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 2009 Tax-Exempt Bonds 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. In the opinion of Bond Counsel interest on the Series 2009B Bonds is not excluded from gross income for Federal income tax purposes under Section 103 of the Code. Bond Counsel is further of the opinion that, under existing statutes, interest on the Series 2009 Bonds 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 regarding certain other tax considerations.

$179,810,000
SUFFOLK COUNTY WATER AUTHORITY
NEW YORK

$66,395,000	$13,415,000	$100,000,000
Water System Revenue Bonds, Series 2009A	**Water System Revenue Bonds, Series 2009 Refunding**	**Water System Revenue Bonds, Series 2009B (Federally Taxable - Build America Bonds)**

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

The $66,395,000 Water System Revenue Bonds, Series 2009A (the "Series 2009A Bonds") are being issued to (i) retire all of the Authority's outstanding Variable Rate Bond Anticipation Notes, 2004, (ii) fund a deposit to the Reserve Account, Series 2009A and (iii) pay costs of issuance relating to the Series 2009A Bonds. The $13,415,000 Water System Revenue Bonds, Series 2009 Refunding (the "2009 Refunding Bonds" and together with the "Series 2009A Bonds", the "2009 Tax-Exempt Bonds") are being issued to (i) provide moneys for the refunding of certain Outstanding Senior Lien Bonds of the Authority, (ii) fund a deposit to the Reserve Account, Series 2009 and (iii) pay costs of issuance relating to the 2009 Refunding Bonds. The $100,000,000 Water System Revenue Bonds, Series 2009B (Federally Taxable – Build America Bonds) (the "Series 2009B Bonds," and together with the 2009 Tax-Exempt Bonds, the "Series 2009 Bonds") are being issued to (i) finance the Cost of Acquisition and Construction of improvements and additions to the Water System, (ii) fund a deposit to the Reserve Account, Series 2009B and (iii) to pay costs of issuance relating to the Series 2009B Bonds.

The Series 2009 Bonds will be issued as fully registered bonds in the denomination of $5,000 or any integral multiple thereof. Interest (due each June 1 and December 1, commencing June 1, 2010) on the Series 2009 Bonds will be payable by The Bank of New York Mellon, New York, New York, the Bond Fund Trustee and Paying Agent, to the registered owners thereof as more fully described herein.

The Series 2009 Bonds will be issued initially under book-entry only system, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of beneficial interests in the Series 2009 Bonds may only be made in such book-entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2009 Bonds, payments of the principal of and interest on such Series 2009 Bonds will be made by wire transfer directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. See "APPENDIX D — Book-Entry Only System" hereto.

The Series 2009 Bonds are payable as to both interest and principal solely from the Net Revenues (as defined herein) on a parity with other outstanding Senior Lien Bonds (as defined herein) heretofore or hereafter issued by the Authority, subject to the prior payment of debt service on the Original Bonds (as defined herein) all as set forth in the Resolution authorizing and securing the Series 2009 Bonds. See "SECURITY FOR THE SERIES 2009 BONDS" herein.

The Series 2009 Bonds 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 therein and none of the State of New York, Suffolk County or any municipality therein shall be liable thereon. The Authority has no taxing power.

The Series 2009 Bonds are subject to optional redemption prior to their stated maturity date as more fully described herein. See "DESCRIPTION OF THE SERIES 2009 BONDS — Optional Redemption" herein.

The Series 2009 Bonds are offered when, as and if issued and received by the Purchasers and subject to the approval of legality by Nixon Peabody LLP, New York, New York, Bond Counsel. Goldman, Sachs & Co. is serving as Financial Consultant to the Authority in connection with the issuance of the Series 2009 Bonds. It is expected that the Series 2009 Bonds will be available for delivery through the facilities of DTC on or about November 16, 2009.

Dated: November 9, 2009

$66,395,000
Water System Revenue Bonds, Series 2009A

Maturity (June 1)	Principal Amount	Interest Rate	Price or Yield	Maturity (June 1)	Principal Amount	Interest Rate	Price or Yield
2011	$3,575,000	5.000%	1.00%	2024	$1,870,000	4.000%	4.17%
2012	2,550,000	5.000	1.28	2025	1,950,000	4.250	4.25
2013	2,530,000	5.000	1.65	2026	2,025,000	4.000	NRO
2014	1,365,000	5.000	2.07	2027	2,150,000	4.250	4.39
2015	1,395,000	5.000	2.47	2028	2,195,000	4.250	NRO
2016	1,430,000	5.000	2.78	2029	2,280,000	4.500	4.53
2017	1,465,000	5.000	NRO	2030	2,360,000	4.500	4.60
2018	1,510,000	5.000	NRO	2031	2,365,000	4.500	NRO
2019	1,560,000	5.000	NRO	2032	2,365,000	4.500	NRO
2020	1,615,000	5.000	3.60	2033	7,210,000	4.625	4.72
2021	1,675,000	5.000	3.71	2034	7,535,000	4.750	4.74
2022	1,735,000	5.000	3.80	2035	7,880,000	4.625	4.75
2023	1,805,000	4.000	4.09				

$13,415,000
Water System Revenue Bonds, Series 2009 Refunding

Maturity (June 1)	Principal Amount	Interest Rate	Price or Yield	Maturity (June 1)	Principal Amount	Interest Rate	Price or Yield
2011	$2,740,000	5.000%	1.00%	2017	$ 20,000	2.750%	2.80%
2012	20,000	2.000	1.08	2018	1,915,000	4.250	3.00
2013	20,000	2.000	1.50	2019	2,005,000	4.250	3.15
2014	20,000	2.000	1.90	2020	2,095,000	5.000	3.50
2015	20,000	2.250	2.30	2021	2,210,000	5.000	3.65
2016	20,000	2.500	2.55	2022	2,330,000	4.000	3.75

Water System Revenue Bonds, Series 2009B
(Federally Taxable - Build America Bonds)

$100,000,000 5.50% Term Bonds Due June 1, 2035 – Yield 5.72%

Suffolk County Water Authority
Sunrise Highway at Pond Road
Oakdale, New York 11769
Telephone: (631) 563-0264
Facsimile: (631) 218-1156

Members of the Board

MICHAEL A. LOGRANDE	CHAIRMAN
PATRICK G. HALPIN	SECRETARY
JANE R. DEVINE	MEMBER
JAMES F. GAUGHRAN	MEMBER
FRANK J. PELLIGRINO	MEMBER

Executive Staff

Stephen M. Jones	Chief Executive Officer
Larry B. Kulick, CPA	Chief Financial Officer
Janice Tinsley-Colbert, Esq.	Deputy Chief Executive Officer for Customer Service
Herman J. Miller, P.E.	Deputy Chief Executive Officer for Operations
Timothy J. Hopkins, Esq.	General Counsel

Authority Advisors

Bond Counsel	Nixon Peabody LLP, New York, New York
Financial Consultant	Goldman, Sachs & Co., New York, New York
Bond Fund Trustee and Paying Agent	The Bank of New York Mellon, New York, New York

REGARDING THIS OFFICIAL STATEMENT

The Suffolk County Water Authority has executed and issued this as its Official Statement with respect to its Series 2009 Bonds, has authorized the initial purchasers (the "Purchasers") to offer the Series 2009 Bonds 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 Series 2009 Bonds.

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 Series 2009 Bonds, other than those contained in this Official Statement in connection with the offering of the Series 2009 Bonds, 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 Series 2009 Bonds 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 Suffolk County or the other matters described herein since the date hereof.

The Purchasers have 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 Purchasers do 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 SERIES 2009 BONDS, THE PURCHASERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

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

$66,395,000	$13,415,000	$100,000,000
Water System Revenue Bonds, Series 2009A	**Water System Revenue Bonds, Series 2009 Refunding**	**Water System Revenue Bonds, Series 2009B (Federally Taxable - Build America Bonds)**

INTRODUCTION

Purpose of this Official Statement

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 $66,395,000 Water System Revenue Bonds, Series 2009A (the "Series 2009A Bonds"), $13,415,000 Water System Revenue Bonds, Series 2009 Refunding (the "2009 Refunding Bonds" and together with the Series 2009A Bonds, the "2009 Tax-Exempt Bonds") and $100,000,000 Water System Revenue Bonds, Series 2009B (Federally Taxable – Build America Bonds) (the "Series 2009B Bonds," and collectively with the 2009 Tax-Exempt Bonds, the "Series 2009 Bonds"), and the resolution pursuant to which they were issued, and other related matters in connection with the sale of the Series 2009 Bonds. 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.

Purpose of the Authority

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".

Authorization of Series 2009 Bonds

The Authority is issuing $66,395,000 aggregate principal amount of its Series 2009A Bonds, $13,415,000 aggregate principal amount of its 2009 Refunding Bonds and $100,000,000 aggregate principal amount of its Series 2009B Bonds each dated their date of delivery, 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 October 27, 2009 (the "Series 2009 Resolution"; together, with the General Resolution, the "Resolution"). The Series 2009A Bonds will be the twenty-eighth series of Senior Lien Bonds to be issued under the General Resolution. The 2009 Refunding Bonds will be the twenty-ninth series of Senior Lien Bonds to be issued under the General Resolution. The Series 2009B Bonds will be the thirtieth series of Senior Lien Bonds to be issued under the General Resolution. The Series 2009A Bonds are being issued to (i) retire all of the Authority's outstanding Variable Rate Bond Anticipation Notes, 2004 (the "2004 Notes") previously issued by the Authority to finance the Cost of Acquisition and Construction of improvements and additions to the Water System, (ii) fund a deposit to the Reserve Account, Series

2009A and (iii) pay costs of issuance relating to the Series 2009A Bonds. The 2009 Refunding Bonds are being issued to (i) provide moneys to refund certain Outstanding Senior Lien Bonds of the Authority (the "Refunded Bonds"), (ii) fund a deposit to the Reserve Account, Series 2009 and (iii) pay costs of issuance relating to the 2009 Refunding Bonds. See "REFUNDING PLAN" herein. The Series 2009B Bonds are being issued to (i) finance the Cost of Acquisition and Construction of improvements and additions to the Water System, (ii) fund a deposit to the Reserve Account, Series 2009B and (iii) pay costs of issuance relating to the Series 2009B Bonds. See "CAPITAL IMPROVEMENT PLAN" herein.

During the first quarter of calendar year 2010, the Authority is contemplating the issuance of variable rate obligations (the "2010 Variable Rate Obligations") for the purpose of providing moneys to finance the Cost of Acquisition and Construction of improvements and additions to the Water System. See "CAPITAL IMPROVEMENT PLAN" herein.

The Series 2009 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 Series 2009 Bonds, and no holder of the Series 2009 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 Series 2009 Bonds. The Series 2009 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 Series 2009 Bonds, nor are the Series 2009 Bonds payable out of any funds other than those of the Authority pledged for the payment of the Series 2009 Bonds under the Resolution.

Rate Covenant

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.

Bond Fund Trustee and the Resolution

The Bank of New York Mellon is the Bond Fund Trustee appointed under the Resolution to assume and perform the obligations and duties imposed on the Bond Fund Trustee by provisions of the Resolution and is herein called the "Bond Fund Trustee."

The Series 2009 Bonds are authorized and secured in accordance with the provisions of the Act and the Resolution. Notwithstanding that certain provisions of the Resolution are summarized hereinafter in this Official Statement, reference should be made by investors and other interested parties to the complete Resolution and any and all modifications and amendments thereof for a description of the nature and extent of (i) the security for the Series 2009 Bonds, and of any additional parity bonds heretofore and hereafter issued under the General Resolution (all of such bonds being herein collectively called the "Senior Lien Bonds"), (ii) the funds and revenues pledged to the payment of the Series 2009 Bonds, (iii) the nature and extent and manner of enforcement of the pledge, the rights and remedies of the holders of such Series 2009 Bonds with respect thereto, (iv) the terms and conditions upon which such Series 2009 Bonds are issued and (v) a statement of rights, duties, immunities and obligations of the Authority.

Copies of the General Resolution and the Series 2009 Resolution are available for inspection in the offices of the Authority.

DESCRIPTION OF THE SERIES 2009 BONDS

The Series 2009 Bonds

The Series 2009 Bonds shall be dated their date of delivery, and shall bear interest at the rates and shall mature as set forth on the inside front cover of this Official Statement.

The Series 2009 Bonds shall be issued in fully registered form without interest coupons appurtenant thereto in the denomination of $5,000 or any integral multiple of $5,000.

Principal of the Series 2009 Bonds shall be payable at The Bank of New York Mellon, the Bond Fund Trustee, also designated as the Paying Agent and Registrar for the Series 2009 Bonds by the Series 2009 Resolution. Interest on the Series 2009 Bonds is payable by check mailed by the Paying Agent to the holder of such Series 2009 Bond in whose name such Series 2009 Bonds is registered upon the bond registration books as of the fifteenth day (whether or not a business day) of the calendar month next preceding each June 1 and December 1 (the "Record Date") at the holder's address as it appears on the bond registration books. However, the Series 2009 Bonds shall initially be issued in book-entry form only and during all such times principal of and interest on the Series 2009 Bonds shall be payable by wire transfer by the Bond Fund Trustee to The Depository Trust Company, New York, New York. See APPENDIX D — Book-Entry Only System.

Designation of the Series 2009B Bonds as "Build America Bonds"

The Authority intends to elect to treat the Series 2009B Bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 (the "Recovery Act") and to receive a cash subsidy from the United States Treasury in connection therewith. Pursuant to the Recovery Act, the Authority is entitled to receive cash subsidy payments rebating a portion of the interest on the Build America Bonds from the United States Treasury equal to 35% of the interest payable on the Taxable 2009 Series B Bonds. No assurance can be given by the Authority of the receipt of such cash subsidy payments. **The Authority is obligated to make payments of the principal of and interest on the Series 2009B Bonds whether or not it receives such cash subsidy payments.**

Redemption Provisions

Series 2009A Bonds and. 2009 Refunding Bonds.

Optional Redemption. The Series 2009A Bonds and the 2009 Refunding Bonds shall be subject to redemption at the option of the Authority, prior to their stated maturities, on or after June 1, 2019, in whole or in part at any time, at the price of par, plus interest accrued to the date of redemption, of such series and in such order of maturities as shall be determined by the Authority and by lot within maturity.

Series 2009B Bonds.

Optional Redemption. The Series 2009B Bonds shall be subject to redemption at the option of the Authority, prior to their stated maturities, in whole or in part, on any date, at the "Series 2009B Make-Whole Redemption Price." The "Series 2009B Make-Whole Redemption Price" is a redemption price equal to the greater of: (i) 100% of the principal amount of such Series 2009B Bonds to be redeemed, plus accrued and unpaid interest on such Series 2009B Bonds being redeemed to the date fixed for redemption; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on such Series 2009B Bonds to be redeemed discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve thirty-day months) at the Treasury Rate (defined below) plus 25 basis points.

> "Treasury Rate" means, with respect to any redemption date for a particular Series 2009B Bond, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price. Additional relevant terms are defined as follows:
>
> "Comparable Treasury Issue" means the U.S. Treasury security or securities selected by the Independent Investment Banker which has an actual or interpolated maturity comparable to the remaining weighted average life of the applicable Series 2009B Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining weighted average life of such Series 2009B Bonds to be redeemed.
>
> "Comparable Treasury Price" means, with respect to any redemption date for a particular Series 2009B Bond, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (b) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.
>
> "Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Trustee in consultation with the Authority.
>
> "Reference Treasury Dealer" means each of not less than four firms, specified by the Authority from time to time, that are primary United States Government securities dealers in the City of New York (each, a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Authority will substitute another Primary Treasury Dealer.
>
> "Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series 2009B Bond, the average, as determined by the Independent Investment Banker and communicated to the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker and communicated to the Trustee by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the tenth day (or, if such day is not a business day, the next preceding business day) preceding such redemption date.

Extraordinary Optional Redemption. The Series 2009B Bonds will be subject to redemption prior to maturity by written direction at the option of the Authority, in whole or in part, on any date following the occurrence of an "Extraordinary Event" (as defined below), at a redemption price equal to the greater of: (i) 100% of the principal amount of such Series 2009B Bonds to be redeemed, plus accrued and unpaid interest on such Series 2009B Bonds being redeemed to the date fixed for redemption; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on such Series 2009B Bonds to be redeemed discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve thirty-day months) at the Treasury Rate plus 100 basis points.

An "Extraordinary Event" will have occurred if the Authority determines that a material adverse change has occurred to Section 54AA or 6431 of the Internal Revenue Code of 1986 (the "Code") (as such Sections were added by Section 1531 of the Recovery Act, pertaining to "Build America Bonds") or there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such Sections or any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of any act or omission by the Authority to satisfy the requirements to qualify to receive the 35% cash subsidy payment from the United States Treasury, pursuant to which the Authority's 35% cash subsidy payment from the Unites States Treasury is reduced or eliminated.

Mandatory Redemption. The Series 2009B Bonds are also subject to redemption prior to maturity, in part on June 1, of the years and in the respective principal amounts set forth below at 100% of the principal amount thereof, plus accrued interest to the redemption date, from mandatory sinking fund installments which are required to be made in amounts sufficient to redeem on June 1 of each year the principal amount of such Series 2009B Bonds specified for each of the years shown below:

Series 2009B Bonds	
Year	Principal Amount
2033	$32,125,000
2034	33,320,000
2035†	34,555,000

† Final Maturity

Notice of Redemption

In the event any Series 2009 Bonds shall be called for redemption, notice of redemption thereof shall be given by publication not less than thirty (30) days prior to the date fixed for redemption in a newspaper of general circulation printed in the English language published in Suffolk County, New York, and in The Bond Buyer, New York, New York, or in lieu of publication therein, in some other newspaper specializing in financial matters printed in the English language and customarily published on each business day and of general circulation in The City of New York, New York. Notice of the redemption of any Series 2009 Bond shall be mailed not less than thirty (30) days before the redemption date, to the registered owners as of the forty-fifth (45th) day (whether or not a business day) next preceding the redemption date of any of the Series 2009 Bonds which are to be redeemed at their last known addresses appearing on the bond register, but failure to mail any such notice, or any defect therein, shall not affect the validity of any proceedings for the redemption of said Series 2009 Bonds. See APPENDIX D — Book-Entry Only System.

Selection for Redemption

2009 Tax Exempt Bonds. So long as the book-entry only system for the 2009 Tax Exempt Bonds is in effect, if fewer than all of the 2009 Tax Exempt Bonds are called for redemption, the particular 2009 Tax Exempt Bonds or portions of 2009 Tax Exempt Bonds to be redeemed will be selected by DTC and its participants, in such manner as DTC and its participants in their discretion deem proper. If the book-entry only system for the 2009 Tax Exempt Bonds is no longer in effect, selection for redemption of fewer than all of the 2009 Tax Exempt Bonds of any one maturity will be made by the Bond Fund Trustee by lot as provided in the Resolution.

Series 2009B Bonds. If less than all of the Series 2009B Bonds are to be redeemed, the Authority may select the maturity or maturities to be redeemed. Any redemption of less than all of the Series 2009B Bonds maturing on a particular date shall be allocated among registered holders of the Series 2009B Bonds maturing on such date as nearly as practicable in proportion to the principal amounts of the Series 2009B Bonds maturing on such date owned by each registered holder, subject to the authorized denominations for the Series 2009B Bonds. Subject to the foregoing, the Series 2009B Bonds maturing on a particular date to be redeemed shall be determined by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate.

So long as DTC or a successor securities depository is the sole registered holder of the Series 2009B Bonds, it is the Authority's intent that redemption allocations made by DTC and Direct Participants and Indirect Participants (as such terms are defined under "Book-Entry Only System" below) and such other intermediaries that may exist between the Authority and the Beneficial Owners (as such term is defined under "Book-Entry Only System" in Appendix D, hereto) be made in accordance with these same proportional provisions. Neither the Authority nor the Trustee can make any assurance that DTC, the Direct Participants and Indirect Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such a proportional basis. See "Book-Entry Only System" in Appendix D, hereto.

Purchase of Series 2009 Bonds

The Authority may direct the Bond Fund Trustee to purchase Series 2009 Bonds out of any moneys of the Authority available therefor, at prices not exceeding the redemption price at which Series 2009 Bonds may be redeemed at the next ensuing redemption date, plus accrued interest to the date of purchase. The amount of the Series 2009 Bonds required to be redeemed in any year from moneys credited to the Bond Retirement Account pursuant to the Resolution shall be reduced to the extent that such Series 2009 Bonds are purchased from moneys credited to said Bond Retirement Account.

REFUNDING PLAN

The 2009 Refunding Bonds are being issued in part to provide sufficient moneys to effect a refunding of the Refunded Bonds set forth in Appendix E. A portion of the proceeds from the issuance of the 2009 Refunding Bonds will be deposited with the Bond Fund Trustee in a segregated account to be applied solely for the payment of principal of and interest accrued to the date of redemption on the Refunded Bonds. See APPENDIX E – Table of Refunded Bonds.

SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Series 2009A Bonds are estimated to be applied as follows:

Sources of Funds	
Principal Amount of Series 2009A Bonds	$66,395,000.00
Net Original Issue Premium	1,772,829.85
Total Sources	$68,167,829.85
Use of Funds	
Retirement of the 2004 Notes	$60,178,000.00
Deposit to Construction Fund, Series 2009	1,968,403.49
Deposit to Reserve Account, Series 2009A	5,691,726.98
Costs of Issuance*	329,699.38
Total Uses	$68,167,829.85

*Includes Underwriter's discount.

The proceeds to be received from the sale of the 2009 Refunding Bonds are estimated to be applied as follows:

Sources of Funds	
Principal Amount of 2009 Refunding Bonds	$13,415,000.00
Net Original Issue Premium	1,065,468.60
Additional Equity	1,233,468.62
Total Sources	$15,713,937.22
Use of Funds	
Refunding of Refunded Bonds	$14,101,266.67
Deposit to Reserve Account, Series 2009	1,490,798.84
Costs of Issuance*	121,871.71
Total Uses	$15,713,937.22

*Includes Underwriter's discount.

The proceeds to be received from the sale of the Series 2009B Bonds are estimated to be applied as follows:

Sources of Funds	
Principal Amount of Series 2009B Bonds	$100,000,000.00
Less Original Issue Discount	2,939,000.00
Total Sources	$97,061,000.00
Use of Funds	
Deposit to Construction Fund, Series 2009B	$86,809,984.51
Deposit to Reserve Account, Series 2009B	9,192,006.40
Costs of Issuance*	1,059,009.09
Total Uses	$97,061,000.00

*Includes Underwriter's discount.

SECURITY FOR THE SERIES 2009 BONDS

The Series 2009 Bonds are authorized and will be issued in accordance with the Constitution and statutes of the State of New York (the "State"), and will constitute valid and legally binding obligations of the Authority.

The Series 2009 Bonds are payable on a parity with all other Outstanding Senior Lien Bonds heretofore and hereafter issued under the Resolution solely from Net Revenues of the Water System and other funds pledged therefor under the Resolution, subject to the prior payment of debt service on the Original Bonds (as hereinafter defined) and subject to the provisions of the Resolution permitting the application of Net Revenues and other funds for the purposes and on the terms and conditions set forth in the Resolution.

The rights of the holders of the Series 2009 Bonds under the Constitution, the statutes, other applicable law and the Resolution and the enforceability of the Series 2009 Bonds 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 Series 2009 Bonds. 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 Mellon, New York, New York, 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, including the Series 2009 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.

The Bond Fund Trustee under the Resolution holds the monies and investments deposited in the Bond Fund and the Secondary Bond Fund for the benefit of the holders of the Bonds of the Authority.

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.

Reserve Account

Under the General Resolution, the Authority is required to maintain a Reserve Account for each Series of Bonds to be held in the custody of the Bond Fund Trustee in an amount equal to the Reserve Account Requirement for such Series of Bonds, if any, established in each resolution authorizing a Series of Bonds.

No Bonds other than the Series of Bonds for which such account has been created shall have any right to be paid from such Reserve Account. Therefore, the Series 2009 Bonds are not secured by or entitled to any reserve other than the Reserve Account established for each respective Series of Bonds and no other Series of Bonds shall be entitled thereto. No assurance can be given as to the amount of the reserve requirement, if any, established for any future Series of additional Bonds issued on parity with the Series 2009 Bonds.

The Series 2009 Resolution permits the Authority to deposit a letter of credit, surety agreement, insurance agreement or other type of agreement or arrangement with an entity whose obligations are rated in one of the two (2) highest rating categories by Standard & Poor's Ratings Services or Moody's Investors Service in the Reserve Account for each respective Series of Bonds in order to satisfy the Reserve Account Requirement for the Bonds.

Reserve Account, Series 2009A. The Series 2009 Resolution has established a Reserve Account Requirement for the Series 2009A Bonds (the "2009A Reserve Account Requirement"), as that amount which is the average of the annual installments of Debt Service with respect to all Series 2009A Bonds outstanding for the then current and all future Fiscal Years or if funded from the proceeds of the Series 2009A Bonds the lesser of: (i) 10% of the proceeds of the Series 2009A Bonds, (ii) the maximum Debt Service due on the Series 2009A Bonds in any Fiscal Year, or (iii) 125% of the average of the annual installments of Debt Service with respect to all Series 2009A Bonds for the current and all future Fiscal Years. The monies in the Reserve Account for the Series 2009A Bonds (the "Reserve Account, Series 2009A") shall be used and applied solely for the purpose of paying the principal of and the interest on the Series 2009A Bonds, whether at their maturity or upon the redemption or purchase thereof, and shall be so used and applied whenever there are insufficient monies on credit to the Interest Account, Principal Account, or Bond Retirement Account for such purposes.

Reserve Account, Series 2009. The Series 2009 Resolution has established a Reserve Account Requirement for the 2009 Refunding Bonds (the "Refunding Bonds Reserve Account Requirement"), as that amount which is the average of the annual installments of Debt Service with respect to all 2009 Refunding Bonds outstanding for the then current and all future Fiscal Years or if funded from the proceeds of the 2009 Refunding Bonds the lesser of: (i) 10% of the proceeds of the 2009 Refunding Bonds, (ii) the maximum Debt Service due on the 2009 Refunding Bonds in any Fiscal Year, or (iii) 125% of the average of the annual installments of Debt Service with respect to all 2009 Refunding Bonds for the current and all future Fiscal Years. The monies in the Reserve Account for the 2009 Refunding Bonds (the "Reserve Account, Series 2009") shall be used and applied solely for the purpose of paying the principal of and the interest on the 2009 Refunding Bonds, whether at their maturity or upon the redemption or purchase thereof, and shall be so used and applied whenever there are insufficient monies on credit to the Interest Account, Principal Account, or Bond Retirement Account for such purposes.

Reserve Account, Series 2009B. The Series 2009 Resolution has established a Reserve Account Requirement for the Series 2009B Bonds (the "Series 2009B Reserve Account Requirement"), as that amount which is the average of the annual installments of Debt Service with respect to all Series 2009B Bonds outstanding for the then current and all future Fiscal Years or if funded from the proceeds of the Series 2009B Bonds the lesser of: (i) 10% of the proceeds of the Series 2009B Bonds, (ii) the maximum Debt Service due on the Series 2009B Bonds in any Fiscal Year, or (iii) 125% of the average of the annual installments of Debt Service with respect to all Series 2009B Bonds for the current and all future Fiscal Years. The monies in the Reserve Account for the Series 2009B Bonds (the "Reserve Account, Series 2009B") shall be used and applied solely for the purpose of paying the principal of and the interest on the Series 2009B Bonds, whether at their maturity or upon the redemption or purchase thereof, and shall be so used and applied whenever there are insufficient monies on credit to the Interest Account, Principal Account, or Bond Retirement Account for such purposes.

Additional Bonds

The Authority may issue additional Bonds under the Resolution which may be Senior Lien Bonds on a parity with the Series 2009 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.

The Resolution provides that the Authority may not issue as additional Series of Bonds for the purpose of paying all or a portion of the Cost of Acquisition and Construction of the Water System unless, among other conditions precedent, there shall be filed with the Authority and the Bond Fund Trustee at the time of issuance of such Series of Bonds:

(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 Series of Bonds then being issued) 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 Series of Bonds then being issued is delivered will be at least equal to 1.25 times the Debt Service for such Fiscal Year on all outstanding Bonds, including the 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.

The Authority will deliver to the Bond Fund Trustee the certificate referenced in clause (1) above upon the issuance and delivery of the Series 2009B Bonds to the purchasers thereof.

For a more extensive discussion of the terms and provisions of the Resolution, including the security for the Series 2009 Bonds, 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 Series 2009 Bonds will be liable personally on such Series 2009 Bonds by reason of the issuance thereof. The Series 2009 Bonds 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.

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AUTHORITY DEBT

The following table sets forth the Authority's outstanding Bonds as of May 31, 2009:

Senior Lien Bonds	Original Principal Amount	Principal Outstanding at May 31, 2009
Water System Revenue Bonds, Series 1993, Refunding, dated March 15, 1993	$70,135,000	$ 8,410,000
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	3,405,000
Water System Revenue Bonds, Series 1999A (EFC Series), dated March 3, 1999	5,567,204	3,415,000
Water System Revenue Bonds, Series 2000A (EFC Series), dated March 9, 2000	875,597	580,000
Water System Revenue Bonds, Series 2000B (EFC Series), dated July 27, 2000	5,359,271	3,865,000
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	7,255,000
Water System Revenue Bonds, Series 2001B (EFC Series), dated July 26, 2001	17,633,954	12,380,000
Water System Revenue Bonds, Series 2002A (EFC Series), dated March 14, 2002	10,869,331	7,825,000
Water System Revenue Bonds, Series 2002B (EFC Series), dated July 25, 2002	8,614,879	6,440,000
Water System Revenue Bonds, Series 2003 (Refunding), dated June 19, 2003	67,395,000	56,625,000
Water System Revenue Bonds, Series 2003B (EFC Series), dated July 24, 2003	9,130,775	6,925,000
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	5,575,000
Water System Revenue Bonds, Series 2005B (EFC Series), dated July 28, 2005	7,047,361	6,080,000
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		$419,775,000*

*On October 31, 2009 Total Outstanding Senior Lien Bonds equaled $412,425,000 or $7,350,000 less than the above balance at May 31, 2009.

The Authority will use a portion of the proceeds of the 2009 Refunding Bonds to refund the Refunded Bonds. See “REFUNDING PLAN” and “Appendix E – Table of Refunded Bonds” herein.

Subordinate Lien Bonds	Original Principal Amount	Principal Outstanding at May 31, 2009
Water System Revenue Bonds, Series 1993 Subordinate Lien Refunding, dated March 15, 1993	$28,415,000	$13,865,000
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		$90,680,000

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 May 31, 2009, the Authority had the following bond anticipation notes outstanding:

Bond Anticipation Notes	Original Principal Amount	Principal Outstanding at May 31, 2009
Variable Rate Bond Anticipation Notes, 2004, dated December 1, 2004, maturing December 1, 2009	$60,000,000	$60,000,000
Variable Rate Bond Anticipation Notes, 2008, dated January 17, 2008, maturing January 15, 2013	$70,000,000	$70,000,000
Total Outstanding Bond Anticipation Notes		$130,000,000

Proceeds of the Series 2009A Bonds are being issued for the purpose of providing sufficient moneys to retire all of the Authority’s outstanding 2004 Notes.

During the first quarter of calendar year 2010, the Authority is contemplating issuing the 2010 Variable Rate Obligations for the purpose of providing moneys to finance the Cost of Acquisition and Construction of improvements and additions to the Water System.

DEBT SERVICE REQUIREMENTS

The following schedule sets forth the principal and interest requirements for the Authority's Bonds beginning with the 2010 Fiscal Year.

Fiscal Year Ending May 31	Outstanding Bonds Debt Service	Less: Refunded Debt Service	Series 2009 Bonds Debt Service Principal	Series 2009 Bonds Debt Service Interest[1]	Aggregate Debt Service
2010	$ 34,671,172	$ 703,500		$ 9,591,680	$ 43,559,352
2011	34,219,853	3,472,500	$ 6,315,000	9,050,138	46,112,491
2012	35,289,550	561,500	2,570,000	8,828,313	46,126,363
2013	35,351,382	561,500	2,550,000	8,700,913	46,040,795
2014	36,567,908	561,500	1,385,000	8,603,138	45,994,546
2015	36,573,888	561,500	1,415,000	8,533,713	45,961,101
2016	36,580,248	561,500	1,450,000	8,462,613	45,931,361
2017	36,589,346	561,500	1,485,000	8,389,713	45,902,559
2018	36,596,670	2,526,125	3,425,000	8,274,369	45,769,914
2019	36,596,599	2,532,625	3,565,000	8,114,319	45,743,293
2020	36,599,028	2,538,500	3,710,000	7,939,963	45,710,491
2021	36,600,805	2,543,500	3,885,000	7,750,088	45,692,393
2022	36,605,753	2,552,250	4,065,000	7,562,988	45,681,491
2023	36,609,191		1,805,000	7,436,913	45,851,104
2024	36,614,316		1,870,000	7,363,413	45,847,729
2025	36,614,405		1,950,000	7,284,575	45,848,980
2026	36,617,356		2,025,000	7,202,638	45,844,994
2027	36,578,075		2,150,000	7,116,450	45,844,525
2028	36,623,075		2,195,000	7,024,119	45,842,194
2029	36,630,575		2,280,000	6,926,175	45,836,750
2030	36,654,500		2,360,000	6,821,775	45,836,275
2031	36,756,218		2,365,000	6,715,463	45,836,681
2032	36,862,375		2,365,000	6,609,038	45,836,413
2033			39,335,000	5,505,656	44,840,656
2034			40,855,000	3,360,231	44,215,231
2035			42,435,000	1,132,488	43,567,488
TOTALS[2]	$835,402,288	$20,238,000	$179,810,000	$190,300,873	$1,185,275,161

[1]Interest on Series 2009 Bonds does not reflect subsidy to be received on Series 2009B Bonds.

[2]Totals may not add due to rounding.

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. 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.

PATRICK G. HALPIN, Secretary, 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. Devine 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.

JAMES F. GAUGHRAN, term as member expires in March 2013. Mr. Gaughran is an attorney in private practice, having begun his practice in 1984. He is admitted to practice in the New York State and U.S Eastern District of NY Courts. Mr. Gaughran has held a number of public sector appointments over the years including service as counsel to the Huntington Community Development Agency, Village of Northport, Town of Babylon and staff service to Congressman Gary Ackerman and the New York State Senate. From 1984-1987 he was an elected member of the Huntington Town Board, which included service as a Commissioner of the Dix Hills Water District. From 1988–1993 Mr. Gaughran was an elected member of the Suffolk County Legislature, representing the 17th District, during which time the Legislature aggressively supported and funded the Suffolk County Drinking Water Protection Program. Mr. Gaughran received a Bachelor of Arts degree in Political Science from Stony Brook University and a Juris Doctor degree from Hofstra University School of Law.

FRANK J. PELLIGRINO, term as member expires in March 2014. Mr. Pellegrino, a Hauppauge resident, currently serves as the Business Manager of Plumbers Union Local 200, with jurisdiction in both Nassau and Suffolk Counties. Mr. Pelligrino oversees a staff of field representatives covering all construction sites in both counties, and negotiates both special and general labor agreements with the Plumbing Contractors Association and with a variety of large development companies and agencies. Mr. Pelligrino is conversant with all aspects of state and federal labor law, collective bargaining, benefit fund administration and the oversight of consultants retained for the furtherance of legal, accounting, investment and insurance services related to the conduct of union business. Mr. Pellegrino has experience as both Chair of the apprenticeship training committee and as an Instructor in the Apprenticeship Training Program.

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.

JANICE TINSLEY-COLBERT, Esq., Deputy Chief Executive Officer of Customer Service. Ms. Tinsley-Colbert joined the Authority in April 2008 as Deputy Chief Executive Officer of Customer Service. She is responsible for all facets of the Customer Service Division. For eight years, Ms. Tinsley-Colbert served as Town Clerk for the Town of Babylon. Prior to that, she served as Special Assistant to the Babylon Town Supervisor, concentrating on constituent services. Before entering public service, Ms. Tinsley-Colbert was employed in various positions with Northwest Airlines for 18 ½ years. Ms. Tinsley-Colbert received her Bachelor of Arts degree in Political Science from Lycoming College and her Juris Doctor in 1992 from Brooklyn Law School. Ms. Tinsley-Colbert is admitted to practice law in the State of New York.

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.

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

Financial Consultant to the Authority for long-term bond issues is Goldman, Sachs & Co.

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. The Authority's Laboratory, Information Technology, General Services and Customer Service Departments as well as other administrative departments provide supplemental information. The Authority anticipates financing the cost of these capital expenditures with a combination of revenues, notes, and bonds issued for such purposes.

The following is management's forecast of capital expenditures for the next five Fiscal Years:

Forecasted Capital Costs
Fiscal Years Ending May 31,

	2010	2011	2012	2013	2014
Water Main Installations	$21,000,000	$21,600,000	$21,400,000	$22,200,000	$22,200,000
Meters, Services, and Hydrants	16,810,000	20,225,000	20,250,000	20,275,000	20,300,000
Treatment and Remediation	9,900,000	9,970,000	9,700,000	9,700,000	9,700,000
Plant Facilities	17,759,000	18,940,000	18,880,000	19,330,000	18,530,000
Miscellaneous Equipment /Facilities	3,130,000	3,918,000	3,977,000	4,046,000	4,070,000
	$68,599,000	$74,653,000	$74,207,000	$75,551,000	$74,800,000

Management annually prepares a capital budget for the current Fiscal Year. This budget 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. The 12-month capital budget is then submitted to the Authority's Board in March for its approval.

For the twelve months ending May 31, 2010 (the "2010 Fiscal Year") the Authority approved a capital budget totaling $68,599,000. 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 improvement.

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. Incorporated in this budget is a 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 repair history and the age of the water main. The Authority's commitment to replacement of this critical infrastructure 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 and must be replaced. 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.

The Authority has aggressively met the demand for public water in areas previously served by private wells to the point where there are only a few locations in the County that do not have access to public mains. As a result, the Authority anticipates that over the coming years, as more water mains reach the end of their useful lives, the water main installation program will focus more on water main replacement and less on the installation of new water mains.

Thirty-six miles of water mains were installed in the 2009 Fiscal Year. Twenty-one million dollars has been budgeted for the water main installation program in the 2010 Fiscal Year.

Point of Service Distribution

The Authority has budgeted 900 new customers and 522 new hydrants for the 2010 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 2010 Fiscal Year, the Authority has budgeted an aggregate amount of $7,210,000 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 2010 Fiscal Year, the Authority has budgeted $2,100,000 for new and replacement residential meters.

Starting in Fiscal Year 2010, the Authority has implemented a program to replace its meters with Automated Meter Reading ("AMR") devices. This will allow for timely and accurate meter readings without the inhibitions from weather, need to enter a residence, or leaving the vehicle. Having access to timely accurate meter readings, the Authority will be able to evaluate its rate structure quickly and make any needed adjustments. The Authority's annual capital improvement budget will reflect this improvement in future years. For the 2010 Fiscal Year, the Authority has budgeted $7,500,000 for the AMR project.

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 internal 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/or 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 125 filtration systems in operation. For the 2010 Fiscal Year, the Authority has budgeted $9,900,000 for treatment facilities.

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

The Water System operates 45 separate and distinct pressure distribution zones. The wells have a capacity to pump 776,000,000 gallons of water per day. (For a more detailed description of the Water System, see the subsection entitled "Physical Plant" below.) On July 19, 2008, the Authority set its peak single day pumpage record of 480,544,295 gallons. In July 2002, the Authority set its peak monthly pumpage record of 12,158,838,000 gallons. During these peak events, 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 $17,759,000 in the 2010 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.

Operation Facilities

To operate the Water System, the Authority must continually 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 the undertaking of various site improvements. For the 2010 Fiscal Year, the Authority has budgeted $3,130,000 for various operation facilities.

Capital Budget for the 2010 Fiscal Year

On March 31, 2009 the Board of the Authority authorized and approved a capital budget totaling $68,599,000 for the 2010 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 is a comparison of the capital improvement budget for the 2010 Fiscal Year compared to the capital improvement budget for the fiscal year ended May 31, 2009 (the "2009 Fiscal Year").

	2010 Fiscal Year	2009 Fiscal Year
Water Main Installations	$21,000,000	$18,500,000
Point of Service Distribution	16,810,000	17,033,000
Treatment Facilities	9,900,000	4,290,000
Additional Facilities	17,759,000	15,743,000
Operation Facilities	3,130,000	2,399,000
TOTAL	$68,599,000	$57,965,000

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 one-half percent 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	94%
Facilities lease-managed by the Authority	4
Wholesale service to other systems	4

As of May 31, 2009, approximately 375,535 customers were served by the Authority, compared to 374,823 at May 31, 2008, an increase of 712 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.

	Fiscal Year Ended May 31,		
Region	2009	2008	% Growth
Western	171,916	171,959	(0.03)
Central	128,820	128,844	(0.02)
Eastern	65,359	64,580	1.21
Subtotal	366,095	365,383	0.19
Customers Served through Operating Agreements			
Brentwood Water District	6,698	6,698	0.00
Fair Harbor Water District	490	489	0.20
Stony Brook Water District	1,651	1,648	0.18
Riverside Water District	601	605	(0.66)
Subtotal	9,440	9,440	0.00
TOTAL	375,535	374,823	0.19

The number of customers served as of May 31, 2005 through May 31, 2009 are presented below.

Year	Number of Customers
2009	375,535
2008	374,783
2007	373,875
2006	371,469
2005	368,680

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 2009 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.

	User	Consumption (gallons)
1	Smithtown Water District[1]	913,798,992
2	St. James Water District[1]	457,704,424
3	State University of New York at Stony Brook[2]	344,345,540
4	Stony Brook Water District[1]	209,720,000
5	Department of Public Works (Suffolk County)	122,982,420
6	Keyspan Energy	95,519,600
7	Suffolk County	94,838,920
8	State University of New York at Stony Brook[2]	87,901,220
9	Pinelawn Power LLC	82,863,440
10	Greenport Water District[1]	76,838,300

1. Reflects water sold at wholesale rates of $1,042 per million gallons. All other accounts, except where noted are billed at $1,460 per million gallons.
2. Consumption reflects activity for one metered account. User has multiple accounts at different locations.

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 approximately one-half percent each year over the last five (5) years. The Authority also anticipates customer growth at slightly less than one-half percent each year for budgeting purposes.

According to the Five Year Engineer's Report issued in June 2009 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, 2009:

	Wells		Pumping Plants		Storage Facilities	
Town	Active	Inactive	No.	Capacity (gpm)	No.	Capacity*
Brookhaven	168	7	73	194,446	19	20.90
Babylon	48	3	19	63,745	6	6.72
East Hampton	39	0	18	15,714	3	3.42
Huntington	47	4	24	49,550	10	12.52
Islip	104	11	42	119,520	12	13.19
Riverhead	2	0	1	500	0	0.00
Smithtown	50	0	22	65,175	5	3.50
Southampton	53	5	18	37,640	5	5.35
Southold	45	1	16	7,140	1	0.30
Totals	556	31	233	553,430	61	65.90

* Millions of gallons

As of May 31, 2009, there were a total of 5,825 miles of water mains in use, an increase of 36 miles since May 31, 2008, and there were 35,404 fire hydrants in service, an increase of 231 hydrants since May 31, 2008.

The capital improvement budget for the Water System for the 2010 Fiscal Year includes provisions for additional wells, pumping equipment and storage capacity amounting to approximately 26% 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, 2009, will increase the capacity of major facilities within the next 24 months as follows:

Service Areas	Wells and Pumping Equipment Gallons per Day in Thousands
Babylon	4,302.70
Bay Shore	16,997.76
Patchogue	17,735.06
Huntington	8,444.20
Port Jefferson	18,362.90
Smithtown	3,997.40
Westhampton	11,612.20
East Hampton	2,160.00
Totals	83,612.22

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 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, which studies indicate is not reducing the level of water in the aquifers due to the replacement annually by rain and snow absorbed into 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."

There is currently a proposal before the Suffolk County Legislature that would give the Authority rights to tap what is estimated to be billions of gallons of water from the pine barrens, resulting in new water supplies for at least the next half century. The proposal, which is expected to cost the Authority $2.6 million, would give the Authority easement rights to drill wells on 34 sites of up to five acres from 18,871 acres acquired in Suffolk County's original 1987 drinking water protection program. The significance of this proposal is that it protects the water at its source rather than cleaning it at the well, which makes the Authority unique among other water purveyors. In addition, this proposal should result in lower costs, since the cost to remediate older wells is becoming more expensive than transporting water from new sites. The terms of the agreement related to this proposal have been finalized, and it is anticipated that the agreement will be approved by the Suffolk County Legislature at its November 2009 meeting.

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 Year Engineers Report issued in June 2009 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 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.

In August 2002, the Authority commenced legal action against most of the major petroleum companies for contaminating Suffolk County water supplies with the gasoline additive methyl tertiary butyl ether ("MTBE"). During the fiscal year ending May 31, 2009, the Authority reached settlement with all of the defendants, except one minor defendant, and received $78.5 million in net settlement proceeds. The Authority served as lead plaintiff in this multi-district federal litigation.

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 $2,700,000 annual operating budget for the 2010 Fiscal Year. Last year, the laboratory staff conducted approximately 205,000 tests, from over 64,000 water samples. The water samples were collected from the 587 wells operated countywide and from the 5,825 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 276 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 billion. 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 water quality data 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.

In the Authority's Five-Year Engineers Report issued in June 2009, 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 EPA has adopted the Groundwater Rule ("GWR") which is designed to provide protection from microbial pathogens where a well is vulnerable to such contamination. The GWR will require increased chlorine contact time, referred to as "4-log treatment" for wells with positive fecal indicator results. The Authority routinely chlorinates all raw water and maintains a free chlorine residual of 1.0ppm leaving the pump station. The chlorine contact time at each pump station has not been determined, but is anticipated that at least some facilities do not have 4-log inactivation of viruses. Therefore, a total coliform-positive result from a routine sample collected for the Total Coliform Rule ("TCR") will trigger GWR source water monitoring. GWR source water monitoring requires a sample be collected from any well running in the pressure zone at the time of sample collection for the TCR coliform-positive sample along with the repeat samples for the TCR. A coliform-positive sample result from a well will require corrective action, which most likely will result in taking the well out of service and disinfecting it before returning it to routine operation.

The Authority is in the process of determining which well(s) will samples be collected. This information is part of the TCR monitoring plan update to be submitted to the Suffolk County Department of Health Servcices. The TCR requires that E. coli bacteria be used as a fecal indicator. EPA has suggested that the presence of E. coli is indicative of recent contamination, and that it may not be the best indicator for viruses. The New York State Department of Health GWR Working Group had been discussing the use of Enterococci as an additional indicator. The Authority's laboratory requested and obtained New York State Department of Health Environmental approval to test for Enterococcus. Assessment monitoring of the source water began January 2008 resulting in nearly two years of testing completed. Susceptible wells, those that the Source Water Assessment Program identified with microbial potentials of moderately high to very high, are being monitored monthly (approximately 86 wells). The remaining wells are being monitored quarterly. This information will enable the Authority to better prepare in the event 4-log treatment are required for any of our wells. There have been no confirmed positive results to date.

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 2009 Fiscal Year the Authority spent approximately $150,000 and has budgeted an additional $150,000 for the fiscal year ending May 31, 2010 in order to continue the implementation of the report's recommendations. By the end of the 2010 Fiscal Year the Authority would spent approximately $750,000 incorporating the recommendations in the report.

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. 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:

	2009	2008	2007	2006	2005
Water Plant at Cost	$1,405,632,000	$1,352,269,000	$1,298,034,000	$1,248,244,000	$1,188,458,000
Less: Accumulated Depreciation	407,978,000	377,011,000	347,010,000	323,242,000	293,242,000
Net Water Plant	$ 997,654,000	$ 975,258,000	$ 951,024,000	$ 925,002,000	$ 895,216,000

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 June 2009, 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.

At the request of homeowners currently serviced by private wells, the Authority will extend main water service to provide public water. Generally, each extension requires no less than 40% of the homeowners on the extension to convert to public water. The Authority is reimbursed for the cost of the extension in excess of 75 feet per homeowner. The homeowner agrees to pay for this cost in full or installments not to exceed ten years. This cost is 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 pursuant to 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.

General Rates

Service Classification No. 1 Quarterly	Service Classification No. 1A Monthly
Service Charge - $18.23	Service Charge - $6.08
Commodity Charge - $1.0921/hundred cubic ft.	Commodity Charge – $1.0921/hundred cubic ft.

Bridgehampton/Surfside Service Area Rates

Service Classification No. 1 Quarterly	Service Classification No. 1A Monthly
Service Charge - $12.00	Service Charge - $4.00
Commodity Charge - $1.1295/hundred cubic ft.	Commodity Charge – $1.1295/hundred cubic ft.

Shorewood Service Area Rates

Service Classification No. 1 Quarterly	Service Classification No. 1A Monthly
Service Charge – $16.47	Service Charge - $5.49
Commodity Charge - $1.3464/hundred cubic ft.	Commodity Charge - $1.3464/hundred cubic ft.

Greenport Service Area Rates

Service Classification No. 1 Quarterly	Service Classification No. 1A Monthly
Service Charge - $18.60	Service Charge - $6.20
Commodity Charge - $1.3464/hundred cubic ft.	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. 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 are billed at the rate of $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, 2009 was $1,182,416.

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 2009 Fiscal Year) for customers who use an average of 40,000 gallons per quarter with amounts charged as of December 31, 2008 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	1,034.52
Erie County Water Authority	560.56
Monroe County Water Authority	443.20
Onondaga County Water Authority	383.04

Source: Comparative rates from the web site 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, 2009 and 2008, 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 2009 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,	
	2009	**2008**	**2007**	**2006**	**2005**	**2009**	**2008**
Revenue:	(audited)	(audited)	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Operating Revenue							
Residential & Commercial	$106,160	$114,124	$106,949	$107,950	$93,253	$35,301	$39,467
Public & Private Fire Protection	7,773	8,003	7,541	7,408	7,347	2,144	2,164
Public Authority & Water Districts	5,308	5,559	5,120	4,904	4,891	905	1,386
Miscellaneous	14,306	12,277	10,540	12,381	8,693	2,599	3,115
Total Operating Revenue	$133,547	139,963	130,150	132,643	114,184	40,949	46,132
Other Revenue	106,316**	31,281	19,454	18,683	16,746	1,958	4,065
Total Revenue	$239,863	$171,244	$149,604	$151,326	$130,930	$42,907	$50,197
Operating Expenses:							
Operations	83,579	78,888	64,293	62,927	56,616	16,673	18,460
Maintenance	19,897	18,666	20,298	18,161	19,317	5,039	5,749
Total Operating and Maintenance Expenses	$103,476	$97,554	$84,591	$81,088	$75,933	21,712	24,209
Net Revenues Before Debt Service	$136,387	$73,690	$65,013	$70,238	$54,997	$21,195	$25,988
Debt Service:							
Interest on Bonds & Notes	23,589	23,057	$22,612	$22,324	$20,822		
Principal of Serial Bonds	10,968	10,652	10,232	10,695	4,961		
Total Debt Service	$34,557	$33,709	$32,844	$33,019	$25,783		
Available for New Construction Fund, General Fund and general corporate purposes, subject to the provisions of the Original Resolution	$101,392	$39,981	$32,169	$37,219	$29,214		
Senior Lien Bond Debt Service Coverage (Times)	4.80***	2.80	2.62	2.59	2.92		
Total Debt Service Coverage (Times)	3.95***	2.19	1.98	2.13	2.13		

* 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 A hereto for the audited financial statements of the Authority. Effective with the May 31, 2008 financials OPEB reporting is in effect. The amount included in both income and expense is $11,971,519.

** In November of 2008, the Authority received settlement of $78.5 million dollars (net of legal fees) as a result of MTBE litigation.

*** Excluding the $78.5 million MTBE settlement, the Senior Lien Bond Debt Service Coverage and Total Debt Service Coverage equals 2.03x and 1.67x respectively.

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, 2009 includes 5,825 miles of water main, 35,404 hydrants, and 375,535 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 24% 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 five fiscal years, the surcharge by this fuel adjustment clause has translated into aggregate increases in excess of approximately $2 million. For Fiscal Year 2010 the Authority has budgeted, based on average consumption, power costs of $21,460,000.

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 595 full time employees as of May 31, 2009, at a projected annual cost for Fiscal Year 2010 of $43,700,000, of which approximately $30,100,000 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 35% of the operating and maintenance budget. The Authority currently serves 648 customers per employee in comparison to 602 customer per employee ten years ago.

The Authority has approximately 393 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 expired on June 30, 2009. 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. Management has entered into negotiations with the local to negotiate a new collective bargaining agreement but have not reached an agreement to date.

In January 2008, the Authority recognized a separate bargaining unit for approximately 30 laboratory employees. The Authority is in the process of negotiating a contract with the laboratory bargaining unit.

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 2005 through 2009 are shown on the following schedule.

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

	2009	2008	2007	2006	2005
Regular Pension and Group Term Life Insurance Contribution	$2,940,309	$3,576,261	$3,558,955	$3,806,859	$4,597,877

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 been advised that the contribution rate for the period April 1, 2009 through March 31, 2010 and April 1, 2010 through March 31, 2011 (payment due February 1, 2010 and 2011 respectively) are as follows:

	March 31, 2010	March 31, 2011
Employees who joined prior to 7/1/73	9.3%	15.3%
Employees who joined on or after 7/1/73 and prior to 7/27/76	8.6	14.0
Employees who joined on or after 7/27/76	7.0	11.3

Based on the contribution rate for the period ending March 31, 2011, the Authority estimates the cost to fund the payment to the Retirement System to be approximately $5,000,000.

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 implemented 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 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. The report estimated an actuarial OPEB liability of $166.5 million and annual net ARC of $12 million as of May 31, 2008. This analysis is subject to further review and adjustment in future years 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. For the fiscal year ended May 31, 2009 (non actuarial valuation year), the Authority is required to update the calculation for the current years unfunded OPEB liabilities of $12.3 million. 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.

Insurance

The Authority renewed its insurance coverage on April 1, 2009. Overall, premiums and claim costs decreased by 12% over last year, amounting to a total program cost of $3,878,555. 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 an insurance policy for both general liability and automobile liability coverage. These policies provide a coverage limit of $1,000,000 in excess of self-insured retention of $500,000. Claims handling is performed by a third party claims administrator, and legal defense is under the direction of the Authority’s General Counsel. Some claims are defended through the use of in-house counsel while others are outsourced to a panel of attorneys. Excess liability insurance was purchased in the amount of $50,000,000 to provide coverage over the above primary policies.

Property insurance with a per occurrence blanket limit of $75,000,000 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 through 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 99.5% in the 2009 Fiscal Year. Total revenues, uncollectible accounts and collection percentage for each of the Fiscal Years 2005 through 2009 are set forth below:

Fiscal Year	Water Service Revenues	Uncollectible Accounts	Collection Percentage
2009	$119,241,000	$567,008	99.5%
2008	127,686,000	477,483	99.6
2007	119,610,000	443,035	99.6
2006	120,262,000	588,197	99.5
2005	105,491,000	252,124	99.8

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 2010 Fiscal Year

The Authority has budgeted $104,249,000 in operation and maintenance expenses for the 2010 Fiscal Year. This figure represents an increase of .75% or $773,000 over the actual operating and maintenance expenses for the 2009 Fiscal Year. Following is a line item breakdown of the Authority's operation and maintenance budget for the 2010 Fiscal Year compared to actual operation and maintenance expense in 2009.

Category	Budgeted Amount 2010 Fiscal Year	Actual Amount 2009 Fiscal Year
Construction Maintenance	$ 9,620,000	$12,027,000
Customer Service	8,421,000	10,045,000
Engineering	8,271,000	2,627,000
Facilities Management	2,109,000	2,223,000
Finance/Administration	6,330,500	9,359,000
Human Resources/Risk Mgt	16,748,500	5,740,000
Information Technology	2,714,000	3,483,000
Laboratory	3,554,000	4,014,000
Meter Shop	1,313,000	1,880,000
Production Control	10,420,000	15,600,000
Safety	287,000	203,000
Stores	400,000	1,733,000
Telecommunications	1,106,000	971,000
Accrued Expenses-OPEB	11,500,000	12,321,000
Power Purchase	21,455,000	21,250,000
TOTAL	$104,249,000	$103,476,000

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 June 30, 2009.

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

The Series 2009 Bonds 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 Series 2009 Bonds. Therefore, the Official Statement of Suffolk County, dated September 10, 2009, relating to the County of Suffolk New York $64,900,000 Public Improvement Serial Bonds, 2009 Series B, filed with the Municipal Securities Rulemaking Board (the "MSRB"), but only to the extent of the information contained in "APPENDIX A – THE COUNTY" 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

2009 Tax Exempt Bonds

General. 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 2009 Tax-Exempt Bonds 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 2009 Tax-Exempt Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the 2009 Tax-Exempt Bonds. 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 2009 Tax-Exempt Bonds 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 Section 103 and 141-150 of the Internal Revenue Code of 1986 relating to the 2009 Tax-Exempt Bonds. Bond Counsel will not independently verify the accuracy of those representations and certifications.

In the opinion of Nixon Peabody LLP, Bond Counsel to the Authority, 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 2009 Tax-Exempt Bonds 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. No opinion is expressed as to whether interest on any portion of the 2009 Tax-Exempt Bonds is excluded from the adjusted current earnings of corporations for purposes of computing the alternative minimum tax imposed on corporations.

State Taxes. Bond Counsel is also of the opinion that under existing statutes, interest on the 2009 Tax-Exempt Bonds is exempt from personal income taxes imposed by the State and any political subdivision thereof, including The City of New York. Bond counsel expresses no opinion as to other state or local tax consequences arising with respect to the 2009 Tax-Exempt Bonds nor as to the taxability of the 2009 Tax-Exempt Bonds or the income therefrom under the laws of any state other than New York.

Original Issue Discount. Bond Counsel is further of the opinion that the difference between the principal amount of the 2009 Tax-Exempt Bonds maturing June 1, 2015, bearing interest at the rate of 2.25%, June 1, 2016, bearing interest at the rate of 2.50%, June 1, 2017, bearing interest at the rate of 2.75%, June 1, 2023 through June 1, 2024, inclusive, June 1, 2026 through June 1, 2033, inclusive and on June 1, 2035; (collectively the "Discount Bonds") and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the 2009 Tax-Exempt Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment. Owners of the Discount Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Bonds.

Original Issue Premium. The 2009 Tax-Exempt Bonds maturing on June 1, 2011 through June 1, 2014, inclusive, June 1, 2015, bearing interest at the rate of 5.0%, June 1, 2016, bearing interest at the rate of 5.0%, June 1, 2017, bearing interest at the rate of 5.0%, June 1, 2018 through June 1, 2022 and on June 1, 2034 (collectively, the "Premium Bonds") are being offered at prices in excess of their principal amounts. An initial purchaser with an initial adjusted basis in a Premium Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, over the period to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such 2009 Tax-Exempt Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Bonds.

Ancillary Tax Matters. Ownership of the 2009 Tax-Exempt Bonds 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, and individuals seeking to claim the earned income credit. Ownership of the 2009 Tax-Exempt Bonds may also result in other federal tax consequences to taxpayers who may be deemed to have incurred or continued indebtedness to purchase or to carry the 2009 Tax-Exempt Bonds; for certain bonds issued during 2009 and 2010, the American Recovery and Reinvestment Act of 2009 modifies the application of those rules as they apply to financial institutions. Prospective investors are advised to consult their own tax advisors regarding these rules.

Commencing with interest paid in 2006, interest paid on tax-exempt obligations such as the 2009 Tax-Exempt Bonds 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 2009 Tax-Exempt Bonds 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 in the opinions attached as Appendix C. 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 2009 Tax-Exempt Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in 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 2009 Tax-Exempt Bonds for Federal or state income tax purposes, and thus on the value or marketability of the 2009 Tax-Exempt Bonds. 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 2009 Tax-Exempt Bonds 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 2009 Tax-Exempt Bonds may occur. Prospective purchasers of the 2009 Tax-Exempt Bonds should consult their own tax advisers regarding such matters.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the 2009 Tax-Exempt Bonds may affect the tax status of interest on the 2009 Tax-Exempt Bonds. Bond Counsel expresses no opinion as to any Federal, state or local tax law consequences with respect to the 2009 Tax-Exempt Bonds, or the interest thereon, if any action is taken with respect to the 2009 Tax-Exempt Bonds or the proceeds thereof upon the advice or approval of other counsel.

Series 2009B Bonds

IRS Circular 230 Notice. The advice under the caption "Series 2009B Bonds" concerning certain income tax consequences of the acquisition, ownership and disposition of the Series 2009B Bonds, was written to support the promotion or marketing of the Series 2009B Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, Bond Counsel to the Authority informs you that (i) any federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel to the Authority is not intended to be used, and cannot be used by any bondowner, for the purpose of avoiding penalties that may be imposed on the bondowner under the Internal Revenue Code, and (ii) the bondowner should seek advice based on the bondowner's particular circumstances from an independent tax advisor.

Build America Bonds. The Series 2009B Bonds are to be designated by the Authority as Build America Bonds and in connection with the issuance of the Series 2009B Bonds the Authority will irrevocably elect to receive the credit pursuant to Section 54AA of the Internal Revenue Code directly, all as authorized by the Recovery Act and the applicable provisions of the Internal Revenue Code. Consequently, interest on the Series 2009B Bonds is not excluded from a bondowner's federal gross income nor are bondowners entitled to claim any credit under Section 54AA of the Internal Revenue Code with respect to the Series 2009B Bonds. Based on that designation and election, the expected status of the Series 2009B Bonds as Build America Bonds is for the Authority's benefit, and the Authority has no obligation to the bondowners or prospective purchasers of the Series 2009B Bonds to maintain the status of the Series 2009B Bonds as Build America Bonds. Pursuant to the Recovery Act, to the extent the Authority satisfies the conditions required for Build America Bond status, and based on the aforementioned election the Authority expects to make in connection with the issuance of the Series 2009B Bonds, the Authority will receive cash subsidy payments from the United States Treasury. The Internal Revenue Code imposes requirements on the Series 2009B Bonds that the Authority must continue to meet after the Series 2009B Bonds are issued in order to receive the cash subsidy payments. These requirements generally involve the way that Series 2009B Bond proceeds must be invested and ultimately used. If the Authority does not satisfy these requirements, the Authority may not receive the cash subsidy payments. As a result of its election, holders of the Series 2009B Bonds are not entitled to claim or receive any federal tax credit relating to the Series 2009B Bonds, including any credit otherwise permitted under section 54AA of the Internal Revenue Code.

General. The following is a summary of certain anticipated United States federal income tax consequences of the purchase, ownership and disposition of the Series 2009B Bonds. The summary is based upon the provisions of the Internal Revenue Code, the regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect, all of which are subject to change. The summary generally addresses Series 2009AB Bonds held as capital assets and does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances or certain types of investors subject to special treatment under the federal income tax laws, including but not limited to financial institutions, insurance companies, dealers in securities or currencies, persons holding such Bonds as a hedge against currency risks or as a position in a "straddle" for tax purposes, or persons whose functional currency is not the United States dollar. Potential purchasers of the Series 2009B Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, holding and disposition of the Series 2009B Bonds.

Interest on the Series 2009B Bonds is not excluded from gross income for federal income tax purposes and so will be fully subject to federal income taxation. Purchasers other than those who purchase Series 2009B Bonds in the initial offering at their principal amounts will be subject to federal income tax accounting rules affecting the timing and/or characterization of payments received with respect to such bonds. In general, interest paid on the Series 2009B Bonds and recovery of accrued original issue and market discount, if any, will be treated as ordinary income to an owner of Series 2009B Bonds and, after adjustment for the foregoing, principal payments will be treated as a return of capital.

Original Issue Discount. The following summary is a general discussion of certain federal income tax consequences of the purchase, ownership and disposition of Series 2009B Bonds issued with original issue discount ("Discount Series 2009B Bonds"). A Series 2009B Bond will be treated as having been issued at an original issue discount if the excess of its "stated redemption price at maturity" (defined below 1 over its issue price (defined as the initial offering price to the public at which a substantial amount of the Series 2009B Bonds of the same maturity have first been sold to the public, excluding bond houses and brokers) equals or exceeds one quarter of one percent of such Series 2009B Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity.

A Discount Series 2009B Bond's "stated redemption price at maturity" is the total of all payments provided by the Discount Series 2009B Bond that are not payments of "qualified stated interest," Generally, the term "qualified stated interest" includes stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate.

In general, the amount of original issue discount includible in income by the initial holder of a Discount Series 2009B Bond is the sum of the "daily portions" of original issue discount with respect to such Discount Series 2009B Bond for each day during the taxable year in which such holder held such Discount Series 2009B Bond. The daily portion of original issue discount on any Discount Series 2009B Bond is determined by allocating to each day in any "accrual period" a ratable portion of the original issue discount allocable to that accrual period.

An accrual period may be of any length, and may vary in length over the term of a Discount Series 2009B Bond, provided that each accrual period is not longer than one year and each scheduled payment of principal or interest occurs at the end of an accrual period. The amount of original issue discount allocable to each accrual period is equal to the difference between (i) the product of the Discount Series 2009B Bond's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Discount Series 2009B Bond at the beginning of any accrual period is the sum of the issue price of the Discount Series 2009B Bond plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the Discount Series 2009B Bond that were not qualified stated interest payments. Under these rules, holders will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

Holders utilizing the accrual method of accounting may generally, upon election, include all interest (including stated interest, acquisition discount, original issue discount, de minimis original issue discount, market discount, de minimis market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) on the Discount Series 2009B Bond by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions.

Market Discount. Any owner who purchases a Series 2009B Bond at a price which includes market discount in excess of a prescribed de minimis amount (i.e., at a purchase price that is less than its adjusted issue price in the hands of an original owner) will be required to recharacterize all or a portion of the gain as ordinary income upon receipt of each scheduled or unscheduled principal payment or upon other disposition. In particular, such owner will generally be required either (a) to allocate each such principal payment to accrued market discount not previously included in income and to recognize ordinary income to that extent and to treat any gain upon sale or other disposition of such a Series 2009B Bond as ordinary income to the extent of any remaining accrued market discount (under this caption) or (b) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such owner on or after the first day of the taxable year to which such election applies.

The Internal Revenue Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history of the Tax Reform Act of 1986 will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest.

An owner who acquires a Series 2009B Bond at a market discount also may be required to defer, until the maturity date of such Series 2009B Bonds or the earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the owner paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry a Series 2009B Bond in excess of the aggregate amount of interest (including original issue discount) includable in such owner's gross income for the taxable year with respect to such Series 2009B Bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the Series 2009B Bond for the days during the taxable year on which the owner held the Series 2009B Bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Series 2009B Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the bondowner elects to include such market discount in income currently as described above.

Bond Premium. A purchaser who purchases a Series 2009B Bond at a cost greater than its then principal amount (or, in the case of a Series 2009B Bond issued with original issue premium, at a price in excess of its adjusted issue price) will have amortizable bond premium. If the holder elects to amortize the premium under Section 171 of the Internal Revenue Code (which election will apply to all bonds held by the holder on the first day of the taxable year to which the election applies, and to all bonds thereafter acquired by the holder). such a purchaser must amortize the premium using constant yield principles based on the purchaser's yield to maturity. Amortizable bond premium is generally treated as an offset to interest income, and a reduction in basis is required for amortizable bond premium that is applied to reduce interest payments. Purchasers of any Series 2009B Bonds who acquire such Bonds at a premium (or with acquisition premium) should consult with their own tax advisors with respect to the determination and treatment of such premium for federal income tax purposes and with respect to state and local tax consequences of owning such Series 2009B Bonds.

Sale or Redemption of Series 2009B Bonds. A bondowner's tax basis for a Series 2009B Bond is the price such owner pays for the Series 2009B Bond plus the amount of any original issue discount and market discount previously included in income, reduced on account of any payments received (other than "qualified periodic interest" payments) and any amortized bond premium. Gain or loss recognized on a sale, exchange or redemption of a Series 2009B Bond, measured by the difference between the amount realized and the Series 2009B Bond basis as so adjusted, will generally give rise to capital gain or loss if the Series 2009B Bond is held as a capital asset (except as discussed above under "Market Discount"). The defeasance of Series 2009B Bonds may result in a deemed sale or exchange of such Bonds under certain circumstances; owners of such Bonds should consult their tax advisors as to the Federal income tax consequences of such an event.

Backup Withholding. A bondowner may, under certain circumstances, be subject to "backup withholding" (currently the rate of this withholding tax is 28%, but may change in the future) with respect to interest or original issue discount on the Series 2009B Bonds. This withholding generally applies if the owner of a Series 2009B Bond (a) fails to furnish the Bond Fund Trustee or other payor with its taxpayer identification number; (b) furnishes the Bond Fund Trustee or other payor an incorrect taxpayer identification number; (c) fails to report properly interest, dividends or other "reportable payments" as defined in the Internal Revenue Code; or (d) under certain circumstances, fails to provide the Trustee or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the holder is not subject to backup withholding. Backup withholding will not apply, however, with respect to certain payments made to bondowners, including payments to certain exempt recipients (such as certain exempt organizations) and to certain Nonresidents (as defined below). Owners of the Series 2009B Bonds should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining the exemption.

The amount of "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to payments on the Series 2009B Bonds will be reported to the bondowners and to the Internal Revenue Service.

Nonresident Borrowers. Under the Internal Revenue Code, interest and original issue discount income with respect to Series 2009B Bonds held by nonresident alien individuals, foreign corporations or other non-United States persons ("Nonresidents") generally will not be subject to the United States withholding tax (or backup withholding) if the Authority (or other person who would otherwise be required to withhold tax from such payments) is provided with an appropriate statement that the beneficial owner of the Series 2009B Bond is a Nonresident. Notwithstanding the foregoing, if any such payments are effectively connected with a United States trade or business conducted by a Nonresident bondowner, they will be subject to regular United States income tax, but will ordinarily be exempt from United States withholding tax.

ERISA. The Employees Retirement income Security Act of 1974, as amended ("ER ISA"), and the Internal Revenue Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Internal Revenue Code (collectively, the "Plans") and persons who, with respect to a Plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Internal Revenue Code. All fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Internal Revenue Code on an investment in any Series 2009B Bonds.

State Taxes. Bond Counsel is also of the opinion that under existing statutes, interest on the Series 2009B Bonds is exempt from personal income taxes imposed by the State and any political subdivision thereof, including The City of New York. Bond Counsel expresses no opinion as to other state or local tax consequences arising with respect to the Series 2009B Bonds nor as to the taxability of the Series 2009B Bonds or the income therefrom under the laws of any state other than New York.

In all events, all investors should consult their own tax advisors in determining the Federal, state, local and other tax consequences to them of the purchase, ownership and disposition of the Series 2009B Bonds.

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 Series 2009 Bonds) 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 Series 2009 Bonds) 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 Series 2009 Bonds, a copy of which will be available at the time of delivery of the Series 2009 Bonds and the form of which is annexed hereto as Appendix C. Said Bond Counsel has not assumed responsibility for the preparation of the Official Statement and is not rendering any opinions as to the accuracy or completeness of the Official Statement.

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 Series 2009 Bonds or questioning or affecting the validity of the Series 2009 Bonds 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.

CONTINUING DISCLOSURE UNDER SEC RULE 15C2-12

In order to assist the Purchasers in complying with Rule 15c2-12, as it may be amended (the "Rule") promulgated by the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, as amended, the Authority, to the extent the Rule requires, will agree for the benefit of the beneficial owners from time to time of the Series 2009 Bonds (the "Authority Undertaking") to provide to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system, in electronic format and accompanied by such identifying information as is prescribed by the MSRB, an Annual Report, containing the information set forth in clause (1) below and with notices of events set forth in clauses (2) and (3) below:

(1) within 240 days after the end of the 2010 Fiscal Year and each subsequent Fiscal Year, core financial information and operating data for the prior Fiscal Year, including (i) the Authority's audited financial statements, if available, prepared in accordance with generally accepted accounting principles in effect from time to time, or, if such annual audited financial statements are not available, annual unaudited financial statements of the Authority shall be so provided and such annual audited financial statements shall be so delivered when they become available, and (ii) material historical financial and operating data concerning the System and the Revenues of the Authority generally of the type included under the captions "Debt Service Requirements," "Capital Improvement Plan," "Service Areas, Plant Facilities and Water Supply" and "Revenues and Operating Expenses";

(2) in a timely manner, notice of any of the following events with respect to the Series 2009 Bonds, if material:

(a) principal and interest payment delinquencies;
(b) non-payment related defaults;
(c) unscheduled draws on debt service reserves reflecting financial difficulties;
(d) unscheduled draws on credit enhancements reflecting financial difficulties;
(e) substitution of credit or liquidity providers, or their failure to perform;
(f) adverse tax opinions or events affecting the tax-exempt status of the security;
(g) modifications to rights of security holders;
(h) bonds calls;
(i) defeasances;
(j) release, substitution, or sale of property securing repayment of the securities;
(k) rating changes; and

(3) notice of any failure by the Authority to comply with clause (1) above.

The provisions of the Authority Undertaking inure solely to the benefit of the beneficial owners from time to time of the Series 2009 Bonds who will be third-party beneficiaries of the Authority Undertaking.

The obligations of the Authority to comply with the provisions of the Authority Undertaking shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any owner of outstanding Series 2009 Bonds, or by the Bond Fund Trustee on behalf of the owners of outstanding Series 2009 Bonds, or (ii) in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Bond Fund Trustee on behalf of the owners of outstanding Series 2009 Bonds;

provided, however, that the Bond Fund Trustee shall not be required to take any enforcement action except at the direction of the owners of not less than a majority in aggregate principal amount of the Series 2009 Bonds at the time outstanding who shall have provided the Bond Fund Trustee with adequate security and indemnity. Neither the Authority nor its directors, officers or employees shall have any liability under the Authority Undertaking for any act or failure to act under the Authority Undertaking. The owners and Bond Fund Trustee's sole remedy with respect to enforcement of the provisions of the Authority Undertaking shall be a right, by action in mandamus or for specific performance, to compel performance of the Authority's obligations under the Authority Undertaking. In consideration of the third-party beneficiary status of beneficial owners of Series 2009 Bonds pursuant to the Authority Undertaking, beneficial owners shall be deemed to be owners of Series 2009 Bonds for purposes of enforcement of the Authority Undertaking. All proceedings may be instituted only as specified herein, in the Federal or State courts located in the County of Suffolk, State of New York, and for the equal benefit of all holders of the outstanding Series 2009 Bonds.

The Authority Undertaking provides that the Authority's and the Bond Fund Trustee's obligations thereunder will terminate upon a legal defeasance pursuant to the Resolution, prior redemption or payment in full of all of the Series 2009 Bonds. Upon any legal defeasance, the Authority Undertaking provides that the Authority shall give notice of such defeasance to the MSRB. The Authority Undertaking further provides that if all or any part of the Rule ceases to be in effect for any reason, then the information required to be provided under the Authority Undertaking, insofar as the provision of the Rule no longer in effect required the providing of such information, shall no longer be required to be provided.

Copies of the Authority Undertaking when executed by the parties thereto on the date of the initial delivery of the Series 2009 Bonds will be on file at the office of the Bond Fund Trustee.

In connection with the issuance of prior series of Bonds, the Authority entered into agreements to provide continuing disclosure for the benefit of the beneficial owners of such bonds, which agreements are similar to the Authority Undertaking. The Authority is currently in compliance with such agreements to provide continuing disclosure.

FINANCIAL CONSULTANT

Pursuant to a written agreement between the Authority and Goldman, Sachs & Co. (the "Financial Consultant Agreement"), Goldman, Sachs & Co., serves as financial consultant to the Authority and provides recommendations and other financial guidance to the Authority with respect to the sale and issuance of its long-term obligations, including the Series 2009 Bonds, timing of sale, tax-exempt bond market conditions and other factors related to the sale and issuance of such obligations. The Financial Consultant Agreement provides that Goldman, Sachs & Co. will not serve as underwriter unless the procedures contained in Municipal Securities Rulemaking Board Rule G-23 have been complied with, if applicable. The Financial Consultant has not audited, authenticated or otherwise verified the information set forth in this Official Statement, or any other information that may be available to the Authority, with respect to appropriateness, accuracy and completeness of disclosure of such information or other information, and no guaranty, warranty or other representation is made by the Financial Consultant respecting such accuracy and completeness of information or any other matter related to such information and the Official Statement.

RATINGS

Standard & Poor's Rating Services ("S&P") and Fitch, Inc. ("Fitch") have assigned their long-term municipal ratings of "AA+" and "AA+," respectively, to the Authority's Outstanding Senior Lien Bonds. 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 Series 2009 Bonds.

FINANCIAL STATEMENTS

The financial statements of the Authority for the years ended May 31, 2009 and May 31, 2008, which are included as Appendix B to this Official Statement, have been audited by Ernst & Young, LLP independent auditors, as stated in their report appearing therein.

CERTIFICATION AS TO OFFICIAL STATEMENT

The Authority will confirm to the successful underwriting bidders of the Series 2009 Bonds, by a certificate signed on its behalf by its Chairman and dated and delivered on the date of delivery of and payment of the Series 2009 Bonds, that on the date of this Official Statement and on the date of such certificate (i) the descriptions and statements of or pertaining to the Authority contained in this Official Statement were and are true and correct in all material respects; and (ii) insofar as the Authority and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain an untrue statement of a material fact or omit any statement of a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that no representation is made as to statements in this Official Statement ascribed to sources other than the Authority, although the Authority has no reason to believe and does not believe that such information is materially inaccurate or misleading.

The references herein to the Act, the General Resolution, the Series 2009 Resolution and the Series 2009 Bonds 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 Series 2009 Bonds is fully set forth in the Resolution, and neither any advertisement of such Series 2009 Bonds nor this Official Statement is to be construed as a contract with the purchasers of such Series 2009 Bonds. 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. Copies of the documents mentioned in this paragraph are on file at the offices of the Authority and of the Bond Fund Trustee.

This Official Statement is being issued by the Authority in two editions: (1) a preliminary edition dated October 28, 2009 and issued for purposes of public sale of all of the Series 2009 Bonds on November 9, 2009 pursuant to the Authority's Official Notice of Sale requesting sealed bids and (2) a final edition dated November 9, 2009 and issued, in connection with the public sale, to contain the actual interest rates to be borne by the Series 2009 Bonds upon issuance thereof and the resulting annual debt service.

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 Series 2009 Bonds, 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 Series 2009 Bonds, (iii) the nature and extent and manner of enforcement of the pledge, the rights and remedies of the holders of the Series 2009 Bonds with respect thereto, (iv) the terms and conditions upon which the Series 2009 Bonds 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.

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

"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.

"Bond Register" means the books or records maintained by the Paying Agent for the purpose of registration of the Series 2009 Bonds.

"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.

"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 Series 2009 Bonds.

"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.

"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.

"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.

"Favorable Opinion of Bond Counsel" means an opinion of Nixon Peabody LLP, or other Bond Counsel, addressed to the Authority and the Paying 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 Series 2009 Bonds.

"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 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.

"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.

"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.

"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, 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.

"Paying Agent" means, 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.

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

"Record Date" means, with respect to any Series of Bonds, the fifteenth (15th) day (whether or not a business day) of the calendar month immediately preceding an interest payment date or such other day as may be provided in the Supplemental Resolution authorizing the issuance of such Series.

"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.

"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.

"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 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.

"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.

"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 October 27, 2009 providing for certain terms and provisions of the Series 2009 Bonds.

"Term Bonds" means Bonds the retirement or the redemption of which shall be provided for from moneys credited to the Bond Retirement Account in the Bond Fund pursuant to Article VI of the Resolution.

"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.

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 improvements to the Water System. (Res. Section 6.9)

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 (25^{th}) day of the sixth (6^{th}) 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 (25^{th}) 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 (25^{th}) 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 (25^{th}) 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 (25^{th}) day of the twelfth (12^{th}) 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 (25^{th}) 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 (25^{th}) 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 (25^{th}) 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 (25^{th}) day of the twelfth (12^{th}) 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 (25^{th}) 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 (25^{th}) 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 (25^{th}) 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;

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 holder 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 Independent Auditor's Report

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Financial Statements And Required Supplemental Information

Suffolk County Water Authority
Years Ended May 31, 2009 and 2008
With Report of Independent Auditors

Suffolk County Water Authority

Financial Statements and
Required Supplemental Information

Years Ended May 31, 2009 and 2008

Contents

Ernst & Young LLP
Five Times Square
New York, NY 10036-6530
Tel: +1 212 773 3000
Fax: +1 212 773 6350
www.ey.com

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, 2009 and 2008, 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, 2009 and 2008, 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.

As discussed in Note 9, during 2008 the Authority adopted the accounting provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2009 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and the schedule of funding progress for the retiree healthcare plan, on pages 3 to 12, and page 40, respectively, are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of this required supplemental information. However, we did not audit the information and express no opinion on it.

Ernst & Young LLP

August 31, 2009

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

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 statements account for all of the years' revenues and expenses, measure the financial results of the Authority's operations for the years 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, 2009, 2008 and 2007. 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

	Year Ended May 31		
	2009	**2008**	**2007**
		(In Thousands)	
Operating revenues			
Water service	**$ 119,241**	$ 127,686	$ 119,610
Other	**14,306**	12,277	10,540
Total operating revenues	**133,547**	139,963	130,150
Operating expenses			
Operations and maintenance	**103,476**	97,554	84,591
Depreciation and amortization	**36,200**	34,845	32,030
Total operating expenses	**139,676**	132,399	116,621
Operating (loss) / income	**(6,129)**	7,564	13,529
Nonoperating revenues and expenses			
Interest expense, net	**(17,852)**	(16,115)	(14,888)
Costs to be recovered from future revenues	**12,322**	11,972	–
Capital reimbursement fees	**8,629**	10,283	10,029
Unrealized gain on investments	**500**	1,461	1,076
Legal Settlement	**78,533**	–	–
Total nonoperating revenues and expenses	**82,132**	7,601	(3,783)
Increase in net assets	**76,003**	15,165	9,746
Net assets, beginning of year	**570,726**	555,561	545,815
Net assets, end of year	**$ 646,729**	$ 570,726	$ 555,561

Operating Revenues

Water service revenues decreased $8.5 million or 6.6% during the current fiscal year from $127.7 million for the 2008 fiscal year to $119.2 million for the 2009 fiscal year. The decrease was a result of reduced demand of 7.3% on the system as compared to the prior year.

Water service revenues increased $8.1 million or 6.8% during the previous year from $119.6 million for the 2007 fiscal year to $127.7 million for the 2008 fiscal year. The increase was a result of an increased demand of 5.4% 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, 2008.

Other operating revenues increased $2.0 million or 16.3% from $12.3 million for the 2008 fiscal year to $14.3 million for the 2009 fiscal year. The increase is primarily attributable to increases from the cost of living adjustments in antennae leases, antennae site enhancement fees, and additional antennae lease sites.

Other operating revenues increased $1.8 million or 17.1% from $10.5 million for the 2007 fiscal year to $12.3 million for the 2008 fiscal year. The increase is primarily attributable to increases from the cost of living adjustments in antennae leases and additional antennae lease sites.

Operating Expenses

Operations and maintenance expense increased $5.9 million or 6.0% from $97.6 million for the 2008 fiscal year to $103.5 million for the 2009 fiscal year. The $5.9 million increase was mainly attributable to increases in operations and maintenance of wells and pump stations ($0.2 million), power costs ($1.9 million), transmission and distribution costs ($3.0 million), and treatment costs ($0.8 million).

Operations and maintenance expense increased $13.0 million or 15.3% from $84.6 million for the 2007 fiscal year to $97.6 million for the 2008 fiscal year. The $13.0 million increase was mainly attributable to the recording of other postemployment benefits ("OPEB"), in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ($12.0 million). Other operating and maintenance costs attributable to the remaining $1.0 million increase are treatment costs ($1.4 million), workers' compensation costs ($0.4 million), laboratory costs ($0.4 million), uncollectible accounts ($0.3 million), employee benefits ($0.6 million), and public relations ($0.2 million) offset by decreased costs incurred for general insurance costs ($0.4 million), maintenance of mains ($0.3 million), hydrants ($0.4 million) and services ($0.3 million), and system maintenance ($0.9 million).

Depreciation and amortization expenses were $36.2 million during fiscal 2009 as compared to $34.8 million during fiscal 2008, an increase of $1.4 million or 4.0%. The increase is attributable to additional capital assets placed in service during fiscal year 2009 along with goodwill-related amortization.

Depreciation and amortization expenses were $34.8 million during fiscal 2008 as compared to $32.0 million during fiscal 2007, an increase of $2.8 million or 8.7%. The increase is attributable to additional capital assets placed in service during fiscal year 2008 along with goodwill-related amortization.

Total amortization is $0.582 million and $0.623 million for fiscal years 2009 and 2008, respectively.

Nonoperating Revenues and Expenses

Capital reimbursement fees were $8.6 million during fiscal 2009 as compared to $10.3 million during fiscal 2008, a decrease of $1.7 million or 16.5% during the current year. The decrease is a result of reduced developer main installations completed and placed in service.

Capital reimbursement fees were $10.3 million during fiscal 2008 as compared to $10.0 million during fiscal 2007, an increase of $0.3 million or 3.0% 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 $24.2 million during fiscal 2009 as compared to $23.7 million during fiscal 2008, an increase of $0.5 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 Bond Anticipation Notes 2004 and 2008 (see Long-Term Debt section).

Interest expense was $23.7 million during fiscal 2008 as compared to $23.2 million during fiscal 2007, an increase of $0.5 million. This is attributable to an increase in the interest on long-term water revenue bonds as the result of the issuance of $45 million Suffolk County Water System Revenue Bonds 2008A and the remarketing of Suffolk County Water System Revenue Bonds 2006A from auction rate to long-term fixed rate bonds mitigated by the reduced interest costs associated with the outstanding Suffolk County Water Authority Variable Rate Bond Anticipation Notes (see Long-Term Debt section).

Interest income was $6.8 million during fiscal year 2009 as compared to $9.0 million during fiscal year 2008, a decrease of $2.2 million. An increased availability of funds negated by an unprecedented lower interest rate environment is the main reason for this decrease.

Interest income was $9.0 million during fiscal year 2008 as compared to $9.4 million during fiscal year 2007, a decrease of $0.4 million. The decrease is the result of market conditions, which saw a lower interest rate environment during this past fiscal year, mitigated by the additional funds available from net revenue and financing.

Costs to be recovered from future revenues ($12.3 million) represent the difference between the Authority's annual required contributions for postemployment benefits other than pensions as required by GASB Statement No. 45 and the amount paid out for such benefits by the Authority during fiscal 2009. In accordance with FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, the Authority has deferred the excess of the annual OPEB costs over the amount paid during the fiscal year. The deferred costs will be recovered through future revenues in accordance with the Authority's rate model.

Suffolk County Water Authority's Net Assets

	2009	**May 31 2008**	**2007**
		(In Thousands)	
Assets			
Capital assets, net of accumulated depreciation	**$ 997,654**	$ 975,258	$ 951,024
Other assets	**354,633**	296,839	228,428
Total assets	**$ 1,352,287**	$ 1,272,097	$ 1,179,452
Liabilities			
Current liabilities	**$ 110,018**	$ 48,478	$ 44,843
Other long-term liabilities	**28,172**	16,262	4,437
Long-term debt	**567,368**	636,631	574,611
Total liabilities	**705,558**	701,371	623,891
Net assets			
Invested in capital assets, net of related debt	**361,791**	380,565	389,527
Restricted for debt service	**36,152**	36,694	33,923
Unrestricted	**248,786**	153,467	132,111
Total net assets	**646,729**	570,726	555,561
Total liabilities and net assets	**$ 1,352,287**	$ 1,272,097	$ 1,179,452

Capital Assets, Net of Accumulated Depreciation (Water Plant)

There was a net increase in water plant in fiscal 2009 of $22.4 million comprising an increase of $58.4 million in gross water plant (including construction in progress) reduced by an increase in accumulated depreciation of $36.0 million.

There was a net increase in water plant in fiscal 2008 of $24.2 million comprising an increase of $54.2 million in gross water plant (including construction in progress) reduced by an increase in accumulated depreciation of $30.0 million.

Current Assets

	May 31	
	2009	**2008**
	(In Thousands)	
Increases (Decreases)		
Cash and cash equivalents	**$ 25,565**	$ (1,161)
Current portion of investments	**73,009**	24,981
Accounts receivable, net	**1,255**	1,024
Accrued water services and fire protection revenues	**(764)**	(1,992)
Materials and supplies	**1,215**	804
Prepayments and other current assets	**(279)**	21
Interest and other receivables	**(228)**	14
Net increase in current assets	**$ 99,773**	$ 23,691

Total investments, including cash and cash equivalents, were $278.9 million at May 31, 2009, representing a net increase of $45.3 million as compared to May 31, 2008. This is the result of additional cash provided by operations, (including a legal settlement of $78.5 million, net of legal fees), financing, and investing activities, reduced by operating and capital expenditures.

Total investments, including cash and cash equivalents, were $233.6 million at May 31, 2008, representing a net increase of $56.3 million as compared to May 31, 2007. This is a result of additional cash provided by operating, financing and investing activities. On January 15, 2008, $70 million Suffolk County Water System Variable Rate Bond Anticipation Notes, 2008 were issued for the purpose of providing monies for the acquisition and construction of improvements and additions to the water system.

Accrued water services and fire protection revenues reflect accrued revenue corresponding to pumpage, which has not been billed as of May 31. Water pumped in April and May 2009 was approximately 7.3% lower than 2008, which results in a decrease of approximately $0.8 million.

Water pumped in April and May 2008 was approximately 8.0% lower than 2007, which results in a decrease of approximately $2.0 million.

Inventory at May 31, 2009 is valued at $8.3 million, an increase of $1.2 million compared to May 31, 2008. Management's review and restructuring of the inventory system resulted in reclassifying certain items from nonstock to stock.

Inventory at May 31, 2008 was valued at $7.1 million, an increase of $0.8 million compared to May 31, 2007. Management's review and restructuring of the inventory system resulted in reclassifying certain items from nonstock to stock. This change along with excess inventory purchases and incremental inflationary increases resulted in the aforementioned increase.

Noncurrent Assets

The total value of noncurrent assets remained constant at approximately $1.1 billion. Variances within non-current assets consisted of a $22.4 million increase in net capital assets, $53.2 million decrease in investments held for construction and debt service, $12.3 million increase in costs to be recovered from future revenues, $0.9 million decrease in deferred charges and other assets, and $0.2 million decrease in goodwill. The Authority's cost recovery rate model used to establish rates, fees and charges includes an amount for postemployment benefits other than pensions that is expected to be paid out during the fiscal year, but not for the amount of the annual OPEB costs as calculated under GASB Statement No. 45. In accordance with FASB Statement No. 71, the Authority has deferred the excess of current annual required contribution over the amount paid during the fiscal year. The deferred costs will be recovered through future revenues in accordance with the Authority's rate model. The amount deferred as of May 31, 2009 is $24.3 million.

Investments

The Authority's investment policy complies with the New York State 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. Authority investments are reported at amounts that approximate fair value.

The Authority's unrestricted investments increased $73.0 million or 56.3% from $129.8 million as of May 31, 2008 to $202.8 million as of May 31, 2009. The increase in investments of unrestricted assets overall is attributable to the addition of monies available from the legal settlement from oil companies and other operating revenues, after the payment of debt service reduced by the use of funds to pay for water system capital improvements, which was paid for from revenues available after payment of debt service and proceeds of previous financing.

The Authority's unrestricted investments increased $25.0 million or 23.8% from $104.8 million as of May 31, 2007 to $129.8 million as of May 31, 2008. 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, which was paid for principally from proceeds of previous financing.

Current Liabilities

The $61.5 million increase in current liabilities from 2008 to 2009 consists of increases in accounts payable ($1.8 million), accrued interest ($0.7 million), accrued employee welfare costs ($0.4 million), customer deposits ($0.3 million) and the Suffolk County Water Authority Variable Rate Bond Anticipation Notes, 2004, which have a final maturity date of December 1, 2009 ($60.0 million). These increases are offset by decreases in current maturities of water revenue bonds ($1.2 million), and other accrued liabilities ($0.5 million).

The $3.6 million increase in current liabilities from 2007 to 2008 consists of increases in current maturities of water revenue bonds ($0.3 million), accounts payable ($1.0 million), accrued interest ($1.2 million), other accrued liabilities ($0.4 million), customer deposits ($0.5 million), and accrued employee welfare costs ($0.2 million).

Accrued retirement contributions continue to be stable at $568,000 as of May 31, 2009 as compared to $576,000 as of May 31, 2008. This is attributable to slightly lower contribution rates negated by increased payroll costs. The Authority, based on the rates set by the New York State Retirement System, has been advised the regular pension costs for the period April 1, 2009 through March 31, 2010 are estimated to be an average of 7.1% of payroll.

Accrued retirement contributions at May 31, 2008 were $576,000, which is comparable with the $591,000 accrued at May 31, 2007. This is attributable to slightly reduced contribution rates as established by the New York State Retirement System mitigated by increased payroll costs. The New York State Retirement System billed the Authority regular pension costs for the period April 1, 2008 through March 31, 2009 was $2.9 million based on an average rate of 7.6% of payroll.

The $1.8 million increase experienced in accounts payable from 2008 to 2009 is attributable principally to an increase in outstanding invoices related to capital and operating and maintenance expenses processed subsequent to May 31, 2009.

The increase in customer deposits of $0.3 million is attributable to excess payments made by customers resulting in additional customers with credit balances, additional work order deposits, and a reduction in construction related easement deposits.

The increase in accrued interest of $0.7 million is attributable to the reduction of outstanding debt in the course of making normally scheduled payments in accordance with debt service schedules.

The decrease of $0.5 million in other accrued liabilities from 2008 and 2009 is primarily attributable to the reduction in liability for potential workers' compensation claims.

Postemployment Benefits Other than Pensions

GASB Statement No. 45 establishes guidance for the financial reporting of OPEB cost over a period that approximates employees' years of service. Under GASB Statement No. 45, based on an actuarial valuation, an annual required contribution ("ARC") is 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. To the extent that 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 Statement No. 45 does not require that the unfunded liability actually be funded, only that the Authority account for the unfunded accrued liability. The financial statements at May 31, 2009 include a liability in the amount of $24.3 million that represents the Authority's unfunded liability.

Long-Term Debt

The Authority's long-term debt (including current maturities and exclusive of unamortized discounts) decreased from fiscal 2008 to fiscal 2009 by $11.0 million resulting from the scheduled maturities during the fiscal year.

Water System Revenue and Environmental Facilities Corporation Revenue Bonds

	2009	2008	2007
	(In Thousands)		
New issues:			
SCWA 2007	**$ –**	$ 45,000	$ –
	–	45,000	–
Maturities, retirements and defeasances:			
SCWA	**(7,385)**	(7,150)	(6,795)
EFC	**(3,583)**	(3,502)	(3,437)
	(10,968)	(10,652)	(10,232)
Net change in long-term debt	**$ (10,968)**	$ 34,348	$ (10,232)

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 Environmental 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 ended May 31, 2009, the Authority did not issue any Senior Lien Water System Revenue Bonds.

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, 2009, the Authority did not issue any new Bond Anticipation Notes.

Net Assets Invested in Capital Assets, Net of Related Debt

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

The decrease of $18.8 million from 2008 to 2009 results from an additional $22.4 million in net water plant and payments and amortization of related debt of $11.5 million offset by a decrease in restricted investments of $52.7 million.

Net Assets, Unrestricted

Net assets, unrestricted, increased as a result of operations and a legal settlement. During the year the Authority received net proceeds in the amount $78.5 million as settlement from legal action commenced against most major petroleum companies for contaminating Suffolk County Water Supplies with the gasoline additive methyl tertiary butyl ether.

Contacting the Authority's Financial Management

This financial report is designed to provide our customers, clients and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the resources at its disposal. If you have any questions about this report or need additional financial information, contact the Public Information Officer, Suffolk County Water Authority, 4060 Sunrise Highway, Oakdale, NY 11769.

Suffolk County Water Authority

Balance Sheets

	May 31 2009	May 31 2008
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 28,066**	$ 2,501
Investments	**202,776**	129,767
Accounts receivable, less allowance for doubtful accounts of $1,182 and $1,089 in 2009 and 2008, respectively	**11,115**	9,860
Accrued water services and fire protection revenues	**13,912**	14,676
Interest and other receivables	**1,193**	1,421
Materials and supplies	**8,303**	7,088
Prepayments and other current assets	**1,678**	1,957
Total current assets	**267,043**	167,270
Restricted investments	**48,082**	101,357
Goodwill	**3,783**	3,934
Costs to be recovered from future revenues	**24,293**	11,972
Deferred charges and other assets	**11,432**	12,306
Capital assets, net	**997,654**	975,258
	1,085,244	1,104,827
Total assets	**$ 1,352,287**	$ 1,272,097
Liabilities and net assets		
Current liabilities:		
Current maturities of bond anticipation notes payable	**$ 60,000**	$ –
Current maturities of bonds payable	**9,755**	10,968
Accounts payable	**9,376**	7,591
Accrued interest	**10,730**	9,962
Accrued employee welfare costs	**6,804**	6,381
Other accrued liabilities	**4,471**	5,021
Customer deposits	**8,882**	8,555
Total current liabilities	**110,018**	48,478
Bond anticipation notes payable	**70,000**	130,000
Bonds payable, less current portion	**497,368**	506,631
Postemployment benefits other than pension	**24,293**	11,972
Advances for construction	**3,879**	4,290
Total liabilities	**705,558**	701,371
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	**361,791**	380,565
Restricted for debt service	**36,152**	36,694
Unrestricted	**248,786**	153,467
Total net assets	**646,729**	570,726
Total liabilities and net assets	**$ 1,352,287**	$ 1,272,097

See accompanying notes.

Suffolk County Water Authority

Statements of Revenues, Expenses and Changes in Fund Net Assets

	Year Ended May 31	
	2009	**2008**
	(In Thousands)	
Operating revenues:		
Water service	**$ 119,241**	$ 127,686
Other	**14,306**	12,277
Total operating revenues	**133,547**	139,963
Operating expenses:		
Operations	**83,579**	78,888
Maintenance	**19,897**	18,666
Depreciation and amortization	**36,200**	34,845
Total operating expenses	**139,676**	132,399
Operating (loss) income	**(6,129)**	7,564
Nonoperating revenues and expenses:		
Interest expense	**(24,184)**	(23,680)
Income from investments	**6,832**	9,026
Costs to be recovered from future revenues	**12,322**	11,972
Capital reimbursement fees	**8,629**	10,283
Legal Settlement	**78,533**	–
Total nonoperating revenues and expenses	**82,132**	7,601
Increase in net assets	**76,003**	15,165
Net assets:		
Beginning of year	**570,726**	555,561
End of year	**$ 646,729**	$ 570,726

See accompanying notes.

Suffolk County Water Authority

Statements of Cash Flows

	Year Ended May 31 2009	2008
	(In Thousands)	
Cash flows from operating activities		
Cash receipts from customers	**$ 118,750**	$ 128,654
Other operating cash receipts	**14,392**	12,599
Cash payments to suppliers of goods and services	**(20,881)**	(45,424)
Cash payments to employees for services	**(68,436)**	(39,623)
Net cash provided by operating activities	**43,825**	56,206
Cash flows from noncapital financing activities		
Receipts from legal settlements	**78,533**	–
Net cash provided by noncapital financing activities	**78,533**	–
Cash flows from investing activities		
Purchase of investments	**(78,533)**	(173,984)
Proceeds from sales and maturities of investments	**59,299**	118,006
Interest received	**6,560**	7,565
Net cash used in investing activities	**(12,674)**	(48,413)
Cash flows from capital and related financing activities		
Additions to water plant, net of retirements	**(58,445)**	(58,928)
Proceeds from issuance of notes payable	**–**	70,000
Proceeds from issuance of long-term debt	**–**	45,000
Repayment of notes payable	**–**	(41,900)
Repayment of current maturities of bonds payable	**(9,970)**	(10,764)
Interest paid	**(23,922)**	(22,498)
Proceeds from advances for construction, net of refunds	**8,218**	10,136
Net cash used in capital and related financing activities	**(84,119)**	(8,954)
Net increase (decrease) in cash and cash equivalents	**25,565**	(1,161)
Cash and cash equivalents at beginning of year	**2,501**	3,662
Cash and cash equivalents at end of year	**$ 28,066**	$ 2,501
Reconciliation of operating income to net cash provided by operating activities		
Operating (loss) income	**$ (6,129)**	$ 7,564
Depreciation and amortization expense	**36,200**	34,845
(Increase) decrease in operating assets:		
Accounts receivable	**(1,255)**	(1,024)
Accrued water services and fire protection revenues	**764**	1,992
Materials and supplies and prepayments	**(936)**	(825)
Other assets	**874**	(455)
Costs to be recovered from future revenues	**12,321**	11,972
Increase (decrease) in operating liabilities:		
Accounts payable	**1,785**	1,047
Accrued employee welfare costs	**423**	230
Other accrued liabilities	**(550)**	414
Customer deposits	**328**	446
Net cash provided by operating activities	**$ 43,825**	$ 56,206
Noncash investing activities		
Increase in the fair value of investments	**$ 500**	$ 1,461

See accompanying notes.

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.

Capital Assets

Capital Assets are recorded at original cost. The capitalized cost of additions capital assets includes 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 capital accounts and together with costs to remove 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.

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, 2009 and 2008 was approximately $973,925 and $1,770,000, respectively.

Cash and Cash Equivalents

Investments with original maturities of 90 days or less are considered cash equivalents and carried at amounts that approximate fair value.

Investments

All investments with original maturities of 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 and bond funds (or bond insurance, as described in Note 5). These reserves are held by a Fiscal Agent.

Investments held for debt service reserve and bond funds are restricted by the Resolution solely for the purpose of paying the principal and interest on the bonds and for retiring the bonds prior to maturity. Amounts in the debt service reserve and bond funds are invested in U.S. Treasury Notes and U.S. government securities.

1. Summary of Significant Accounting Policies (continued)

Investments Held for Construction

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

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 to 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

1. Summary of Significant Accounting Policies (continued)

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.

As of May 31, 2009, 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 $21,660,000. The Authority has elected not to record the value of these contracts as an asset and liability at May 31, 2009.

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. 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 nonoperating 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

1. Summary of Significant Accounting Policies (continued)

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 nonoperating revenues and expenses.

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.

Costs to Be Recovered from Future Revenues

The Authority's cost recovery rate model used to establish rates, fees and charges includes an amount for postemployment benefits other than pensions that are expected to be paid out during the fiscal year, but not for the amount of the annual required contribution as calculated under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In accordance with FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, the Authority has deferred the excess of current annual required contribution over the amount paid during the 2009 fiscal year. The deferred costs will be recovered through future revenues in accordance with the Authority's rate model. The deferred amount for the year ended May 31, 2009 and 2008 was determined as follows:

	May 31	
	2009	**2008**
Costs excluded from rate model:		
Annual OPEB costs recoverable from rate payers	**$ 15,682,886**	$ 15,204,025
Cost included in the rate model:		
Amount of current year payments	**(3,361,806)**	(3,232,506)
	12,321,080	11,971,519
Balance, beginning of the year	**11,971,519**	–
Balance, end of the year	**$ 24,292,599**	$ 11,971,519

1. Summary of Significant Accounting Policies (continued)

Legal Settlement

In August 2002, the Authority and the County of Suffolk commenced legal action against most major petroleum companies for contaminating Suffolk County water supplies with the gasoline additive methyl tertiary butyl ether. During the fiscal year ending May 31, 2009, the Authority reached a settlement with all of the defendants, except one minor defendant, and received $78.5 million in net settlement proceeds reflected as non-operating revenues.

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 the utilization of funds held in unrestricted net assets.

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, workers' compensation and postemployment benefits.

1. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement establishes specific guidance on the measurement and recognition of pollution remediation obligations or responsibilities. The guidance lists what events must occur for a government to be required to calculate and report a pollution remediation liability. The Authority adopted GASB Statement No. 49 in fiscal 2009; it had no effect on the accompanying financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27.* This Statement more closely aligns the GASB's financial reporting requirements for pensions with those for other postemployment benefits ("OPEB"). The reporting changes required by this Statement amend applicable note disclosures and required supplemental information for pensions. The Authority adopted GASB Statement No. 50 in fiscal 2009; it had no effect on the accompanying financial statements.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by the scope provisions be classified as capital assets. The Authority is required to adopt GASB Statement No. 51 for its 2011 financial statements. The implementation of this Statement is not expected to have a significant impact on the financial position of the Authority.

2. Capital Assets

	May 31, 2008	Additions/ Reclassifications	Deletions/ Reclassifications	May 31, 2009
	(In Thousands)			
Capital Assets, not being depreciated				
Land and land rights	$ 21,582	$ 26	$ –	**$ 21,608**
Construction in progress	94,353	79,542	(53,056)	**120,839**
Total Capital Assets, not being depreciated	115,935	79,568	(53,056)	**142,447**
Capital Assets, being depreciated				
Pumping and Purification Equipment	101,695	1,377	(53)	**103,019**
Distribution Systems	771,256	19,639	(1,163)	**789,732**
Wells, reservoirs and structures	217,039	4,505	(61)	**221,483**
Other	146,344	36,559	(33,952)	**148,951**
Total Capital Assets, being depreciated	1,236,334	62,080	(35,229)	**1,263,185**
Less accumulated depreciation	(377,011)	(36,552)	5,585	**(407,978)**
Capital Assets, net	$ 975,258	$ 105,096	$ (82,700)	**$ 997,654**

2. Capital Assets (continued)

	May 31, 2007	Additions/ Reclassifications	Deletions/ Reclassifications	May 31, 2008
	(In Thousands)			
Capital Assets, not being depreciated				
Land and land rights	$ 21,357	$ 731	$ (506)	$ 21,582
Construction in progress	135,467	128,935	(170,049)	94,353
Total Capital Assets, not being depreciated	156,824	129,666	(170,555)	115,935
Capital Assets. being depreciated				
Pumping and Purification Equipment	95,141	11,532	(4,978)	101,695
Distribution Systems	725,444	85,479	(39,667)	771,256
Wells, reservoirs and structures	205,358	23,386	(11,705)	217,039
Other	115,267	96,031	(64,954)	146,344
Total Capital Assets, being depreciated	1,141,210	216,428	(121,304)	1,236,334
Less accumulated depreciation	(347,010)	(34,732)	4,731	(377,011)
Capital Assets, net	$ 951,024	$ 311,362	$ (287,128)	$ 975,258

Depreciation expense amounted to approximately $35,618,000 and $34,186,000 for the years ended May 31, 2009 and 2008, respectively, based on a composite annual rate of 2.84%.

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 $28,066,000 and $2,501,000 and bank balances of approximately $29,724,000 and $4,159,00 at May 31, 2009 and 2008, respectively. Collateral for deposits is held by the bank in the name of the Authority.

3. Cash and Cash Equivalents and Investments (continued)

Investments

Investments at May 31, 2009 and 2008 consist of the following:

	Fair Value		Investment Maturities at May 31, 2009 in Years		
	2009	**2008**	**Less than 1**	**1 to 5**	**Greater Than 5**
	(In Thousands)				
Certificates of deposit	**$ 128,300**	$ 75,600	$ 128,300	$ –	$ –
U.S. Treasury bills [(a)]	**-**	177	–	–	–
U.S. Treasury notes [(a)]	**510**	2,035	510	–	–
U.S. Treasury bonds [(a)]	**8,794**	8,794	–	–	8,794
FNMAs [(a)]	**20,064**	34,380	18,025	2,039	–
FHLB Notes [(a)]	**27,419**	39,579	24,400	3,019	–
FHLMC Notes	**12,332**	10,060	1,195	11,137	–
FDIC Insured Notes	**5,194**	–	–	5,194	–
FFCB Notes	**28,614**	3,053	507	28,107	–
Money market [(a)]	**507**	424	507	–	–
Guaranteed investment contracts [(a)]	**241**	500	241	–	–
Repurchase agreements	**18,883**	56,522	18,883	–	–
Total investments	**$ 250,858**	$ 231,124	$ 192,568	$ 49,496	$ 8,794

(a) Includes approximately $48,082,000 and $54,394,000 of investments held by Fiscal Agent in the Authority's name at May 31, 2009 and 2008, respectively.

	2009	**2008**
	(In Thousands)	
Investment breakdown:		
Restricted for:		
Debt service	**$ 36,152**	$ 36,694
Construction	**11,930**	64,663
Unrestricted	**202,776**	129,767
Total investments	**$ 250,858**	$ 231,124

Accrued interest on investments other than investment agreements is included in interest and other receivables on the balance sheets. Investments bear interest rates that range from 1.00% to 5.00%.

3. Cash and Cash Equivalents and Investments (continued)

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 and its agencies, obligations, certificates of deposit, guaranteed investment contracts and repurchase agreements backed by such obligations. Investments are reported 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.

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's investment policy does not include limits on 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, 2009, the Authority's investments in obligations of the Federal National Mortgage Association, the Federal Home Loan Bank, FDIC insured notes, the Federal Home Loan Mortgage Corporation, and FFCB notes 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 obligations of the Federal National Mortgage Association, the Federal Home Loan Bank and the Federal Farm Credit Bank. These investments are 8% ($20,064,000), 11% ($27,419,000) and 11% ($28,614,000), respectively, of the Authority's total investments.

4. Bonds Payable

Outstanding bonds are summarized as follows:

	Series		Interest Rate	Final Maturity Date	May 31, 2008	Issued	Matured/ Refunded	May 31, 2009	Due within one Year
						(in thousands of dollars)			
Water System Revenue Bonds									
(a)	1993	Senior Lien	4.80-5.10%	2013	$ 15,150	$ –	$ (6,740)	**$ 8,410**	$ 5,410
(a)	1993	Subordinate Lien	4.80-5.10%	2013	13,925	–	(60)	**13,865**	65
(a)	1994	Subordinate Lien	4.13-6.00%	2017	4,910	–	–	**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**	–
(a)	2003	Senior Lien	2.00-4.50%	2017	57,210	–	(585)	**56,625**	600
(a)	2003C	Senior Lien	4.00-4.50%	2026	80,000	–	–	**80,000**	–
(a)	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**	–
(a)	2006A	Senior Lien	3.59-4.95%	2031	70,000	–	–	**70,000**	–
(a)	2007A	Senior Lien	4.00-4.50%	2032	45,000	–	–	**45,000**	–
Environmental Facilities Corporation Revenue Bonds									
(b)	1998B		3.65-5.20%	2017	3,695	–	(290)	**3,405**	295
(b)	1999A		2.77-4.91%	2018	3,655	–	(240)	**3,415**	245
(b)	2000A		3.80-5.96%	2019	615	–	(35)	**580**	35
(b)	2000B		4.31-5.74%	2020	4,075	–	(210)	**3,865**	220
(b)	2001A		3.48-5.17%	2021	7,690	–	(435)	**7,255**	455
(b)	2001B		2.62-5.15%	2021	13,090	–	(710)	**12,380**	730
(b)	2002A		1.36-5.00%	2022	8,270	–	(445)	**7,825**	455
(b)	2002B		1.33-5.12%	2022	6,780	–	(340)	**6,440**	350
(b)	2003B		0.72-4.50%	2023	7,295	–	(370)	**6,925**	370
(b)	2004A		1.20-4.96%	2024	5,825	–	(250)	**5,575**	250
(b)	2005B		2.08-4.02%	2026	6,338	–	(258)	**6,080**	275
		Total bonds outstanding			521,423	$ –	$ (10,968)	**510,455**	$ 9,755
		Less: Unamortized discount (premium)			(1,003)			**(899)**	
		Deferred amount			4,827			**4,231**	
		Current maturities payable			10,968			**9,755**	
					$ 506,631			**$ 497,368**	

4. Bonds Payable (continued)

Series			Interest Rate	Final Maturity Date	May 31, 2007	Issued	Matured/ Refunded	May 31, 2008	Due within one Year
						(in thousands of dollars)			
Water System Revenue Bonds									
(a)	1993	Senior Lien	4.80-5.10%	2013	$ 21,670	$ –	$ (6,520)	$ 15,150	$ 6,740
(a)	1993	Subordinate Lien	4.80-5.10%	2013	13,985	–	(60)	13,925	60
(a)	1994	Subordinate Lien	4.13-6.00%	2017	4,910	–	-	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	–
(a)	2003	Senior Lien	2.00-4.50%	2017	57,780	–	(570)	57,210	585
(a)	2003C	Senior Lien	4.00-4.50%	2026	80,000	–	–	80,000	–
(a)	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	–
(a)	2006A	Senior Lien	3.59-4.95%	2031	70,000	–	–	70,000	–
(a)	2007A	Senior Lien	4.00-4.50%	2032	–	45,000	–	45,000	–
Environmental Facilities Corporation Revenue Bonds									
(b)	1998B		3.65-5.20%	2017	3,980	–	(285)	3,695	290
(b)	1999A		2.77-4.91%	2018	3,890	–	(235)	3,655	240
(b)	2000A		3.80-5.96%	2019	650	–	(35)	615	35
(b)	2000B		4.31-5.74%	2020	4,280	–	(205)	4,075	210
(b)	2001A		3.48-5.17%	2021	8,120	–	(430)	7,690	435
(b)	2001B		2.62-5.15%	2021	13,775	–	(685)	13,090	710
(b)	2002A		1.36-5.00%	2022	8,715	–	(445)	8,270	445
(b)	2002B		1.33-5.12%	2022	7,115	–	(335)	6,780	340
(b)	2003B		0.72-4.50%	2023	7,665	–	(370)	7,295	370
(b)	2004A		1.20-4.96%	2024	6,043	–	(218)	5,825	250
(b)	2005B		2.08-4.02%	2026	6,597	–	(259)	6,338	258
		Total bonds outstanding			487,075	$ 45,000	$ (10,652)	521,423	$ 10,968
		Less: Unamortized discount (premium)			(1,737)			(1,003)	
		Deferred amount			5,449			4,827	
		Current maturities payable			10,652			10,968	
					$ 472,711			$ 506,631	

(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.

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 Senior Lien Water System 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.

The Authority did not issue any additional Water System Revenue Bonds during the fiscal year ended May 31, 2009.

During fiscal year ended May 31, 2008, the Authority entered into the following bond transactions:

In December 2007, the Authority issued $45,000,000 Senior Lien Water System Revenue Bonds, Series 2007A to refund all outstanding Variable Rate Bond Anticipation Notes, 2003 in the amount of $41,900,000 due January 1, 2008. The Series 2007A bonds bear interest at rates ranging from 4.0% to 4.5% and have a final maturity date of June 1, 2032.

In January 2008, the Authority issued $70,000,000 of Variable Rate Bond Anticipation Notes, 2008. The proceeds are to be used to finance the cost of acquisition and construction of improvements and additions to the water system. The notes mature on January 15, 2013, and are expected to be periodically remarketed to bear interest based on the minimum interest rate that, under prevailing financial conditions, enables the notes to be sold at par, subject to the applicable effective interest rate period.

In March 2008, the Authority remarketed the outstanding $70,000,000 Senior Lien Water System Variable Rate Revenue Bonds, Series 2006A. This remarketing memorandum was prepared for the purpose of converting the Auction Rate to a Long-Term Interest Rate. The Series 2006A bonds bear interest at a rate of 4.95% and have a final maturity date of June 1, 2031.

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 providing financial assistance from the Revolving Fund. The Corporation issues bonds, the proceeds of which are used to fund the Revolving Fund which then provides loans to the 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.

The Authority did not issue additional Water System Revenue Bonds through the Corporation during the fiscal years ended May 31, 2009 and 2008.

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, 2009, the amount of defeased debt obligation outstanding amounts to $140,039,800.

Interest expense on the bonds outstanding was approximately $22,591,000 and $20,561,000 for the years ended May 31, 2009 and 2008, respectively.

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

	Principal	Interest	Total
		(In Thousands)	
Fiscal year ending:			
2010	$ 9,755	$ 23,221	$ 32,976
2011	11,525	22,695	34,220
2012	11,630	22,160	33,790
2013	13,275	21,646	34,921
2014	13,795	21,093	34,888
2015-2019	85,515	94,492	180,007
2020-2024	101,730	72,049	173,779
2025-2029	132,170	44,028	176,198
2030-2032	131,060	9,638	140,698
	$ 510,455	$ 331,022	$ 841,477

5. Debt Service Requirements

As prescribed in the Authority's Resolution, the Authority is required to maintain a Reserve Account for each Series of Bonds to be held in the custody of the Bond Fund Trustee in an amount equal to the lesser of (1) 10% of the proceeds of the particular bond issue, (2) the maximum debt service due on the particular bond issue, or (3) 125% of the average of the annual installments of Debt Service with respect to all current and future years of the particular bond issue. The resolution permits the Authority to deposit a letter of credit, surety agreement, insurance agreement or other type of agreement or arrangement with an entity whose obligations are rated in one of the two highest rating categories by Standard and Poor's Ratings Services or Moody's Investors Service in order to satisfy the Reserve Account requirements. The Authority has elected to maintain bond insurance on the Senior Lien Water System Revenue Bonds Series 1993, 1997, 1997A, 2003, 2003C, 2005C, 2006A and 2007A and Subordinate Lien Water System Revenue Bonds Series 1993 and 1994 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 Senior Lien Water System Revenue Bonds Series 2001A, 2005 Refunding and EFC Revenue Bonds Series 1998B, 1999A, 2000A, 2000B, 2001A, 2001B, 2002A, 2002B, 2003B, 2004A and 2005B Bonds, the Authority elected to maintain a minimum debt service balance of 10% of the proceeds. At May 31, 2009, the debt service reserve held funds that amounted to approximately $19,520,000.

Revenue before interest expense and depreciation and amortization was equivalent to 3.95 times (2.19 in 2008) the debt service requirement for the year ended May 31, 2009. The minimum debt service requirement on all bonds is 1.10.

6. Notes Payable

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

Series	Final Maturity Date	Balance at May 31, 2008	Issued	Redeemed	Balance at May 31, 2009	Due Within One Year
				(In Thousands)		
2004	12/01/09	$ 60,000	$ –	$ –	**$ 60,000**	$ 60,000
2008	01/15/13	70,000	–	–	**70,000**	–
Total notes outstanding		$130,000	$ –	$ –	**$130,000**	$ 60,000

6. Notes Payable (continued)

Series	Final Maturity Date	Balance at May 31, 2007	Issued	Redeemed	Balance at May 31, 2008	Due Within One Year
				(In Thousands)		
2003	01/01/08	$ 41,900	$ –	$ (41,900)	$ –	$ –
2004	12/01/09	60,000	–	–	60,000	–
2008	01/15/13	–	70,000	–	70,000	–
Total notes outstanding		$ 101,900	$ 70,000	$ (41,900)	$ 130,000	$ –

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 semiannually. Interest is payable periodically, based upon the effective interest rate period, through December 1, 2009, and January 15, 2013, the date of principal maturity, for the 2004 and 2008 notes, respectively.

For the years ended May 31, 2009 and 2008, the effective interest rate was 1.01% and 2.69%, respectively.

Interest expense on the BANS was approximately $1,593,000 and $3,119,000 for the years ended May 31, 2009 and 2008, respectively.

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, multiemployer, 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:

7. Pension Plan (continued)

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 2% of final average salary for each year of service (not to exceed 30 years), plus 1.5% 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.

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.

7. Pension Plan (continued)

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 \$2,052,797, \$2,499,226 and \$2,493,415 for the years ended May 31, 2009, 2008 and 2007, 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 \$879,770, \$1,071,097 and \$1,066,946 for the years ended May 31, 2009, 2008, and 2007 respectively.

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 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 \$25,768,000 and \$28,522,000 at May 31, 2009 and 2008, respectively.

9. Postemployment Benefits Other Than Pensions

The Authority sponsors a single employer health care plan that provides postemployment medical and dental benefits for eligible retirees and their spouses through the New York State Health Insurance Plan. Substantially all of the Authority's employees may become eligible for these benefits if they reach normal retirement age while working for the Authority. The Authority does not issue a publicly available financial report for the plan.

Benefit provisions for the plan are established and amended through the Authority's Board of Directors, and there is no statutory requirement for the Authority to continue this plan for future Authority employees. The plan is a noncontributory plan, with all payments for plan benefits being funded by the Authority. During 2009, there were 904 participants that were eligible to receive benefits.

In June 2004, the GASB issued Statement No. 45. The Statement establishes guidance for the financial reporting of 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. The Authority adopted this new standard effective June 1, 2008.

In accordance with this standard, the Authority's annual OPEB cost for the plan is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Authority's annual OPEB cost for the year, the amount contributed to the plan, and changes in the Authority's net OPEB obligation for the years ended May 31, 2009 and 2008 (in thousands):

	2009	**2008**
Annual required contribution	**$ 15,204**	$ 15,204
Interest on net OPEB obligation	**479**	–
Annual OPEB cost (expense)	**15,683**	15,204
Contributions made	**(3,362)**	(3,232)
Increase in net OPEB obligation	**12,321**	11,972
Net OPEB obligation, beginning of year	**11,972**	–
Net OPEB obligation, end of year	**$ 24,293**	$ 11,972

9. Postemployment Benefits Other Than Pensions (continued)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (dollars in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
May 31, 2009	$15,683	21.4%	$24,293
May 31, 2008	$15,204	21.3%	$11,972

As of May 31, 2007, the actuarial accrued liability for benefits was $166,487,365, all of which was unfunded. As of May 31, 2008, the covered payroll (annual payroll of active employees covered by the plan) was $36,035,914, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 462%.

The actuarial valuation date is May 31, 2007. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplemental information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Authority and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

For the May 31, 2007 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate and an annual health care cost trend rate of 10.5% medical and 6.5% dental and grading down to an ultimate rate of 5%. The unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of projected payroll on an open basis. The remaining amortization period at May 31, 2009 was 28 years.

10. Commitments and Contingencies

Operating Leases

As of May 31, 2009, the Authority is obligated under several operating leases with various lease terms through 2014, for telephone, copiers and mail machine (in thousands):

Year ending May 31:	
2010	$ 297
2011	286
2012	161
2013	109
2014	14

Rental expense for operating leases was approximately $374,000 and $410,000 for the years ended May 31, 2009 and 2008, respectively.

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 subject to a stop loss aggregate of $1,507,000. The Authority purchases commercial insurance for claims in excess of this self-insured retention limit 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 when the Authority purchased loss sensitive insurance policies. A loss sensitive policy requires the insured to pay that portion of the premium that is in excess of a minimum premium. It is also subject to a maximum premium.

10. Commitments and Contingencies (continued)

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 $2,750,139 and $3,441,533 at May 31, 2009 and 2008, respectively, and is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, 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 2009 and 2008 were:

	Year Ended May 31	
	2009	**2008**
Unpaid claims, beginning of fiscal year	**$ 1,060,270**	$ 826,308
Changes in the estimate for claims of all years	**(325,036)**	855,169
Retroactive payments	**(270,822)**	(621,207)
Unpaid claims, end of fiscal year	**$ 464,412**	$ 1,060,270

Changes in the Authority's general and automobile claims liability amount in fiscal 2009 and 2008 were:

	Year Ended May 31	
	2009	**2008**
Unpaid claims, beginning of fiscal year	**$ 2,381,263**	$ 2,186,947
Changes in the estimate for claims of all years	**182,369**	632,010
Claim payments	**(277,905)**	(437,694)
Unpaid claims, end of fiscal year	**$ 2,285,727**	$ 2,381,263

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 and related debt.
- *Restricted Net Assets* are the net assets that have been restricted for 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.

Changes in Net Assets

The changes in net assets are as follows:

	Invested in Capital Assets	Unrestricted	Restricted	Total
	(In Thousands)			
Net assets at May 31, 2007	$ 389,527	$ 132,111	$ 33,923	$ 555,561
Income	–	15,165	–	15,165
Transfers	(8,962)	6,191	2,771	–
Net assets at May 31, 2008	380,565	153,467	36,694	570,726
Income	**–**	**76,003**	**–**	**76,003**
Transfers	**(18,774)**	**19,316**	**(542)**	**–**
Net assets at May 31, 2009	**$ 361,791**	**$ 248,786**	**$ 36,152**	**$ 646,729**

Required Supplemental Information

Suffolk County Water Authority

Schedule of Funding Progress for the
Retiree Healthcare Plan

(Dollars in Thousands)

Actuarial Valuation Date	**Actuarial Value of Assets (a)**	**Actuarial Accrued Liability (AAL) – Level Dollar (b)**	**Unfunded AAL (UAAL) (b-a)**	**Funded Ratio (a/b)**	**Covered Payroll (c)**	**UAAL as a Percentage of Covered Payroll (b-a)/c**
May 31, 2007	$ –	$166,487	$166,487	0%	$36,036	462%

Ernst & Young LLP
Five Times Square
New York, NY 10036-6530

Tel: +1 212 773 3000
Fax: +1 212 773 6350
www.ey.com

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of
Suffolk County Water Authority

We have audited the financial statements of the Suffolk County Water Authority (the "Authority") as of and for the year ended May 31, 2009, and have issued our report thereon dated August 31, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Members of the Suffolk County Water Authority, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

August 31, 2009

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APPENDIX C

Proposed Form of Opinion of Bond Counsel Relating to the Series 2009 Bonds

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Upon delivery of the Series 2009 Bonds,
Nixon Peabody LLP, Bond Counsel,
proposes to render an opinion in
substantially the following form:

, 2009

Suffolk County Water Authority
Oakdale, New York

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance of the (i) $66,395,000 principal amount of Water System Revenue Bonds, Series 2009A (the "Series 2009A Bonds"), (ii) $13,415,000 principal amount of Water System Revenue Bonds, Series 2009 Refunding (the "2009 Refunding Bonds") and (iii) $100,000,000 principal amount of Water System Revenue Bonds, Series 2009B (Federally Taxable – Build America Bonds) (the "Taxable Bonds" and collectively with the Series 2009A Bonds and the 2009 Refunding Bonds, the "Bonds") each dated their date of delivery 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 Bonds 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 and as further amended on March 30, 1993 and on November 29, 1994 (herein sometimes called the "Resolution") and as supplemented by the supplemental resolution of the Authority adopted on October 27, 2009 (the "Supplemental Resolution").

The Series 2009A Bonds are being issued (i) to retire all of the Authority's outstanding Variable Rate Bond Anticipation Notes, 2004 previously issued by the Authority to finance the Cost of Acquisition and Construction of improvements and additions to the Water System, (ii) to fund a deposit to the Reserve Account, Series 2009A and (iii) to pay costs of issuance relating to the Series 2009A Bonds. The Series 2009A Bonds are the twenty-eighth Series of Senior Lien Bonds issued under the Resolution. The 2009 Refunding Bonds are being issued (i) to provide moneys for the refunding of certain Outstanding Senior Lien Bonds of the Authority, (ii) to fund a deposit to the Reserve Account, Series 2009 and (iii) to pay costs of issuance relating to the 2009 Refunding Bonds. The 2009 Refunding Bonds are the twenty-ninth Series of Senior Lien Bonds issued under the Resolution. The Taxable Bonds are being issued (i) to finance the Cost of Acquisition and Construction of improvements and additions to the Water System, (ii) to fund a deposit to the Reserve Account, Series 2009B and (iii) to pay costs of issuance relating to the Taxable Bonds. The Taxable Bonds are the thirtieth Series of Senior Lien Bonds issued under the Resolution. All capitalized terms used herein and not otherwise defined shall have the respective meanings ascribed thereto 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 Bonds 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 Bonds.

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 Bonds 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 payable on a parity with all other outstanding Senior Lien Bonds heretofore and hereafter issued under the Resolution solely from the Net Revenues of the Water System of the Authority, subject to the prior payment of debt service on certain outstanding Water Works Revenue Bonds of the Authority, and the Authority has the power and is obligated to fix and collect rates and other charges for the water, services and facilities sold, furnished or supplied by the Water System sufficient to provide for the payment of the principal of and interest on all Bonds issued and to be issued under the Resolution, including the Bonds, as the same respectively mature and to comply in all other respects with the provisions of the Resolution and Supplemental Resolution.

5. The Internal Revenue Code of 1986 (the "Code") sets forth certain requirements which must be met subsequent to the issuance and delivery of the Series 2009A Bonds and the 2009 Refunding Bonds (collectively the "2009 Tax Exempt Bonds") 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 2009 Tax Exempt Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issuance of the 2009 Tax Exempt Bonds. 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 2009 Tax Exempt Bonds 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 2009 Tax Exempt Bonds. 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 2009 Tax Exempt Bonds are 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. No opinion is expressed as to whether interest on any portion of the 2009 Tax-Exempt Bonds is excluded from the adjusted current earnings of corporations for purposes of computing the alternative minimum tax imposed on corporations.

6. Interest on the Taxable Bonds is not excluded from gross income for Federal income tax purposes and so will be fully subject to Federal income taxation; this opinion is not intended or provided by Bond Counsel to be used and cannot be used by an owner of the Taxable Bonds for the purpose of avoiding penalties that may be imposed on the owner of such Taxable Bonds. The opinion set forth in this paragraph is provided to support the promotion or marketing

of the Taxable Bonds. Each owner of the Taxable Bonds should seek advice based on its particular circumstances from an independent tax advisor.

7. Bond Counsel is further of the opinion that the difference between the principal amount of the 2009 Tax Exempt Bonds maturing June 1, 2015, bearing interest at the rate of 2.25%, June 1, 2016, bearing interest at the rate of 2.50%, June 1, 2017, bearing interest at the rate of 2.75%, June 1, 2023 through June 1, 2024, inclusive, June 1, 2026 through June 1, 2033, inclusive and on June 1, 2035 (collectively the "Discount Bonds") and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the 2009 Tax Exempt Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment.

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

Except as stated in paragraphs 5 through 8, we express no opinion as to any other Federal or state tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds 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 Bonds 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,

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APPENDIX D

BOOK-ENTRY ONLY SYSTEM

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APPENDIX D

Book-Entry Only System

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Series 2009 Bonds. The Series 2009 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2009 Bond certificate will be issued for each maturity of the Series 2009 Bonds, each in an aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. 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 Series 2009 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2009 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2009 Bond ("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 Series 2009 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2009 Bonds, except in the event that use of the book-entry system for the Series 2009 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2009 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2009 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2009 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2009 Bonds 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 Series 2009 Bonds within a maturity 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 Series 2009 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2009 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2009 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Bond Fund Trustee 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 Bond Fund Trustee, 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 Bond Fund Trustee, 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.

DTC may discontinue providing its services as depository with respect to the Series 2009 Bonds at any time by giving reasonable notice to the Authority or the Bond Fund Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2009 Bond 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, bond certificates will be printed and delivered to DTC. See "Transfers and Exchanges of Series 2009 Bonds 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 believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE BOND FUND TRUSTEE 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 OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2009 BONDS; (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 SERIES 2009 BONDHOLDERS; AND (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2009 BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS SERIES 2009 BONDHOLDER.

Each person for whom a Participant acquires an interest in the Series 2009 Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments. NEITHER THE AUTHORITY NOR THE BOND FUND TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE SERIES 2009 BONDS.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Bond Fund Trustee to DTC only.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2009 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE SERIES 2009 BOND OWNERS OR REGISTERED OWNERS OF THE SERIES 2009 BONDS SHALL (OTHER THAN UNDER THE SECTION "TAX MATTERS" HEREIN) MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2009 BONDS.

For every transfer and exchange of the Series 2009 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Transfers and Exchanges of Series 2009 Bonds 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 Series 2009 Bonds, the following provisions applicable to registered owners would apply: (i) Series 2009 Bonds may be exchanged for an aggregate principal amount of Series 2009 Bonds in authorized denominations of the same maturity and interest rate, upon surrender thereof at the principal corporate trust office of the Registrar; (ii) the transfer of any Series 2009 Bonds may be registered on the books maintained by the Registrar for such purpose only upon the surrender thereof to the Registrar together with a duly executed assignment in form satisfactory to the Authority and the Registrar; (iii) for every exchange or registration of transfer of Series 2009 Bonds, the Registrar may make a change 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 Series 2009 Bonds; and (iv) the Registrar will not be required (a) to issue, transfer or exchange any Series 2009 Bond during the 15 days preceding the day of mailing of a notice of redemption of Series 2009 Bonds selected for redemption, or (b) to transfer or exchange any Series 2009 Bond so selected for redemption in whole or in part.

In the event that the book-entry only system is discontinued, principal and redemption price will be payable upon surrender of the Series 2009 Bond at the principal corporate trust office of the Bond Fund Trustee; and interest will be payable and due on and after the date of such discontinuance on each interest payment date by check or draft mailed to the Registered Owners as reflected on the bond registration books as of the close of business on the Record Date.

During any and all times that the Series 2009 Bonds 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 Series 2009 Bond shall be transferable or exchangeable only upon the Series 2009 Bond registration books by the registered holder thereof or by his attorney duly authorized in writing, upon presentation and surrender of such Series 2009 Bond to the Bond Fund Trustee, together with a written instrument of transfer satisfactory in form to the Bond Fund Trustee, duly executed by the registered holder or his duly authorized attorney. Upon the surrender of any Series 2009 Bond or Series 2009 Bonds for transfer or exchange, the Bond Fund Trustee shall redeliver in the name of the transferee or exchange one or more new Series 2009 Bond or Series 2009 Bonds of the same aggregate principal amount, maturity and interest rate as the surrendered Series 2009 Bond or Series 2009 Bonds, in any denomination authorized by the Series 2009 Resolution and in the manner and subject to the conditions set forth in the Series 2009 Resolution. All transfers and exchanges shall be made without expense to the registered holder of such Series 2009 Bond, except that the Bond Fund Trustee may require the payment by the registered holder of the Series 2009 Bond 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 Series 2009 Bonds shall be subject to such provisions as may be prescribed from time to time by the Authority and the Bond Fund Trustee. The Authority and the Bond Fund Trustee may deem and treat the person in whose name a Series 2009 Bond is registered upon the Series 2009 Bond registration books as the absolute owner of such Series 2009 Bonds for the purpose of receiving payment of the principal of, and redemption price, if any, of and interest on the Series 2009 Bonds and for all other purposes, and they shall not be affected by any notice to the contrary.

APPENDIX E

Table of Refunded Bonds

The 2009 Refunding Bonds are being issued for the purposes of refunding the following Bonds of the Authority:

Series Refunded	Principal Amount Outstanding	Principal Amount to be Refunded	Interest Rate	Maturity Date June 1,	Redemption Date	Redemption Price
Series 1997 Bonds	$2,840,000	$2,840,000	5.0%	2011	December 17, 2009	100%
Series 1997A Bonds	4,140,000	4,140,000	5.0	2019	December 17, 2009	100
	7,090,000	7,090,000	5.0	2022	December 17, 2009	100

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