

NEW ISSUE

(See "RATINGS" herein)

In the opinion of Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the Authority described herein, interest on the Notes is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Notes is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Bond Counsel is further of the opinion that, under existing statutes, interest on the Notes is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof, including The City of New York. See "TAX MATTERS" herein.

\$70,000,000

SUFFOLK COUNTY WATER AUTHORITY

NEW YORK

Variable Rate Bond Anticipation Notes, 2008

Dated: January 17, 2008

Due: January 15, 2013

The Notes will be issued as registered Notes and principal, when due, will be payable to the registered owners upon surrender of the Notes at the office of the Paying Agent, The Bank of New York, New York, New York, or its successor (the "Paying Agent"). The Notes are issuable in book-entry form only, in denominations of \$100,000 and any \$5,000 integral multiple thereof and when issued will be registered in the name of Cede & Co., as Noteholder and Securities Depository Nominee of The Depository Trust Company, New York, New York ("DTC"). So long as DTC or its nominee, Cede & Co., is the registered owner of the Notes, payments of the principal and Purchase Price of and interest on the Notes will be made by the Paying Agent directly to Cede & Co. See "DESCRIPTION OF THE NOTES - Book-Entry-Only System" herein.

The Notes are limited obligations of the Authority and are not a debt of the State of New York or of Suffolk County or of any municipality in the State or Suffolk County and neither the State of New York, Suffolk County nor any municipality in the State or Suffolk County shall be liable thereon. The Authority has no taxing power.

Interest on the Notes is payable from moneys in the General Fund of the Authority. Revenues of the Authority are transferred from the Revenue Fund to the General Fund only after the required payments to the Operating Fund, to the holders of the Original Water Works Revenue Bonds, to the Bond Fund and to the Secondary Bond Fund. The principal amount of the Notes is payable out of proceeds from the sale of the Series of Bonds in anticipation of which the Notes are being issued, subject to the rights of the holders of any Bonds Outstanding under the General Resolution, and any available moneys in the General Fund provided that all required payments have been made as described above in the preceding sentence. See "SECURITY FOR THE NOTES" herein.

The Notes will initially bear interest at the Weekly Rate from and including the date of initial delivery thereof. The Weekly Rate for the Notes will be determined by Goldman, Sachs & Co. (the "Remarketing Agent") in the manner described herein. While the Notes bear interest at the Weekly Rate, interest will be paid on the first (1st) Wednesday of each calendar month and computed on the basis of a year of 365 or 366 days, as appropriate, for the actual number of days elapsed. The interest rate on the Notes may be changed to a Daily, Monthly or Semi-annual Rate as described herein. See "DESCRIPTION OF THE NOTES" herein.

The Notes are subject to optional redemption prior to their stated maturity date as described herein. See "DESCRIPTION OF THE NOTES - Redemption of Notes" herein. The Notes will also be subject to optional and mandatory tender for purchase as described herein. Subject to certain conditions, funds for the purchase of such Notes that are tendered or deemed tendered for purchase and not successfully remarketed will be provided by The Bank of Nova Scotia, acting through its New York Agency (the "Standby Purchaser"), pursuant to the Standby Agreement, which will expire on January 15, 2013, unless earlier terminated as described herein. In the event the obligations of the Standby Purchaser under the Standby Agreement are terminated or suspended, sufficient funds may not be available to purchase Notes tendered by the Holders thereof. In addition, in the event of a termination of the then existing Liquidity Facility without the substitution of an Alternate Liquidity Facility, there shall be no sale of Notes under the Remarketing Agreement. AMOUNTS AVAILABLE FOR THE PAYMENT OF THE PURCHASE PRICE FOR TENDERED OR DEEMED TENDERED NOTES ARE EXPECTED TO BE DERIVED FROM REMARKETING PROCEEDS OR AMOUNTS, IF ANY, AVAILABLE UNDER THE STANDBY AGREEMENT OR ANY LIQUIDITY FACILITY, AS DESCRIBED HEREIN. THE STANDBY AGREEMENT MAY BE IMMEDIATELY TERMINATED WITHOUT NOTICE, AS DESCRIBED HEREIN.

The Notes are offered when, as and if issued and received by the Underwriter and subject to the approval of legality by Nixon Peabody LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, McKenna Long & Aldridge LLP, New York, New York. It is expected that the Notes will be available for delivery through the facilities of DTC on or about January 17, 2008.

GOLDMAN, SACHS & CO.

Dated: January 11, 2008

ADDRESSES FOR PRINCIPAL PARTIES

Authority	Suffolk County Water Authority Sunrise Highway at Pond Road Oakdale, New York 11769 Telephone: (631) 563-0264 Facsimile: (631) 218-1156
Bond Fund Trustee, Tender Agent and Paying Agent	The Bank of New York 101 Barclay Street – Floor 7W New York, New York 10286 Telephone: (212) 815-5735 Facsimile: (732) 667-9208
Standby Purchaser	The Bank of Nova Scotia, acting through its New York Agency One Liberty Plaza, 26 th Floor New York, New York 10006 Telephone: (212) 225-5478 Facsimile: (212) 225-5274
Remarketing Agent	Goldman, Sachs & Co. 85 Broad Street, 29 th Floor New York, New York 10004 Attention: Municipal Money Market Desk Telephone: (212) 902-6633 Facsimile: (212) 346-4209

REGARDING THIS OFFICIAL STATEMENT

The Suffolk County Water Authority has executed and issued this as its Official Statement with respect to its Notes, has authorized the Underwriter designated on the front cover of this Official Statement to offer the Notes for sale to the public by means of this Official Statement and has approved the inclusion of information within this Official Statement as being, as of the date hereof, in full disclosure of all material facts of interest to prospective purchasers contemplating purchase of the Notes. The Authority hereby designates the Underwriter named on the front cover of this Official Statement as its agent for purposes of distributing copies of this Official Statement. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

No purchaser, dealer, broker, salesperson or other person has been authorized by the Authority to give any information or to make any representations with respect to the Notes, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Certain information contained herein has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and it is not to be construed as a representation of the Authority. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or of Suffolk County or the other matters described herein since the date hereof.

The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

This Official Statement should be considered in its entirety and no one factor considered less important than any other by reason of its location herein. Where agreements, reports or other documents are referred to herein, reference should be made to such agreements, reports or other documents for more complete information regarding the rights and obligations of parties thereto, facts and opinions contained therein and the subject matter thereof.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute “forward-looking statements.” In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the Authority’s financial results could cause actual results to differ materially from those stated in the forward-looking statements.

A wide variety of other information, including financial information, concerning the Authority is available from the Authority’s website. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

IN CONNECTION WITH THE OFFERING OF THE NOTES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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This Table of Contents does not list all of the subjects contained in this Official Statement and in all instances reference should be made to the complete Official Statement to determine all of the subjects set forth therein.

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OFFICIAL STATEMENT

Relating to

SUFFOLK COUNTY WATER AUTHORITY

New York

\$70,000,000

Variable Rate Bond Anticipation Notes, 2008

INTRODUCTION

The purpose of this Official Statement is to set forth certain information pertaining to the Suffolk County Water Authority (the "Authority"), its water supply and distribution system and the revenues generated by it, the Authority's \$70,000,000 Variable Rate Bond Anticipation Notes, 2008 (the "Notes"), and the resolution pursuant to which they were issued, and other related matters in connection with the sale of the Notes. Capitalized terms used but not otherwise defined in this Official Statement have the meanings given them in the section entitled "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definition of Certain Terms" in Appendix A hereto.

The Authority, a body corporate and politic constituting a public benefit corporation organized and existing under the Suffolk County Water Authority Act, as amended (the "Act"), was created for the purpose of acquiring, constructing, maintaining and operating a water supply and distribution system within the territorial boundaries of Suffolk County, New York (the "Water System" or "System," as more particularly described in the Section entitled "SERVICE AREAS, PLANT FACILITIES AND WATER SUPPLY").

The Authority proposes to issue \$70,000,000 aggregate principal amount of its Variable Rate Bond Anticipation Notes, 2008, dated January 17, 2008, pursuant to the Act, the Water System Revenue Bonds Bond Resolution adopted by the Authority on September 27, 1988, as amended on October 27, 1988 and as further amended on March 30, 1993 and on November 29, 1994 (the "General Resolution"), and a supplemental resolution adopted by the Authority on July 10, 2007 (the "Supplemental Resolution," and together with the General Resolution, the "Resolution"). The Notes are being issued in anticipation of the issuance of the Series of Bonds authorized to be issued in the amount of not to exceed \$80,000,000 pursuant to the Supplemental Resolution (the "Authorized Series of Bonds"). The proceeds of the Notes are to be deposited in the New Construction Fund of the Authority to provide moneys for the Cost of Acquisition and Construction of improvements and additions to the Water System. See "CAPITAL IMPROVEMENT PLAN" herein.

The principal of the Notes at maturity is payable solely from the proceeds of sale of the Authorized Series of Bonds. Subject to the ability of the Authority to meet the additional Bonds test and certain other conditions under the General Resolution, the Authorized Series of Bonds may be issued at any time hereafter and, if and when issued, will be Senior Lien Bonds secured on a parity with all other Senior Lien Bonds now or hereafter issued and from time to time outstanding under the Resolution. The specific terms, amortization and conditions of sale of the Authorized Series of Bonds must be determined

by the Authority in a supplemental resolution to be adopted at a future date. While the Authority may legally make payments of principal of the Notes from sources other than the proceeds of sale of the Authorized Series of Bonds, the Authority makes no representation as to the availability of any such funds. The Authority has no taxing power.

The Notes will be subject to optional and mandatory tender for purchase as further described herein. Subject to certain conditions, the Purchase Price of Notes tendered or deemed tendered for purchase and not successfully remarketed will be provided by The Bank of Nova Scotia, acting through its New York Agency (the "Standby Purchaser"), pursuant to a Standby Note Purchase Agreement, dated January 17, 2008 (the "Standby Agreement"), among the Standby Purchaser, the Authority, the Paying Agent and The Bank of New York, New York, New York, as the initial tender agent (the "Tender Agent"). Proceeds of the Standby Agreement will not be available to pay the principal of or interest on the Notes when due, which are the obligations of the Authority only. The Standby Agreement terminates on January 15, 2013 and may be terminated prior to that date upon the happening of certain Events of Termination (as defined herein), some of which may occur without prior notice to the Noteholders, which might result in the termination of the Standby Agreement without any opportunity to the Noteholders to tender their Notes for purchase. The Authority may obtain an Alternate Liquidity Facility pursuant to the Supplemental Resolution, as further described in the subsection "STANDBY AGREEMENT – Alternate Liquidity Facility" herein.

The Resolution requires the Authority to fix, establish and collect (or cause to be fixed, established and collected) rates, tolls, rents and other charges for the water distributed by it and for any services or facilities sold, furnished or supplied by the Water System, which will be sufficient in each Fiscal Year to produce revenues which, together with other moneys lawfully available, will be equal to at least the sum of (A) Debt Service for such Fiscal Year on all Bonds of the Authority, (B) the necessary expenses of operating, maintaining, renewing and replacing the Water System and maintaining required Reserve Accounts and Secondary Reserve Accounts and (C) the additional amounts, if any, required to pay all other charges or liens whatsoever payable from the Revenues in such Fiscal Year.

The Act expressly declares that neither the Public Service Commission of New York (the "PSC") nor any other board or commission of like character has jurisdiction over the Authority in the management and control of its properties or operations or any power over the regulation of rates fixed or charges collected by the Authority.

The Authority has never defaulted in the payment of maturing principal of or interest on any of its bonds or notes.

Since it began operating the Water System, the Authority has not only paid and retired from its revenues its outstanding bonds and other obligations as they became due, but has also applied substantial amounts of its revenue, after provision for operating and maintenance expenses, to further investment in the System.

This Official Statement contains certain "forward-looking statements" concerning the Authority's operations and financial condition. These statements are based upon a number of assumptions and estimates which are subject to significant uncertainties, many of which are beyond the control of the Authority. The words "may," "would," "could," "will," "expect," "anticipate," "believe," "intend," "plan," "estimate" and similar expressions are meant to identify these forward-looking statements. Actual results may differ materially from those expressed or implied by these forward-looking statements.

DESCRIPTION OF THE NOTES

Set forth below is a narrative description of certain provisions relating to the Notes. These provisions have been summarized, and this description does not purport to be complete. Reference should be made to the Resolution, copies of which are on file with the Authority. See also Appendix A hereto, for an additional description of certain provisions of the Notes.

General

The Notes will be issued, pursuant to the Resolution, as fully registered notes in denominations of \$100,000 and any \$5,000 integral multiple thereof. The Notes will be dated the date of their initial delivery, will initially bear interest at the Weekly Rate until such time, if ever, as the interest rate mode of the Notes is changed, as set forth herein. The first Interest Payment Date for the Notes will be February 6, 2008. Thereafter, while the Notes bear interest at the Daily Rate, the Interest Payment Date will be the fifth (5th) Business Day of each calendar month. While the Notes bear interest at the Weekly Rate, the Interest Payment Date will be the first (1st) Wednesday of each calendar month. The Interest Payment Date will be the first (1st) Business Day of each calendar month, while the Notes bear interest at the Monthly Rate and the first (1st) Business Day of every January and July while at the Semi-annual Rate. See subsection entitled "Interest Accrual and Payment Dates" herein.

The interest rate to be borne by the Notes from time to time will be determined by the Remarketing Agent as described herein under the subsection entitled "Determination of Interest Rate."

The Notes, when issued, will be registered in the name of, and held by, Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). So long as DTC or its nominee, Cede & Co., is the registered owner of the Notes, payments of the principal and Purchase Price of and interest on the Notes will be made by the Paying Agent directly to Cede & Co. Disbursement of such payments to the Direct Participants (as defined herein) is the responsibility of DTC and disbursement of such payments to Beneficial Owners of the Notes is the responsibility of the Direct Participants and the Indirect Participants (as defined herein). A Beneficial Owner will give notice to elect to have its Notes purchased or tendered, through its Direct Participant, to the Tender Agent, and will effect delivery of such Notes by causing the Direct Participant to transfer the Direct Participant's interest in the Notes, on DTC's records, to the Tender Agent. The requirement for physical delivery of Notes in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Notes are transferred by Direct Participants on DTC's records. See subsection entitled "Book-Entry-Only System" herein.

If the Notes are not registered in the name of DTC or its nominee, Cede & Co.: (1) interest on the Notes will be payable by check or draft mailed to the Noteholders at their addresses as shown on the registration books held by the Paying Agent on the Record Date; provided, however, the Paying Agent will, at the request of a Noteholder of at least \$1,000,000 in principal amount of Notes, provide for the payment of interest by wire transfer to the wire transfer address within the United States of America designated by such Noteholder or may make arrangements for payment of interest satisfactory to it and the Noteholder; (2) the Purchase Price of the Notes will be payable upon presentation and surrender of such Notes at the principal corporate trust office of the Tender Agent; and (3) principal will be payable at maturity or prior redemption at the principal corporate trust office of the Paying Agent, upon presentation and surrender of such Notes to the Paying Agent.

The Record Date is the last Business Day immediately preceding each Interest Payment Date on the Notes.

Depending on the interest rate mode then in effect for the Notes, the dates interest rates are effective, the dates that notices of tender are required to be given, the dates Notes are to be tendered, the dates for notices of conversion to other interest rate modes, and provisions for mandatory tender for purchase applicable to the Notes will vary. (See the balance of this section entitled “DESCRIPTION OF THE NOTES” and the subsection entitled “Interest Rate Mode Tables” herein for further details.)

While the Notes bear interest at the Daily Rate, interest will be determined daily and paid monthly; while the Notes bear interest at the Weekly Rate, interest will be determined weekly and paid monthly; while the Notes bear interest at the Monthly Rate, interest will be determined monthly and paid monthly; and while the Notes bear interest at the Semi-annual Rate, interest will be determined for periods of six months, which periods must begin on either a January 1 or a July 1, and will be paid semi-annually. Interest on the Notes will be computed, during any Effective Interest Rate Period, on the basis of a year of 365 or 366 days, as appropriate, for the actual number of days elapsed, except that while the Notes bear interest at a Semi-annual Rate, interest will be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Notes or on the principal portion thereof tendered or deemed tendered for purchase will cease to accrue on the date fixed for purchase.

Interest Accrual and Payment Dates

The Notes will bear interest from January 17, 2008, initially, at the Weekly Rate. The unpaid interest accruing on the Notes through the end of the most recently completed Interest Accrual Period will be payable on each Interest Payment Date. The Interest Accrual Periods are as follows: (1) while the Notes bear interest at the Daily Rate, each calendar month; (2) while the Notes bear interest at the Weekly Rate, each period beginning on the first (1st) Wednesday of each calendar month and ending on the Tuesday immediately preceding the first (1st) Wednesday of the next succeeding calendar month; (3) while the Notes bear interest at the Monthly Rate, each calendar month; and (4) while the Notes bear interest at the Semi-annual Rate, each period beginning on January 1 and ending on June 30 and each period beginning on July 1 and ending on December 31. In the event of a conversion from one interest rate mode to another, interest on the Notes will be paid on the next succeeding Interest Payment Date applicable to the interest rate mode then in effect, for the period commencing on the day immediately succeeding the last day of the most recent Interest Accrual Period for which interest on the Notes has been paid, to and including the last day of the Interest Accrual Period applicable to the interest rate mode then in effect.

The Interest Payment Dates are as follows: (1) while the Notes bear interest at the Daily Rate, the fifth (5th) Business Day of each calendar month; (2) while the Notes bear interest at the Weekly Rate, the first (1st) Wednesday of each calendar month, or, if the first Wednesday is not a Business Day, the next succeeding Business Day; (3) while the Notes bear interest at the Monthly Rate, the first (1st) Business Day of each calendar month; and (4) while the Notes bear interest at the Semi-annual Rate, the first (1st) Business Day of each January and July of each year.

Determination of Interest Rate

The Notes may bear interest at a Daily Rate, Weekly Rate, Monthly Rate or Semi-annual Rate as described above. With respect to any Effective Interest Rate Period, the Supplemental Resolution requires that the interest rate borne by the Notes will be determined by the Remarketing Agent to be the minimum rate of interest that, in the sole best judgment of the Remarketing Agent, under prevailing market conditions, enables the Notes to be remarketed and sold at a price of par (plus accrued interest, if any) on the Rate Determination Date applicable to such Effective Interest Rate Period (the “Interest Rate Determination Criteria”). The maximum annual rate of interest which the Notes may bear is the least of 12% per annum, or such other maximum rate permitted under the Standby Agreement or an Alternate Liquidity Facility then available to pay the Purchase Price of the Notes and the maximum rate of interest permitted by applicable law.

On each Rate Determination Date, the Remarketing Agent will give notice of the interest rate determined for such Rate Determination Date and the Effective Interest Rate Period, such notice to be given by facsimile transmission, telephone, telecopy, e-mail or similar electronic means (promptly confirmed by a written notice) to the Authority, the Tender Agent and the Paying Agent.

The Tender Agent will compute the amount of interest payable on the Notes for each Interest Accrual Period from the rates supplied by the Remarketing Agent. The Tender Agent will promptly notify the Authority and the Paying Agent by facsimile transmission, telephone, telecopy, e-mail or similar electronic means, promptly confirmed by a written notice, of the amount to become due on each Interest Payment Date. The Paying Agent is required to confirm the interest rate at any time in effect by telephone or in writing to the owner of any Note, upon such owner’s request. The setting of the rates and the calculation of interest payable on the Notes as provided in the Supplemental Resolution will be conclusive and binding on the owners of the Notes, the Authority, the Paying Agent, the Standby Purchaser and the Tender Agent.

Conversion to an Alternate Interest Rate Mode

The interest rate mode for all (but not less than all) of the Notes may be changed upon the direction of the Authority in accordance with the provisions of the Supplemental Resolution. Notes may be converted to Notes bearing interest at the Daily Rate, the Weekly Rate, the Monthly Rate or the Semi-annual Rate, which conversion shall become effective on the applicable day which is at least twenty (20) days after the Remarketing Agent, the Tender Agent, the Standby Purchaser (or Liquidity Bank) and the Paying Agent receive written notice from the Authority: (i) exercising its option to so convert the Notes; (ii) specifying whether the Notes will bear interest at the Daily, Weekly, Monthly or Semi-annual Rate, as the case may be; and (iii) specifying the Conversion Date. The Conversion Date must be a date which would be an appropriate Rate Adjustment Date for the new interest rate mode, *i.e.*, if the Notes are to bear interest at the Daily Rate, any day; if the Notes are to bear interest at the Weekly Rate, any Wednesday; if the Notes are to bear interest at the Monthly Rate, the first day of a calendar month; and if the Notes are to bear interest at the Semi-annual Rate, a January 1 or July 1.

The Standby Agreement provides for the purchase of the Notes at par plus forty-five (45) days accrued interest only. If the Notes were to be converted to a Semi-annual Rate, interest on the Notes would be paid semi-annually and, in the event of an optional or mandatory tender for purchase, the accrued interest on the Notes to be purchased might exceed forty-five (45) days. Accordingly, the Supplemental Resolution forbids any conversions to occur unless there is in place a Liquidity Facility

which will be sufficient to provide for the purchase of Notes then Outstanding, except for any Notes purchased by the Standby Purchaser upon an optional or mandatory tender for purchase and not yet remarketed or redeemed (“Bank Notes”), at par plus at least thirty (30) days accrued interest thereon at the Maximum Rate (or in the case of a conversion to the Semi-annual Rate, at least one hundred eighty-three (183) days accrued interest thereon at the Maximum Rate). The Supplemental Resolution does, however, permit the amount required to be available in respect of interest under the Liquidity Facility to be reduced if such reduction will not result in a reduction, suspension or withdrawal of the rating then assigned to the Notes by any rating agency. The Supplemental Resolution also requires that such amount shall be increased if such increase is necessary in order to maintain such rating. Since the Standby Agreement hereinafter discussed provides for the purchase of the Notes at par plus at least forty-five (45) days accrued interest only, the Supplemental Resolution forbids any conversion to the Semi-annual Rate unless and until the Authority and the Standby Purchaser amend the Standby Agreement to increase the interest component of the commitment thereunder to at least one hundred eighty-three (183) days accrued interest. The Authority has also covenanted to obtain, in such event, before the Semi-annual Rate Conversion Date, from any rating agency then rating the Notes, a confirmation that such amendment will not result in a withdrawal, suspension or reduction of the ratings on the Notes.

When a conversion in the interest rate mode is to be made, the Paying Agent will notify each rating agency then rating the Notes and the Noteholders by first-class mail at least fifteen (15) but not more than sixty (60) days before the applicable Conversion Date. The notice is required to state: (i) that the interest rate mode will be converted and what the new interest rate mode will be; (ii) the effective date of the new interest rate mode; (iii) a description of the new interest rate mode and the applicable maximum interest rate and that the Remarketing Agent will provide each new interest rate upon request and describing how to make such request; (iv) that the Notes will not be so converted unless the Authority and the Paying Agent receives on the effective date of the new interest rate mode a Favorable Opinion of Bond Counsel; (v) if applicable and known to the Paying Agent, that any rating assigned to the Notes will be suspended or withdrawn, that such rating will be revised or reduced (specifying the new rating) or that such ratings will not be suspended, withdrawn, revised or reduced; and (vi) whether such Noteholders have a right or are obligated to tender their Notes for purchase during the new Effective Interest Rate Period and, if so, the procedures to be followed.

No change will be made in the interest rate mode if the Paying Agent receives written notice prior to such change that the Authority has rescinded its election to make such change. If the Paying Agent sends any notice to Noteholders regarding a change in the interest rate mode before receiving such notice of rescission, the Paying Agent will promptly notify all Noteholders of such rescission.

Daily Rate

Commencing on any Daily Rate Conversion Date and continuing until, but excluding, the date on which the interest rate mode of the Notes is converted to another interest rate mode or the final maturity date, as the case may be, the Notes will bear interest at the Daily Rate. The Daily Rate will be determined in accordance with the Interest Rate Determination Criteria described above by the Remarketing Agent and announced by 10:00 a.m. (New York City time) on each Rate Determination Date for the Daily Rate to be effective for the applicable Effective Interest Rate Period until a new interest rate is established pursuant to the Supplemental Resolution.

If for any reason a Daily Rate for the Notes is not so established for any Business Day by the Remarketing Agent, the Daily Rate for such Business Day shall be the same as the Daily Rate for the immediately preceding day and such rate shall continue until the earlier of (A) the date on which the

Remarketing Agent determines a new Daily Rate or (B) the seventh day succeeding the first such day on which such Daily Rate is not determined by the Remarketing Agent. In the event that the Daily Rate shall be held to be invalid or unenforceable by a court of law, or the Remarketing Agent fails to determine a new Daily Rate for a period of seven (7) days as described in clause (B) of the immediately preceding sentence, the interest rate applicable to the Notes, as determined by the Remarketing Agent, shall be the interest rate per annum equal to 100% of the SIFMA Index, or if such index is no longer available, 85% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal for each Business Day (and for the immediately preceding Business Day for each day which is not a Business Day) until such Daily Rate is again validly determined by such Remarketing Agent. Prior to applying such rate determination formula, the Paying Agent shall receive a Favorable Opinion of Bond Counsel.

Weekly Rate

Commencing on any Weekly Rate Conversion Date, and continuing until, but excluding, the date on which the interest rate mode of the Notes is converted to another interest rate mode or the final maturity date, as the case may be, the Notes will bear interest at the Weekly Rate. The Weekly Rate will be determined in accordance with the Interest Rate Determination Criteria described above and announced by 5:00 p.m. (New York City time) on each Rate Determination Date for the Weekly Rate to be effective for the applicable Effective Interest Rate Period until a new interest rate is established pursuant to the Supplemental Resolution.

If the Remarketing Agent fails to establish a Weekly Rate for any week with respect to the Notes bearing interest at such rate, then the Weekly Rate for such week with respect to such Notes shall be the same as the immediately preceding Weekly Rate if such Weekly Rate was determined by the Remarketing Agent. If the immediately preceding Weekly Rate was not determined by the Remarketing Agent, or if the Weekly Rate determined by the Remarketing Agent is held to be invalid or unenforceable by a court of law, then the Weekly Rate for such week, as determined by the Remarketing Agent, shall be equal to 100% of the SIFMA Index, or if such index is no longer available, 85% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal on the day such Weekly Rate would otherwise be determined as provided herein. Prior to applying such rate determination formula, the Paying Agent shall receive a Favorable Opinion of Bond Counsel.

Monthly Rate

Commencing on any Monthly Rate Conversion Date, and continuing until, but excluding, the date on which the interest rate mode of the Notes is converted to another interest rate mode or the final maturity date, as the case may be, the Notes will bear interest at the Monthly Rate. The Monthly Rate will be determined in accordance with the Interest Rate Determination Criteria described above and announced by 5:00 p.m. (New York City time) on each Rate Determination Date for the Monthly Rate to be effective for the applicable Effective Interest Rate Period until a new interest rate is established pursuant to the Supplemental Resolution.

If on any Rate Determination Date during the period that Notes bear interest at the Monthly Rate, the Remarketing Agent fails to determine the Monthly Rate for the Notes, or a court of competent jurisdiction holds that the rate so determined is invalid or unenforceable, the Monthly Rate for

the applicable Effective Interest Rate Period will be equal to 85% of the average annual bond equivalent yield applicable to 13-week United States Treasury Bills at the most recent Treasury auction before the applicable Rate Determination Date at which such Treasury Bills were sold, as announced by the Federal Reserve Bank of New York, until the Remarketing Agent can determine and apply the Monthly Rate in the manner described above. Before applying such rate determination formula, the Paying Agent must receive a Favorable Opinion of Bond Counsel.

Semi-annual Rate

Commencing on any Semi-annual Rate Conversion Date, and continuing until, but excluding, the date on which the interest rate mode of the Notes is converted to another interest rate mode or the final maturity date, as the case may be, the Notes will bear interest at the Semi-annual Rate. The Semi-annual Rate will be determined in accordance with the Interest Rate Determination Criteria described above and announced by 5:00 p.m. (New York City time) on each Rate Determination Date for the Semi-annual Rate to be effective for the applicable Effective Interest Rate Period until a new interest rate is established pursuant to the Supplemental Resolution.

If on any Rate Determination Date during the period that Notes bear interest at the Semi-annual Rate, the Remarketing Agent fails to determine the Semi-annual Rate for the Notes, or a court of competent jurisdiction holds that the rate so determined is invalid or unenforceable, the Semi-annual Rate for the applicable Effective Interest Rate Period will be equal to 90% of the average annual bond equivalent yield applicable to 13-week United States Treasury Bills at the most recent Treasury auction before the applicable Rate Determination Date at which such Treasury Bills were sold, as announced by the Federal Reserve Bank of New York, until the Remarketing Agent can again determine and apply the Semi-annual Rate in the manner described above. Before applying such rate determination formula, the Paying Agent must receive a Favorable Opinion of Bond Counsel.

As discussed above, the Supplemental Resolution forbids any conversions to the Semi-annual Rate unless the Authority and the Standby Purchaser amend the Standby Agreement to increase the interest component of the commitment thereunder to at least one hundred eighty-three (183) days accrued interest. The Authority has also covenanted to obtain, in such event, before the Semi-annual Rate Conversion Date, from any rating agency then rating the Notes, a confirmation that such amendment will not result in a withdrawal, suspension or reduction of the ratings on the Notes.

Purchase of the Notes

Right of Noteholder to Demand Purchase. All or a portion of any Note will be purchased from the owner thereof at the option of such owner on (i) any Business Day while the Notes bear interest at the Daily or Weekly Rate; (ii) any Interest Payment Date while the Notes bear interest at the Monthly Rate; (iii) the first (1st) Business Day of any January or July, while the Notes bear interest at the Semi-annual Rate (the "Purchase Date"), at a purchase price equal to the principal amount thereof to be purchased (which amount must be an Authorized Denomination) plus accrued interest, if any, to but not including the Purchase Date (the "Purchase Price"), upon delivery by such owner to the Tender Agent at its principal office of an irrevocable written notice, which states the principal amount of such Note and the day on which such Note is to be purchased. Such notice must be delivered to the Tender Agent: (i) while the Notes bear interest at the Daily Rate, no later than 11:00 a.m. (New York City time) on the Purchase Date and (ii) while the Notes bear interest at the Weekly Rate, the Monthly Rate or the Semi-annual Rate no later than 4:00 p.m. (New York City time) on a Business Day at least seven (7) days

before the Purchase Date. Any notice delivered to the Tender Agent after the time specified described above will be deemed to have been received on the next succeeding Business Day. Payment of the Purchase Price by wire transfer in immediately available funds will be made by 3:00 p.m. (New York City time) on the Purchase Date upon delivery of such Note to the Tender Agent, accompanied by an instrument of transfer thereof in form satisfactory to the Tender Agent, at or prior to 11:00 a.m. (New York City time) on the Purchase Date, or, if applicable, in accordance with the requirements of DTC or any successor securities depository. **The right of Noteholders to demand purchase of Notes as described in the foregoing section may be revoked at any time without notice to the Noteholder upon the occurrence of certain Events of Termination and resulting termination of the Standby Agreement.**

Mandatory Tender for Purchase Upon Termination, Expiration, Reduction, Modification or Replacement of the Liquidity Facility. If the Paying Agent gives notice that the Purchase Price of any Note or Notes payable from the Liquidity Facility as then in effect will on the date specified in such notice cease to be payable from such Liquidity Facility as a result of: (i) the termination or expiration of the term of such Liquidity Facility, (ii) the occurrence of an Event of Termination under the Liquidity Facility (other than an Event of Termination resulting in immediate termination of the Liquidity Facility without notice or demand), or (iii) the reduction, modification or replacement of the Liquidity Facility with the effect that the Purchase Price of Outstanding Notes is no longer payable from such Liquidity Facility, then (a) on the Interest Payment Date before such termination, expiration, reduction, replacement or modification or, (b) in the case of an Event of Termination under the Liquidity Facility, prior to termination, but in any case, on a Business Day not less than five (5) days but not more than nine (9) days after receipt of notice that an Event of Termination has occurred, each such Note will be purchased or deemed purchased at the Purchase Price, as described below. **Notwithstanding the foregoing, there will be no tender for purchase of the Notes following the immediate termination of the Standby Agreement without prior notice unless and until the Authority obtains an Alternate Liquidity Facility. See “STANDBY AGREEMENT - Consequences of an Event of Termination” herein.**

Notwithstanding anything in the Supplemental Resolution described above to the contrary, and provided a Liquidity Facility is in effect with respect to the Notes, in the event that in connection with any reduction or modification of the Liquidity Facility, the Authority delivers to the Tender Agent, the Remarketing Agent, the Liquidity Bank and the Paying Agent, before the date that notice of such reduction or modification is given by the Paying Agent, written evidence from the rating agencies then rating the Notes, to the effect that such reduction or modification, in and of itself, will not result in the withdrawal, suspension or reduction of the rating(s) then applicable to the Notes, then the Notes will not be subject to mandatory tender for purchase as described above solely as a result of such reduction or modification.

The Paying Agent must give notice by mail to the Noteowners (i) on or before the thirty-fifth (35th) day before the Interest Payment Date in the case of the termination or expiration of any Liquidity Facility in accordance with its terms, or any reduction, modification or replacement of the terms of the Liquidity Facility and of which the Tender Agent has notified the Paying Agent, or (ii) within five (5) calendar days, or the next Business Day if such fifth (5th) calendar day is not a Business Day, following receipt of notice of an Event of Termination under the Standby Agreement. Such notice must (a) describe generally the Liquidity Facility, if any, in effect prior to such termination, expiration, reduction, modification or replacement and the Alternate Liquidity Facility, if any, in effect or to be in

effect upon such termination, expiration, reduction, modification or replacement, (b) state the date of such termination, expiration or replacement, and the date of the proposed substitution of the Alternate Liquidity Facility (if any), (c) describe any reduction or modification of the Liquidity Facility and the effective date thereof, and if the Liquidity Facility is being replaced, a description of the replacement therefor, including the expiration date and rating thereof, (d) specify the ratings, if any, to be applicable to such Notes after such termination, expiration, reduction, modification or replacement, of the Liquidity Facility or state that no ratings have been obtained with respect to such Notes for the period subsequent to such termination, expiration, reduction, modification or replacement of the Liquidity Facility, (e) state that the Notes will be purchased on the Interest Payment Date prior to such expiration, termination, reduction, modification, replacement or, in the case of a mandatory purchase due to an Event of Termination under the Standby Agreement, on the date determined as provided in the Supplemental Resolution, and (f) if such Notes are subject to mandatory purchase, any other information required in the notice to the owners of the Notes by the Supplemental Resolution.

Payment Upon Mandatory Tender. Payment of the Purchase Price of any such Note will be made in immediately available funds by 3:00 p.m. (New York City time) on the Purchase Date upon delivery of such Note to the Tender Agent at its principal office for delivery of Notes, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, at or prior to 10:00 a.m. (New York City time) on the date specified for such delivery in the notice of such expiration, termination, replacement, reduction or modification of the Liquidity Facility, or, if applicable, in accordance with the requirements of DTC. If as a result of any such expiration, termination, replacement, reduction or modification of the Liquidity Facility, the Purchase Price of any Note is no longer payable from the Liquidity Facility, the owner of such Note, upon notice from the Tender Agent, must present such Note to the Paying Agent for notation thereon of any distinguishing mark required to be included thereon at the request of any rating agency then rating the Notes or at the request of the Authority.

No Remarketing of Notes Without Liquidity Facility

The Supplemental Resolution provides that, notwithstanding anything in the Supplemental Resolution to the contrary, if the Authority has exercised its option to terminate the then existing Liquidity Facility or if the then existing Liquidity Facility has been terminated without substitution of an Alternate Liquidity Facility, then there may be no sales of Notes under the Remarketing Agreement. The Supplemental Resolution permits sales of Notes to be resumed under the Remarketing Agreement upon receipt by the Tender Agent of an Alternate Liquidity Facility meeting the requirements of the Supplemental Resolution. In such event, the Supplemental Resolution prohibits the sale and tender of Notes by the Remarketing Agent and release of the Notes by the Paying Agent (except with respect to Bank Notes) until each one of the conditions to sales by the Remarketing Agent described in this paragraph have been met.

Purchase and Remarketing of Notes

Upon notice of the tender for purchase of Notes, and provided that the Liquidity Facility is in full force and effect, the Remarketing Agent will offer for sale and use its best efforts to sell Notes, any such sale to be made on the Purchase Date in accordance with the Supplemental Resolution. Notes required to be purchased pursuant to mandatory or optional tender will be purchased from the owners thereof, on the Purchase Date and at the Purchase Price at which such Notes are required to be purchased. Funds for the payment of such Purchase Price will be derived by the Tender Agent from the following sources in the following order of priority:

(i) proceeds of the sale of such Notes remarketed to any person other than the Authority and furnished to the Tender Agent by the Remarketing Agent for deposit into the Remarketing Account of the Note Purchase Fund; and

(ii) moneys furnished by the Standby Purchaser (or a Liquidity Bank under an Alternate Liquidity Facility) to the Tender Agent for deposit into the Liquidity Bank Account of the Note Purchase Fund representing moneys drawn under the Standby Agreement (or an Alternate Liquidity Facility).

In the event any Notes purchased pursuant to a mandatory or optional tender are not presented to the Tender Agent, the Tender Agent will segregate and hold the moneys for the Purchase Price of such Notes in trust for the benefit of the former owners of such Notes, who will, except as provided in the following sentence, thereafter be restricted exclusively to such moneys for the satisfaction of any claim for the Purchase Price of such Notes. Any moneys which the Tender Agent segregates and holds in trust for the payment of the Purchase Price of any Note and remaining unclaimed for two (2) years after the Purchase Date will, upon the Authority's written request to the Tender Agent, be paid to the Liquidity Bank to the extent the Liquidity Bank has not been reimbursed under the Liquidity Facility for a draw relating to such purchase, and thereafter to the Authority. After the payment of such unclaimed moneys to the Standby Purchaser or to the Authority, the former owners of such Notes may look only to the Authority for the payment thereof.

Disclosure Concerning Sales of Variable Rate Demand Notes by Remarketing Agent

The Remarketing Agent is Paid by the Authority. The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Notes that are optionally tendered by the owners thereof, all as further described in this Official Statement. The Remarketing Agent is appointed by the Authority and is paid by the Authority for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Notes.

The Remarketing Agent Routinely Purchases Notes for its Own Account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Notes for its own account. The Remarketing Agent, in its sole discretion, routinely acquires tendered Notes for its own inventory in order to achieve a successful remarketing of the Notes (i.e., because there otherwise are not enough buyers to purchase the Notes) or for other reasons. However, the Remarketing Agent is not obligated to purchase Notes, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Notes by routinely purchasing and selling Notes other than in connection with an optional tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Notes. If the Remarketing Agent purchases Notes for its own account, it may offer those Notes at a discount to par to some investors. The Remarketing Agent may also sell any Notes it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Notes. The purchase of Notes by the Remarketing Agent may create the appearance that there is greater third party demand for the Notes in the market than is actually the case. The practices described above also may reduce the supply of Notes that may be tendered in a remarketing.

Notes May be Offered at Different Prices on any Date. The Remarketing Agent is required to determine on the Rate Determination Date the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Notes at par plus accrued interest, if any, on the date the rate becomes effective (the "Effective Date"). The interest rate will reflect, among other factors, the level of market demand for the Notes (including whether the Remarketing Agent is willing to purchase Notes for its own account). The Remarketing Agreement requires that the Remarketing Agent use its best efforts to sell tendered Notes at par, plus accrued interest. There may or may not be Notes tendered and remarketed on a Rate Determination Date or an Effective Date, the Remarketing Agent may or may not be able to remarket any Notes tendered for purchase on such date at par and the Remarketing Agent, in its capacity as Noteholder, may sell Notes at varying prices to different investors on such date or any other

date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Notes at the remarketing price.

The Ability to Sell the Notes other than through Tender Process May Be Limited.

While the Remarketing Agent may buy and sell Notes, it is not obligated to do so and may cease doing so at any time without notice. Thus, investors who purchase the Notes, whether in a remarketing or otherwise, should not assume that they will be able to sell their Notes other than by tendering the Notes in accordance with the tender process.

Irrevocable Notice Deemed to be Tender

The giving of notice by the owner of a Note of its election to have its Note purchased will constitute the irrevocable tender for purchase of such Note regardless of whether such Note is delivered to the Tender Agent for purchase on the Purchase Date as provided in the Supplemental Resolution. If such owner fails to deliver its Note properly endorsed, such Note will constitute an Undelivered Note. If funds in the amount of the Purchase Price of such Note are available for payment to the owner of the Note on the Purchase Date, from and after the Purchase Date (i) such Note will be deemed to be purchased and will no longer be deemed to be outstanding under the Supplemental Resolution; (ii) interest will no longer accrue on such Note; and (iii) funds in the amount of the Purchase Price of such Note will be held by the Tender Agent for the benefit of the owner thereof (provided that such owner will have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of such Note to the Tender Agent at its principal office for delivery of Notes.

Redemption of Notes

Optional Redemption. On any Business Day for Notes bearing interest at a Daily Rate, Weekly Rate or Monthly Rate, and on any Interest Payment Date for Notes bearing interest at a Semi-annual Rate, the Notes will be subject to redemption at the option of the Authority, in whole or in part, at a redemption price equal to the principal amount of the Notes being redeemed plus unpaid accrued interest, if any.

Selection of Notes to be Redeemed. If fewer than all the Notes are called for redemption, the particular Notes or portions of Notes to be redeemed will be selected by the Authority, in such manner as the Authority in its discretion deems proper, in the principal amount designated to the Paying Agent by the Authority or otherwise as required by the Supplemental Resolution; provided, however, that in connection with any redemption of Notes, the Paying Agent must first select for redemption any Bank Notes.

In selecting Notes for redemption, the Paying Agent must treat each Note as representing that number of Notes which is obtained by dividing the principal amount of such Note by the then minimum Authorized Denomination. If it is determined that one or more, but not all, of the units of principal amount represented by any such Note is to be called for redemption, then, upon notice of intention to redeem such unit or units, the owner of such Note must forthwith surrender such Note to the Paying Agent for (i) payment to such owner of the redemption price of the unit or units of principal amount called for redemption and (ii) delivery to such owner of a new Note or Notes in the aggregate principal amount of the unredeemed balance of the principal amount of such Note. New Notes representing the unredeemed balance of the principal amount of such Note will be issued to the owner thereof, without charge therefor. If the owner of any such Note fails to present such Note to the Paying Agent for payment and exchange, such Note nevertheless will 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).

Notice of Redemption. Notice of redemption of Notes to be redeemed is to be mailed, not less than thirty (30) nor more than sixty (60) days before the redemption date, to the owner of each Note to be redeemed at the address that appears on the Note Register, but failure of any owner to receive any such notice will not affect the validity of the redemption proceedings.

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Interest Rate Mode Tables

The tables that follow are provided for the convenience of the Noteholders. The information contained in these charts is not intended to be comprehensive. Reference is made to the above description and the Resolution for a more complete description.

<u>Interest Rate Mode</u>	<u>Duration of Effective Interest Rate Period¹</u>	<u>Interest Accrual Period²</u>	<u>Interest Payment Date</u>
Daily	Each Business Day to but not including the next succeeding Business Day	Each calendar month	The fifth (5 th) Business Day of each calendar month
Weekly	From and including each Wednesday to and including the following Tuesday	From and including the first (1 st) Wednesday of each calendar month to and including the Tuesday before the first (1 st) Wednesday of the succeeding calendar month	The first (1 st) Wednesday of each calendar month
Monthly	From and including the first (1 st) calendar day of each month to and including the last calendar day of such month	Each calendar month	The first (1 st) Business Day of each calendar month
Semi-annual	From and including the first (1 st) day of January of each year to and including the last day of June of such year and from and including the first day of July of each year to and including the last day of December of such year	Each semi-annual period beginning January 1 or July 1	The first (1 st) Business Day of January and July of each year

¹ In the event of a conversion from one interest rate mode to another, the last Effective Interest Rate Period of the former interest rate mode will end on the day prior to the Conversion Date.

² In the event of a conversion from one interest rate mode to another, interest on the Notes will be paid on the next succeeding Interest Payment Date applicable to the interest rate mode then in effect, for the period commencing on the day immediately succeeding the last day of the most recent Interest Accrual Period for which interest on the Notes has been paid, to and including the last day of the Interest Accrual Period applicable to the interest rate mode then in effect.

<u>Interest Rate Mode</u>	<u>Noteholder Notice of Optional Tender Due</u>	<u>Record Date</u>	<u>Rate Determination Date</u>	<u>Conversion Date</u>
Daily	No later than 11:00 a.m. (New York City time) on the Purchase Date	The last Business Day prior to each Interest Payment Date	By 10:00 a.m. (New York City time) on the current day (or by 5:00 p.m. on the next preceding Business Day if such day is not a Business Day)	Any day after twenty (20) days notice
Weekly	No later than 4:00 p.m. (New York City time) on a Business Day at least seven (7) days before the Purchase Date	The last Business Day prior to each Interest Payment Date	By 5:00 p.m. (New York City time) on each Tuesday (or the immediately succeeding Business Day if such Tuesday is not a Business Day)	Any Wednesday after twenty (20) days notice
Monthly	No later than 4:00 p.m. (New York City time), on a Business Day at least seven (7) days before the Purchase Date	The last Business Day prior to each Interest Payment Date	By 5:00 p.m. (New York City time) on the last Business Day before the start of the calendar month	The first day of any calendar month after twenty (20) days notice
Semi-annual	No later than 4:00 p.m. (New York City time) on a Business Day at least seven (7) days before the Purchase Date	The last Business Day prior to each Interest Payment Date	By 5:00 p.m. (New York City time) on the last Business Day before January 1 and July 1 of each year	The first day of January or July after twenty (20) days notice

Open Market Purchases of Notes

The Authority has reserved the right to purchase any or all of the Notes on the open market at any time.

Book-Entry-Only System

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Notes. The Notes 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 Note certificate will be issued for the Notes, in a denomination equal to the aggregate principal amount of the Notes, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking

Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each Note (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participant’s 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 Notes 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 Notes, except in the event that use of the book-entry system for the Notes is discontinued.

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

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

Redemption notices shall be sent to DTC. If less than all of the Notes within a maturity of a particular 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. (nor such other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC’s procedures.

Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

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

A Beneficial Owner shall give notice to elect to have its Notes purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Notes by causing the Direct Participant to transfer the Participant's interest in the Notes, on DTC's records, to the Tender Agent. The requirement for physical delivery of Notes in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Notes are transferred by Direct Participants on DTC's records and followed by a book-entry credit of the Notes to the Tender Agent's DTC account.

DTC may discontinue providing its service as securities depository with respect to the Notes at any time by giving reasonable notice to the Authority or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Note certificates are required to be printed and delivered. In addition, the Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, note certificates will be printed and delivered to DTC. See "Transfers and Exchanges of Notes Upon Discontinuance of Book-Entry System" herein.

The above information concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the Underwriter believe to be reliable, but neither the Authority nor the Underwriter makes any representations concerning these matters and neither the Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the Participants, as the case may be.

NEITHER THE AUTHORITY, THE TENDER AGENT, NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO THE DTC PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON THE NOTES; (3) THE DELIVERY BY DTC OR ANY DTC PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO NOTEHOLDERS; AND (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS NOTEHOLDER.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE NOTES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE NOTE OWNERS OR REGISTERED

OWNERS OF THE NOTES SHALL (OTHER THAN UNDER THE SECTION "TAX MATTERS" HEREIN) MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE NOTES.

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

Transfers and Exchanges of Notes Upon Discontinuance of Book-Entry System

In the event that the book-entry only system is discontinued and the Beneficial Owners become registered owners of the Notes, the following provisions applicable to registered owners would apply: (i) Notes may be exchanged for an aggregate principal amount of Notes in authorized denominations of the same maturity and interest rate, upon surrender thereof at the principal corporate trust office of the Paying Agent; (ii) the transfer of any Notes may be registered on the books maintained by the Paying Agent for such purpose only upon the surrender thereof to the Paying Agent together with a duly executed assignment in form satisfactory to the Authority and the Paying Agent; (iii) for every exchange or registration of transfer of Notes, the Paying Agent may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer of the Notes; and (iv) the Paying Agent will not be required (a) to issue, transfer or exchange any Notes during the fifteen (15) days preceding the day of mailing of a notice of redemption of Notes selected for redemption, or (b) to transfer or exchange any Notes so selected for redemption in whole or in part.

In the event that the book-entry-only system is discontinued, principal and Purchase Price and interest will be payable upon surrender of the Notes at the corporate trust office of the Paying Agent; interest will be payable by check or draft mailed to the Noteholders at their addresses as shown on the Note registration books held by the Paying Agent on the Record Date; or at the request of a Noteholder of at least \$1,000,000 in principal amount of the Notes, by wire transfer.

During any and all times that the Notes are maintained in a book-entry only system the following transfer and exchange provisions shall not be applicable.

In the event the book-entry-only system is discontinued for any reason, each Note shall be transferable or exchangeable only upon the Note registration books by the registered holder thereof or by his attorney duly authorized in writing, upon presentation and surrender of such Note to the Paying Agent, together with a written instrument of transfer satisfactory in form to the Paying Agent, duly executed by the registered holder or his duly authorized attorney. Upon the surrender of any Note or Notes for transfer or exchange, the Paying Agent shall redeliver in the name of the transferee or exchange one or more new Note or Notes of the same aggregate principal amount, maturity and interest rate as the surrendered Note or Notes, in any denomination authorized by the Supplemental Resolution and in the manner and subject to the conditions set forth in the Supplemental Resolution. All transfers and exchanges shall be made without expense to the registered holder of such Note, except that the Paying Agent may require the payment by the registered holder of the Note requesting such transfer or exchange of any tax or other governmental charges required to be paid with respect to such transfer or exchange. All transfers or exchanges of Notes shall be subject to such provisions as may be prescribed from time to time by the Authority and the Paying Agent. The Authority and the Paying Agent may deem and treat the person in whose name a Note is registered upon the Note registration books as the absolute owner of such Notes for the purpose of receiving payment of the principal of and interest on the Note and for all other purposes, and they shall not be affected by any notice to the contrary.

In the event that the book-entry-only system is discontinued, all purchases of Notes upon an optional or mandatory tender shall require physical delivery of Note certificates to the Tender Agent together with a written instrument of transfer satisfactory in form to the Tender Agent.

SECURITY FOR THE NOTES

The Notes are authorized and will be issued in accordance with the Constitution and statutes of the State of New York (the "State"), including the Act, and will constitute valid and legally binding obligations of the Authority; provided, however, that the Notes will be secured by a lien on and pledge of the Revenues junior and inferior and subject to the lien on and the pledge of the Revenues created for the payment and the security of any and all Bonds heretofore and hereafter issued under the General Resolution. Payments of interest on the Notes will be made from moneys on deposit in the General Fund of the Authority. Revenues are transferred from the Revenue Fund to the General Fund only after the required payments to the Operating Fund, to the holders of the Original Bonds (as described below), to the Bond Fund and to the Secondary Bond Fund. The principal of the Notes will be payable solely out of the proceeds of the sale of the Authorized Series of Bonds in anticipation of which the Notes are being issued, subject to the rights of the holders of any Bonds Outstanding under the General Resolution; provided that the Authority may apply to the payment of the principal of the Notes any available moneys in the General Fund, after the required payments have been made in accordance with the Resolution as described above. The pledge of the Revenues is a covenant with the Noteholders to apply the Revenues to the purposes and in the order of priority described above. The General Fund is held and invested by the Authority in accordance with the Act and the Resolution. See "REVENUES AND OPERATING EXPENSES - Investment Policy" herein.

As a condition precedent to the sale and issuance of the Authorized Series of Bonds, the Authority is required to file a certificate demonstrating compliance with the additional Bonds test described in the subsection "Additional Bonds" below and in SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION - Issuance of Bonds Other Than Refunding Bonds" in Appendix A hereto. Pursuant to the provisions of the Act and the Resolution, the term of the Notes and any renewals thereof may not exceed five (5) years from their original date of issuance.

The rights of the holders of the Notes under the Constitution, the statutes of the State, including the Act, other applicable law and the Resolution and the enforceability of the Notes under the same may be subject to judicial discretion, the exercise of the sovereign police powers of the State and the constitutional powers of the United States of America and to valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting the relief of debtors.

Certain bonds (the "Original Bonds") of the Authority issued under a prior resolution adopted May 21, 1951, as amended and supplemented (the "Original Resolution"), will be outstanding on the date of delivery of the Notes. In November 1988, the Authority issued \$139,235,000 principal amount of Water System Revenue Bonds, Series 1988 Refunding (the "Series 1988 Bonds"), a portion of the proceeds of which, and certain other funds of the Authority, were irrevocably deposited in trust with The Bank of New York, New York, New York (formerly known as United States Trust Company) as refunding trustee, and invested in direct obligations of the United States of America in an amount sufficient, together with interest earnings thereon, to provide for the payment when due of principal and interest on the Original Bonds. The Original Bonds will continue to have a lien on the revenues of the Authority pledged under the Original Resolution which will be a prior lien to the lien of the holders of all outstanding Bonds and notes of the Authority. However, because such trust funds have been deposited under a refunding trust agreement in an amount sufficient to make all payments of principal and interest on the Original Bonds, none of the revenues subject to the lien of the Original Bonds is expected to be used to pay the Original Bonds. At the time of the issuance of the Series 1988 Bonds, Wood Dawson

Smith & Hellman, bond counsel to the Authority in connection with the issuance of the Series 1988 Bonds, issued their opinion that, as a result of the issuance of the Series 1988 Bonds and the application of the proceeds thereof as described above, the Authority has a reasonable basis for not complying with certain restrictions and covenants contained in the Original Resolution and should not be obligated to comply with them.

Flow of Funds

The Authority has covenanted that it will pay or cause to be paid into the Water Revenue Fund, as promptly as practicable after receipt thereof, all of the Revenues and all other moneys required to be paid into the Water Revenue Fund pursuant to the Resolution. Moneys in the Water Revenue Fund shall be applied monthly in the following order of priority:

1. to the Operating Fund, the amounts required to pay Operation and Maintenance expenses;
2. to the Original Bonds Trustee an amount sufficient to pay the principal, redemption price and interest on the Original Bonds in the event that that amounts on deposit in the Original Bonds Trust Fund shall be insufficient to pay the principal or redemption price of and the interest on the Original Bonds, as the same shall become due;
3. to the Interest Account of the Bond Fund, not later than the 25th day of the sixth month prior to the date upon which an installment of interest is due, an amount equal to one-sixth of the interest coming due on Senior Lien Bonds;
4. to the Principal Account of the Bond Fund, not later than the 25th day of the twelfth month prior to the date upon which an installment of principal is due, an amount equal to one-twelfth of the principal coming due on Senior Lien Bonds;
5. to the Bond Retirement Account of the Bond Fund, not later than the 25th day of the twelfth month prior to the date upon which a Sinking Fund Installment is due, an amount equal to one-twelfth of the Sinking Fund Installment coming due on Senior Lien Bonds;
6. to the Interest Account of the Secondary Bond Fund, not later than the 25th day of the sixth month prior to the date upon which an installment of interest is due, an amount equal to one-sixth of the interest coming due on Subordinate Lien Bonds;
7. to the Principal Account of the Secondary Bond Fund, not later than the 25th day of the twelfth month prior to the date upon which an installment of principal is due, an amount equal to one-twelfth of the principal coming due on Subordinate Lien Bonds;
8. to the Bond Retirement Account of the Secondary Bond Fund, not later than the 25th day of the twelfth month prior to the date upon which a Sinking Fund Installment is due, an amount equal to one-twelfth of the Sinking Fund Installment coming due on Subordinate Lien Bonds;
9. to the Reserve Accounts of the Bond Fund and the Secondary Reserve Accounts of the Secondary Bond Fund, the amounts, if any, required so that the balances

on deposit therein are equal to the Reserve Account Requirements applicable to each Series of Bonds; and

10. the balance remaining in the Water Revenue Fund at the end of each month, after making the transfers set for the above, shall be deposited in the General Fund to be used for any lawful purpose of the Authority.

Additional Bonds

The Authority may issue additional Bonds under the Resolution which may be Senior Lien Bonds, at any time and from time to time, for any corporate use or purpose relating to the Water System, including, without limitation, payment of all or a portion of the Cost of Acquisition and Construction, subject to the limitations set forth in the Resolution.

Before the sale and issuance of the Authorized Series of Bonds in anticipation of which the Notes are being issued, the Authority will be required to file either (1) a certificate signed by an Authorized Officer of the Authority showing that the average of the Net Revenues (less payments, if any, required to be made with respect to the Original Bonds as set forth in the Resolution) for any consecutive 24-month period out of the 36-months immediately preceding the month in which such Authorized Series of Bonds are to be issued were equal to not less than one hundred ten percent (110%) of the average annual Debt Service on all outstanding Bonds of the Authority (including the Authorized Series of Bonds) for the then current and all future Fiscal Years; or (2) a certificate of the Consulting Engineer showing that the estimated Net Revenues (less payments, if any, required to be made with respect to the Original Bonds) together with other moneys lawfully available therefor as estimated by such Consulting Engineer as provided in the Resolution for each of the five Fiscal Years commencing with the Fiscal Year in which the Authorized Series of Bonds is delivered will be at least equal to 1.25 times the Debt Service for such Fiscal Year on all outstanding Bonds, including the Authorized Series of Bonds then being issued.

The Resolution provides that the Authority may issue any Series of Bonds issued for the purpose of refunding all or any portion of outstanding Authority Bonds without delivering the certificates described above to the Bond Fund Trustee.

For a more extensive discussion of the terms and provisions of the Resolution, including the security for the Notes, the funds and accounts established by the Resolution and the purposes to which moneys in such funds and accounts may be applied, see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION" in Appendix A hereto.

State of New York and Political Subdivisions not Liable

Neither the members of the Authority nor any person executing the Notes will be liable personally on such Notes by reason of the issuance thereof. The Notes will not be a debt of the State or of Suffolk County or any municipality or governmental entity (other than the Authority) therein, and neither the State nor Suffolk County nor any municipality or governmental entity (other than the Authority) therein will be liable thereon.

STANDBY AGREEMENT

General

Upon delivery of the Notes, the Authority, the Paying Agent and the Tender Agent will enter into the Standby Agreement. Subject to certain conditions described below, the Standby Purchaser

will purchase from time to time during the period commencing on the date of the issuance of the Notes and ending on January 15, 2013 (“Stated Expiration Date”) or earlier termination of the Standby Agreement, any Notes which are required to be purchased due to an optional or mandatory tender for purchase that have not been successfully remarketed at the times and in the manner set forth in the Standby Agreement. The price to be paid by the Standby Purchaser pursuant to the Standby Agreement for purchased Notes will be equal to the aggregate principal amount of such Notes plus accrued interest thereon (up to forty-five (45) days at an aggregate rate not to exceed 12% per annum based on a 365-day year), if any, other than defaulted interest, to the date of such purchase. Upon any purchase of Notes with amounts realized under the Standby Agreement, the commitment of the Standby Purchaser to purchase Notes shall be reduced by the Purchase Price and shall be reinstated upon the repurchase of such Notes from the Standby Purchaser, all in accordance with the Standby Agreement.

The Standby Agreement does not provide security for the payment of principal of or interest or premium, if any, on the Notes, and the funds drawn thereunder may not be used for such purposes.

The Tender Agent shall take such actions as may be necessary to obtain funds under the Standby Agreement to pay the Purchase Price, including accrued interest, if any, of Notes then subject to purchase pursuant to the provisions of the Supplemental Resolution at the times, on the dates, to the extent, and in the manner, provided by the Tender Agreement and the Supplemental Resolution and deposit the proceeds of such drawing in the Liquidity Bank Account pending application of such moneys to the payment of the Purchase Price of such Notes. The obligation to purchase Notes is subject to certain conditions including that the Standby Purchaser shall have received a Notice of Purchase and Notes shall have been delivered pursuant to and in accordance with the Tender Agreement. In addition, such obligations may be suspended or terminated upon the occurrence of an Event of Termination. If at any time all of the Notes then subject to purchase under the Standby Agreement shall have been redeemed pursuant to the Supplemental Resolution, the Tender Agent shall surrender the Standby Agreement to the Standby Purchaser in accordance with the terms of such Standby Agreement for cancellation. In connection with the termination or expiration of the term of the Standby Agreement requiring mandatory purchase of Notes, the Paying Agent shall give the notice of mandatory tender for purchase of the Notes. **The right of Noteholders to demand purchase of Notes as discussed in the section entitled “DESCRIPTION OF THE NOTES-Purchase of the Notes” may be revoked at any time without notice to the Noteholders upon the occurrence of certain Events of Termination and resulting termination of the Standby Agreement.**

Alternate Liquidity Facility

Upon the occurrence of certain events described in the Standby Agreement, and upon at least thirty-five (35) days notice to the Noteowners, the Authority may, at its option, provide for the delivery to the Tender Agent of any Alternate Liquidity Facility. Any such Alternate Liquidity Facility shall be irrevocable for a term of at least one (1) year. On or prior to the date of the delivery of such Alternate Liquidity Facility to the Tender Agent, the Authority shall furnish to the Tender Agent (i) a Favorable Opinion of Bond Counsel, (ii) written evidence from the rating agencies then rating the Notes that the ratings (if any) of the Notes will not be withdrawn, suspended or reduced as a result of such replacement, (iii) if such Alternate Liquidity Facility is issued by a bank other than a domestic commercial bank, an opinion of counsel that no registration of such Alternate Liquidity Facility, or of the Notes as a result of the delivery of such Alternate Liquidity Facility, is required under the Securities Act of 1933, as amended, nor is the Supplemental Resolution required to be qualified under the Trust Indenture Act of 1939, as amended, and (iv) an opinion of counsel satisfactory to the Tender Agent to the effect that such Alternate Liquidity Facility is a valid and enforceable obligation of the issuer or provider thereof.

If at any time there shall be delivered to the Tender Agent (i) an Alternate Liquidity Facility covering all or any portion of the Notes, (ii) a Favorable Opinion of Bond Counsel, (iii) either (A) written evidence from the rating agencies then rating the Notes that such rating agencies have reviewed the proposed Alternate Liquidity Facility as the case may be and the ratings of the Notes after substitution of such Alternate Liquidity Facility shall not be reduced, suspended or withdrawn or (B) a statement of the Authority that no ratings have been obtained, (iv) if such Alternate Liquidity Facility is other than a letter of credit issued by a domestic commercial bank, then an opinion of counsel that no registration of the Alternate Liquidity Facility is required under the Securities Act of 1933, as amended, (v) an opinion of counsel satisfactory to the Tender Agent to the effect that such Alternate Liquidity Facility is a valid and enforceable obligation of the issuer or provider thereof, and (vi) all information required to give the notice of mandatory tender for purchase of the Notes, then the Tender Agent shall accept such Alternate Liquidity Facility and, after the date of the mandatory tender for purchase and payment of the Purchase Price or deemed payment, promptly surrender the Liquidity Facility to be replaced to the Liquidity Bank which issued such Liquidity Facility in accordance with its terms for cancellation or deliver any document necessary to reduce the coverage of such Liquidity Facility.

In the event that the short-term rating of the Standby Purchaser under the initial Standby Agreement shall at any time be less than “A-1” by S&P, “F-1” by Fitch or “P-1” by Moody’s Investors Service Inc. and shall remain so reduced for a period of thirty (30) consecutive calendar days, the Authority may, pursuant to the terms of such Agreement, proceed with substitution or termination, as the case may be, of such Agreement in accordance with its terms and the terms of the Supplemental Resolution.

Events of Termination

AS DESCRIBED BELOW THE STANDBY AGREEMENT PROVIDES THAT THE OBLIGATION OF THE STANDBY PURCHASER TO PURCHASE NOTES TENDERED BY THE HOLDERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE TERMINATED OR SUSPENDED. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE NOTES TENDERED BY THE HOLDERS THEREOF.

The Standby Agreement does not provide security for the payment of principal or interest or premium, if any, on the Notes, and the funds drawn thereunder may not be used for such purposes.

The occurrence of any of the events described below (each an “Event of Termination”) may entitle or require the Standby Purchaser, under the Standby Agreement, to terminate or suspend its obligations under the Standby Agreement to purchase Notes pursuant to the Standby Agreement:

(a) any principal or interest due on the Notes or any other indebtedness of the Authority which is senior to or on parity with the Notes is not paid by the Authority when due; or

(b) any representation or warranty made by the Authority under or in connection with the Standby Agreement, any document, instrument, certificate, or any of the Related Documents (as such term is defined in the Standby Agreement) in connection with the Standby Agreement shall prove to be untrue in any material respect on the date as of which it was made or deemed to have been made; or

(c) nonpayment of any commitment fee due under the Standby Agreement (together with interest thereon at a rate equal to the Base Rate (as such term is defined in the Standby Agreement) plus 2% per annum) within ten (10) Business Days after the Paying Agent and the Authority have received written notice from the Standby Purchaser that the same were not paid when due; or

(d) nonpayment of any other fees, or any other amount then due under the Standby Agreement (together with interest thereon at a rate equal to the Base Rate plus 2% per annum), if such failure to pay when due shall continue for ten (10) Business Days after written notice thereon to the Authority by the Standby Purchaser; or

(e) the breach by the Authority of any of the terms or provisions of certain covenants of the Standby Agreement; or

(f) the breach by the Authority of certain other terms or provisions of the Standby Agreement which is not remedied within thirty (30) days after written notice thereof shall have been received by the Authority from the Standby Purchaser; or

(g) the Supplemental Resolution shall terminate or cease to be in full force and effect as a result of (i) a final, nonappealable judgment, (ii) an Official Act of repudiation or repeal by the Authority or (iii) any other Official Action by the Issuer which terminates or purports to terminate the obligations of the Authority under the Standby Agreement, other than as a result of any redemption in full of the Notes or provision for such redemption in full accordance with the Supplemental Resolution. For purposes of this paragraph Official Act and Official Action shall mean an act or action taken pursuant to a resolution of the Authority; or

(h) the failure of the Authority to pay a final, nonappealable judgment of \$5,000,000 or more which judgment has not been stayed within at least sixty (60) days; or

(i) the lowering of the rating on any unenhanced long-term indebtedness of the Authority with a similar or senior security pledge to the security pledge of the Notes by S&P and Fitch to lower than “BBB-,” respectively, or the lowering of the rating on any unenhanced short-term indebtedness of the Authority with a similar or senior security pledge to the security pledge of the Notes by Fitch to lower than “F3” and S&P to lower than “A-3”; or

(j) the withdrawal of the rating by the applicable rating agencies on any unenhanced debt of the Authority with a similar or senior security pledge to the security pledge of the Notes, except a withdrawal of rating as a result of non-credit related events; or

(k) the failure of the Authority to perform or observe any term, covenant or agreement contained in the Standby Agreement (other than as described in subparagraphs (a) to (o) of this paragraph) and any such failure shall remain unremedied for thirty (30) days after written notice of such shall have been given to the Authority by the Standby Purchaser; or

(l) any material provision of the Standby Agreement, the Resolution, the Supplemental Resolution or the Notes with respect to the obligation of the Authority to repay the Standby Purchaser or the security of the Standby Purchaser with respect to the Notes, in whole or in part, ceases to be valid and binding on the Authority or is declared to be null and void, in whole or in part, as the result of a final, nonappealable judgment by any court or governmental authority or agency having jurisdiction over the Authority; or

(m) the Authority (1) shall legally contest or repudiate the validity of the Notes, debt on parity with or closely related to the Notes, or the Authority’s obligations to the Standby Purchaser under the Standby Agreement, or (2) shall suffer or permit to be entered a decree or order of a court or agency or supervisory authority having jurisdiction over the Authority determining it to be insolvent or providing for the appointment of a conservator, receiver, liquidator, trustee or any similar person appointed in connection with any insolvency, readjustment of debt, marshalling of assets and liabilities, bankruptcy, reorganization or similar proceedings of or relating to it or of or relating to all, or

substantially all, of its property, or for the winding-up or liquidation of its affairs, or (3) shall suffer or permit to be instituted proceedings under any law relating to bankruptcy, insolvency or the reorganization or relief of debtors to be instituted against it, and such proceedings to remain undismissed or pending and unstayed for a period of thirty (30) days; or

(n) the Authority shall (1) consent to the appointment of a conservator, receiver, a trustee, liquidator or custodian in any insolvency, readjustment of debt, marshalling of assets and liabilities or similar proceedings of or relating to it or of or relating to all, or substantially all, of its property or for the winding-up or liquidation of its affairs, (2) admit in writing its inability to pay its debts generally as they become due, (3) file a petition, or otherwise institute, or consent to the institution against it of, proceedings to take advantage of any law relating to bankruptcy, insolvency or reorganization or the relief of debtors, (4) make an assignment for the benefit of its creditors, or (5) suspend payment of its obligations; or

(o) legislation, statute, resolution or ordinance shall be enacted or adopted which (i) precludes the authority or ability of the Authority to perform its payment obligations (relating to the payment of principal and interest on the Notes) under the Standby Agreement, the Resolution, the Supplemental Resolution or the Notes, or (ii) materially impairs the rights and remedies of the holders of the Notes with regard to payment thereof under the Resolution or the Supplemental Resolution or of the Standby Purchaser under the Standby Agreement.

Consequences of an Event of Termination

If an Event of Termination described in paragraph (a), (g), (h), (i), (j), (l), (m), (n) or (o)(i) above has occurred and is continuing, the obligation of the Standby Purchaser to purchase Notes shall immediately terminate without notice or demand, and thereafter the Standby Purchaser shall be under no obligation to purchase Notes. Promptly after the Standby Purchaser receives written notice of such Event of Termination, the Standby Purchaser shall give written notice of the same to the Paying Agent, the Authority, the Tender Agent and the Remarketing Agent; provided, that the Standby Purchaser shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of its obligation to purchase Notes pursuant to the Standby Agreement.

If any other Event of Termination described above has occurred and is continuing, the Standby Purchaser may terminate its obligation to purchase Notes by giving written notice to the Authority, the Paying Agent, the Tender Agent and the Remarketing Agent, specifying the date on which its purchase commitment terminates (the "Termination Date"), which shall be not less than fifteen (15) days from the date of receipt of such notice by the Paying Agent, and, on and after the Termination Date the Standby Purchaser will be under no further obligation to purchase Notes other than Notes which are the subject of a notice of tender received by the Standby Purchaser before the Termination Date.

In addition to the rights and remedies described above, after the Standby Purchaser's obligations terminate automatically or at the Standby Purchaser's election as described above, the Standby Purchaser has the following additional rights and remedies, after giving effect to all of the applicable time periods, except in the event the Term Loan Period (as defined in the Standby Agreement) shall have already commenced or the Standby Purchaser elects to cause the Term Loan Period to commence on the Term Loan Date (as defined in the Standby Agreement) notwithstanding that any Event of Termination shall have occurred under the Standby Agreement: (i) all amounts payable under the Standby Agreement including principal and interest on the Bank Notes, shall, upon notice to the Authority, become immediately due and payable without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Authority; and/or (ii) the Standby Purchaser shall have all the rights and remedies available to it under the Standby Agreement, the Related Documents referred to therein or otherwise pursuant to law or equity.

STANDBY PURCHASER

The Bank of Nova Scotia (“Scotiabank”), founded in 1832, is a Canadian chartered bank with its principal office located in Toronto, Ontario. Scotiabank is one of North America’s premier financial institutions and Canada’s most international bank. With over 58,000 employees, Scotiabank and its affiliates serve over 12 million customers throughout the world.

Scotiabank provides a full range of personal, commercial, corporate and investment banking services through its network of branches located in all Canadian provinces and territories. Outside Canada, Scotiabank has branches and offices in over 50 countries and provides a wide range of banking and related financial services, both directly and through subsidiary and associated banks, trust companies and other financial firms.

For the fiscal year ended October 31, 2007, Scotiabank recorded total assets of CDN\$411.5 billion (US\$433.2 billion) and total deposits of CDN\$288.5 billion (US\$303.7 billion). Net income for the fiscal year ended October 31, 2007 equaled CDN\$4.045 billion (US\$4.258 billion), compared to CDN\$3.579 billion (US\$3.767 billion) for the prior fiscal year. Amounts above are shown in Canadian dollars and also reflect the United States dollar equivalent as of October 31, 2007 (1.0000 United States dollar equals 0.95 Canadian dollars).

Scotiabank will provide to anyone, upon written request, a copy of its most recent annual report, as well as a copy of its most recent quarterly financial report. Requests should be directed to: The Bank of Nova Scotia, New York Agency, One Liberty Plaza, 26th Floor, New York, NY, 10006. Attention: Public Finance Department.

The information concerning Scotiabank contained herein is furnished solely to provide limited introductory information regarding Scotiabank and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced above.

The delivery of this disclosure information by Scotiabank shall not create any implication that there has been no change in the affairs of Scotiabank since the date hereof, or that the information contained or referred to in this disclosure information is correct as of any time subsequent to its date.

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AUTHORITY DEBT

The following table sets forth the Authority's outstanding Bonds as of December 31, 2007:

<u>Senior Lien Bonds</u>	<u>Original Principal Amount</u>	<u>Principal Outstanding at December 31, 2007</u>
Water System Revenue Bonds, Series 1993, Refunding, dated March 15, 1993	\$70,135,000	\$ 15,150,000
Water System Revenue Bonds, Series 1997, dated March 1, 1997	38,470,000	2,840,000
Water System Revenue Bonds, Series 1997A, dated November 1, 1997	43,840,000	11,230,000
Water System Revenue Bonds, Series 1998B (EFC Series), dated March 15, 1998	6,192,021	3,695,000
Water System Revenue Bonds, Series 1999A (EFC Series), dated March 3, 1999	5,567,204	3,655,000
Water System Revenue Bonds, Series 2000A (EFC Series), dated March 9, 2000	875,597	615,000
Water System Revenue Bonds, Series 2000B (EFC Series), dated July 27, 2000	5,359,271	4,075,000
Water System Revenue Bonds, Series 2001A, dated March 8, 2001	38,200,000	21,925,000
Water System Revenue Bonds, Series 2001A (EFC Series), dated March 8, 2001	10,628,496	8,120,000
Water System Revenue Bonds, Series 2001B (EFC Series), dated July 26, 2001	17,633,954	13,300,000
Water System Revenue Bonds, Series 2002A (EFC Series), dated March 14, 2002	10,869,331	8,515,000
Water System Revenue Bonds, Series 2002B (EFC Series), dated July 25, 2002	8,614,879	6,800,000
Water System Revenue Bonds, Series 2003 (Refunding), dated June 19, 2003	67,395,000	57,210,000
Water System Revenue Bonds, Series 2003B (EFC Series), dated July 24, 2003	9,130,775	7,665,000
Water System Revenue Bonds, Series 2003C, dated July 24, 2003	80,000,000	80,000,000
Water System Revenue Bonds, Series 2004A (EFC Series), dated July 22, 2004	6,605,448	5,935,000
Water System Revenue Bonds, Series 2005B (EFC Series), dated July 28, 2005	7,047,361	6,407,361
Water System Revenue Bonds, Series 2005C, dated December 1, 2005	60,000,000	60,000,000
Water System Revenue Bonds, Series 2006A, dated May 23, 2006	70,000,000	70,000,000
Water System Revenue Bonds, Series 2007A, dated December 20, 2007	45,000,000	45,000,000
Total Outstanding Senior Lien Bonds		<u>\$432,137,361</u>

<u>Subordinate Lien Bonds</u>	<u>Original Principal Amount</u>	<u>Principal Outstanding at December 31, 2007</u>
Water System Revenue Bonds, Series 1993 Subordinate Lien Refunding, dated March 15, 1993	\$28,415,000	\$13,925,000
Water System Revenue Bonds, Series 1994 Subordinate Lien Refunding, dated February 15, 1994	38,135,000	4,910,000
Water System Revenue Bonds, Series 2005 Subordinate Lien Refunding, dated December 1, 2005	71,905,000	71,905,000
Total Outstanding Subordinate Lien Bonds		<u>\$90,740,000</u>

The Authority has issued from time to time bond anticipation notes to finance improvements and additions to the Water System. These notes are redeemed from the proceeds of the Bonds in anticipation of which they are issued. As of December 31, 2007, the Authority had the following bond anticipation notes outstanding:

<u>Bond Anticipation Notes</u>	<u>Original Principal Amount</u>	<u>Principal Outstanding at December 31, 2007</u>
Variable Rate Bond Anticipation Notes, 2004, dated December 1, 2004, maturing December 1, 2009	\$60,000,000	<u>\$60,000,000</u>
Total Outstanding Bond Anticipation Notes		<u>\$60,000,000</u>

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DEBT SERVICE REQUIREMENTS

The following schedule sets forth the principal and interest requirements for the Authority's Bonds for each Fiscal Year ending May 31.

Fiscal Year Ending May 31	<u>Senior Lien Bonds</u>		<u>Subordinate Lien Bonds</u>		Aggregate Debt Service
	Principal	Interest	Principal	Interest	
2008	\$ 10,827,017	\$ 18,890,565	\$ 60,000	\$ 4,218,335	\$ 33,995,917
2009	9,593,458	19,647,770	65,000	4,215,335	33,521,563
2010	7,295,000	19,219,087	4,155,000	4,212,085	34,881,172
2011	7,225,000	18,900,518	4,300,000	4,004,335	34,429,853
2012	9,785,000	18,584,515	3,345,000	3,785,035	35,499,550
2013	10,210,000	18,241,941	3,495,000	3,614,440	35,561,381
2014	13,555,000	17,880,168	1,920,000	3,422,740	36,777,908
2015	14,665,000	17,316,348	1,495,000	3,307,540	36,783,888
2016	16,870,000	16,702,408	0	3,217,840	36,790,248
2017	17,645,000	15,936,506	0	3,217,840	36,799,346
2018	13,325,000	15,123,830	5,140,000	3,217,840	36,806,670
2019	14,480,000	14,508,634	4,825,000	2,992,965	36,806,599
2020	15,050,000	13,853,362	5,125,000	2,780,665	36,809,027
2021	19,730,000	13,088,202	1,440,000	2,552,603	36,810,805
2022	15,280,000	12,192,951	6,855,000	2,487,802	36,815,753
2023	17,250,000	11,393,291	6,000,000	2,175,900	36,819,191
2024	15,680,000	10,660,916	8,570,000	1,913,400	36,824,316
2025	18,360,000	9,886,655	7,050,000	1,527,750	36,824,405
2026	18,165,000	9,076,857	8,375,000	1,210,500	36,827,357
2027	9,160,000	8,314,450	18,525,000	833,625	36,833,075
2028	28,975,000	7,858,075			36,833,075
2029	30,425,000	6,415,425			36,840,425
2030	31,845,000	4,999,926			36,844,926
2031	33,515,000	3,337,263			36,852,263
2032	<u>35,275,000</u>	<u>1,587,375</u>			<u>36,862,375</u>
	<u>\$434,185,475</u>	<u>\$323,617,040</u>	<u>\$90,740,000</u>	<u>\$58,908,575</u>	<u>\$907,451,090</u>

THE AUTHORITY

Certain Powers

The Authority has the power, under the Act, to fix, alter, charge and collect rates and other charges for the use of water by the inhabitants of Suffolk County or other consumers thereof, at reasonable rates to be determined by the Authority for the purpose of providing for the payment of the expenses of the Authority, the construction, improvement, repair, maintenance and operation of the Water System, the payment of the principal of and interest on the obligations of the Authority and to fulfill the terms and provisions of any agreements made with the purchasers or holders of any such obligations.

No governmental board, agency, corporation or officer of the State has jurisdiction of, or control over, or is required to approve any water rates or charges for services or facilities of the Authority except the Authority itself. The Act expressly declares that neither the PSC nor any other board or commission of like character will have jurisdiction over the Authority in the management and control of its properties or operations or any power over the regulation of rates fixed or charges collected by the Authority.

The drilling of wells and acquisition otherwise of water are subject to the jurisdiction of the Department of Environmental Conservation of the State (the "Department"). The powers of the Department in this respect are part of its statewide powers, extending to all internal waters within the State, which have been exercised by the Department and its predecessors for many years. The Act does not alter or abridge the powers and duties, present or future, of the Department, the State Department of Health or the State over water supply or distribution.

The Authority is empowered within its geographical area to acquire by purchase or condemnation, construct, develop, hold, maintain and dispose of, in its name, real property (or rights or easements therein) and personal property necessary for its corporate purposes. The Authority may not, however, condemn property the legal title to which is vested in a municipal corporation without the consent of such municipality; sell water in any area which is served by a water system owned or operated by a municipality unless the governing board of such municipality requests the Authority to sell water in such area; purchase all of the stock of any existing privately owned water corporation or company without the approval of the PSC; or acquire by purchase or condemnation any existing water supply and distribution system without the approval of the Suffolk County Legislature and, in the case of a system owned by a municipality may not so acquire, unless the governing board thereof requests the Authority to make such acquisition.

Members

Under the Act, the five members of the Authority, who must be residents of Suffolk County, are appointed by the Suffolk County Legislature for five-year overlapping terms. Vacancies, other than by expiration of term, are filled by the Suffolk County Legislature by appointment for the unexpired term. Due to the recent resignation of Michael J. Deering, there is currently one vacancy. The Chairman of the Authority is also appointed by the Suffolk County Legislature.

The present members of the Authority and the dates of expiration of their terms as members are as follows:

MICHAEL A. LOGRANDE, Chairman, term as member expires in May 2010. From March 24, 1992 until December 31, 1999, Mr. LoGrande, was also the Authority's Chief Executive Officer. His experience includes serving as Executive Director of the Association for a Better Long Island, Suffolk County Executive, and Supervisor of the Town of Islip. Additionally, he served as Deputy Supervisor and Commissioner of Planning and Development for the Town of Islip, and Chief Planner for Suffolk County. Mr. LoGrande's education includes a Bachelor of Science degree in Civil Engineering from the Massachusetts Institute of Technology, a Masters degree in Urban Planning from Columbia University, and a Loeb Fellow in Advanced Environmental Research, Harvard University Graduate School of Design. Mr. LoGrande maintains a membership in numerous professional organizations and has received various awards for his involvement in planning and the environment.

BERNARD BRADY, Secretary, term as member expires in March 2009. Mr. Brady retired as a high school business teacher having spent over 37 years teaching various business subjects. He was active in establishing secondary and college level work-study programs for students concentrating in business training. He has administrative commercial banking experience in the areas of stocks and bonds, and served in the U.S. Army. He holds a Bachelors degree in Management from Long Island University, and a Masters degree in Continuing Education from Stonybrook University.

PATRICK G. HALPIN, term as member expires in March 2011. Mr. Halpin is Executive Vice President for External Affairs for the Institute for Student Achievement (ISA). Mr. Halpin has been with ISA since 1994. Prior to joining the ISA, Mr. Halpin had an extensive career in local and state politics, which began in 1979 when he was elected to the Suffolk County Legislature. In 1982 he was elected to the New York State Assembly and served three terms in that office. In 1988, Mr. Halpin was elected to the office of County Executive of Suffolk County, serving in that role until 1992. Mr. Halpin currently serves as a trustee of the Long Island Chapter of the Nature Conservancy and is Director of the Long Island Housing Partnership, Vision Long Island and the advisory board of the Long Island Index. Mr. Halpin received a Bachelor of Arts degree in Political Science and Economics from Old Dominion University.

JANE R. DEVINE, term as member expires June 2012. Ms. Devine has held a variety of positions in public service. Most recently, she has served on the Town of Huntington Planning Board. Other positions held include, Commissioner of Consumer Affairs for Suffolk County and Suffolk County Legislator. Ms. Divine holds a Bachelor of Arts degree from the College of New Rochelle and a Master of Arts degree from C.W. Post-Long Island University College of Management.

The powers of the Authority are vested in and exercised by a majority of the members then in office and may be delegated to one or more members, agents or employees. The members of the Authority receive compensation for their services as fixed by the Suffolk County Legislature, and are also reimbursed for all necessary expenses incurred in connection with their duties.

Executive Staff

The executive staff of the Authority consists of a Chief Executive Officer, a Chief Financial Officer, a Deputy Chief Executive Officer for Customer Service, a Deputy Chief Executive Officer for Operations and a General Counsel.

STEPHEN M. JONES, Chief Executive Officer. Mr. Jones joined the Authority in December 2000 as Chief Executive Officer reporting to the Board. In this position, Mr. Jones is responsible for the overall operations of the Authority on a day-to-day basis. Mr. Jones served as the Director of Planning for Suffolk County, New York for seven years before joining the Authority. Prior to that, for ten years Mr. Jones held the position of Vice President for Resource Development at the New York Institute of Technology. Mr. Jones also served, during an 11-year period, in several positions with increasing responsibilities, at the Department of Planning and Development in Islip Township, New York, ultimately attaining the position of Commissioner of Planning. Mr. Jones received his Bachelor of Arts degree in Geology from Hanover College and obtained his Master of Arts degree in Urban Studies from City University of New York, Queens College.

LARRY B. KULICK, CPA, Chief Financial Officer. Mr. Kulick was appointed Chief Financial Officer in April 2006. Mr. Kulick is a graduate of the University of Miami, with a Bachelor of Science degree in Accounting. A Certified Public Accountant, he is a member of the American Institute of Certified Public Accountants, New York State Society of Certified Public Accountants, and New York State Government Financial Officers Association. During his twenty-four years with the Authority he served in various capacities including Accounting Department Manager, Assistant Director of Finance, and Director of Finance.

TIMOTHY J. MATTIMORE, Deputy Chief Executive Officer for Customer Services. Mr. Mattimore began his employment with the Authority in May 2006. In such position he is responsible for all customer service contacts with customers including the customer call center, repairmen, and meter-readers. Mr. Mattimore worked as a general practicing attorney in Suffolk County for over 30 years, appearing before courts, agencies, administrative boards, and the like. Prior to that, he was an Assistant Islip Town Attorney, and an assistant Suffolk County Attorney. Mr. Mattimore received his Bachelor of Arts degree from Georgetown University and Doctor of Laws degree from Boston College Law School.

HERMAN J. MILLER, Deputy Chief Executive Officer for Operations. Mr. Miller has been with the Authority since 1972 and has held numerous positions with increasing responsibility in the operations area. In 1993, Mr. Miller was promoted to his current position of Deputy Chief Executive Officer for Operations. In this capacity, Mr. Miller has overall responsibility for the Operations Division of the Authority which includes the Engineering, Construction and Maintenance, and Production Control Departments. Mr. Miller is a 1972 graduate of Manhattan College where he received his Bachelor of Science degree in Electrical Engineering, and is a licensed Professional Engineer in the State.

TIMOTHY J. HOPKINS, ESQ., General Counsel. Mr. Hopkins joined the Authority in 1992. He is responsible for managing the Authority's Legal Department and outside counsel, and conducts litigation for the Authority. Prior to joining the Authority Mr. Hopkins was an associate of Farrell Fritz of Uniondale, NY where he was a member of the municipal litigation department. While attending law school Mr. Hopkins was employed by the New York State Attorney General's Office. Mr. Hopkins received his Juris Doctor in 1992 from Touro College Jacob D. Fuchsberg Law Center and his Bachelor of Science degree in Industrial Economics in 1986 from Union College. Mr. Hopkins is admitted to practice in the State of New York and in the Eastern and Northern Districts of New York of the United States District Court.

Authority Advisors

Bond Counsel to the Authority is Nixon Peabody LLP, New York, New York.

Consulting Engineer to the Authority is Hazen and Sawyer, P.C.

Consulting Ground-Water Geologist for the Authority is Leggette, Brashears & Graham of Wilton, Connecticut.

Independent Accountants for the Authority are Ernst & Young, LLP.

Bond Fund Trustee under the Resolution is The Bank of New York, New York, New York.

CAPITAL IMPROVEMENT PLAN

Although the Authority's Board does not adopt a 5-year capital improvement plan, management annually prepares a 5-year forecast of its projected capital improvement requirements. The Authority formulates this forecast primarily based on information provided by its Construction-Maintenance, Engineering, and Production Control Departments. Supplemental information is provided by its Laboratory, Information Technology, General Services and Customer Service Departments as well as other administrative departments. The Authority anticipates financing the cost of these capital expenditures with a combination of revenues, and notes and bonds issued for such purposes.

The following is management’s forecasted capital expenditures for the next five Fiscal Years:

Forecasted Capital Costs Fiscal Years Ending May 31,					
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Water Main Installations	\$19,300,000	\$16,000,000	\$16,000,000	\$16,000,000	\$19,500,000
Meters, Services, and Hydrants	12,133,000	11,380,000	11,380,000	11,380,000	12,133,000
Treatment and Remediation	4,845,500	5,330,000	5,210,000	5,600,000	5,825,000
Plant Facilities	15,449,500	17,025,000	17,375,000	16,200,000	16,875,000
Miscellaneous Equipment /Facilities	<u>5,005,000</u>	<u>5,375,500</u>	<u>5,374,500</u>	<u>5,374,500</u>	<u>3,949,000</u>
	<u>\$56,733,000</u>	<u>\$55,110,500</u>	<u>\$55,339,500</u>	<u>\$54,554,500</u>	<u>\$58,282,000</u>

Annually management prepares a capital budget for the subsequent Fiscal Year which is based on its 5-year forecasted capital costs and incorporates the latest available information and needs of the Construction-Maintenance, Engineering, and Production Control Departments. This 12-month capital budget is then submitted to the Authority’s Board for its approval.

For the twelve months ending May 31, 2008 (the “2008 Fiscal Year”) the Authority approved a capital budget totaling \$56,733,000. The construction and improvements funded by these expenditures will enable the Authority to maintain its high standards of water quality and purity, fulfill its legal requirements, and apply state-of-the-art technology, all in the most cost effective manner possible. The Authority anticipates financing the costs of these capital expenditures with the proceeds of notes and bonds issued for such purposes as well as net revenues from operations.

Any component of the capital improvement plan subject to review pursuant to the New York State Environmental Quality Review Act (“SEQRA”) will be reviewed in accordance with SEQRA and its implementing regulations prior to adoption of any decisions, orders or resolutions committing the Authority to undertake any such component.

Water Main Installations

There are three components to the Authority’s water main installation program: (1) the installation of new water mains to serve communities that were previously served by private wells, (2) the replacement of existing water mains, and (3) improvements to the distribution system to provide better service within existing service areas. With respect to the first component, fear of private well contamination, the security of having water that is constantly tested, and the safety offered by the presence of public fire hydrants are issues that drive the demand for public water. The second part of the program relates to the replacement of existing water mains. Over the last five years the Authority has commenced a deliberate long-term program of pipeline replacement to improve pressure and volume distribution, fire protection and reduce main breaks. The selection of water mains targeted for replacement is based on its repair history and the age of the water main. The Authority’s commitment to this is supported by its inclusion of an additional \$2 million in the current budget for this purpose. Water mains typically have useful lives of 75 to 100 years. While most of the Authority’s distribution system is relatively young, there are several areas where the water mains are nearing the end of their useful lives. Additionally, when a particular section of water main has required excessive amounts of repair, it is included in the replacement program. The final component of the program relates to improvements to the distribution system in order to provide enhanced service within existing service areas, such as the replacement of existing water mains with larger mains to provide increased water flow.

Since the Authority has to date aggressively met the demand for public water in areas previously served by private wells, there are now fewer locations in the County that do not have access to a public water supply. As a result, the Authority anticipates that over the next few years the water main installation program will consist of more water main replacement, as more water mains reach the end of their useful lives, than the installation of new water mains.

Fifty-five miles of water mains were installed in the 2007 Fiscal Year. \$19,300,000 has been budgeted for the water main installation program in the 2008 Fiscal Year.

Point of Service Distribution

The Authority has budgeted 1,707 new customers and 1,020 new hydrants for the 2008 Fiscal Year. To avoid disruption of roadways and reduce the costs of connecting future customers to new pipes being installed underground, the Authority is providing easy connections to the water supply (“stub services”) where existing homes are not immediately connecting to the water supply system but are expected to in the future. For the 2008 Fiscal Year, the Authority has budgeted an aggregate amount of \$10,049,000 for these services.

The Authority has systematically replaced residential water meters each year with new meters that can be read from the outside, eliminating the need to enter customers’ homes. The new meters have enhanced accuracy and provide for the use of alternative meter reading technologies in the future. Normal replacement and upgrades of its residential customers will continue to be reflected in the Authority’s annual capital improvement budget in future years. For the 2008 Fiscal Year, the Authority has budgeted \$2,084,000 for new and replacement residential meters.

Treatment Facilities

Water quality regulations are promulgated by the United States Environmental Protection Agency (“EPA”) and the New York State Department of Health. In addition, in some instances the Authority has adopted its own water quality standards that are more stringent than those imposed by the regulations of the New York State Department of Health. In order to provide water that meets these regulations and the Authority’s standards, the Authority from time to time, has to treat water to remove volatile organic chemicals, pesticides, herbicides and other contaminants through the utilization of filtration systems, such as granular activated carbon or ion exchange. It is anticipated that water treatment will be ongoing since, contamination, inevitably, will be detected for the first time each year in a few wells and new contaminants may be added and/or the level of the standard requiring remediation may be changed in the regulations of the EPA and the New York State Department of Health. The Authority also utilizes filtration systems to remove excess iron primarily for aesthetic reasons (the presence of iron in drinking water poses no known health hazard). Currently, the Authority has over 100 filtration systems in operation. For the 2008 Fiscal Year, the Authority has budgeted \$4,845,500 for treatment facilities.

Operation Facilities

To operate the Water System, the Authority must either add or replace certain support equipment in the information technology, transportation, and clerical areas. This includes the upgrading of computer equipment, vehicles, field and office equipment, and various site improvements. For the 2008 Fiscal Year, the Authority has budgeted \$5,005,000 for various operation facilities.

Additional Facilities – Storage, New Wells, Replacement Wells, Tanks

The Water System operates 49 separate and distinct pressure distribution zones. The wells have a capacity to pump 748,180,000 gallons of water per day. (For a more detailed description of the Water System, see the subsection entitled “Physical Plant” below.) On August 8, 2001, the Authority set its peak single day pumpage record of 469,809,000 gallons. In July 2002, the Authority set its peak

monthly pumpage record of 12,158,838,000 gallons. Both on such date, and during such month, the Water System provided all the water needed by its customers and still had appropriate reserves for fire fighting needs. The Authority's engineering staff believes the demand for water will increase, both from existing customers and through expansion of the Water System. In order to meet this demand, the Authority has budgeted for new well construction and replacement of wells that are reaching the end of their useful lives. The Authority has budgeted \$15,449,500 in the 2008 Fiscal Year for the refurbishment of existing wells, water storage tanks and water treatment facilities and the construction of new wells, water storage tanks and water treatment facilities.

Capital Budget for the 2008 Fiscal Year

On March 27, 2007 the Board of the Authority authorized and approved a capital budget totaling \$56,733,000 for the 2008 Fiscal Year. As in the past, the Authority anticipates financing the costs of these capital expenditures with the proceeds of notes and bonds issued for such purposes as well as net revenues from operations.

The following reflects a comparison of the capital improvement budget for the 2008 Fiscal Year compared to the capital improvement budget for the fiscal year ending May 31, 2007 (the "2007 Fiscal Year").

	<u>2008 Fiscal Year</u>	<u>2007 Fiscal Year</u>
Water Main Installations	\$19,300,000	\$17,200,000
Point of Service Distribution	12,133,000	11,380,000
Treatment Facilities	4,845,500	4,540,000
Operation Facilities	5,005,000	6,252,000
Additional Facilities	<u>15,449,500</u>	<u>14,180,000</u>
TOTAL	<u>\$56,733,000</u>	<u>\$53,552,000</u>

SERVICE AREAS, PLANT FACILITIES AND WATER SUPPLY

The Authority currently serves approximately 85% of the total population of Suffolk County. The remaining population is served by other municipal water districts (12%) or private wells (3%). The population served by the Water System is estimated by the Authority to be approximately 1.2 million. The Authority projects an annual growth rate of slightly less than 1% over the next several years.

The Water System serves, at retail, areas in the Towns of Babylon, Brookhaven, East Hampton, Huntington, Islip, Smithtown, Southampton, and Southold, including numerous villages and unincorporated communities. Wholesale service is provided to three water districts and the incorporated Village of Greenport.

Customer Count

The Authority supplies water to its customers in one of the three following ways: (i) direct service to retail customers through facilities owned and operated by the Authority, (ii) direct service to retail customers through facilities which are lease-managed by the Authority, and (iii) wholesale service to other water distribution systems.

The percentage of total sales (based on total number of customers) to each of the aforementioned customers are as follows:

Facilities owned and operated by the Authority	95%
Facilities lease-managed by the Authority	3
Wholesale service to other systems	2

As of May 31, 2007, approximately 373,875 customers were served by the Authority, compared to 371,469 at May 31, 2006, an increase of 2,406 customers. The following table details the number of customers, by region, served directly by the Authority and the number of customers served through operating agreements and their respective percentage growth over the two most recent Fiscal Years.

<u>Region</u>	<u>Fiscal Year Ended May 31,</u>		<u>% Growth</u>
	<u>2007</u>	<u>2006</u>	
Western	171,955	171,212	0.43
Central	128,738	128,219	0.40
Eastern	<u>63,722</u>	<u>62,589</u>	<u>1.81</u>
Subtotal	364,415	362,020	0.66
<u>Customers Served through Operating Agreements</u>			
Brentwood Water District	6,718	6,711	0.10
Fair Harbor Water District	491	487	0.82
Stonybrook Water District	1,651	1,650	0.06
Riverside Water District	<u>600</u>	<u>601</u>	<u>(0.17)</u>
Subtotal	<u>9,460</u>	<u>9,449</u>	<u>0.82</u>
TOTAL	<u>373,875</u>	<u>371,469</u>	<u>0.65</u>

The number of customers served as of May 31, 2003 through May 31, 2007 are presented below.

<u>Year</u>	<u>Number of Customers</u>
2007	373,875
2006	371,469
2005	368,680
2004	366,232
2003	362,673

The Authority's customers are approximately 95% residential and 5% commercial and municipal. The following chart lists the top ten metered account users of water and their corresponding water consumption for the 2007 Fiscal Year. The customers listed below and their corresponding usage reflect individual metered accounts; each such customer may have more than one account with the Authority.

	<u>User</u>	<u>Consumption (gallons)</u>
1	Smithtown Water District ¹	886,933,336
2	St. James Water District ¹	535,202,228
3	County of Suffolk	351,530,080
4	State University of New York at Stony Brook ³	236,329,104
5	Department of Public Works (Suffolk County)	174,242,860
6	Keyspan Energy ³	135,058,880
7	State University of New York at Stony Brook ³	129,172,120
8	Keyspan Energy ³	117,418,048
9	State University of New York at Stony Brook ³	86,352,860
10	Greenport Water District ²	83,051,936

1. Reflects water sold at wholesale rates of \$962 per million gallons. All other accounts, except where noted are billed at \$1,460 per million gallons.
2. Reflects water sold at wholesale rates of \$802 per million gallons. All other accounts, except where noted are billed at \$1,460 per million gallons.
3. Consumption reflects activity for one metered account. User has multiple accounts at different locations.

For budgeting purposes, the Authority anticipates customer growth slightly less than 1% each year. Acquisitions of water systems, creation of lease-managed systems, expansion onto the North Fork of Long Island and special contractual arrangements with Federal and State agencies have resulted in average customer growth of 1.05% each year over the last five (5) years.

According to the Five Year Engineer's Report issued in July 2004 by the Authority's consulting engineers, Hazen & Sawyer, PC, the pumping and storage facilities are adequately maintained in accordance with accepted standards for the supply of drinking water.

Physical Plant

The following table presents certain data relating to the major physical properties of the Authority as of May 31, 2007:

<u>Town</u>	<u>Wells</u>		<u>Pumping Plants</u>		<u>Storage Facilities</u>	
	<u>Active</u>	<u>Inactive</u>	<u>No.</u>	<u>Capacity (gpm)</u>	<u>No.</u>	<u>Capacity*</u>
Brookhaven	161	6	68	176,565	20	21.40
Babylon	52	4	22	67,445	6	6.72
East Hampton	33	2	18	15,695	3	3.42
Huntington	47	4	23	48,690	10	12.52
Islip	106	13	44	120,825	12	13.19
Smithtown	50	6	22	63,990	5	3.50
Southampton	49	1	19	31,680	5	5.35
Southold	<u>39</u>	<u>3</u>	<u>16</u>	<u>6,980</u>	<u>1</u>	<u>0.30</u>
Totals	<u>537</u>	<u>39</u>	<u>232</u>	<u>531,870</u>	<u>62</u>	<u>66.40</u>

* Millions of gallons

As of May 31, 2007, there were a total of 5,743 miles of water mains in use, an increase of 55 miles since May 31, 2006, and there were 35,007 fire hydrants in service, an increase of 247 hydrants since May 31, 2006.

The capital improvement budget for the Water System for the 2008 Fiscal Year includes provisions for additional wells, pumping equipment and storage capacity amounting to approximately 27% of the total amount budgeted in the Authority’s capital improvement budget. (See “CAPITAL IMPROVEMENT PLAN – Additional Facilities – Storage, New Wells, Replacement Wells, Tanks” herein.) Additional wells under construction, not classified as “In Service” as of May 31, 2007, will increase the capacity of major facilities within the next 24 months as follows:

<u>Service Areas</u>	<u>Wells and Pumping Equipment Gallons per Day in Thousands</u>
Babylon	4,302.7
Bay Shore	10,713.6
Patchogue	11,738.9
Huntington	8,444.2
Port Jefferson	14,546.9
Smithtown	3,997.4
Westhampton	8,300.2
East Hampton	<u>1,728.0</u>
Totals	<u>63,771.9</u>

Source of Supply

Management believes the Authority is the largest groundwater-based water purveyor in the United States. All water that the Authority sells is pumped from large reserves of water located underground which are called aquifers. Aquifers are large volumes of sand and gravel saturated with groundwater. There are three aquifers beneath Long Island. The one that is deepest underground is called the Lloyd Aquifer, and it holds water that can be as old as 1,000 years. The Authority draws very little water from this aquifer. The middle aquifer, the Magothy Aquifer, holds water that may be as much as 500 years old in its deepest layers. The Authority draws the vast majority of its water from this Aquifer. The third and shallowest aquifer is called the Upper Glacial Aquifer which may be up to several hundred feet deep.

Management studies indicate that significantly more water enters the aquifer system than is removed. The United States Department of Interior’s United States Geological Survey reports that there is over 70 trillion gallons of water stored in these underground aquifers. The Authority pumps about 70 billion gallons per year, all of which is replaced annually by rain and snow absorbed into the aquifers. Annual precipitation in Suffolk County alone is in excess of 400 billion gallons, most of which enters the aquifers. Since 1987, Suffolk County has been acquiring and preserving thousands of acres specifically for drinking water protection purposes, using one-quarter of one percent of the local sales and use tax. Large expanses of watershed protection areas are preserved for future use. The Authority accesses these lands through an easement given in perpetuity for drinking water purposes through a one time modest payment. Raw water quality in these areas is exceptional requiring no filtration measures for any man made contaminants. In early 2005, the Authority began operating its first pump station on County Drinking Water Protection lands. Other facilities are in various stages of planning and development. In January 2006, the Authority was notified by the American Water Works Association (AWWA) that it is the 2006 recipient of the nationally prestigious “Exemplary Source Water Protection Award.”

Water Quality

The quality of the drinking water provided by the Water System surpasses accepted standards for physical, chemical and bacteriological content. According to the Five (5) Year Engineers Report issued in July 2004 by the Authority's Consulting Engineers, the pumping and storage facilities are adequately maintained in accordance with accepted standards for the supply of drinking water. Approximately 19% of the Authority's wells require treatment to remove contaminants that are related to health concerns. For purely aesthetic reasons, approximately 12% of the Authority's wells are filtered to remove iron and manganese. Due to the standards imposed for regulating the presence of organic compounds, nitrates, pesticides and herbicides, it is necessary for the Authority to periodically take wells out of service. Through remediation, the Authority has been able to restore wells, allowing these wells to be placed back on line for routine service. Bacterial contamination in water from wells of the type constructed by the Authority is rare. A small amount of chlorine is added to the water as required by the State Department of Health as precautionary protection against any bacterial contamination which might result from repairs or additions to the distribution system. The acidity of the water is buffered to guard against any possible creation of dissolved lead and copper in home plumbing systems. The high standards of design, construction and quality control employed by the Authority's staff assure the production of an adequate quantity of potable water conforming to the requirements of the State Department of Environmental Conservation, State and County Departments of Health, and the United States Environmental Protection Agency ("EPA").

The Authority has taken major steps in watershed protection and stewardship. The Authority has participated with the Pine Barrens Commission to oversee vast tracts of undeveloped land in the center of Suffolk County to ensure that the water recharging the aquifer system remains unspoiled. The Authority has aggressively and successfully brought suit against identified polluters whose activities or products have resulted in contamination of Authority wells. The Authority is also a major financial sponsor of the United States Geological Survey and Groundwater Research Institute at the State University of New York at Stony Brook, both of which researches issues related to the management and protection of the aquifers.

The Authority operates a groundwater testing laboratory which is both state and nationally certified. The Authority's laboratory employs over 40 chemists, microbiologists and technicians and has a \$2,667,000 annual operating budget for the 2008 Fiscal Year. Last year, the laboratory staff conducted approximately 198,000 tests, from over 67,000 water samples. The water samples were collected from the 575 wells operated countywide and from the 5,743 miles of water main making up the water distribution system. Reflecting the Authority's conservative approach to water quality and safety, tests are done for over 258 chemical constituents, nearly twice the number required by federal or state regulation. The laboratory has developed specialized testing methodologies that have been adopted by the EPA and published in the Federal Register for use by laboratories throughout the United States. In order to maintain its certifications, the laboratory must pass rigorous proficiency tests twice each year and is subject to an audit of its Quality Assurance Program and quality control data every other year. Sophisticated laboratory equipment allows the Authority to measure for contaminants to levels as low as 10 parts per trillion. The laboratory, which encompasses 28,000 square feet, is highly automated and operates 24 hours a day, seven days a week.

The Suffolk County Department of Health Services has electronic access to the laboratory's test database and audits this information to ensure that the Authority is in compliance with all applicable water quality standards. Forty percent of the tests conducted by the laboratory are for quality control purposes to ensure the accuracy of water quality testing.

The EPA initiated a review process that could result in toughening the standard for the chemical perchlorate in drinking water below the current 18 parts per billion. Perchlorate is both a naturally occurring and a man made chemical. Several years ago the Authority began testing for perchlorate and tests revealed low levels of this chemical in a small percentage of wells located primarily in the northwest area of Suffolk County and in the Town of Southold, located on the east end of Suffolk County. The perchlorate found is believed to be the result of past farming practices which included the use of certain fertilizers (perchlorate is found in fertilizer mined in Chile). It can now be found in numerous “organic” fertilizers. All but one of the affected wells have levels of perchlorate well below the current New York State Health Department and EPA standard.

In 1998, the use of one well located in Westhampton was discontinued after testing by the Authority revealed levels of perchlorate exceeding the State’s drinking water standard. The Authority believes the high levels of perchlorate found was a result of the Suffolk County Police Department’s improper and intentional disposal of fireworks and explosives at the old Air Force Bomarc base located in Westhampton. The Authority brought an action against Suffolk County seeking payment for remediation of that well. The court approved a settlement agreement under which the County will give the Authority a credit in the amount of \$1.5 million. The credit may be used for a variety of things including the use of County property for new Authority wells. If at the end of the five (5) years the Authority has not used the full amount of the credit, the remaining balance of the credit will be paid by the County to the Authority in cash. In 2007, the Westhampton well was returned to service through the use of an innovative perchlorate selective resin filter.

If the EPA reduces the acceptable level of perchlorate in any proposed standard, the Authority may be required to install treatment facilities or pipe-in additional water to the impacted areas. The new standard would likely be put into effect after providing affected water systems with some period of time to install the necessary facilities/equipment to meet the new standard. The precise timing of these new standards or the exact financial impact on the Authority are unknown at this time and will depend on, among other things, the specific standard chosen by the EPA. Based on currently available information, the Authority believes any additional costs which may result from stricter standards, either by the Authority or by the EPA, will not have a material impact on future budgets of the Authority.

In the Authority’s Five-Year Engineers Report issued in July 2004, the Consulting Engineer discusses five rules that have been proposed by the EPA. The Authority believes that as a result of the quality of its groundwater source and existing Authority standards and procedures, compliance with any or all of these rules, if implemented as described in the Five-Year Engineers Report, would have a minimal financial impact on the Authority.

The United States Environmental Protection Agency has adopted the Groundwater Rule. The rule is designed to provide protection from microbial pathogens where a well is vulnerable to such contamination. The rule requires source monitoring by December 2009. The Authority will begin the required monitoring two years in advance. While the monitoring is not expected to reveal any problems, the early information will help minimize the impact if any are found. The complete implementation requirements have not been finalized. There may be some requirements for all new well installations to have the appropriate treatment installed during construction, regardless of their vulnerability for microbial contamination. The Authority estimates the treatment would cost approximately \$118,000 per well where required, or approximately \$1,200,000 per year.

Protection of Water System

In recent years, the Authority has taken a number of steps to enhance its security arrangements to protect the Water System, including more frequent monitoring of the water supply for contaminants, severely restricting access to certain facilities, additional fencing installations, upgrading

locks and alarming entry points within the Water System. In addition, during 2002 the Authority contracted with an EPA approved consultant to perform a vulnerability assessment on the Water System, in accordance with EPA protocols. The report was completed in March 2003 and identified the Water System's vulnerabilities. The report provides a prioritized plan for security upgrades, modifications of operational procedures and/or policy changes to mitigate risks to critical assets. The assessment also provides a basis for comparing the cost of protection against the risks posed. The Authority is using these recommendations to establish a cost effective, balanced security protection system. To protect against potential severe weather conditions, the Authority has refined its Emergency Preparedness Plan to contemplate and plan for severe flooding or hurricane damage scenarios. Based on the findings of the report the Authority estimated that it would cost approximately \$2 million to implement the report's recommendations. In the 2007 Fiscal Year the Authority spent approximately \$250,000 and has budgeted an additional \$150,000 for the fiscal year ending May 31, 2008 in order to continue the implementation of the report's recommendations.

In addition, the Authority participates in the Suffolk County Emergency Operations Center (EOC) for the purposes of coordinating emergency response. The Authority has also adopted the National Incident Management System as its method to incident management. This is consistent with most public agencies and many private organizations in Suffolk County and New York State. It provides for a comprehensive and coordinated approach to incident command and management resources communications and support efforts during any significant incident or event.

Water Plant Account

The Authority carries its water plant on its balance sheet at cost and includes costs arising from the acquisition of properties. Provision for depreciation is made monthly on a straight-line basis at the composite rate of 2.84% annually, upon the depreciable properties of the Authority. Prior to the Fiscal Year ended May 31, 2004, the composite rate for depreciation was 2.14% for the period commencing June 1, 1981 and ending May 31, 2003. Before then, the rate was 1.40%, which was based upon a determination made in 1952 of the respective lives of the different classes of depreciable property. The current provision for depreciation is intended to represent a proper portion of the cost of the depreciable assets allocated to the period of the earnings statement. The Authority's accounting policy with respect to depreciation is in conformity with generally accepted accounting principles.

A comparative statement of the combined water plant account, including construction work in progress, and the accumulated depreciation thereon, as of May 31 of each of the past five fiscal years, is as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Water Plant at Cost	\$1,298,034,000	\$1,248,244,000	\$1,188,458,000	\$1,138,950,000	\$1,082,517,000
Less: Accumulated Depreciation	<u>347,010,000</u>	<u>323,242,000</u>	<u>293,950,000</u>	<u>267,303,000</u>	<u>243,293,000</u>
Net Water Plant	<u>\$ 951,024,000</u>	<u>\$ 925,002,000</u>	<u>\$ 894,508,000</u>	<u>\$ 871,647,000</u>	<u>\$ 839,224,000</u>

The Original Resolution does not provide for payments into a depreciation reserve account, and consequently the provisions for depreciation are unfunded. According to the Resolution, after allowance for (i) payment of operating and maintenance expenses, (ii) payments on the Original Bonds (if any), (iii) payments on Outstanding Senior Lien Bonds issued under the Resolution, and (iv) payments on Outstanding Subordinate Lien Bonds issued under the Resolution, Revenues of the Water System are paid to the General Fund. Amounts in the General Fund may be transferred to the New Construction Fund from time to time as desired by the Authority.

The sources of funds providing the growth in the water plant account reflected in the preceding table were primarily Net Revenues deposited in the New Construction Fund, tapping fees for service connections, certain proceeds of Bonds, Bond Anticipation Notes and other obligations, and moneys obtained by the Authority from advances under construction contracts. (See “Construction Contracts” below).

In July 2004, the Authority, in accordance with the requirements of Section 8.5 of the General Resolution, filed with the Bond Fund Trustee, the Five-Year Engineers Report, prepared by the Authority’s Consulting Engineer, on the properties and operations of the Water System. A copy of this report is available for inspection, upon request, during regular business hours at the offices of the Authority.

It is the policy of the Authority, after the acquisition of any properties, to extend to the new customers the Authority’s uniform, system-wide rate schedules for water service. Such rates generally have been lower than those which had been charged by the former water companies. The Authority intends to continue this policy. However, from time to time, the Authority has, and may in the future, find it necessary to create rate structures for new service areas which are different from the Authority’s uniform, system-wide rate schedules for water service. (See “WATER RATES” below).

Construction Contracts

In its rules and regulations, the Authority has provided terms and conditions upon which it will install, at the expense of a real estate developer, the necessary mains to provide for a water supply within a designated area. Such terms and conditions are set forth in a construction contract between the developer and the Authority, which, in some cases, is supplemented by additional provisions relating to transmission mains. Such construction contracts provide that the Authority will receive certain advances of moneys from developers requiring construction of mains. When these mains are placed in service, these advances are reflected as Construction Reimbursement Fees.

WATER RATES

The Authority covenants that it will furnish no free service by the Water System to any person, firm or corporation, public or private. The Authority’s water rate schedules applicable to residential, commercial, industrial and certain public users are uniform for approximately 96% of its service areas. In addition, the Authority charges certain customers at different rate schedules. In 2005, the Authority retained Black & Veatch Corporation for the purpose of preparing a rate study for the Authority. After considering this study, the Authority adopted new rate schedules for the Water System which became effective April 1, 2007 and are set forth in the table below. Copies of the Authority’s Rules and Regulations setting forth all of its present rate schedules are available for inspection, upon request, during regular business hours at the offices of the Authority.

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General Rates

Service Classification No. 1 Quarterly
Service Charge - \$18.23
Commodity Charge - \$1.0921/hundred
cubic ft.

Service Classification No. 1A Monthly
Service Charge - \$6.08
Commodity Charge - \$1.0921/hundred
cubic ft.

Bridgehampton/Surfside Service Area Rates

Service Classification No. 1 Quarterly
Service Charge - \$12.00
Commodity Charge - \$1.1295/hundred
cubic ft.

Service Classification No. 1A Monthly
Service Charge - \$4.00
Commodity Charge - \$1.1295/hundred
cubic ft.

Shorewood Service Area Rates

Service Classification No. 1 Quarterly
Service Charge - \$16.47
Commodity Charge - \$1.3464/hundred
cubic ft.

Service Classification No. 1A Monthly
Service Charge - \$5.49
Commodity Charge - \$1.3464/hundred
cubic ft.

Greenport Service Area Rates

Service Classification No. 1 Quarterly
Service Charge - \$18.60
Commodity Charge - \$1.3464/hundred
cubic ft.

Service Classification No. 1A Monthly
Service Charge - \$6.20
Commodity Charge - \$1.3464/hundred
cubic ft.

Service Classification No. 1 relates to residential, commercial and industrial customers (other than those who consume large volumes of water). Service Classification No. 1A relates to customers who consume large volumes of water.

Service Classification No. 1B relates to water provided on a wholesale basis to water districts within the Authority's service area at a current rate of \$1,460 per one million gallons. Effective January 1, 2007, the rate applicable to the following water districts within the service area of the Authority: Village of Greenport, Stony Brook Water District, St. James Water District, and Smithtown Water District is \$1,042 per one million gallons, payable monthly.

Service Classification No. 1C relates to water provided on a stand-by wholesale basis to private water utilities interconnected with the Authority's service facilities, provided adequate capacity is available. The rate applicable to such service includes a service charge of \$5.40 per gallon per minute (gpm) of delivery capability, as determined by the Authority, but not less than 500 gpm and \$802 per one million gallons, payable monthly.

In addition, there is also a separate rate schedule for customers on Fire Island, with different charges for groups of customers based on a variety of factors, such as, for example, actual usage, the number of bedrooms in a residence, or the number of water-using devices in a residence.

As of April 1, 2007, the commodity charge for Service Classification No. 1 and 1A increased from \$1.0622 to \$1.0921 per hundred cubic feet. Previous rate increases became effective in 1973, 1975, 1977, 1980, 1985, 1986, 1989, 1992, 1994, 1995, 1997, 1999, 2001, 2005, and 2006. An increase in the general rate quarterly service charge for Service Classification No. 1 from \$16.83 to \$18.23 and in the monthly service charge for Service Classification No. 1A from \$5.61 to \$6.08 became effective April 1, 2007.

The Authority's financial division analyzes pertinent information and prepares applicable reports and forecasts for the purpose of evaluating water rates and service classifications. When appropriate, recommendations are made to adjust the rates charged by the Authority to remain in compliance with the Rate Covenant established under the Resolution.

The minimum bill is charged to each of the Authority's customers in advance and any excess consumption is billed following the end of the period of service. Bills are rendered for the net amount and are payable within fifteen days after presentation. A late charge of one and one-half percent (1½%) per month is applied to all outstanding water bills rendered in excess of 45 days. The Authority establishes a reserve for accounts deemed uncollectible. The reserve as of May 31, 2007 was \$1,056,163.

Sales to the preceding classifications of consumers are made only on a metered basis, except in the case of private fire lines for sprinkler lines.

Rates for fire protection, for the most part, include rentals for public hydrant service which are billed semiannually following the period of service. The Authority's system-wide uniform rate schedule for fire protection service is \$160.20 per hydrant per annum effective July 1, 1994 except for the Shorewood service area where it is \$312.00 per hydrant per annum.

As security for the payment of its bills, the Authority generally requires a deposit from each new commercial customer. The amount of the deposit required from a commercial user varies according to the nature and size of the establishment. The Authority may on occasion require, primarily from rental tenants, deposits from residential customers.

Comparative Rates

The following table compares the estimated amount that will be charged by the Authority (during the 2007 Fiscal Year) for customers who use an average of 40,000 gallons per quarter with amounts charged as of April 15, 2007 by several other public water suppliers that do not derive any of their revenue from real property taxes.

Suffolk County Water Authority	\$306.52
Water Authority of Great Neck North	645.00
Erie County Water Authority	550.76
Monroe County Water Authority	443.80
Onondaga County Water Authority	329.36

Source: Comparative rates provided by the accounting departments of each respective public water supplier.

REVENUES AND OPERATING EXPENSES

Revenues, Operating and Maintenance Expense

The revenues, expenses of operation and maintenance and the resulting net revenues of the Authority for the five most recent fiscal years and the 3-month period ended August 31, 2007 and 2006, are set forth in the following table. After provision for the stated debt service charges, the remaining revenues are available for new construction and other corporate purposes of the Authority. The table sets forth the application of the revenues of the Water System in accordance with the provisions of the Resolution. For a discussion of the Authority's 2007 Fiscal Year results, see "Management's Discussion and Analysis" in the Authority's Financial Statements attached as Appendix B.

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HISTORICAL FINANCIAL DATA*

(000's omitted)

	Fiscal Year Ended May 31,					3-Months Ended August 31,	
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2007</u> (unaudited)	<u>2006</u> (unaudited)
Revenue:							
Operating Revenue							
Residential & Commercial	\$106,949	\$107,950	\$93,253	\$88,322	\$102,441	\$40,601	\$36,796
Public & Private Fire Protection	7,541	7,408	7,347	7,243	7,124	2,144	1,913
Public Authority & Water Districts	5,120	4,904	4,891	3,568	4,652	1,901	829
Miscellaneous	10,540	12,381	8,693	10,482	9,385	3,948	4,417
Total Operating Revenue	\$130,150	132,643	114,184	109,615	123,602	48,594	43,955
Other Revenue	19,454	18,683	16,746	23,566	15,570	1,783	2,287
Total Revenue	\$149,604	\$151,326	\$130,930	\$133,181	\$139,172	\$50,377	\$46,242
Operating Expenses:							
Operations	64,293	62,927	56,616	54,753	54,017	17,992	17,760
Maintenance	20,298	18,161	19,317	17,762	16,434	5,269	4,498
Total Operating Expenses	\$84,591	\$81,088	\$75,933	\$72,515	\$70,451	23,261	22,258
Net Revenues Before Debt Service	\$65,013	\$70,238	\$54,997	\$60,666	\$68,721	\$27,116	\$23,984
Debt Service:							
Interest on Bonds & Notes	22,612	22,324	\$20,822	\$18,579	\$16,257		
Principal of Serial Bonds	10,232	10,695	4,961	8,876	8,564		
Total Debt Service	\$32,844	\$33,019	\$25,783	\$27,455	\$24,821		
Available for New Construction Fund, General Fund and general corporate purposes, subject to the provisions of the Original Resolution	\$32,169	\$37,219	\$29,214	\$33,211	\$43,900		
Senior Lien Bond Debt Service Coverage (Times)	2.62	2.59	2.92	2.60	3.81		
Total Debt Service Coverage (Times)	1.98	2.13	2.13	2.21	2.77		

* The annual information in this table is derived from the Authority's audited financial statements, however, some of the information, including (i) the 3-month interim figures, (ii) the individual components of Operating Revenue, (iii) Debt Service, (iv) Available for New Construction Fund, General Fund and general corporate purposes, (v) Debt Service Coverage are not audited and (vi) debt service reflects the principal portion of bonds paid off during the fiscal year. Please refer to Appendix B hereto for the audited financial statements of the Authority.

A preponderant part of the operating revenue is derived from residential and commercial service, from fees and charges for public and private fire protection and from charges to public bodies and water districts. Traditionally these are the most stable sources of operating revenue for any water system.

In recent years the Authority has taken great strides in reviewing its procedures and making changes to streamline operations with the ultimate goal of providing quality water to its customers at the most reasonable cost possible. Enhanced purchasing and bidding procedures have allowed the Authority to maintain minimal increases and at times reductions in costs on various aspects of operations.

The accounts of the Authority are maintained in accordance with the Uniform System of Accounts prescribed by the PSC, although the Authority is not subject to PSC rules and regulations. Rates established by the Authority do not require PSC or Suffolk County Legislative approval.

Expenses incurred include all proper and necessary costs to satisfactorily operate and maintain a water system that as of May 31, 2007 includes 5,743 miles of water main, 35,007 hydrants, and 373,875 customers and generates approximately 60 billion gallons of water annually. Major components of these expenses are discussed below.

Power Costs

The cost of purchasing electrical power continues to be the Authority's second highest single operating expense, representing approximately 22% of the Authority's operating and maintenance budget. The Authority is the second largest power user in Suffolk County.

The Long Island Power Authority ("LIPA") is the power provider to the Authority. LIPA recoups increased fuel and purchased power costs through a purchased power and fuel adjustment clause in the rate tariff. Over the past four fiscal years the surcharge provided by this fuel adjustment clause has translated into aggregate increases in excess of \$2,500,000. For Fiscal Year 2008 the Authority has budgeted, based on average consumption, power costs of \$18,600,000.

The Authority will continue to do everything possible to minimize the cost of power, such as participating in LIPA's summer savings rate program pursuant to which the Authority can utilize its own generators during peak times (when LIPA's needs are greatest), in consideration for reductions in the rates it pays for purchasing electrical power.

In addition, the Authority entered into a contract in August 2006 to participate in the New York Independent System Operator (NYISO) Installed Capacity and Special Case Resource programs. The NYSIO operates the state's high voltage electric transmission system and administers the state's wholesale energy markets. Under these programs, large consumers of electric power are paid capacity and energy payments in exchange for their commitment to curtail electric use when requested to do so by NYSIO. The Authority's participation in this program has resulted in annual savings of approximately \$150,000. The Authority is working in a joint effort with twenty-four other Long Island water suppliers to maximize the potential electric load being offered for curtailment, which will result in the highest possible return for participation.

Wages and Employees

The Authority employed 570 full time employees as of May 31, 2007, at a projected annual cost for Fiscal Year 2008 of \$39,200,000, of which approximately \$29,000,000 is charged to the operation and maintenance of the Water System. The Authority has made a conscious effort over the past decade to control payroll costs since wages represent approximately 34% of the operating and maintenance budget. The Authority employs approximately the same number of employees today as it did ten years ago but serves an additional 52,613 customers.

The Authority has approximately 375 employees who belong to the Utility Worker's Union of America A.F.L. C.I.O., Local 393 (the "Local"), covered by a collective bargaining agreement which expires on June 30, 2009. Terms of the agreement include annual increases of 3% effective February 1, 2006, July 3, 2007 and July 1, 2008. Employees of the Authority are subject to the State's Taylor Law prohibiting the employees from striking, but are not subject to the State's Civil Service Law.

Pension System

The Authority makes annual contributions to the State and Local Employee's Retirement System (the "Retirement System") to provide retirement benefits for its employees as determined by the State. All personnel employed before July 27, 1976 are on a non-contributory basis, with the total retirement expense funded by the Authority. Those employees hired after July 27, 1976 are required to contribute 3% of their gross salaries and wages to partially offset the Authority's cost. Employees achieving ten years of service in the Retirement System are no longer required to contribute 3% of their gross salaries and wages.

The Authority's expense in connection with the Retirement System is funded on an actuarial basis determined by the State. The Authority is assessed on an annual basis for its share of the Retirement System's pension and group term life insurance costs. However, there is no certainty that such contributions will be sufficient to pay all future claims made on the Retirement System. The amounts of the Authority's contributions for the Fiscal Years 2003 through 2007 are shown on the following schedule.

Effective May 14, 2003, legislation was passed allowing the Office of the State Comptroller to establish contribution rates for a given fiscal year based on the value of the pension fund as of the prior April 1. The legislation also establishes a minimum 4.5% payment. The Authority has recently been advised that the contribution rate for the period April 1, 2005 through March 31, 2006 and April 1, 2006 through March 31, 2007 (payment due February 15, 2006 and 2007 respectively) was as follows:

	<u>March 31, 2008</u>	<u>March 31, 2007</u>
Employees who joined prior to 7/1/73	12.1%	13.3%
Employees who joined on or after 7/1/73 and prior to 7/27/76	11.1	12.2
Employees who joined on or after 7/27/76	8.9	9.8

Payments to Employees' Retirement System Fiscal Year ending May 31,

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004*</u>
Regular Pension and Group Term Life Insurance Contribution	\$3,576,261	\$3,558,955	\$3,806,859	\$4,597,877	\$3,560,901*

* In the 2003 Fiscal Year, the Authority approved a State employee retirement incentive. The Authority was permitted to pay the cost of this incentive over a five year period. However, in order to avoid additional interest expense, the Authority paid the entire cost of the incentive (\$1.9 million) in the 2004 Fiscal Year. The balance of the rise in pension contribution is the result of a contribution rate increase from 1.0% to 4.5%.

Other Post Employment Benefits

A recently promulgated accounting standard, GASB Statement No. 45 ("GASB 45") of the Governmental Accounting Standards Board ("GASB"), requires state and local governments to account for and report their costs associated with post-retirement healthcare benefits and other non-pension benefits ("OPEB"). GASB 45 generally requires that employers account for and report the annual cost of the OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Under previous rules, annual OPEB costs were reported as an expense on a pay-as-you-go basis and were not reported as a liability on governmental financial statements.

GASB 45 requires that state and local governments adopt actuarial methodologies to determine annual OPEB costs. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due.

Under GASB 45, based on actuarial valuation, an annual required contribution ("ARC") will be determined for each state or local government employer. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. If a government employer contributes an amount less than the ARC, a net incremental OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB 45 does not require that the unfunded liabilities actually be funded, only that employers account for unfunded accrued liability and compliance in meeting the ARC. Actuarial valuations will be required every 2 years for each government employer including the Authority. The Authority will implement the requirements of GASB 45 in connection with the reporting of its financial statements for the 2008 Fiscal Year.

As permitted by Statement No. 71 of the Financial Accounting Standards Board, "Accounting for the Effects of Certain Types of Regulation." The Authority intends to defer the impact of implementing GASB 45 on its financial statement until such costs are raised in future water rates.

The Authority has recently engaged a consultant to assist in estimating its actuarial unfunded OPEB liabilities based on existing plan benefits and certain assumptions. These assumptions include (i) 4% rate of return on assets, (ii) various increases in insurance premiums from 10% in year one decreasing to 5% in year six and thereafter, (iii) all active employees will retire and receive OPEB, (iv) face value of life insurance benefit remains constant, (v) spouses are assumed to be the same age as retiree, (vi) upon reaching the age of 65 all retirees will participate in Medicare Part B and (vii) all active employees and retirees currently opting out of health insurance coverage are assumed to continue this election. While the initial analysis is preliminary and is still being reviewed by the Authority, the report estimates an actuarial OPEB liability of approximately \$205 million and annual ARC of approximately \$7.5 million. This initial analysis is subject to further review and adjustment based in part on further examination of the relevant assumptions, measures which the Authority may consider to manage plan benefits, and ongoing changes in health care costs and the delivery of health care services. The Authority expects that as this process continues, estimates of its actuarial unfunded OPEB liability may vary substantially, based in part on costs and assumptions used over which the Authority may have limited or no control. From time to time, the Authority may consider the legal and economic feasibility of financing all or a portion of the OPEB liabilities, as well as available options for managing plan benefits; however, the Authority has not yet adopted any financing plan for its OPEB liabilities.

The Authority was in compliance with GASB 45 at the commencement of the 2008 Fiscal Year.

Insurance

The Authority renewed its insurance coverages on April 1, 2007. Overall, premiums and claim costs increased by 6% over last year, amounting to a total program cost of \$3,910,610. An increase in workers compensation insurance premiums accounted for the majority of the increase. The Authority continues to review its insurance needs annually in an effort to manage its risk while at the same time managing its costs.

The Authority maintains a self-insured retention insurance policy for both general liability and automobile liability coverage. The self-insured retention level is \$500,000. These policies provide a coverage limit of \$1,000,000. Claims handling is performed by a third party claims administrator, and legal defense is assumed by the Authority’s general counsel. Excess liability insurance was purchased to provide coverage over the above primary policies with a limit of \$50,000,000.

Property insurance with a per occurrence blanket limit of \$50,000,000 and no aggregate policy limit, provides coverage for buildings and contents, boiler and machinery, contractor’s equipment, inventory and loss of revenue due to a covered loss.

The Authority’s workers compensation coverage is in accordance with New York statutory regulations. The policy is written by the New York State Insurance Fund on a guaranteed cost basis.

The Authority also maintains directors’ and officers’ liability, commercial crime, and disability insurance in commercially reasonable amounts.

Collections

The Authority’s collection activities have resulted in a collection rate on revenues (revenues less uncollectible accounts) of 99.6% in the 2007 Fiscal Year. Total revenues, uncollectible accounts and collection percentage for each of the Fiscal Years 2003 through 2007 are set forth below:

Fiscal Year	Revenues*	Uncollectible Accounts	Collection Percentage
2007	\$119,610,000	\$443,035	99.6%
2006	120,262,000	588,197	99.5
2005	105,491,000	252,124	99.8
2004	99,133,000	454,144	99.5
2003	114,217,000	439,526	99.6

*Revenues exclude miscellaneous revenues.

Authority rules and regulations state that all bills are due and payable, net cash, 12 working days from date of bill. A late charge of 1½% per month is applied to all outstanding bills in excess of forty-five (45) days. The Authority’s regulations also provide for discontinuance of water service, in conformance with law, when necessary.

After extensive efforts to collect on any outstanding bills, account information is forwarded to the Authority’s in house counsel for action.

Operating and Maintenance Budget for the 2008 Fiscal Year

The Authority has budgeted \$86,028,000 in operation and maintenance expenses for the 2008 Fiscal Year. This figure represents an increase of 1.5% or \$1,259,000 over the budgeted operating and maintenance expenses for the 2007 Fiscal Year. Following is a line item breakdown of the Authority's operation and maintenance budget for the three most recent fiscal years.

Category	Budgeted Amount Fiscal Year Ending May 31,		
	2008	2007	2006
Construction Maintenance	\$10,138,000	\$ 9,614,500	\$10,045,000
Customer Service	6,740,000	5,764,000	5,690,000
Engineering	7,049,000	6,290,500	6,619,000
Facilities Management	1,901,000	1,803,000	1,707,000
Finance/Administration	12,477,000	12,837,000	13,667,000
Human Resources	13,626,000	15,045,000	12,098,000
Information Technology	875,000	850,000	909,500
Laboratory	2,667,000	2,671,000	2,682,000
Meter Shop	1,441,000	2,011,000	1,758,000
Production Control	8,580,000	7,616,500	6,932,500
Safety	444,000	291,500	248,000
Stores	300,000	375,000	360,000
Telecommunications	1,190,000	1,100,000	1,084,000
Power Purchase	<u>18,600,000</u>	<u>18,500,000</u>	<u>16,597,000</u>
TOTAL	<u>\$86,028,000</u>	<u>\$84,769,000</u>	<u>\$80,397,000</u>

Investment Policy

The Resolution imposes restrictions on the Authority's ability to invest moneys on deposit in the Funds created by the Resolution. On January 26, 1999, the Authority adopted comprehensive investment guidelines with additional restrictions on the investment of all moneys of the Authority. These guidelines were amended on October 30, 2000.

INCORPORATION BY REFERENCE OF SUFFOLK COUNTY'S MOST RECENT OFFICIAL STATEMENT

The Notes are not a debt of Suffolk County, nor is Suffolk County in any way, directly or indirectly, obligated for the repayment thereof. However, the service area of the Authority is generally coterminous with the geographical area of Suffolk County and therefore certain demographic, economic and statistical information relating to Suffolk County may be relevant to prospective purchasers of the Notes. Therefore, the Official Statement of Suffolk County, dated December 13, 2007, relating to the County of Suffolk New York \$300,000,000 3.50% Tax Anticipation Notes - 2008 (Series I), filed with the Municipal Securities Rulemaking Board (the "MSRB"), but only to the extent of the information contained in "APPENDIX A - THE COUNTY OF SUFFOLK" under the captions and subcaptions entitled "THE COUNTY OF SUFFOLK—Economic Considerations," "—Transportation," "—School Facilities" and "—Sports and Entertainment," "REAL PROPERTY TAXES" and "STATISTICAL INFORMATION," is hereby incorporated by reference herein and made a part hereof. Such information may be reviewed and copied at the public reference facilities of the MSRB located at Suite 800, 1818 N Street, N.W., Washington, D.C. 20036-2491, or may be obtained upon written request and payment of a set fee to the MSRB. Information concerning procedures for such review or for obtaining a copy of such official statement from the MSRB may be obtained by contacting the MSRB at (202) 223-9503. Such information is not guaranteed as to its accuracy or completeness by the Authority and is not to be construed as a representation by the Authority.

TAX MATTERS

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the “Code”), imposes certain requirements that must be met subsequent to the issuance and delivery of the Notes for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Notes to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Notes. Pursuant to the Resolution the Authority has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Notes from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the Authority has made certain representations and certifications in the Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986 relating to the Notes. Bond Counsel will not independently verify the accuracy of those certifications and representations.

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the aforementioned covenant, and the accuracy of certain representations and certifications made by the Authority described above, interest on the Notes is excluded from gross income for Federal income tax purposes under Section 103 of the Code. Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Notes is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

State Taxes

Bond Counsel is also of the opinion that, under existing statutes, interest on the Notes is exempt from personal income taxes imposed by the State and any political subdivision thereof, including The City of New York.

Ancillary Tax Matters

Ownership of the Notes may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, individuals seeking to claim the earned income credit, and taxpayers (including banks, thrift institutions and other financial institutions) who may be deemed to have incurred or continued indebtedness to purchase or to carry the Notes.

Commencing with interest paid in 2006, interest paid on tax-exempt obligations such as the Notes is subject to information reporting to the Internal Revenue Service (the “IRS”) in a manner similar to interest paid on taxable obligations. In addition, interest on the Notes may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner’s taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Bond Counsel is not rendering any opinion as to any Federal tax matters other than those described under the caption “TAX MATTERS”. Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Notes, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Federal Tax Law and Post Issuance Events

Legislative or administrative actions and court decisions, at either the Federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Notes for Federal or state income tax purposes, and thus on the value or marketability of the Notes. This could result from changes to Federal or state income tax rates, changes in the structure of Federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the Notes from gross income for Federal or state income tax purposes, or otherwise. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the Federal or state income tax treatment of holders of the Notes may occur. Prospective purchasers of the Notes should consult their own tax advisers regarding such matters.

On November 5, 2007, the U.S. Supreme Court heard oral argument on Davis v. Kentucky Dep't Of Revenue of The Finance and Admin. Cabinet, 197 S.W.3d 557 (2006), a case that has questioned the permissibility under the U.S. Constitution of the Commonwealth of Kentucky providing for a state income tax exemption for interest on obligations issued by Kentucky or its subdivisions while taxing interest on obligations of other states or their subdivisions. The laws of the State of New York currently result in such differing treatment, by exempting interest on obligations of the State of New York and its subdivisions and instrumentalities while taxing the interest on obligations issued by other states or their subdivisions or instrumentalities.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Notes may affect the tax status of interest on the Notes. Bond Counsel expresses no opinion as to any Federal, state or local tax law consequences with respect to the Notes, or the interest thereon, if any action is taken with respect to the Notes or the proceeds thereof upon the advice or approval of other counsel.

COVENANT BY THE STATE OF NEW YORK

Under the Act, the State covenants with the purchasers and with all subsequent holders and transferees of bonds and notes issued by the Authority that such bonds and notes and the income therefrom and all moneys, funds and revenues pledged to pay or secure the payment of such bonds and notes, shall at all times be free from taxation, except for transfer and estate taxes. Under the Act, the State also pledges to and agrees with the holders of bonds or notes issued by the Authority (including the Notes) that the State will not limit or alter the rights thereby vested in the Authority to acquire, construct, maintain, operate, reconstruct and improve the properties, to establish and collect the revenues, rates, rentals, fees and other charges referred to in the Act and to fulfill the terms of any agreements made with the holders of such bonds or notes, or in any way impair the rights and remedies of the holders thereof, until the bonds, together with interest thereon, interest on any unpaid installments of interest and all costs and expenses in connection with any action or proceeding by or on behalf of the holders thereof, are fully met and discharged.

LEGALITY FOR INVESTMENT

The Act provides that bonds and notes issued by the Authority (including the Notes) are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business and all other persons whomsoever, except as hereinafter provided, who are now or may hereafter be authorized to invest funds including capital in their control or belonging to them. Such

bonds or notes, however, shall not be eligible for the investment of funds including capital, of trusts, estates or guardianships under the control of individual administrators, guardians, executors, trustees and other individual fiduciaries.

The bonds and notes issued by the Authority are also, by the Act, made securities which may be deposited with and may be received by all public officers and bodies of the State and all municipalities and municipal subdivisions for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized.

LEGAL MATTERS

Nixon Peabody LLP, New York, New York, Bond Counsel to the Authority, will render its approving opinion as to the validity and legality of the Notes, copies of which will be available at the time of delivery of the Notes and the form of which is annexed hereto in Appendix C. Said Bond Counsel has not assumed responsibility for the preparation of this Official Statement and is not rendering any opinions as to the accuracy or completeness of the Official Statement. Certain legal matters will be passed upon for the Underwriter by its counsel, McKenna Long & Aldridge LLP, New York, New York and for the Standby Purchaser by its counsel, Winston & Strawn LLP, New York, New York.

In the opinion of Timothy J. Hopkins, Esq., General Counsel to the Authority, the Authority is vested with the title or right and interest in all the properties constituting the Water System, including plants, works, instrumentalities or parts thereof and appurtenances thereto, lands, easements, rights in land and water rights, rights-of-way, contract rights, approaches, connections, storage tanks, water mains and pipe lines, pumping stations and equipment and any other property incidental to and included in the Water System or part thereof and any improvements, extensions and betterments thereof, all of which are located in Suffolk County. Such counsel is of the opinion that substantially all parcels of land included in the Water System are owned in fee, and the transmission and distribution mains are located on land with respect to which the Authority has rights-of-way or easements, or along public streets and roadways, and with respect to such rights-of-way or easements, the Authority is not obligated to pay any rental charges for the use thereof. The small numbers of parcels not owned in fee are operated by the Authority under long-term contractual arrangements. Such counsel is of the opinion that, so far as legal matters are concerned, such properties, interests and rights vested in the Authority are sufficient to authorize the use and operation of the Water System as now being used and operated; and is also of the opinion that the aforesaid properties, interests and rights held by the Authority in the Water System are held free and clear of any mortgages, liens, or other encumbrances which might affect the same to the extent of interfering with the operations of the Water System; nor has the Authority assumed the obligation of any such mortgages, liens, or encumbrances or the payment of any interest charges thereunder.

LITIGATION

There is not now pending or, to the best of the Authority's knowledge, threatened any litigation restraining or enjoining the issuance or delivery of the Notes or the Authorized Series of Bonds in anticipation of which the Notes are being issued or questioning or affecting the validity of the Notes or the proceedings and authority under which they are to be issued, nor is the creation, organization, or existence of the Authority being contested.

There is no litigation pending or, to the best of the Authority's knowledge, threatened which in any manner questions the right of the Authority to operate the Water System or its right to conduct its activities in accordance with the provisions of the Act and of the Resolution. Any other litigation pending is generally of a routine nature which does not affect the right of the Authority to

conduct its business or affect the validity of its obligations, or which in the judgment of the Authority, due to the nature of such claims and/or the availability of insurance as described above under “REVENUES AND OPERATING EXPENSES - Insurance,” would not have a material adverse effect on the financial condition or operations of the Authority if adversely determined.

DISCLOSURE OF MATERIAL EVENTS

In the Remarketing Agreement, the Authority has covenanted to disclose to the Remarketing Agent, so long as the Remarketing Agreement is in effect, any event or condition known to the Authority relating to or affecting the Authority, the Notes, the Resolution, the Standby Agreement, the Tender Agent Agreement, the Remarketing Agreement or the documents or transactions contemplated thereby, which in the reasonable judgment of the Authority, might affect the correctness or completeness of any statement of a material fact contained in the Official Statement, as it shall have been supplemented or amended.

Except as provided in the Remarketing Agreement, the Authority has not committed to provide information concerning the Authority or the Standby Purchaser on an ongoing basis. The Authority, however, will provide a copy of its most recent annual report upon written request to: Suffolk County Water Authority, 4060 Sunrise Highway at Pond Road, Oakdale, New York 11769. The issuance of the Notes is exempt from the provisions of Securities and Exchange Commission Rule 15c2-12 pursuant to paragraph (d) thereof. The Authority has, in connection with the issuance of its Bonds, covenanted to provide ongoing information to nationally recognized municipal securities information repositories and the state information repository, if any, relating to certain material events and core financial and operating data of the Authority.

UNDERWRITING

Goldman, Sachs & Co., the Underwriter of the Notes, has agreed, subject to certain conditions, to purchase the Notes from the Authority at a price of par, plus accrued interest, if any. The initial public offering price for the Notes will be the par value thereof, plus accrued interest, if any. The Notes may be offered and sold to certain dealers (including dealers depositing such Notes into unit investment trusts) at prices lower than the initial public offering price. The initial public offering price may be changed from time to time by the Underwriter. Goldman, Sachs & Co. will also act as Remarketing Agent for the Notes.

RATINGS

Standard & Poor’s Rating Services (“S&P”) and Fitch, Inc. (“Fitch”) have assigned their short-term ratings for the Notes of “A-1+” and “F1+,” respectively. Such ratings reflect only the views of such organizations, and an explanation of the significance of such ratings may be obtained from: Standard & Poor’s Rating Services, 25 Broadway, New York, New York 10004 and Fitch, Inc., One State Street Plaza, New York, New York 10004. Generally, each rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating will continue for any given period of time or that it will not be revised, suspended or withdrawn entirely by such rating agency if in its judgment circumstances so warrant. A revision, suspension or withdrawal of any such ratings may have an effect on the market price of the Notes.

FINANCIAL STATEMENTS

The financial statements of the Authority for the fiscal years ended May 31, 2007 and May 31, 2006, which are included as Appendix B to this Official Statement, have been audited by Ernst & Young, LLP, independent auditors, as stated in their report which appears therein.

MISCELLANEOUS

The references herein to the Act, the General Resolution, the Supplemental Resolution and the Notes are made subject to all of the respective provisions thereof, to which reference is hereby made for further information. The references thereto in this Official Statement do not purport to be complete statements thereof. The agreement of the Authority with the holders of the Notes is fully set forth in the Resolution, and neither any advertisement of such Notes nor this Official Statement is to be construed as a contract with the purchasers of such Notes. Copies of the documents mentioned in this paragraph are on file at the offices of the Authority and of the Paying Agent.

All appendices to this Official Statement are hereby incorporated as integral parts of this Official Statement. So far as any statements are made in the Official Statement involving matters of opinion or estimate, whether or not expressly so stated, they are intended merely as such and not as presentations of fact.

SUFFOLK COUNTY WATER AUTHORITY

By: /s/ Michael A. LoGrande
Michael A. LoGrande
Chairman

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a summary of certain provisions contained in the Resolution which does not purport to be complete. This summary is qualified by reference to the Resolution copies of which may be examined at the offices of the Authority and the Bond Fund Trustee. In particular, investors and other interested parties, should refer to the complete Resolution for a description of the nature and extent of (i) the security for the Notes, and of any bonds heretofore and hereafter issued under the General Resolution (all of such bonds being herein collectively called the “Bonds”), (ii) the revenues pledged to the payment of the Notes, (iii) the nature and extent and manner of enforcement of the pledge, the rights and remedies of the holders of the Notes with respect thereto, (iv) the terms and conditions upon which the Notes are issued, and (v) a statement of rights, duties, immunities and obligations of the Authority.

The following are definitions of certain terms contained in the Resolution and used herein.

Definitions of Certain Terms

“Additional Security” means a letter of credit, line of credit, insurance policy, standby purchase agreement or similar obligation or instrument or any combination of the foregoing.

“Alternate Liquidity Facility” means a letter of credit, insurance policy, guaranty, surety bond, standby note purchase agreement, line or lines of credit or other similar agreement or agreements or any other agreement or agreements used to provide liquidity support, other than the Standby Agreement, for all or any portion of the Notes which are subject to mandatory tender for purchase or purchase upon demand of the Noteowner in accordance with the terms of the Supplemental Resolution issued and delivered to the Tender Agent in substitution for or upon the expiration of a pre-existing Liquidity Facility, all in accordance with the terms of the Supplemental Resolution and the Tender Agreement. The term Alternate Liquidity Facility shall include a bank letter of credit only to the extent that such bank letter of credit includes as part of its terms an agreement to provide liquidity support for any Notes as set forth in the first sentence of this definition.

“Authorized Denominations means a minimum of \$100,000 and any \$5,000 integral multiple thereof.

“Authorized Officer” when used with reference to the Authority means the Chairman, the Secretary, the Director of Finance, the Assistant Secretary, the Executive Director thereof or other officer designated by resolution of the Authority.

“Bank Note” means any Note purchased with the proceeds of a drawing under the Liquidity Facility. Any such Note shall cease to be a Bank Note upon its release by the Liquidity Bank, except if such Note is held by a Bank Assignee or Bank Noteholder (as defined in the Standby Agreement).

“Bond Anticipation Notes” means obligations issued pursuant to Section 3.7 of the Resolution.

“Bond Counsel” means Nixon Peabody LLP, or such other attorney or firm of attorneys, designated by the Authority, of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

“Bond Fund” means the Bond Fund created in Section 6.4 of the Resolution and to be held and administered by the Bond Fund Trustee.

“Bond Fund Trustee” means the trustee appointed pursuant to Section 7.1 of the Resolution and its successor or successors and any other corporation which may be substituted in its place pursuant to the Resolution.

“Bonds” means Water System Revenue Bonds issued from time to time pursuant to and under authority of Section 3.1 of the Resolution and which shall be designated by the Supplemental Resolution authorizing the issuance thereof as either Senior Lien Bonds or Subordinate Lien Bonds.

“Business Day” means any day other than a Saturday, a Sunday or any other day on which banks located in the cities in which the principal offices of the Tender Agent, the Paying Agent, the Remarketing Agent and the Liquidity Bank are located, are authorized or required to remain closed or the New York Stock Exchange is authorized or required to remain closed.

“Capital Appreciation Bonds” means Bonds issued pursuant to Section 3.10 of the Resolution.

“Certificate of Determination” means the certificate of the Chairman of the Authority determining certain terms of the Notes.

“Certified Interest Rate” means the rate of interest as certified pursuant to Section 3.13 of the Resolution which would have been borne by Variable Rate Bonds had such Variable Rate Bonds been issued at a fixed interest rate to their stated maturity.

“Compound Accreted Value” means an amount determined in accordance with Section 3.11 of the Resolution.

“Compounded Amount” means, as of any date of computation, the principal amount of any Capital Appreciation Bond plus the interest accrued on such Bond compounded on the interest payment dates and at the rate provided in the applicable Supplemental Resolution to such date of computation, if an interest payment date, or otherwise to the next preceding interest payment date.

“Construction Fund” means any Construction Fund created pursuant to Section 6.5 of the Resolution.

“Construction Fund Trustee” means a construction fund trustee appointed pursuant to Section 7.1 of the Resolution, its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Resolution.

“Consulting Engineer” means the engineer or engineering firm or corporation retained by or on behalf of the Authority pursuant to Section 8.5 of the Resolution to perform the acts and carry out the duties provided for such Consulting Engineer in the Resolution.

“Conversion Date” means a Daily Rate Conversion Date, a Weekly Rate Conversion Date, a Monthly Rate Conversion Date, or a Semi-annual Rate Conversion Date.

“Cost of Acquisition and Construction” means all costs of determining the feasibility of, and acquiring, constructing, financing, carrying out and placing in operation additions, improvements, enlargements, extensions, expansions and betterments to the Water System, and shall include, but shall not be limited to, moneys required for:

(i) working capital and reserves in such amounts as may be deemed necessary by the Authority;

(ii) interest accruing in whole or in part on Bonds after the date such Bonds are issued, but only if, and to such extent as, the Authority may reasonably determine;

(iii) deposits from the proceeds of Bonds in any fund or account established pursuant to the Resolution to meet reserve requirements for Bonds;

(iv) deposits from the proceeds of Bonds in any funds or accounts established pursuant to the Resolution as reserves for renewals, repairs, replacements, modifications, betterments, additions and contingencies; and

(v) preliminary survey, investigation and development costs, engineering fees, contractors' fees, cost of permits, licenses and approvals, labor, materials, equipment, lands, rights of way, franchises, easements and other interests in land, utility services and supplies, payments to other public agencies, training and testing costs, insurance premiums, principal of and interest on notes issued in anticipation of Bonds, fees and expenses of trustees and paying agents, legal and financing costs, administrative and general costs, and all other costs incurred by the Authority and properly allocable to the Water System.

“Daily Rate” means the interest rate from time to time borne by the Notes calculated and determined by the Remarketing Agent, as set forth in Section 8(b)(i) of the Supplemental Resolution.

“Daily Rate Conversion Date” means any date on which the Notes are converted to Notes bearing interest at the Daily Rate, which may be any calendar day.

“Date of Issuance” means the date of original issuance and delivery of the Notes to the original purchaser thereof.

“Debt Service” means, as of any particular date of computation, with respect to any Bonds and with respect to any period, the aggregate of the amounts to be paid or set aside in such period for the payment (or retirement) of the principal of, premium, if any, and interest (to the extent not capitalized) on such Bonds.

“Direct Participant” has the meaning given such term in the letter of representations between the Authority and DTC.

“Effective Interest Rate Period” means (1) with respect to Notes bearing interest at the Daily Rate, each Business Day to but not including the next succeeding Business Day, (2) with respect to Notes bearing interest at the Weekly Rate, the period from and including Wednesday of each week to and including the following Tuesday, (3) with respect to Notes bearing interest at the Monthly Rate, the period from and including the first calendar day of each month to and including the last calendar day of such month, and (4) with respect to Notes bearing interest at the Semi-annual Rate, the period from and including January 1 of each year to and including June 30 of such year and the period from and including July 1 of each year to and including December 31 of such year; provided, that the first Effective Interest Rate Period shall begin on the Date of Issuance and continue to and include the following Tuesday, and provided further, that upon a change in interest rate modes, the last Effective Interest Rate Period of the former mode shall end on the day prior to the Conversion Date for the elected interest rate mode.

“Favorable Opinion of Bond Counsel” means an opinion of Nixon Peabody LLP, or other Bond Counsel, addressed to the Authority, the Paying Agent, the Liquidity Bank and the Remarketing Agent to the effect that the action proposed to be taken is authorized or permitted by the

laws of the State of New York and the United States and the Supplemental Resolution and will not adversely affect any exclusion from gross income for federal income tax purposes of interest on the Notes.

“Fiscal Year” means the twelve month period established by the Authority or provided by law from time to time as its fiscal year, and which, as of the date of adoption of the Resolution, is the twelve month period commencing on June 1 of any year and ending on May 31 of the following year.

“Fitch” means Fitch Inc., 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, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P) designated by the Authority, with the approval of the Remarketing Agent, by notice to the Tender Agent.

“General Fund” means the General Fund created in Section 6.4 of the Resolution and to be held and administered by the Authority.

“Interest Accrual Period” means (1) while the Notes bear interest at the Daily Rate or the Monthly Rate, each calendar month, (2) while the Notes bear interest at the Weekly Rate, the period from and including the first Wednesday of each calendar month to and including the Tuesday prior to the first Wednesday of the succeeding calendar month, and (3) while the Notes bear interest at the Semi-annual Rate, the period from and including January 1 of each year to and including June 30 of such year and the period from and including July 1 of each year to and including December 31 of such year.

“Interest Payment Date” means, while the Notes bear interest at the Daily Rate, the fifth Business Day of each calendar month; while the Notes bear interest at the Weekly Rate, the first Wednesday of each calendar month, or, if the first Wednesday is not a Business Day, the next succeeding Business Day; while the Notes bear interest at the Monthly Rate, the first Business Day of each calendar month; and while the Notes bear interest at the Semi-annual Rate, the first Business Day of each January and July of each year. The initial Interest Payment Date for the Notes is February 6, 2008.

“Investment Securities” means any of the following, if and to the extent that the same are legal for the investment of funds of the Authority:

(i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America;

(ii) bonds, debentures, notes, participation certificates or other evidences of indebtedness issued or guaranteed by the Bank for Cooperatives; Federal Intermediate Credit Bank; Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Land Banks; Federal National Mortgage Association; United States Postal Service; Government National Mortgage Association; Federal Financing Bank, Farmers Home Administration, Federal Home Loan Mortgage Association or any agency or instrumentality of the United States of America or any other corporation wholly-owned by the United States of America;

(iii) New Housing Authority Bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America or any agency thereof; or Project Notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America or any agency thereof;

(iv) direct and general obligations, to the payment of the principal of and interest on which the full faith and credit of the issuer is pledged, of any of the following: any state of the United States, or any political subdivision of any such state; provided that (a) as to such obligations of a political subdivision, all the taxable real property within such political subdivision shall be subject to taxation thereby to pay such obligations and the interest thereon, without limitation as to the rate or amount, and (b) at the time of their purchase under the Resolution, such obligations of any such state or political subdivision are rated in either of the two highest rating categories by two nationally recognized bond rating agencies;

(v) bank time deposits evidenced by certificates of deposit and bankers' acceptances issued by any bank or trust company (which may include the Bond Fund Trustee or any Construction Fund Trustee) which is a member of the Federal Deposit Insurance Corporation, provided that such time deposits and bankers' acceptances (a) do not exceed at any one time in the aggregate five percent (5%) of the total of the capital and surplus of such bank or trust company, or (b) are secured by obligations described in items (i), (ii) or (iii) of this definition of Investment Securities, which such obligations at all times have a market value (exclusive of accrued interest) at least equal to such time deposits so secured;

(vi) repurchase agreements with any bank or trust company (which may include the Bond Fund Trustee or any Construction Fund Trustee) which is a member of the Federal Deposit Insurance Corporation, which such agreements are secured by securities which are obligations described in items (i), (ii) or (iii) of this definition of Investment Securities provided that each such repurchase agreement (A) is in commercially reasonable form and is for a commercially reasonable period, and (B) results in transfer to the Bond Fund Trustee or the Authority of legal title to, or the grant to the Bond Fund Trustee or the Authority of a prior perfected security interest in, identified securities referred to in items (i), (ii) or (iii) above which are free and clear of any claims by third parties and are segregated in a custodial or trust account held by a third party (other than the repurchaser) as the agent solely of, or in trust solely for the benefit of, the Bond Fund Trustee or the Authority; provided that such securities acquired pursuant to such repurchase agreements shall be valued at the lower of the then current market value of such securities or the repurchase price thereof set forth in the applicable repurchase agreement;

(vii) obligations consisting of notes, bonds and debentures which are direct obligations of a solvent corporation existing under the laws of the United States or any state thereof, provided that such investments shall be rated in the two highest rating categories established by at least two nationally recognized bond rating agencies;

(viii) certificates or other obligations that evidence ownership of the right to payments of principal of or interest on obligations of the United State of America or any state of the United States of America or any political subdivision thereof or any agency or instrumentality of the United States of America or any state or political subdivision, provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a Bond Fund Trustee under Section 7.1 of the Resolution, and provided further that, in the case of certificates or other obligations of a state or political subdivision, the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit support arrangement provided by, one or more financial institutions or insurance companies or associations which shall be rated in the highest rating category by Moody's

Investors Service, Inc. and Standard & Poor's Corporation, or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being rated in the highest rating category by Moody's Investors Service, Inc. and Standard & Poor's Corporation; and

(ix) investment agreements rated or the issuer of which is rated, in one of the two highest rating categories by at least two nationally recognized rating agencies and if rated by Moody's Investors Service or Standard & Poor's Corporation such investment agreements or the long term unsecured debt obligations of the issuer thereof must be rated in one of the two highest rating categories by the respective agency rating such investment agreements.

"Liquidity Bank" initially, means the Standby Purchaser, and, upon the effectiveness of an Alternate Liquidity Facility, the bank or banks or other financial institution or financial institutions that are then parties to the Alternate Liquidity Facility. In the case of any Alternate Liquidity Facility to which more than one bank or financial institution is a party, notices required by the Supplemental Resolution to be given to the Liquidity Bank may be given to the bank or financial institution under such Liquidity Facility appointed to act as agent for all such banks or financial institutions.

"Liquidity Bank Account" means the account bearing such name which is created pursuant to the Tender Agreement.

"Liquidity Facility" means, initially with respect to the Notes, the Standby Agreement and, upon the effectiveness of an Alternate Liquidity Facility, such Alternate Liquidity Facility.

"Maturity Date" means with respect to the Notes, such date as set forth in the Certificate of Determination as the maturity date of the Notes.

"Maximum Rate" means the least of (a) 12% per annum, (b) such other maximum rate permitted under the Standby Agreement or an Alternate Liquidity Facility then available to pay the Purchase Price of the Notes and (c) the maximum rate of interest permitted by applicable law.

"Monthly Rate" means the interest rate from time to time borne by the Notes calculated and determined by the Remarketing Agent, as set forth in the Supplemental Resolution.

"Monthly Rate Conversion Date" means any date on which the Notes are converted to Notes bearing interest at the Monthly Rate, which must be the first day of any calendar month.

"Net Revenues" means, with respect to any period, the Revenues during such period less the Operation and Maintenance Expenses during such period.

"New Construction Fund" means the New Construction Fund created in Section 6.9 of the Resolution and to be held and administered by the Authority.

"Note Purchase Fund" means the fund so designated which is established with the Tender Agent pursuant to the Tender Agreement.

"Note Register" means the books or records maintained by the Paying Agent for the purpose of registration of the Notes.

"Noteowners" means the registered owners of the Notes as shown on the Note Register.

“Operating Fund” means the Operating Fund created in Section 6.2 of the Resolution and to be held and administered by the Authority.

“Operation and Maintenance Expenses” means the cost and expenses of operating and maintaining the Water System, including, without limiting the generality of the foregoing, (i) all expenses includable in the operation and maintenance expense accounts of the Authority relating to the Water System according to generally accepted accounting principals, exclusive of depreciation and amortization of property values or losses, and (ii) to the extent not included in the preceding clause (i) or paid from Bond proceeds or otherwise, the Authority’s share of the costs and expenses of operating and maintaining any plants and properties jointly owned with others.

“Original Bonds Trust Fund” means a Refunding Trust Fund created and administered pursuant to a Refunding Trust Agreement dated as of November 15, 1988 by and between the Authority and The Bank of New York (formerly known as United States Trust Company of New York), as Trustee for the benefit of the holders of the Water Works Revenue Bonds.

“Original Bonds Trustee” means The Bank of New York (formerly known as United States Trust Company of New York) as Trustee under a Refunding Trust Agreement, dated as of November 15, 1988, by and between the Authority and said Bank.

“Original Issue Discount Bonds” means Bonds of a Series which are originally reoffered to the public at a price (excluding accrued interest) of less than 98% of their principal amount.

“Original Resolution” means the resolution adopted by the Authority on May 21, 1951 and dated June 1, 1951, entitled, “RESOLUTION PROVIDING FOR THE ESTABLISHMENT AND OPERATION BY SUFFOLK COUNTY WATER AUTHORITY OF A WATER SUPPLY AND DISTRIBUTION SYSTEM WITHIN THE COUNTY OF SUFFOLK AND PROVIDING FOR THE ISSUANCE OF BONDS AND NOTES FOR CORPORATION PURPOSES,” as amended, and the resolutions supplemental thereto.

“Original Water Works Revenue Bonds” means the outstanding Water Works Revenue Bonds, heretofore issued pursuant to the Original Resolution consisting of Water Works Revenue Bonds, Series F, dated June 1, 1959, Water Works Revenue Bonds, Series G, dated June 1, 1961, Water Works Revenue Bonds, Series H, dated June 1, 1962, Water Works Revenue Bonds, Series I, dated June 1, 1964, Water Works Revenue Bonds, Series J, dated June 1, 1965, Water Works Revenue Bonds, Series K, dated June 1, 1967, Water Works Revenue Bonds, Series L, dated June 1, 1969, Water Works Revenue Bonds, Series M, dated June 1, 1970, Water Works Revenue Bonds, Series N, dated June 1, 1972, Water Works Revenue Bonds, Series O, dated June 1, 1973, Water Works Revenue Bonds, Series Q, dated June 1, 1976, Water Works Revenue Bonds, Series R, dated March 1, 1978 and Water Works Revenue Bonds, Series S, dated June 1, 1980.

“Outstanding” or “outstanding” means, (i) when used with reference to Bonds as of any date, Bonds theretofore or thereupon issued or authorized pursuant to the Resolution, except: (a) any Bonds cancelled by a Paying Agent or paid at or prior to such date; (b) Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the Resolution; and (c) Bonds deemed to be no longer outstanding as provided in Section 13.1 of the Resolution and (ii) when used with reference to Notes, or “Notes_Outstanding” means all Notes (including Bank Notes) which have been issued and delivered by the Paying Agent or the Tender Agent under this Supplemental Resolution, except: (a) Notes canceled or purchased by or delivered to the Tender Agent for cancellation, (b) Notes that have become due (at maturity or on redemption) the payment, including interest accrued to the due date, of which sufficient moneys have been set aside by the Authority, and (c) Notes in lieu of which others have been issued hereunder.

“Paying Agent” means, (i) as to the Notes, The Bank of New York, or any successor thereto, as paying agent and registrar for the Notes under the Supplemental Resolution relating to the Notes and (ii) as to Bonds of any particular Series, the bank or trust company designated for the payment of the principal of, premium, if any, and interest on the Bonds of such Series in the Supplemental Resolution providing for the issuance of such Series of Bonds.

“Projects” means the Cost of Acquisition and Construction of improvements and additions to the Water System.

“Purchase Date” means (i) for purposes of purchasing Notes at Noteowners option (A) any Business Day while the Notes bear interest at the Daily or Weekly Rate, (B) any Interest Payment Date while the Notes bear interest at the Monthly Rate or (C) the first Business Day of any January or July, while the Notes bear interest at the Semi-annual Rate or (ii) for purposes of purchasing Notes upon termination, expiration, reduction, modification or replacement of the Liquidity Facility, on any Interest Payment Date or as further provided in the Supplemental Resolution.

“Purchase Price” means the principal amount of, plus unpaid accrued interest to but not including the Purchase Date of, Notes to be tendered for purchase.

“Rate Adjustment Date” means (i) when used with reference to a Note bearing interest at the Daily Rate, the Daily Rate Conversion Date and each Business Day thereafter; (ii) when used with reference to a Note bearing interest at the Weekly Rate, the Weekly Rate Conversion Date and Wednesday of each week thereafter; (iii) when used with reference to a Note bearing interest at the Monthly Rate, the Monthly Rate Conversion Date and the first Business Day of each calendar month thereafter; and (iv) when used with reference to a Note bearing interest at the Semi-annual Rate, the Semi-annual Rate Conversion Date and each January 1 and July 1 of each year thereafter.

“Rate Determination Date” means (1) with respect to any Effective Interest Rate Period for a daily interest rate mode, 10:00 a.m., New York City time, on the current day, (2) with respect to any Effective Interest Rate Period for a weekly interest rate mode, 5:00 p.m., New York City time, on each Tuesday, and in the event Tuesday is not a Business Day, then 5:00 p.m., New York City time, on the next succeeding Business Day, (3) with respect to any Effective Interest Rate Period for a monthly interest rate mode, 5:00 p.m., New York City time, on the last Business Day prior to the start of the Effective Interest Rate Period, and (4) with respect to any Effective Interest Rate Period for a semi-annual interest rate mode, 5:00 p.m., New York City time, on the last Business Day prior to the start of the Effective Interest Rate Period; provided, however, that the Rate Determination Date for the Effective Interest Rate Period beginning on the Date of Issuance shall be such date.

“Rebate Fund” means any Rebate Fund created pursuant to Section 6.8 of the Resolution.

“Record Date” means the last Business Day prior to each Interest Payment Date on the Notes.

“Refunded Municipal Obligations” means obligations of any state, the District of Columbia or possession of the United States or any political subdivision thereof which obligations are rated in the highest rating category by Moody’s Investor’s Service and Standard & Poor’s Corporation and provision for the payment of the principal of and interest on which shall have been made by deposit with a trustee or escrow agent of direct obligations of the United States of America, which are held by a bank or trust company organized and existing under the laws of the United States of America or any state, the District of Columbia or possession thereof in the capacity as custodian, the maturing principal of and interest on which direct obligations of the United States of America when due and payable shall be sufficient to pay when due the principal of and interest on such obligations of such state, the District of Columbia, possession, or political subdivision.

“Remarketing Account” has the meaning given such term in the Tender Agreement.

“Remarketing Agent” means the initial and any successor remarketing agent appointed in accordance with Section 20 of the Supplemental Resolution. “Principal Office” of the Remarketing Agent shall mean the address for the Remarketing Agent set forth in Section 27, or such other office thereof designated in writing to the Authority, the Paying Agent, the Tender Agent and the Liquidity Bank.

“Remarketing Agreement” means the Remarketing Agreement to be entered into between the Authority and the Remarketing Agent, as the same may be amended or supplemented from time to time, or any remarketing agreement entered into with a successor Remarketing Agent.

“Reserve Account Requirement” means, with respect to a Series of Bonds, the amount, if any, prescribed by the Supplemental Resolution authorizing such Series of Bonds.

“Resolution” means the Authority’s Water System Revenue Bonds Bond Resolution, adopted by the Authority on September 27, 1988, as amended on October 27, 1988 and as further amended on March 30, 1993 and November 29, 1994 and from time to time supplemented by one or more Supplemental Resolutions.

“Revenues” means and includes all income, fees, charges, receipts, profits and other moneys derived by the Authority from its ownership or operation of the Water System, including, without limiting the generality of the foregoing, (i) all income, fees, charges, receipts, profits and other moneys derived from the sale of water and from the furnishing or supplying of the services, facilities and commodities through the Water System; and (ii) all income from investments of moneys held under the Resolution including investment income on any Construction Fund but not including any earnings on the Rebate Fund. “Revenues” shall not include deposits subject to refund until such deposits have become the property of the Authority; and income, fees, charges, receipts, profits or other moneys derived by the Authority from its ownership or operation of any separate utility system or any gifts, grants, donations or other moneys received by the Authority from any State or Federal agency or other person if such gifts, grants, donations or other money are the subject of any limitation or reservation (i) imposed by the donor or grantor or (ii) imposed by law or administrative regulation to which the donor or grantor is subject, limiting the application of such funds.

“SIFMA Index” means on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data (“MMD”) and published or made available by the Securities Industry & Financial Markets Association (“SIFMA”) or any person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Remarketing Agent and effective from such date.

“S&P” means Standard & Poor’s Ratings Services, a division of McGraw Hill Incorporated, 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 (other than Fitch) designated by the Authority, with the approval of the Remarketing Agent and the Liquidity Bank, by notice to the Tender Agent.

“Secondary Bond Fund” means the Secondary Bond Fund created in Section 6.11 of the Resolution and to be held and administered by the Bond Fund Trustee.

“Secondary Revenues” means all Revenues, after taking into account all transfers and deductions required by Sections 6.1 (1), (2) and (3), 6.2 and 6.3 of the Resolution.

“Semi-annual Rate” means the interest rate from time to time borne by the Notes calculated and determined by the Remarketing Agent, as set forth in the Supplemental Resolution.

“Semi-annual Rate Conversion Date” means any date on which the Notes are converted to Notes bearing interest at the Semi-annual Rate, which must be the first day of any January or July.

“Senior Lien Bonds” means the Outstanding Water System Revenue Bonds, Series 1988 Refunding, dated October 1, 1988, Water System Revenue Bonds, Series 1989, dated November 1, 1989, Water System Revenue Bonds, Series 1990, dated June 1, 1990, Water System Revenue Bonds, Series 1991, dated March 15, 1991, Water System Revenue Bonds, Series 1992A, dated July 15, 1992, Water System Revenue Bonds, Series 1992B, dated July 15, 1992 and Water System Revenue Bonds, Series 1992C, dated September 15, 1992 and any and all other Bonds issued from time to time and designated by the Supplemental Resolution authorizing the issuance thereof as Senior Lien Bonds.

“Serial Bonds” means Bonds which are not Term Bonds.

“Series of Bonds” or “Bonds of a Series” means all Bonds designated as being of the same series issued and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter delivered in lieu thereof or in substitution therefor pursuant to the Resolution.

“Standby Agreement” means the Standby Note Purchase Agreement dated January 17, 2008 by and among the Standby Purchaser, the Tender Agent, the Paying Agent and the Authority executed with respect to the Notes.

“Standby Purchaser” means The Bank of Nova Scotia, acting through its New York Agency, or its successors or assigns.

“Subordinate Lien Bonds” means all Bonds other than Senior Lien Bonds.

“Supplemental Resolution” means any resolution adopted by the Authority pursuant to and in compliance with the provisions of Article III of the Resolution providing for the issuance of Bonds, and shall also mean any other resolution adopted by the Authority pursuant to and in compliance with the provisions of Article X of the Resolution which amends or supplements the provisions of the Resolution. When used with reference to this Official Statement, Supplemental Resolution shall mean that certain Supplemental Resolution of the Authority adopted July 10, 2007, authorizing and providing for certain terms and provisions of the Notes.

“Tender Agent” means The Bank of New York, New York, New York, or such other tender agent as may be appointed from time to time having the qualifications set forth in the Supplemental Resolution.

“Tender Agreement” means the Tender Agent Agreement dated January 17, 2008, by and among the Authority, the Remarketing Agent and the Tender Agent.

“Variable Rate Bonds” means any Bonds issued bearing interest at a rate per annum subject to adjustment from time to time based on the terms thereof, based upon an index, or otherwise calculated in a manner which precludes the actual rate for the entire term of such Bonds from being ascertainable in advance.

“Water Revenue Fund” means the Water Revenue Fund created in Section 6.1 of the Resolution to be held and administered by the Authority.

“Water System” means all plants and properties, both real and personal and tangible and intangible, now or hereafter existing, of the Authority, used for or pertaining to the supplying, purification, filtration, transmission and distribution of water or incidental or necessary to the preservation of the Authority’s wells and water supply and the integrity thereof. Without limiting the generality of the foregoing, said term shall include: (1) the existing plants and properties comprising the Water System of the Authority, as of the date of adoption of the Resolution; and (2) all additions, improvements, enlargements, extensions, expansions, and betterments to the Water System of the Authority hereafter constructed or otherwise acquired, including, without limitation, water properties acquired by annexations or water properties acquired through the Authority’s participation in any regional water system, purchase of water, conservation projects and appliances.

“Water Works Revenue Bonds” means the Original Water Works Revenue Bonds and the outstanding Water Works Revenue Bonds, heretofore issued pursuant to the Original Resolution, consisting of Water Works Revenue Bonds, Series T, dated April 1, 1983, Water Works Revenue Bonds, Series U, dated February 1, 1985, Water Works Revenue Bonds, Series V, dated August 15, 1986 and Water Works Revenue Bonds, Series W, dated November 1, 1986.

“Weekly Rate” means the interest rate from time to time borne by the Notes calculated and determined by the Remarketing Agent, as set forth in the Supplemental Resolution.

“Weekly Rate Conversion Date” means any date on which the Notes are converted to Notes bearing interest at the Weekly Rate, which must be a Wednesday.

Pledge of Revenues, Funds and Other Moneys. The Bonds are payable solely from and secured by the funds pledged therefor.

(a) The Resolution pledges as security for the payment of the principal of, premium, if any, and interest on the Senior Lien Bonds in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution (i) the proceeds of sale of the Senior Lien Bonds pending application thereof in accordance with the provisions of the Resolution or of a Supplemental Resolution, (ii) the Revenues, and (iii) all funds and accounts established by the Resolution other than the Rebate Fund, including the investments, if any, thereof; and the Senior Lien Bondholders shall have a lien on, and a security interest in, such proceeds, Revenues and funds and accounts for such purpose and subject to such provisions of the Resolution. Such pledge and the Senior Lien Bonds shall be subordinate to and inferior to the cost of operation and maintenance of the Water System and, so long as the Original Water Works Revenue Bonds are outstanding, be subordinate to and inferior to the pledges and liens and charges upon the Revenues of the Water System created by the Original Resolution in favor of the Original Water Works Revenue Bonds.

The Senior Lien Bonds of each Series issued under the Resolution shall be equally and ratably payable and secured under the Resolution without priority by reason of date of adoption of the Supplemental Resolution providing for their issuance or by reason of their Series, number or date, date of issue, execution, authentication or sale thereof, or otherwise.

(b) The Resolution pledges as security for the payment of the principal of, premium, if any, and interest on the Subordinate Lien Bonds in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution (i) the proceeds of sale of the Subordinate Lien Bonds pending application thereof in accordance with the provisions of the Resolution or of a Supplemental Resolution, (ii) the Secondary Revenues, and (iii) all funds and accounts established by the Resolution other than the Bond Fund and the Rebate Fund, including the investments, if any, thereof; and the Subordinate Lien Bondholders shall have a lien on, and a security interest in, such

proceeds, Secondary Revenues and funds and accounts for such purpose and subject to such provisions of the Resolution. Such pledge and the Subordinate Lien Bonds shall be subordinate to and inferior to the cost of operation and maintenance of the Water System and, so long as the Original Water Works Revenue Bonds and the Senior Lien Bonds are Outstanding, be subordinate to and inferior to the pledges and liens and charges upon the Revenues of the Water System created by the Original Resolution in favor of the Original Water Works Revenue Bonds and the Resolution in favor of the Senior Lien Bonds.

The Subordinate Lien Bonds of each Series issued under the Resolution shall be equally and ratably payable and secured under the Resolution without priority by reason of date of adoption of the Supplemental Resolution providing for their issuance or by reason of their Series, number or date, date of issue, execution, authentication or sale thereof, or otherwise.

(c) (i) The principal of, premium, if any, and interest on the Senior Lien Bonds shall not be payable from any funds of the Authority other than the Bond Fund nor shall the Senior Lien Bonds create a charge upon any other revenues of the Authority, except the Revenues and other moneys and securities pledged under the Resolution.

(ii) The principal of, premium, if any, and interest on the Subordinate Lien Bonds shall not be payable from any funds of the Authority other than the Secondary Bond Fund nor shall the Subordinate Lien Bonds create a charge upon any other revenues of the Authority, except the Secondary Revenues and other moneys and securities pledged under the Resolution.

The Bonds shall not constitute a general obligation of the Authority. Neither the faith and credit nor the taxing power of the State of New York or of any political subdivision thereof are pledged for the payment of the principal of, premium, if any, or interest on the Bonds, and no holder of the Bonds shall have the right to compel the exercise of the taxing power of the State of New York or of any political subdivision thereof in connection with any default with respect to the Bonds. The Bonds are not a debt of the State of New York or of Suffolk County or of any municipality in Suffolk County, neither the State nor Suffolk County nor any municipality in Suffolk County is liable for the payment of the Bonds, nor are the Bonds payable out of any funds other than those of the Authority pledged for the payment of the Bonds under the Resolution. (Res. Section 3.2)

Issuance of Bonds Other Than Refunding Bonds. Bonds may be issued under the Resolution at any time and from time to time for any corporate use or purpose relating to the Water System, including, without limitation, payment of all or a portion of the Cost of Acquisition and Construction, subject to the following limitations:

A. The first installment of principal of such Series of Bonds shall be payable at such time as the Authority shall determine in accordance with the Resolution.

B. An Authorized Officer of the Authority shall certify at the time of issuance of such Series of Bonds that there does not exist an Event of Default as defined in the Resolution.

C. There shall be filed with the Authority and the Bond Fund Trustee at the time of issuance of such Series of Bonds a certificate signed by an Authorized Officer based (i) on audited figures or (ii) to the extent audited figures are not available on figures taken by an independent certified public accountant from the Authority's books and records, showing that:

(1) the average of the Net Revenues (less payments, if any, required to be made with respect to the Original Water Works Revenue Bonds as set forth in Section 6.1.A.2 of the Resolution) for any consecutive twenty-four months' period out of thirty-six months immediately preceding the month in which such Bonds are issued were equal to not less than one hundred ten per cent (110%) of the average annual Debt Service on the Bonds (including the Series of Bonds then being issued) for the then current and all future Fiscal Years; or

(2) there shall be filed with the Authority and the Bond Fund Trustee at the time of issuance of such Series of Bonds a certificate of the Consulting Engineer showing that the estimated Net Revenues (less payments, if any, required to be made with respect to the Original Water Works Revenue Bonds as set forth in Section 6.1.A.2 of the Resolution) of the Water System together with other moneys lawfully available therefor as estimated by the Consulting Engineer (as provided in the Resolution) for each of the five Fiscal Years, commencing with the first Fiscal Year in which the Series of Bonds then being issued is delivered, shall be at least equal to one and twenty-five hundredths (1.25) times the Debt Service for such Fiscal Year on all outstanding Bonds, including the Bonds then being issued.

The term "Debt Service" shall not include interest on Bonds to the extent it is to be paid from amounts on deposit in the Construction Interest Account in the Construction Fund, amounts on deposit in the Interest Account in the Bond Fund or any other provisions made for the payment of interest.

D. The foregoing provisions do not apply to the initial Series of Bonds issued pursuant to the Resolution or to a Series of Bonds issued to refund Original Bonds, unless or except as is otherwise set forth in the Supplemental Resolution providing for the issuance thereof. (Res. Section 3.4).

Issuance of Refunding Bonds. Without complying with the provisions set forth above under "Issuance of Bonds Other Than Refunding Bonds," the Authority by means of a Supplemental Resolution may issue refunding Bonds at any time for the purpose of refunding (including by purchase) at any time all or any portion of Bonds outstanding, including amounts to pay principal, redemption premium and interest to the date of maturity or redemption (or purchase) and the expense of issuing the refunding Bonds and effecting such refunding. (Res. Section 3.6)

Bond Anticipation Notes. Bond anticipation notes may be issued by the Authority at such time as the Authority shall have by resolution authorized the issuance of bonds under the Act. Such note or notes may bear interest at a fixed, variable, adjustable, convertible or other similar rate or rates as may be determined by the Authority. If the Authority determines to issue bond anticipation notes with variable, adjustable, convertible or other similar rate or rates of interest, the Authority shall specify: (1) the manner of determining the interest rate or rates and the frequency of change thereof, (2) the maximum rate or rates, if any, at which the Notes may bear interest, (3) the interest payment dates or the manner of determining interest payment dates and (4) provisions, if any, with respect to the conversion of such Notes to Notes bearing a fixed rate of interest and the reconversion of such Notes to bear interest at a variable rate. The method or methods for determining the interest rates on Notes bearing interest at variable, adjustable, convertible or other similar rates of interest may include the selection of such rates by a rate determination agent as may be provided in an agreement between the Authority and such agent, the utilization of an index or indices as may be determined by the Authority, or such other standard or combination of standards as may be determined by the Authority. The Authority may provide the holders of the Notes with rights to tender the Notes for purchase, and may require the holders of the Notes to tender the same for purchase, the purchase price in each case to be provided from the proceeds of the remarketing of the Notes so tendered; the Authority may enter into one or more agreements with banks, investment banks, insurance companies or other financially responsible parties to provide letters of credit, insurance policies, standby note purchase agreements or other similar commitments or liquidity facilities the proceeds of which will be available to purchase Notes tendered for purchase or required to be tendered for purchase in the event that proceeds of remarketing such Notes are not available in amounts sufficient or timely to pay the purchase price of such Notes. The maximum maturity of such bond anticipation notes, including the renewals thereof, shall not exceed five years from the date of the original bond anticipation note. Such note or notes may be secured in the manner provided by the Act; provided that such bond anticipation note or notes shall be secured by a lien and pledge on the Revenues junior and inferior and subject to the lien and pledge on the Revenues created in the Resolution for the payment and security of the Bonds, and any resolution authorizing the issuance of such bond anticipation notes shall provide for the payment thereof after the required payments to the Operating Fund, to the holders of the Original Water Works Revenue Bonds pursuant to Section 6.1.A.2 of the Resolution, to the Bond Fund

and the Secondary Bond Fund. Such bond anticipation note or notes shall be discharged and paid through the issuance of bonds in anticipation of which they were issued, or, subject to rights of the holders of any Bonds Outstanding, from the proceeds of Bonds of the Authority. The principal amount of any bond anticipation notes may not exceed the principal amount of the series of bonds in anticipation of which said notes are to be issued. (Res. Section 3.7)

Subordinate Lien Obligations. Nothing contained in the Resolution shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the Authority from authorizing and issuing bonds, notes, certificates, warrants or other evidences of indebtedness for any corporate use or purpose relating to the Water System payable as to principal and interest from the Revenues subject and subordinate to the deposits and credits required to be made to the Operating Fund, any payments required to be made to the holders of the Original Water Works Revenue Bonds pursuant to Section 6.1.A.2 of the Resolution and to the Bond Fund, or from securing such bonds, notes, certificates, warrants or other evidences of indebtedness and the payment thereof by a lien and pledge on the Revenues junior and inferior to the lien and pledge on the Revenues created in the Resolution for the payment and security of the Bonds. (Res. Section 3.8)

Separate Utility Systems. Nothing contained in the Resolution shall prevent the Authority from authorizing and issuing bonds, notes, warrants, certificates or other obligations or evidences of indebtedness, other than Bonds, to acquire or construct facilities for the collection, treatment or disposal of sewage, and any incidental properties to be constructed or acquired in connection therewith, which facilities shall be a separate utility system and which bonds or other obligations or evidences of indebtedness shall be payable solely from the revenues or other income derived from the ownership or operation of such separate system; provided, however, that the Authority will not issue bonds, notes, warrants, certificates or other obligations or evidences of indebtedness for the purpose of acquiring or constructing such a separate utility system unless and until a report of the Consulting Engineer shall be delivered to the Bond Fund Trustee to the effect that (i) the plan for developing the separate utility system is consistent with sound planning, and the separate utility system is of such character that it would be useful to the Authority, (ii) the separate utility system can be economically and effectively utilized by the Authority, (iii) the cost of the services of the separate utility system is reasonable in comparison to alternative sources and (iv) in the opinion of the Consulting Engineer, the acquisition, construction or operation of such separate utility system will not result in a reduction of the Revenues below the amount covenanted by Section 8.2 of the Resolution to be maintained. (Res. Section 3.9)

Capital Appreciation Bonds. A Supplemental Resolution providing for the issuance of a Series of Bonds may provide that the payment of interest on any specified Bonds of the Series shall only be made at maturity or at a specified time or times prior to maturity or upon earlier redemption, by sinking fund installment or otherwise. Any such Supplemental Resolution shall specify the Compounded Amount of such Bonds as of each interest payment date on the Bonds from the date of issue to maturity. The principal of any such Capital Appreciation Bonds shall be deemed to be their Compounded Amount for all purposes of the Resolution, including, for purposes of determining the Reserve Account Requirement and the provisions relating to redemption, acceleration and actions by Bondholders (Res. Section 3.10)

Original Issue Discount Bonds. A Supplemental Resolution providing for the issuance of a Series of Bonds may provide that specified Bonds of the Series be originally reoffered to the public as Original Issue Discount Bonds. For the purposes of provisions of the Resolution relating to redemption, acceleration and actions by Bondholders, the principal amount of Original Issue Discount Bonds shall be deemed to be their Compound Accreted Value, whether or not expressly stated in such provisions. For all other purposes of the Resolution, the principal amount of Original Issue Discount Bonds shall be deemed to be their face amount. Compound Accreted Value shall be determined as follows: the original offering price of an Original Issue Discount Bond is its initial Compound Accreted Value. On each interest payment date, until the Bond comes due, there will be a new Compound

Accreted Value, equal to the prior Compound Accreted Value plus an accretion from the date as of which the prior Compound Accreted Value was calculated at a rate per annum equal to the yield to maturity on the original offering price, less the interest coming due on the interest payment date. Between interest payment dates (or prior to the first interest payment date) the difference between the most recent Compound Accreted Value and the next Compound Accreted Value will accrue linearly in the same manner as interest accrues and, if it becomes necessary to determine the Compound Accreted Value in the interim, it will include the accrual. From and after the date on which an Original Issue Discount Bond comes due, whether at maturity or by acceleration or redemption, its Compound Accreted Value will remain constant. The original offering price, the date as of which it was calculated and the yield to maturity (compounded on the interest payment dates) shall be established by a certificate of the underwriters for the Series of Bonds filed with the Bond Fund Trustee which, upon acceptance by the Bond Fund Trustee, shall be conclusive. (Res. Section 3.11)

Put Bonds. A Supplemental Resolution providing for the issuance of a Series of Bonds may provide for their repurchase or redemption, at the option of the holders, by the Authority or its designee or by the Bond Fund Trustee on a date or dates and with such notice as specified in the applicable Supplemental Resolution. A repurchase or redemption pursuant to such provision shall not cause any bond so repurchased or redeemed to lose the benefit of any security under the Resolution or to be no longer deemed to be outstanding pursuant to the Resolution. The repurchase or redemption price shall be financed by the proceeds of resale of the repurchased Bonds, by the issuance of refunding Bonds, by using moneys available therefor in the Bond Retirement Account, or by any other lawful means, or by a combination of the foregoing. To the extent permitted by law and the Supplemental Resolution, the Authority, the Bond Fund Trustee or an agent appointed by the Authority for such purpose may resell the repurchased bonds and the Authority may issue Bonds (which shall be treated under the Resolution as refunding Bonds) for the purpose of financing any loss incurred by the repurchase and resale. The repurchase or redemption price shall not be treated as Debt Service for the purpose of calculating payments into the Bond Fund but shall be treated as principal, interest or redemption price, as the case may be, for the purposes of certain provisions of the Resolution. If Bonds of a Series are made subject to repurchase or redemption pursuant to Section 3.12 of the Resolution, Debt Service shall be calculated by using the schedule of Debt Service which would apply if the option were not exercised except to the extent the option has been exercised and the option price has been paid (or provision for payment has been made pursuant to the Resolution). Nothing in this paragraph shall be deemed to preclude any repurchase or redemption of Bonds otherwise required or permitted by the terms of the Resolution. (Res. Section 3.12)

Variable Rate Bonds. A Supplemental Resolution providing for the issuance of a Series of Bonds may provide for the Bonds to bear interest at a variable, adjustable, convertible or other similar rate or rates of interest. Any such Supplemental Resolution shall specify: (1) the manner of determining the interest rate or rates and the frequency of change thereof, (2) the maximum rate or rates, if any, at which the Bonds may bear interest and (3) provisions, if any, with respect to the conversion of such Bonds to Bonds bearing a fixed rate of interest and the reconversion of such Bonds to bear interest at a variable rate. The method or methods for determining the interest rate on Bonds bearing interest at a variable or similar rate of interest may include the selection of such rate by a rate determination agent as provided in an agreement between the Authority and such agent, the utilization of an index or indices as described in the applicable Supplemental Resolution, or such other standard or combination of standards set forth in the Supplemental Resolution.

In connection with the issuance of any Bonds bearing interest at a variable, adjustable, convertible or similar rate, the Authority shall obtain a certificate from the underwriters for such Bonds setting forth the Certified Interest Rate, which means the rate of interest which would have been borne by such Bonds had they been issued at a fixed interest rate, assuming the same maturity dates, terms and provisions (other than interest rate or any repurchase or redemption by the Authority at the option of the holder) as the Bonds assuming the same credit rating or ratings of the Authority and making any other

assumptions deemed necessary and proper, as determined by the underwriters. Such certificate shall contain or have attached thereto data and factual information supporting such Certified Interest Rate; and such certificate, when accepted by the Authority, shall be conclusive.

Debt Service for any Variable Rate Bonds shall be calculated for purposes of the definition of Reserve Account Requirement by using the Certified Interest Rate. For purposes of calculating the payments into the Interest Account in the Bond Fund the interest accrued or estimated to accrue during the calendar month in which the payment is to be made shall be the amount of the required payment, subject in the case of an estimate to an adjustment at the end of the month. (Res. Section 3.13)

Additional Security. To the extent permitted by law, a Supplemental Resolution providing for the issuance of a Series of Bonds may provide that the Authority obtain or cause to be obtained Additional Security providing for payment of all or a portion of the purchase price or principal, premium, if any, or interest due or to become due on specified Bonds of such Series, or providing for the purchase of such Bonds or a portion thereof by the issuer of the Additional Security, or providing, in whole or in part, for the funding of the Reserve Account. In connection therewith, the Authority may enter into agreements with the issuer of the Additional Security to provide the terms and conditions thereof, including the security, if any, to be provided to the issuer. The Authority may secure the Additional Security by an agreement providing for the purchase of the Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions as specified in the Supplemental Resolution. Debt Service with respect to any Bonds so secured shall be calculated for purposes of the definition of Reserve Account Requirement by using the rate of interest or Certified Interest Rate, if applicable, on the Bonds prior to adjustment under such agreement. The Authority may also agree to reimburse directly the issuer of the Additional Security for any amounts paid thereunder together with interest thereon. (Res. Section 3.14)

Revenue Fund. The Resolution establishes a special fund of the Authority to be maintained in trust by the Authority and to be known as the "Water Revenue Fund." The Authority will pay or cause to be paid into the Water Revenue Fund, as promptly as practicable after receipt thereof, all of the Revenues and all other moneys required to be paid into the Water Revenue Fund pursuant to the Resolution (other than the Revenues and other amounts expressly required or permitted by the Resolution to be credited to, or deposited in, any other fund or account).

Moneys in the Water Revenue Fund shall be applied in the following order of priority:

1. The amounts required to pay Operation and Maintenance Expenses shall be transferred to the Operating Fund as required by Section 6.2 of the Resolution;
2. In the event that amounts on deposit in the Original Bonds Trust Fund shall be insufficient to pay the principal or redemption price of and interest on the Original Water Works Revenue Bonds as the same become due, an amount sufficient to pay such principal, redemption price and interest on the Original Water Works Revenue Bonds shall be transferred to the Original Bonds Trustee for payment to the holders of the Original Water Works Revenue Bonds;
3. The amounts required to be deposited to the Bond Fund shall be transferred as set forth in Section 6.3 of the Resolution;
4. The amounts required to be deposited to the Secondary Bond Fund shall be transferred as set forth in Section 6.11 of the Resolution;
5. The balance remaining in the Water Revenue Fund at the end of each month, after making the transfers and allocations set forth above, shall be deposited into the General Fund, established pursuant to Section 6.4 of the Resolution. (Res. Section 6.1)

Operating Fund. The Resolution establishes a special fund of the Authority to be maintained in trust by the Authority, as long as any Bonds issued under the Resolution are outstanding, and to be known as the “Operating Fund.” All reasonable and necessary Operation and Maintenance Expenses shall be paid from the Operating Fund as the same become due and payable after transfers from the Water Revenue Fund and prior to any payment to other funds and accounts. (Res. Section 6.2)

Bond Fund. The Resolution establishes a special fund of the Authority to be maintained in trust and held by the Bond Fund Trustee as long as any Senior Lien Bonds issued under the Resolution are outstanding and unpaid, and to be known as the “Bond Fund.” The Bond Fund and the moneys deposited in such Fund shall, except as otherwise provided in paragraph D below, be used solely for the purpose of paying the principal of, premium, if any, and interest on the Senior Lien Bonds, and of retiring the Senior Lien Bonds prior to maturity in the manner provided in the Resolution. Each month, after making the transfers to the Operating Fund and for any payments required pursuant to Section 6.1.A.2 of the Resolution for the Original Water Works Revenue Bonds, the Authority shall transfer, to the extent not otherwise provided, from the Water Revenue Fund to the Bond Fund Trustee for deposit into the Bond Fund amounts as follows and in the following order of priority:

A. Interest Account. Not later than the twenty-fifth (25th) day of the sixth (6th) month prior to the date upon which an installment of interest falls due on the Senior Lien Bonds of a Series, or if the first installment of interest on the Senior Lien Bonds of such Series shall fall due in less than six months, then on the twenty-fifth (25th) day of the month immediately succeeding the month in which the Senior Lien Bonds of such Series are delivered to the initial purchasers, and in any event prior to the date upon which such installment of interest falls due, and on or before the twenty-fifth day of each succeeding calendar month thereafter, the Authority shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Interest Account an amount such that, if the same amount were so credited to the Interest Account on the twenty-fifth (25th) day of each calendar month thereafter prior to the next date upon which an installment of interest falls due on the Senior Lien Bonds of such Series, the aggregate of the amount so credited to the Interest Account would on such date be equal to the installment of interest then falling due on all Senior Lien Bonds of such Series. In order to provide for the payment of the interest on the Senior Lien Bonds of a Series with any frequency other than semi-annually, the Authority shall pay or cause to be paid from the Water Revenue Fund amounts in accordance with the provisions of the Supplemental Resolution pursuant to which such Series of Senior Lien Bonds is issued. Interest capitalized from the proceeds of the Senior Lien Bonds of a Series and any other transfers and credits otherwise made or required to be made to said Account shall be taken into consideration and allowed for in making the payments into the Interest Account.

B. Principal Account. Not later than the twenty-fifth (25th) day of the twelfth (12th) month prior to the date upon which an installment of principal of Serial Bonds of each Series of Senior Lien Bonds falls due, or if the first installment of principal of Serial Bonds of such Series shall fall due in less than twelve months, then on the twenty-fifth (25th) day of the month immediately succeeding the month in which the Senior Lien Bonds of such Series are delivered to the initial purchasers, and in any event prior to the date upon which such installment of principal falls due, and on or before the twenty-fifth (25th) day of each succeeding calendar month thereafter, the Authority shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Principal Account an amount such that, if the same amount were so credited to the Principal Account on the twenty-fifth (25th) day of each calendar month thereafter, prior to the next date upon which an installment of principal falls due on the Serial Bonds of such Series of Senior Lien Bonds, the aggregate of the amounts so credited to the Principal Account would on such date be equal to the installment of principal then falling due on the Serial Bonds of such Series of Senior Lien Bonds. Any earnings on moneys in said Account shall be taken into consideration and allowed for in making payments into the Principal Account.

C. Bond Retirement Account. Not later than the twenty-fifth (25th) day of the twelfth (12th) month prior to the date upon which a sinking fund installment of Term Bonds of each Series of Senior Lien Bonds falls due, or if the first sinking fund installment of the Term Bonds of such Series of Senior Lien Bonds shall fall due in less than twelve months, then on the twenty-fifth (25th) day of the month immediately succeeding the month in which the Bonds of such Series of Senior Lien Bonds are delivered to the initial purchasers, and in any event prior to the date upon which such Sinking Fund Installment falls due, and on or before the twenty-fifth (25th) day of each succeeding calendar month thereafter, the Authority shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Bond Retirement Account an amount such that, if the same amount were so credited to the Bond Retirement Account on the twenty-fifth (25th) day of each calendar month thereafter, prior to the next date upon which a Sinking Fund Installment falls due on the Term Bonds of such Series of Senior Lien Bonds, the aggregate of the amounts so credited to the Bond Retirement Account for the purpose of retiring the Term Bonds of such Series of Senior Lien Bonds would on such date be equal to the Sinking Fund Installment then falling due on the Term Bonds of such Series of Senior Lien Bonds. In making the credits to the Bond Retirement Account, any earnings on moneys in said Account shall be taken into consideration and allowed for.

The Bond Fund Trustee shall without further authorization or direction apply the moneys on credit to the Bond Retirement Account on each date, if any, upon which a Sinking Fund Installment is due to the retirement of the Term Bonds of such Series of Senior Lien Bonds in accordance with the Supplemental Resolution providing for the issuance of such Series of Senior Lien Bonds, or, if so directed in writing by the Authority, semi-annually on both such due date and the day six months prior to such due date, in the respective principal amounts on credit to the Bond Retirement Account on such dates for such Term Bonds, so that the aggregate amounts so applied will equal the respective principal amounts required to be credited to the Bond Retirement Account on such sinking fund installment dates by the Supplemental Resolution providing for their issuance; provided, however, that if the last Sinking Fund Installment for such Term Bonds falls due on the stated maturity date thereof, the amount of such installment shall not be applied to the redemptions of such Term Bonds but shall be applied to the payment thereof at such maturity date in the same manner as amounts are applied from the Principal Account for the payment of Serial Bonds at maturity. The Bond Fund Trustee shall give notice of all such redemptions, in the name and on behalf of the Authority, in accordance with the Resolution. The Bond Fund Trustee may also, without further authorization or direction, apply the moneys credited to the Bond Retirement Account for the retirement of the Term Bonds of a particular Series of Senior Lien Bonds to the purchase of such Senior Lien Bonds, at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the redemption price then applicable upon the redemption of such Senior Lien Bonds from Sinking Fund Installments, plus accrued interest, in which event the principal amount of such Senior Lien Bonds required to be redeemed on the next respective ensuing Sinking Fund Installment date shall be reduced by the principal amount of the Senior Lien Bonds so purchased; provided, however, that no Senior Lien Bonds of such Series shall be purchased during the interval between the date on which notice of redemption of said Senior Lien Bonds from Sinking Fund Installments is given and the date of redemption set forth in such notice, unless the Senior Lien Bonds so purchased are Senior Lien Bonds called for redemption in such notice or are purchased from moneys other than those credited to the Bond Retirement Account with respect to Sinking Fund Installments.

In the event that moneys in the Bond Retirement Account, other than moneys credited thereto as Sinking Fund Installments pursuant to a Supplemental Resolution, are to be applied to the retirement of a Series of Senior Lien Bonds, the Authority may direct the Bond Fund Trustee within thirty (30) days of the deposit of such moneys to apply such moneys to the purchase of Senior Lien Bonds of such Series. The price payable on any such purchase (including any brokerage or other charge) shall not exceed the highest redemption price applicable at the time or any time thereafter with respect to such Series of Senior Lien Bonds, plus accrued interest. Any such moneys not applied to the purchase of Senior Lien Bonds shall be applied to the redemption of Senior Lien Bonds of each Series then subject to redemption from such moneys in the proportion, as nearly as practicable, which the principal amount of

Senior Lien Bonds of such Series then outstanding and unpaid and so subject to redemption bears to the total principal amount of Senior Lien Bonds then outstanding and unpaid and so subject to redemption.

Except for the redemption of Term Bonds from moneys credited to the Bond Retirement Account as sinking fund installments, not less than One Hundred Thousand Dollars (\$100,000) aggregate principal amount of Senior Lien Bonds shall be called for redemption at any one time pursuant to part C of Section 6.3 of the Resolution unless the Authority directs the purchase or redemption of a lesser amount. The Bond Fund Trustee shall give notice of all such redemptions, in the name and on behalf of the Authority, in accordance with the provisions of the Resolution.

Any purchase of Senior Lien Bonds as described herein may be made with or without tenders of Senior Lien Bonds and at either public or private sale. All Senior Lien Bonds purchased, redeemed or retired as described herein shall be cancelled and shall not be reissued. The accrued interest to be paid on the purchase or redemption of Senior Lien Bonds shall be paid from the Interest Account.

In the event of the purchase or redemption of Term Bonds of a particular Series of Senior Lien Bonds as described herein or otherwise, except from moneys credited to the Bond Retirement Account as Sinking Fund Installments, or if such Term Bonds to be so redeemed are deemed to be no longer outstanding and unpaid pursuant to the Resolution, the amount required to be credited to the Bond Retirement Account on such Sinking Fund Installment date thereafter, as specified in the Supplemental Resolution providing for the issuance thereof, shall be reduced in the proportion, as nearly as practicable, which the principal amount of such Sinking Fund Installment bears to the total principal amount of all Sinking Fund Installments so specified for the Term Bonds of such Series of Senior Lien Bonds.

All expenses in connection with the purchase, redemption or payment of Senior Lien Bonds as described herein shall be paid by the Authority from the Water Revenue Fund.

D. Reserve Account. The Bond Fund Trustee shall create a separate Account for each series of Senior Lien Bonds. The Reserve Account Requirement for each Series of Senior Lien Bonds shall be that amount, if any, provided in the Supplemental Resolution providing for the issuance of such Series of Senior Lien Bonds. In the event a Reserve Account Requirement is prescribed, the Supplemental Resolutions providing for the issuance of a Series of Senior Lien Bonds shall provide either (i) for deposits from the moneys in the Water Revenue Fund into the Bond Fund for credit to the appropriate Reserve Account, (ii) for payments into the Bond Fund for credit to the appropriate Reserve Account from the proceeds of Senior Lien Bonds or from any moneys lawfully available therefor, or (iii) for deposit with the Bond Fund Trustee of a surety bond, an insurance policy or letter of credit unconditionally payable on demand to or for the benefit of the Bond Fund Trustee for the benefit of the holders of the Series of Senior Lien Bonds for which the Reserve Account was created, all as shall be determined and provided in the Supplemental Resolution. The moneys in the Bond Fund on credit to a Reserve Account shall be used and applied solely for the purpose of paying the principal of, premium, if any, and interest on the respective Series of Senior Lien Bonds for which the account was created when due, whether at their maturity or upon the redemption or purchase thereof from moneys credited to the Bond Retirement Account, and shall be so used and applied whenever there are insufficient moneys on credit to the Interest Account, Principal Account and Bond Retirement Account for such purposes. No Senior Lien Bonds other than the Series of Senior Lien Bonds for which such account has been created shall have any right to be paid from such account.

When a Series of Senior Lien Bonds is refunded in whole or in part or is otherwise paid within the meaning of the Resolution, moneys may be withdrawn from the Reserve Account for such Series to pay or provide for the payment of such Senior Lien Bonds or refunded Senior Lien Bonds, as the case may be, or may be transferred and applied to any reserve fund or account established for the refunding bonds issued to refund such refunded Senior Lien Bonds; provided that immediately after such withdrawal or transfer there shall be on credit to the Reserve Account for those Senior Lien Bonds of the Series of Senior Lien Bonds not refunded an amount equal to the Reserve Account Requirement for such Series.

E. Moneys on deposit in the Bond Fund shall be transmitted by the Bond Fund Trustee to any Paying Agent at such times as shall be necessary prior to the date upon which any installment of interest or principal is due on the Senior Lien Bonds (either at the maturity date thereof or redemption date prior to maturity), and in amounts sufficient to meet such installments of, principal of, premium, if any, and interest on the Senior Lien Bonds, then due. In the event that there shall be a deficiency in the Interest Account, Principal Account or Bond Retirement Account three business days before any interest, principal or sinking fund payment is due on a Series of Senior Lien Bonds, the Bond Fund Trustee shall promptly make up such deficiency from the Reserve Account for such Series by the withdrawal of cash therefrom for that purpose or by the sale or redemption of Investment Securities held in the Reserve Account, if necessary, in such amounts as will provide cash in the Reserve Account sufficient to make up any such deficiency or by the transfer of Investment Securities (or undivided interests therein) in which moneys in the Interest Account, Principal Account or Bond Retirement Account, as the case may be, may be invested, or by taking such steps as may be necessary to realize the benefit of any surety bond, insurance policy or letter of credit deposited in the Reserve Account for such Series.

Moneys set aside from time to time with any Paying Agent for the purpose of paying the principal of, premium, if any, and interest on the Senior Lien Bonds shall be held in trust for the holders of the Senior Lien Bonds in respect of which the same shall have been so set aside. Until so set aside, all moneys in the Bond Fund shall be held in trust for the benefit of the holders of all Senior Lien Bonds at the time outstanding, equally and ratably.

Whenever the amounts on deposit in the Bond Fund (regardless of the account therein to which such amounts are credited) shall be sufficient to provide moneys to retire all Senior Lien Bonds then Outstanding, including such interest thereon as thereafter may become due and payable and any premiums upon redemption thereof, no further deposits need be made by the Authority into the Bond Fund, and without further authorization or direction the Bond Fund Trustee shall call, except in the event of the final maturity of all Senior Lien Bonds then Outstanding, all Senior Lien Bonds which may be redeemed by their terms, for redemption on the next succeeding redemption date for which the required notice of redemption can practicably be given, and shall apply such moneys to such retirement or redemption. (Res. Section 6.3)

General Fund. The Resolution establishes a special fund of the Authority to be maintained by the Authority, as long as any Bonds are Outstanding, and to be known as the "General Fund." Moneys in the General Fund may be used for any lawful purpose of the Authority, including transfers from time to time to the New Construction Fund. (Res. Section 6.4)

Construction Fund. The Supplemental Resolution providing for the issuance of any Series of Bonds (exclusive of refunding Bonds) may create and establish (unless theretofore created and established with respect to such purpose) a separate special trust fund to be known as the "Construction Fund, _____," or such other designation as may be appropriate (the blank to be completed with the year in which the fund is created). The Construction Fund may be held in trust by the Authority or by a Construction Fund Trustee for the benefit of the Authority and the holders of the Bonds, as their interests may appear, pending application thereof. In the event any interest on such Bonds is to be capitalized from the proceeds of such Bonds, there shall be created in the Construction Fund a special account to be known as the "Construction Interest Account," or such other designation as may be appropriate.

A. From the proceeds derived from the sale of such Bonds there shall be deposited:

1. With the Authority or the Construction Fund Trustee, as the case may be, for credit to the Construction Interest Account (if any, otherwise with the Bond Fund Trustee for deposit in the Bond Fund for credit to the Interest Account), an amount equal to the accrued interest on the Bonds paid as part of the purchase price;

2. With the Authority or the Construction Fund Trustee, as the case may be, for credit of such Construction Interest Account if any, otherwise with the Bond Fund Trustee for deposit in the Bond Fund for credit to the Interest Account, the amount, if any, equal to the interest on the Bonds being capitalized from the proceeds thereof;

3. With the Bond Fund Trustee for payment into the Bond Fund for credit to the applicable Reserve Account the amount prescribed in the applicable Supplemental Resolution;

4. With the Authority or the Construction Fund Trustee, as the case may be, for credit to the applicable Construction Fund the balance of the Bond proceeds which shall be applied to the payment of the cost as shall be specified in the applicable Supplemental Resolution. Any balance remaining in such Construction Fund upon completion of payment of such costs shall be deposited in the New Construction Fund or used for any lawful purpose of the Authority, provided that in either event the Authority shall have obtained a written opinion of nationally recognized bond counsel acceptable to the Bond Fund Trustee that such application will not impair the exemption from federal income taxation of interest on any of the Bonds.

B. Moneys credited to the Construction Interest Account shall be used for the purpose of paying interest on the Bonds. On or before the 25th day of the month next preceding the maturity of an installment of interest on the Bonds for the payment of which moneys have been credited to the Construction Interest Account, the Authority or the Construction Fund Trustee, as the case may be, shall transfer from the Construction Interest Account to the Bond Fund Trustee for deposit in the Bond Fund for credit to the Interest Account an amount which, together with any moneys theretofore received or held by the Bond Fund Trustee for that purpose, shall be sufficient to pay such next maturing installment of interest. (Res. Section 6.5)

Lien on Moneys in the Construction Fund. The proceeds of Bonds in any Construction Fund, pending their application as provided in the Resolution and Supplemental Resolution, shall be subject to a prior and paramount lien and charge in favor of the holders of the Bonds, and the holders of the Bonds shall have a valid claim on such moneys for the further security of the Bonds until paid out or transferred as provided in the Resolution. (Res. Section 6.7)

Rebate Fund. If and to the extent necessary to comply with any covenant established in a Supplemental Resolution with respect to a Series of Bonds regarding maintaining the exemption of interest on such Bonds from federal income taxation, the Authority shall establish in the Supplemental Resolution providing for the issuance thereof of a Rebate Fund and an account in the Rebate Fund with respect to such Series of Bonds. The Authority shall establish in said Supplemental Resolution such terms and provisions regarding deposits or credits to and withdrawals from said account, the calculation of amounts to be deposited or credited thereto, investment of amounts on deposit therein, if any, and such other terms and provisions the Authority deems necessary to ensure compliance with the provisions of any such covenant. The Authority shall establish separate accounts in the Rebate Fund for each subsequent Series of Bonds, if required for such Series of Bonds. Moneys in the Rebate Fund and the accounts therein are not available for the benefit of the holders of the Bonds and are not pledged to payment of the Bonds or the interest thereon. (Res. Section 6.8)

New Construction Fund. The Resolution establishes a special fund of the Authority to be maintained by the Authority and to be known as the "New Construction Fund." Moneys in the New Construction Fund may be used to finance the Cost of Acquisition and Construction of improvements to the Water System or the payment of Notes in respect of which renewal notes are issued. Any non-exempt project for which moneys in such Construction Fund, may be applied shall be reviewed under the New York State Environmental Quality Review Act (Article Eight of the Environmental Conservation Law) ("SEQRA"), prior to adoption of any decision, order or resolution committing the Authority or applicable agency to undertake such project. The Authority's authorizations contained herein are predicated on

compliance with SEQRA and are limited to conducting contemporaneous environmental, engineering, economic, feasibility and other studies and preliminary planning and budgetary processes necessary to formulate a proposal for action. Notwithstanding any authorization included above, the activities so authorized do not commit the Authority to commence, engage in or approve the Projects. No final action may be taken before the Authority has complied with the requirements of SEQRA. (Res. Section 6.9; Suppl. Res Section 5)

Investment of Funds. Moneys in the Interest Account, Principal Account and Bond Retirement Account in the Bond Fund and moneys in the Secondary Interest Account, Secondary Principal Account and Secondary Bond Retirement Account in the Secondary Bond Fund shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Bond Fund Trustee (at the direction of the Authority) in investments specified in items (i), (ii), (iii), (iv), (v)(b) and (vi) of the definition of Investment Securities and which shall mature or be subject to redemption at the option of the holder thereof on or prior to the respective dates when the moneys in such accounts will be required for the purposes intended. Moneys in each of the Reserve Account of the Bond Fund and the Secondary Reserve Account of the Secondary Bond Fund not required for immediate disbursement for the purpose for which said Account is created shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Bond Fund Trustee at the direction of the Authority in investments specified in items (i), (ii), (iii), (iv), (v)(b) and (vi) of the definition of Investment Securities and which shall mature at or prior to ten years from the date of investment thereof. The Bond Fund Trustee shall not be liable for any depreciation in the value of any such investments.

Moneys in the Water Revenue Fund not required for immediate disbursement for the purpose for which said Fund is created shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Authority, to the extent allowed by law, in Investment Securities which shall mature or be subject to redemption at the option of the holder thereof, not later than such times as shall be necessary to provide moneys when needed to provide payment from such Fund.

Moneys in the Construction Fund, including a Construction Interest Account therein not required for immediate disbursement for the purposes for which said Fund and Account is created, shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Authority or the Construction Fund Trustee, as the case may be, for such Fund and Account, to the extent allowed by law, in Investment Securities which shall mature or be subject to redemption at the option of the holder thereof not later than such times as shall be necessary to provide moneys when needed to provide payments from such Fund and Account.

To the extent permitted in the Resolution, all income received from the investment or reinvestment of moneys in the Funds established thereunder shall be deposited in the respective Funds from which such investments are made to the extent of any deficiencies therein and otherwise to the Water Revenue Fund; provided, however, that, at the direction of the Authority, all or a portion of the income received from the investment or reinvestment of moneys in any such Fund may be deposited in the Construction Fund, including the Construction Interest Account therein. All income received from the investment or reinvestment of moneys in a Construction Fund shall be deposited in said Fund.

Nothing in the Resolution shall prevent any Investment Securities acquired as investments of funds held under the Resolution from being issued or held in book-entry form. (Res. Section 6.10)

Secondary Bond Fund. The Resolution establishes a special fund of the Authority to be maintained in trust and held by the Bond Fund Trustee, as long as any Subordinate Lien Bonds issued under the Resolution are Outstanding and unpaid, and to be known as the "Secondary Bond Fund." The Secondary Bond Fund and the moneys deposited in such Fund shall, except as otherwise provided in paragraph D below, be used solely for the purpose of paying the principal of, premium, if any, and

interest on the Subordinate Lien Bonds, and of retiring the Subordinate Lien Bonds prior to maturity in the manner provided in the Resolution. Each month, after making the transfers to the Operating Fund, for any payments required pursuant to Section 6.1.A.2 of the Resolution for the Original Water Works Revenue Bonds, and to the Bond Fund, the Authority shall transfer, to the extent not otherwise provided, from the Water Revenue Fund to the Bond Fund Trustee for deposit into the Secondary Bond Fund amounts as follows and in the following order of priority, to wit:

A. Secondary Interest Account. Not later than the twenty-fifth (25th) day of the sixth (6th) month prior to the date upon which an installment of interest falls due on the Subordinate Lien Bonds of a Series, or if the first installment of interest on the Subordinate Lien Bonds of such Series shall fall due in less than six months, then on the twenty-fifth (25th) day of the month immediately succeeding the month in which the Subordinate Lien Bonds of such Series are delivered to the initial purchasers, and in any event prior to the date upon which such installment of interest falls due, and on or before the twenty-fifth (25th) day of each succeeding calendar month thereafter, the Authority shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Secondary Interest Account an amount such that, if the same amount were so credited to the Secondary Interest Account on the twenty-fifth (25th) day of each calendar month thereafter prior to the next date upon which an installment of interest falls due on the Subordinate Lien Bonds of such Series, the aggregate of the amounts so credited to the Secondary Interest Account would on such date be equal to the installment of interest then falling due on all Subordinate Lien Bonds of such Series. In order to provide for the payment of the interest on the Subordinate Lien Bonds of a Series with any frequency other than semi-annually, the Authority shall pay or cause to be paid from Secondary Revenues, amounts in accordance with the provisions of the Supplemental Resolution pursuant to which such Series of Subordinate Lien Bonds is issued. Interest capitalized from the proceeds of the Subordinate Lien Bonds of a Series and any other transfers and credits otherwise made or required to be made to said Account shall be taken into consideration and allowed for.

B. Secondary Principal Account. Not later than the twenty-fifth (25th) day of the twelfth (12th) month prior to the date upon which an installment of principal of Serial Bonds of each Series of Subordinate Lien Bonds falls due, or if the first installment of principal of Serial Bonds of such Series shall fall due in less than twelve months, then on the twenty-fifth (25th) day of the month immediately succeeding the month in which the Subordinate Lien Bonds of such Series are delivered to the initial purchasers, and in any event prior to the date upon which such installment of principal falls due, and on or before the twenty-fifth (25th) day of each succeeding calendar month thereafter, the Authority shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Secondary Principal Account an amount such that, if the same amount were so credited to the Secondary Principal Account on the twenty-fifth (25th) day of each calendar month thereafter, prior to the next date upon which an installment of principal falls due on the Serial Bonds of such Series of Subordinate Lien Bonds, the aggregate of the amounts so credited to the Secondary Principal Account would on such date be equal to the installment of principal then falling due on the Serial Bonds of such Series of Subordinate Lien Bonds. Any earnings on moneys in said Account shall be taken into consideration and allowed for.

C. Secondary Bond Retirement Account. Not later than the twenty-fifth (25th) day of the twelfth (12th) month prior to the date upon which a Sinking Fund Installment of Term Bonds of each Series of Subordinate Lien Bonds falls due, or if the first Sinking Fund Installment of the Term Bonds of such Series of Subordinate Lien Bonds shall fall due in less than twelve months, then on the twenty-fifth (25th) day of the month immediately succeeding the month in which the Bonds of such Series of Subordinate Lien Bonds are delivered to the initial purchasers, and in any event prior to the date upon which such Sinking Fund Installment falls due, and on or before the twenty-fifth (25th) day of each succeeding calendar month thereafter, the Authority shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Secondary Bond Retirement Account an amount such that, if the same amount were so credited to the Secondary Bond Retirement Account on the twenty-fifth (25th) day of each calendar month thereafter, prior to the next date upon which a Sinking Fund Installment falls due on

the Term Bonds of such Series of Subordinate Lien Bonds, the aggregate of the amounts so credited to the Secondary Bond Retirement Account for the purpose of retiring the Term Bonds of such Series of Subordinate Lien Bonds would on such date be equal to the Sinking Fund Installment then falling due on the Term Bonds of such Series of Subordinate Lien Bonds. In making the credits required by this paragraph any earnings on moneys in said Account shall be taken into consideration and allowed for.

The Bond Fund Trustee shall without further authorization or direction apply the moneys on credit to the Secondary Bond Retirement Account on each date, if any, upon which a Sinking Fund Installment is due to the retirement of the Term Bonds of such Series of Subordinate Lien Bonds in accordance with the Supplemental Resolution providing for the issuance of such Series of Subordinate Lien Bonds, or, if so directed in writing by the Authority, semi-annually on both such due date and the day six months prior to such due date, in the respective principal amounts on credit to the Secondary Bond Retirement Account on such dates for such Term Bonds, so that the aggregate amounts so applied will equal the respective principal amounts required to be credited to the Secondary Bond Retirement Account on such Sinking Fund Installment dates by the Supplemental Resolution, providing for their issuance; provided, however, that if the last Sinking Fund Installment for such Term Bonds falls due on the stated maturity date thereof, the amount of such installment shall not be applied to the redemptions of such Term Bonds but shall be applied to the payment thereof at such maturity date in the same manner as amounts are applied from the Secondary Principal Account for the payment of Serial Bonds at maturity. The Bond Fund Trustee shall give notice of all such redemptions, in the name and on behalf of the Authority, in accordance with the Resolution. The Bond Fund Trustee may also, without further authorization or direction, apply the moneys credited to the Secondary Bond Retirement Account for the retirement of the Term Bonds of a particular Series of Subordinate Lien Bonds to the purchase of such Subordinate Lien Bonds, at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the redemption price then applicable upon the redemption of such Subordinate Lien Bonds from Sinking Fund Installments, plus accrued interest, in which event the principal amount of such Subordinate Lien Bonds required to be redeemed on the next respective ensuing Sinking Fund Installment date shall be reduced by the principal amount of the Subordinate Lien Bonds so purchased; provided, however, that no Subordinate Lien Bonds of such Series shall be purchased during the interval between the date on which notice of redemption of said Subordinate Lien Bonds from Sinking Fund Installments is given and the date of redemption set forth in such notice, unless the Subordinate Lien Bonds so purchased are Subordinate Lien Bonds called for redemption in such notice or are purchased from moneys other than those credited to the Secondary Bond Retirement Account with respect to Sinking Fund Installments.

In the event that moneys in the Secondary Bond Retirement Account, other than moneys credited thereto as Sinking Fund Installments pursuant to a Supplemental Resolution, are to be applied to the retirement of a Series of Subordinate Lien Bonds, the Authority may direct the Bond Fund Trustee within thirty days of the deposit of such moneys to apply such moneys to the purchase of Subordinate Lien Bonds of such Series. The price payable on any such purchase (including any brokerage or other charge) shall not exceed the highest redemption price applicable at the time or any time thereafter with respect to such Series of Subordinate Lien Bonds, plus accrued interest. Any such moneys not applied to the purchase of Subordinate Lien Bonds shall be applied to the redemption of Subordinate Lien Bonds of each Series then subject to redemption from such moneys in the proportion, as nearly as practicable, which the principal amount of Subordinate Lien Bonds of such Series then outstanding and unpaid and so subject to redemption bears to the total principal amount of Subordinate Lien Bonds then outstanding and unpaid and so subject to redemption.

Except for the redemption of Term Bonds from moneys credited to the Secondary Bond Retirement Account as Sinking Fund Installments, not less than One Hundred Thousand Dollars (\$100,000) aggregate principal amount of Subordinate Lien Bonds shall be called for redemption at any one time pursuant to this part unless the Authority directs the purchase or redemption of a lesser amount. The Bond Fund Trustee shall give notice of all such redemptions, in the name and on behalf of the Authority, in accordance with the provisions of the Resolution.

Any purchase of Subordinate Lien Bonds as described herein may be made with or without tenders of Subordinate Lien Bonds and at either public or private sale. All Subordinate Lien Bonds purchased, redeemed or retired as described herein shall be cancelled and shall not be reissued. The accrued interest to be paid on the purchase or redemption of Subordinate Lien Bonds shall be paid from the Secondary Interest Account.

In the event of the purchase or redemption of Term Bonds of a particular Series of Subordinate Lien Bonds as described herein or otherwise, except from moneys credited to the Secondary Bond Retirement Account as Sinking Fund Installments, or if such Term Bonds to be so redeemed are deemed to be no longer outstanding and unpaid pursuant to the Resolution, the amount required to be credited to the Secondary Bond Retirement Account on such Sinking Fund Installment date thereafter, as specified in the Supplemental Resolution providing for the issuance thereof, shall be reduced in the proportion as nearly as practicable, which the principal amount of such Sinking Fund Installment bears to the total principal amount of all Sinking Fund Installments so specified for the Term Bonds of such Series.

All expenses in connection with the purchase, redemption or payment of Subordinate Lien Bonds as described herein shall be paid by the Authority from the Water Revenue Fund.

D. Secondary Reserve Account. The Bond Fund Trustee shall create a separate Account in the Secondary Bond Fund for each Series of Subordinate Lien Bonds. The Reserve Account Requirement for each Series of Subordinate Lien Bonds shall be that amount, if any, provided in the Supplemental Resolution providing for the issuance of such Series of Subordinate Lien Bonds. In the event a Reserve Account Requirement is prescribed, the Supplemental Resolution providing for the issuance of a Series of Subordinate Lien Bonds shall provide either (i) for deposits from Secondary Revenues into the Secondary Bond Fund for credit to the appropriate Secondary Reserve Account, (ii) for payments into the Secondary Bond Fund for credit to the appropriate Secondary Reserve Account from the proceeds of Subordinate Lien Bonds or from any moneys lawfully available therefor, or (iii) for deposit with the Bond Fund Trustee of a surety bond, an insurance policy or letter of credit unconditionally payable on demand to or for the benefit of the Bond Fund Trustee for the benefit of the holders of the Series of Subordinate Lien Bonds for which the Secondary Reserve Account was created, all as shall be determined and provided in the Supplemental Resolution. The moneys in the Secondary Bond Fund on credit to a Secondary Reserve Account shall be used and applied solely for the purpose of paying the principal of, premium, if any, and interest on the respective Series of Subordinate Lien Bonds for which the account was created when due, whether at their maturity or upon the redemption or purchase thereof from moneys credited to the Secondary Bond Retirement Account, and shall be so used and applied whenever there are insufficient moneys on credit to the Secondary Interest Account, Secondary Principal Account and Secondary Bond Retirement Account for such purposes. No Subordinate Lien Bonds other than the Series of Subordinate Lien Bonds for which such account has been created shall have any right to be paid from such account.

When a Series of Subordinate Lien Bonds is refunded in whole or in part or is otherwise paid within the meaning of the Resolution, moneys may be withdrawn from the Secondary Reserve Account for such Series to pay or provide for the payment of such Subordinate Lien Bonds or refunded Subordinate Lien Bonds, as the case may be, or may be transferred and applied to any reserve fund or account established for the refunding bonds issued to refund such refunded Subordinate Lien Bonds; provided that immediately after such withdrawal or transfer there shall be on credit to the Secondary Reserve Account for those Subordinate Lien Bonds of the Series of Subordinate Lien Bonds not refunded an amount equal to the Reserve Account Requirement for such Series.

E. Moneys on deposit in the Secondary Bond Fund shall be transmitted by the Bond Fund Trustee to any Paying Agent at such times as shall be necessary prior to the date upon which any installment of interest or principal is due on the Subordinate Lien Bonds (either at the maturity date

thereof or redemption date prior to maturity) and in amounts sufficient to meet such installments of principal of, premium, if any, and interest on the Subordinate Lien Bonds, then due. In the event that there shall be a deficiency in the Secondary Interest Account, Secondary Principal Account or Secondary Bond Retirement Account three business days before any interest, principal or sinking fund payment is due on a Series of Subordinate Lien Bonds, the Bond Fund Trustee shall promptly make up such deficiency from the Secondary Reserve Account for such Series by the withdrawal of cash therefrom for that purpose or by the sale or redemption of Investment Securities held in the Secondary Reserve Account, if necessary, in such amounts as will provide cash in the Secondary Reserve Account sufficient to make up any such deficiency or by the transfer of Investment Securities (or undivided interests therein) in which moneys in the Secondary Interest Account, Secondary Principal Account or Secondary Bond Retirement Account, as the case may be, may be invested, or by taking such steps as may be necessary to realize the benefit of any surety bond, insurance policy or letter of credit deposited in the Secondary Reserve Account for such Series.

Moneys set aside from time to time with any Paying Agent for the purpose of paying the principal of, premium, if any, and interest on the Subordinate Lien Bonds shall be held in trust for the holders of the Subordinate Lien Bonds in respect of which the same shall have been so set aside. Until so set aside, all moneys in the Secondary Bond Fund shall be held in trust for the benefit of the holders of all Subordinate Lien Bonds at the time outstanding, equally and ratably.

Whenever the amounts on deposit in the Secondary Bond Fund (regardless of the account therein to which such amounts are credited) shall be sufficient to provide moneys to retire all Subordinate Lien Bonds then outstanding, including such interest thereon as thereafter may become due and payable and any premiums upon redemption thereof, no further deposits need be made by the Authority into the Secondary Bond Fund, and without further authorization or direction the Bond Fund Trustee shall call, except in the event of the final maturity of all Subordinate Lien Bonds then Outstanding, all Subordinate Lien Bonds which may be redeemed by their terms, for redemption on the next succeeding redemption date for which the required notice of redemption can practicably be given, and shall apply such moneys to such retirement or redemption. (Res. Section 6.11)

Covenants. The Authority covenants and agrees, among other covenants and agreements, in the Resolution as follows:

Rate Covenant. The Authority will fix, establish and collect, or cause to be fixed, established and collected, rates, tolls, rents and other charges for the water distributed by it and for any services or facilities sold, furnished or supplied by the Water System or any part thereof, which rates, tolls, rents and charges shall be sufficient in each Fiscal Year to produce revenues in such Fiscal Year which together with other moneys which lawfully may be applied to the purpose, will be equal to at least the sum of (A) Debt Service for such Fiscal Year on all Bonds, (B) the necessary expenses of operating, maintaining, renewing and replacing the Water System and maintaining the Reserve Accounts and the Secondary Reserve Accounts and (C) the additional amounts, if any, required to pay all other charges or liens whatsoever payable from the Revenues in such Fiscal Year. (Res. Section 8.2)

To Maintain the Properties of the Water System; To Keep the System in Good Repair. The Authority will (i) maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties of the Water System and all additions and betterments thereto and extensions thereof, and every part and parcel thereof in good repair, working order and condition, (ii) from time to time make, or cause to be made, all necessary and proper repairs, renewals, replacements, additions, extensions and betterments thereto, so that at all times the business carried on in connection therewith shall be properly and advantageously conducted, and (iii) comply, or cause to be complied with the terms and conditions of any permit or license for the Water System or any part thereof issued by any federal or state governmental agency or body and with any federal or state law or regulation applicable to the construction, operation, maintenance and repair of the Water System or requiring a license, permit or approval thereof. (Res. Section 8.1)

Sale, Lease or Other Disposition of Properties of the Water System. The Authority will not sell, mortgage, lease or otherwise dispose of the properties of the Water System except as provided below.

(1) The Authority may sell, lease, or otherwise dispose of the properties comprising the Water System if simultaneously with such sale or other disposition thereof provision is made for the payment of all Bonds then outstanding and such Bonds are no longer deemed outstanding within the meaning of the Resolution.

(2) The Authority may sell, lease or otherwise dispose of any part of the properties comprising the Water System having a value of \$1,000,000 or less on such terms and conditions as may be prescribed by the Authority. The Authority may sell, lease or otherwise dispose of any part of the properties comprising the Water System having a value in excess of \$1,000,000 if the Consulting Engineer shall certify to the Authority in writing that such terms and conditions of the proposed sale, lease or other disposition of any such properties are fair and reasonable, and that the estimated Revenues to be derived from the remaining properties of the Water System after taking into consideration the use by the Authority of the proceeds of such proposed sale, lease or other disposition of such properties, will be sufficient to enable the Authority to comply with all covenants and conditions of the Resolution. A copy of such certificate shall be filed with the Bond Fund Trustee at least ten (10) days prior to any such transfer and the Bond Fund Trustee, in the absence of bad faith, shall be protected in relying thereon. Proceeds of any sale, lease or other disposition of any portion of the properties of the Water System pursuant to this paragraph shall be paid: (i) if such proceeds are not in excess of \$100,000, into the Water Revenue Fund, (ii) if such proceeds are in excess of \$100,000, (A) into the Bond Retirement Account in the Bond Fund and applied to the purchase or redemption of Bonds or (B) into the Water Revenue Fund and applied by the Authority for the purpose of constructing extensions, betterments or improvements to the Water System, as the Authority shall determine.

(3) The Authority may sell, lease, or otherwise dispose of surplus lands, crops, timber, buildings and any other portion of the works, plant and facilities of the Water System and real and personal property comprising a part thereof, which, in the opinion of the Authority, shall have become unserviceable, inadequate, obsolete, worn out, or unfit to be used in the operation of the Water System, or no longer necessary, material to, or useful in such operation. Proceeds of any such sale, lease or other disposition of any portion of the properties of the Water System pursuant to this paragraph shall be paid into the Water Revenue Fund.

(4) If permitted by the laws of the State of New York, the Authority may transfer without consideration the properties comprising the Water System to a public corporation or political subdivision of the State of New York, provided such corporation or subdivision assumes all of the Authority's obligations and duties under the Resolution.

(5) In the event that any part of the properties comprising the Water System shall be transferred from the Authority through the operation of law (including condemnation), any moneys received by the Authority as a result thereof shall be paid (i) if such proceeds are not in excess of \$100,000, into the Water Revenue Fund, or (ii) if such proceeds are in excess of \$100,000, (A) into the Bond Retirement Account in the Bond Fund and applied to the purchase or redemption of Bonds or (B) into the Water Revenue Fund and applied by the Authority for the purpose of constructing extensions, betterments or improvements to the Water System, as the Authority shall determine. (Res. Section 8.3)

Insurance. (A) Except as provided in paragraph (B) below, the Authority will keep, or cause to be kept, the works, plants and facilities comprising the properties of the Water System and the operations thereof insured to the extent available at reasonable cost with responsible insurers, with policies payable to the Authority, against risks of direct physical loss, damage to or destruction of the Water System, or any part thereof, at least to the extent that similar insurance is usually carried by utilities operating like properties against accidents, casualties or negligence, including liability insurance and employer's liability; provided, however, that any time while any contractor engaged in constructing any part of the Water System shall be fully responsible therefor, the Authority shall not be required to keep such part of the Water System insured. All policies of insurance shall be for the benefit of the holders of the Bonds and the Authority as their respective interests may appear.

In the event of any loss or damage to the properties of the Water System covered by insurance, the Authority (1) with respect to each such loss, shall promptly repair and reconstruct to the extent necessary to the proper conduct of the operations of the Water System the lost or damaged portion thereof and shall apply the proceeds of any insurance policy or policies covering such loss or damage for that purpose to the extent required therefor, unless, in case of loss or damage involving \$100,000 or more, the Authority shall determine that such repair and reconstruction not be undertaken, and (2) if the Authority shall not use the entire proceeds of such insurance to repair or reconstruct such lost or damaged property, the proceeds of such insurance policy or policies or any portion thereof not used for such repair or reconstruction, as the case may be, shall be paid into the Water Revenue Fund.

(B) If the Authority elects to self-insure or fails to carry insurance against any of the risks normally insured against by operators of facilities similar to the Water System, it must secure the concurrence of the Consulting Engineer. In making its decision whether to concur in such self-insurance, the Consulting Engineer shall (i) make an estimate of the added financial risks, if any, assumed by the Authority as a result of the self-insurance, (ii) consider the availability of commercial insurance, the terms upon which such insurance is available and the costs of such available insurance, and the effect of such terms and costs upon the Authority's costs and charges for its services, (iii) determine whether the added financial risk, if any, being assumed by the Authority is prudent in light of the savings to be realized from such self-insurance or in light of the general availability of insurance. (Res. Section 8.4)

Consulting Engineer. The Authority will retain and appoint, as Consulting Engineer, an independent consulting engineer or engineering firm or corporation having special skill, knowledge and experience in analyzing the operations of water utility systems, preparing rate analyses, forecasting the loads and revenues of water utility systems, preparing feasibility reports respecting the financing of water utility systems and advising on the operation of water facilities, who shall be available to advise the Authority, upon request, and to make such investigations and determinations as may be necessary from time to time under the provisions of the Resolution. In addition to the other duties of the Consulting Engineer pursuant to the Resolution, the Consulting Engineer shall not later than 180 days following the end of every fifth calendar year from the date of the last such examination and report make an examination of and report on the properties and operations of the Water System. Each such report shall be in sufficient detail to show whether the Authority has satisfactorily performed and complied with the covenants, agreements and conditions set forth in the Resolution with respect to the management of the business of the Water System, the sufficiency of the amount being charged and collected for services under the requirements of the Resolution, the proper maintenance of the Water System, and the making of repairs, renewals, replacements, modifications, additions and betterments necessary or desirable to improve operating reliability or reduce costs and recommendations thereof. A copy of each such report shall be filed with the Authority and the Bond Fund Trustee and sent to any Bondholder filing with the Bond Fund Trustee a written request for a copy thereof. On the filing of such report, the Authority shall undertake a review of the management of the business of the Water System and shall cause the prompt taking of such action as shall be necessary to fully perform and comply with the covenants, agreements and conditions as to which the report specified such failure of performance or compliance. (Res. Section 8.5)

Books of Account; Annual Audit. The Authority will maintain and keep proper books of account relating to the Water System and in accordance with generally accepted accounting principles. Within one hundred twenty (120) days after the end of each Fiscal Year, the Authority will cause such books of account to be audited by an independent certified public accountant. A copy of each audit report and financial statements prepared in conformity with generally accepted accounting principles will be filed promptly with the Bond Fund Trustee and sent to any Bondholder filing with the Bond Fund Trustee a written request for a copy thereof. (Res. Section 8.6)

Not to Furnish Free Service; Enforcement of Accounts Due. So long as any Bonds issued pursuant to the Resolution are outstanding and unpaid, the Authority will not furnish or supply water or any other commodity, service or facility furnished by it or in connection with the operation of the Water System, free of charge to any person, firm or corporation, public or private, and the Authority will promptly enforce the payment of any and all accounts owing to the Authority by reason of the ownership and operating of the Water System. (Res. Section 8.12)

Arbitrage Covenant. The Authority covenants with the holders from time to time of the Bonds that (i) throughout the term of the Bonds and (ii) through the date that the final rebate, if any, must be made to the United States in accordance with Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), it will comply with the provisions of Section 103 and 141 through 150 of the Code and all regulations proposed and promulgated thereunder that must be satisfied in order that interest on the Bonds shall be and continue to be excluded from gross income for federal income tax purposes under said Section 103. (Res. Section 8.15)

Events of Default; Remedies. Each of the following events constitutes an "Event of Default" under the Resolution:

(a) if payment of the principal of or premium, if any, on any Bond shall not punctually be made when due and payable, whether at the stated maturity thereof or upon proceedings for the redemption thereof (whether by voluntary redemption or a mandatory sinking fund redemption or otherwise);

(b) if payment of the interest on any Bond shall not punctually be made when due;

(c) if the provisions of any Supplemental Resolution with respect to mandatory sinking fund installment payments or the redemption of Term Bonds therefrom, as the case may be, shall not punctually be complied with at the time and in the manner specified in such Supplemental Resolution;

(d) if the Authority shall fail to duly and punctually perform or observe any other of the covenants, agreements or conditions contained in the Resolution or in the Bonds, on the part of the Authority to be performed, and such failure shall continue for ninety (90) days after written notice thereof from the Bond Fund Trustee or the holders of not less than twenty percent (20%) of the Bonds then outstanding; provided that, if such failure shall be such that it cannot be corrected within such ninety (90) day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected;

(e) if an order, judgment, or decree shall be entered by any court of competent jurisdiction, with the consent or acquiescence of the Authority, or if such order, judgment or decree, having been entered without the consent or acquiescence of the Authority, shall not be vacated or set aside or discharged or stayed (or in case custody or control is assumed by said order, such custody or control shall not otherwise be

terminated) within ninety (90) days after the entry thereof, and if appealed, shall not thereafter be vacated or discharged; (i) appointing a receiver, trustee or liquidator for the Authority or for the Water System or any part of the Water System; or (ii) assuming custody or control of the Water System or any part thereof under the provisions of any law for the relief or aid of debtors; or (iii) approving a petition filed against the Authority under provisions of Chapter IX of an Act to Establish a Uniform Law on the Subject of Bankruptcies II USC 901-946; or (iv) granting relief to the Authority under any amendment to said Bankruptcy Act, or under any other applicable Bankruptcy Act, which shall give relief substantially similar to that afforded by said Chapter IX; and

(f) if the Authority shall (i) admit in writing its inability to pay its debts generally as they become due; or (ii) file a petition in bankruptcy or seeking a composition of indebtedness; or (iii) make an assignment for the benefit of its creditors; or (iv) file a petition or any answer seeking relief under the Bankruptcy Act referred to in the preceding clause, or under any amendment thereto, or under any other applicable bankruptcy act which shall save relief substantially the same as that afforded by Chapter IX of said act; or (v) consent to the appointment of a receiver of the whole or any substantial part of the Water System; or (vi) consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief of aid of debtors of custody or control of the Authority or of the whole or any substantial part of the Water System. (Res. Section 9.2)

Notice to Bondholders of Event of Default. The Bond Fund Trustee, within ninety (90) days after the occurrence of an Event of Default, shall give to the Bondholders, notice of all defaults known to the Bond Fund Trustee, unless such defaults shall have been cured before the giving of such notice (the term “default” or “defaults” for the purpose of this paragraph being defined to be any Event or Events of Default specified in the Resolution; provided that, except in the case of an Event of Default as described in subparagraphs (a) through (c) above, the Bond Fund Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or a trust committee of other responsible officers or a trust committee of directors and other responsible officers of the Bond Fund Trustee in good faith determines that the withholding of such notice is in the interests of the Bondholders). (Res. Section 9.3)

Inspection of Books and Records. If an Event of Default (as defined in Section 9.2 of the Resolution) shall have happened and shall not have been remedied, the books of record and account of the Authority relating to the Water System and all other records relating thereto shall at all times be subject to the inspection and use of the Bond Fund Trustee and any persons holding at least twenty-five percent (25%) of the principal amount of Bonds outstanding and of their respective agents and attorneys or of any committee therefor. (Res. Section 9.4)

Payment of Funds to the Bond Fund Trustee; Application of Revenues in an Event of Default. If an Event of Default shall have happened and shall not have been remedied, upon demand of the Bond Fund Trustee, the Authority shall pay over to the Bond Fund Trustee and cause any Construction Fund Trustee to pay over to the Bond Fund Trustee (i) forthwith, all moneys, securities and funds then held by the Authority and pledged under the Resolution, and moneys, securities and funds then held by any Construction Fund Trustee, and (ii) as promptly as practicable after receipt thereof, all Revenues. (Res. Section 9.5)

During the continuance of an Event of Default as defined in items (a) through (c) above or of any other Event of Default resulting in an Event of Default as defined in said items (a) through (c), the Revenues received by the Bond Fund Trustee or by a Bondholders’ Committee pursuant to the provisions of the Resolution as the result of the taking of possession of the business and properties of the Water System, shall be applied by the Bond Fund Trustee or by the Bondholders’ Committee, as the case

may be, firstly to the payment of all necessary and proper Operation and Maintenance Expenses of the Water System and all other proper disbursements or liabilities made or incurred by the Bond Fund Trustee or by the Bondholders' Committee, as the case may be; secondly, to the then due and overdue payments (1) to the holders of the Original Water Works Revenue Bonds pursuant to Section 6.1.A.2 of the Resolution and (2) into the Bond Fund, including the making up of deficiencies therein; and lastly, for any lawful purpose in connection with the Water System. (Res. Section 9.4)

In the event that at any time the funds held by the Bond Fund Trustee or the Bondholders' Committee pursuant to the preceding paragraph shall be insufficient for the payment of the principal of, premium, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds or coupons) and all Revenues of the Authority and other of its moneys received or collected for the benefit or for the account of holders of the Bonds by the Bond Fund Trustee shall be applied as follows:

(1) Unless the principal of all of the Bonds shall have become due and payable,

First, to the payment of all necessary and proper operating expenses of the Water System and all other proper disbursements or liabilities made or incurred by the Bond Fund Trustee or by the Bondholders' Committee, as the case may be;

Second, to the payment of the holders of the Original Water Works Revenue Bonds as may be required by Section 6.1.A.2. of the Resolution;

Third, with respect to the Senior Lien Bonds, to the payment to the persons entitled thereto of all installments of interest then due (including any interest on overdue principal) in the order of the maturity of such installments, earliest maturities first, and if the amounts available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

Fourth, with respect to the Senior Lien Bonds, to the payment to the persons entitled thereto of the principal and premium, if any, due and unpaid upon the Senior Lien Bonds at the time of such payment without preference or priority of any Senior Lien Bond over any other Senior Lien Bonds, ratably, according to the amounts due respectively for principal and redemption premium, without any discrimination or preference;

Fifth, with respect to the Subordinate Lien Bonds, to the payment to the persons entitled thereto of all installments of interest then due (including any interest on overdue principal) in the order of the maturity of such installments, earliest maturities first, and if the amounts available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

Sixth, with respect to the Subordinate Lien Bonds, to the payment to the persons entitled thereto of the principal and premium, if any, due and unpaid upon the Subordinate Lien Bonds at the time of such payment without preference or priority of any Subordinate Lien Bond over any other Subordinate Lien Bonds, ratably, according to the amounts due respectively for principal and redemption premium, without any discrimination or preference;

(2) If the principal of all of the Bonds shall have become due and payable,

First, to the payment of all necessary and proper operating expenses of the Water System and all other proper disbursements or liabilities made or incurred by the Bond Fund Trustee or the Bondholders' Committee, as the case may be;

Second, to the payment of the holders of the Original Water Works Revenue Bonds as may be required by Section 6.1.A.2. of the Resolution;

Third, to the payment of the principal and interest then due and unpaid upon the Senior Lien 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 Senior Lien Bond over any other Senior Lien Bonds, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference; and

Fourth, to the payment of the principal and interest then due and unpaid upon the Subordinate Lien 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 Subordinate Lien Bond over any other Subordinate Lien Bonds, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses, and liabilities of the holders of the Bonds, their respective agents and attorneys, and all other sums payable by the Authority under the Resolution including the principal of and premium, if any, on all Bonds which shall then be payable, shall either be paid in full by or for the account of the Authority or provisions satisfactory to the Bond Fund Trustee shall be made for such payment, and all defaults under the Resolution or the Bonds shall be made good and secured to the satisfaction of the Bond Fund Trustee or provision deemed by the Bond Trustee to be adequate therefor, the Bond Fund Trustee or the Bondholders' Committee, as the case may be, shall pay over to the Authority all of its moneys, securities, funds and Revenues then remaining unexpended in the hands of the Bond Fund Trustee or the Bondholders' Committee, as the case may be (except moneys, securities, funds or Revenues deposited or pledged, or required by the terms of the Resolution to be deposited or pledged, with the Bond Fund Trustee or a Construction Fund Trustee), control of the business and possession of the property of the Authority shall be restored to the Authority, and thereupon the Authority and the Bond Fund Trustee shall be restored to their former positions and rights under the Resolution, and all Revenues shall thereafter be applied as provided in the Resolution. (Res. Section 9.5)

Possession of System by Bond Fund Trustee or Bondholders' Committee; Appointment of a Receiver. Upon the occurrence of an Event of Default and while such Event of Default shall be continuing, the Bond Fund Trustee or a Bondholders' Committee representing the holders of not less than a majority of the Bonds at the time outstanding, as a matter of right against the Authority, without notice or demand, and without regard to the adequacy of the security for the Bonds, shall, but only if and to the extent then permitted by law and the Original Resolution be entitled to take possession and control of the business and properties of the Water System. Upon taking such possession, the Bond Fund Trustee or such Bondholders' Committee shall operate and maintain the Water System, make any necessary repairs, renewals and replacements in respect thereof, prescribe rates and charges for water distributed through the facilities of the Water System and collect the Revenues of the Water System. (Res. Section 9.6)

Upon the occurrence of an Event of Default and at any time while such Event of Default shall be continuing, the Bond Fund Trustee or the holders of twenty-five percent (25%) or more in principal amount of the Bonds then Outstanding or at any committee therefor shall, but only if and to the

extent then permitted by law and the Original Resolution, be entitled to the appointment of a receiver to take possession of the Water System, to manage, and receive and apply the Revenues. Notwithstanding the appointment of any receiver, the Bond Fund Trustee shall be entitled to retain possession and control of and to collect and receive income from any moneys, securities, funds and Revenues deposited or pledged with it under the Resolution or agreed or provided to be delivered to or deposited or pledged with it under the Resolution. (Res. Section 9.6)

Certain Powers and Rights of the Bond Fund Trustee. The Bond Fund Trustee is empowered to proceed forthwith to institute such suits, actions and proceedings to protect and enforce its rights and the rights of the holders of the Bonds under the Resolution or, to file such proof of debt, amendment of proof of debt, claim, petition or other document as may be necessary or advisable in order to have the claims of the Bond Fund Trustee and of the holders of the Bonds allowed in any equity, receivership, insolvency, bankruptcy, liquidation, readjustment, reorganization or other similar proceedings. (Res. Section 9.7)

Bondholders' Committee. Upon the occurrence of an Event of Default and at any time such Event of Default shall be continuing, the holders of not less than twenty percent (20%) in principal amount of the Bonds then Outstanding may call a meeting of the holders of Bonds for the purpose of electing a Bondholders' Committee. At such meeting the holders of not less than a majority of the principal amount of the Bonds then Outstanding must be present in person or by proxy in order to constitute a quorum for the transaction of business. A quorum being present at such meeting, the Bondholders present in person or by proxy may, by the votes cast by the holders of a majority in principal amount of the Bonds so present in person or by proxy, elect one or more persons who may or may not be Bondholders to the Bondholders' Committee which shall act as trustee for all Bondholders. The Bondholder's Committee may, with the consent of the holders of not less than fifty percent (50%) of the principal amount of Bonds outstanding, remove the Bond Fund Trustee. After the removal of the Bond Fund Trustee and prior to the appointment of a successor Bond Fund Trustee the members of the Bondholders' Committee will be deemed to be trustees for the holders of all the Bonds then Outstanding, and may exercise in the name of the Bondholders' Committee, as trustee, all the rights and powers conferred on the Bond Fund Trustee or any Bondholder. (Res. Section 9.8)

Bondholders May Direct Proceedings; Suits by Individual Bondholders. The holders of not less than a majority in principal amount of the Bonds at the time outstanding shall be authorized and empowered (1) to direct the time, method, and place of conducting any proceeding for any remedy available to the holder of the Bonds or to the Bond Fund Trustee therefor, or of exercising any trust or power conferred upon the Bond Fund Trustee under the Resolution; or (2) on behalf of the holders of the Bonds then outstanding, to consent to the waiver of any Event of Default or its consequences, and the Bond Fund Trustee shall waive any Event of Default and its consequences upon the written request of the holders of such majority.

No holder of any of the Bonds shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such holder shall have previously given to the Bond Fund Trustee written notice of the happening of an Event of Default and the holders of at least twenty percent (20%) in principal amount of the Bonds then Outstanding shall have filed a written request with the Bond Fund Trustee and shall have offered it reasonable opportunity either to exercise the power granted under the Resolution or to institute such action, suit or proceeding in its own name and unless such Bondholder shall have offered to the Bond Fund Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Bond Fund Trustee for a period of sixty (60) days after the receipt by it of such notice, request and an offer of indemnity against costs shall have refused to comply with such request. (Res. Sections 9.9, 9.10)

Amending and Supplementing of Resolution

The Authority, at any time and without the consent or concurrence of any holder of any Bond, may adopt a resolution amendatory of, or supplemental to, the Resolution (herein a "Supplemental Resolution"), (i) for the purpose of issuing Additional Bonds; or (ii) if the rights of the holders of the Bonds then outstanding are not adversely affected, for any one or more of the following purposes: (1) to make any changes or corrections in the Resolution as to which the Authority shall have been advised by counsel that the same are verbal corrections or changes or are required for the purpose of curing or correcting any ambiguity or mistake contained in the Resolution, arising under the Resolution as are necessary or desirable; (2) to add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds; (3) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Resolution; (4) to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge, or charge, created or to be created by the provisions of the Resolution; and (5) to grant or to confer upon the holders of the Bonds or to confer upon the Bond Fund Trustee for the benefit of the holders of the Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them. (Res. Section 10.1)

With the consent of the holders of not less than a majority of the Bonds then Outstanding, the Authority may adopt a Supplemental Resolution for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Resolution, or modifying or amending the rights and obligations of the Authority thereunder, or modifying or amending in any manner the rights of the holders of the Bonds then Outstanding; provided, however, that, without the specific consent of the holder of each such Bond which would be affected thereby, no Supplemental Resolution amending or supplementing the provisions of the Resolution shall: (1) change the fixed maturity date for the payment of the principal of any Bond or the dates for the payment of interest thereon or the terms of the redemption thereof, or reduce the principal amount of any Bond or the rate of interest thereon or the redemption price (or the redemption premium) payable upon the redemption or prepayment thereof; or (2) reduce the aforesaid percentage of Bonds, the holders of which are required to consent to any Supplemental Resolution amending or supplementing the provisions of the Resolution; or (3) give to any Bond or Bonds any preference over any other Bond or Bonds secured by the Resolution; or (4) authorize the creation of any pledge of the Revenues and other moneys pledged under the Resolution, prior, superior or equal to the pledge of and lien and charge thereon created in the Resolution for the payment of the Bonds except to the extent provided in Article III of the Resolution; or (5) deprive any holder of the Bonds in any material respect of the security afforded by the Resolution; provided, further, however, that without the specific consents of the holders of not less than a majority in principal amount of the Term Bonds then Outstanding and affected thereby, no Supplemental Resolution amending or supplementing the provisions of the Resolution shall (a) change the amount of any sinking fund installments for the retirement of Term Bonds or the due dates of such installments or the terms for the purchase or redemption thereof from such installments or (b) reduce the aforesaid percentage of Term Bonds, the holders of which are required to consent to any such Supplemental Resolution. (Res. Section 10.2)

Defeasance

The obligations of the Authority under the Resolution and the liens, pledges, charges, trusts, covenants and agreements of the Authority therein made or provided for, shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be Outstanding thereunder, (i) when such Bond shall have been cancelled, or shall have been surrendered for cancellation or is subject to cancellation, or shall have been purchased by the Bond Fund Trustee from moneys held under the Resolution; or (ii) when payment of the principal of and premium, if any, on such Bond, plus interest on such principal to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment, or otherwise) either (a) shall have been made or caused to be made in accordance with the terms thereof, or (b) shall have been provided for by irrevocably depositing with the Bond Fund Trustee

or a Paying Agent for such Bonds, in trust, and irrevocably appropriating and setting aside exclusively for such payment, either (1) moneys sufficient to make such payment or (2) Refunded Municipal Obligations or Investment Securities (which shall include only those obligations described in items (i), (ii) and (iii) of the definition of Investment Securities) maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, whichever the Authority deems to be in its best interest, and all necessary and proper fees, compensation and expenses of the Bond Fund Trustee and the Paying Agents pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Bond Fund Trustee and said Paying Agents and proper notice of such redemption or prepayment shall have been previously published in accordance with the Resolution or provision satisfactory to the Bond Fund Trustee shall have been irrevocably made for the giving of such notice. (Res. Section 13.1)

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APPENDIX B

Financial Statements of Authority with accompanying Auditor's Report

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FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY
INFORMATION

Suffolk County Water Authority
Years Ended May 31, 2007 and 2006
With Report of Independent Auditors

Suffolk County Water Authority
Financial Statements and
Required Supplementary Information

Years ended May 31, 2007 and 2006

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Report of Independent Auditors

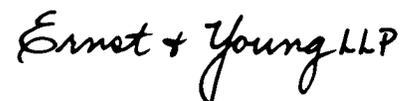
To the Members of
Suffolk County Water Authority

We have audited the accompanying balance sheets of the Suffolk County Water Authority (the “Authority”) as of May 31, 2007 and 2006, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Authority’s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control over financial reporting. Accordingly, we express no such opinion. An audit 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Authority as of May 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Management’s Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this required supplementary information. However, we did not audit the information and express no opinion on it.



August 21, 2007

Suffolk County Water Authority

Management's Discussion and Analysis

The primary purpose of the Suffolk County Water Authority (the "Authority") is to establish a single, integrated public water supply and distribution system providing pure water at a reasonable cost to serve Suffolk County.

The Financial Statements include:

The Balance Sheets provide information about the nature and amounts of investments in resources (assets) and the obligations to the Authority's creditors (liabilities), with the difference between the two reported as net assets.

The Statements of Revenues, Expenses and Changes in Fund Net Assets report how the Authority's net assets changed during each year. The statement accounts for all of the year's revenues and expenses, measures the financial results of the Authority's operations for the year and can be used to determine how the Authority has funded its costs.

The Statements of Cash Flows provide information about the Authority's cash receipts, cash payments and net changes in cash resulting from operations, investing activities and capital and related financing activities.

The notes to the financial statements contain information that is essential to understanding the financial statements, such as the Authority's accounting methods and policies.

Management provides the following discussion and analysis ("MD&A") of the Authority's financial activities and financial statements. This overview is provided for the fiscal years ended May 31, 2007, 2006 and 2005. The reader should use the information contained in this analysis in conjunction with the information contained in the audited financial statements, all of which follow this narrative on the subsequent pages.

Suffolk County Water Authority's Changes in Net Assets

	2007	2006	2005
	<i>(in thousands of dollars)</i>		
Operating revenues			
Water service	\$ 119,610	\$ 120,262	\$ 105,491
Other	10,540	12,381	8,693
Total operating revenues	130,150	132,643	114,184
Operating expenses			
Operations and maintenance	84,591	81,088	75,933
Depreciation and amortization	32,030	30,996	29,753
Total operating expenses	116,621	112,084	105,686
Operating income	13,529	20,559	8,498
Non-operating revenues and expenses			
Interest expense, net	(14,888)	(15,533)	(15,791)
Capital reimbursement fees	10,029	12,550	11,475
Unrealized loss on investments	1,076	(1,079)	240
Total non-operating revenues and expenses	(3,783)	(4,062)	(4,076)
Increase in net assets	9,746	16,497	4,422
Net assets—beginning of year	545,815	529,318	524,896
Net assets—end of year	\$ 555,561	\$ 545,815	\$ 529,318

Operating Revenues

Water service revenues decreased \$.7 million or .6% during the current year from \$120.3 million for the 2006 fiscal year to \$119.6 million for the 2007 fiscal year. The decrease was a result of a reduced demand on the system as compared to the prior year, offset by customer growth of below 1%, and an average rate increase of 4% effective April 1, 2007.

Water service revenues increased \$14.8 million or 14.0% during the prior fiscal year from \$105.5 million for the 2005 fiscal year to \$120.3 million for the 2006 fiscal year. The increase was a result of a higher than average demand on the system as compared to the prior year, customer growth of slightly under 1%, and average rate increases of 3% effective August 1, 2005 and April 1, 2006.

Other operating revenues decreased \$1.9 million or 15.3% from \$12.4 million for the 2006 fiscal year to \$10.5 million for the 2007 fiscal year. Other operating revenues remained stable with the exception of the legal settlement against the County of Suffolk, which occurred in fiscal year ending May 31, 2006.

Other operating revenues increased \$3.7 million or 42.5% from \$8.7 million for the 2005 fiscal year to \$12.4 million for the 2006 fiscal year. The increase is primarily attributable to a legal settlement against the County of Suffolk and increases from the cost of living adjustments in antennae leases, additional antennae lease sites, and miscellaneous customer related fees.

Operating Expenses

Operations and maintenance expense increased \$3.6 million or 4.4% from \$81.0 million for the 2006 fiscal year to \$84.6 million for the 2007 fiscal year. The \$3.6 million increase was mainly attributable to workers' compensation costs and general insurance (\$.5 million), health insurance (\$1.2 million), water treatment (\$.3 million), system maintenance (\$1.7 million), meter reading/collecting (\$.4 million), system operations (\$.8 million) offset by decreased power (\$.9 million), damage claims (\$.2 million), and retirement costs (\$.2 million).

Operations and maintenance expense increased \$5.1 million or 6.7% from \$75.9 million for the 2005 fiscal year to \$81.0 million for the 2006 fiscal year. The \$5.1 million increase was mainly attributable to increased power (\$4.3 million), workers' compensation costs and general insurance costs (\$1.1 million), offset by decreased costs incurred for water treatment (\$.1 million), and system maintenance cost (\$.2 million).

Depreciation and amortization expenses were \$32.0 million during fiscal 2007 as compared to \$31.0 million during fiscal 2006, an increase of \$1.0 million or 3.2%. The increase is attributable to additional capital assets placed in service during fiscal year 2007 along with goodwill related amortization.

Depreciation and amortization expenses were \$31.0 million during fiscal 2006 as compared to \$29.8 million during fiscal 2005, an increase of \$1.2 million or 4.0%. The increase is attributable to additional capital assets placed in service during fiscal year 2006 along with goodwill related amortization.

During fiscal year 2006, deferred losses of approximately \$3.8 million were recorded in connection with the defeasance of Suffolk County Water Authority Water Revenue Senior Lien Bonds—Series 1993, 1994, 1997, 1997A, 2001A, 2003, and Subordinate Lien Bonds— Series 1993 (see long term debt). In accordance with accounting principles generally accepted in the United States, the deferred loss is being amortized over the life of the refunded debt, which is shorter than the life of the new debt (between 8 and 12 years) resulting in current year amortization of \$.211 million.

Total amortization is \$.625 million and \$.422 million for fiscal years 2007 and 2006 respectively.

Non-operating Revenues and Expenses

Capital reimbursement fees were \$10.0 million during fiscal 2007 as compared to \$12.6 million during fiscal 2006, a decrease of \$2.6 million or 20.6% during the current year. The decrease is a result of the amount of developer main installations completed and placed in service (\$2.2 million) and a net reduction in tapping fees and surcharges billed (\$.4 million) during the fiscal year.

Capital reimbursement fees were \$12.6 million during fiscal 2006 as compared to \$11.5 million during fiscal 2005, an increase of \$1.1 million or 9.6% during the current year. The increase is a result of the amount of main and service installation completed and placed in service during the fiscal year.

Interest expense was \$23.2 million during fiscal 2007 as compared to \$22.7 million during fiscal 2006, an increase of \$.5 million. This is attributable to the annual payments of principal portions of certain outstanding long term bonds and interest rate changes on Suffolk County Water Authority Variable Rate Water Revenue Bonds 2006A and Variable Rate Bond Anticipation Notes 2003 and 2004 (see Long-Term Debt section).

Interest expense was \$22.7 million during fiscal 2006 as compared to \$20.8 million during fiscal 2005, an increase of \$1.9 million. This is attributable to the issuance of \$208.9 million long-term debt reduced by the defeasance of \$100.7 long-term debt and the partial payoff of variable rate Bond Anticipation Notes from 2001 and 2003 (see Long-Term Debt section).

Interest income was \$9.4 million during fiscal year 2007 as compared to \$6.1 million during fiscal year 2006, an increase of \$3.3 million. A higher interest rate environment is the main reason for this increase.

Interest income was \$6.1 million during fiscal year 2006 as compared to \$5.2 million during fiscal year 2005, an increase of \$.9 million. The increase is the result of continued good cash management as well as a higher interest rate environment.

Suffolk County Water Authority's Net Assets

	2007	2006	2005
	<i>(in thousands of dollars)</i>		
Assets			
Capital assets, net of accumulated depreciation	\$ 951,024	\$ 925,002	\$ 894,508
Other assets:			
Current	143,579	131,362	145,895
Noncurrent	84,849	194,998	106,364
Total assets	1,179,452	1,251,362	1,146,767
Liabilities			
Current liabilities	44,843	47,084	46,401
Other long-term liabilities	4,437	4,955	6,947
Long term debt	574,611	653,508	564,101
Total liabilities	623,891	705,547	617,449
Net assets			
Invested in capital, net of related debt	389,386	393,868	369,707
Restricted for debt service	33,923	33,426	31,927
Unrestricted	132,252	118,521	127,684
Total net assets	555,561	545,815	529,318
Total liabilities and net assets	\$ 1,179,452	\$ 1,251,362	\$ 1,146,767

Capital Assets, Net of Accumulated Depreciation (Water Plant)

There was a net increase in water plant in fiscal 2007 of \$26.0 million comprised of an increase of \$49.8 million in gross water plant (including construction in progress) reduced by an increase in accumulated depreciation of \$23.8 million.

There was a net increase in water plant in fiscal 2006 of \$30.5 million comprised of an increase of \$59.8 million in gross water plant (including construction in progress) reduced by an increase in accumulated depreciation of \$29.3 million.

Current Assets

	2007	2006
	<i>(in thousands of dollars)</i>	
Increases (Decreases)		
Cash and cash equivalents	\$ 706	\$ (668)
Current portion of investments	10,837	(17,096)
Accounts receivable, net	(764)	(470)
Accrued water services and fire protection	1,655	1,840
Materials and supplies	654	63
Prepayments and other current assets	(153)	967
Interest and other receivables	(718)	831
Net increase (decrease) in current assets	<u>\$ 12,217</u>	<u>\$ (14,533)</u>

Total investments, including cash and cash equivalents, were \$177.3 million at May 31, 2007, representing a net decrease of \$98.3 million. This is a result of additional cash provided by operating, financing and investing activities, reduced by the payoff of Suffolk County Water Authority Variable Rate Bond Anticipation Notes 2001 and 2003 and capital expenditures paid from unrestricted available funds.

Total investments, including cash and cash equivalents, were \$275.6 million at May 31, 2006, representing a net increase of \$67.2 million. This is a result of additional cash provided by operating, financing and investing activities. On May 15, 2006, \$70 million SCWA Water System Variable Rate Revenue Bonds were issued for the purpose of paying off outstanding Suffolk County Water Authority Variable Rate Bond Anticipation Notes 2001 and 2003. These notes are paid off subsequent to May 31, 2006 (see long term debt). Accordingly, these funds are included on the books and records of the Authority at May 31, 2006.

Accrued water services and fire protection reflects accrued revenue corresponding to pumpage which has not been billed as of May 31st. Water pumped in April and May 2007 was approximately 6.0% higher than 2006, which combined with a rate increase of approximately 4.0% (April 1, 2007) results in an increase of approximately \$1.7 million.

Accrued water services and fire protection reflects accrued revenue corresponding to pumpage which has not been billed as of May 31st. Water pumpage in April and May 2006 was approximately 12.5% higher than 2005 resulting in an increase of approximately \$1.8 million.

Inventory at May 31, 2007 is valued at \$6.3 million, an increase of \$.7 million compared to May 31, 2006. The increase is a result of excess purchases over stock issues and incremental inflationary increases.

Non-current Assets

The value of non-current assets decreased by approximately \$84.1 million, which is comprised of a \$26.0 increase in net capital assets, \$109.8 million decrease in investments held for construction, \$.1 million decrease in goodwill and a \$.2 million decrease in deferred charges and other assets.

Monies held for construction are internally designated to the costs of acquiring, constructing and replacing current water systems. The decrease in investments held for construction is a result of holding proceeds from previous financings designated for construction projects and the payoff of certain bond anticipation notes. Refer to Long-term Debt discussions for detailed information.

Investments

The Authority's investment policy complies with the NYS Comptroller's guidelines for investments. The investment policy permits investments in, among others, obligations of the U.S. Treasury, its agencies, and repurchase agreements backed by such obligations. Investments are reported at fair value.

The Authority's unrestricted investments increased 10.8 million or 11.5% from 93.9 million as of May 31, 2006 to \$104.7 million as of May 31, 2007. The increase in investments of unrestricted assets overall is attributable to the addition of monies available from revenues after the payment of debt service reduced by the use of funds to pay for water system capital improvements.

The Authority's unrestricted investments decreased \$17.1 million or 15% from \$111 million as of May 31, 2005 to \$93.9 million as of May 31, 2006. The decrease in investments of unrestricted assets overall is attributable to the use of funds to defease \$29 million of outstanding Suffolk County Water Authority Water Revenue Bonds. This decrease was mitigated by the addition of monies available from revenues after the payment of debt service.

Current Liabilities

The \$2.2 million decrease in current liabilities from 2006 to 2007 consists of increases in current maturities of water revenue bonds (\$.4 million), customer deposits (\$.4 million) and other accrued liabilities (\$.1 million). These increases are offset by decreases in accounts payable (\$1.4 million), accrued interest (\$.9 million), and accrued employee welfare costs (\$.8 million).

The \$.7 million increase in current liabilities from 2005 to 2006 consists of decreases in current maturities of water revenue bonds (\$.5 million) and other accrued liabilities (\$.4 million). These decreases are offset by increases in accrued interest (\$1 million) and accrued employee welfare costs (\$.6 million).

Accrued retirement contributions continue to be stable (less than \$.1 million) between 2006 and 2007. This is attributable to a slightly lower contribution payment made in December 2006 based on rates established by the New York State Retirement System. Based on estimated payroll for the water authority combined with rates, which have been established by the New York State Retirement System, the regular pension costs for the period April 1, 2007 through March 31, 2008 are estimated to be an average of 9.2% of payroll.

Accrued retirement contributions have remained relatively stable (less than \$.1 million) between 2005 and 2006. This is attributable to slightly reduced contribution rates as established by the New York State Retirement System mitigated by increased payroll costs. The Authority has been advised by the New York State Retirement System that regular pension costs for the period April 1, 2006 through March 31, 2007 are estimated to be an average of 9.6% of payroll.

The \$1.4 million decrease experienced in accounts payable from 2006 to 2007 is attributable principally to a decrease in outstanding invoices related to capital, and operating and maintenance expenses.

The increase in customer deposits of \$.4 million is attributable to overpayments made by customers resulting in additional customers with credit balances.

The decrease in accrued interest of \$.9 million is primarily attributable to the reduction of outstanding debt with the Environmental Facilities Corporation in the course of making normally scheduled payments in accordance with debt service schedules.

The decrease of \$.4 million in other accrued liabilities from 2005 and 2006 is primarily attributable to the reduction in liability for potential workers' compensation claims.

Long-term Debt

The Authority's long-term debt (including current maturities and exclusive of unamortized discounts) decreased from fiscal 2006 to fiscal 2007 by \$10.2 million resulting from the scheduled maturities during the fiscal year.

Water System Revenue and Environmental Facilities
Corporation Revenue Bonds

	2007	2006	2005
	<i>(in thousands of dollars)</i>		
New issues:			
EFC 2005A	\$ —	\$ 7,047	\$ —
SCWA 2005	—	71,905	—
SCWA 2005C	—	60,000	—
SCWA 2006A	—	70,000	—
EFC 2004	—	—	6,605
SCWA 2003	—	—	—
EFC 2003	—	—	—
	—	208,952	6,605
Maturities, retirements and defeasances:			
SCWA	(6,795)	(108,351)	(7,035)
EFC	(3,437)	(3,220)	(2,845)
	(10,232)	(111,571)	(9,880)
Net change in long-term debt	\$ (10,232)	\$ 97,381	\$ (3,275)

As a result of legislation initiated by New York State and enacted by the U.S. Congress a Drinking Water State Revolving Fund (“DWSRF”) was created to provide financial incentive for public and private water systems to finance drinking water infrastructure improvements in the form of subsidized low interest rate loans and grants for qualified projects. The Environment Facilities Corporation (“EFC”) administers the financial aspects of the DWSRF. The Authority has participated in this program since 1998. The Authority has determined it advisable and financially advantageous to continue to participate in this program. During the fiscal year ending May 31, 2007 the Authority did not issue any Water Revenue Bonds directly or through the EFC.

During the fiscal year ending May 31, 2006 (July 2005) the Authority issued \$7,047,361 of Senior Lien Bonds to provide for the retirement of \$1 million principal amount of the Authority’s outstanding Variable Rate Bond Anticipation Notes, 2001 and retirement of \$4.6 million principal amount of the Authority’s outstanding Variable Rate Bond Anticipation Notes, 2003, to fund a reserve account for these Senior Lien Bonds in the amount of \$704,736, and to finance additional costs of the approved projects.

Short-term debt

The Authority has, from time to time, issued Bond Anticipation Notes to finance improvements and additions to the Water System. During the fiscal year ended May 31, 2007 the Authority did not issue any new Bond Anticipation Notes. As indicated in the subsequent paragraph the Authority in May 2006 issued \$70 million in long term debt for the purpose of refunding all outstanding Variable Rate Bond Anticipation Notes, 2001 in the amount of \$47.9 million due June 1, 2006 and a partial refunding of Variable Rate Bond Anticipation Notes, 2003 in the amount of \$21 million. These notes were paid August 2, 2006.

During the fiscal year ended May 31, 2006 the Authority did not issue any new Bond Anticipation Notes. The Authority determined it financially advisable to refund certain outstanding Variable Rate Bond Anticipation Notes (Bans 2001 and 2003—\$1 million and \$4.6 million, respectively) through the issuance of long term debt as described elsewhere in this management discussion analysis. Additionally, in May 2006 the Authority issued \$70 million in long term debt for the purpose of refunding all outstanding Variable Rate Bond Anticipation Notes, 2001 in the amount of \$47.9 million due June 1, 2006 and a partial refunding of Variable Rate Bond Anticipation Notes, 2003 in the amount of \$21 million, paid August 2, 2006.

Net Assets Invested in Capital, Net of Related Debt

Invested in capital, net of related debt, represents the Authority's total investment in capital assets less related long-term debt.

The decrease of \$4.5 million from 2006 to 2007 results from an increase of \$25.8 million in net water plant reduced by a decrease in related debt of \$30.3 million.

Net Assets Restricted

Net assets, restricted, increased as a result of the unspent bond proceeds.

Net Assets Unrestricted

Net assets, unrestricted, increased as a result of operations and the decrease in the invested in capital balance.

Budget vs. Actual

Water sales are predicted based on average historical usage and the determination of the typical customer using 160,000 gallons of water annually. The past year's pumpage, 9% lower than the previous fiscal year, a slightly below 1% growth in customers, and water rate increases implemented on April 1, 2006 and April 1, 2007 correlates to actual water and hydrant revenues of \$.04 million above budget.

Other revenues include (1) charges to customers for late charges, reconnection fees, returned check fees, collection fees, initiation fees, (2) water district management fees, (3) antennae space rental fees, and (4) capital reimbursement fees. Other revenues, excluding capital reimbursement fees were below the corresponding budgeted amount of \$10.7 million by \$.2 million. Capital reimbursement fees were below the budgeted amount of \$10.3 million by \$.3 million, resulting from lower than anticipated customer growth.

Operating and maintenance expenses were budgeted at \$84.8 million, and actual expenses were \$84.6 million, \$.2 million under budget. Power costs were \$1.3 million over budget. Maintenance of facilities and equipment were \$1.2 million over budget. Lower than budgeted increases in treatment, testing, and remediation (\$.2 million), risk management (\$.4 million), customer service (\$.5 million), general & administrative (\$.3 million) and benefits (health, retirement, etc.) (\$1.3 million) offset the aforementioned increase in power costs and maintenance.

Actual debt service costs equaled budgeted costs of \$32.8 million.

Suffolk County Water Authority

Balance Sheets

	May 31	
	2007	2006
	<i>(in thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,662	\$ 2,956
Investments	104,786	93,949
Accounts receivable, less allowance for doubtful accounts of \$1,056 and \$1,079 in 2007 and 2006, respectively	8,836	9,600
Accrued water services and fire protection revenues	16,668	15,013
Interest and other receivables	1,407	2,125
Materials and supplies, at average cost	6,284	5,630
Prepayments and other current assets	1,936	2,089
Total current assets	143,579	131,362
Restricted investments	68,899	178,682
Goodwill	4,085	4,236
Deferred charges and other assets	11,865	12,080
Capital assets, net	951,024	925,002
	1,038,873	1,120,000
Total assets	\$ 1,179,452	\$ 1,251,362
Liabilities and net assets		
Current liabilities:		
Current maturities of bonds payable	\$ 10,652	\$ 10,232
Accounts payable	6,544	7,984
Accrued interest	8,916	9,899
Accrued employee welfare costs	6,151	6,939
Other accrued liabilities	4,471	4,358
Customer deposits	8,109	7,672
Total current liabilities	44,843	47,084
Bond anticipation notes payable	101,900	170,800
Bonds payable, less current portion	472,711	482,708
Advances for construction	4,437	4,955
Total liabilities	623,891	705,547
Commitments and contingencies		
Net assets:		
Invested in capital, net of related debt	389,386	393,868
Restricted for debt service	33,923	33,426
Unrestricted	132,252	118,521
Total net assets	555,561	545,815
Total liabilities and net assets	\$ 1,179,452	\$ 1,251,362

See accompanying notes.

Suffolk County Water Authority

Statements of Revenues, Expenses and Changes in
Fund Net Assets

	Year ended May 31	
	2007	2006
	<i>(in thousands)</i>	
Operating revenues:		
Water service	\$ 119,610	\$120,262
Other	10,540	12,381
Total operating revenues	130,150	132,643
Operating expenses:		
Operations	64,293	62,927
Maintenance	20,298	18,161
Depreciation and amortization	32,030	30,996
Total operating expenses	116,621	112,084
Operating income	13,529	20,559
Non-operating revenues and expenses:		
Interest expense	(23,237)	(22,745)
Income from investments	9,425	6,133
Capital reimbursement fees	10,029	12,550
Total non-operating revenues and expenses	(3,783)	(4,062)
Increase in net assets	9,746	16,497
Net assets:		
Beginning of year	545,815	529,318
End of year	\$ 555,561	\$545,815

See accompanying notes.

Suffolk County Water Authority

Statements of Cash Flows

	Year ended May 31	
	2007	2006
	<i>(in thousands)</i>	
Cash flows from operating activities		
Cash receipts from customers	\$ 118,719	\$ 118,892
Other operating cash receipts	11,910	11,574
Cash payments to suppliers of goods and services	(57,688)	(57,705)
Cash payments to employees for services	(29,519)	(28,070)
Net cash provided by operating activities	43,422	44,691
Cash flows from investing activities		
Purchase of investments	(90,858)	(7,000)
Proceeds from sales and maturities of investments	80,021	24,096
Interest received	8,349	7,212
Net cash (used in) provided by investing activities	(2,488)	24,308
Cash flows from capital and related financing activities		
Defeasance of bonds payable	—	(74,151)
Additions to water plant, net of retirements	(57,901)	(61,340)
Disbursements from (designations to) designated investments	110,859	(86,080)
Proceeds from issuance of long-term debt	—	208,952
Repayment of notes payable	(68,900)	(5,600)
Repayment of current maturities of bonds payable	(9,577)	(40,257)
Interest paid	(24,220)	(21,749)
Proceeds from advances for construction, net of refunds	9,511	10,558
Net cash used in capital and related financing activities	(40,228)	(69,667)
Net increase (decrease) in cash and cash equivalents	706	(668)
Cash and cash equivalents at beginning of year	2,956	3,624
Cash and cash equivalents at end of year	\$ 3,662	\$ 2,956
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 13,529	\$ 20,559
Depreciation and amortization expense	32,030	30,996
(Increase) decrease in operating assets:		
Accounts receivable	764	470
Accrued water service and fire protection	(1,655)	(1,840)
Materials and supplies and prepayments	(501)	(1,030)
Other assets	933	(4,614)
(Decrease) increase in operating liabilities:		
Accounts payable	(1,440)	32
Accrued employee welfare	(788)	618
Other accrued liabilities	113	(524)
Customer deposits	437	24
Net cash provided by operating activities	\$ 43,422	\$ 44,691
Non-cash investing activities		
Increase (decrease) in the fair value of investments	\$ 1,076	\$ (644)

See accompanying notes.

Suffolk County Water Authority

Notes to Financial Statements

May 31, 2007

1. Summary of Significant Accounting Policies

Suffolk County Water Authority (the “Authority”) is a public benefit corporation, created by resolution of the Suffolk County Board of Supervisors in 1937, with a two-fold purpose. The first was to acquire, construct, maintain and operate a public water supply for Suffolk County. The second was to develop a single, integrated public water supply and distribution system to serve all of Suffolk County. The accounts of the Authority are maintained generally in accordance with the Uniform System of Accounts prescribed by the New York State Public Service Commission (“PSC”), although the Authority is not subject to PSC rules and regulations. The rates established by the Authority do not require PSC or Suffolk County Legislative approval.

Basis of Presentation

In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board (“GASB”). In addition, the Authority follows the pronouncements of only applicable Financial Accounting Standards Board (“FASB”) Statements and Interpretations, issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

In accordance with GASB standards, the accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. As required by GASB standards, the transactions of the Authority are accounted for on a flow of economic resources measurement focus and accrual basis of accounting.

Water Plant

Water plant is recorded at original cost. The capitalized cost of additions to water plant include charges for ancillary construction costs such as construction period interest, engineering, supervision, payroll taxes and pension benefits. The original cost of property replaced, retired or otherwise disposed of in ordinary retirements is deducted from plant accounts and together with costs to remove, less any salvage, is charged to accumulated depreciation. The costs of repairs, minor betterments and renewals are charged to maintenance expense as incurred.

Depreciation

Water plant depreciation is provided on the straight-line basis using a composite annual rate of 2.84%, which is based on the average service lives and net salvage values of properties.

Suffolk County Water Authority

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Capitalized Interest

The Authority capitalizes interest on constructed assets during the period of construction. The amount of interest cost capitalized on qualifying assets acquired with proceeds of tax exempt borrowings that are externally restricted to finance acquisition of specified assets is all interest cost of the borrowings less any interest earned on related interest-bearing investments acquired with such unexpended proceeds from the date of the borrowings until the assets are substantially complete and are ready for their intended use. Interest cost capitalized during the years ended May 31, 2007 and 2006 was approximately \$1,413,000 and \$539,000, respectively.

Cash and Cash Equivalents

Investments with original maturity dates of 90 days or less are considered cash equivalents.

Investments

All investments with maturities longer than 90 days are reported as investments and are carried at fair value, except for investment agreements and certificates of deposit. Investment agreements, which can take the form of open time deposits or fixed repurchase agreements, are reported at an amount equal to principal and accrued interest. Certificates of deposit are valued at cost.

Investments Held for Debt Service

In accordance with the 1988 General Bond Resolution, as amended (the "Resolution"), the Authority maintains a debt service reserve (or bond insurance, as described in Note 5). This reserve is held by a Fiscal Agent.

Investments held for debt service are used solely for the purpose of paying the principal and interest on the bonds, and for retiring the bonds prior to maturity. Amounts in the bond fund are invested in U.S. Treasury Notes and U.S. government securities.

Investments Held for Construction

In accordance with the Resolution, monies held for construction are internally designated for the costs of acquiring, constructing and replacing the water system.

Suffolk County Water Authority

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Goodwill

Goodwill was derived from the Authority's acquisition of various private water purveyors. The Authority amortizes goodwill over a 40 year period.

Advances for Construction and Capital Reimbursement Fees

Under current standard construction contracts with residential real estate developers and others, the developer advances to the Authority the cost of new main installations based on a flat cost per foot. Upon completion of construction, the monies are recognized as capital reimbursement fees in the statements of revenues, expenses and changes in fund net assets. Provisions exist, and are infrequently exercised, whereby the developer may receive reimbursement if the actual footage of the main installed was less than 95% of the original estimate. These refunds are made from the construction advance account.

There exist certain construction contracts with residential real estate developers and others, whereby the developer advances the Authority the cost of new main installations based on actual costs. Upon completion of construction, the developer is either billed (not to exceed 10% of original estimate) or refunded the difference between the advance and actual cost. The monies paid by the developer are recognized as capital reimbursement fees in the statements of revenues, expenses and changes in fund net assets when the construction is completed.

Capital reimbursement fees also include the original cost of systems paid to the Authority by municipalities and others as well as service, tapping and other fees.

Water District Contracts

The Authority has entered into a number of contracts with various municipalities throughout Suffolk County for the purpose of installing water mains within the related municipality's created water district. Under the terms of these contracts, the municipality agrees to pay for the installation of the water main, plus interest over a 38 year period. The Authority agrees to provide a credit against the gross payments due under the contract equal to 40% of the water revenues collected from customers within the designated water supply district. The amount of the credit cannot exceed the gross payments due.

Suffolk County Water Authority

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

As of May 31, 2007, the Authority had 19 active contracts where the credit did not equal the gross amount due. Annual gross payments for these contracts range from \$1,500 to \$357,000 with final maturity dates between 2012 and 2035. The cumulative gross payments due for all of these water district contracts through their respective maturity dates amount to approximately \$24,007,000. The Authority has elected not to record the value of these contracts as an asset and liability at May 31, 2007.

The cost of these installations has been paid for and capitalized through the Authority's capital budget.

Debt Issuance Costs, Bond Discount and Other Bond Related Costs

Debt issuance costs and bond discount and premium are amortized over the life of the related bond issues using the effective interest method. Premiums paid in connection with interest rate cap agreements are amortized and reported as interest expense over the life of the respective agreements. Deferred bond refunding costs are amortized to expense over the shorter of the life of the refunding bonds or the refunded bonds.

Customer Deposits

As security for the payment of bills, the Authority generally requires a deposit from commercial customers and high volume water users. No interest is paid on such deposits.

Accrued Employee Welfare Costs

The Authority accrues the expected value of all vacation and sick leave benefits earned by employees to date.

Revenues

The Authority distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Water service revenues are recognized based on actual customer water usage, including estimates for unbilled periods. Other operating revenues are recognized when service has been rendered and collection is reasonably assured. The Authority's operating expenses include operations and maintenance expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Suffolk County Water Authority

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as needed.

Use of Resources

Pursuant to the Resolution, revenues received are used as follows: (1) payment of operations and maintenance expenses, (2) payment of debt service, and (3) to be used for any lawful purpose of the Authority, including use by the construction fund. The payment of capital expenditures is generally paid for by restricted bond proceeds, other restricted resources, and by funds previously transferred to the general fund.

Income Taxes

As a public benefit corporation of the State of New York, the Authority is exempt from federal, state and local income taxes.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, as well as disclosures within the financial statements. Actual results could differ from those estimates.

Significant estimates relate to accounts receivable, accrued water services and fire protection revenues, water plant, accrued employee welfare costs and workers' compensation.

Recent Accounting Pronouncement

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes guidance for the financial reporting of other postemployment benefits ("OPEB") cost over a period that approximates employees' years of service and providing information about actuarially calculated liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. This Statement is effective for financial statements for periods beginning after December 15, 2006.

Suffolk County Water Authority

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Under GASB 45, based on an actuarial valuation, an annual required contribution (“ARC”) will be determined by the Authority. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. If the Authority contributes an amount less than the ARC, a net incremental OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB 45 does not require that the unfunded liability actually be funded, only that the Authority account for unfunded accrued liability and compliance in meeting the ARC. Actuarial valuations will be required every two years for most government employers, including the Authority.

The Authority engaged a consultant in fiscal year 2006 to assist in estimating its actuarial unfunded OPEB liabilities based on existing plan benefits and certain assumptions. While the initial analysis is preliminary and is still being reviewed by the Authority, the report estimates an actuarial OPEB liability of approximately \$205 million and annual ARC of approximately \$7.5 million. This initial analysis is subject to further review and adjustment based in part on further examination of the relevant assumptions, measures which the Authority may consider to manage plan benefits, ongoing changes in health care costs and the delivery of health care services. The reporting of OPEB liabilities will be done in accordance with GASB 45 regulations for fiscal year ending May 31, 2008.

Reclassifications

Certain fiscal 2006 balances have been reclassified in order to conform with the current fiscal year presentation.

Suffolk County Water Authority

Notes to Financial Statements (continued)

2. Water Plant

	May 31, 2006	Additions/ Reclassifications	Deletions/ Reclassifications	May 31, 2007
	<i>(in thousands of dollars)</i>			
Land and land rights	\$ 21,098	\$ 269	\$ (10)	\$ 21,357
Distribution systems	701,730	24,351	(637)	725,444
Wells, reservoirs and structures	190,868	14,885	(395)	205,358
Pumping and purification equipment	85,308	10,473	(640)	95,141
Other	113,057	7,892	(5,682)	115,267
Water plant in service	1,112,061	57,870	(7,364)	1,162,567
Less accumulated depreciation	(323,242)	(31,818)	8,050	(347,010)
Net water plant in service	788,819	26,052	686	815,557
Construction in progress	136,183	55,757	(56,473)	135,467
Water plant	\$ 925,002	\$ 81,809	\$ (55,787)	\$ 951,024

	May 31, 2005	Additions/ Reclassifications	Deletions/ Reclassifications	May 31, 2006
	<i>(in thousands of dollars)</i>			
Land and land rights	\$ 19,938	\$ 1,160	\$ -	\$ 21,098
Distribution systems	674,907	27,781	(958)	701,730
Wells, reservoirs and structures	187,209	3,802	(143)	190,868
Pumping and purification equipment	83,000	2,429	(121)	85,308
Other	108,545	4,624	(112)	113,057
Water plant in service	1,073,599	39,796	(1,334)	1,112,061
Less accumulated depreciation	(293,950)	(30,662)	1,370	(323,242)
Net water plant in service	779,649	9,134	36	788,819
Construction in progress	114,859	61,120	(39,796)	136,183
Water plant	\$ 894,508	\$ 70,254	\$ (39,760)	\$ 925,002

Depreciation expense amounted to approximately \$31,377,000 and \$30,205,000 for the years ended May 31, 2007 and 2006, respectively, based on a composite annual rate of 2.84%.

Suffolk County Water Authority

Notes to Financial Statements (continued)

3. Cash and Cash Equivalents and Investments

Cash and Cash Equivalents

Cash consists of insured (FDIC) or collateralized deposits which have carrying values of approximately \$3,662,000 and \$2,956,000 and bank balances of approximately \$5,821,000 and \$4,964,000 at May 31, 2007 and 2006, respectively. Collateral for deposits is held by the bank in the name of the Authority.

Investments

Investments consist of the following:

	Fair Value		Investment Maturities at May 31, 2007 in Years		
	2007	2006	Less than 1	1 to 5	5 to 10
	<i>(in thousands of dollars)</i>				
Certificates of deposit	\$ 13,400	\$ 36,750	\$ 13,400	\$ -	\$ -
U.S. Treasury bills (a)	477	190	477	-	-
U.S. Treasury notes (a)	2,980	2,970	997	1,983	-
U.S. Treasury bonds (a)	8,794	8,817	-	-	8,794
FNMA's (a)	56,239	46,106	45,082	11,157	-
FHLB Notes (a)	51,454	136,652	16,552	34,902	-
FHLMC Notes	4,890	11,978	-	4,890	-
FRMC Notes	3,974	8,826	3,974	-	-
FFCB Notes	6,461	-	-	6,461	-
Money market (a)	224	546	224	-	-
Guaranteed investment contracts (a)	569	589	569	-	-
Repurchase agreements	24,223	19,207	24,223	-	-
Total investments	\$ 173,685	\$ 272,631	\$105,498	\$ 59,393	\$8,794

	2007	2006
	<i>(in thousands of dollars)</i>	
Investment breakdown:		
Restricted for:		
Debt service	\$ 33,923	\$ 33,426
Construction	34,976	145,256
Unrestricted	104,786	93,949
Total investments	\$ 173,685	\$ 272,631

(a) Includes approximately \$53,742,000 and \$121,887,000 of investments held by Fiscal Agent in the Authority's name at May 31, 2007 and 2006, respectively.

Suffolk County Water Authority

Notes to Financial Statements (continued)

3. Cash and Cash Equivalents and Investments (continued)

Accrued interest on investments is included in interest and other receivables on the balance sheets. Investments bear interest rates that range from 2.75% to 6.75%.

The Authority's investment policy states that securities underlying repurchase agreements must have a market value at least equal to the cost of the investment. All investments are either insured or registered and held by the Authority or its agent in the Authority's name.

Investments include U.S. Treasury obligations, its agencies, certificates of deposit, guaranteed investment contract and repurchase agreements backed by such obligations. Investments are reported at fair value.

In addition, the Authority invests in an external investment pool called New York CLASS. The pool invests in obligations permissible under the Authority's investment policies. The fair value of the position of the pool is equal to the value of the pool shares. The value of this investment is reported as repurchase agreements in the table above.

Interest Rate Risk: The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: It is the Authority's policy to limit its investments in debt securities to those rated in the highest rating category by at least two nationally recognized bond rating agencies. As of May 31, 2007, the Authority's investments in Federal National Mortgage Association, Federal Home Loan Bank and the Federal Home Loan Mortgage Corporation were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's and Fitch Ratings.

Concentration of Credit Risk: The Authority places no limit on the amount the Authority may invest in any one issuer. More than 5% of the Authority's investments are in Federal National Mortgage Association and Federal Home Loan Bank. These investments are 32% and 30%, respectively, of the Authority's total investments.

Suffolk County Water Authority

Notes to Financial Statements (continued)

4. Bonds Payable

Outstanding bonds are summarized as follows:

Series	Interest Rate	Final Maturity Date	May 31, 2006	Issued	Matured/Refunded	May 31, 2007	Due within one Year
<i>(in thousands of dollars)</i>							
Water System Revenue Bonds							
(a) 1993 Senior Lien	4.80-5.10%	2013	\$ 26,495	\$ -	\$ (4,825)	\$ 21,670	\$ 6,520
(a) 1993 Subordinate Lien	4.80-5.10%	2013	14,040	-	(55)	13,985	60
(a) 1994 Subordinate Lien	4.13-6.00%	2017	6,265	-	(1,355)	4,910	-
(a) 1997 Senior Lien	4.10-5.25%	2012	2,840	-	-	2,840	-
(a) 1997A Senior Lien	4.00-5.00%	2022	11,230	-	-	11,230	-
(b) 2001A Senior Lien	4.13-5.25%	2023	21,925	-	-	21,925	-
(b) 2003 Senior Lien	2.00-4.50%	2017	58,340	-	(560)	57,780	570
(b) 2003C Senior Lien	4.00-4.50%	2026	80,000	-	-	80,000	-
(b) 2005C Senior Lien	4.50-5.00%	2029	60,000	-	-	60,000	-
(b) 2005 Subordinate Lien	4.37-4.55%	2027	71,905	-	-	71,905	-
(b) 2006A Senior Lien	Variable	2031	70,000	-	-	70,000	-
Environmental Facilities Corporation Revenue Bonds							
(b) 1998B	3.65-5.20%	2017	4,255	-	(275)	3,980	285
(b) 1999A	2.77-4.91%	2018	4,120	-	(230)	3,890	235
(b) 2000A	3.80-5.96%	2019	685	-	(35)	650	35
(b) 2000B	4.31-5.74%	2020	4,475	-	(195)	4,280	205
(b) 2001A	3.48-5.17%	2021	8,545	-	(425)	8,120	430
(b) 2001B	2.62-5.15%	2021	14,445	-	(670)	13,775	685
(b) 2002A	1.36-5.00%	2022	9,145	-	(430)	8,715	445
(b) 2002B	1.33-5.12%	2022	7,450	-	(335)	7,115	335
(b) 2003B	0.72-4.50%	2023	8,025	-	(360)	7,665	370
(b) 2004A	1.20-4.96%	2024	6,270	-	(227)	6,043	218
(b) 2005B	2.08-4.02%	2026	6,852	-	(255)	6,597	259
Total bonds outstanding			497,307	\$ -	\$ (10,232)	487,075	\$ 10,652
Less: Unamortized discount (premium)			(1,707)			(1,737)	
Deferred amount			6,074			5,449	
Current maturities payable			10,232			10,652	
			<u>\$482,708</u>			<u>\$472,711</u>	

Suffolk County Water Authority

Notes to Financial Statements (continued)

4. Bonds Payable (continued)

Series	Interest Rate	Final Maturity Date	May 31, 2005	Issued	Matured	May 31, 2006	Due within one Year	
<i>(in thousands of dollars)</i>								
Water System Revenue Bonds								
(a) 1993	Senior Lien	4.80-5.10%	2013	\$ 36,570	\$ –	\$ (10,075)	\$ 26,495	\$ 4,825
(a) 1993	Subordinate Lien	4.80-5.10%	2013	15,295	–	(1,255)	14,040	55
(a) 1994	Subordinate Lien	4.13-6.00%	2017	29,396	–	(23,131)	6,265	1,355
(a) 1997	Senior Lien	4.10-5.25%	2012	27,495	–	(24,655)	2,840	–
(a) 1997A	Senior Lien	4.00-5.00%	2022	35,135	–	(23,905)	11,230	–
(b) 2001A	Senior Lien	4.13-5.25%	2023	38,200	–	(16,275)	21,925	–
(a) 2003	Senior Lien	2.00-4.50%	2017	67,395	–	(9,055)	58,340	560
(a) 2003C	Senior Lien	4.00-4.50%	2026	80,000	–	–	80,000	–
(b) 2005C	Senior Lien	4.50-5.00%	2029	–	60,000	–	60,000	–
(a) 2005	Subordinate Lien	4.37-4.55%	2027	–	71,905	–	71,905	–
(a) 2006A	Senior Lien	Variable	2031	–	70,000	–	70,000	–
Environmental Facilities Corporation Revenue Bonds								
(b) 1998B		3.65-5.20%	2017	4,520	–	(265)	4,255	275
(b) 1999A		2.77-4.91%	2018	4,340	–	(220)	4,120	230
(b) 2000A		3.80-5.96%	2019	720	–	(35)	685	35
(b) 2000B		4.31-5.74%	2020	4,665	–	(190)	4,475	195
(b) 2001A		3.48-5.17%	2021	8,955	–	(410)	8,545	425
(b) 2001B		2.62-5.15%	2021	15,100	–	(655)	14,445	670
(b) 2002A		1.36-5.00%	2022	9,538	–	(393)	9,145	430
(b) 2002B		1.33-5.12%	2022	7,761	–	(311)	7,450	335
(b) 2003B		0.72-4.50%	2023	8,351	–	(326)	8,025	360
(b) 2004A		1.20-4.96%	2024	6,490	–	(220)	6,270	227
(b) 2005B		2.08-4.02%	2026	–	7,047	(195)	6,852	255
Total bonds outstanding				399,926	\$208,952	\$ (111,571)	497,307	\$ 10,232
Less: Unamortized discount (premium)				(998)			(1,707)	
Deferred amount				2,528			6,074	
Current maturities payable				10,695			10,232	
				<u>\$387,701</u>			<u>\$ 482,708</u>	

- (a) The payment of principal and interest is insured by a municipal bond insurance policy issued by MBIA Corporation or AMBAC Indemnity Corporation.
- (b) The payment of principal and interest is assured by a minimum debt service fund balance maintained by the Authority.

Suffolk County Water Authority

Notes to Financial Statements (continued)

4. Bonds Payable (continued)

Water System Revenue Bonds

The Water System Revenue Bonds are issued to finance the cost of acquisition and construction of improvements and additions to the water system. The Water System Senior Lien Revenue Bonds are payable solely from net revenues of the Authority's water system. The Water System Subordinate Revenue Bonds are payable solely from net revenues available after payment of debt service on Senior Lien Revenue Bonds issued by the Authority.

Suffolk County Water Authority did not issue any additional Water System Revenue Bonds during the fiscal year ending May 31, 2007.

During fiscal year ending May 31, 2006 Suffolk County Water Authority entered into the following bond transactions.

In December 2005, the Authority issued \$60,000,000 Senior Lien Water System Revenue Bonds, Series 2005C and \$71,905,000 Water System Revenue Bonds, Series 2005 Subordinate Lien Refunding Bonds. The Series 2005C Bonds were used to finance the cost of acquisition and construction of improvements and additions to the water system. The Series 2005 Subordinate Lien Refunding Bonds were issued in part to provide sufficient money to advance refund various issues of the Authority. The Series 2005C bonds bear interest at rates ranging from 4.5% to 5.0% and have a final maturity date of June 1, 2029. The Series 2005 bonds bear interest at rates ranging from 4.375% to 4.55% and have a final maturity date of June 1, 2027.

In May 2006, the Authority issued \$70,000,000 of Senior Lien Bonds, Variable Rate Water System Revenue Bonds, Series 2006A for the purpose of refunding all outstanding Variable Rate Bond Anticipation Notes, 2001 in the amount of \$47,900,000 due June 1, 2006 and a partial refunding of Variable Rate Bond Anticipation Notes, 2003 in the amount of \$21,000,000, paid August 1, 2006. These bonds are initially issued for a special auction period beginning on date of delivery to and including October 9, 2006 at the annual interest rate of 3.70% per annum, payable on October 10, 2006. Commencing on October 10, 2006, the Auction Period for this issue will convert to a seven-day Auction Period at the applicable annual interest rate determined by an auction to be conducted on October 6, 2006 pursuant to auction procedures. These bonds have a final maturity date of June 1, 2031.

Suffolk County Water Authority

Notes to Financial Statements (continued)

4. Bonds Payable (continued)

Environmental Facilities Corporation Revenue Bonds (“EFC Revenue Bonds”)

The State of New York has established a State Drinking Water Program, which includes a State drinking water revolving fund (the “Revolving Fund”) to be used for purposes of the Safe Drinking Water Act. The New York State Environmental Facilities Corporation (the “Corporation”) is responsible for administering the Revolving Fund and to provide financial assistance from the Revolving Fund. The Corporation issues bonds to provide loans from the Revolving Fund to private water companies, political subdivisions and public benefit corporations of the State of New York. The Authority has been issued a portion of the total bond proceeds in the amounts stated in the table above to finance safe drinking water projects.

Suffolk County Water Authority did not issue additional Water System Revenue Bonds through the Environmental Facilities Corporation during the fiscal year ending May 31, 2007.

During the fiscal year ending May 31, 2006 Suffolk County Water Authority issued the following Water System Revenue Bonds through the Environmental Facilities Corporation.

In July 2005, the Authority received bond proceeds in the amount of \$7,047,361 from the Environmental Facilities Corporation’s 2005B Revenue Bond Offering. The bonds have a final maturity date of April 1, 2026 and bear interest at rates ranging from 2.08% to 4.02%. The interest cost of these bonds is subsidized by the State of New York drinking water revolving fund.

The debt refundings during 2006 resulted in an economic loss of approximately \$3,756,000 and an increase in future debt service cash flow of approximately \$134,500,000. The economic loss is defined as the present value of the increase in future debt service cash flows.

In prior years, the Authority defeased certain debt obligations by placing the proceeds of new bonds and its own funds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority’s financial statements. At May 31, 2007, the amount of defeased debt obligation outstanding amounts to \$214,735,000.

Interest expense on the bonds outstanding during the fiscal year was \$19,450,000 and \$17,956,000 for the years ended May 31, 2007 and 2006, respectively.

Suffolk County Water Authority

Notes to Financial Statements (continued)

4. Bonds Payable (continued)

Bond maturities payable, including mandatory sinking fund redemptions, over the next five fiscal years and thereafter are as follows:

	Principal	Interest	Total
	<i>(in thousands of dollars)</i>		
Fiscal year ending:			
2008	\$ 10,652	\$ 22,219	\$ 32,871
2009	10,968	21,874	32,842
2010	9,755	21,442	31,197
2011	11,525	20,916	32,441
2012	11,630	20,380	32,010
2013-2017	74,015	93,081	167,096
2018-2022	92,170	73,525	165,695
2023-2027	117,835	48,031	165,866
2028-2032	148,525	15,870	164,395
	\$487,075	\$337,338	\$824,413

5. Debt Service Requirements

As prescribed in the Authority's Resolution, a minimum debt service reserve balance is to be maintained, which is the lesser of 10% of the proceeds of the Water System Revenue Bonds Series 1992B-2003D plus the EFC Revenue Bonds Series 1998B-2002A or the average of the annual installments of debt service with respect to Water System Revenue Bonds Series 1992B-2003C plus the EFC Revenue Bonds Series 1998B-2002G outstanding for the current and all future fiscal years. The Authority may purchase bond insurance in lieu of the debt service reserve requirement. The Authority has elected to maintain bond insurance on the Water System Revenue Bonds Series 1992B-2003D for the payment of principal and interest on stated maturity and sinking fund installment dates and in the event of default by the Authority. For the Water System Revenue Bonds Series 2001A, 2005C and EFC Revenue Bonds Series 1998B, 1999A, 2000A, 2000B, 2001A, 2001B, 2002A, 2002G, 2003B, 2004A and 2005B Bonds, the Authority elected to maintain a minimum debt service balance of 10% of the proceeds. At May 31, 2007, the debt service reserve held amounted to approximately \$18,809,000.

Revenue before interest expense and depreciation and amortization was equivalent to 1.98 times (2.11 in 2006) the debt service requirement, for the year ended May 31, 2007. The minimum debt service requirement on all bonds is 1.10.

Suffolk County Water Authority

Notes to Financial Statements (continued)

6. Notes Payable

Outstanding bond anticipation notes (“BANS”) payable are summarized as follows:

Series	Final Maturity Date	Balance at May 31, 2006	Issued	Redeemed	Balance at May 31, 2007	Due within one Year
<i>(in thousands of dollars)</i>						
2001	06/01/06	\$ 47,900	\$ –	\$ (47,900)	\$ –	\$ –
2003	01/01/08	62,900	–	(21,000)	41,900	41,900
2004	12/01/09	60,000	–	–	60,000	–
Total notes outstanding		\$ 170,800	\$ –	\$ (68,900)	\$ 101,900	\$ 41,900

Series	Final Maturity Date	Balance at May 31, 2005	Issued	Redeemed	Balance at May 31, 2006	Due within one Year
<i>(in thousands of dollars)</i>						
2001	06/01/06	\$ 48,900	\$ –	\$ (1,000)	\$ 47,900	\$ 47,900
2003	01/01/08	67,500	–	(4,600)	62,900	–
2004	12/01/09	60,000	–	–	60,000	–
Total notes outstanding		\$ 176,400	\$ –	\$ (5,600)	\$ 170,800	\$ 47,900

These notes are issued in anticipation of the issuance of long-term revenue bonds or replacement BANS, the proceeds of which will be used to repay the notes payable. The notes were issued to fund construction activities.

These notes are periodically remarketed and, therefore, interest on these notes is based on the minimum interest rate that, under prevailing financial market conditions, enables the notes to be sold at par, subject to the applicable effective interest rate period. The effective interest rate period may be daily, weekly, monthly, or semi-annually. Interest is payable periodically, based upon the effective interest rate period, through January 1, 2008, and December 1, 2009, the date of principal maturity, for the 2003 and 2004 notes, respectively.

For the years ended May 31, 2007 and 2006, the effective interest rate was 2.78% and 2.81%, respectively.

Interest expense on the BANS was approximately \$3,787,000 and \$4,789,000 for the years ended May 31, 2007 and 2006, respectively.

Suffolk County Water Authority

Notes to Financial Statements (continued)

7. Pension Plan

The Authority's employees are eligible to participate in the New York State and Local Employees' Retirement System, which is a cost-sharing, multi-employer, public employee retirement system. The benefits provided to members of this retirement system are established by New York State law and may be amended only by the State Legislature. The New York State and Local Employees' Retirement System issues a publicly available financial report. The report may be obtained from the New York State and Local Retirement System, Gov. Smith State Office Building, Albany, New York 12244. Benefit provisions vary as follows:

The Employees' Retirement System is subdivided into the following four classes:

Tier I	members who last joined prior to July 1, 1973.
Tier II	members who last joined on or after July 1, 1973 and prior to July 27, 1976.
Tier III	members who last joined on or after July 27, 1976 and prior to September 1, 1983.
Tier IV	members who joined on or after September 1, 1983.

Tier I members are eligible for retirement at age 55. If members retire with 20 or more years of total service, the service retirement benefit is 2% of the final average salary for each year of service. If members retire with less than 20 years of total service, the service retirement benefit is 1.66% of the final average salary for each year of service.

Tier II members are eligible to retire with full benefits at age 62, and with reduced benefits for retirement between ages 55 and 62. Retirement benefits are equivalent to Tier I members.

Tier III members with five or more years of credited service after July 1, 1973 are eligible to retire with full benefits at age 62 or at age 55 with 30 years of service and with reduced benefits for retirement between ages 55 and 62 with less than 30 years of service. Benefits are integrated with Social Security beginning at age 62. If members retire at age 62 and have 25 or more years of credited service, the service retirement benefit will be two percent of final average salary for each year of service (not to exceed 30 years), plus 1.5 percent of the final average salary for each year of credited service beyond 30 years. If members retire at age 62 with fewer than 25 years of credited service, the service retirement benefit will be 1.66% of the final average salary for each year of service.

Suffolk County Water Authority

Notes to Financial Statements (continued)

7. Pension Plan (continued)

Tier IV members with five or more years of credited service are eligible to retire with full benefits at age 62 or at age 55 with 30 years of service and with reduced benefits for retirement between ages 55 and 62 with less than 30 years of service. Benefits are equivalent to Tier III members.

Retirement benefits vest after five years of credited service and are payable at age 55 or greater. The Employees' Retirement System also provides death and disability benefits.

Tier I and II members are eligible to receive one month service credit for each year of service at retirement, with a maximum of 24 months.

Tier II, III and IV members will be able to purchase previous service credit (continuous service rules no longer apply) with member, having at least two years of service to have previous service creditable.

Tier III and IV members are required by law to contribute 3% of their annual salary to the Employees' Retirement System (3% contribution ceases after ten years of membership or ten years of credited service) and eligible Tier I and II members may make contributions under certain conditions. The Authority is required by the same statute to contribute the remaining amounts necessary to pay benefits when due.

After five years in the retirement system, veterans will be able to purchase up to three years of military service credit, at a cost of 3% of their last year's salary, for each year of credit acquired. A member is required to have been on active duty for at least one day during the following eligible periods:

World War II	(12/7/41 – 12/31/46)
Korean War	(6/27/50 – 1/31/55)
Vietnam Era	(2/28/61 – 5/7/75)

Pension expense contractually required by New York State and recorded in the Authority's accounts was \$2,493,415 and \$2,664,762 for the years ended May 31, 2007 and 2006, respectively. The Authority has recorded an accrued retirement contribution liability for certain pensions costs of employees related to construction work in progress which have been capitalized to water plant. The Authority capitalized \$1,066,946 and \$1,129,663 for the years ended May 31, 2007 and 2006, respectively.

Suffolk County Water Authority

Notes to Financial Statements (continued)

8. Deferred Compensation

All Authority employees may participate in a deferred compensation program designated as an Internal Revenue Code Section 457 plan. This program enables employees to contribute a portion of their salary, on a tax deferred basis, to group variable annuity contracts. The assets and related liabilities of the plan are recorded at the assets' market values and are excluded from the Authority's balance sheets. The Authority has no obligation to make contributions to the deferred compensation program. The Authority remits deferred compensation amounts withheld from employees' salaries to an outside fiduciary agent who administers the program and invests program assets as instructed by each of the participants. Assets in such program amounted to approximately \$26,798,000 and \$22,385,000 at May 31, 2007 and 2006, respectively.

9. Postretirement Benefits

The Authority's employees participate in the New York State Health Insurance Plan, a multi-employer plan, which provides certain health insurance benefits for retired employees. Substantially all the Authority's employees may become eligible for these benefits if they reach normal retirement age while working for the Authority. The cost of retiree health care benefits is recognized as an expense as costs are incurred. The cost amounted to approximately \$2,576,000 and \$2,408,000 for the years ended May 31, 2007 and 2006, respectively. During 2007, there were 898 participants that were eligible to receive benefits. See Note 1, "Recent Accounting Pronouncement".

10. Commitments and Contingencies

Operating Leases

As of May 31, 2007, the Authority is obligated under several operating leases with various lease terms through 2012, for telephone, copiers and mail machine:

	<i>(in thousands of dollars)</i>
Year ending May 31:	
2008	\$288
2009	250
2010	240
2011	231
2012	219

Rental expense for operating leases was approximately \$421,080 and \$427,000 for the years ended May 31, 2007 and 2006, respectively.

Suffolk County Water Authority

Notes to Financial Statements (continued)

10. Commitments and Contingencies (continued)

Legal

The Authority is involved in various litigation resulting from the ordinary course of business. In the opinion of management, and based on advice of legal counsel, the ultimate liability, if any, to the Authority will not have a material effect on the Authority's financial position and changes in net assets.

Risk Management

The Authority is exposed to various risks of loss related to automobiles and general liability. The Authority is partially self-insured for up to a maximum of \$500,000 for each general liability claim and \$500,000 for each automobile claim. The Authority purchases commercial insurance for claims in excess of coverage provided by the Authority to cover various other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. The Authority is covered through the New York State Plan for workers' compensation; however, the Authority has recorded a liability related to workers' compensation for the period of time that the Authority did not have commercial insurance.

The Authority has established a liability based on actuarial estimates of the amounts needed to pay prior year and current year claims and to establish a reserve for catastrophic losses. That liability which is for workers compensation, general and automobile claims was \$3,013,255 and \$3,406,577 at May 31, 2007 and 2006, respectively, and is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the Authority's workers' compensation claims liability amount in fiscal 2007 and 2006 were:

	Year ended May 31	
	2007	2006
Unpaid claims, beginning of fiscal year	\$ 1,457,776	\$ 2,054,502
Changes in the estimate for claims of all years	122,723	(509,055)
Retroactive payments	(754,191)	(87,671)
Unpaid claims, end of fiscal year	\$ 826,308	\$ 1,457,776

Suffolk County Water Authority

Notes to Financial Statements (continued)

10. Commitments and Contingencies (continued)

Changes in the Authority's general and automobile claims liability amount in fiscal 2007 and 2006 were:

	Year ended May 31	
	2007	2006
Unpaid claims, beginning of fiscal year	\$ 1,948,801	\$ 1,220,764
Changes in the estimate for claims of all years	467,994	1,083,988
Claim payments	(229,848)	(355,951)
Unpaid claims, end of fiscal year	\$ 2,186,947	\$ 1,948,801

The Authority has included the above amounts under the caption, "Other accrued liabilities" in the balance sheets.

11. Net Assets

The Authority's net assets represent the excess of assets over liabilities and are categorized as follows:

- *Invested in Capital Assets* are the amounts expended by the Authority for the acquisition of capital assets, net of accumulated depreciation.
- *Restricted Net Assets* are the net assets that have been restricted as in use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* are the remaining net assets, which can be further categorized as designated or undesignated. Designated assets are not governed by statute or contract but are committed for specific purposes pursuant to Authority policy and/or Board directives. Designated assets include funds and assets committed to working capital.

Suffolk County Water Authority

Notes to Financial Statements (continued)

11. Net Assets (continued)

Changes in Net Assets

The changes in net assets are as follows:

	Invested in Capital Assets	Unrestricted	Restricted	Total
Net assets at May 31, 2005	\$ 369,707	\$ 127,684	\$ 31,927	\$ 529,318
Income	-	16,497	-	16,497
Transfers	24,161	(25,660)	1,499	-
Net assets at May 31, 2006	393,868	118,521	33,426	545,815
Income	-	9,746	-	9,746
Transfers	(4,482)	3,985	497	-
Net assets at May 31, 2007	\$ 389,386	\$ 132,252	\$ 33,923	\$ 555,561

APPENDIX C

Proposed Form of Opinion of Bond Counsel

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Upon delivery of the Notes,
Nixon Peabody LLP, Bond Counsel,
proposes to render an opinion in
substantially the following form:

January 17, 2008

Suffolk County Water Authority
Oakdale, New York

Gentlemen:

We have acted as bond counsel in connection with the issuance of the \$70,000,000 principal amount of Variable Rate Bond Anticipation Notes, 2008, dated January 17, 2008 (the "Notes"), of the Suffolk County Water Authority (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York (the "State"). The Notes are authorized under and pursuant to the Suffolk County Water Authority Act, as amended, being Title 4 of Article 5 of the Public Authorities Law of the State (the "Act") and the bond resolution of the Authority, adopted on September 27, 1988, as amended on October 27, 1988, March 30, 1993 and November 29, 1994 (the "Resolution"), and as further amended and supplemented by the supplemental resolution of the Authority adopted on July 10, 2007 (the "Supplemental Resolution").

The Notes are dated January 17, 2008, mature January 15, 2013, bear interest at a variable rate as determined pursuant to the Supplemental Resolution and are subject to such other terms as are set forth in the Supplemental Resolution and in the Certificate of Determination of the Chairman of the Authority determining certain details of the Notes.

The Notes are being issued, in anticipation of the issuance of the Series of Bonds authorized to be issued by the Supplemental Resolution in an amount not to exceed \$80,000,000, for the purpose of providing funds that will be used to pay the Cost of Acquisition and Construction of certain improvements and additions to the Water System of the Authority. All capitalized terms used and not otherwise defined herein shall have the respective meanings ascribed to them in the Resolution.

We have examined the Constitution and statutes of the State, certified copies of proceedings of the Authority authorizing the issuance of the Notes and such other proceedings as we have considered necessary or advisable to render the following opinions. As to matters of fact, we have relied upon certain representations and certifications of the Authority. We have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to authentic original documents of all documents submitted to us as certified, conformed or photostatic copies.

Based upon and subject to the foregoing, we are of the opinion that:

1. The Authority is a body corporate and politic constituting a public benefit corporation, duly created and validly existing under the laws of the State, including particularly the Act.
2. The Authority has the corporate power and authority to adopt the Supplemental Resolution and to issue and sell the Notes.
3. Both the Resolution and the Supplemental Resolution have been duly and lawfully adopted by the Authority and are presently in full force and effect.

4. The Notes are valid and legally binding obligations of the Authority as provided in the Resolution and the Supplemental Resolution, enforceable against the Authority in accordance with their terms and the terms of the Resolution and the Supplemental Resolution and have been duly and validly authorized and issued in accordance with the Act, the Resolution and the Supplemental Resolution, and are secured by a lien and pledge on the Revenues of the Authority which is junior and inferior and subject to the lien and pledge created on the Revenues for any and all Bonds heretofore and hereafter issued under the Resolution.

5. The Internal Revenue Code of 1986, as amended (the "Code") sets forth certain requirements which must be met subsequent to the issuance and delivery of the Notes for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause interest on the Notes to be included in gross income for Federal income tax purposes retroactive to the date of issuance of the Notes. Pursuant to the Resolution and the Supplemental Resolution the Authority has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Notes from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the Authority has made certain representations and certifications in the Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986 relating to the Notes. We have not independently verified the accuracy of those certifications and representations.

Under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the Authority described above, interest on the Notes is excluded from gross income for Federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Notes is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

6. Under existing law, interest on the Notes is exempt from personal income taxes imposed by the State and its political subdivisions, including The City of New York.

Except as stated in the preceding two paragraphs, we express no opinion as to any other Federal or state tax consequences of the ownership or disposition of the Notes. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the Notes, or the interest thereon, if any action is taken with respect to the Notes or the proceeds thereof upon the advice or approval of other bond counsel.

The foregoing opinions are qualified to the extent that the rights of the holders of the Notes under the same and under the Resolution and the Supplemental Resolution and the enforceability thereof under the same may be limited by bankruptcy, insolvency or other laws or enactments now or hereafter enacted by the State or the United States affecting the enforcement of creditors' rights, and by restrictions on the availability of equitable remedies. We do not render an opinion with respect to the availability of any specific remedy.

Very truly yours,