of any certificate of occupancy (temporary or permanent) or certificate of completion, as applicable, affecting any Facility or for any use which may constitute a nuisance, public or private, or make void or voidable any insurance then in force with respect thereto.

At its sole cost and expense, the Participant shall promptly observe and comply with all applicable Legal Requirements, whether foreseen or unforeseen, ordinary or extraordinary, that shall now or at any time hereafter be binding upon or applicable to the Participant, the Facility, any occupant, user or operator of the Facility or any portion thereof, and will observe and comply with all conditions, requirements, and schedules necessary to preserve and extend all rights, licenses, permits (including zoning variances, special exception and non conforming uses), privileges, franchises and concessions. The Participant will not, without the prior written consent of the Issuer and the Trustee (at the direction of the Directing Party), initiate, join in or consent to any private restrictive covenant, zoning ordinance or other public or private restrictions limiting or defining the uses that may be made of any Facility or any part thereof.

The Participant may at its sole cost and expense contest in good faith the validity, existence or applicability of any of the matters described in the paragraph above if (i) such contest shall not result in the Trust Estate, any Facility or any part thereof or interest of the Participant in any Facility, or any of the loan payments or other amounts payable under the Loan Agreement, the Promissory Note or any of the other Project Documents, or the interest of the Issuer or the Participant in any Project Document, being in any danger of being sold, forfeited or lost, (ii) such contest shall not result in the Participant, the Issuer or the Trustee being in any danger of any civil or any criminal liability for failure to comply therewith, and (iii) the Participant shall have furnished such security, if any, as may be reasonably requested by the Issuer or the Trustee to protect the security intended to be offered by the Security Documents for failure to comply therewith.

Operation as Approved Facility. The Participant will not take any action, or suffer or permit any action, if such action would cause any Facility not to be an Approved Facility. The Participant will not fail to take any action, or suffer or permit the failure to take any action, if such failure would cause any Facility not to be an Approved Facility. The Participant will permit the Trustee and its duly authorized agents, at all reasonable times upon written notice to enter upon any Facility and to examine and inspect each Facility and exercise its rights under the Loan Agreement, under the Indenture and under the other Security Documents with respect to the Facility. The Participant will further permit the Issuer, or its duly authorized agent, upon reasonable notice, at all reasonable times, to enter any Facility, but solely for the purpose of assuring that the Participant is operating each Facility, or is causing each Facility to be operated, as an Approved Facility consistent with the Approved Project Operations and with the corporate purposes of the Issuer.

Restrictions on Dissolution and Merger. The Participant covenants and agrees that at all times during the term of the Loan Agreement, it will (i) maintain its existence as a not-for-profit corporation constituting a Tax-Exempt Organization, (ii) continue to be subject to service of process in the State, (iii) continue to be organized under the laws of, or qualified to do business in, the State, (iv) not liquidate, wind up or dissolve or otherwise dispose of all or substantially all of its property, business or assets ("Transfer") remaining after the Closing Date, except as provided in the Loan Agreement as described in the next paragraph, (v) not consolidate with or merge into another Entity or permit one or more Entities to consolidate with or merge into it ("Merge"), except as provided in the Loan Agreement as described in the next paragraph, and (vi) not change or permit the change of any Principal of the Participant, or a change in the relative Control of the Participant of any of the existing Principals, except in each case as provided in the Loan Agreement.

Notwithstanding the provisions described above, the Participant may Merge or participate in a Transfer if the following conditions are satisfied on or prior to the Merger or Transfer, as applicable: (i) when the Participant is the surviving, resulting or transferee Entity, (1) the Participant shall have a net worth (as determined by an Independent Accountant in accordance with GAAP) at least equal to that of the Participant immediately prior to such Merger or Transfer, (2) the Participant shall continue to be a Tax-Exempt Organization, (3) the Participant shall deliver to the Issuer and the Trustee an opinion of Nationally Recognized Bond Counsel to the effect that such action will not cause the interest on the Tax-Exempt Bonds to become includable in gross income for federal income tax purposes, and (4) the Participant shall deliver to the Issuer a Required Disclosure Statement with respect to itself as surviving Entity in form and substance satisfactory to the Issuer; or (ii) when the Participant is not the surviving, resulting or transferee Entity (the "Successor Participant"), (1) the predecessor Participant (the "Predecessor Participant") shall not have been in default under the Loan Agreement or under any other Project Document, (2) the Successor Participant shall be a Tax-Exempt Organization and shall be solvent and subject to service of process in the State and organized under the laws of the State, or under the laws of any other state of the United States and duly qualified to do business in the State, (3) the Successor Participant shall have assumed in writing all of the obligations of the Predecessor Participant contained in

the Loan Agreement and in all other Project Documents to which the Predecessor Participant shall have been a party, (4) the Successor Participant shall have delivered to the Issuer a Required Disclosure Statement in form and substance acceptable to the Issuer acting in its sole discretion, (5) each Principal of the Successor Participant shall have delivered to the Issuer a Required Disclosure Statement in form and substance acceptable to the Issuer acting in its sole discretion, (6) the Successor Participant shall have delivered to the Issuer and the Trustee, in form and substance acceptable to the Issuer and the Trustee, an Opinion of Counsel to the effect that (y) the Loan Agreement and all other Project Documents to which the Predecessor Participant shall be a party constitute the legal, valid and binding obligations of the Successor Participant and each is enforceable in accordance with their respective terms to the same extent as it was enforceable against the Predecessor Participant, and (z) such action does not legally impair the security for the Holders of the Bonds afforded by the Security Documents, (7) the Successor Participant shall have delivered to the Issuer and the Trustee, in form and substance acceptable to the Issuer and the Trustee, an opinion of an Independent Accountant to the effect that the Successor Participant has a net worth (as determined in accordance with GAAP) after the Merger or Transfer at least equal to that of the Predecessor Participant immediately prior to such Merger or Transfer, and (8) the Successor Participant delivers to the Issuer and the Trustee an opinion of Nationally Recognized Bond Counsel to the effect that such action will not cause the interest on the Tax-Exempt Bonds to become includable in gross income for federal income tax purposes.

Preservation of Exempt Status. The Participant agrees that (i) it shall not perform any acts, enter into any agreements, carry on or permit to be carried on at each Facility, or permit each Facility to be used in or for any trade or business, which shall adversely affect the basis for its exemption under Section 501 of the Code; (ii) it shall not use more than three percent (3%) of the proceeds of the Participant's Portion of the Tax-Exempt Bonds or permit the same to be used, directly or indirectly, in any trade or business that constitutes an unrelated trade or business as defined in Section 513(a) of the Code or in any trade or business carried on by any Person or Persons who are not governmental units or Section 501(c)(3) organizations; (iii) it shall not directly or indirectly use the proceeds of the Tax-Exempt Bonds to make or finance loans to Persons other than governmental units or Section 501(c)(3) organizations; (iv) it shall not take any action or permit any circumstances within its control to arise or continue, if such action or circumstances, or its expectation on the Closing Date, would cause the Tax-Exempt Bonds to be "arbitrage bonds" under the Code or cause the interest paid by the Issuer on the Tax-Exempt Bonds to be subject to federal income tax in the hands of the Holders thereof; and (v) it shall use its best efforts to maintain the tax-exempt status of the Tax-Exempt Bonds.

Securities Law Status. The Participant covenants that (i) each Facility shall be operated (y) exclusively for civic or charitable purposes and (z) not for pecuniary profit, all within the meaning, respectively, of the Securities Act and of the Securities Exchange Act, (ii) no part of the net earnings of the Participant shall inure to the benefit of any person, private stockholder or individual, all within the meaning, respectively, of the Securities Act and of the Securities Exchange Act, and (iii) it shall not perform any act nor enter into any agreement which shall change such status as set forth in this paragraph.

Security Interest and Further Assurances. The Issuer shall pledge and assign to the Trustee pursuant to the Indenture all of the Issuer's right, title and interest in the Promissory Note and all of the Issuer's right, title and interest in the Loan Agreement (except for the Issuer's Reserved Rights), including all loan payments under the Loan Agreement and under the Promissory Note, and in furtherance of said pledge the Issuer will unconditionally assign such loan payments to the Trustee for deposit in the Bond Fund in accordance with the Indenture.

The Participant will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered such further acts, instruments, conveyances, transfers and assurances, including Uniform Commercial Code financing statements, at the sole cost and expense of the Participant,

as the Issuer or the Trustee deems reasonably necessary or advisable for the implementation, effectuation, correction, confirmation or perfection of the Loan Agreement and any rights of the Issuer or the Trustee under the Loan Agreement, under the Indenture or under any other Security Document.

Continuing Disclosure. The Participant shall, if required by Securities and Exchange Commission Rule 15c2-12(b)(5), enter into and comply with and carry out all of the provisions of a continuing disclosure agreement. Notwithstanding any other provision of the Loan Agreement, failure of the Participant to comply with such continuing disclosure agreement shall not be considered an Event of Default; however, the Trustee may (and, at the request of any participating underwriter or the Holders of at least twenty-five percent (25%) aggregate principal amount in Outstanding Bonds, shall, upon receipt of reasonable indemnification for its fees and costs acceptable to it), and any Holder or Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Participant to comply with its obligations under the Loan Agreement as described in this paragraph. The Participant agrees that the Issuer shall have no continuing disclosure obligations.

Tax Regulatory Agreement. The Participant shall comply with all of the terms, provisions and conditions set forth in the Tax Regulatory Agreement, including, without limitation, the making of any payments and filings required thereunder. Promptly following receipt of notice from the Trustee as provided in the Indenture that the amount on deposit in the Rebate Fund is less than the Rebate Amount, the Participant shall deliver the amount necessary to make up such deficiency to the Trustee for deposit in the Rebate Fund. The Participant agrees to pay all costs of compliance with the Tax Regulatory Agreement and costs of the Issuer relating to any examination or audit of the Bonds by the Internal Revenue Service (including fees and disbursements of lawyers and other consultants).

Compliance with the Indenture. The Participant will comply with the provisions of the Indenture with respect to the Participant. The Trustee shall have the power, authority, rights and protections provided in the Indenture. The Participant will use its best efforts to cause there to be obtained for the Issuer any documents or opinions of counsel required of the Issuer under the Indenture.

Reporting Information for the Trustee. The Participant shall furnish or cause to be furnished to the Trustee, as soon as available and in any event within one hundred eighty (180) days after the close of each Fiscal Year, a copy of the annual audited consolidated financial statements of the Participant and its subsidiaries, including consolidating balance sheets as at the end of each such Fiscal Year, and the related statements of income, balances, earnings, retained earnings and changes in financial position for each such Fiscal Year, as audited by the Participant's Independent Accountant and prepared in accordance with GAAP, and, certified by an Authorized Representative of the Participant.

The Participant shall deliver to the Trustee with each delivery of annual financial statements required above, (i) a certificate of an Authorized Representative of the Participant as to whether or not, as of the close of such preceding Fiscal Year, and at all times during such Fiscal Year, the Participant was in compliance with all the provisions which relate to the Participant in the Loan Agreement (including any material budget variations) and in any other Project Document to which it shall be a party, and if such Authorized Representative shall have obtained knowledge of any default in such compliance or notice of such default, he shall disclose in such certificate such default or defaults or notice thereof and the nature thereof (or event that with the giving of notice or passage of time would constitute such an Event of Default), whether or not the same shall constitute an Event of Default under the Loan Agreement, and any action proposed to be taken by the Participant with respect thereto, and (ii) a certificate of an Authorized Representative of the Participant that the insurance it maintains complies with the provisions of the Loan Agreement and the Mortgage, if applicable, that such insurance has been in full force and effect at all times during the preceding Fiscal Year, and that duplicate copies of all policies or certificates thereof

have been filed with the Issuer and the Trustee and are in full force and effect. In addition, upon twenty (20) days prior request by the Trustee, the Participant will execute, acknowledge and deliver to the Issuer and the Trustee a certificate of an Authorized Representative of the Participant either stating that to the knowledge of such Authorized Representative after due inquiry no default or breach exists under the Loan Agreement or specifying each such default or breach of which such Authorized Representative has knowledge. In addition, the certificate shall be accompanied by a letter from the Participant's counsel or the Participant's insurance carrier's counsel that summarizes any pending litigation against the Participant that may have a material adverse effect on its financial condition or its ability to operate one or more programs related to the Facility.

The Participant shall immediately notify the Trustee and the Underwriter of the occurrence of any Event of Default or any event which with notice and/or lapse of time would constitute an Event of Default under any Project Document. Any notice required to be given pursuant to this paragraph shall be signed by an Authorized Representative of the Participant and set forth a description of the default and the steps, if any, being taken to cure said default. If no steps have been taken, the Participant shall state this fact on the notice. The Participant shall deliver to the Trustee all insurance-related documents required by the Loan Agreement.

Grant of Security Interest to Other Parties. The 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; provided, however, that the amount of Indebtedness which may be secured by a security interest granted pursuant to the Loan Agreement as described in this paragraph, shall not exceed, in the aggregate, an amount equal to ninety percent (90%) of the Participant's Accounts Receivable. The Participant shall deliver a certificate of an Authorized Representative to the Trustee and the Program Facilitator on each January 1, April 1, July 1 and October 1, commencing with the first such date to occur after the Closing Date, demonstrating compliance with said limitation. To the extent that such a certificate shall demonstrate that the Participant is not in compliance with said limitation, the Participant shall use its best efforts to repay such outstanding Indebtedness in an amount which will allow it to be in compliance with the Loan Agreement as described in this paragraph.

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

- (a) Indebtedness evidenced by Additional Bonds issued in accordance with the Loan Agreement,
- (b) Indebtedness (other than for working capital, other than loan payments payable under loan agreements with the Issuer or other payments 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,
- (c) 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 Closing Date,

(d) 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 Facility,

(e) Indebtedness secured solely by the Accounts Receivable of the Participant, subject to the limitations of the Loan Agreement as described in the heading "Grant of Security Interest to Other Parties" above, and

(f) Indebtedness the proceeds of which will be applied to a purpose consistent with the Participant's corporate purposes; provided, however, that prior to incurring any Non-PPA Indebtedness pursuant to this clause (f), the Participant shall deliver to the Trustee either (I) a certificate signed by the Participant's chief executive officer or chief financial officer demonstrating a Total Debt Service Coverage Ratio of 1.25x for the most recent Fiscal Year for which audited financial statements exist or (II) a certificate of an independent certified public accountant not unacceptable to the Trustee demonstrating that the estimated Total Net Revenues Available for Debt Service for the first full Fiscal Year following the estimated completion of the capital additions or repairs financed with the proceeds of such additional Non-PPA Indebtedness, or following the incurrence of Non-PPA Indebtedness for other purposes, will support a Total Debt Service Coverage Ratio of not less than 1.25x. 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.

Events of Default. Any one or more of the following events shall constitute an "Event of Default" under the Loan Agreement:

(a) Failure of the Participant to pay any loan payment that has become due and payable by the terms of the Loan Agreement as described in the first paragraph under the heading "Loan Payment; Pledge of Loan Agreement and of the Promissory Note" above which results in an Event of Default under the Indenture;

(b) Failure of the Participant to pay any amount (except as set forth in clause (a) above) that has become due and payable or to observe and perform any covenant, condition or agreement on its part to be performed under the Loan Agreement including covenants regarding the Facility, certain reporting requirements, payment of taxes, insurance, indemnity, payment of fees and expenses, assignment of the Loan Agreement, lease of the Facility, liens and encumbrances, and continuance of such failure for more than thirty (30) days after written notice of such failure has been given to the Participant specifying the nature of such failure by the Issuer or the Trustee or the Holders of more than twenty-five percent (25%) in aggregate principal amount of the Bonds Outstanding;

(c) Failure of the Participant to observe and perform any covenant, condition or agreement under the Loan Agreement on its part to be performed (except as set forth in clause (a) or (b) above) and (i) continuance of such failure for more than thirty (30) days after written notice of such failure has been given to the Participant specifying the nature of same by the Issuer or the Trustee or the Holders of more than twenty-five percent (25%) in aggregate principal amount of the Bonds Outstanding, or (ii) if by reason of the nature of such failure the same can be remedied, but not within the said thirty (30) days, the Participant fails to commence and thereafter proceed with reasonable diligence after receipt of said notice to cure such failure or fails to continue with reasonable diligence its efforts to cure such failure or fails to cure such failure within sixty (60) days of delivery of said notice;

(d) The Participant shall (i) apply for or consent to the appointment of or the taking of possession by a receiver, liquidator, custodian or trustee of itself or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as such debts generally become due, (iii) make a general assignment for the benefit of its creditors, (iv) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), (v) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, (vi) fail to controvert in a timely or appropriate manner or acquiesce in writing to, any petition filed against itself in an involuntary case under the Federal Bankruptcy Code, (vii) take any action for the purpose of effecting any of the foregoing, or (viii) be adjudicated a bankrupt or insolvent by any court;

(e) A proceeding or case shall be commenced, without the application or consent of the Participant, in any court of competent jurisdiction, seeking, (i) liquidation, reorganization, dissolution, winding-up or composition or adjustment of debts, (ii) the appointment of a trustee, receiver, liquidator, custodian or the like of the Participant or of all or any substantial part of its assets, or (iii) similar relief under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of ninety (90) days; or any order for relief against the Participant shall be entered in an involuntary case under such Bankruptcy Code; the terms "dissolution" or "liquidation" of the Participant as used above shall not be construed to prohibit any action otherwise permitted by the Loan Agreement as described under the heading "Restrictions on Dissolution and Merger" above;

(f) Any representation or warranty made by the Participant (i) in the application and related materials submitted to the Issuer or the initial purchaser(s) of the Bonds for approval of the Project or its financing, or (ii) in the Loan Agreement or in any other Project Document, or (iii) in the Letter of Representation and Indemnity Agreement dated the Closing Date and delivered to the Issuer, the Trustee and the initial purchaser(s) of the Series 2013A Bonds, or (iv) in the Tax Regulatory Agreement, or (v) by or on behalf of the Participant or any other Person in any Required Disclosure Statement, or (vi) in any report, certificate, financial statement or other instrument furnished pursuant to the Loan Agreement or any of the foregoing, shall in any case prove to be false, misleading or incorrect in any material respect as of the date made;

(g) The commencement of proceedings to appoint a receiver or to foreclose any mortgage lien on or security interest in any Facility including the Mortgage, if applicable;

(h) An "Event of Default" under the Indenture or under any other Security Document shall occur and be continuing;

(i) Failure of the Participant to pay the amount required of it under the Loan Agreement as described in the second paragraph under the heading "Loan Payments; Pledge of Loan Agreement and of the Promissory Note" above when required thereunder and continuance of such default for five (5) Business Days; or

(j) The occurrence and continuance of an "Event of Default" (without cure within any applicable grace period) with respect to any Indebtedness of the Participant aggregating at least \$500,000.

Remedies on Default. Whenever any Event of Default referred to in the Loan Agreement as described in the heading above shall have occurred and be continuing, the Issuer, or the Trustee where so provided, may, take any one or more of the following remedial steps:

(i) The Trustee (at the direction of the Holders of over twenty-five percent (25%) of the Bonds Outstanding), as and to the extent provided in the Indenture, may cause all principal installments of loan payments payable under the Loan Agreement as described under the heading "Loan Payments; Pledge of the Loan Agreement and of the Promissory Note" above until the Bonds are no longer Outstanding to be immediately due and payable, whereupon the same, together with the accrued interest thereon, shall become immediately due and payable; provided, however, that upon the occurrence of an Event of Default under clause (d) or (e) under the heading "Events of Default" above, all principal installments of loan payments payable under the heading "Loan Payments; Pledge of the Loan Agreement and of the Promissory Note" above until the Bonds are no longer Outstanding, together with the accrued interest thereon, shall immediately become due and payable without any declaration, notice or other action of the Issuer, the Trustee, the Holders of the Bonds or any other Person being a condition to such acceleration;

(ii) The Issuer or the Trustee (at the direction of the Directing Party) may take whatever action at law or in equity as may appear necessary or desirable to collect the loan payments then due and thereafter to become due, or to enforce performance or observance of any obligations, agreements or covenants of the Participant under the Loan Agreement;

(iii) With respect to each Facility that is leased by a Participant, the Trustee (at the direction of the Directing Party) may direct the Program Facilitator to locate a new tenant to replace the Participant with another operator so long as the requirements of the Loan Agreement as described under the heading "Assignment of the Loan Agreement or Lease of Facility" above are satisfied or waived by the appropriate parties; or

(iv) The Trustee (at the direction of the Directing Party) may take any action permitted under the Indenture or any other Security Document with respect to an Event of Default thereunder.

Upon the occurrence of a default with respect to any of the Issuer's Reserved Rights, the Issuer, without the consent of the Trustee or any other Person, may proceed to enforce the Issuer's Reserved Rights by (i) bringing an action for damages, injunction or specific performance, and/or (ii) taking whatever action at law or in equity as may appear necessary or desirable to collect payment of amounts due by the Participant under the Issuer's Reserved Rights or to enforce the performance or observance of any obligations, covenants or agreements of the Participant under the Issuer's Reserved Rights.

No action taken pursuant to the Loan Agreement as described under this heading or by operation of law or otherwise shall, except as expressly provided in the Loan Agreement, relieve the Participant from the Participant's obligations thereunder, all of which shall survive any such action.

Bankruptcy Proceedings. In case proceedings shall be pending for the bankruptcy or for the reorganization of the Participant under the federal bankruptcy laws or any other applicable law, or in case a receiver or trustee (other than the Trustee under the Indenture) shall have been appointed for the property of the Participant or in the case of any other similar judicial proceedings relative to the Participant or the creditors or property of the Participant, then the Trustee shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount owing and unpaid pursuant to the Loan Agreement and the Promissory Note, irrespective of whether the principal of the Bonds (and the loan payments payable pursuant to the Promissory Note

and under the Loan Agreement as described under the heading "Loan Payments; Pledge of the Loan Agreement and of the Promissory Note" above) shall have been accelerated by declaration or otherwise, and irrespective of whether the Trustee shall have made any demand for payment thereunder, and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to the Participant, the creditors or property of the Participant, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute such amounts as provided in the Indenture after the deduction of its charges and expenses. Any receiver, assignee or trustee in bankruptcy or reorganization is authorized by the Loan Agreement to make such payments to the Trustee, and to pay to the Trustee any amount due it for compensation and expenses, including expenses and fees of counsel incurred by it up to the date of such distribution.

Remedies Cumulative. The rights and remedies of the Issuer or the Trustee under the Loan Agreement shall be cumulative and shall not exclude any other rights and remedies of the Issuer or the Trustee allowed by law with respect to any default under the Loan Agreement. Failure by the Issuer or the Trustee to insist upon the strict performance of any of the covenants and agreements set forth in the Loan Agreement or to exercise any rights or remedies upon default by the Participant thereunder shall not be considered or taken as a waiver or relinquishment for the future of the right to insist upon and to enforce by mandatory injunction, specific performance or other appropriate legal remedy the strict compliance by the Participant with all of the covenants and conditions of the Loan Agreement, or of the rights to exercise any such rights or remedies, if such default by the Participant be continued or repeated.

No Additional Waiver Implied by One Waiver. In the event any covenant or agreement contained in the Loan Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach under the Loan Agreement. No waiver shall be binding unless it is in writing and signed by the party making such waiver. No course of dealing between the Issuer and/or the Trustee and the Participant or any delay or omission on the part of the Issuer and/or the Trustee in exercising any rights under the Loan Agreement or under the Indenture or under any other Security Document shall operate as a waiver. To the extent permitted by applicable law, the Participant waives the benefit and advantage of, and covenants not to assert against the Issuer or the Trustee, any valuation, inquisition, stay, appraisal, extension or redemption laws now existing or which may hereafter exist.

Effect on Discontinuance of Proceedings. In case any proceeding taken by the Issuer or the Trustee under the Indenture or the Loan Agreement or under any other Security Document on account of any Event of Default thereunder shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Issuer or the Trustee, then, and in every such case, the Issuer, the Trustee and the Holders of the Bonds shall be restored, respectively, to their former positions and rights thereunder, and all rights, remedies, powers and duties of the Issuer and the Trustee shall continue as in effect prior to the commencement of such proceedings.

Certain Continuing Representations. If at any time during the term of the Loan Agreement, any Conduct Representation made by the Participant would, if made on any date while Bonds are Outstanding and deemed made as of such date, be false, misleading or incorrect in any material respect, then, the Participant shall be deemed to be in default under the Loan Agreement unless the Issuer shall, upon written request by the Participant, either waive such default in writing or consent in writing to an exception to such representation or warranty so that such representation or warranty shall no longer be false, misleading or incorrect in a material respect. Upon the occurrence of any such default, the Issuer shall have the right to require the redemption of the Bonds in accordance with the Loan Agreement as described in the first paragraph under the heading "Mandatory Redemption of Bonds as Directed by the Issuer" below.

Termination of the Loan Agreement. The Participant shall have the option to cause the redemption or defeasance in whole of all of the Participant's Portion of the Outstanding Bonds in accordance with the terms set forth in the Indenture.

After full payment of the Participant's Portion of the Bonds or provision for the payment in full thereof having been made in accordance with the Indenture, but not later than the receipt by the Participant of ten (10) days prior written notice from the Issuer directing termination of the Loan Agreement, the Participant shall terminate the Loan Agreement by giving the Issuer notice in writing of such termination and thereupon such termination shall forthwith become effective, subject, however, to (x) the delivery of those documents referred to in the Loan Agreement, and (y) the survival of those obligations of the Participant set forth in the Loan Agreement.

Issuance of Additional Bonds. If a Series of Additional Bonds are to be issued pursuant to the Indenture, the Issuer and the Participant shall enter into an amendment to the Loan Agreement, and the Participant shall execute and deliver a new Promissory Note, in each case providing, among other things, for the payment by the Participant of such additional loan payments as are necessary in order to amortize in full the principal of and interest on such Series of Additional Bonds and any other costs in connection therewith.

Any such completion, repair, relocation, replacement, rebuilding, restoration, additions, extensions or improvements shall become a part of the Facility and shall be included under the Loan Agreement to the same extent as if originally included thereunder.

Mandatory Redemption of Bonds as Directed by the Issuer. Upon the determination by the Issuer that (w) the Participant is operating any Facility or any portion thereof, or is allowing any Facility or any portion thereof to be operated, not for the Approved Project Operations in accordance with the Loan Agreement and the failure of the Participant within thirty (30) days of the receipt by the Participant of written notice of such noncompliance from the Issuer to cure such noncompliance together with a copy of such resolution (a copy of which notice shall be sent to the Trustee), (x) the Participant, any Principal of the Participant or any Person that directly or indirectly Controls, is Controlled by or is under common Control with the Participant has committed a material violation of a material Legal Requirement and the failure of the Participant within thirty (30) days of the receipt by the Participant of written notice of such determination from the Issuer to cure such material violation (which cure, in the case of a Principal who shall have committed the material violation of a material Legal Requirement, may be effected by the removal of such Principal), (y) as set forth in the Loan Agreement under the heading "Certain Continuing Representations" above, any Conduct Representation is false, misleading or incorrect in any material respect at any date, as if made on such date, or (z) a Required Disclosure Statement delivered to the Issuer under any Project Document is not acceptable to the Issuer acting in its sole discretion, the Participant covenants and agrees that it shall, no later than ten (10) days following the termination of such thirty (30) day period, pay to the Trustee advance loan payments in immediately available funds in an amount sufficient to redeem the Participant's Portion of the Bonds Outstanding in whole, or in part, if applicable, at the Redemption Price of 100% of the aggregate principal amount of the Outstanding Bonds together with interest accrued thereon to the redemption date. The Issuer shall give prior written notice of the meeting at which the Board of Directors of the Issuer are to consider such resolution to the Participant and the Trustee, which notice shall be no less than fifteen (15) days prior to such meeting.

In the event the Participant fails to obtain or maintain the liability insurance with respect to any Facility required under the Loan Agreement, and the Participant shall fail to cure such circumstance within ten (10) days of the receipt by the Participant of written notice of such noncompliance from the Issuer and a demand by the Issuer on the Participant to cure such noncompliance, upon notice or waiver of notice as provided in the Indenture, the Participant shall pay to the Trustee advance loan payments in

immediately available funds in an amount sufficient to redeem the Bonds Outstanding in whole at the Redemption Price of one hundred percent (100%) of the unpaid principal amount of the Bonds, together with interest accrued thereon to the date of redemption.

In the event a Prime Lease relating to a leased Facility shall terminate or expire prior to the retirement by the Participant of the allocable principal portion of the Series 2013A Bonds issued to finance costs with respect to such leased Facility (the "Allocable Principal Portion"), the Participant shall deliver immediately to the Issuer and the Trustee a certificate of an Authorized Representative of the Participant stating such termination or expiration and shall cause the redemption of the Outstanding Allocable Principal Portion pursuant to the Indenture.

Mandatory Redemption As a Result of Project Gifts or Grants. If, prior to completion of the construction of a component of the Project Work, the Participant receives any gift or grant required by the terms thereof to be used to pay any item which is a cost of such component of the Project Work, the Participant shall apply such gift or grant to completion of the construction of such component of the Project Work. In the event that the amount of such gift or grant is in excess of the amount necessary to complete such component of the Project Work, and if proceeds of the Participant's Portion of the Tax-Exempt Bonds (x) have been expended on such component of the Project Work more than eighteen (18) months prior to the receipt of such gift or grant, or (y) (1) have been expended on such component of the Project Work not more than eighteen (18) months prior to the receipt of such gift or grant and (2) the aggregate amount of Project Costs not otherwise provided for is less than the amount of the Participant's Portion of the Tax-Exempt Bond proceeds expended on such component of the Project Work, the Participant shall cause the Trustee to effect a redemption of the Participant's Portion of the Tax-Exempt Bonds in a principal amount equal to such excess only to the extent to which proceeds of the Participant's Portion of the Tax-Exempt Bonds were expended for such component.

If, after completion of the construction of a component of the Project Work, the Participant receives any gift or grant which prior to such completion it reasonably expected to receive and which is required by the terms thereof to be used to pay any item which is a cost of such component of the Project Work, and if proceeds of the Participant's Portion of the Tax-Exempt Bonds (x) have been expended on such component of the Project Work more than eighteen (18) months prior to the earlier of the date on which Participant's Portion of the Tax-Exempt Bond proceeds were expended thereon or the placed in service date of such component, or (y) (1) have been expended on such component of the Project Work not more than eighteen (18) months prior to the earlier of the date on which Participant's Portion of the Tax-Exempt Bond proceeds were expended thereon or the placed in service date of such component and (2) the aggregate amount of Project Costs not otherwise provided for is less than the amount of the Participant's Portion of the Tax-Exempt Bond proceeds expended on such component of the Project Work, the Participant shall, to the extent not inconsistent with the terms of such gift or grant, cause the Trustee to effect a redemption of the Participant's Portion of the Tax-Exempt Bonds in a principal amount equal to such gift or grant, but only to the extent to which proceeds of the Participant's Portion of the Tax-Exempt Bonds were expended for such component.

The Participant shall, prior to directing the redemption of any Tax-Exempt Bonds in accordance with the Loan Agreement as described under this heading, consult with Nationally Recognized Bond Counsel for advice as to a manner of selection of Tax-Exempt Bonds for redemption that will not affect the exclusion of interest on any Tax-Exempt Bonds then Outstanding from gross income for federal income tax purposes.

Right to Cure Issuer Defaults. The Issuer grants the Participant full authority for account of the Issuer to perform any covenant or obligation of the Issuer the non-performance of which is alleged to

constitute a default in any notice received by the Participant, in the name and stead of the Issuer, with full power of substitution.

Prohibition on the Purchase of Bonds. Neither the Participant nor any related person thereto shall purchase any Bonds for its own account during the term of the Loan Agreement, whether by direct negotiation through a broker or dealer, or by making a tender offer to the Holders thereof, or otherwise.

Investment of Funds. Any moneys held as part of the Rebate Fund, the Participant's Earnings Account, the Participant's Project Account, the Bond Fund, the Participant's Subaccount of the Tax-Exempt Bond Debt Service Reserve Account or the Participant's Renewal Account or in any special fund provided for in the Loan Agreement or in the Indenture to be invested in the same manner as in any said Fund, Account or Subaccount shall, at the written request of an Authorized Representative of the Participant or of the Program Facilitator on behalf of the Participant, be invested and reinvested by the Trustee as provided in the Indenture (but subject to the provisions of the Tax Regulatory Agreement). Neither the Issuer nor the Trustee nor any of their members, directors, officers, agents, servants or employees shall be liable for any depreciation in the value of any such investments or for any loss arising therefrom. Interest and profit derived from such investments shall be credited and applied as provided in the Indenture, and any loss resulting from such investments shall be similarly charged.

Force Majeure. In case by reason of *force majeure* the Issuer or the Participant shall be rendered unable wholly or in part to carry out its obligations under the Loan Agreement, then except as otherwise expressly provided in the Loan Agreement, if such party shall give notice and full particulars of such *force majeure* in writing to the other party within a reasonable time after occurrence of the event or cause relied on, the obligations of the party giving such notice (other than (i) the obligations of the Participant to make the loan payments or other payments required under the terms thereof, or (ii) the obligations of the Participant to comply with the provisions of the Loan Agreement regarding recapture of certain Issuer benefits, insurance or indemnity, so far as they are affected by such *force majeure*, shall be suspended during the continuance of the inability then claimed, which shall include a reasonable time for the removal of the effect thereof, but for no longer period, and such party shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "*force majeure*" shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, orders of any kind of the Government of the United States or of the State or any civil or military authority, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, storms, floods, washouts, droughts, arrest, restraining of government and people, war, terrorism, civil disturbances, explosions, partial or entire failure of utilities, shortages of labor, material, supplies or transportation, or any other similar or different cause not reasonably within the control of the party claiming such inability. Notwithstanding anything to the contrary in the Loan Agreement, in no event shall the Participant's financial condition or inability to obtain financing constitute a *force majeure*. It is understood and agreed that the requirements that any *force majeure* shall be reasonably beyond the control of the party and shall be remedied with all reasonable dispatch shall be deemed to be satisfied in the event of a strike or other industrial disturbance even though existing or impending strikes or other industrial disturbances could have been settled by the party claiming a *force majeure* under the Loan Agreement by acceding to the demands of the opposing person or persons.

The Participant shall promptly notify the Issuer and the Trustee upon the occurrence of each *force majeure*, describing such *force majeure* and its effects in reasonable detail. The Participant shall also promptly notify the Issuer and the Trustee upon the termination of each such *force majeure*. The information set forth in any such notice shall not be binding upon the Issuer or the Trustee, and the Issuer or the Trustee shall be entitled to dispute the existence of any *force majeure* and any of the contentions contained in any such notice received from the Participant.

Assignments and Pledge under Indenture. As security for the Participant's Portion of the Bonds and the obligations of the Participant under the Security Documents, (i) the Participant (and/or an Affiliate of the Participant) will mortgage its fee interest in the Mortgaged Property, if any, to the Issuer and the Trustee pursuant to the Mortgage, which will be assigned from the Issuer to the Trustee pursuant to the Assignment of Mortgage, and (ii) the Participant will assign its right, title and interest (but not its obligations) in the Prime Lease, if any, to the Issuer and the Trustee pursuant to the Collateral Assignment of Lease, which will be assigned by the Issuer to the Trustee pursuant to the Assignment of Collateral Assignment of Lease. Pursuant to the Indenture, the Issuer will pledge and assign the Promissory Note and the loan payments and certain other moneys receivable under the Loan Agreement to the Trustee as security for payment of the principal or Redemption Price, if applicable, of, Sinking Fund Installments for, and interest on the Participant's Portion of the Bonds.

The Participant shall never be liable for, and no Fund, Account or Subaccount (or portion thereof) created for the benefit of the Participant under the Indenture shall be used to cure, an Event of Default thereunder (other than an Event of Default of the Participant) and no amounts realized pursuant to the grant of the security interest under the Mortgage, if applicable, or to any other Security Document to which the Participant is a party shall be used to cure an Event of Default under the Loan Agreement or thereunder (other than an Event of Default of the Participant). The Participant consents to the above-described lien and security interest and pledge and assignment of the Loan Agreement.

Amendments. The Loan Agreement may be amended only with the concurring written consent of the Trustee given in accordance with the provisions of the Indenture and only by a written instrument executed by the parties thereto.

Third Party Beneficiaries. The Loan Agreement is executed in part to induce the purchase by others of the Bonds and for the further securing of the Participant's Portion of the Bonds, and accordingly all covenants and agreements on the part of the Issuer and the Participant as set forth in the Loan Agreement are to be for the benefit of the Holders from time to time of the Bonds and may be enforced as provided in the Indenture on behalf of the Bondholders by the Trustee.

Nothing in the Loan Agreement expressed or implied is intended or shall be construed to confer upon, or to give to, any Person, other than the Issuer, the Trustee, the Bond Registrar, the Participant, the Paying Agents and the Holders of the Bonds any right, remedy or claim under or by reason of the Loan Agreement or any covenant, condition or stipulation thereof. All the covenants, stipulations, promises and agreements contained in the Loan Agreement by and on behalf of the Issuer shall be for the sole and exclusive benefit of the Issuer, the Trustee, the Bond Registrar, the Participant, the Paying Agents and the Holders of the Bonds.

Recourse Under the Loan Agreement. All covenants, stipulations, promises, agreements and obligations of the Issuer contained in the Loan Agreement shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Issuer, and not of any member, director, officer, employee or agent of the Issuer or any natural person executing the Loan Agreement on behalf of the Issuer in such person's individual capacity, and no recourse shall be had for any reason whatsoever thereunder against any member, director, officer, employee or agent of the Issuer or any natural person executing the Loan Agreement on behalf of the Issuer. No recourse shall be had for the payment of the principal of, redemption premium, if any, Sinking Fund Installments for or interest on the Bonds or for any claim based thereon or thereunder against any member, director, officer, employee or agent of the Issuer or any natural person executing the Bonds. In addition, in the performance of the agreements of the Issuer in the Loan Agreement contained, any obligation the Issuer may incur for the payment of money shall not subject the Issuer to any pecuniary or other liability or create a debt of the State or the City, and neither the State nor the City shall be liable on any obligation so incurred and any such

obligation shall be payable solely out of amounts payable to the Issuer by the Participant under the Loan Agreement and under the Promissory Note.

Consents of the Trustee. Except as expressly provided to the contrary in the Loan Agreement or in any other Security Document, all provisions in the Loan Agreement regarding consents, directions, approvals or requests by the Trustee shall, for so long as any Bonds shall be Outstanding, be upon the written direction of the Directing Party.

APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture and is qualified in its entirety by reference to the Indenture.

Additional Bonds. So long as the applicable Promissory Note, the applicable Loan Agreement and the other applicable Security Documents are each in effect, one or more Series of Additional Bonds may be issued, authenticated and delivered upon original issuance for the purpose of (i) completing one or more of any Facility, (ii) providing funds in excess of Net Proceeds to repair, relocate, replace, rebuild or restore one or more of any Facility in the event of damage, destruction or taking by eminent domain, (iii) providing extensions, additions or improvements to one or more of any Facility, the purpose of which shall be for an Approved Project Operation, or (iv) refunding Outstanding Bonds. Such Additional Bonds shall be payable from the loan payments, receipts and revenues of the applicable Loan Agreement to be amended. Prior to the issuance of a Series of Additional Bonds and the execution of a Supplemental Indenture in connection therewith, (i) the Issuer and the applicable Participant(s) shall enter into an amendment to the applicable Loan Agreement(s), and the applicable Participant shall execute a new Promissory Note, which shall provide, among other things, that the loan payments payable under such Loan Agreement(s) and the aggregate amount to be paid under the Promissory Note shall be increased and computed so as to amortize in full the principal of and interest on such Additional Bonds and any other costs in connection therewith and (ii) only if the loan payment obligations with respect to such Additional Bonds constitute Non-PPA Indebtedness for a Participant, such Participant shall deliver to the Trustee either (I) a certificate of such Participant's chief executive officer or chief financial officer demonstrating a Total Debt Service Coverage Ratio of 1.25x for the most recent Fiscal Year for which audited financial statements exist or (II) a certificate of an independent certified public accountant not unacceptable to the Trustee demonstrating that the estimated Total Net Revenues Available for Debt Service for the first full Fiscal Year following the estimated completion of the capital additions or repairs financed with the proceeds of such additional Non-PPA Indebtedness, or following the incurrence of Non-PPA Indebtedness for other purposes, will support a Total Debt Service Coverage Ratio of not less than 1.25x. In calculating the required ratios for a Participant, the independent certified public accountant shall take into account the Additional Bonds allocable to such Participant. In addition, each of the applicable Participants and the Issuer shall enter into an amendment to each Security Document to which they are a party which shall provide that the amounts secured thereunder be increased accordingly so as to secure such Series of Additional Bonds.

Upon the request of the Participants, one or more Series of Additional Bonds may be authenticated and made available for pick-up upon original issuance to refund ("Refunding Bonds") all Outstanding Bonds or any Series of Outstanding Bonds or any part of one or more Series of Outstanding Bonds. Bonds of a Series of Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make such deposits required by the provisions of the Indenture and of the resolution authorizing said Series of Refunding Bonds. In the case of the refunding of less than all Bonds Outstanding of any Series or of any maturity within such Series, the Trustee shall proceed to select such Bonds in accordance with the Indenture.

Each Series of Additional Bonds issued pursuant to the Indenture shall be equally and ratably secured under the Indenture with the Series 2013A Bonds and all other Series of Additional Bonds, if any, issued pursuant to the Indenture, without preference, priority or distinction of any Bond over any other Bonds except as expressly provided in or permitted by the Indenture.

No Additional Bonds shall be issued unless there remain in effect the Loan Agreement and the Mortgage of the Participants that have not satisfied their respective loan payment obligations in accordance with their respective Loan Agreement and the Indenture and at the time of issuance there is no Event of Default nor any event which upon notice or lapse of time or both would become an Event of Default.

Payments Due on Saturdays, Sundays and Holidays. In any case where any payment date of principal, Sinking Fund Installment and/or interest on the Bonds, or the date fixed for redemption of any Bonds, shall be a day other than a Business Day, then payment of such principal, Sinking Fund Installment and/or interest or the Redemption Price, if applicable, need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the principal, Sinking Fund Installment and/or interest payment date or the date fixed for redemption, as the case may be, except that interest shall continue to accrue on any unpaid principal.

Creation of Funds and Accounts. The following special trust Funds, Accounts and Subaccounts are established under the Indenture, as applicable:

(1) Project Fund consisting of (a) Costs of Issuance Account; (b) separate Project Account for each Participant; and (c) separate Capitalized Interest Account for each applicable Participant; (2) Bond Fund consisting of (a) Principal Account; (b) Interest Account; (c) Redemption Account; (d) Sinking Fund Installment Account; and (e) separate Loan Payment Account for each Participant; (3) Renewal Fund consisting of a separate Account for each Participant; (4) Earnings Fund consisting of a separate Account for each Participant; (5) Rebate Fund; and (6) Debt Service Reserve Fund consisting of Tax-Exempt Bond Debt Service Reserve Account consisting of a separate Subaccount for each Participant.

All of the Funds, Accounts and Subaccounts created under the Indenture shall be held by the Trustee. All moneys required to be deposited with or paid to the Trustee for the credit of any Fund, Account or Subaccount under any provision of the Indenture and all investments made therewith shall be held by the Trustee in trust and applied only in accordance with the provisions of the Indenture, and while held by the Trustee shall constitute part of the Trust Estate (subject to the granting clauses of the Indenture), other than the Rebate Fund, and be subject to the lien thereof.

Project Fund. There shall be deposited in the applicable Accounts of the Project Fund any and all amounts required to be deposited therein pursuant to the provisions as described under the heading "Earnings Fund" below or otherwise required to be deposited therein pursuant to any Loan Agreement or the Indenture. The amounts in the Project Fund shall be subject to a security interest, lien and charge in favor of the Trustee until disbursed as provided in the Indenture.

The Trustee shall apply the amounts in a Participant's Capitalized Interest Account of the Project Fund for the payment of interest on the Tax-Exempt Bonds as the same shall become due until the earlier of the Completion Date for such Participant's Project (as evidenced in accordance with the Loan Agreement) or the exhaustion of amounts in such Account (the "Capitalized Interest Period"). On each Interest Payment Date during the Capitalized Interest Period, the Trustee shall transfer from the Participant's Capitalized Interest Account of the Project Fund to the Interest Account of the Bond Fund an amount which, together with any amounts on deposit in such Account and available therefor, shall be sufficient to pay the interest on the Tax-Exempt Bonds becoming due on such Interest Payment Date. Upon the Completion Date for such Participant's Project, the Trustee shall transfer any balance remaining in the Participant's Capitalized Interest Account of the Project Fund, first, to the Participant's Project Account of the Project Fund to pay any remaining Project Costs and, second, the balance to the Redemption Account of the Bond Fund.

The Trustee shall apply the amounts on deposit in each Project Account of the Project Fund to the payment or reimbursement, to the extent the same have been paid by or on behalf of the applicable Participant or the Issuer, of Project Costs to the extent requisitioned under the Indenture in accordance with the Loan Agreement and the Tax Regulatory Agreement.

The Trustee is authorized to disburse from each Participant's Project Account of the Project Fund the amount required for the payment of Project Costs related to such Participant's Project and is directed to issue its checks (or, at the direction of the Participant, make wire transfers) for each disbursement from such Participant's Project Account, upon a requisition submitted to the Trustee and signed by an Authorized Representative of such Participant; provided, however, that in connection with those Projects not completed and not operating on the Closing Date, the Trustee shall retain in such Participant's Project Account an amount equal to the greater of (y) \$60,000 and (z) the lesser of \$500,000 and one percent (1%) of the original amount deposited in such Project Account allocated separately to such incomplete Project with respect to a Facility as certified to the Trustee by such Participant or its counsel (or as otherwise provided in the Indenture), until an Authorized Representative of such Participant (i) shall file the completion certificate for such Facility as provided in the Loan Agreement and the Indenture, and (ii) shall submit a requisition as set forth therein for the release of the final payment of Project Costs related to such Facility. The Trustee shall not be required to issue such disbursement sooner than five (5) Business Days after the submission of such requisition.

In the event a Participant shall be required to or shall elect to cause the Bonds allocable to such Participant to be redeemed in whole pursuant to such Participant's Loan Agreement, the balance in such Participant's Capitalized Interest Account and such Participant's Project Account, together with the balance in the Participant's Subaccount in the Tax-Exempt Bond Debt Service Reserve Account and the balance in the Participant's Account in the Earnings Fund (after making any transfer to the Rebate Fund as directed pursuant to the Tax Regulatory Agreement and the provisions as described under the heading "Rebate Fund" below), shall be deposited in the Redemption Account of the Bond Fund. In the event the unpaid principal amount of the Bonds allocable to a Participant shall be accelerated upon the occurrence of an Event of Default described in the Indenture caused by such Participant, the balance in such Participant's Capitalized Interest Account and such Participant's Project Account, together with the balance in the Participant's Subaccount in the Tax-Exempt Bond Debt Service Reserve Account and in the Participant's Account in the Earnings Fund (after making any transfer to the Rebate Fund as directed pursuant to the Tax Regulatory Agreement and the provisions as described under the heading "Rebate Fund" below) shall be deposited in the Bond Fund as provided in the provisions as described under the heading "Application of Revenues and Other Moneys After Default".

Except as provided in the provisions as described under the heading "Earnings Fund" below, all earnings on amounts held in a Participant's Project Account shall be transferred by the Trustee and deposited in the Participant's Account in the Earnings Fund. Any transfers by the Trustee of amounts to the Rebate Fund shall first be drawn by the Trustee from the Participant's Account in the Earnings Fund prior to drawing any amounts from the Participant's Project Account in the Project Fund.

The Trustee shall apply the amounts on deposit in the Costs of Issuance Account of the Project Fund to the payment of Costs of Issuance incurred in connection with the issuance of Bonds; provided that Costs of Issuance paid from the Costs of Issuance Account shall not include any Costs of Issuance which are unique to a particular Participant. Costs of Issuance which are unique to a particular Participant shall be paid from such Participant's Project Account.

The Trustee is authorized to disburse from the Costs of Issuance Account the amount required for the payment of Costs of Issuance described in the preceding paragraph. The Trustee is directed to issue its checks (or, at the direction of the Issuer, make wire transfers) for each disbursement from the Costs of

Issuance Account upon a requisition submitted to the Trustee and signed by the Issuer. The Trustee shall be entitled to rely conclusively on the correctness and accuracy of such requisition as well as the propriety of the signature thereon.

Renewal Fund. The Net Proceeds resulting from any Loss Event with respect to a Participant's Facility, together with any other amounts so required to be deposited therein under such Participant's Loan Agreement or such Participant's Mortgage, shall be deposited in such Participant's Account in the Renewal Fund (except as otherwise provided in the Mortgage). The amounts in the Renewal Fund shall be subject to a security interest, lien and charge in favor of the Trustee until disbursed as described under this heading.

In the event the Bonds allocable to a Participant shall be subject to redemption in whole or in part (either by reason of such Loss Event or otherwise) pursuant to the terms thereof or the Indenture, and such Participant shall have so directed the Trustee in writing within ninety (90) days of the occurrence of such Loss Event, the Trustee shall, after making any transfer to the Rebate Fund as directed pursuant to the Tax Regulatory Agreement and the provisions as described under the heading "Rebate Fund" below, transfer the amounts deposited in such Participant's Account in the Renewal Fund to the Redemption Account of the Bond Fund to be applied to the extent sufficient to effect the redemption of Bonds allocable to such Participant at the earliest practicable date as provided in the Indenture.

If, on the other hand, (A) such Bonds shall not be subject to optional redemption in whole or in part (whether by reason of such Loss Event or otherwise), or (B) such Bonds shall be subject to optional redemption in whole or in part (whether by reason of such Loss Event or otherwise) and such Participant shall have failed to direct the Trustee, within ninety (90) days of the occurrence of the Loss Event, to transfer the amounts deposited in such Participant's Account in the Renewal Fund to the Redemption Account of the Bond Fund to be applied to the extent sufficient to effect the redemption of Bonds allocable to such Participant at the earliest applicable date as provided in the Indenture, or (C) such Participant shall have notified the Trustee of its intent to rebuild, replace, repair and restore its Facility, the Trustee shall apply the amounts on deposit in such Participant's Account in the Renewal Fund, after making any transfer to the Rebate Fund as directed pursuant to the Tax Regulatory Agreement and the provisions as described under the heading "Rebate Fund" below, to such rebuilding, replacement, repair and restoration.

If an Event of Default shall exist at the time of the receipt by the Trustee of the Net Proceeds in the Renewal Fund, the Trustee shall promptly request the specific written direction of the Holders of a majority in aggregate principal amount of the Bonds Outstanding affected by such Event of Default, and shall thereupon apply such Net Proceeds, after making any transfer to the Rebate Fund as directed pursuant to the Tax Regulatory Agreement and the provisions as described under the heading "Rebate Fund" below, to the rebuilding, replacement, repair and restoration of the applicable Facility, or for deposit in the Redemption Account of the Bond Fund as directed by the Holders of a majority in aggregate principal amount of the Bonds Outstanding affected by such Event of Default (or, if no such direction shall be received within ninety (90) days after request therefor by the Trustee shall have been made, for deposit in the Redemption Account of the Bond Fund to be applied to the extent sufficient to effect the redemption of Bonds allocable to such Participant at the earliest applicable date as provided in the Indenture).

The Trustee is authorized to apply the amounts in a Participant's Account in the Renewal Fund to the payment (or reimbursement to the extent the same have been paid by or on behalf of such Participant or the Issuer) of the costs required for the rebuilding, replacement, repair and restoration of such Participant's Facility upon specific written instructions from such Participant. The Trustee is further authorized and directed to issue its checks for each disbursement from a Participant's Account in the

Renewal Fund upon a requisition submitted to the Trustee and signed by an Authorized Representative of such Participant.

All earnings on amounts on deposit in a Participant's Account in the Renewal Fund shall be transferred by the Trustee and deposited in such Participant's Account in the Earnings Fund. Any transfers by the Trustee of amounts to the Rebate Fund shall first be drawn by the Trustee from a Participant's Account in the Earnings Fund prior to drawing any amounts from such Participant's Account in the Renewal Fund.

Any surplus remaining in a Participant's Account in the Renewal Fund after the completion of the rebuilding, replacement, repair and restoration of such Participant's Facility shall, after making any transfer to the Rebate Fund as directed pursuant to the Tax Regulatory Agreement and the provisions as described under the heading "Rebate Fund" below, and after depositing in such Participant's Tax-Exempt Bond Debt Service Reserve Subaccount an amount equal to any deficiency therein, be transferred by the Trustee to the Redemption Account of the Bond Fund to be applied to the extent sufficient to effect the redemption of Bonds allocable to such Participant at the earliest practicable date as provided in the Indenture.

Bond Fund. The Trustee shall promptly deposit the following receipts into the designated Account or Subaccount of the Bond Fund:

(a) The interest accruing on any Series of Bonds from the date of original issuance thereof to the date of delivery, if any, which shall be credited to the Interest Account of the Bond Fund and applied to the payment of interest on such Series of Bonds.

(b) Excess or remaining amounts in an Account in the Project Fund to be deposited (i) in the Redemption Account of the Bond Fund, which shall be kept segregated from any other moneys within such Account, or (ii) in the Bond Fund.

(c) Amounts in an Account in the Renewal Fund to be deposited to the Redemption Account of the Bond Fund.

(d) Loan payments received by the Trustee pursuant to any Loan Agreement, which shall be deposited in the applicable Participant's Loan Payment Account.

(e) Advance loan payments received by the Trustee pursuant to any Loan Agreement, which shall be deposited in and credited to the Redemption Account of the Bond Fund.

(f) Any amounts transferred from a Participant's Account in the Earnings Fund pursuant to the third paragraph under the heading "Earnings Fund" below, which shall be deposited in and credited to such Participant's Loan Payment Account of the Bond Fund.

(g) Any amounts transferred from a Participant's Tax-Exempt Bond Debt Service Reserve Subaccount, which shall be deposited in and credited to the Interest Account, the Principal Account, the Sinking Fund Installment Account or the Redemption Account, as the case may be, of the Bond Fund, and applied only to the payment of the Tax-Exempt Bonds allocable to such Participant.

(h) The excess amounts referred to in the fourth paragraph under the heading "Application of Bond Fund Moneys" below, which shall be deposited in and credited to the Loan Payment Account of the applicable Participant.

(i) Any amounts transferred from the Redemption Account pursuant to the seventh paragraph under the heading "Application of Bond Fund Moneys" below, which shall be deposited to the Loan Payment Account of the Participant to which such amounts are attributable.

(j) All other receipts when and if required by any Loan Agreement or by the Indenture or by any other Security Document to be paid into the Bond Fund, which shall be credited (except as provided in the provisions as described under the heading "Application of Revenue and Other Moneys After Default") to the Redemption Account of the Bond Fund.

(k) Amounts disbursed from a Participant's Capitalized Interest Account of the Project Fund for the payment of interest on the Tax-Exempt Bonds during the Capitalized Interest Period, which shall be credited to the Interest Account of the Bond Fund and applied to the payment of interest on the Tax-Exempt Bonds.

Application of Bond Fund Moneys. The Trustee shall (i) on each Interest Payment Date pay or cause to be paid out of the Interest Account in the Bond Fund the interest due on the Bonds, and (ii) further pay out of the Interest Account of the Bond Fund any amounts required for the payment of accrued interest upon any purchase or redemption (including any mandatory Sinking Fund Installment redemption) of Bonds.

The Trustee shall on each principal payment date on the Bonds pay or cause to be paid to the respective Paying Agents therefor out of the Principal Account of the Bond Fund, the principal amount, if any, due on the Bonds (other than such as shall be due by mandatory Sinking Fund Installment redemption), upon the presentation and surrender of the requisite Bonds (such presentation and surrender not being required if Cede & Co. is the Holder of the Bonds).

There shall be paid from the Sinking Fund Installment Account of the Bond Fund to the Paying Agents on each Sinking Fund Installment payment date in immediately available funds the amounts required for the Sinking Fund Installment due and payable with respect to Bonds which are to be redeemed from Sinking Fund Installments on such date (accrued interest on such Bonds being payable from the Interest Account of the Bond Fund). Such amounts shall be applied by the Paying Agents to the payment of such Sinking Fund Installment when due. The Trustee shall call for redemption, in the manner provided in the Indenture, Bonds for which Sinking Fund Installments are applicable in a principal amount equal to the Sinking Fund Installment then due with respect to such Bonds. Such call for redemption shall be made even though at the time of mailing of the notice of such redemption sufficient moneys therefor shall not have been deposited in the Bond Fund.

Amounts in the Redemption Account of the Bond Fund shall be applied, at the specific written direction of a Participant, as promptly as practicable, to the purchase of Bonds allocable to such Participant at prices not exceeding the Redemption Price thereof applicable on the earliest date upon which such Bonds are next subject to redemption pursuant to the Indenture, plus accrued interest to the date of redemption. Any amount in the Redemption Account not so applied to the purchase of Bonds allocable to such Participant by forty-five (45) days prior to the next date on which such Bonds are so redeemable shall be applied to the redemption of such Bonds on such redemption date. Any amounts deposited in the Redemption Account and not applied within twelve (12) months of their date of deposit to the purchase or redemption of Bonds allocable to such Participant (except if held in accordance with the defeasance provisions under the Indenture) shall be transferred to the Loan Payment Account of the applicable Participant. Upon the purchase of any Bonds by a Participant out of advance loan payments as provided in this paragraph, or upon the redemption by a Participant of any Bonds, an amount equal to the principal of such Bonds so purchased or redeemed shall be credited against the next ensuing and future Sinking Fund Installments for such Bonds in direct chronological order (unless the Participant shall

instruct the Trustee in writing to credit such purchases in a different order) of the due dates of such Sinking Fund Installments until the full principal amount of such Bonds so purchased or redeemed shall have been so credited. The portion of any such Sinking Fund Installment remaining after the deduction of such amounts so credited shall constitute and be deemed to be the amount of such Sinking Fund Installment for the purposes of any calculation thereof under the Indenture. The Bonds to be purchased or redeemed shall be selected by the Trustee in the manner provided in the Indenture. Amounts in the Redemption Account to be applied to the redemption of Bonds shall be paid to the respective Paying Agents on or before the redemption date and applied by them on such redemption date to the payment of the Redemption Price of the Bonds being redeemed plus interest on such Bonds accrued to the redemption date.

In connection with purchases of Bonds out of the Bond Fund as described under this heading, a Participant shall arrange and the Trustee shall execute such purchases (through brokers or otherwise, and with or without receiving tenders) at the specific written direction of such Participant. The payment of the purchase price shall be made out of the moneys deposited in the Redemption Account of the Bond Fund and the payment of accrued interest shall be made out of moneys deposited in the Interest Account of the Bond Fund.

The Issuer shall receive a credit in respect of Sinking Fund Installments for any Bonds which are subject to mandatory Sinking Fund Installment redemption and which are delivered by the Issuer or a Participant to the Trustee on or before the forty-fifth (45th) day next preceding any Sinking Fund Installment payment date and for any Bonds which prior to said date have been purchased or redeemed (otherwise than through the operation of the Sinking Fund Installment Account) and cancelled by the Trustee and not theretofore applied as a credit against any Sinking Fund Installment. Each Bond so delivered, cancelled or previously purchased or redeemed shall be credited by the Trustee at one hundred percent (100%) of the principal amount thereof against the obligation of the Issuer on such Sinking Fund Installment payment date with respect to Bonds of such Series and maturity and the principal amount of such Bonds to be redeemed by operation of the Sinking Fund Installment Account on the due date of such Sinking Fund Installment shall be reduced accordingly, and any excess over such principal amount shall be credited on future Sinking Fund Installments in direct chronological order, and the principal amount of Bonds to be redeemed by application of Sinking Fund Installment payments shall be accordingly reduced.

Moneys in the Redemption Account of the Bond Fund which are not set aside or deposited for the redemption or purchase of Bonds shall be transferred by the Trustee to the Loan Payment Account of the Participant to which such amounts are attributable.

The Trustee shall on the Business Day before (1) each Interest Payment Date transfer from each Participant's Loan Payment Account to the Interest Account an amount equal to the interest due and payable on the Bonds allocable to such Participant and (2) each Interest Payment Date which is also a principal payment date or Sinking Fund Installment payment date transfer from each Participant's Loan Payment Account to the Principal Account or the Sinking Fund Installment Account, as applicable, an amount equal to such principal or Sinking Fund Installment due and payable on the Bonds allocable to such Participant.

Debt Service Reserve Fund. If on any Interest Payment Date or redemption date on the Tax-Exempt Bonds the amount in the Interest Account of the Bond Fund available to pay interest on the Tax-Exempt Bonds (after taking into account amounts available to be transferred to the Interest Account from the Project Fund) shall be less than the amount of interest then due and payable on the Tax-Exempt Bonds, or if on any principal payment date on the Tax-Exempt Bonds the amount in the Principal Account available to pay principal on the Tax-Exempt Bonds shall be less than the amount of principal of the Tax-Exempt Bonds then due and payable, or if on any Sinking Fund Installment payment date for the

Tax-Exempt Bonds the amount in the Sinking Fund Installment Account of the Bond Fund available to pay Sinking Fund Installments on the Tax-Exempt Bonds shall be less than the amount of the Sinking Fund Installment then due and payable on the Tax-Exempt Bonds, in each case, after giving effect to all payments received by the Trustee in immediately available funds by 10:00 A.M. (New York City time) on such date from or on behalf of the Participants or the Issuer on account of such interest, principal or Sinking Fund Installment on the Tax-Exempt Bonds, the Trustee forthwith shall transfer moneys from the Subaccount of the Tax-Exempt Bond Debt Service Reserve Account in the Debt Service Reserve Fund allocable to the Participant to which such deficiency shall relate, first, to such Interest Account, second to such Principal Account, and third, to such Sinking Fund Installment Account, all to the extent necessary to make good any such deficiency; provided, however, any such moneys so transferred from a Subaccount in the Tax-Exempt Bond Debt Service Reserve Account shall only be applied to payment of the Tax-Exempt Bonds.

The Trustee shall give to each Participant on or prior to each Loan Payment Date on which the Participant is obligated pursuant to the Loan Agreement to pay to the Trustee amounts in respect of (i) principal or Redemption Price of, any Sinking Fund Installment for, or any interest on, any Bonds or (ii) any deficiency in such Participant's Tax-Exempt Bond Debt Service Reserve Subaccount, telephonic notice (to be promptly confirmed in writing) specifying (y) the amounts to become due and payable by such Participant to the Trustee on such date in respect of each of the principal or Redemption Price of, Sinking Fund Installment for, and interest on any Bonds and any such deficiency in such Participant's Tax-Exempt Bond Debt Service Reserve Subaccount and (z) the amounts then available in any of the Funds or Accounts held by the Trustee under the Indenture for the payment of any such amount. The failure of the Trustee to deliver such notice or any defect in such notice shall not relieve the Issuer from any of its obligations under the Indenture or any Participant from any of its obligations under any of the Security Documents.

Whenever the amount on deposit in a Participant's Tax-Exempt Bond Debt Service Reserve Subaccount, together with the amount in such Participant's Loan Payment Account, is sufficient to pay in full all Outstanding Tax-Exempt Bonds allocable to such Participant, the amount on deposit in such Participant's Tax-Exempt Bond Debt Service Reserve Subaccount shall be transferred to such Participant's Loan Payment Account, provided, however, that the amounts so transferred from such Subaccount shall only be applied to the payment of the Tax-Exempt Bonds.

Earnings Fund. The amounts in the Earnings Fund shall be subject to a security interest, lien and charge in favor of the Trustee for the benefit of the Holders of the Bonds until disbursed as provided in the Indenture.

All investment income or earnings on amounts held in a Participant's Project Account in the Project Fund, a Participant's Tax-Exempt Bond Debt Service Reserve Subaccount, a Participant's Account in the Renewal Fund or any other special Fund, Account or Subaccount created for the benefit of a Participant (other than the Rebate Fund or the Bond Fund) shall be deposited upon receipt by the Trustee into such Participant's Account in the Earnings Fund; provided, however, there shall not be deposited in such Participant's Account in the Earnings Fund any amounts received from the investment of moneys in obligations described in Section 103(a) of the Code which are also not specified private activity bonds within the meaning of Section 57(a)(5)(C) of the Code. The Trustee shall keep separate accounts of all amounts deposited in each Account of the Earnings Fund and by journal entry indicate the Fund, Account and Subaccount, as applicable, source of the income or earnings.

On the first Business Day following the receipt by the Trustee of a certificate of written direction from an Authorized Representative of the Program Facilitator delivered by the Program Facilitator to the Trustee pursuant to the Tax Regulatory Agreement, including certifying that the Yield (as defined in the

Tax Regulatory Agreement) on the Nonpurpose Investments (as defined in the Tax Regulatory Agreement) does not exceed the Yield on the Tax-Exempt Bonds, the Trustee shall withdraw from the related Participant's Account in the Earnings Fund that amount, if any, as is directed by such certificate to be deposited in the Rebate Fund and deposit, to the extent available, such amount in the Rebate Fund. Any amounts remaining in such Participant's Account of the Earnings Fund following such transfer will be deposited into such Participant's Project Account of the Project Fund until completion of such Participant's Project and to such Participant's Loan Payment Account thereafter.

Rebate Fund. The Rebate Fund and the amounts deposited therein shall not be subject to a security interest, pledge, assignment, lien or charge in favor of the Trustee, any Bondholder or any other Person.

The Trustee, on the first Business Day following the receipt of a certificate of written direction from an Authorized Representative of the Program Facilitator pursuant to the Tax Regulatory Agreement, including certifying that the Yield (as defined in the Tax Regulatory Agreement) on the Nonpurpose Investments (as defined in the Tax Regulatory Agreement) does not exceed the Yield on the Tax-Exempt Bonds, shall deposit in the Rebate Fund that amount from the named Participant's Account in the Earnings Fund, to the extent available, as shall be so specified in such certificate of written direction. If there has been delivered to the Trustee a certification of the Rebate Amount (as defined in the Tax Regulatory Agreement) in conjunction with the completion of such Participant's Project or the restoration of such Participant's Facility, pursuant to such Participant's Loan Agreement or the Indenture, the Trustee shall at the specific written direction of an Authorized Representative of the Program Facilitator deposit in the Rebate Fund such amount so specified in such certification as required in order that the amount held in the Rebate Fund after such deposit is equal to the Rebate Amount calculated at the completion of such Participant's Project or the restoration of such Participant's Facility as aforesaid. The amount deposited in the Rebate Fund pursuant to the previous sentences shall be withdrawn from the named Participant's Account in the Earnings Fund.

In the event that the amount on deposit in the Rebate Fund exceeds the Rebate Amount as determined in accordance with the Tax Regulatory Agreement, the Trustee, upon the receipt of written instructions from an Authorized Representative of the Program Facilitator, shall, after the completion date of a Participant's Project, withdraw such excess amount and deposit in each Participant's Loan Payment Account the amount of such excess equal to the Participant's Portion thereof of such Participant as such amount is so set forth in such written instructions from the Program Facilitator.

The Trustee, upon the receipt of written instructions from an Authorized Representative of the Program Facilitator, shall pay to the United States, out of amounts in the Rebate Fund, (i) not less frequently than once each five (5) years after the Closing Date, an amount such that, together with prior amounts paid to the United States, the total paid to the United States is equal to 90% of the Rebate Amount with respect to the Tax-Exempt Bonds as of the date of such payment and (ii) notwithstanding the defeasance provisions of the Indenture, not later than thirty (30) days after the date on which all Tax-Exempt Bonds have been paid in full, 100% of the Rebate Amount as of the date of payment.

Transfer to Rebate Fund. The Trustee shall have no obligation under the Indenture to transfer any amounts to the Rebate Fund unless the Trustee shall have received specific written instructions from the Program Facilitator to make such transfer.

Investment of Funds and Accounts. Amounts in any Fund, Account or Subaccount established under the Indenture may, if and to the extent then permitted by law, be invested only in Qualified Investments, provided that the weighted average maturity of investments in the Debt Service Reserve Fund may not exceed ten (10) years at any time unless such Qualified Investment shall mature or be

subject to redemption by the holder of such Qualified Investment, without penalty, not later than the date when the amounts will be needed by the Trustee to pay debt service payments on the Bonds on any Interest Payment Date. Any investment authorized in the Indenture is subject to the condition that no portion of the proceeds derived from the sale of the Bonds shall be used, directly or indirectly, in such manner as to cause any Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code. Moneys deposited in the Redemption Account of the Bond Fund pursuant to the provisions described in the fifth paragraph under the heading "Project Fund" above shall not be invested at a Yield (as defined in the Tax Regulatory Agreement) which is greater than the Yield on the Tax-Exempt Bonds except to the extent invested in obligations the interest on which is not included in gross income for federal income tax purposes and that is also not an item of tax preference under Section 57(a)(5)(c) of the Code. Such investments shall be made by the Trustee only at the specific written request of an Authorized Representative of the Program Facilitator (including telecopy); and if such investment is to be in one or more certificates of deposit, then such written request shall include written assurance to the effect that such investment complies with the Tax Regulatory Agreement. Any investment under the Indenture shall be made in accordance with the Tax Regulatory Agreement, and the Program Facilitator shall so certify to the Trustee with each such investment direction as referred to below. Such investments shall mature in such amounts and at such times as may be necessary to provide funds when needed to make payments from the applicable Fund, Account or Subaccount. Net income or gain received and collected from such investments shall be credited and losses charged to (i) the Rebate Fund with respect to the investment of amounts held in the Rebate Fund, (ii) the Bond Fund with respect to the investment of amounts held in the Bond Fund, and (iii) the related Participant's Account in the Earnings Fund with respect to the investment of amounts held in any other Fund, Account or Subaccount.

No sooner than ten (10) days prior to each Loan Payment Date under the Loan Agreement, the Trustee shall notify such Participant of the amount of such net investment income or gain received and collected subsequent to the last such loan payment and the amount then available in the various Accounts and Subaccounts of the Bond Fund, the Earnings Fund and the Debt Service Reserve Fund.

Upon the specific written direction of an Authorized Representative of the Program Facilitator, the Trustee shall sell at the best price reasonably obtainable by it, or present for redemption or exchange, any obligations in which moneys shall have been invested to the extent necessary to provide cash in the respective Funds, Accounts or Subaccounts, to make any payments required to be made therefrom, or to facilitate the transfers of moneys or securities between various Funds, Accounts and Subaccounts as may be required from time to time pursuant to the provisions of the Indenture. The Trustee shall not be liable for losses, fees, taxes or other charges incurred as a result of actions taken in good faith in accordance with this paragraph. As soon as practicable after any such sale, redemption or exchange, the Trustee shall give notice thereof to the Issuer and the Program Facilitator.

In the case of a Tax-Exempt Bond Debt Service Reserve Subaccount, a "surplus" means the amount by which the amount on deposit therein is in excess of the related Participant's Tax-Exempt Bond Debt Service Reserve Subaccount Requirement. On each Valuation Date and upon any withdrawal from a Tax-Exempt Bond Debt Service Reserve Subaccount, the Trustee shall determine the amount on deposit in the Subaccounts in the Tax-Exempt Bond Debt Service Reserve Account. If on any such date a deficiency in any such Subaccount exists, the Trustee shall notify the Issuer and the related Participant of such deficiency and that such deficiency must be replenished by such Participant by depositing, commencing with the month immediately following the creation of such deficiency, the amount of such deficiency in accordance with loan payment provisions of its Loan Agreement. If a surplus exists, the Trustee shall notify the Issuer and the Program Facilitator thereof and, subject to the requirements of the Tax Regulatory Agreement, shall, upon written instructions of the Program Facilitator, withdraw such surplus amount and deposit the amount of such surplus to such Participant's Project Account of the

Project Fund prior to the completion of such Participant's Project, and thereafter to such Participant's Loan Payment Account in the Bond Fund.

Neither the Trustee nor the Issuer shall be liable for any loss, fee, tax or other charge arising from, or any depreciation in the value of any obligations in which moneys of the Funds, Accounts and Subaccounts shall be invested in accordance with the Indenture or in connection with any liquidation of an investment thereunder. The investments authorized by the Indenture shall at all times be subject to the provisions of applicable law, as amended from time to time.

In computing the amount in any Fund, Account or Subaccount, obligations purchased as an investment of moneys therein shall be valued as provided in the definition of "Qualified Investments".

Application of Moneys in Certain Funds for Retirement of Bonds. Notwithstanding any other provisions of the Indenture, if on any Interest Payment Date or redemption date the amounts held in the Funds established under the Indenture (other than the Earnings Fund and the Rebate Fund) are sufficient to pay one hundred percent (100%) of the Redemption Price of all Outstanding Bonds and the interest accruing on such Bonds to the next date on which such Bonds are redeemable or payable, as the case may be, whichever is earlier, the Trustee shall so notify the Issuer and the Program Facilitator. Upon receipt of written instructions from the Program Facilitator directing such redemption or payment, the Trustee shall proceed to redeem all such Outstanding Bonds in the manner provided for redemption of such Bonds by the Indenture.

Moneys to be Held in Trust. All moneys required to be deposited with or paid to the Trustee for the credit of any Fund, Account or Subaccount under any provision of the Indenture and all investments made therewith shall be held by the Trustee in trust for the benefit of the Bondholders, subject to the Indenture as described under the heading "Separation of Liability" below, and while held by the Trustee constitute part of the Trust Estate, other than the Rebate Fund, and be subject to the lien of the Indenture.

Payment to the Participants from the Funds. After payment in full of the Bonds or Bonds allocable to a Participant (in accordance with the defeasance provisions under the Indenture) and the payment of all fees, charges and expenses of the Issuer, the Trustee, the Bond Registrar, the Paying Agents and the Program Facilitator and all other amounts required to be paid under each of the other Security Documents, and the payment of any amounts which the Trustee is directed to rebate to the federal government pursuant to the Indenture and the Tax Regulatory Agreement, all amounts remaining in any Fund, Account or Subaccount allocated to a Participant shall be paid to the applicable Participant upon the expiration or sooner or later termination of the term of its Loan Agreement as provided therein.

Non-presentment of Bonds. In the event any Bond shall not be presented for payment when the principal thereof becomes due, either at maturity, or at the date fixed for redemption thereof, or otherwise, together with interest to the date on which principal is due, and funds sufficient to pay any such Bond shall have been made available to the Trustee for the benefit of the Holder or Holders thereof, all liability of the Issuer to the Holder thereof for the payment of such Bond shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Trustee to pay such funds to the Person entitled thereto or if the Person is not known to the Trustee, to hold such funds, without liability for interest thereon, for the benefit of the Holder of such Bond, who shall thereafter be restricted exclusively to such funds, for any claim of whatever nature on his part under the Indenture or on, or with respect to, such Bond. Such amounts so held shall, pending payment to the Holder of such Bond, (y) be subject to any rebate requirement as set forth in the Tax Regulatory Agreement or the Indenture, and (z) shall be uninvested, or, if invested, invested or re-invested only in Government Obligations maturing within thirty (30) days. Funds remaining with the Trustee as above and unclaimed for the earlier of two (2) years or one month less than the applicable statutory escheat period shall be paid to the applicable Participant.

After the payment of such unclaimed moneys to the applicable Participant, the Holder of such Bond shall thereafter look only to the applicable Participant for the payment thereof, and all obligations of the Trustee or such Paying Agent with respect to such moneys shall thereupon cease.

Moneys Held for Particular Bonds. The amounts held by the Trustee or Paying Agents for the payment of the principal or Redemption Price, if any, of, Sinking Fund Installments for, and interest due on any date with respect to particular Bonds shall, on and after such date and pending such payment, and subject to any rebate requirement as set forth in the Tax Regulatory Agreement or the Indenture, be set aside on its books and held in trust by it for the Holders of the Bonds entitled thereto. Such amounts so held shall be uninvested.

Selection of Bonds to be Redeemed. In the event of redemption of less than all the Outstanding Bonds of the same Series and maturity, the particular Bonds or portions thereof to be redeemed shall be selected by the Trustee from among Bonds of each maturity to be redeemed in \$5,000 increments in such manner as the Trustee in its discretion may deem fair and equitable, except that Bonds to be redeemed from Sinking Fund Installments shall be redeemed by lot, provided, however, that the Trustee shall not select Bonds for redemption which would result in a Holder with a principal amount of Bonds less than the minimum denomination to the extent practicable. In the event of a redemption of less than all the Outstanding Bonds of the same Series stated to mature on different dates, the principal amount of such Series of Bonds to be redeemed from a given maturity shall be selected by the Participant causing the redemption applied in inverse order of maturity, in consultation with the Program Facilitator, of the Outstanding Series of Bonds to be redeemed and by lot within a maturity, provided that in selecting the principal amount of Bonds to be redeemed from a given maturity, the Participant shall specifically designate in writing principal amounts so as to minimize the number of Bonds Outstanding in amounts of less than \$100,000. The portion of Bonds of any Series to be redeemed in part shall be in the principal amount of an authorized denomination thereof to the extent practicable and, in selecting Bonds of a particular Series for redemption, the Trustee shall treat each such Bond as representing that number of Bonds of such Series which is obtained by dividing the principal amount of such registered Bond by \$5,000 (referred to below as a "unit"). If it is determined that one or more, but not all, of the units of principal amount represented by any such Bond is to be called for redemption, then, upon notice of intention to redeem such unit or units, the Holder of such Bond shall forthwith surrender such Bond to the Trustee for (a) payment to such Holder of the Redemption Price of the unit or units of principal amount called for redemption and (b) delivery to such Holder of a new Bond or Bonds of such Series in the aggregate unpaid principal amount of the unredeemed balance of the principal amount of such Bond. New Bonds of the same Series and maturity representing the unredeemed balance of the principal amount of such Bond shall be issued to the registered Holder thereof, without charge therefor. If the Holder of any such Bond of a denomination greater than a unit shall fail to present such Bond to the Trustee for payment and exchange as aforesaid, such Bond shall, nevertheless, become due and payable on the date fixed for redemption to the extent of the unit or units of principal amount called for redemption (and to that extent only).

Payment of Redeemed Bonds. Notice having been given in the manner provided in the Indenture, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption dates so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof to be redeemed, together with interest to the redemption date, shall be held by the Paying Agents so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date, (a) interest on the Bonds or portions thereof so called for redemption shall cease to accrue and become payable, (b) the Bonds or portions thereof so called for redemption shall cease to be entitled to any lien, benefit or security under the Indenture, and (c) the Holders of the Bonds or portions thereof so called for redemption shall have no rights in respect thereof, except to receive payment of the

Redemption Price together with interest accrued to the redemption date. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Payment of the Redemption Price plus interest accrued to the redemption date shall be made to or upon the order of the registered owner only upon presentation of such Bonds for cancellation and exchange as provided in the Indenture; provided, however, that any Holder of at least \$1,000,000 in aggregate principal amount of the Bonds may, by written request to the Trustee no later than five (5) days prior to the date of redemption, direct that payments of Redemption Price and accrued interest to the date of redemption be made by wire transfer as soon as practicable after tender of the Bonds in Federal funds at such wire transfer address as the owner shall specify to the Trustee in such written request.

No Partial Redemption After Default. Anything in the Indenture to the contrary notwithstanding, if there shall have occurred and be continuing an Event of Default under clause (i) or (ii) under the heading "Events of Default; Acceleration of Due Date" above but no "Event of Default" shall exist under any Related Security Document, there shall be no redemption of less than all of the Bonds Outstanding. If there shall have occurred and be continuing an Event of Default described in clause (iv) under the heading "Events of Default; Acceleration of Due Date" above, the Participant giving rise to such Event of Default may only initiate redemption of all Outstanding Bonds allocable to such Participant or a redemption of less than all Outstanding Bonds allocable to such Participant if such partial redemption shall cure such Event of Default.

Payment of Principal and Interest. The Issuer covenants in the Indenture that it will from the sources contemplated in the Indenture promptly pay or cause to be paid the principal of, Redemption Price, if applicable, Sinking Fund Installments for, and interest on the Bonds, together with interest accrued thereon to the date of redemption, at the place, on the dates and in the manner provided in the Indenture and in the Bonds according to the true intent and meaning thereof.

Performance of Covenants; Authority. The Issuer covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Indenture, in any and every Bond executed, authenticated and delivered thereunder and in all proceedings pertaining thereto. The Issuer covenants that it is duly authorized under the Constitution and laws of the State, including particularly its Organizational Documents, to issue the Bonds authorized by the Indenture and to execute the Indenture, to make the Loan to each Participant pursuant to each Loan Agreement and the Promissory Note, to assign the Loan Agreement and the Promissory Note, to execute and deliver the Assignment of Mortgage and the Assignment of Collateral Assignment of Lease, as applicable, and to pledge the loan payments, revenues and receipts pledged by the Indenture in the manner and to the extent set forth in the Indenture; that all action on its part for the issuance of the Bonds and the execution and delivery of the Indenture has been duly and effectively taken; and that the Bonds in the hands of the Holders thereof are and will be the valid and enforceable special limited revenue obligations of the Issuer according to the import thereof.

Creation of Liens; Indebtedness. It is the intention of the Issuer and the Trustee that each Mortgage is and will continue to be a first (or second, as applicable) lien upon the property of the Facility subject to such Mortgage (subject to Permitted Encumbrances). The Issuer shall not create or suffer to be created, or incur or issue any evidences of indebtedness secured by, any lien or charge upon or pledge of the Trust Estate, except the lien, charge and pledge created by the Indenture and the other Security Documents.

Issuer Tax Covenant. The Issuer covenants in the Indenture that it shall not take any action within its control, nor refrain from taking any action reasonably requested by the Participants or the

Trustee, that would cause the interest on the Tax-Exempt Bonds to become includable in gross income for Federal income tax purposes; provided, however, the breach of this covenant shall not result in any pecuniary liability of the Issuer and the only remedy to which the Issuer shall be subject shall be specific performance.

Events of Default; Acceleration of Due Date. Each of the following events constitutes an "Event of Default" under the Indenture:

(i) Failure in the payment of the interest on any Bond when the same shall become due and payable;

(ii) Failure in the payment of the principal or Redemption Price, if applicable, or Sinking Fund Installments, of any Bonds, when the same shall become due and payable, whether at the stated maturity thereof or upon proceedings for redemption thereof or otherwise, or interest accrued thereon to the date of redemption after notice of redemption therefor or otherwise;

(iii) Failure of the Issuer to observe or perform any covenant, condition or agreement in the Bonds or under the Indenture on its part to be performed (except as set forth in clause (i) or (ii) above) and (A) continuance of such failure for a period of thirty (30) days after receipt by the Issuer and the Participants of written notice specifying the nature of such default from the Trustee or the Holders of more than 25% in aggregate principal amount of the Bonds Outstanding, or (B) if by reason of the nature of such default the same can be remedied, but not within the said thirty (30) days, the Issuer fails, or all of the Participants fail, to proceed with reasonable diligence after receipt of said notice to cure the same within ninety (90) days of the receipt of said notice or fails to continue with reasonable diligence its efforts to cure the same; or

(iv) The occurrence of an "Event of Default" under any Loan Agreement or any other Security Document.

The Event of Default described in clause (iv) above shall only constitute an Event of Default with respect to the Bonds allocable to the Participant(s) that caused such Event of Default. Upon the occurrence of such an Event of Default, the Trustee shall identify the Bonds affected thereby in the same manner as the Trustee would select Bonds in connection with a partial redemption pursuant to the Indenture.

Upon the happening and continuance of any Event of Default under clause (iv) above, unless the principal of the Bonds shall have already become due and payable, either the Trustee or the Holders of over 25% in aggregate principal amount of the Bonds Outstanding (by notice in writing to the Issuer, the applicable Participants and the Trustee), may declare the principal or Redemption Price, if any, of Bonds then Outstanding in an aggregate principal amount equal to the portion of Bonds allocable to the Participant(s) that caused such Event of Default, and the interest accrued thereon, to be due and payable immediately, and upon such declaration the same shall become and be immediately due and payable, anything in the Indenture or in any of the Bonds contained to the contrary notwithstanding.

If there shall occur an Event of Default under of any Loan Agreement regarding bankruptcy, the unpaid principal of all the Bonds allocable to the Participant which is a party to such Loan Agreement (and all principal installments of loan payments under such Loan Agreement) and the interest accrued thereon shall be due and payable immediately without the necessity of any declaration or other action by the Trustee or any other Person.

The right of the Trustee or of the Holders of over twenty-five percent (25%) in aggregate principal amount of the Bonds Outstanding to make any such declaration as aforesaid, however, is subject to the condition that if, at any time before such declaration, (i) all overdue installments of principal of and interest on all of the Bonds which shall have matured by their terms and the unpaid Redemption Price of the Bonds or principal portions thereof to be redeemed has been paid by or for the account of the Issuer, (ii) all other Events of Default have been otherwise remedied, (iii) the reasonable and proper charges, expenses and liabilities of the Trustee shall either be paid by or for the account of the Issuer, and the Facility shall not have been sold or relet or otherwise encumbered, (iv) all defaults have been otherwise remedied as provided in the Indenture, and (v) the Holders of a majority in aggregate principal amount of the Bonds Outstanding shall have waived in writing any such Event of Default, then and in every such case any such default and its consequences shall ipso facto be deemed to be annulled, but no such annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Pursuant to each Loan Agreement, the Issuer has granted to the signatory Participant full authority for the account of the Issuer to perform any covenant or obligation the non-performance of which is alleged in any notice received by such Participant to constitute a default under the Indenture, in the name and stead of the Issuer with full power to do any and all things and acts to the same extent that the Issuer could do and perform any such things and acts with power of substitution. The Trustee agrees to accept such performance by a Participant as performance by the Issuer.

Enforcement of Remedies. Upon the occurrence and continuance of any Event of Default, then and in every case the Trustee may proceed, and upon the written request of the Holders of over twenty-five percent (25%) in aggregate principal amount of the Bonds Outstanding, shall proceed, to protect and enforce its rights and the rights of the Bondholders under the Bonds, the Loan Agreement, the Indenture and under any other Security Document forthwith by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, whether for the specific performance of any covenant or agreement contained in the Indenture or in any other Security Document or in aid of the execution of any power granted in the Indenture or in any other Security Document or for the enforcement of any legal or equitable rights or remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights or to perform any of its duties under the Indenture or under any other Security Document. In addition to any rights or remedies available to the Trustee under the Indenture or elsewhere, upon the occurrence and continuance of an Event of Default the Trustee may take such action, without notice or demand, as it deems advisable.

In the enforcement of any right or remedy under the Indenture, under any other Security Document, the Trustee shall be entitled to sue for, enforce payment on and receive any or all amounts then or during any default becoming, and any time remaining, due from the Issuer, for principal, interest, Sinking Fund Installments, Redemption Price, or otherwise, under any of the provisions of the Indenture, of any other Security Document or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest specified in the Bonds, together with any and all costs and expenses of collection and of all proceedings under the Indenture, under any such other Security Document and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce judgment or decree against the Issuer, but solely as provided in the Indenture and in the Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect (but solely from the Trust Estate) in any manner provided by law, the moneys adjudged or decreed to be payable. The Trustee shall file proof of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Bondholders allowed in any judicial proceedings relative to a Participant or the Issuer or their creditors or property.

Regardless of the occurrence of an Event of Default, the Trustee, if requested in writing by the Holders of over twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, and in each case furnished with reasonable security and indemnity, shall institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Indenture or under any other Security Document by any acts which may be unlawful or in violation of the Indenture or of such other Security Document or of any resolution authorizing any Bonds, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interests and the interests of the Bondholders; provided, that such request shall not be otherwise than in accordance with the provisions of law and of the Indenture and shall not be unduly prejudicial to the interests of the Holders of the Bonds not making such request.

Application of Revenues and Other Moneys After Default. With respect to Events of Default described in clauses (i), (ii) or (iii) under the heading "Events of Default; Acceleration of Due Date" above, all moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture or under any other Security Document shall, after payment of any unpaid Rebate Amount in accordance with the Tax Regulatory Agreement, and after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Bond Fund and all moneys so deposited and available for payment of the Bonds shall be applied, subject to the compensation provisions of the Indenture as follows:

(1) Unless the principal of all of the Bonds shall have become due and payable, First - To the payment to the Persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or privilege; and Second - To the payment to the Persons entitled thereto of the unpaid principal or Redemption Price, if any, of any of the Bonds or principal installments which shall have become due (other than Bonds or principal installments called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates, with interest on such Bonds, at the rate or rates expressed thereon, from the respective dates upon which they become due and, if the amount available shall not be sufficient to pay in full Bonds or principal installments due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the Persons entitled thereto without any discrimination or privilege.

(2) If the principal of all the Bonds shall have become or have been declared due and payable, to the payment to the Bondholders of the principal and interest (at the rate or rates expressed in the Bonds) then due and unpaid upon the Bonds and, if applicable, to the Redemption Price of the Bonds without preference or priority of principal over interest or of interest over principal, Sinking Fund Installments, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

With respect to an Event of Default described in clause (iv) under the heading "Events of Default; Acceleration of Due Date" above, all moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture or under any other Security Document shall, after payment of any unpaid Rebate Amount in accordance with the Tax Regulatory Agreement and after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Loan Payment

Account established for the Participant causing such Event of Default and all moneys so deposited and available for payment of the Bonds identified pursuant to the provisions as described under the heading "Events of Default; Acceleration of Due Date" above shall be applied, subject to the compensation provisions of the Indenture, as follows:

Unless the principal of all of such Bonds shall have become or have been declared due and payable, First - To the payment to the Persons entitled thereto of all installments of interest then due on such Bonds, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or privilege; and Second - To the payment to the Persons entitled thereto of the unpaid principal or Redemption Price, if any, of any of such Bonds or principal installments which shall have become due (other than Bonds or principal installments called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates, with interest on such Bonds, at the rate or rates expressed thereon, from the respective dates upon which they become due and, if the amount available shall not be sufficient to pay in full Bonds or principal installments due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the Persons entitled thereto without any discrimination or privilege.

If the principal of all such Bonds shall have become or have been declared due and payable, to the payment to the Bondholders of the principal and interest (at the rate or rates expressed in such Bonds) then due and unpaid upon such Bonds and if applicable to the Redemption Price of such Bonds 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 such Bond 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.

If the principal of all such Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Indenture, the moneys shall be applied in accordance with the provisions of subparagraph (1) or (2) under the first paragraph under this heading which shall be applicable in the event that the principal of all such Bonds shall later become due and payable.

Whenever moneys are to be applied pursuant to the provisions as described under this heading, such moneys shall be applied at such times, and from time to time, as the Trustee 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. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless it 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 dates shall cease to accrue; provided, however, that to the extent principal or Redemption Price of the Bonds Outstanding, together with accrued interest thereon, shall have been declared to be due and payable pursuant to the Indenture, such date of declaration shall be the date from which interest shall cease to accrue. The Trustee shall give such written notice to all Bondholders as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Actions by Trustee; Consents of the Trustee. All rights of actions under the Indenture, under any other Security Document or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto and any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee without

the necessity of joining as plaintiffs or defendants any Holders of the Bonds, and any recovery of judgment shall, subject to the provisions as described under the heading "Application of Revenues and Other Moneys After Default", be for the equal benefit of the Holders of the Outstanding Bonds and thereafter to the Participant.

Except as expressly provided to the contrary in the Indenture or in any other Security Document, all provisions in the Indenture and each other Security Document regarding consents, directions, approvals or requests by the Trustee shall, for so long as any Bonds shall be Outstanding, be upon the written direction of the Directing Party.

Majority Bondholders Control Proceedings. Anything in the Indenture to the contrary notwithstanding, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings under the Indenture; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture; provided, however, that in connection with an Event of Default relating to an "Event of Default" under any Loan Agreement or any other Security Document, only the Holders of a majority in aggregate principal amount of the Bonds affected thereby, as identified in accordance with the Indenture may direct the remedial proceedings pursuant to the Indenture as described in this paragraph.

Individual Bondholder Action Restricted. No Holder of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provisions of the Indenture or of any other Security Document or the execution of any trust under the Indenture or for any remedy under the Indenture or under any other Security Document, unless such Holder shall have previously given to the Trustee written notice of the occurrence of an Event of Default as provided in the Indenture, and the Holders of over twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity either to exercise the powers granted in the Indenture or in such other Security Document or by the laws of the State or to institute such action, suit or proceeding in its own name, and unless such Holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of sixty (60) days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his, its or their action to affect, disturb or prejudice the pledge created by the Indenture, or to enforce any right under the Indenture except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and, subject to the provisions as described under the heading "Application of Revenues and Other Moneys After Default" above, be for the equal benefit of all Holders of the Outstanding Bonds.

Nothing in the Indenture, in any other Security Document or in the Bonds contained shall affect or impair the right of any Bondholder to payment of the principal or Redemption Price, if applicable, of, Sinking Fund Installments for, and interest on any Bond at and after the maturity thereof, or the obligation of the Issuer to pay the principal or Redemption Price, if applicable, of, Sinking Fund Installments for, and interest on each of the Bonds to the respective Holders thereof at the time, place, from the source and in the manner in the Indenture and in said Bonds expressed.

Effect of Discontinuance of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then and in every such case, the Issuer, the Trustee and the

Bondholders affected thereby shall be restored, respectively, to their former positions and rights under the Indenture, and all rights, remedies, powers and duties of the Trustee shall continue as in effect prior to the commencement of such proceedings.

Remedies Not Exclusive. No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or to the Holders of the Bonds is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute.

Delay or Omission. No delay or omission of the Trustee or of any Holder of the Bonds to exercise any right or power arising upon any default shall impair any right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee and the Holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the Bondholders.

Notice of Default. The Trustee shall promptly mail to the Issuer, the Bondholders, the Participants and the Program Facilitator by first class mail, postage prepaid, written notice of the occurrence of any Event of Default. The Trustee shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail any notice required by this paragraph.

Waivers of Default. The Trustee shall waive any default under the Indenture and its consequences and rescind any declaration of acceleration only upon the written request of the Directing Party; provided, however, that there shall not be waived without the consent of the Holders of all the Bonds Outstanding and affected thereby (a) any default in the payment of the principal of any Outstanding Bonds at the date specified therein or (b) any default in the payment when due of the interest on any such Bonds, unless, prior to such waiver, all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Bonds on overdue installments of interest in respect of which such default shall have occurred, and all arrears of payment of principal when due, as the case may be, and all expenses of the Trustee in connection with such default shall have been paid or provided for, and in case of any such waiver or rescission or in case any proceeding taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely to the Trustee, then and in every such case the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights under the Indenture, respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

Separation of Liability. No amounts in any Fund, Account or Subaccount (or portion thereof) created for the benefit of a Participant under the Indenture and no amounts realized pursuant to the grant of the security interest under such Participant's Loan Agreement or to the grant of any lien or security interest in any other Security Document to which such Participant is a party, shall be used to cure an Event of Default under the Indenture (other than an Event of Default of or caused by such Participant).

Indemnity of Trustee. The Trustee shall be under no obligation to institute any suit, or to take any remedial or legal action under the Indenture or under or pursuant to any other Security Document or to enter any appearance or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution of the trusts created by the Indenture or in the enforcement of any rights and powers or fulfillment of any extraordinary duties under the Indenture, or under any other Security Document, until it shall be indemnified to its satisfaction against any and all reasonable compensation for services, costs and expenses, outlays, and counsel fees and expenses and other disbursements, and against all liability not due to its willful misconduct or gross negligence.

Defeasance. If the Issuer shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all Bonds the principal or Redemption Price, if applicable, of, Sinking Fund Installments for, interest and all other amounts due or to become due thereon or in respect thereof, at the times and in the manner stipulated therein and in the Indenture, and all fees and expenses and other amounts due and payable under the Indenture and each Loan Agreement, and any other amounts required to be rebated to the federal government pursuant to the Tax Regulatory Agreement or the Indenture, shall be paid in full, then the pledge of any loan payments, revenues or receipts from or in connection with the Security Documents or the Facility under the Indenture and the estate and rights granted by the Indenture, and all covenants, agreements and other obligations of the Issuer to the Bondholders thereunder shall thereupon cease, terminate and become void and be discharged and satisfied and the Bonds shall thereupon cease to be entitled to any lien, benefit or security under the Indenture, except as to moneys or securities held by the Trustee or the Paying Agents as provided below in this paragraph. At the time of such cessation, termination, discharge and satisfaction, (1) the Trustee shall cancel and discharge the lien of the Indenture, of the Mortgage and of the Collateral Assignment of Lease, as applicable, and execute and deliver to the appropriate Participants all such instruments as may be appropriate to satisfy such liens, including the termination of financing statements, and to evidence such discharge and satisfaction, and (2) the Trustee and the Paying Agents shall pay over or deliver to the Issuer or the Participants in accordance with the Loan Agreement, or on their order, all moneys or securities held by them pursuant to the Indenture which are not required (i) for the payment of principal or Redemption Price, if applicable, of, Sinking Fund Installments for, or interest on Bonds not theretofore surrendered for such payment or redemption, (ii) for the payment of all such other amounts due or to become due under the Security Documents, or (iii) for the payments of any amounts the Trustee has been directed to pay to the federal government under the Tax Regulatory Agreement or the Indenture. If the Issuer shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of the Outstanding Bonds of a particular Series, or of a particular maturity or particular Bonds within a maturity of a particular Series, the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the Issuer to the Holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

With respect to a partial defeasance, whether in whole or in part of the Bonds allocable to a Participant, if the Issuer shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of the Bonds allocable to a Participant the principal or Redemption Price, if applicable, of, interest and all other amounts due or to become due thereon or in respect thereof, at the times and in the manner stipulated therein and in the Indenture, and all applicable fees and expenses and other applicable amounts due and payable under the Indenture, such applicable portion of such Participant's Loan Agreement and any other amounts required to be rebated to the federal government pursuant to the Tax Regulatory Agreement or the Indenture, shall be paid in full, then the pledge of any loan payments, revenues or receipts from or in connection with the Security Documents or such Participant's Facility under the Indenture and the estate and rights thereby granted, and all covenants, agreements and other obligations of the Issuer to such Bondholders under the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied and such Bonds allocable to such Participant shall thereupon cease to be entitled to any lien, benefit or security under the Indenture, except as to moneys or securities held by the Trustee or the Paying Agents as provided below in this paragraph. At the time of such cessation, termination, discharge and satisfaction, (1) the Trustee shall release or cancel and discharge the applicable portion of the lien of such Participant's Mortgage and any Collateral Assignment of Lease, as applicable, and execute and deliver to such Participant all such instruments as may be appropriate to satisfy such liens, including the termination of financing statements, and to evidence such discharge and satisfaction, and (2) the Trustee and the Paying Agents shall pay over or deliver to the Issuer or such Participant in accordance with such Participant's Loan Agreement, or on its order, all moneys or securities held by them pursuant to the Indenture which are not required (i) for the payment of principal or Redemption Price, if

applicable, of, Sinking Fund Installments for, or interest on such Bonds not theretofore surrendered for such payment or redemption, (ii) for the payment of all such other amounts due or to become due under the Security Documents, or (iii) for the payments of any amounts the Trustee has been directed to pay to the federal government under the Tax Regulatory Agreement or the Indenture.

Bonds (whether in whole or in part of Bonds allocable to a Participant) or interest installments for the payment or redemption of which moneys (or Defeasance Obligations which shall not be subject to call or redemption prior to maturity and the full and timely payment of the principal of and interest on which when due, together with the moneys, if any, set aside at the same time, will provide funds sufficient for such payment or redemption) shall then be set aside and held in trust by the Trustee or Paying Agents, whether at or prior to the maturity or the redemption date of such Bonds, shall be deemed to have been paid within the meaning and with the effect expressed in the first paragraph under this heading, if (i) in case any such Bonds are to be redeemed prior to the maturity thereof, all action necessary to redeem such Bonds shall have been taken and notice of such redemption shall have been duly given or provision satisfactory under the requirements of the Indenture to the Trustee shall have been made for the giving of such notice, and (ii) if the maturity or redemption date of any such Bond shall not then have arrived, (y) provision shall have been made by deposit with the Trustee for the payment to the Holders of any such Bonds, whether or not prior to the maturity or redemption date thereof, of the full amount to which they would be entitled by way of principal or Redemption Price, Sinking Fund Installments and interest and all other amounts then due under the Security Documents to the date of such maturity or redemption, and (z) provision satisfactory to the Trustee shall have been made for the mailing of a notice to the Holders of such Bonds that such moneys are so available for such payment on such maturity or redemption date.

Supplemental Indentures Without Bondholders' Consent. The Issuer and the Trustee may, from time to time and at any time, enter into Supplemental Indentures, without the consent of the Bondholders, for any of the following purposes:

(i) To cure any formal defect, omission or ambiguity in the Indenture or in any description of property subject to the lien thereof, if such action is not materially adverse to the interests of the Bondholders.

(ii) To grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers, authority or security which may lawfully be granted or conferred and which are not contrary to or inconsistent with the Indenture as theretofore in effect.

(iii) To add to the covenants and agreements of the Issuer in the Indenture other covenants and agreements to be observed by the Issuer which are not contrary to or inconsistent with the Indenture as theretofore in effect.

(iv) To add to the limitations and restrictions in the Indenture other limitations and restrictions to be observed by the Issuer which are not contrary to or inconsistent with the Indenture as theretofore in effect.

(v) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture, of the properties of any Facility, or revenues or other income from or in connection with any Facility or of any other moneys, securities or funds, or to subject to the lien or pledge of the Indenture additional revenues, properties or collateral.

(vi) To modify or amend such provisions of the Indenture as shall, in the opinion of Nationally Recognized Bond Counsel, be necessary to assure that the interest on the Tax-Exempt Bonds not be includable in gross income for federal income tax purposes.

(vii) To effect any other change in the Indenture which, in the judgment of the Trustee, is not to the material prejudice of the Trustee or the Bondholders.

(viii) To modify or amend the Indenture to effect and reflect a partial redemption or partial defeasance of the Bonds.

(ix) To modify, amend or supplement the Indenture or any Supplemental Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if they so determine, to add to the Indenture or any Supplemental Indenture such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute.

Before the Issuer and the Trustee shall enter into any Supplemental Indenture pursuant to the Indenture as described under this heading (except for the purpose set forth in clause (viii) above), there shall have been filed with the Trustee an opinion of Nationally Recognized Bond Counsel addressed to the Issuer and the Trustee stating that such Supplemental Indenture is authorized or permitted by the Indenture and complies with its terms, and that upon execution it will be valid and binding upon the Issuer in accordance with its terms.

Supplemental Indentures With Bondholders' Consent. Subject to the terms and provisions contained in the Indenture, the Holders of not less than a majority in aggregate principal amount of the Bonds affected thereby and then Outstanding shall have the right from time to time to consent to and approve the entering into by the Issuer and the Trustee of any Supplemental Indenture as shall be deemed necessary or desirable by the Issuer for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture. Nothing therein contained shall permit, or be construed as permitting, (i) a change in the times, amounts or currency of payment of the principal or Redemption Price, if applicable, of, Sinking Fund Installments for, or interest on any Outstanding Bonds, a change in the terms of redemption or maturity of the principal of or the interest on any Outstanding Bonds, or a reduction in the principal amount of or the Redemption Price of any Outstanding Bond or the rate of interest thereon, or any extension of the time of payment thereof, without the consent of the Holder of such Bond, (ii) the creation of a lien upon or pledge of the Trust Estate other than the liens or pledge created by the Indenture and the other Security Documents, except as provided in the Indenture with respect to Additional Bonds, (iii) a preference or priority of any Bond or Bonds over any other Bond or Bonds, (iv) a reduction in the aggregate principal amount of Bonds required for consent to such Supplemental Indenture, or (v) a modification, amendment or deletion with respect to any of the terms set forth in this paragraph, without, in the case of items (ii) through and including (v) of this paragraph, the written consent of one hundred percent (100%) of the Holders of the Outstanding Bonds.

If at any time the Issuer shall determine to enter into any Supplemental Indenture for any of the purposes as described under this heading, it shall cause notice of the proposed Supplemental Indenture to be mailed, postage prepaid, to all Bondholders. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture, as summarized by a Participant, and shall state that a copy thereof is on file at the offices of the Trustee for inspection by all Bondholders.

Within one year after the date of such notice, the Issuer and the Trustee may enter into such Supplemental Indenture in substantially the form described in such notice only if there shall have first been filed with the Trustee (i) the written consents of the Holders of not less than a majority in aggregate principal amount of the Bonds affected thereby and then Outstanding, or 100%, as the case may be, and (ii) an opinion of Nationally Recognized Bond Counsel addressed to the Issuer and the Trustee stating

that such Supplemental Indenture is authorized or permitted by the Indenture and complies with its terms, and that upon execution it will be valid and binding upon the Issuer in accordance with its terms. Each valid consent shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given. A certificate or certificates by the Trustee that it has examined such proof and that such proof is sufficient in accordance with the Indenture shall be conclusive that the consents have been given by the Holders of the Bonds described in such certificate or certificates. Any such consent shall be binding upon the Holder of the Bonds giving such consent and upon any subsequent Holder of such Bonds 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 the Holder of such Bonds giving such consent or a subsequent Holder thereof by filing such revocation with the Trustee prior to the execution of such Supplemental Indenture.

If the Holders of not less than the percentage of Bonds required as described under this heading shall have consented to and approved the execution thereof as in provided in the Indenture, no Holder of any Bond shall have any right to object to the execution of such Supplemental Indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Issuer from executing the same or from taking any action pursuant to the provisions thereof.

Upon the execution of any Supplemental Indenture pursuant to the provisions as described under this heading, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Issuer, the Trustee and all Holders of Bonds then Outstanding shall thereafter be determined, exercised and enforced under the Indenture, subject in all respects to such modifications and amendments.

Rights of Participants. Anything in the Indenture to the contrary notwithstanding, any Supplemental Indenture entered into pursuant to the Indenture which materially and adversely affects any rights, powers and authority of a Participant under its Loan Agreement or requires a revision of such Loan Agreement shall not become effective unless and until such Participant shall have given its written consent to such Supplemental Indenture signed by an Authorized Representative of such Participant.

Amendments of Related Security Documents Not Requiring Consent of Bondholders. The Issuer and the Trustee may, without the consent of or notice to the Bondholders, consent (if required) to any amendment, change or modification of any of the Related Security Documents for any of the following purposes: (i) to cure any ambiguity, inconsistency, formal defect or omission therein; (ii) to grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers, authority or security which may be lawfully granted or conferred; (iii) to subject thereto additional revenues, properties or collateral; (iv) to evidence the succession of a successor Trustee or to evidence the appointment of a separate or co-Trustee or the succession of a successor separate or co-Trustee; (v) to make any change required in connection with a permitted amendment to a Related Security Document or a permitted Supplemental Indenture, including, but not limited to, a change to any Related Security Document to effect and reflect a partial redemption or partial defeasance of the Bonds; and (vi) to make any other change that, in the judgment of the Trustee (which, in exercising such judgment, may conclusively rely, and shall be protected in relying, in good faith, upon an Opinion of Counsel or an opinion or report of engineers, accountants or other experts) does not materially adversely affect the Bondholders. The Trustee shall have no liability to any Bondholder or any other Person for any action taken by it in good faith pursuant to this paragraph. Before the Issuer or the Trustee shall enter into or consent to any amendment, change or modification to any of the Related Security Documents, there shall be filed with the Trustee an opinion of Nationally Recognized Bond Counsel addressed to the Issuer and the Trustee to the effect that such amendment, change or modification will not cause the interest on any of

the Tax-Exempt Bonds to cease to be excluded from gross income for federal income tax purposes under the Code.

Amendments of Related Security Documents Requiring Consent of Bondholders. Except as provided in the paragraph above, the Issuer and the Trustee shall not consent to any amendment, change or modification of any of the Related Security Documents, without mailing of notice and the written approval or consent of the Holders of not less than a majority in aggregate principal amount of the Bonds affected thereby and at the time Outstanding given and procured as provided under the heading "Supplemental Indentures With Bondholders' Consent" above; provided, however, there shall be no amendment, change or modification (i) to the obligation of a Participant to make loan payments under its Loan Agreement or the Promissory Note with respect to the Bonds, without the prior written approval of any Bondholder affected thereby, or (ii) to the Tax Regulatory Agreement, without the delivery of an opinion of Nationally Recognized Bond Counsel addressed to the Issuer and the Trustee to the effect that such amendment, change or modification will not cause the interest on any Series of Tax-Exempt Bonds to become includable in gross income for federal income tax purposes. If at any time a Participant shall request the consent of the Trustee to any such proposed amendment, change or modification, the Trustee shall cause notice of such proposed amendment, change or modification to be mailed in the same manner as is provided in the Indenture with respect to Supplemental Indentures. Such notice shall briefly set forth the nature of such proposed amendment, change or modification, as summarized by such Participant, and shall state that copies of the instrument embodying the same are on file at the principal office of the Trustee for inspection by all Bondholders. The Trustee may, but shall not be obligated to, enter into any such amendment, change or modification to a Related Security Document which affects the Trustee's own rights, duties or immunities under such Related Security Document or otherwise. Before the Trustee shall enter into or consent to any amendment, change or modification to any of the Related Security Documents, there shall be filed with the Trustee an opinion of Nationally Recognized Bond Counsel addressed to the Issuer and the Trustee to the effect that such amendment, change or modification will not cause the interest on any of the Tax-Exempt Bonds to cease to be excluded from gross income for federal income tax purposes under the Code.

APPENDIX G

PROPOSED FORM OF OPINION OF BOND COUNSEL

APPENDIX G

Upon delivery of the Series 2013A Bonds, Bond Counsel to the Issuer proposes to issue its approving opinion in substantially the following form:

Hawkins Delafield & Wood LLP

One Chase Manhattan Plaza
New York, New York 10005
www.hawkins.com

April __, 2013

Build NYC Resource Corporation
New York, New York

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of Revenue Bonds (Special Needs Facilities Pooled Program), Series 2013A-1 in the aggregate principal amount of \$5,640,000 (the "Series 2013A-1 Bonds"), and Revenue Bonds (Special Needs Facilities Pooled Program), Series 2013A-2 (Federally Taxable) in the aggregate principal amount of \$265,000 (the "Series 2013A-2 Bonds"; together with the Series 2013A-1 Bonds, the "Series 2013A Bonds") of Build NYC Resource Corporation, a local development corporation organized pursuant to the Not-for-Profit Corporation Law of the State of New York (the "NFP Corporation Law") at the direction of the Mayor of The City of New York.

The Series 2013A Bonds are issued under and pursuant to an Indenture of Trust, dated as of April 1, 2013 (the "Indenture"), between the Issuer and The Bank of New York Mellon, as trustee (the "Trustee"), and a resolution of the Issuer adopted on January 8, 2013 authorizing the Series 2013A Bonds.

The Series 2013A Bonds shall be dated, shall mature, shall bear interest and shall be payable as set forth in the Indenture. The Series 2013A Bonds are subject to redemption prior to maturity, including from mandatory Sinking Fund Installments (as defined in the Indenture), in the manner and upon the terms and conditions set forth in the Indenture.

The Series 2013A Bonds are being issued for the purpose of financing or refinancing a portion of the cost of the acquisition, renovation, equipping and furnishing of certain facilities (each a "Facility"; collectively, the "Facilities") within The City of New York for two not-for-profit corporations organized and existing under the laws of the State of New York, i.e., Eden II School for Autistic Children, Inc. ("Eden II") and Institute for Community Living, Inc. ("ICL") (each a "Participant"; collectively, the "Participants"), all for the provision of services to people with developmental disabilities or other special needs (collectively, the "Projects").

The Issuer and each Participant have entered into a separate Loan Agreement, dated as of April 1, 2013, each between the Issuer and such Participant (each a "Loan Agreement"; collectively, the "Loan Agreements"), providing, among other things, for the refinancing and financing of the applicable Project and the loan of the proceeds of the related portion of the Series 2013A Bonds to the applicable Participant. Each Loan Agreement will require that the Participant pay, as loan payments thereunder, its

allocable portion of amounts due under the Series 2013A Bonds. The obligation of each Participant to repay its loan will be evidenced by a certain Promissory Note, each dated the date hereof, each from a Participant to the Issuer and each endorsed by the Issuer to the Trustee (collectively, the "Promissory Notes"). The payment of Eden II's allocable portion of the Series 2013A Bonds will be secured by a mortgage lien on and a security interest in Eden II's Facility (collectively, the "Mortgaged Property") pursuant to a Mortgage and Security Agreement, dated as of April 1, 2013, from Eden II to the Trustee and the Issuer (the "Mortgage"). Pursuant to an Assignment of Mortgage and Security Agreement (the "Assignment of Mortgage"), the Issuer has assigned to the Trustee all of the Issuer's right, title and interest in and to the Mortgage. The payment of ICL's allocable portion of the Series 2013A Bonds will be secured by ICL's assignment of its right, title and interest (but not its obligations) as tenant in the Prime Lease (as defined in ICL's Loan Agreement) to the Issuer and the Trustee pursuant to a Collateral Assignment of Lease, dated as of April 1, 2013 (the "Collateral Assignment of Lease"). Pursuant to an Assignment of Collateral Assignment of Lease, dated as of April 1, 2013 (the "Assignment of Collateral Assignment of Lease"), the Issuer has assigned its right, title and interest in the Collateral Assignment of Lease to the Trustee.

It is provided in the Indenture that, upon complying with certain prescribed conditions, the Issuer may issue additional bonds from time to time on the terms and conditions and for the purposes stated in the Indenture.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the Series 2013A-1 Bonds in order that, for Federal income tax purposes, interest on the Series 2013A-1 Bonds be not included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of Series 2013A-1 Bond proceeds, restrictions on the investment of Series 2013A-1 Bond proceeds prior to expenditure and the requirement that certain earnings be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2013A-1 Bonds to become subject to Federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of delivery of the Series 2013A-1 Bonds, the Participants, the Interagency Council of Developmental Disabilities Agencies, Inc., as program facilitator ("IAC"), the Issuer and the Trustee will execute a Tax Regulatory Agreement, dated the date hereof (the "Tax Regulatory Agreement"), containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Regulatory Agreement, the Participants covenant that they will comply with the provisions and procedures set forth therein and that they will do and perform all acts and things necessary or desirable to assure that interest paid on the Series 2013A-1 Bonds will, for Federal income tax purposes, be excluded from gross income.

We are of the opinion that:

1. The Issuer is duly organized and validly existing under the NFP Corporation Law and has the right and power thereunder to enter into the Indenture, and the Indenture has been duly authorized, executed and delivered by the Issuer, is in full force and effect, and is valid and binding upon the Issuer and enforceable against the Issuer in accordance with its terms.

2. The Issuer has the right and power under the NFP Corporation Law to enter into each Loan Agreement, and each Loan Agreement has been duly authorized, executed and delivered by the Issuer, is in full force and effect, and constitutes a valid and binding agreement of the Issuer enforceable against the Issuer in accordance with its terms.

3. The Issuer has the right and power under the NFP Corporation Law to enter into each of the Assignment of Mortgage and the Assignment of Collateral Assignment of Lease, and each of the Assignment of Mortgage and the Assignment of Collateral Assignment of Lease has been duly authorized, executed and delivered by the Issuer, is in full force and effect, and constitutes a valid and binding agreement of the Issuer enforceable against the Issuer in accordance with its respective terms.

4. The Series 2013A Bonds have been duly authorized and issued by the Issuer in accordance with law and in accordance with the Indenture and are the valid and binding special limited revenue obligations of the Issuer, payable solely from the loan payments, revenues and receipts derived from the Loan Agreements and pledged under the Indenture. The payment by Eden II of its allocable portion of the Series 2013A Bonds is secured by a mortgage lien on and a security interest in the Mortgaged Property pursuant to the Mortgage. The Series 2013A Bonds are enforceable in accordance with their terms and the terms of the Indenture and are entitled to the benefit of the Indenture. All conditions precedent to the delivery of the Series 2013A Bonds have been fulfilled.

5. Under existing statutes and court decisions, and assuming continuing compliance with the tax covenants and procedures set forth in the Tax Regulatory Agreement in the form as in effect on the date hereof, (i) interest on the Series 2013A-1 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the Series 2013A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations.

6. Under the existing statutes, the interest on the Series 2013A Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

Except as stated in paragraphs 5 and 6 above, we express no opinion as to any Federal, state or local tax consequences arising with respect to the Series 2013A Bonds or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Series 2013A-1 Bonds, or on the exemption of interest on the Series 2013A Bonds from personal income taxes under state and local tax law.

In rendering the opinions in paragraph 5 above, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact, contained in the Issuer Tax Certification delivered on the date hereof by the Issuer and in the Tax Regulatory Agreement with respect to the use of proceeds of the Series 2013A-1 Bonds and the investment of certain funds, and other matters affecting the exclusion of interest on the Series 2013A-1 Bonds from gross income for Federal income tax purposes under Section 103 of the Code, (ii) the opinion of Cullen and Dykman LLP, counsel to the Participants, dated the date hereof, regarding, among other matters, the current qualifications of the Participants as organizations described in Section 501(c)(3) of the Code, and (iii) compliance by the Issuer and the Participants with procedures and ongoing covenants set forth in the Tax Regulatory Agreement and with the ongoing tax covenants set forth in the Indenture and the Loan Agreements. Under the Code, failure to comply with such procedures and covenants may cause the interest on the Series 2013A-1 Bonds to be included in gross income for federal income tax purposes, retroactive to the date of issuance of the Series 2013A-1 Bonds, irrespective of the date on which such noncompliance occurs or is ascertained. Compliance with certain of such requirements may necessitate that persons not within the control of the Issuer or either of the Participants take or refrain from taking certain actions.

The foregoing opinions are qualified only to the extent that the enforceability of the Series 2013A Bonds, the Indenture, the Tax Regulatory Agreement, the Promissory Notes, the Loan Agreements, the Mortgage, the Assignment of Mortgage, the Collateral Assignment of Lease and the Assignment of Collateral Assignment of Lease may be limited by bankruptcy, moratorium or insolvency or other laws affecting creditors' rights generally and are subject to general rules of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).

In rendering this opinion, with respect to the due recording of the Mortgage, the Assignment of Mortgage, the Collateral Assignment of Lease and the Assignment of Collateral Assignment of Lease, and the due filing and sufficiency of financing statements under the New York State Uniform Commercial Code, we have relied on the opinions, as applicable, of Richard E. Marshall, Esq., Vice President for Legal Affairs of the Issuer, and of Cullen and Dykman LLP, counsel to the Participants, each dated the date hereof.

In rendering this opinion, we have relied as to matters of title of Eden II to the Mortgaged Property on the mortgagee title insurance policy issued by Old Republic National Title Insurance Company insuring the Issuer's and the Trustee's mortgagee interest under the Mortgage in the real property constituting a part of the Mortgaged Property, dated the date hereof.

In rendering this opinion with respect to the due authorization, execution and delivery (y) of the Promissory Notes, the Loan Agreements and the Tax Regulatory Agreement by the Participants, and (z) of the Mortgage by Eden II and of the Collateral Assignment of Lease by ICL, we have relied upon the opinion of Cullen and Dykman LLP, counsel to the Participants, dated the date hereof.

In rendering this opinion with respect to the due authorization, execution and delivery of the Indenture, we have relied upon the opinion of Carter Ledyard & Milburn LLP, counsel to the Trustee, dated the date hereof.

In rendering this opinion, we express no opinion as to the necessity for obtaining any licenses, permits or other approvals relating to the acquisition, renovation, equipping or furnishing of any of the Facilities or the operation of any Facility, or the application or effect of any environmental laws, ordinances, rules, regulations or other requirements of any governmental authority with respect to any Facility or the transactions contemplated under the Indenture.

The foregoing opinions are further subject, however, to the qualification that we express no opinion as to matters relating to the rights in, title to or sufficiency of the description of any property or collateral described in the Security Documents (as defined in the Indenture) or the creation, perfection or relative priority of any lien or security interest created with respect to such property or collateral thereunder.

Attention is called to the fact that we have not been requested to examine and have not examined any documents or information relating to any of the Participants (or any affiliate of any Participant) other than the record of proceedings hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof, which has been or may be supplied to any purchaser of the Series 2013A Bonds.

We have examined a Series 2013A-1 Bond in fully registered form numbered A1R-1 and a Series 2013A-2 Bond in fully registered form numbered A2R-1 and, in our opinion, the forms of each of said Series 2013A Bonds and their execution are regular and proper.

We undertake no responsibility for the accuracy, completeness or fairness of any official statement or other offering materials relating to the Series 2013A Bonds and express herein no opinion relating thereto.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

Very truly yours,

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APPENDIX H

FORM OF CONTINUING DISCLOSURE AGREEMENT

CONTINUING DISCLOSURE AGREEMENT

by and among

EDEN II SCHOOL FOR AUTISTIC CHILDREN, INC.,

INSTITUTE FOR COMMUNITY LIVING, INC.

AND

THE BANK OF NEW YORK MELLON

Dated April 17, 2013

**Entered into with respect to the
Build NYC Resource Corporation
Revenue Bonds
(Special Needs Facilities Pooled Program),
Series 2013A-1 and Series 2013A-2 (Federally Taxable)**

CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (the “Agreement”), made and entered into April 17, 2013, by and among Eden II School for Autistic Children, Inc. and Institute for Community Living, Inc., each a not-for-profit corporation (each a “Participant” and collectively, the “Participants”) and **THE BANK OF NEW YORK MELLON**, a banking corporation duly created and validly existing under the laws of the State of New York (the “Dissemination Agent” and the “Trustee”).

WITNESSETH:

WHEREAS, Build NYC Resource Corporation (the “Issuer”), a not-for-profit local development corporation organized pursuant to the Not-For-Profit Corporation Law of the State of New York at the direction of the Mayor of The City of New York is issuing its Revenue Bonds (Special Needs Facilities Pooled Program), Series 2013A-1 and Series 2013A-2 (Federally Taxable), dated the date of issuance, in the aggregate principal amount of \$5,905,000 (the “Bonds”);

WHEREAS, the Bonds are being issued pursuant to the Indenture of Trust dated as of April 1, 2013 by and between the Issuer and the Trustee (the “Indenture”) and a resolution adopted by the Issuer on January 8, 2013;

WHEREAS, each Participant has entered into a Loan Agreement (each, a “Loan Agreement”) dated as of April 1, 2013 between such Participant and the Issuer and each Participant has issued a Promissory Note to the Issuer and the Trustee (each, a “Promissory Note”) under which each Participant will be obligated to make payments sufficient to pay its allocable share of the principal or Redemption Price of, and interest on the Bonds;

WHEREAS, the Trustee has duly accepted the trusts imposed upon it by the Indenture as Trustee for the holders from time to time of the Bonds;

WHEREAS, the Securities and Exchange Commission (the “SEC”), pursuant to the Securities Exchange Act of 1934, as amended and supplemented (codified as of the date hereof at 15 U.S.C. 77 *et seq.*) (the “Securities Exchange Act”), has adopted amendments effective July 3, 1995 to its Rule 15c2-12 (codified at 17 C.F.R. §240.15c2-12), as the same may be further amended, supplemented and officially interpreted from time to time or any successor provision thereto (“Rule 15c2-12”);

WHEREAS, the Participants are “obligated persons” with respect to the Bonds within the meaning of Rule 15c2-12 and therefore are required to cause the delivery of the information described in this Agreement to the municipal securities marketplace for the period of time specified in this Agreement;

WHEREAS, the execution and delivery of this Agreement have been duly authorized by each Participant and the Dissemination Agent, respectively, and all conditions, acts and things necessary and required to exist, to have happened or to have been performed precedent to and in

the execution and delivery of this Agreement, do exist, have happened and have been performed in regular form, time and manner; and

WHEREAS, the Participants and the Dissemination Agent are entering into this Agreement for the benefit of the holders of the Bonds.

NOW, THEREFORE, for and in consideration of the premises and of the mutual representations, covenants and agreements herein set forth, each Participant and the Dissemination Agent, each binding itself, its successors and assigns, do mutually promise, covenant and agree as follows:

ARTICLE 1

DEFINITIONS

Section 1.1 Terms Defined in Recitals. All of the terms defined in the preambles hereof shall have the respective meanings set forth therein for all purposes of this Agreement.

Section 1.2 Additional Definitions. The following additional terms shall have the meanings specified below:

“Annual Report” means Financial Statements and Operating Data provided at least annually.

“Bondholder” or “holder” or any similar term, when used with reference to a Bond or Bonds, means any person who shall be the registered owner of any Outstanding Bond, including holders of beneficial interests in the Bonds.

“Disclosure Event” means any event described in subsection 2.1(d) of this Agreement.

“Disclosure Event Notice” means the notice to the MSRB as provided in subsection 2.4(a) of this Agreement.

“Dissemination Agent” means The Bank of New York Mellon, acting in its capacity as Dissemination Agent under this Agreement, or any successor Dissemination Agent designated in writing by the Facilitator that has filed a written acceptance of such designation.

“Facilitator” means the InterAgency Council of Developmental Disabilities Agencies, Inc.

“Final Official Statement” means the final Limited Offering Memorandum of the Issuer and of the Participants dated April 8, 2013 pertaining to the Bonds.

“Financial Statements” means the statement of financial position, statement of activities, statement of cash flows or other statements that convey similar information.

“Fiscal Year” means the fiscal year of each Participant. As of the date of this Agreement, the Fiscal Year of each Participant begins on July 1 of each calendar year and closes on June 30 of the next succeeding calendar year.

“GAAP” means generally accepted accounting principles as in effect from time to time in the United States of America, consistently applied.

“GAAS” means generally accepted auditing standards as in effect from time to time in the United States of America, consistently applied.

“MSRB” means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to Rule 15c2-12. Effective July 1, 2009 and until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Operating Data” means the annual financial information with respect to each Participant which shall contain the information set forth in the form of **Exhibit A**, unless such information is included in the audited Financial Statements, together with a narrative explanation as may be necessary to avoid misunderstanding the presentation of financial and operating data concerning such Participant.

“Prescribed Form” means such electronic format accompanied by such identifying information as shall be prescribed by the MSRB and which shall be in effect on the date of filing of such information.

“Trustee” means The Bank of New York Mellon, acting in its capacity as Trustee for the Bonds under the Indenture, and its successors and assigns.

Section 1.3 Capitalized Terms Not Defined Herein. Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture or the Loan Agreements, as the case may be.

Section 1.4 Interpretation. Words of masculine gender include correlative words of the feminine and neuter genders. Unless the context shall otherwise indicate, words importing the singular include the plural and vice versa, and words importing persons include corporations, associations, partnerships (including limited partnerships), trusts, firms and other legal entities, including public bodies, as well as natural persons. Articles and Sections referred to by number mean the corresponding Articles and Sections of this Agreement. The terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms as used in this Agreement refer to this Agreement as a whole unless otherwise expressly stated.

As the context shall require, all words importing the singular number shall include the plural number. The disjunctive term “or” shall be interpreted conjunctively as required to insure that the Participants perform any obligations mentioned in the passage in which such term appears. The headings of this Agreement are for convenience only and shall not define or limit the provisions hereof.

ARTICLE 2

CONTINUING DISCLOSURE COVENANTS AND REPRESENTATIONS

Section 2.1 Continuing Disclosure Covenants of Participants. Each Participant agrees that it will provide:

(a) Not later than two hundred twenty-five (225) days after the end of each of its Fiscal Years, commencing with the Fiscal Year of such Participant ended June 30, 2012, an Annual Report to the MSRB in the Prescribed Form, to the Trustee and, if requested in writing by the Issuer, to the Issuer.

(b) Not later than fifteen (15) days prior to the date specified in subsection 2.1(a) hereof, a copy of the Annual Report to the Trustee and the Dissemination Agent (if a Dissemination Agent has been appointed or engaged).

(c) If not submitted as part of the Annual Report, then when and if available, to the MSRB, to the Trustee and, if requested in writing by the Issuer, to the Issuer, audited Financial Statements for such Participant.

(d) In a timely manner, not in excess of ten (10) Business Days of the occurrence of any Disclosure Event to the MSRB in the Prescribed Form and to the Trustee and, if requested in writing by the Issuer, to the Issuer, notice of any of the following events with respect to the Participant's allocable portion of the Bonds (each a "Disclosure Event"):

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on the debt service reserve fund reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the taxable status of the Bonds, or other material events affecting the taxable status of the Bonds;
- (vii) Modifications to rights of holders of the Bonds, if material;
- (viii) Bond calls (excluding mandatory sinking fund redemptions), if material, and tender offers;

- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar events of the Participants, which shall be considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Participants 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 Participants, 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 Participants;
- (xiii) The consummation of a merger, consolidation, or acquisition involving the Participants or the sale of all or substantially all of the assets of the Participants, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(e) Immediately, to the MSRB, to the Trustee and, if requested in writing by the Issuer, to the Issuer, notice of a failure by such Participant to provide the Annual Report within the period described in subsection 2.1(a) hereof.

Section 2.2 Continuing Disclosure Representations. Each Participant represents and warrants that:

(a) Financial Statements shall be prepared in accordance with GAAP.

(b) Any Financial Statements that are audited shall be audited by an independent certified public accountant in accordance with GAAS.

Section 2.3 Form of Annual Report. (a) The Annual Report may be submitted as a single document or as separate documents comprising a package.

(b) Any or all of the items that must be included in the Annual Report may be incorporated by reference from other documents, including official statements delivered in connection with other financings issued on behalf of such Participant or related public entities that have been submitted to the MSRB or filed with the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB. Each Participant shall clearly identify each such other document so incorporated by reference.

(c) The Annual Report for any Fiscal Year containing any modified operating data or financial information (as contemplated by Sections 4.9 and 4.10 hereof) for such Fiscal Year shall explain, in narrative form, the reasons for such modification and the effect of such modification on the Annual Report being provided for such Fiscal Year.

Section 2.4 Responsibilities of Dissemination Agent. (a) If a Participant, the Facilitator or the Dissemination Agent (if one has been appointed or engaged) has determined it necessary to report the occurrence of a Disclosure Event, such Participant, the Facilitator or the Dissemination Agent (if one has been appointed or engaged) shall file promptly, but not in excess of ten (10) Business Days, a notice of such occurrence with the MSRB (the "Disclosure Event Notice") in the form provided by such Participant. The obligations of the Participants, the Facilitator or the Dissemination Agent (if one has been appointed or engaged) to provide the notices to the MSRB under this Agreement are in addition to, and not in substitution of, any of the obligations of the Trustee to provide notices of events of default to holders under the Indenture. The Participants, the Facilitator or the Dissemination Agent (if one has been appointed or engaged) shall file a copy of each Disclosure Event Notice with the Issuer and the Trustee (for informational purposes only).

(b) If an Annual Report is received by it, the Trustee or the Dissemination Agent (if one has been appointed or engaged) shall file a written report with the Participant, with a copy to the Issuer, certifying that the Annual Report has been provided to the MSRB pursuant to this Agreement, stating the date it was provided to the MSRB.

Section 2.5 Appointment, Removal and Resignation of Dissemination Agent; Duties, Immunities and Indemnification. (a) The Facilitator may, from time to time, appoint or engage a Dissemination Agent to assist the Participants in carrying out their obligations under this Agreement, and it may discharge any such Dissemination Agent and appoint a successor Dissemination Agent, such discharge to be effective on the date of the appointment of a successor Dissemination Agent.

(b) The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Agreement, and the Participants agree to indemnify and hold the Dissemination Agent and its officers, directors, employees and agents harmless against any loss, expense or liability it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including reasonable attorneys' fees and expenses) of defending against any claim of liability, but excluding liability due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Participants under this Section 2.5(b) shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(c) The Dissemination Agent, or any successor thereto, may at any time resign and be discharged of its duties and obligations hereunder by giving not less than thirty (30) days' written notice to the Participants, the Facilitator and the Issuer. Such resignation shall take effect on the date specified in such notice.

Section 2.6 Responsibilities, Duties, Immunities and Liabilities of Trustee. The provisions of the Indenture affecting the responsibilities, duties, immunities, rights, protections and liabilities of the Trustee are each hereby made applicable to this Agreement as if the duties of the Trustee hereunder were (solely for this purpose) set forth in the Indenture.

ARTICLE 3

DEFAULTS AND REMEDIES

Section 3.1 Disclosure Default. The occurrence and continuation of a failure by any Participant to observe, perform or comply with any covenant, condition or agreement on its part to be observed or performed in this Agreement and such failure shall remain uncured for a period of thirty (30) days after written notice thereof has been given to such Participant by the Trustee or any Bondholder shall constitute a disclosure default hereunder.

Section 3.2 Remedies on Default. (a) The Trustee may (and at the request of the holders of at least twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds, after provision of indemnity in accordance with the terms of the Indenture, shall), or any Bondholder, for the equal benefit and protection of all Bondholders similarly situated, may, take whatever action at law or in equity is necessary or desirable against such Participant and any of its officers, agents and employees to enforce the specific performance and observance of any obligation, agreement or covenant of such Participant hereunder and may compel such Participant or any such officers, agents or employees, except for the Dissemination Agent, to perform and carry out their duties hereunder; *provided*, that no person or entity shall be entitled to recover monetary damages hereunder under any circumstances; *provided further*, however, that in the event the Trustee shall be in receipt of direction of less than a majority of the Bondholders, or multiple groups of Bondholders which satisfy the 25% threshold, the Trustee shall be permitted to seek court direction with respect to the action to be taken in such circumstance.

(b) In case the Trustee or any Bondholder shall have proceeded to enforce its rights under this Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or any Bondholder, as the case may be, then and in every such case such Participant, the Trustee and any Bondholder, as the case may be, shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Participants, the Trustee and any Bondholder shall continue as though no such proceedings had been taken.

(c) A default under this Agreement shall not be deemed an event of default under either the Indenture or any Loan Agreement, and the sole remedy under this Agreement in the event of any failure by any Participant to comply with this Agreement shall be as set forth in Section 3.2(a) hereof.

ARTICLE 4

MISCELLANEOUS

Section 4.1 Purpose of Agreement. This Agreement is being executed and delivered by the Participants and the Dissemination Agent for the benefit of the Bondholders.

Section 4.2 Third-Party Beneficiaries; Issuer and Bondholders. (a) The Issuer is hereby recognized as being a third-party beneficiary hereunder, and may enforce any such right, remedy or claim conferred, given or granted hereunder in favor of the Dissemination Agent or the Bondholders.

(b) Each Bondholder is hereby recognized as being a third-party beneficiary hereunder, and each may enforce, for the equal benefit and protection of all Bondholders similarly situated, any such right, remedy or claim conferred, given or granted hereunder in favor of the Dissemination Agent.

Section 4.3 No Recourse to Issuer; Indemnified Parties. No recourse shall be had for the performance of any obligation, agreement or covenant of the Participants or the Dissemination Agent hereunder against the Issuer or against any member, officer, official, director, employee, counsel, consultant or agent of the Issuer or any person executing the Bonds.

Each Participant agrees to indemnify and hold harmless the Issuer, the Facilitator, any member, officer, official, director, employee, counsel, consultant or agent of the Issuer or the Facilitator, including the Dissemination Agent, each and any purchaser of the Bonds, and each person, if any, who has the power, directly or indirectly, to direct or cause the direction of the management and policies of each and any purchaser of the Bonds through the ownership of voting securities, by contract or otherwise (collectively, the "Indemnified Parties"), against any and all losses, claims, damages, liabilities or expenses whatsoever caused by such Participant's failure to perform or observe any of its obligations, agreements or covenants under the terms of this Agreement, but only if and insofar as such losses, claims, damages, liabilities or expenses are caused by any such failure of such Participant to perform hereunder. In case any action shall be brought against the Indemnified Parties based upon this Agreement and in respect of which indemnity may be sought against such Participant, the Indemnified Parties shall promptly notify such Participant in writing. Upon receipt of such notification, such Participant shall promptly assume the defense of such action, including the retention of counsel, the payment of all expenses in connection with such action and the right to negotiate and settle any such action on behalf of such Indemnified Parties. Any Indemnified Party shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the sole expense of such Indemnified Party, unless the employment of such counsel has been specifically authorized by such Participant or unless by reason of conflict of interest (determined by the written opinion of counsel addressed to any Indemnified Party) it is advisable for such Indemnified Party to be represented by separate counsel to be retained by such Participant, in which case the fees and expenses of such separate counsel shall be borne by such Participant. Such Participant shall not be liable for any settlement of any such action effected without its written consent, but if settled with its written consent or if

there be a final judgment for the plaintiff in any such action with or without written consent, such Participant agrees to indemnify and hold harmless the Indemnified Parties from and against any loss or liability by reason of such settlement or judgment. Nothing in this Section 4.3 shall (y) require or obligate such Participant to indemnify or hold harmless the Indemnified Parties from or against any loss, claim, damage, liability or expense caused by any gross negligence, recklessness or intentional misconduct on the part of the Indemnified Parties in connection with such Participant's performance of its obligations, agreements and covenants hereunder or (z) limit, modify or impair any indemnity obligation of a Participant in any other document executed in connection with the Bonds.

Section 4.4 Additional Information. Nothing in this Agreement shall be deemed to prevent the Participants from (a) disseminating any other information using the means of dissemination set forth in this Agreement or any other means of communication, or (b) including, in addition to that which is required by this Agreement, any other information in any Annual Report or any Disclosure Event Notice. If the Participants choose to include any information in any Annual Report or any Disclosure Event Notice in addition to that which is specifically required by this Agreement, the Participants shall not have any obligation under this Agreement to update such information or to include it in any future Annual Report or any future Disclosure Event Notice.

Section 4.5 Notices. All notices required to be given or authorized to be given by any party pursuant to this Agreement shall be in writing and shall be sent by registered or certified mail (as well as by facsimile, in the case of the Dissemination Agent) to, in the case of the Participants to the addresses set forth in **Exhibit B** attached hereto, in the case of the Facilitator to 150 West 30th Street, 15th Floor, New York, New York 10001, Attention: Executive Director and in the case of the Dissemination Agent, its principal corporate trust office at 101 Barclay Street – 21W, New York, New York 10286, Attention: Corporate Trust Administration.

Section 4.6 Assignments. This Agreement may not be assigned by any party hereto without the written consent of the other parties and, as a condition to any such assignment, only upon the assumption in writing of all of the obligations imposed upon such party by this Agreement.

Section 4.7 Severability. If any provision of this Agreement shall be held or deemed to be or shall, in fact, be illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative or unenforceable to any extent whatsoever.

Section 4.8 Execution of Counterparts. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument. The parties hereto may sign the same counterpart or each party hereto may sign a separate counterpart.

Section 4.9 Amendments, Changes and Modifications. (a) Except as otherwise provided in this Agreement, subsequent to the initial issuance of the Bonds and prior to their payment in full (or provision for payment thereof having been made in accordance with the

provisions of the Indenture), this Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of the Dissemination Agent.

(b) Without the consent of any Bondholders, the Participants and the Dissemination Agent at any time and from time to time may enter into any amendments or modifications to this Agreement for any of the following purposes:

(i) to add to the covenants and agreements of the Participants hereunder for the benefit of the Bondholders or to surrender any right or power conferred upon the Participants by this Agreement;

(ii) to modify the contents, presentation and format of the Annual Report from time to time to conform to changes in accounting or disclosure principles or practices or legal requirements followed by or applicable to the Participants, to reflect changes in the identity, nature or status of the Participants or in the business, structure or operations of the Participants, or to reflect any mergers, consolidations, acquisitions or dispositions made by or affecting the Participants; *provided*, that any such modification shall not be in contravention of Rule 15c2-12 as then in effect at the time of such modification; or

(iii) to cure any ambiguity herein, to correct or supplement any provision hereof that may be inconsistent with any other provision hereof, or to include any other provisions with respect to matters or questions arising under this Agreement, any of which, in each case, would have complied with the requirements of Rule 15c2-12 at the time of the primary offering, after taking into account any amendments or interpretations of Rule 15c2-12 as well as any changes in circumstances;

provided, that prior to approving any such amendment or modification, the Participants determine that such amendment or modification does not adversely affect the interests of the Bondholders in any material respect.

(c) Upon entering into any amendment or modification required or permitted by this Agreement that materially affects the interests of the Bondholders, the Participants shall deliver, or cause the Dissemination Agent to deliver, at the expense of the Participants, to the MSRB written notice of any such amendment or modification.

(d) The Participants and the Dissemination Agent shall be entitled to rely exclusively upon an opinion of Bond Counsel to the Issuer, addressed to the Participants and the Dissemination Agent, pursuant to which the Dissemination Agent shall be fully protected, to the effect that such amendments or modifications comply with the conditions and provisions of this Section 4.9.

Section 4.10 Amendments Required by Rule 15c2-12. The Participants and the Dissemination Agent each recognize that the provisions of this Agreement are intended to enable compliance with Rule 15c2-12. If, as a result of a change in Rule 15c2-12 or in the interpretation thereof or the promulgation of a successor rule, statute or regulation thereto, a change in this Agreement shall be permitted or necessary to assure continued compliance with Rule 15c2-12

and upon delivery of an opinion of Bond Counsel to the Issuer addressed to the Participants and the Dissemination Agent to the effect that such amendments shall be permitted or necessary to assure continued compliance with Rule 15c2-12 as so amended or interpreted, then the Participants and the Dissemination Agent shall amend this Agreement to comply with and be bound by any such amendment to the extent necessary or desirable to assure compliance with the provisions of Rule 15c2-12 and shall provide written notice of such amendment as required by Section 4.9(c) hereof.

Section 4.11 Governing Law. This Agreement shall be governed exclusively by and construed in accordance with the laws of the State of New York and the federal laws of the United States of America, as applicable.

Section 4.12 Termination of Participants' Continuing Disclosure Obligations. The continuing obligation of any Participant under Section 2.1 hereof to provide the Annual Report and any Disclosure Event Notice and to comply with the other requirements of this Agreement shall terminate if and when either (a) such Participant's allocable share of the Bonds are no longer Outstanding in accordance with the terms of the Indenture or (b) such Participant no longer remains an "obligated person" (as such term is defined in Rule 15c2-12) with respect to the Bonds, and, in either event, only after such Participant delivers, or causes the Dissemination Agent to deliver, written notice to such effect to the MSRB. This Agreement shall be in full force and effect from the date of issuance of the Bonds and shall continue in effect until the date the Bonds are no longer Outstanding in accordance with the terms of the Indenture.

Section 4.13 Prior Undertakings. Each Participant has not failed to comply in any material respect with any prior continuing disclosure undertaking made by it in accordance with Rule 15c2-12.

Section 4.14 Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the Participants and the Dissemination Agent and their respective successors and assigns.

Section 4.15 Obligations of Each Participant. Notwithstanding anything in this Agreement to the contrary, the liability of each Participant for indemnification of any of the Indemnified Parties under this Agreement is the responsibility of each individual Participant; no Participant shall be responsible for the indemnification liabilities of any other Participant.

IN WITNESS WHEREOF, the PARTICIPANTS and THE BANK OF NEW YORK MELLON have caused this Agreement to be executed in their respective names and their corporate seals to be hereunto affixed and attested by their duly authorized officers, all as of the date first above written.

**EDEN II SCHOOL FOR AUTISTIC CHILDREN,
INC.**

By: _____
Authorized Officer

INSTITUTE FOR COMMUNITY LIVING, INC.

By: _____
Authorized Officer

**THE BANK OF NEW YORK MELLON, as
Dissemination Agent and Trustee**

By: _____
Authorized Officer

Approved By:

**INTERAGENCY COUNCIL OF DEVELOPMENTAL
DISABILITIES AGENCIES, INC.,
as Facilitator**

By: _____
Name
Title

EXHIBIT A

FORM OF ANNUAL REPORT

Name of Issuer: Build NYC Resource Corporation
Obligated Person(s): [Name of Participant]
Name of Bond Issue: Revenue Bonds (Special Needs Facilities Pooled Program), Series 2013A-1 and Series 2013A-2 (Federally Taxable)
Date of Issuance: April 17, 2013
Date of Official Statement: April 8, 2013
CUSIP No. _____, _____

Funding Sources. Funding sources for the Obligated Person's 20__ Fiscal Year were: the New York State Education Department ("SED") (approximately __%), the State of New York Office for People with Developmental Disabilities ("OPWDD") (approximately __%), the New York State Department of Health ("DOH") (approximately __%), the New York State Office of Mental Health ("OMH") (approximately __%), the New York City Department of Mental Health ("DMH") (approximately __%), the New York City Department of Homeless Services ("DHS") (approximately __%), and miscellaneous other sources (approximately __%).

Debt Service Coverage.

Calculated in accordance with the requirements of the Loan Agreement between the Issuer and the Obligated Person, the Debt Service Coverage for Fiscal Year 20__ is as follows:

Net Income (after adj.)

Plus Depreciation

Plus Interest Expense

Equals Total Cash Flow for Debt Service

Maximum Annual Debt Service

Debt Service Coverage Ratio

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EXHIBIT B

PARTICIPANTS' NOTICE ADDRESSES

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