

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2011 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). In the further opinion of Bond Counsel, interest on the 2011 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes although Bond Counsel observes that interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2011 Bonds. See "TAX MATTERS."

The Authority will designate the 2011 Bonds as a qualified, tax-exempt obligation pursuant to 265(b)(3) of the Internal Revenue Code of 1986.

**DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
(NEW YORK)
\$1,935,000 SERVICE AGREEMENT REVENUE BONDS, SERIES 2011**

Dated: Date of Delivery

Due: October 1, as shown on the inside cover

The \$1,935,000 Service Agreement Revenue Bonds, Series 2011 (the "2011 Bonds") will be issued by the Dutchess County Water and Wastewater Authority (the "Authority") as fully registered bonds without coupons in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2011 Bonds. Purchases will be made in book entry form through DTC Participants only in the principal amount of \$5,000 or any integral multiple thereof, and no physical delivery of the 2011 Bonds will be made to purchasers. Payment of the principal, interest and premium, if any, will be made to purchasers by DTC through Participants. Interest is payable on April 1, 2012 and on each October 1 and April 1 thereafter, by check mailed to each holder of record as of the Record Date or, at the option of any holder of 2011 Bonds in an aggregate principal amount of \$1,000,000 or more, by wire transfer as provided in the Resolution.

The 2011 Bonds are subject to optional redemption prior to maturity. See "Description of the 2011 Bonds" herein.

The proceeds of the 2011 Bonds together with certain Authority funds on hand will be used by the Authority (i) to repay the \$1,930,800 million Hyde Park and Birch Hill Water System 2010 Service Agreement Revenue Notes (the "Notes") used to fund project development, engineering design and construction costs for certain improvements to the Hyde Park and Birch Hill Regional Water Systems and accrued interest on the Notes and (ii) to pay the costs of issuance of the 2011 Bonds.

The 2011 Bonds are special obligations of the Authority and are payable solely from the revenues, funds and assets pledged as security for the payment thereof, including payments from Dutchess County (the "County") under a Service Agreement between the County and the Authority, dated as of June 1, 1998, and amended and restated as of February 1, 2009 in amounts sufficient to pay when due all installments of principal of, premium, if any, and interest on all 2011 Bonds issued by the Authority. The 2011 Bonds shall be on a parity with other Additional Parity Indebtedness (as that term is defined herein) heretofore and hereafter issued by the Authority pursuant to the Resolution.

The 2011 Bonds are not general obligations of the County and the faith and credit of the County is not pledged for the payments under the Service Agreement. The 2011 Bonds are special obligations of the Authority, which has no taxing power.

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

The 2011 Bonds are offered when, as and if issued and received by the purchaser, subject to approval of legality by Orrick Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the Authority. Environmental Capital LLC, New York, New York, has acted as Financial Advisor to the Authority. It is expected that the 2011 Bonds in definitive form will be available for delivery through The Depository Trust Company in New York, New York on or about November 16, 2011.

ROOSEVELT & CROSS, INC.

Dated: November 3, 2011

Dutchess County Water and Wastewater Authority, New York
\$1,935,000 SERVICE AGREEMENT REVENUE BONDS, SERIES 2011

<u>Maturity Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP</u>
10/1/2012	\$30,000	3.500%	0.750%	267048FC5
10/1/2013	30,000	3.500%	1.000%	267048FD3
10/1/2014	35,000	3.500%	1.250%	267048FE1
10/1/2015	35,000	3.500%	1.500%	267048FF8
10/1/2016	35,000	3.500%	1.800%	267048FG6
10/1/2017	40,000	3.500%	2.000%	267048FH4
10/1/2018	40,000	3.500%	2.250%	267048FJ0
10/1/2019	40,000	3.500%	2.500%	267048FK7
10/1/2020	40,000	3.500%	2.750%	267048FL5
10/1/2021	45,000	4.000%	2.900%	267048FM3
10/1/2022	50,000	4.000%	3.000%	267048FN1
10/1/2023	55,000	4.000%	3.150%	267048FP6
10/1/2024	55,000	4.000%	3.300%	267048FQ4
10/1/2025	55,000	4.000%	3.400%	267048FR2
10/1/2026	60,000	4.000%	3.500%	267048FS0
10/1/2027	60,000	4.000%	3.600%	267048FT8
10/1/2028	65,000	4.000%	3.700%	267048FU5
10/1/2029	65,000	4.000%	3.800%	267048FV3
10/1/2030	70,000	4.000%	3.900%	267048FW1
10/1/2031	70,000	4.000%	4.000%	267048FX9
10/1/2032	75,000	4.125%	4.040%	267048FY7
10/1/2033	80,000	4.125%	4.080%	267048FZ4
10/1/2034	85,000	4.125%	4.125%	267048GA8
10/1/2035	90,000	4.250%	4.150%	267048GB6
10/1/2036	95,000	4.250%	4.200%	267048GC4
10/1/2037	95,000	4.250%	4.220%	267048GD2
10/1/2038	100,000	4.250%	4.220%	267048GE0
10/1/2039	105,000	4.250%	4.250%	267048GF7
10/1/2040	115,000	4.250%	4.250%	267048GG5
10/1/2041	120,000	4.250%	4.250%	267048GH3

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY

Dutchess County Water and Wastewater Authority
27 High Street
Poughkeepsie, New York 12601
(845) 486-3601

GOVERNING BOARD

Thomas E. LeGrand
Vincent J. DiMaso
Rudy Vavra
Patrick Dealy

Chairman
Treasurer
Secretary
Member

Executive Director
Bridget Barclay

Deputy Director/Staff Treasurer
Mary C. Morris

Independent Accountant
Bond Counsel
Special Counsel

Financial Advisor
Engineer

Sedore and Company CPAs, P.C.
Orrick, Herrington & Sutcliffe LLP
Drake, Loeb, Heller, Kennedy,
Gogerty, Gaba & Rodd PLLC
Environmental Capital LLC
Savin Engineers, PC

Trustee under the Resolution
The Bank of New York Mellon
New York, New York

No dealer, broker, salesperson or other person has been authorized by the Dutchess County Water and Wastewater Authority (the "Authority") to give any information or to make any representations, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. 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 2011 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been furnished by the Authority and by other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness. The information and expressions of opinion 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 since the date hereof.

THE 2011 BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY (NEW YORK) \$1,935,000 SERVICE AGREEMENT REVENUE BONDS, SERIES 2011

INTRODUCTORY STATEMENT

This Official Statement, which includes the cover page and the exhibits and appendices hereto, provides certain information in connection with the issuance and sale by the Dutchess County Water and Wastewater Authority (the "Authority") of its \$1,935,000 aggregate principal amount of Service Agreement Revenue Bonds, 2011 (the "2011 Bonds"). The 2011 Bonds are to be issued under and secured by the Authority's 1998 Water System General Revenue Bond Resolution adopted on May 5, 1998 (the "General Resolution"), as supplemented by a Twelfth Supplemental Resolution adopted on September 21, 2011 (the "Twelfth Supplemental Resolution"). The General Resolution and the Twelfth Supplemental Resolution are hereinafter referred to, collectively, as the "Resolution". The Bank of New York Mellon, New York, New York is the Trustee under the Resolution (the "Trustee").

The 2011 Bonds shall be on a parity with other Additional Parity Indebtedness (as that term is defined herein) heretofore and hereafter issued by the Authority pursuant to the Resolution.

A glossary of certain terms used in this Official Statement is set forth in Appendix B.

The proceeds of the 2011 Bonds together with certain Authority funds on hand will be used by the Authority (i) to repay the \$1,930,800 million Hyde Park and Birch Hill Water System 2010 Service Agreement Revenue Notes (the "Notes") used to fund project development, engineering design and construction costs for certain improvements to the Hyde Park Regional and Birch Hill Water Systems and accrued interest on the Notes and (ii) to pay the costs of issuance of the 2011 Bonds. See Appendix E hereto, "THE RESOLUTION" and Appendix A hereto, "SUMMARY REPORTS OF ENGINEER".

The 2011 Bonds are special obligations of the Authority, and are payable solely from the revenues, funds and assets pledged as security for the payment thereof, including payments from the County under an Amended and Tenth Restated Service Agreement between the County and the Authority dated as of February 1, 2009 (the "Service Agreement"). Under the Service Agreement, the County has agreed to make quarterly Service Fee payments in amounts sufficient to pay, when due, all installments of principal of, premium, if any, and interest on all 2011 Bonds and all Operating Expenses of the Authority, less amounts collected by the Authority through the rates, fees and charges (the "Water Rates") within the Water System and on deposit in certain operating accounts of the Authority; provided, however, that the County is not required to pay the Service Fee in the event of a Service Failure, which the Service Agreement defines as the failure of the Authority to supply potable water to in excess of, collectively, 25% of the Persons within the Water System service area, for a period of ninety (90) consecutive days.

See "SECURITY FOR THE BONDS", "Appendix F — THE SERVICE AGREEMENT" and see "Appendix C — AUTHORITY'S FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010," herein. For information on the County, see "Appendix D — DUTCHESS COUNTY AUDITED FINANCIAL STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2010.

The Authority has covenanted with the County in the Service Agreement to set Water Rates in amounts sufficient to enable the Authority to pay all Operating Expenses of the Water System. Neither the New York State Public Service Commission 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 or regulation of the Water Rates fixed by the Authority.

The Authority was established in 1991 by the Legislature of the State of New York (the “State”) under the Dutchess County Water and Wastewater Authority Act, now codified as Title 6 — C of Article 5 of the Public Authorities Law of the State (the “Act”), as a body corporate and politic constituting a public benefit corporation. The Act authorizes the Authority, among other things, to acquire, by purchase or by condemnation pursuant to the eminent domain procedure law, any real or personal property or any interest therein, as the Authority may deem necessary, convenient or desirable to carry out the purposes of the Act, and to maintain, improve and construct water and sewer facilities. The Authority currently operates a water system (the “Water System”) serving customers in the Towns of Hyde Park, Rhinebeck, Red Hook, Pleasant Valley, Dover, Pawling and Beekman, New York and operates separate sewer systems in the Towns of Pleasant Valley and Beekman, New York. See “THE AUTHORITY” herein.

The Water System serves approximately 2,908 separate accounts, of which 2,529 are residential, and 379 are commercial, industrial and institutional. The Water System provides potable water to an area in the aggregate of approximately 13.1 square miles, including a residential population of approximately 13,109. For a discussion of the characteristics of the Water System, see “THE WATER SYSTEM” herein.

This Official Statement contains brief descriptions of the Authority, the Water System, the County, the terms of and security for the 2011 Bonds, the Service Agreement and the Resolution. For certain portions of this Official Statement the Authority has relied upon the assumptions and conclusions set forth in the summary reports (the “Summary Reports”) of Savin Engineers P.C. (the “Engineer”), copies of which are included as Appendix A hereto. Information on the County included in Appendix D was obtained from the County and is believed to be accurate. The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete and each such document, statute, report or instrument is qualified in its entirety by reference to each such document, statute, report or instrument, copies of which are available from the Authority. All references to the 2011 Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Resolution. The capitalization of any word herein not conveniently capitalized indicates that such word is defined in the Resolution or this Official Statement.

APPLICATION OF 2011 BOND PROCEEDS

The application of the proceeds of the 2011 Bonds is set forth below:

Sources of Funds	
Par Amount of 2011 Bonds	\$1,935,000.00
Unspent Note Proceeds	1,537,667.77
Total Sources	\$3,472,667.77
Uses of Funds	
Deposit to repay the Notes	\$1,905,800.00
Payment of interest on the Notes	26,859.08
Deposit to 2011 Bond Construction Fund Account	1,445,008.69
Costs of Issuance	95,000.00
Total Uses	\$3,472,667.77

DEBT SERVICE

The following is a schedule of the gross debt service requirements of the Authority's existing Bonds and of the 2011 Bonds for each Fiscal Year ending December 31, except for the debt service on the 1999 EFC Refunding Bonds and the 2002 EFC Refunding Bonds, which is net of the approximately 33% interest rate subsidy provided by the New York State Environmental Facilities Corporation, the holder of such Bonds:

Existing Debt Service		2011 Bonds Debt Service			
Fiscal Year	Total	Principal	Interest	Total	Total Bonds Debt Service
2011	\$2,255,804				\$2,255,804
2012	2,297,906	\$30,000	\$68,141	\$98,141	2,396,047
2013	2,300,698	30,000	76,825	106,825	2,407,523
2014	2,293,594	35,000	75,775	110,775	2,404,369
2015	2,306,903	35,000	74,550	109,550	2,416,453
2016	2,315,666	35,000	73,325	108,325	2,423,991
2017	2,309,876	40,000	72,100	112,100	2,421,976
2018	2,320,148	40,000	70,700	110,700	2,430,848
2019	2,330,915	40,000	69,300	109,300	2,440,215
2020	2,602,506	40,000	67,900	107,900	2,710,406
2021	2,542,064	45,000	66,500	111,500	2,653,564
2022	2,566,845	50,000	64,700	114,700	2,681,545
2023	2,565,323	55,000	62,700	117,700	2,683,023
2024	2,532,700	55,000	60,500	115,500	2,648,200
2025	2,374,325	55,000	58,300	113,300	2,487,625
2026	2,376,325	60,000	56,100	116,100	2,492,425
2027	2,372,075	60,000	53,700	113,700	2,485,775
2028	2,371,825	65,000	51,300	116,300	2,488,125
2029	2,372,750	65,000	48,700	113,700	2,486,450
2030	835,000	70,000	46,100	116,100	951,100
2031	835,000	70,000	43,300	113,300	948,300
2032	835,000	75,000	40,500	115,500	950,500
2033	835,000	80,000	37,406	117,406	952,406
2034	835,000	85,000	34,106	119,106	954,106
2035	835,000	90,000	30,600	120,600	955,600
2036	835,000	95,000	26,775	121,775	956,775
2037	835,000	95,000	22,738	117,738	952,738
2038	835,000	100,000	18,700	118,700	953,700
2039	835,000	105,000	14,450	119,450	954,450
2040	250,000	115,000	9,988	124,988	374,988
2041	250,000	120,000	5,100	125,100	375,100

SECURITY FOR THE 2011 BONDS

The Service Agreement

The 2011 Bonds are special obligations of the Authority, which has no taxing power, and are payable solely from the revenues, funds and assets pledged as security for the payment thereof, including payments from the County under the Service Agreement between the County and the Authority, including amounts sufficient to pay when due all installments of principal of, premium, if any, and interest on all 2011 Bonds issued by the Authority.

The 2011 Bonds will constitute Bonds under the Resolution and, notwithstanding the time of their authentication and delivery or maturity, all Bonds will be secured equally without preference, priority or distinction of any such Bond over any other such Bond except as expressly provided in or permitted by the Resolution by the pledges created by and covenants of the Authority made in the Resolution. The 2011 Bonds are the tenth series of Bonds to be issued under the Resolution and shall be on a parity with other outstanding Additional Parity Indebtedness heretofore or hereafter issued by the Authority pursuant to the Resolution.

Under the Service Agreement, the County shall pay to the Authority quarterly on each Service Fee Payment Date, a Service Fee equal to the sum of (i) the amount of principal of, interest on and redemption premium for, if any, the Bonds previously issued and outstanding under the Resolution coming due during the Calculation Period (as defined in the Service Agreement), (ii) the amount of principal of, interest on and redemption premium for, if any, any Additional Indebtedness becoming due during the Calculation Period to pay costs of Alterations to the Water System as may be required from time to time to meet Governmental Requirements as provided in Section 4.5 of the Service Agreement, (iii) the amount of principal of, interest on and redemption premium for, if any, any Additional Indebtedness becoming due during the Calculation Period to pay Litigation Expenses (as defined in the Resolution, (iv) the amount of principal of, interest on and redemption premium for, if any, any Additional Indebtedness becoming due during the Calculation Period, the issuance and inclusion as a component of the Service Fee to which the County has consented, (v) the amount, if any, required to be deposited during the Calculation Period in any reserve fund established under the Resolution, and (vi) the aggregate amount of Hyde Park Water System Operating Expenses, of Staatsburg Water System Operating Expenses, of Zone D (Harbour Hills) Water System Operating Expenses, of Schreiber Water System Operating Expenses, of Valleydale Water System Operating Expenses, of Rokeby Water System Operating Expenses, of Crofton Mews Water Distribution Operating Expenses, of Dalton Farms Water System Operating Expenses, of Jeffrey Groves Estate Water Distribution Operating Expenses, of Shore Haven Water System Operating Expenses, of Birch Hill Water System Operating Expenses, and of Zone L Water Distribution System Operating Expenses and of any other Operating Expenses, less the aggregate amount on deposit in the Hyde Park Water System Operating Expense Account, in the Staatsburg Water System Operating Expense Account, in the Harbour Hills Water System Operating Expense Account, in the Schreiber Water System Operating Expense Account, in the Valleydale Water System Operating Expense Account, in the Rokeby Water System Operating Expense Account, in the Crofton Mews Water Distribution Operating Expense Account, in the Dalton Farms Water System Operating Expense Account, in the Jeffrey Groves Water System Operating Expense Account, Shore Haven Water System Operating Expense Account, Birch Hill Water System Operating Expense Account, and the Zone L Water System Operating Expense Account or in the other Operating Expense Accounts.

The Service Agreement requires the Authority to provide Water Service, which it defines as the supplying of potable water to Persons residing within the Water System service area, and states that, unless there shall have been a Service Failure, the Authority shall be conclusively deemed to have fully discharged its obligation to provide Water Service, notwithstanding any reduction, suspension,

curtailment, or temporary failure of Water Service. The Service Agreement defines Service Failure as the failure of the Authority to provide Water Service to in excess of, collectively, 25% of the Persons residing within the Water System service area, for a period of ninety consecutive days. The Service Agreement further provides that the Authority may cure any Service Failure provided that within thirty days of the commencement of the Service Failure the Authority delivers to the County a notice (i) of its intention to cure, and (ii) which specifies in reasonable detail the action intended to be taken with respect thereof and the anticipated date of cure, and (iii) within ninety days of the commencement of the Service Failure such cure as has been completed. Thereafter, the County's obligation to pay the Service Fee is reinstated, and on the next succeeding Service Fee Payment Date the County will be required to pay the Service Fee that would otherwise have been payable on such Service Fee Payment Date. The Service Agreement terminates after a Service Failure when it is no longer possible for the Authority to exercise cure rights.

The County has covenanted and agreed during the Service Agreement Term to annually levy benefit assessments ("Benefit Assessments") in different zones of assessment ("Zone A", "Zone B", "Zone C", "Zone D", "Zone E", "Zone F", "Zone G", "Zone H", "Zone I", "Zone J", "Zone K", "Zone L" and the "Valleydale Zone") to raise monies which, together with County monies to be appropriated, will be sufficient to pay all Service Fees due under the Service Agreement.

The Authority, under the Service Agreement, has agreed to raise monies sufficient to pay Operating Expenses (as defined in the Service Agreement) through the fixing, charging and collection of Water Rates. In the event monies are not raised by the Authority in an amount sufficient to pay Operating Expenses, the County will make up any deficiency pursuant to the Service Agreement. See "SECURITY FOR THE BONDS — 2011 Bonds — Levying of Benefit Assessments", below.

The enforceability of the 2011 Bonds and the Resolution may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws affecting the rights of creditors generally and the enforcement thereof and by principles of equity relating to the availability of remedies.

Pledge Under the Water General Resolution

As security for its obligations to make payments required under the Resolution and to secure the performance and observance of all the covenants and conditions contained therein, the Authority pledges and grants to the Trustee a lien on and security interest in the Trust Estate, which Trust Estate consists of the Revenues (as defined below), receipts, property rights and interest of the Authority.

"Revenues" means all rates, fees, charges and other income and receipts derived from the operation of the Water System including, without limiting the generality of the foregoing, moneys due pursuant to the Service Agreement, investment proceeds and proceeds of insurance, condemnation, and sale or other disposition of assets, together with all Federal, state or municipal aid, if any.

Flow of Funds

Pursuant to the Resolution, the Authority shall create and maintain an "Operating Fund" separate and apart from other funds and accounts of the Authority. The Authority shall, except as provided in the next paragraph, deposit all Revenues received from Water Rates in the Operating Fund immediately upon receipt. The Authority shall cause Revenues received from the County pursuant to the Service Agreement to be transferred to the Trustee for deposit into the Revenue Fund. Revenues will then be distributed by the Trustee in the following priority:

(A) if an Event of Default (as defined in the Service Agreement) has occurred and is continuing under the Service Agreement, an amount to the applicable Operating Expenses subaccount, the amount

estimated in the Annual Budget as the next month's applicable estimated Operating Expenses. In the event that any unanticipated Operating Expenses in excess of the amount set forth in the Annual Budget occur in any month, the Trustee may transfer amounts from the Revenue Fund sufficient to meet such unanticipated Operating Expenses.

(B) from the balance, if any, in the Revenue Fund after making the deposits required by the preceding paragraph, an amount to the Debt Service and Sinking Fund as is necessary so that the balance in the Debt Service and Sinking Fund equals Accrued Debt Service.

(C) from the balance, if any, in the Revenue Fund after making the deposits required by the preceding paragraphs, an amount to the Debt Service Reserve Fund as is necessary so the balance in the Debt Service Reserve Fund equals the Debt Service Reserve Requirement.

(D) from the balance, if any, in the Revenue Fund after making the deposits required by the preceding paragraphs, such amount as is necessary to make all required payments for or in connection with Subordinated Indebtedness, as provided in and in accordance with any Supplemental Resolution or similar document pertaining to such Subordinated Indebtedness.

(E) from the balance, if any, in the Revenue Fund after making the deposits required by the preceding paragraphs, such amount as is necessary to make all required payments in any fund or account as the Authority or the Trustee, at the direction of the Authority, may from time to time create pursuant to Section 5.15 of the Resolution in such amount as is required by said direction.

(F) the balance at the end of each Fiscal Year, if any, in the Revenue Fund after making the deposits required by the preceding paragraphs, to the Bond Redemption and Accumulated Surplus Fund.

See Appendix E — “THE RESOLUTION” for a more detailed description of the funds under the Water General Resolution.

Levying of Benefit Assessments

The County has created 13 Zones of Assessment (Zones “A” through “L” and the “Valleydale Zone”) within the existing County-wide water district for the purpose of administering the combined Water System. Zones A and B encompass all properties within the former water service area of the Hyde Park Fire and Water District boundaries. Collectively, Zones A and B are comprised of 1,670 tax parcels. Zone C encompasses all properties within the Staatsburg Water System service area. Zone C comprises 571 parcels. Zone D, located in the Town of Hyde Park, encompasses all properties within the former Town of Hyde Park Harbour Hills Water District, as well as those properties within the “Expanded Area” adjacent to the new connecting mains which connected the Harbour Hills Water District service area to the Hyde Park Water System. Zone D comprises 403 parcels. Zone E, located in the Town of Dover, encompasses all properties within the former Schreiber Water System service area, and comprises 27 parcels. Zone F, located in the Town of Red Hook, encompasses all properties within the former Rokeby Homes, Inc. Water System service area and comprises 59 parcels. The Valleydale Zone, located in the Town of Pleasant Valley, encompasses all of the properties within the former Hillis Park Water System service area, and comprises 165 parcels. Zone G is located in the Town of Hyde Park and comprises a single tax parcel upon which the 316 unit Crofton Mews Apartment Complex will be constructed. Zone H encompasses all parcels within the Farms Water System service area, the Town of Beekman's Poughquag Hamlet Water Improvement Area, and the Victoria Estates and Plum Court residential subdivisions. Zone H comprises a total of 635 parcels. Zone I is located in the Town of Hyde Park and is currently comprised on two tax parcels upon which 9 single family residences and 38 townhouses will be constructed. Zone J encompasses the service area of the Shore Haven Water System

and consists of 137 tax parcels. Zone K encompasses the service area of the Birch Hill Water System and consists of 73 tax parcels. Upon completion of construction of the Route 9G Connection Main, water service will be provided to the newly established Zone L, which consists of 46 tax parcels.

In the Service Agreement, the County has agreed to certain limits on the benefit assessments that may be levied in Zone A; however, such limitations do not affect the County's obligation to make payment to the Authority under the Service Agreement. There is no limitation on benefit assessments in any of the other Zones of Assessment. The County may elect a benefit assessment methodology that does not recover all the amounts necessary to make the required Service Fee Payment under the Service Agreement through the levying of benefit assessments. In such event, the County will be required to use its general fund or other monies to make up the difference. Service Fee Payment Dates under the Service Agreement are February 1, May 1, August 1 and November 1.

See Appendix F – “THE SERVICE AGREEMENT” and Appendix E – “THE RESOLUTION” for a more detailed description of the proposed structure for the levying of benefit assessments.

Debt Service and Sinking Fund

The Resolution creates a special fund known as the Debt Service and Sinking Fund which shall be held in trust by the Trustee until applied as provided under the Resolution. The Debt Service and Sinking Fund shall include a separate account for each series of Bonds issued under the Resolution.

The Authority shall pay to the Trustee from available Revenues for deposit in the relevant account of the Debt Service and Sinking Fund on or before the first Business Day of each calendar month an amount equal, in the aggregate, to Accrued Debt Service for all 2011 Bonds issued. In the event moneys are not sufficient for the payment of Debt Service on a Payment Date, the Trustee shall, without instruction or further direction from the Authority, promptly transfer the requisite amounts from the Debt Service Reserve Fund to the relevant accounts of the Debt Service and Sinking Fund accounts in order of priority as set forth in the Resolution and as described in the following section to make good any such deficiency.

The money held from time to time in the Debt Service and Sinking Fund shall be applied by the Trustee without further direction from the Authority to the payment of the Debt Service Requirements on the 2011 Bonds as and when the same shall become due and payable; provided that if the same shall have been paid under a Credit Facility (other than municipal bond insurance) relating to the 2011 Bonds on which the payments were due, including in those instances where Debt Service Requirements on 2011 Bonds has been paid in the first instance from the proceeds of a Credit Facility, amounts equal to such payments on deposit in the account of the Debt Service and Sinking Fund established with respect to 2011 Bonds shall be paid to the Credit Facility Provider as reimbursement. If a Supplemental Resolution provides that Debt Service Requirements on Bonds of a series of Bonds issued thereunder are to be paid in the first instance from the proceeds of a Credit Facility, the Trustee shall comply with the terms of such Supplemental Resolution in that regard and draw upon the Credit Facility to pay Debt Service Requirements on Bonds of such series of Bonds.

Debt Service Reserve Fund

The Resolution creates a special fund known as the Debt Service Reserve Fund which shall be held in trust by the Trustee until applied as heretofore provided. The Debt Service Reserve Fund shall include a separate account for each series of Bonds issued under the Resolution. The Resolution requires that the Debt Service Reserve Fund be funded at the Debt Service Reserve Requirement. Amounts on deposit in the Debt Service Reserve Fund created pursuant to the Resolution are available to pay debt

service on the Bonds as described herein. Such amounts are not available to pay debt service on the Sewer Bonds.

The Debt Service Reserve Requirement means with respect to a particular date, the lesser of: (a) the maximum annual Debt Service Requirements with respect to the Outstanding Bonds in the then current and all future Fiscal Years (for the purposes of which calculation any Variable Rate Indebtedness shall be calculated pursuant to the Supplemental Resolution pursuant to which the Indebtedness has been issued); (b) 125% of the average annual Debt Service Requirements with respect to the Outstanding Bonds in the then current and all future Fiscal Years (for the purposes of which calculation any Variable Rate Indebtedness shall be calculated pursuant to the Supplemental Resolution pursuant to which the Indebtedness has been issued); and (c) the maximum amount that may be held in the Debt Service Reserve Fund, in the opinion of Bond Counsel to the Authority, with respect to a series of Bonds intended to be tax-exempt without adversely affecting the tax-exempt status of such Bonds. The Debt Service Reserve Requirement may be satisfied in whole or in part by a Reserve Fund Credit Facility. For purposes of calculating the Debt Service Reserve Requirement, the cost of any applicable Credit Facility is included as if it were interest on the Bonds of the related series of Bonds.

The Trustee shall be authorized, without further direction from the Authority, to apply the money in the Debt Service Reserve Fund toward the payment of the Debt Service Requirements from time to time becoming due and payable upon a series of Bonds, to the extent that the Debt Service and Sinking Fund shall at any time be insufficient with respect to such series of Bonds. The Trustee shall, for any particular series of Bonds, initially draw funds from the related account within the Debt Service Reserve Fund, and to the extent a deficiency in the Debt Service and Sinking Fund continues to exist subsequent to the exhaustion of such related account, the Trustee shall draw funds from all other accounts within the Debt Service Reserve Fund pro rata on the basis of the amount held in each of the other accounts at the time of such draw.

In the event of any deficiency in the Debt Service Reserve Fund, the Authority shall thereafter make monthly transfers from the Revenue Fund until the amount in each account in the Debt Service Reserve Fund in cash or investments shall equal the Debt Service Reserve Requirement for such account. Amounts held in each account of the Debt Service Reserve Fund shall be restored to their respective Debt Service Reserve Requirement within twelve (12) months after the occurrence of any deficiency therein. The investments of each account of the Debt Service Reserve Fund shall, for the purpose of determining the amount from time to time in the Debt Service Reserve Fund, be valued annually by the Trustee at amortized cost. The investments of the accounts of the Debt Service Reserve Fund shall include (i) investments that at the time of acquisition would constitute Investment Securities if the stated level of required ratings, if any, for Investment Securities were at least the second highest whole rating category (without regard to pluses or minuses) for the type of rating in question (e.g., short term or long term) and (ii) securities which can be liquidated by or on behalf of the Trustee not later than ten (10) years from the date of their acquisition for an amount at least equal to the principal thereof and all accrued interest (or amortized discount) thereon to the liquidation date, whether by maturity, redemption, tender or otherwise.

Upon written instructions of an Authorized Officer of the Authority during the twelve (12) month period prior to the final maturity date of any series of Bonds, money held in the related account for such series of Bonds shall be credited against the amount otherwise transferable from the Revenue Fund to the Debt Service Reserve Fund in respect of Debt Service Requirements for such Bonds and shall be transferred to the Debt Service Reserve Fund for the payment of such Debt Service Requirements; provided, however, that no such credit shall be given and no such transfer shall be made if, immediately prior to such crediting and transfer, the amount on deposit in the related account for such series of Bonds is not at least equal to (i) the Debt Service Reserve Requirement with respect to such series of Bonds less (ii) the amounts previously transferred to the Debt Service and Sinking Fund for payment of such series

of Bonds during such twelve (12) month period, and any amounts which are currently payable to the Rebate Fund.

Except to the extent that a Supplemental Resolution shall provide otherwise, when all Outstanding Bonds of a particular series shall have been paid, purchased or redeemed, or provision for their payment or redemption duly made, the amount then held in the Debt Service Reserve Fund in respect of such series of Bonds (except for amounts payable to the Rebate Fund) shall, upon the written instructions of the Chairman or Vice Chairman of the Authority, be transferred from the Debt Service Reserve Fund and deposited in the Bond Redemption and Accumulated Surplus Fund or applied by the Trustee pursuant to such instructions to the prompt purchase or redemption of Bonds.

Reserve Fund Credit Facility

The Resolution provides that the Authority may elect to satisfy in whole or in part the Debt Service Reserve Requirement by means of a letter of credit, insurance policy or surety bond (together with any substitute or replacement therefor, the "Reserve Fund Credit Facility"), subject to the following requirements:

(A) The Reserve Fund Credit Facility Provider must have a credit rating issued by a Rating Agency not less than the then current rating on the related series of Bonds and in any event equal to one of the Rating Agency's three highest long — term rating categories;

(B) The Authority shall not secure any obligation to the Reserve Fund Credit Facility Provider by a lien on the Trust Estate superior to the lien on the Trust Estate granted to the Bondholders;

(C) Each Reserve Fund Credit Facility shall have a term of at least one (1) year (or, if less, the remaining term of the related series of Bonds) and shall entitle the Trustee to draw upon or demand payment at such times and for such purposes as the Trustee would be entitled to claim the funds and investments that would be on deposit in the Debt Service Reserve Fund were there no such Reserve Fund Credit Facility and receive the amount so requested in immediately available funds not later than five (5) Business Days after such draw or demand;

(D) The Reserve Fund Credit Facility shall permit a drawing by the Trustee for the full Stated Amount in the event (i) the Reserve Fund Credit Facility expires or terminates for any reason prior to the final maturity of the related series of Bonds, and (ii) the Authority fails to satisfy the Debt Service Reserve Requirements by the delivery to the Trustee of cash, obligations, a substitute Reserve Fund Credit Facility or any combination thereof, for deposit in the related account in the Debt Service Reserve Fund on or before the date of such expiration or termination;

(E) If the rating issued by the Rating Agencies to the Reserve Fund Credit Facility provider is withdrawn or reduced below the rating assigned to that of the related series of Bonds immediately prior to such action by the Rating Agencies, the Authority shall provide a substitute Reserve Fund Credit Facility within sixty (60) days after said rating change; and

(F) If the rating issued by the Rating Agencies to the Reserve Fund Credit Facility Provider commences any insolvency proceeding or is determined to be insolvent or fails to make payments when due on its obligations, the Authority shall provide a substitute Reserve Fund Credit Facility within sixty (60) days thereafter.

Rate Covenant

So long as any Bonds shall remain Outstanding under the Resolution, the Authority is required by the Resolution, among other things, to fix, charge and collect Water Rates pursuant to and in accordance with the applicable provisions of the Act, which shall produce, together with other Authority revenues available therefor, in the aggregate, Operating Revenues which shall be sufficient in each Fiscal year to provide for the Operating Expenses of the Authority as set forth in the Authority Budget for such Fiscal Year. The Water Rates collected by the Authority are not intended to pay debt service with respect to the Bonds.

For purposes of the preceding covenant, the Resolution provides that Operating Revenues shall include amounts (i) capitalized from proceeds of 2011 Bonds or (ii) otherwise made available and reserved and not already taken into account under the Resolution by reduction of the obligation which Operating Revenues must cover.

The Resolution provides that the Authority shall, not less frequently than once each year, review and adjust its Water Rates so as to produce Operating Revenues which, together with amounts capitalized from proceeds of 2011 Bonds or otherwise made available and reserved and not already taken into account under the Resolution by reduction of the obligation which Operating Revenues must cover shall be sufficient to comply with the Rate Covenant. In the event the Water Rates in effect shall be inadequate to comply with the Rate Covenant, from time to time and as often as shall appear necessary, the Authority, under the Resolution, covenants that it will adjust its Water Rates so as to produce Operating Revenues which, together with amounts capitalized from proceeds of Bonds or otherwise made available and reserved and not already taken into account under the Resolution by reduction of the obligation which Operating revenues must cover, shall be sufficient to comply with the Rate Covenant.

For the purposes of complying with the Rate Covenant, “amounts capitalized from proceeds of Bonds or otherwise made available and reserved and not already taken into account under the Resolution by reduction of the obligation which Operating Revenues must cover shall mean money of the Authority held in a fund or account that is included within the Trust Estate and which the Trustee has been irrevocably instructed to apply to the payment of Operating Expenses within the Fiscal year for which credit is given.

Engineer

Pursuant to the Resolution, the Authority shall, until the Bonds and the interest thereon shall have been paid or provision for such payment shall have been made, for the purpose of performing and carrying out the duties imposed on the Engineer by the Resolution or the Service Agreement, employ an Independent Engineer or engineering firm having a favorable repute for skill and experience in such work and who shall be acceptable to the Trustee; provided, however that the acceptance of the Trustee shall not be unreasonably withheld, and if the Trustee shall fail to so accept, it shall deliver to the Authority a statement of its reasons for such failure. In rendering any report, certificate or opinion required pursuant to the Resolution or the Service Agreement, the Engineer may rely upon information, certificates, opinions or reports required to be provided by others pursuant to the Resolution, and upon other sources which the Engineer considers reliable, and other considerations and assumptions as deemed appropriate by the Engineer.

Additional Bonds

The 2011 Bonds shall be on a parity with other outstanding Additional Parity Indebtedness heretofore or hereafter issued by the Authority pursuant to the Resolution, including the Authority's following bonds:

Outstanding Bonds as of October 1, 2011	
1998 Series I Bonds (CABS*)	\$7,732,970
1999 EFC Refunding Bonds	\$10,326,923
2000 Bonds	\$485,000
2001 Bonds (CABS* and Current Coupon)	\$1,934,538
2002 EFC Refunding Bonds	\$2,340,000
2004 Bonds	\$1,535,000
2009 Bonds (CABS* and Current Coupon)	\$8,431,912

*Compound Interest Bonds, Accreted Values as of 10/1/2011

Under the Resolution, the Authority may issue from time to time, and the Trustee shall authenticate, Additional Parity Indebtedness for any lawful corporate purpose, including but not limited to providing all or part of the funds necessary (i) to refinance or refund all or any portion of any Indebtedness of the Authority, including accrued and unpaid interest and redemption premium, if any; (ii) to plan, develop, construct, acquire, complete, restore or replace any Project or any portion thereof, including studies, planning and design and other preliminary costs and expenses in connection therewith; (iii) to provide working capital for the Authority; including in each case the costs and expenses of the financing, any increase in the Debt Service Reserve Requirement incidental thereto and the funding of any reserves.

The Trustee shall not authenticate or deliver to the Authority on its order any Additional Parity Indebtedness pursuant to the Resolution unless theretofore or simultaneously therewith there shall have been delivered or paid to the Trustee the following:

(a) a certified copy of a resolution or Resolution of the governing Board of the Authority authorizing the issuance of such Additional Parity Indebtedness, stating the purpose or purposes for the issuance of such Additional Parity Indebtedness, describing in brief and general terms the Projects to be financed by the issuance of such Additional Parity Indebtedness, if any, authorizing the execution and delivery of the Supplemental Resolution, and fixing the terms of such Additional Parity Indebtedness.

(b) a Supplemental Resolution executed by the Authority providing for the issuance of the Additional Parity Indebtedness, and containing such other necessary or proper terms, requirements and provisions which shall not be inconsistent with the Resolution or any previous Supplemental Resolution, unless all Bonds, the Registered Owners of which are entitled to the protection of the provision or provisions with which the Supplemental Resolution is inconsistent, have been paid or redeemed or provision therefor duly made.

(c) a written opinion or opinions of Bond Counsel to the effect that: (i) all conditions precedent to the issuance of the Additional Parity Indebtedness pursuant to the Act, the Resolution and any relevant Supplemental Resolution have been satisfied; (ii) the Additional Parity Indebtedness, when issued, will be valid and binding obligations of the Authority in accordance with their terms; (iii) it is proper for the Trustee to authenticate the Additional Parity Indebtedness; and (iv) if the Additional Parity Indebtedness is intended to be Tax - Exempt, an opinion to the effect that interest on the Additional Parity Indebtedness is Tax - Exempt.

(d) the written order of the Authority, signed by the Chairman or Vice Chairman of the Authority, ordering the Trustee to authenticate and deliver such Additional Parity Indebtedness, stating the amount of the proceeds of sale thereof and directing the application of such proceeds.

(e) the proceeds of the Additional Parity Indebtedness in the amounts stated in the order of the Authority described above, to be applied as described in such order.

(f) any additional deposit to the Debt Service Reserve Fund required with respect to the Additional Parity Indebtedness.

(g) a certificate duly executed by the Accountant (or an Authorized Representative of the Authority, to the extent permitted by the Resolution) stating that, based upon a review of the books and records of the Authority, for any twelve (12) consecutive month period of the eighteen (18) calendar months immediately preceding the month during which the Additional Parity Indebtedness is to be issued (i) the Authority has complied with the Rate Covenant, (ii) all deposits required to be paid into the Debt Service and Sinking Fund were made, and (iii) the Debt Service Reserve Fund Requirement was maintained in accordance with the Resolution.

(h) a certificate duly executed by an Engineer (or an Authorized Representative of the Authority, to the extent permitted by the Resolution) setting forth in detail and based upon reasonable assumptions set forth therein (1) his or her estimate of the Operating Expenses for each of the five (5) Fiscal Years following the issuance of such series of Bonds, plus the Fiscal Year in which such series of Bonds were issued; and (2) the Debt Service Requirements for each such Fiscal Year.

(i) a certificate duly executed by an Authorized Representative of the Authority setting forth in detail and based upon reasonable assumptions set forth therein his or her estimate of the Authority Expenses for each of the five (5) Fiscal Years following the issuance of such series of Bonds, plus the Fiscal Year in which such series of Bonds were issued.

(j) if the Additional Parity Indebtedness is being issued to finance Projects, a certificate duly executed by an Engineer (or an Authorized Representative of the Authority, to the extent permitted by the Resolution) (1) stating that such Projects will be useful or desirable in connection with the operation of the Water System, will be technically feasible and are in compliance with the Authority's approved water system plan, as the same may be amended from time to time, (2) setting forth in detail and based upon reasonable assumptions set forth therein the estimated Costs of the acquisition or construction of such Projects including any financing expenses and, if judged necessary, a balance for contingencies, the sources of funds expected to be applied to finance such Costs, and the time period which will be required for completion of the acquisition or construction of such Projects, (3) his or her opinion that the net proceeds of the Additional Parity Indebtedness, together with other moneys which are then available or are reasonably expected to be available therefor, will be sufficient to pay the Costs of the acquisition or construction of such Projects, and (4) his or her opinion as to the date when such Projects will be placed in commercial operation.

(k) if the Additional Parity Indebtedness is being issued to finance the refunding of Bonds, the Authority may provide, in lieu of the certificate described in paragraph (h) of this Section, a certificate duly executed by an Accountant (or an Authorized Representative of the Authority, to the extent permitted by the Resolution) stating that for the then current and each future Fiscal Year, the Debt Service Requirements for the refunding Bonds will be no more than ten per cent (10%) more than the Debt Service Requirements that would have existed for that Fiscal Year with respect to the portion of the Bonds being refunded.

(1) if the Additional Parity Indebtedness is being issued to finance a refunding of Bonds (1) executed counterparts of such documents as are necessary or appropriate for the purposes of the refunding, including, specifically, an escrow deposit agreement providing for the deposit and application of funds for the refunding, (2) unless all refunded Indebtedness is to be redeemed or otherwise retired on the date of settlement for the refunding Bonds, such schedules, verified as to their mathematical accuracy by an Accountant, as are necessary to demonstrate the adequacy of funds deposited for the refunding and the income thereon for the purpose of paying, when due, the principal or redemption price of and interest on the refunded Indebtedness, and (3) evidence satisfactory to the Trustee that notice of any necessary redemption has been properly given, or that provisions satisfactory to the Trustee have been made therefor, or that sufficient waivers of such notice have been duly filed with the Trustee.

The opinion(s) of Bond Counsel described in paragraph (c) above may be accepted by the Trustee as conclusive evidence that the requirements enunciated in this Section have been complied with, and the Trustee shall thereupon be authorized to execute said Supplemental Resolution, to authenticate the Additional Parity Indebtedness and to deliver the same to or upon the order of the Chairman or Vice Chairman of the Authority.

Subordinated Indebtedness

The Resolution provides that the Authority may issue from time to time one or more series of Subordinated Indebtedness pursuant to the terms of a Supplemental Resolution for any lawful purpose of the Authority (including the provision of working capital of the Authority), such Subordinated Indebtedness to be in substantially such form as may be approved by the Authority and specified in the Supplemental Resolution authorizing the same. The priority of payments of principal or redemption price and interest on such Subordinated Indebtedness and the security therefor shall be as provided in the applicable Supplemental Resolution, which shall make such provisions for payment of the Debt Service Requirements of the Subordinated Indebtedness from Revenues held in the Revenue Fund.

DESCRIPTION OF THE 2011 BONDS

General

The 2011 Bonds (or any amendment, modification, replacement, reissuance or refunding of the 2011 Bonds) shall each be issued for such purposes, shall be in such form and denomination, shall bear such dates, shall be numbered, shall mature and bear interest and shall have such other terms and provisions (including the application of any Credit Facility) permitted under the Act and not contrary to the terms of the Resolution as shall be provided in the Twelfth Supplemental Resolution.

2011 Bonds

Interest on the 2011 Bonds will be payable semi-annually on each April 1 and October 1 (each, an "Interest Payment Date"), commencing April 1, 2012. The 2011 Bonds will bear interest from the date of delivery of the 2011 Bonds through and including October 1, 2041.

The 2011 Bonds are exchangeable for Bonds of the same series and maturity upon the terms and conditions provided in the Resolution, at the option of the registered owner and at the expense of the Authority except for any tax, fee or other governmental charge required to be paid with respect to such exchange. The Bond Registrar will not be required to make an exchange or transfer of any 2011 Bonds during the fifteen (15) days preceding any interest or principal payment date or any date fixed for redemption if such 2011 Bonds are eligible to be selected or have been selected for redemption. Principal is payable upon presentation solely at the principal corporate trust office of the Trustee as Paying Agent.

Interest on fully registered bonds will be paid by check or draft mailed by the Paying Agent to the registered owner as of the Record Date at the registered owner's address appearing on the registration books of the Authority maintained by the Bond Registrar for such purpose. See "DESCRIPTION OF 2011 Bonds-Book-Entry Format".

Optional Redemption

The 2011 Bonds maturing on or after October 1, 2022 and thereafter on any date will be subject to redemption prior to maturity at the option of the Authority on October 1, 2021 and thereafter on any date, as a whole or in part, as specified by the Authority, in such order of maturity as may be determined by the Authority (selected by lot within a maturity), at par, plus accrued interest to the date of redemption.

Notice of redemption shall be given by mailing such notice to the registered holders of 2011 Bonds to be redeemed at their respective addresses as shown upon the registration books of the Paying Agent at least forty-five (45) days prior to the date set for any such redemption. If notice of redemption shall have been given as aforesaid, the 2011 Bonds so called for redemption shall become due and payable at the applicable redemption price on the redemption date designated in such notice, and interest on such 2011 Bonds shall cease to accrue from and after such redemption date.

Special Mandatory Redemption

The 2011 Bonds are subject to special mandatory redemption prior to maturity at the direction of the Authority upon the occurrence of one or more of the following events, as a whole at any time, but not in part, at a redemption price equal to 100% of the principal amount thereof, without premium, together with accrued interest to the date of redemption:

(1) The Water System shall have been damaged or destroyed to the extent that, in the opinion of an Independent Engineer submitted to the Authority and the Trustee at the request of the Authority, either (i) the Water System cannot be reasonably restored or repaired within a period of six months to the condition thereof immediately preceding such damage or destruction or (ii) the Authority would thereby be prevented from carrying on the normal operations of the Water System, as it existed immediately prior to such damage or destruction, for a period of six months or more; or

(2) Title to, or the use or possession of, all or substantially all of the Water System shall have been condemned or taken under the exercise of the power of eminent domain by any governmental authority, or a Person acting under governmental authority, for any public use or purpose to such an extent that, in the opinion of an Independent Engineer submitted to the Authority and the Trustee at the request of the Authority, either (i) the Water System cannot be reasonably restored or replaced within a period of six months to a condition of comparable usefulness to that existing immediately prior to such condemnation or taking or (ii) the Authority would thereby be prevented from carrying on the normal operations of the Water System as it existed immediately prior to such condemnation or taking for a period of six months or more; or

(3) As a result of changes in the constitutions or laws of the United States of America or the State of New York or of legislative or administrative action of the United States of America or the State of New York or any political subdivision of either thereof or a final decree, judgment or order of a court or an order, rule, regulation, determination, action or refusal to take action, or refusal to issue or make any order, material permit, rule regulation or determination, by a governmental authority or Authority, after contest thereof by the Authority in good faith, the

Service Agreement, or any material part thereof, shall have become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties.

If the 2011 Bonds are to be redeemed as a result of the occurrence of any of the above events, the Authority shall deliver to the Trustee not less than forty-five (45) days prior to the redemption date (i) a certificate of an Authorized Representative of the Authority stating the reason for such redemption and (ii) written notice of the intended redemption and the date thereof.

Notice of Redemption

Whenever the Authority shall, by Resolution of the Authority, determine to redeem Outstanding 2011 Bonds in accordance with the right reserved to do so, the Authority shall give the Trustee not more than sixty (60) days' and at least forty-five (45) days notice of the date fixed for redemption. When 2011 Bonds are called for redemption, whether at the option of the Authority or pursuant to mandatory redemption, the Trustee shall cause a notice to be deposited in the United States mail first class, postage prepaid, not more than sixty (60) days and at least thirty (30) days prior to the redemption date addressed to the Registered Owners of the 2011 Bonds called for redemption, at the addresses appearing in the records kept by the Trustee. Such Notice shall be given in the name of the Authority, shall identify the 2011 Bonds to be redeemed by certificate number, CUSIP number, date of issue, interest rate, maturity date and any other identifying information (and in the case of a partial redemption of any 2011 Bonds, the respective principal amounts thereof to be redeemed and the numbers, including CUSIP numbers if applicable, of the 2011 Bonds to be redeemed which may, if appropriate, be expressed in designated blocks of numbers) shall specify the redemption date, the redemption price, and the Trustee's name and address and shall state that on the redemption date the 2011 Bonds called for redemption will be payable at the principal corporate trust office of the Trustee and that from the date of redemption interest will cease to accrue provided, however, that the Registered Owners of all Bonds to be redeemed may file written waivers of notice with the Trustee, and if so waived, such Bonds may be redeemed and all rights and liabilities of the Owners shall mature and accrue on the date set for such redemption, without the requirement of written notice.

Effect of Redemption

Notice having been given in the manner hereinbefore described, or written waivers of notice having been filed with the Trustee prior to the date set for redemption, the 2011 Bonds so called for redemption shall become due and payable on the redemption date so designated and, if an amount sufficient to pay the Redemption Price is on deposit with the Trustee for such purpose on such date, interest on such 2011 Bonds shall cease to accrue from the redemption date whether or not the 2011 Bonds shall be presented for payment. The principal amount of all 2011 Bonds or portions thereof so called for redemption, together with the accrued and unpaid interest thereon to the date of redemption shall be paid by the Trustee or the Paying Agent, if any, mentioned in the 2011 Bond called for redemption, upon presentation and surrender thereof in negotiable form. If any Outstanding 2011 Bond is redeemed in part, the Trustee shall authenticate and deliver to the Registered Owner thereof, a new 2011 Bond or Bonds of any authorized denomination as requested by such Registered Owner in an aggregate principal amount equal to the principal amount of the Outstanding Bond not called for redemption.

Selection for Redemption

So long as the Book-Entry System for the 2011 Bonds is in effect, if less than all of the 2011 Bonds of any one maturity are to be redeemed, the particular 2011 Bonds or portions of 2011 Bonds of such maturity to be redeemed will be selected by DTC and its Participants in such manner as DTC and its Participants may determine. If the Book-Entry System for the 2011 Bonds is no longer in effect, Series

selection for redemption of less than all Outstanding Bonds of any Series will be made by the Authority or, if not determined by the Authority or if less than all 2011 Bonds of any Series of like maturity are called, by the Trustee by lot as provided in the Resolution.

Transfer and Exchange

The holder of any 2011 Bond may exchange such 2011 Bond for one or more new 2011 Bonds of any denomination of the same aggregate principal amount, maturity and Series as the surrendered 2011 Bond upon the request of such holder in person or by his attorney duly authorized in writing, upon surrender of such 2011 Bond at the principal corporate trust office of the Bond Registrar, together with a written instrument of transfer satisfactory to the Bond Registrar, duly executed by the registered owner or his attorney duly authorized in writing, and upon payment of any charges which the Bond Registrar may make as provided in the Resolution.

Each 2011 Bond shall be transferable only upon the books of the Authority, kept for such purpose at the principal corporate trust office of the Bond Registrar, by the registered owner in person or by his attorney duly authorized in writing, upon surrender with a written instrument of transfer satisfactory to the Bond Registrar and duly executed by the registered owner or such duly authorized attorney. Upon the transfer of any such Bond and upon payment of any applicable fees, taxes or other governmental charges, the Authority shall issue in the name of the transferee a new 2011 Bond or 2011 Bonds of the same aggregate principal amount and maturity as the surrendered 2011 Bond.

The Authority, the Trustee and each Fiduciary may deem and treat the person in whose name any 2011 Bond shall be registered upon the books of the Authority, as the absolute owner of such 2011 Bond, whether such 2011 Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such 2011 Bond. See “DESCRIPTION OF THE 2011 Bonds–Book-Entry Format”.

Book-Entry Format

THE DESCRIPTION THAT FOLLOWS OF THE PROCEDURES AND RECORDKEEPING WITH RESPECT TO BENEFICIAL OWNERSHIP INTERESTS IN THE SERIES 2011 BONDS, PAYMENT OF INTEREST AND PRINCIPAL ON THE SERIES 2011 BONDS TO DTC PARTICIPANTS (AS HEREINAFTER DEFINED) OR BENEFICIAL OWNERS OF THE SERIES 2011 BONDS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE SERIES 2011 BONDS, AND OTHER RELATED TRANSACTIONS BY AND BETWEEN THE DEPOSITORY TRUST COMPANY (“DTC”), THE DTC PARTICIPANTS AND BENEFICIAL OWNERS OF THE SERIES 2011 BONDS IS BASED SOLELY ON INFORMATION FURNISHED BY DTC. ACCORDINGLY, THE AUTHORITY CAN NOT MAKE ANY REPRESENTATIONS CONCERNING THESE MATTERS.

DTC, New York, New York, will act as securities depository for the Series 2011 Bonds. The Series 2011 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 2011 Bond certificate will be issued for the Series 2011 Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2011 BONDS, AS NOMINEE OF DTC, REFERENCES IN THIS OFFICIAL STATEMENT TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE SERIES 2011 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2011 BONDS.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). 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 the Series 2011 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2011 Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2011 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 2011 Bonds, except in the event that use of the book-entry system for the Series 2011 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2011 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2011 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2011 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2011 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2011 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2011 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2011 Bonds documents. For example, Beneficial Owners of Series 2011 Bonds may wish to ascertain that the nominee holding the Series 2011 Bonds for their benefit has agreed to obtain and transmit notices to

Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2011 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2011 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 Series 2011 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy). Redemption proceeds, distributions, and dividend payments on the Series 2011 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 Registrar and Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments 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 Participant and not of DTC, the Registrar and Paying Agent or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority and/or the Registrar and Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2011 Bonds purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such Series 2011 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2011 Bonds, on DTC's records, to the Paying Agent. The requirement for physical delivery of Series 2011 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2011 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2011 Bonds to the Paying Agent's DTC account.

The information in this section 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.

The Authority does not have any responsibility or obligations to the DTC Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any DTC Participant; (b) the payment by DTC or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal of and interest on the Series 2011 Bonds; (c) the delivery or timeliness of delivery by DTC or any DTC Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Bond Resolution to be given to Bondholders; (d) the timely delivery or implementation of any optional or mandatory tender notices or payments to, among, or between the Authority, the Registrar and the Paying Agent, DTC, the DTC Participants or the Beneficial Owners; (e) the selection of the Beneficial Owners to receive payments in the event of any partial redemption of the Series 2011 Bonds; or (f) any consent given or other action taken by DTC, or its nominee, Cede & Co., as Bondholder.

Certificated Series 2011 Bond

DTC may discontinue providing its services with respect to the Series 2011 Bonds at any time by giving notice to the Authority discharging its responsibilities with respect thereto under applicable law, or the Authority may terminate its participation in the system of book-entry-only transfers through DTC at any time. In the event that such book-entry-only system is discontinued, certain provisions (as follows) will apply. The Series 2011 Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof. Principal of and interest on the Series 2011 Bonds when due will be payable upon presentation at the office of a bank or trust company located and authorized to do business in the State to be named as fiscal agent by the Authority upon termination of the book-entry-only system. Interest on the Series 2011 Bonds will remain payable on April 1, 2012 and semi-annually thereafter on each October 1 and April 1, until maturity or redemption. Such interest will be payable by check drawn on the fiscal agent and mailed to the registered owner on each interest payment date at the address as shown on the registration books of the fiscal agent. The Record Date of the Series 2011 Bonds will remain the fifteenth day of the calendar month preceding each such interest payment date. Series 2011 Bonds may be transferred or exchanged at no cost to the registered owner at any time prior to maturity at the office of the fiscal agent for Series 2011 Bonds of the same or any other authorized denomination or denominations in the same aggregate principal amount upon the terms set forth in the Bond Certificate of the Authority authorizing the sale of the Series 2011 Bonds. The fiscal agent shall not be obligated to make any such transfer or exchange of Series 2011 Bonds between the fifteenth day of the calendar month preceding an interest payment date and such interest payment date.

THE AUTHORITY

Purpose and Powers

The Authority, a public benefit corporation, was established under the Dutchess County Water and Wastewater Act duly enacted in law as Chapter 592 of the Laws of 1991 of New York State. The Authority has its origins in a series of predecessor agencies. In 1985, the Dutchess County Water Resources Task Force was created by the Dutchess County Executive to: 1) identify water resource problems in the County; 2) explore the need for County involvement in water and sewer management; and 3) recommend governmental and nongovernmental responses. After identifying and documenting numerous water resource related problems in the County, the Task Force was reconstituted in 1986 as the Dutchess County Water and Resource Policy Group. Both the Task Force and the Policy Group were composed of diverse membership including city and village mayors, town supervisors, County legislators, County commissioners, County Environmental Management Council members, County Soil and Water Conservation District officials, small business owners, citizens, and representatives from private environmental organizations.

In 1988, the Dutchess County Water Resource Policy Group recommended that the County Legislature create the Dutchess County Water and Wastewater Agency. This was accomplished in 1989 when the Agency was created to function as a policy coordinating and information exchange body and to recommend County action relating to water resource issues. The Agency was also charged with coordinating County governmental activities relating to water resource issues including recommendations to form a management entity.

With the creation of the Authority by the New York Legislature in 1991, Dutchess County has the flexibility to finance projects that provide countywide water and sewer improvements.

Governing Board

Pursuant to the Act, the officers of the Authority shall consist of a chairman, who shall be a voting member of the Authority, and a vice chairman and a treasurer, who shall be voting members of the Authority, and a secretary, who need not be either a voting member or a non-voting member of the Authority. Such officers are appointed by the voting members of the governing body and serve in such capacities at the discretion of the voting members of the governing body. In addition to the secretary, the voting members of the governing body may appoint and at discretion remove such additional officers and employees as they may determine necessary for the performance of the powers and duties of the Authority and fix and determine their qualifications, duties and compensation, subject to the provisions of the Civil Service Law. The voting members of the governing body may also from time to time contract for expert professional services.

The Authority's current Board Members/Officers are:

Thomas E. LeGrand	Chairman
Vincent J. DiMaso	Treasurer
Rudy Vavra	Secretary
Patrick Dealy	Member

Non-voting Ex-officio Members of the Authority include:

Executive Director, Dutchess County Environmental Management Council
(position currently vacant)

Ed Hoxsie, Executive Director, Dutchess Soil and Water Conservation District

Kealy Salomon, Commissioner, Dutchess County Department of Planning and Development

The following are brief biographies of the present members of the Authority's governing Board, its Executive Director and its Deputy Director/Staff Treasurer:

Chairman: Thomas E. LeGrand is a licensed real estate broker and President of LeGrand Real Estate, Inc. and LeGrand Excavating, Inc., both located in Rhinebeck, NY and established in 1974. He serves currently as Chairman and a member of the Dutchess Community College Board of Trustees in Poughkeepsie. He presently is a Board member of the Dutchess County Resource Recovery Agency and had been its Vice Chairman. Mr. LeGrand was past President of the Rhinebeck Chamber of Commerce from 1982-1992. He also served as Chairman of the Dutchess County Economic Development Corporation from 1992-1995.

Treasurer: Vincent J. DiMaso has been a licensed realtor and community leader for more than three decades. In 1996, he founded Vincent J. DiMaso Real Estate of Poughkeepsie, NY after dissolving a 50-year-old local family real estate brokerage, development, and management business known as C. J. Patrick Real Estate, Inc. Currently, Mr. DiMaso serves as a Trustee of Dutchess Community College, and President of the Dutchess Golf & Country Club. He has served in the past as chair of the following organizations: Dutchess County Economic Development Corp., Dutchess Community College Foundation, External Marketing Council and the Industrial Commercial Incentive Board. Mr. DiMaso received his A.A. degree from Dutchess Community College and a B.A. degree from Marist College.

Secretary: Rudy Vavra is fine artist with an active studio in the Town of Milan, NY. His work has been exhibited nationally. He holds a Bachelor's degree in Environmental Design from Texas A & M University in College Station, Texas and a Master's degree in Fine Arts from the School of Visual Arts in New York City. Vavra has been a lecturer at the College of Architecture & Environmental Design at Texas A & M University. He has served as a co-chair of the Town of Milan Master Plan Committee.

Member: Patrick Dealy founded and manages DVC Partners LLC, a firm specializing in providing capital and consulting services to growth companies. He has spent over 20 years in finance in New York and Chicago with firms such as Merrill Lynch, UBS, and SG Cowan; primarily as a portfolio manager specializing in merger, convertible, and capital structure arbitrage strategies. In addition to his asset management experience in public securities, Mr. Dealy was the CFO of a private internet start-up. He was awarded an MBA in Finance from Columbia University and a BA in History from Connecticut College.

All Authority Board Members are residents of Dutchess County, NY.

Executive Director: Bridget Barclay has been with the Authority since January, 1995 and was named as the Executive Director, effective January 1, 2009. She was previously appointed Assistant Director in January, 2002, and appointed to the position of Deputy Director in February 2003. Ms. Barclay holds B.A. degrees in Geography and Biology from the University of Rhode Island, and a Masters of Public Administration from Marist College, New York. Ms. Barclay has served in the past on the Village of New Paltz Planning Board, as the Vice Chairperson of the Greenway Heritage Conservancy for the Hudson River, and as a member of the Village of New Paltz Environmental Conservation Commission.

Deputy Director/Staff Treasurer: Mary C. Morris has been employed by the Authority since January of 1999. Prior to that date, she worked as a consultant to the Authority. Ms. Morris holds B.A. degree in Political Science, with a minor in Psychology from Marist College and has over 20 years of experience in the financial management field. Ms. Morris has served as New York State Traffic Safety Board Treasurer and is a member of the New York State Government Finance Officers Association. She has also served as Manager, Travel Director/Treasurer for various youth sport programs.

Organization and Staff

Pursuant to the By-Laws of the Authority, the officers of the Authority shall be a Chairman, a Vice Chairman, a Secretary, and a Treasurer. Any two or more offices, except the offices of Chairman, Vice Chairman, and Secretary, may be held by the same person. The Chairman, Vice Chairman and Treasurer shall be voting members of the Authority. The Secretary need not be a voting member of the Authority.

Chairman: The Chairman presides at all meetings of the Authority. Except as otherwise authorized by resolution of the Authority, the Chairman executes all agreements, contracts, deeds and any other instruments of the Authority. At each meeting, the Chairman submits such recommendations and information as he may consider proper concerning the business, affairs and policies of the Authority.

Vice Chairman: The Vice Chairman, in the absence or disability of the Chairman, performs all the duties and responsibilities of the Chairman.

Secretary: The Secretary maintains the records of the Authority, acts as secretary of the meetings of the Authority, records all votes, keeps a record of the proceedings of the Authority in a journal of proceedings to be kept for such purpose, and performs all duties incident to his office.

Treasurer: The Treasurer has the care and custody of all funds of the Authority and deposits or causes the same to be deposited in the name of the Authority in such bank or banks as the Authority may select. Except as otherwise authorized by resolution of the Authority, the Treasurer signs all instruments of indebtedness, all orders, and all checks for the payment of money; and pays out and disperses such moneys under the direction of the Authority. Except as otherwise authorized by Resolution of the Authority, all such instruments of indebtedness, orders and checks are countersigned by the Chairman. The Treasurer keeps or causes to be kept regular books of accounts showing receipts and expenditures, and renders to the Authority at each regular meeting an account of the transactions and also of the financial condition of the Authority.

Executive Director: An Executive Director is appointed by the Authority, and she has general supervision over the administration of the business and affairs of the Authority, subject to the direction of the Authority. She is charged with management of all projects of the Authority.

Deputy Director/Staff Treasurer: The Deputy Director/Staff Treasurer is appointed by the Authority. Subject to the direction of the Authority and the Executive Director, the Deputy Director/Staff Treasurer oversees all financial aspects of the Authority including, but not limited to, budgets, bond payments, investments, payroll, accounts payable receivable and insurance. In addition, the Deputy Director/Staff Treasurer assists the Executive Director and Authority Board in long term financial planning, contract negotiations, labor contracts and general finance-related matters including loans and grants.

Additional Personnel: The Authority may from time to time employ such personnel or enter into contracts for consultant services as it deems necessary to exercise its powers, duties and functions as prescribed by the Public Authorities Law of the State of New York, as amended, and all other laws of the State of New York applicable thereto. The selection and compensation of all personnel and consultants shall be determined by the Authority subject to the laws of the state of New York. Presently, the Authority employs 20 full-time personnel.

The Authority uses a combination of employees and contract operators to run its Water and Sewer Systems. Employees and contract operators are under the direction of Douglas Odell, the Authority's Director of Operations. Mr. Odell has been with the Authority since April 2007, working as the Head Water System Operator at the Central Dutchess Water Transmission System. He was promoted to his current position as Director of Operations in May 2010. Prior to working with the Authority, Mr. Odell had worked for IBM at the East Fishkill site, as a Senior Facilities Technician Specialist. Mr. Odell has been a certified Sewage Treatment Plant Operator since 1978, and a certified Water Treatment Plant and Distribution System Operator since 1980. He is currently a Grade 3 Wastewater Treatment Plant Operator, a Grade 1A-SW/GUI Water Filtration Plant Operator, a Grade D Distribution System Operator, and Certified Backflow Device Tester.

The staff is not unionized.

Authority personnel operate all of the facilities that comprise the Hyde Park Water System. The Authority contracts with private companies for the operation and maintenance of the non-Hyde Park water systems.

THE WATER SYSTEM

The contents of this heading, "THE WATER SYSTEM", have been provided by the Authority, and describe the Water System as defined in the Service Agreement and as may be expanded from time to time. The current Water System provides service in the aggregate to approximately 2,908 separate

accounts of which 2,529 are residential (87%) and 379 are commercial, industrial and institutional (13%). The current Water System is presently made up of 13 Zones of Assessment which comprise an aggregate area of approximately 13.1 square miles within the County of Dutchess and presently serve a residential population of about 13,109.

The Authority's Water System comprises several subsystems each of which provide water service to a respective Zone of Assessment ("Zone") within the Dutchess County Water District. The Hyde Park Regional Water System presently provides water from the Authority's Hyde Park Water Treatment Plant on South Road in the Town of Hyde Park to the Hyde Park service area (Zones A and B), the Staatsburg service area (Zone C), Haviland and Harbour Hills service area (Zone D), and the existing developed area now served by the Route 9G Water Main Connection (Zone L). Following their completion, the Authority's Hyde Park Water Treatment Plant will also provide water service to two proposed residential developments known as Crofton Mews (Zone G) and Jeffrey Grove Estates (Zone I). The source of water for the Hyde Park Water Treatment Plant is the Hudson River. The Authority purchased the water system operations and assets of the Hyde Park Fire and Water District for approximately \$17 million in 1998. The purchase included the Hyde Park Water Treatment Facility, storage facilities, and distribution system.

In addition to the Hyde Park Regional Water System, and as part of the Water System, the Authority operates six additional independent systems. The Valleydale Water System (Valleydale Zone), Schreiber Water System (Zone E), Rokeby Water System (Zone F), Dalton Farms Water System (Zone H), Shore Haven Water System (Zone J), and Birch Hill Water System (Zone K) each utilize groundwater wells, pumping and treatment facilities which are located within their respective service areas. All components of the Water System are individually permitted by the NYS DEC to operate as public water supplies, except where otherwise noted below.

A. The Hyde Park Regional Water System

The primary source of the water for the Hyde Park Regional Water System is the Hyde Park Water Treatment Plant located on South Road in Hyde Park, NY. Completed and placed into service in December 1994, the Hyde Park Water Plant has state-of-the art technology utilizing water supplied directly from the Hudson River. While most processes are computer automated, the entire plant is monitored and maintained daily by a trained and licensed staff. The capacities of each of the main water treatment elements are given below:

- The raw water intake is designed to withdraw 6 mgd (million gallons per day) from the Hudson River. The NYS DEC Water Supply Permit allows for the withdrawal of up to 6 mgd. The raw water intake consists of a stationary water screen with provision for automatic cleaning using some combination of air burst and chemicals.
- The raw water and finished water pump stations currently have three pumps in each pump station. The treated water pump station has three pumps, each with a capacity of 1.4 mgd. The firm capacity of this pump station (largest unit out-of-service) is 2.8 mgd. The raw water station has three pumps, each with a capacity of 1.4 mgd. The firm (largest unit out-of-service) capacity of this pump station is 2.8 mgd.
- Major unit processes in the water treatment plant are: a) coagulation using aluminum sulfate and polymer; b) flocculation and settling in Superpulsator clarifiers; and c) rapid filtration by multi-media filters. The treatment plant currently has a firm capacity of 2.8 mgd, and can be extended to 3.0 mgd without additional facilities by demonstration of the capacity of the treatment plant at this flow rate to the satisfaction of NYS DOH.

- The treated water storage reservoir is divided into two elevated steel tanks with a total capacity of 1.75 million gallons. The “North” tank can hold 750,000 gallons while the “South” tank is rated at 1 million gallons capacity. Each tank has a working water level of about 357 feet above sea level which creates the working pressure for the distribution system. While the storage reservoir is sufficient to supply the distribution system during most short-term electrical outages, two diesel-powered generates were installed on-site in 2002 to provide back-up power to the treatment plant and raw water pump station.
- In extreme emergency conditions, a separately located well and groundwater treatment plant may be operated to furnish a portion of the water necessary to serve the Hyde Park Regional Water System on a limited basis should the main treatment plant be unable to function.

1) Hyde Park Water Service Area (Zones A and B)

Zones A and B comprise an area approximately 7.5 square miles (4,800 acres) in size and encompass 1,670 tax parcels within the Town of Hyde Park. The current average daily demand within Zones A and B is 772,900 gpd. Hyde Park’s source of the water is the Hyde Park Water Plant. The Hyde Park distribution system serves a residential population of approximately 6,812 people and is operated by Authority personnel. The customer base of 1,231 accounts consists of about 923 residential accounts and 308 commercial/institutional accounts. The Authority has owned the water plant and distribution system since 1998.

2) Staatsburg Service Area (Zone C)

Zone C comprises an area approximately 2.4 square miles (1,536 acres) in size and encompasses 571 tax parcels within the Towns of Hyde Park and Rhinebeck. The current average daily demand within Zone C is 137,200 gpd. Staatsburg’s source of the water is supplied via an interconnection with the Hyde Park distribution system. The distribution system serves a residential population of approximately 1,078 people, and is run by Authority personnel. The customer base of 311 accounts comprises 271 residential accounts and 40 commercial/ institutional accounts. The Authority has owned the system since 1997.

3) Haviland and Harbourn Hills Service Area (Zone D)

Zone D comprises an area approximately .83 square miles (535 acres) in size and encompasses 403 tax parcels within the Town of Hyde Park. The current average daily demand within Zone D is 43,900 gpd. Zone D’s source of the water is supplied via an interconnection with the Hyde Park distribution system. The distribution system serves a residential population of approximately 1,510 people, and is run by Authority personnel. The customer base consists of 348 accounts of which 327 are considered “residential” and 21 are commercial/ institutional accounts. The Authority has owned/operated the system since 2000.

4) Route 9G Water Main Connection Service Area (Zone L)

The Route 9G Water Main Connection Service Area (Zone L) is comprised presently of 46 tax parcels of which 32 are developed single-family lots, three are manufactured home developments (comprising a combined total of 236 housing units), six are vacant lots, and five are commercial lots. Zone L encompasses an area of approximately .608 square miles (389.4 acres) located in the Town of Hyde Park. Zone L was created by Dutchess County in 2008. Construction of the Route 9G Water Main Connection was completed and recently placed into service in 2011. The new water main will enable a residential population of approximately 721 people within Zone L to be served, and is now being operated

by Authority personnel. Projected water usage at full build-out is anticipated at 62,000 gpd and Zone L's source of water is an interconnection with the Hyde Park distribution system. Presently, 30 properties within Zone L (including the three manufactured home developments) have applied for water service and are expected to connect to the new water main by the end of 2011.

5) Crofton Mews Service Area (Zone G)

Crofton Mews Service Area (Zone G) is presently a single tax parcel with an area of approximately .14 square miles (88 acres) located in the Town of Hyde Park. Zone G was created by Dutchess County in August 1999, but the Crofton Mews project has not yet been constructed. The current owner of the land and Crofton Mews project sponsor are seeking the necessary governmental approvals to build approximately 316 multi-family residential units on the parcel, along with other possible commercial and mixed-use development. Water usage is anticipated at 138,925 gpd and Zone G's source of water will be an interconnection with the Hyde Park distribution system.

6) Jeffrey Grove Estates Service Area (Zone I)

Jeffrey Grove Estates Service Area (Zone I) is presently two tax parcels with an area of approximately .039 square miles (25.2 acres) located in the Town of Hyde Park. The developer of these two parcels intends to further subdivide them into 38 residential townhouse lots, 9 single family house lots, two "open space" parcels and one parcel upon which the sub-division's wastewater treatment plant will be built. Water usage is anticipated at 15,580 gpd and Zone I's source of water will be an interconnection with the Hyde Park distribution system. Zone I was created by Dutchess County in 2007, but the Jeffrey Groves Estates project has not yet been constructed.

Total Demand on the Hyde Park Water Plant

In 2009, the total amount of water produced by the Hyde Park Water Plant to service all existing Zones of the Hyde Park Regional Water System was 347,929,000 gallons. The average of water treated and pumped into the distribution system was 953,230 gallons per day while the highest single day was 1,252,000 gallons.

In 2010, the total amount of water produced by the Hyde Park Water Plant to service all existing Zones of the Hyde Park Regional Water System was 351,969,000 gallons. The average of water treated and pumped into the distribution system was 964,299 gallons per day while the highest single day was 1,227,000 gallons.

The estimated total demand for Zone of Assessment L is 62,000 gallons per day. Water usage for Crofton Mews (Zone G) is anticipated at 138,925 gpd. For Jeffrey Grove Estates (Zone I), water use is expected to be 15,580 gpd. Assuming a peaking factor of 1.5, maximum day demand for Zones G, I, and L would be 324,758 gpd. Using the Hyde Park Water Plant maximum day demand from 2009 (the higher of the past two calendar years), plus maximum day demand for Zones G, I, and L, the total maximum day demand would be 1,576,758 gallons, or approximately 56% of the Hyde Park Water Plant's firm capacity. Based on these determinations, the Hyde Park Water Plant has the capacity to produce potable water sufficiently above the current and future needs estimated for Zones of Assessment G, I, and L.

B. Birch Hill Service Area (Zone K)

Zone K comprises an area approximately .142 square miles (91 acres) in size and encompasses 73 tax parcels within the Town of Beekman. The customer base consists of 68 accounts of which all are considered "residential", serving approximately 200 people. The current average daily demand of the

system is 12,083 gpd. The Zone K service area current water supply source is two on-site operational wells. The system is run by a contract operator for the Authority. The Authority has owned the system since January 2009.

History of Birch Hill

The Birch Hill Water System was constructed in 1990 by C & C Resources, Inc. of Poughquag, NY to serve a new residential sub-division known as, “Birch Hill Manor”. In 1991, the water system commenced operations. In 1995, the Birch Hill service area expanded to provide water to a new, nearby residential sub-division known as, “Highview Manor”. In 2008, the Authority entered into an agreement with the Birch Hill Water Supply Corp. to acquire its Water System. Ownership of the Birch Hill Water System transferred to the Authority on December 31, 2008 by voluntary conveyance.

Current Water Supply Source Facilities of Birch Hill

The existing water supply source is located on the grounds of the water treatment plant and consists of four (4) wells, of which two are currently on-line and producing while the other two wells remain inactive. Both presently operating wells, Well No. 4A and Well No. 5A, were drilled in 1998 to a depth each of approximately 400 feet deep. All of the wells presently flow through a single master meter in the Water Treatment Plant located on Reilly Road. The Birch Hill Water System (PWS No. 1330021) operates under NYS DEC Water Supply Permit No. 3-1322-00056/00006 and is permitted to take up to 25,000 gallons of water a day.

Current Water Treatment and Storage Facilities of Birch Hill

The current water treatment system is located in an 11 ft. x 33 ft. concrete block building (also known as the “pump house”) constructed around 1990. Water is pumped from the wells and then disinfected with an injection of sodium hypochlorite. Secondary treatment of the water occurs with of an injection of sodium tri-poly phosphate for incidental sequestration of iron, manganese and water hardness. From that point, the water then flows into a 15,000 gallon concrete storage reservoir located directly below the pump house. The underground concrete storage reservoir is a closed static tank with approximate dimensions of 46 ft. x 11 ft. X 10 ft. and is the system’s primary storage. Two 25-hp booster pumps then draw the finished water from the underground tank and pump it into the two steel 750-gallon, hydro-pneumatic tanks housed within the pump house, before final delivery into the distribution system. A 65-kW propane fueled Emergency Backup Generator is located adjacent to the pump house and is capable of supplying power to the production wells, booster pumps, control system and chemical feed pump should an outside power failure event occur.

Water Quality Regulations – Birch Hill

The Birch Hill Water System has significant water quality issues and presently fails to meet certain federal and state safe drinking water quality standards for elevated concentrations of copper, iron and manganese in its finished water. Since at least 2002, Birch Hill has been directed by various state regulatory agencies to construct a filter plant or comparable technology to treat the aforementioned contaminants. The Authority has developed and is implementing a plan to remediate and correct those issues. See “CAPITAL IMPROVEMENT PROGRAM.” Elevated levels of Radionuclides have also been detected in the finished water, prompting the NYS Department of Health to require that a treatment strategy be included with the system upgrades planned for the Birch Hill water treatment facility.

C. Other Components of the Water System

1) Shore Haven Service Area (Zone J)

Zone J comprises an area approximately .076 square miles (49.2 acres) in size and encompasses 137 tax parcels within the Town of Pawling. The customer base consists of 98 accounts of which all are considered “residential”, serving approximately 300 people. The current average daily demand of the system is 19,400 gpd. The Zone J service area current water supply source is two wells. The system is run by a contract operator for the Authority. The Authority has owned the system since February 2009.

2) Valleydale Service Area (Valleydale Zone)

The Valleydale Zone comprises an area approximately .312 square miles (200 acres) in size and encompasses 165 tax parcels within the Town of Pleasant Valley. The customer base comprises 164 residential accounts, representing approximately 486 people. The current average daily demand of the system is 27,670 gpd. The Valleydale service area current water supply source is six (6) operational wells. The system is run by a contract operator for the Authority. The Authority has owned the system since 1997.

3) Schreiber Service Area (Zone E)

Zone E comprises an area approximately .026 square miles (17 acres) in size and encompasses 27 tax parcels within the Town of Dover. The customer base presently comprises of 23 residential accounts, serving approximately 70 people. The current average daily demand within Zone E is 2,200 gpd. The Schreiber service area current water supply source is two on-site operational wells. The system is run by a contract operator for the Authority. The Authority has owned the system since 1999.

4) Rokeby Service Area (Zone F)

Zone F comprises an area approximately .022 square miles (15 acres) in size and encompasses 59 tax parcels within the Town of Red Hook. The customer base comprises 55 residential accounts, representing approximately 160 people, and one commercial account. The current average daily demand of the system is 8,700 gpd. The Rokeby service area current water supply source is two on-site operational wells. The system is operated by a contract operator for the Authority. The Authority has owned the system since 2000.

5) Dalton Farms Service Area (Zone H)

Zone H comprises an area approximately 1.037 square miles (664 acres) in size and encompasses 635 tax parcels within the Town of Beekman. The customer base comprises 595 residential accounts, representing approximately 1,772 people, and seven commercial/institutional accounts. The current average daily demand of the system is 92,800 gpd. The Zone H service area current water supply source is four on-site operational wells. The system is run by a contract operator for the Authority. The Authority has owned the system since 2004.

D. Water Quality Regulations

The Water System is subject to multiple regulatory requirements. The following current federal water quality regulations are considered the most important by the Authority:

The Surface Water Treatment Rule (SWTR) requires filtration of all surface water supplies unless certain avoidance criteria are met, and requires a minimum level of disinfection for all systems. The New York State Department of Health has adopted the U.S. Environmental Protection Agency (“EPA”) SWTR criteria in Subpart 5-1 of the State Sanitary Code, which derives its statutory authority from the New York State Public Health Law, Section 225. The Hyde Park Water Treatment Plant meets all SWTR and Subpart 5-1 criteria. This regulation does not apply to any other components of the Water System.

The Total Coliform Rule (TCR) requires monitoring for secondary disinfection and addresses distribution system water quality issues. All components of the Water System have consistently met all TCR criteria.

The Lead and Copper Rule (LCR) requires increased sampling and evaluation of current corrosion control practices and determination of optimal treatment. All components of the Water System meet the LCR criteria, partially through the addition of a phosphate corrosion control chemical.

The Disinfectants/Disinfection Byproducts Rule (D/DBPR) proposes lower limits for some disinfection by-products and new limits for others, which may require many water systems to use alternative disinfectants or otherwise significantly change current treatment practices. The DDBPR is being implemented in two stages. Stage 2 of the D/DBPR became effective on January 4, 2006. At present, the Hyde Park, Staatsburg and Zone D distribution components of the Water System meet all requirements of Stage 2 of the DDBPR and began the required monitoring in April of 2009. In July 2010 the IDSE report based on these monitoring results was submitted. Further possible required action will be based on this report.

As of January 4, 2006, Stage 2 of the D/DBPR also applies to Dalton Farms, Valleydale, Schreiber, Birch Hill and Rokeby components of the Water System since they use groundwater only, add a chemical disinfectant and serve a population under 10,000 people. These systems are currently operating under a waiver, and will begin Stage 2 compliance monitoring in 2013. It is expected at this time these systems will meet the Stage 2 rule with no further cost. The Shore Haven Water System currently exceeds maximum contaminant levels for disinfection byproducts. Ongoing capital improvements to address this non-compliance are discussed below under Capital Improvement Program – Other Capital Projects.

The EPA published the final Long Term 2 Enhanced Surface Water Treatment Rule (LT2ES WTR) on January 5, 2006. In the final rule, the EPA simplified some of the monitoring requirements from the Interim Enhanced Surface Water Treatment Rule (IESWTR), but still followed the same basic regulatory standards. In July of 2008 the Hyde Park Plant submitted a sampling location and schedule as required by this rule. The Hyde Park System has completed the required bi-weekly sampling for a period of one year.

This sampling round was completed in September of 2009. Future action the Hyde Park Plant maybe required to take will be based on the results of that monitoring.

E. Capital Improvement Program

1) Projects to be Funded by the 2011 Bonds

Hyde Park Regional Water System

After completion of an initial design phase, the Authority has executed a contract for the recoating of its two water storage tanks located in the Town of Hyde Park. The north and south tanks

have storage capacity of 750,000 gallons and one million gallons respectively. Both tanks are of a steel pillar and elevated steel tank design. The project is anticipated to be completed in fall of 2011.

The Authority has undertaken a project to replace just under 4,000 linear feet of asbestos cement waterline and appurtenances in the Springwood Village and Tan House Road area of the Hyde Park Water System with a new 8" diameter cement lined ductile iron pipe. The asbestos cement pipes are in excess of 50 years old, are located in an area with reactive soils, and have shown a high incidence of pipe and joint failure issues. The project includes reconnecting all existing services to the new water line.

Both of the above projects were initially funded with proceeds from the \$1.906 million 2010 Water Service Agreement Revenue Note, which will be repaid with proceeds from the 2011 Bonds. Current system funds are also being allocated to the completion of these projects.

Birch Hill Water System Capital Project

At the time of the Authority's acquisition of the Birch Hill Water System in December of 2008, the NYS Department of Health had mandated construction of a filter plant to mitigate the Birch Hill Water System's non-compliance issues with high iron and manganese concentrations. Related facilities to handle the process discharge water from the proposed filter plant and upgrades to the pump house building were also needed. The Authority commenced design of the required treatment system and related improvements utilizing proceeds of its 2009 Water Service Agreement Revenue Bonds. During the design phase, escalating levels of radionuclides detected in periodic system water quality sampling triggered a requirement from the State Health Department that the Authority also provide treatment to reduce radionuclides in finished water. The requirement for additional treatment has resulted in additional engineering design efforts and increased construction costs. Final design approval has been obtained, and contracts executed for the purchase and installation of the required treatment systems and related building, piping, electrical and control system upgrades. Work is anticipated to be completed by February of 2012. These additional expenses were initially funded with proceeds from the \$1.906 million 2010 Water Service Agreement Revenue Note, which will be repaid with proceeds from the 2011 Bonds.

2) Other Capital Projects

As a component of the Authority's Annual Budget Review Process, staff presents to the Board a Projected Five Year Capital Improvement Plan for all components of the Water System and Sewer System. Capital Improvement Projects slated for the upcoming year are incorporated into the Annual Budget and approved by the Board.

Additional Hyde Park Regional Water System Improvement Projects

At this time, the Hyde Park Regional Water System is in compliance with all applicable health regulations and standards.

The Authority has identified a list of capital improvements to be completed within the next five years. Those items include: continuation of the annual valve and hydrant replacement program (funded through hydrant rental fees paid by local fire districts), installation of a second rapid mixer, installation of an altitude valve for the south storage tank, and improvements to the water intake structure to eliminate sporadic winter freezing problems. These projects, with a total estimated cost of \$387,000, will be funded through the current system fund balance. The Authority is also allocating \$200,000 from current funds to complete a thorough inventory and assessment of aging water mains throughout the Hyde Park service area.

Birch Hill Water System

The Authority continues to utilize proceeds of the 2009 Water Service Agreement Revenue Bonds to improve the capacity of the two wells currently in service, and to address the rehabilitation and redevelopment of the two existing, on-site dormant wells (No. 3 and No. 4) to revive them as active source wells for the Birch Hill Water System and augment the overall yield of Birch Hill's well field. Sufficient funds remain from the 2009 Bonds to cover the full anticipated cost of \$93,000 for the well upgrades.

Other Components of the Water System

Shore Haven Water System Project

At the time of its acquisition by the Authority, the Shore Haven Water System was not meeting federal and state drinking water standards for disinfection by-products and radionuclides. The system also exhibits high levels of iron and manganese. As a condition of the Water Supply Permit for Shore Haven the New York State Department of Environmental Conservation required an additional well be drilled in order to increase source capacity. Further, the distribution system has a high leakage rate and insufficient working pressures.

Significant infrastructure work is underway to bring the Shore Haven water treatment plant back into compliance with safe drinking water standards. The ongoing work items to address Shore Haven's primary non-compliance issues and substantially improve its water quality were funded by Authority bonds issued in 2009. Ongoing work items are described below:

- 1) A third well has been drilled and tested. Plans to connect the new well are pending before the NYS Departments of Health and Environmental Conservation.
- 2) The Authority is proposing to the NYS Department of Health the installation of a Granular Activate Charcoal filtration system to reduce levels of Total Organic Carbon present in the source water, and installation of an alternate disinfection treatment system in order to mitigate the chlorination by-products problem.
- 3) Installation of a technology to remove radionuclides from the source water is in the planning phase. The Authority is proposing to utilize Water Remediation Technology Inc.'s "Z-88 Radium Treatment Process." The Z-88 process uses a proprietary adsorptive media (zeolite) to remove radionuclides from water. Z-88 is a self-contained system that adds no chemicals to the water, generates no liquid waste stream and requires no backwash. Initially, a short-term pilot study may be required by the Dutchess County Health Department to demonstrate the effectiveness of the Z-88 process before a permanent treatment facility could be installed on-site at Shore Haven.
- 4) The Authority has proposed to the NYS Department of Health an iron and manganese sequestering program for control of high iron and manganese levels.
- 5) The Authority has submitted to the NYS Department of Health an engineering report for the installation of a booster pumping station, in order to improve distribution system pressures and increase the effectiveness of the ongoing distribution system flushing program.
- 6) The Authority completed a metering program, resulting in 96% of all service connections being metered. Metered usage data is being utilized to help determine the extent of leakage in the

distribution system. Distribution system repairs will be addressed in a subsequent improvement project.

Valleydale Water System Project

At this time, the Valleydale Water System (Valleydale Zone) is in compliance with applicable health regulations and standards. However, the Authority has identified a list of capital improvements to be completed within the next five years utilizing current system funds. Those items include: regrading of the water plant driveway (funded in the 2011 operating budget at a cost of \$5,000); evaluation of individual well production (projected cost of \$4,000) and storage tank cleaning and inspection (projected cost of \$8,000). The Authority is currently investigating options and funding sources for the future replacement of the two existing 20,000 gallon storage tanks and the 5,000 gallon hydro-pneumatic tank.

Schreiber Water System Project

At this time, most aspects of the Schreiber Water System (Zone E) are in compliance with applicable health regulations and standards. Raw water from one well currently exceeds sulfate limits; water from this well is being blended with water from the second well to reduce sulfate levels in finished water. The Authority has identified a list of capital improvements to the Schreiber system to be completed within the next five years. Those items include: installation of a sediment filtration system on Well #1 (funded through the 2011 operating budget at an estimated cost of \$800), and completion of the water main replacement program.

Rokeby Water System Project

At this time, all aspects of the Rokeby Water System (Zone F) are in compliance with applicable health regulations and standards. However, the Authority has identified a list of capital improvements to the Rokeby system to be completed within the next five years. Those items include installation of an emergency generator (projected cost of \$30,000.) The Authority is currently investigating options and funding sources for the future replacement of the existing 5,000 gallon hydro-pneumatic tank.

Dalton Farms Water System Project

At this time, all aspects of the Dalton Farms Water System (Zone H) are in compliance with applicable health regulations and standards. However, the Authority has identified a list of capital improvements to the Dalton Farms system (Zone H) to be completed within the next five years. Those items include: re-grading of area surrounding production well heads (at a projected cost of \$2,000, funded in the 2011 operating budget) and future construction of a road way to the well field interior at an estimated cost of \$3,000.

OTHER AUTHORITY WATER PROJECTS

Central Dutchess Utility Corridor

In response to growing community water demands and a request by International Business Machines Corporation (“IBM”) for up to 5 MGD (million gallons of water per day) for a chip fabrication facility, the Authority has developed a water supply pipeline principally along a Dutchess County-owned former rail corridor and public road rights-of-way, from Overocker Road in the Town of Poughkeepsie to the junction of Palen Road and NYS Route 52 in the Town of East Fishkill, NY. The Central Dutchess Utility Corridor project consisted of the construction of a 10 MGD capacity, 24-inch water transmission 12.7 mile pipeline; along with a 6 MGD pump station and execution of a long-term water purchase

agreement to purchase up to 4.25 MGD of water from the Poughkeepsie Water Treatment Plant. Construction was completed and the system became fully operational in 2007.

Since the pipeline has come on-line, various private users and developers along its path have inquired about purchasing water from the Authority. On August 1, 2010 the Authority began providing water through the pipeline to the Town of East Fishkill's Hopewell Glen Water District. The users of the transmission line support long-term operational water costs. The Central Dutchess Utility Corridor project, with an overall cost of \$30,147,430, was funded through the Authority using both private and public sources, including the New York State Pipeline for Jobs program. The \$11.25 million in grants from the New York State Pipeline for Jobs program funded part of the project. Dutchess County and IBM provided the remaining funds. The Authority did not incur any borrowing for this project.

SUMMARY OF CONCLUSIONS OF ENGINEER

The Conclusions of the Engineer in the Summary Report are as follows:

- The Authority's Water System is operated in a professional and prudent manner.
- Overall, the Water System is rated adequate.
- The operating expenses for the fiscal years 2011, 2012, 2013, 2014, 2015 and 2016 which are included in the Official Statement, are adequate for continued reliable operation of the Water System.
- The Authority is currently able to provide Water Service (as defined in the Service Agreement) to the Water System service area and there is not foreseeable event of Service Failure (as defined in the Service Agreement).
- The Capital Improvement Program proposed in the Official Statement for the Water System is adequate to keep the Water System in operation.
- Staffing levels for the Authority's Water System are adequate for proper operation and maintenance of the Water System.

THE SEWER SYSTEM

The contents of this heading, "THE SEWER SYSTEM," have been provided by the Authority, and describe the Sewer System as it may be expanded from time to time. The Sewer System is separate from the Water System. Neither the revenues nor the assets of the Sewer System are pledged to support the 2011 Bonds. The current Sewer System provides service in the aggregate to 1,177 separate accounts, of which 1,170 are residential (99.4%), and 7 are commercial, industrial and/or institutional (.6%). The Authority's Sewer System is presently made up of five part-county sewer districts, comprising an aggregate service area of roughly 1.70 square miles (1,089 acres) in which a residential population of 3,233 is presently served.

The Authority's Sewer System comprises several subsystems. Each subsystem operates independently and is run for the Authority by a contract operator. VRI Environmental Services, Inc. of Millbrook, NY currently operates Chelsea Cove Sewer (Part-County Sewer District Number One) and Valley Dale Sewer (Part-County Sewer District Number Two). United Water Environmental Services, Inc. of Harrington Park, NJ presently operates Dalton Farms Sewer (Part-County Sewer District Number Three). The other two approved sewer systems, Jeffrey Grove (Part-County Sewer District Number Four)

and Waterlands Sewer (Part-County Sewer District Number Five) have not yet been built and are pending construction of the respective residential subdivisions which they are intended to serve.

HISTORICAL AND PROJECTED FINANCIAL RESULTS

Historical Results

The following table presents a summary of water operations for the Water Systems for the calendar years 2008, 2009 and 2010 and for the six months ended June 30, 2011, prepared in accordance with accounting principles generally accepted in the United States of America. The Water System Schedule of Revenues, Expenses and Changes in Net Assets for the years ended 2008, 2009 and 2010 have been subjected to the auditing procedures applied by Sedore & Company, CPA's PC and derived from the Authority's audited financial statements for those years. The schedule for the six months ended June 30, 2011 has been subjected to certain limited procedures performed by Sedore & Company, which consist principally of inquiries of management and analysis regarding the methods of measurement and presentation. However, Sedore & Company did not audit the schedule and expresses no opinion on it.

PricewaterhouseCoopers LLP has neither examined, compiled nor performed any procedures with respect to the prospective financial information contained herein and, accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance on such information or its achievability. PricewaterhouseCoopers LLP assumes no responsibility for and denies any association with the prospective financial information.

The PricewaterhouseCoopers LLP report included in this offering document refer exclusively to the County's historical financial information. PricewaterhouseCoopers LLP reports do not cover any other information in this offering and should not be read to do so.

Dutchess County Water and Wastewater Authority
Water System
Schedule of Revenues, Expenses and Change in Net Assets

Fiscal Year Ending December 31:	2008	2009	2010	Six Months Ended June 30, 2011
Operating Revenues:				
Water Sales	\$ 3,386,401	\$ 3,818,532	\$ 3,698,536	\$ 2,008,339
Rental Fees	95,388	99,584	98,944	86,562
Other Revenue	1,725	3,900	1,900	1,500
Total Operating Revenues	\$ 3,483,514	\$ 3,922,016	\$ 3,799,380	\$ 2,096,401
Operating Expenses				
Operations and Maintenance	\$ 2,598,621	\$ 2,823,984	\$ 2,883,071	\$ 1,252,598
Administrative and General	728,650	818,923	877,145	400,506
Depreciation	798,577	795,577	792,073	396,037
Total Operating Expenses	4,125,848	4,438,484	4,552,289	2,049,141
Operating Income (loss)	\$ (642,334)	\$ (516,468)	\$ (752,909)	\$ 47,260
Non-Operating Revenues (Expenses):				
Interest and Investment Income	\$ 369,788	\$ 338,361	\$ 490,906	\$ 99,039
Project Grants and Capital-Related Funding				
Dutchess County	1,814,873	1,807,433	2,359,054	382,997
Federal Grants	-		58,607	-
Other Revenues	21,264	15,246	17,240	7,395
Interest Expense	(1,429,311)	(1,464,536)	(1,505,079)	(658,869)
Bond Issuance Costs	(51,402)	(34,749)	(32,843)	(3,878)
Amortization	(64,487)	(62,118)	(59,748)	(29,874)
Net Non-Operating Revenues (Expenses)	\$ 660,725	\$ 599,637	\$ 1,328,137	\$ (203,190)
Change in Net Assets	\$ 18,391	\$ 83,169	\$ 575,228	\$ (155,930)

Projected Financial Results

The following tables set forth projections in which the Authority has forecasted Annual Expenses, Annual Revenues and Water Rates for the combined Water System. These projections are presented on a cash basis.

This prospective financial information was prepared using the following assumptions:

- Legally adopted budgets were used as the basis for the 2011 expense projections for all service areas and systems. Historical experience and currently known facts and circumstances are the basis for the legally adopted budgets. For 2012—2016, reasonable inflation levels of 3% and changes for specific facts and circumstances, such as known insurance increases, were used to develop the prospective expenses.
- Debt Service expense represent actual debt service payment requirements.
- Revenue estimates are derived to generate sufficient revenue to cover the prospective expenses.

- The Valleydale, Birch Hill, Schreiber and Rokeby service areas are at full capacity. No increase in customers is expected.
- There is capacity to add additional customers for the Hyde Park Regional, Dalton Farms Water and Shore Haven Water service areas due to currently vacant parcels. Customer count and demands are based upon knowledge of current developer projects and historical customer count trends.

Sedore & Company, CPA, PC, as the independent accountant of the Authority, has neither examined nor compiled such prospective financial information and, accordingly, Sedore & Company, CPA; PC does not express an opinion or any other form of assurance with respect thereto. The Sedore & Company, CPA, PC report included in this Official Statement relates to the Authority's historical financial information. It does not extend to the prospective financial information of the Authority and should not be read to do so.

**Dutchess County Water and Wastewater Authority
Water System
Projected Revenues and Expenses**

WATER DISTRICT TOTALS

<u>Fiscal year Ending December 31</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<u>REVENUES</u>						
Gross County Service Fee Payment	\$4,545,344.60	\$4,705,615.06	\$4,775,853.90	\$4,848,435.41	\$4,918,015.16	\$4,996,019.41
System Revenues	\$2,046,722.82	\$2,089,638.54	\$2,157,427.38	\$2,227,933.89	\$2,300,838.64	\$2,377,167.89
Sales of Water	\$1,464,254.55	\$1,500,251.68	\$1,563,346.31	\$1,630,696.43	\$1,693,079.07	\$1,761,583.80
Monthly Service Charge	\$458,821.00	\$461,161.80	\$462,997.80	\$463,177.80	\$467,773.80	\$472,369.80
Other Revenue	\$123,647.27	\$128,225.07	\$131,083.27	\$134,059.66	\$139,985.77	\$143,214.29
Net County Service Fee Payment	\$2,498,621.78	\$2,615,976.52	\$2,618,426.52	\$2,620,501.52	\$2,617,176.52	\$2,618,851.52
<u>EXPENSES</u>						
Total Expenses	\$4,545,344.60	\$4,705,615.06	\$4,775,853.90	\$4,848,435.41	\$4,918,015.16	\$4,996,019.41
Operation/Maintenance	\$1,671,187.78	\$1,713,809.10	\$1,775,982.19	\$1,840,685.65	\$1,908,027.35	\$1,978,119.99
Administration	\$375,535.03	\$375,829.41	\$381,445.16	\$387,248.21	\$392,811.26	\$399,047.86
Total Debt Service Expenses	\$2,498,621.79	\$2,615,976.55	\$2,618,426.55	\$2,620,501.55	\$2,617,176.55	\$2,618,851.55

WATER RATE CALCULATIONS

Fiscal year Ended December 31	2011	2012	2013	2014	2015	2016
<u>Zone A/B/C/D/L - Hyde Park</u>						
Trial Water Rate (\$/kgal)	\$ 3.29	\$ 3.34	\$ 3.48	\$ 3.62	\$ 3.75	\$ 3.89
Cost per Average Residence	\$ 317.91	\$ 320.79	\$ 328.16	\$ 336.07	\$ 343.16	\$ 351.00
<u>Zone E - Schreiber</u>						
Trial Water Rate (\$/kgal)	\$ 8.91	\$ 9.44	\$ 9.92	\$ 10.42	\$ 10.94	\$ 11.47
Cost per Average Residence	\$ 788.60	\$ 814.34	\$ 837.64	\$ 861.67	\$ 886.44	\$ 911.98
<u>Zone F - Rokeby</u>						
Trial Water Rate (\$/kgal)	\$ 9.04	\$ 9.25	\$ 9.49	\$ 9.75	\$ 10.02	\$ 10.29
Cost per Average Residence	\$ 443.05	\$ 453.06	\$ 465.26	\$ 477.84	\$ 490.81	\$ 504.18
<u>Zone H - Dalton Farms</u>						
Trial Water Rate (\$/kgal)	\$ 3.11	\$ 3.27	\$ 3.40	\$ 3.53	\$ 3.66	\$ 3.80
Cost per Average Residence	\$ 272.93	\$ 282.21	\$ 289.95	\$ 297.87	\$ 305.19	\$ 313.52
<u>Zone J - Shore Haven</u>						
Trial Water Rate (\$/kgal)	\$ 3.69	\$ 3.85	\$ 3.95	\$ 4.05	\$ 4.16	\$ 4.27
Cost per Average Residence	\$ 904.40	\$ 942.36	\$ 967.24	\$ 992.89	\$ 1,019.33	\$ 1,046.59
<u>Zone K - Birch Hill</u>						
Trial Water Rate (\$/kgal)	\$ 7.34	\$ 7.43	\$ 7.78	\$ 8.14	\$ 8.51	\$ 8.89
Cost per Average Residence	\$ 781.18	\$ 786.97	\$ 808.17	\$ 830.06	\$ 852.66	\$ 876.01
<u>Zone VDW - Valleydale</u>						
Trial Water Rate (\$/kgal)	\$ 5.66	\$ 5.80	\$ 5.91	\$ 6.03	\$ 6.16	\$ 6.29
Cost per Average Residence	\$ 448.28	\$ 457.12	\$ 464.24	\$ 471.78	\$ 479.75	\$ 488.17

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 2011 Bonds or questioning or affecting the validity of the 2011 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. Nor is there any 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 the Sewer System or its right to conduct its activities in accordance with the provisions of the Dutchess County Water and Wastewater Act and of the Resolution. Any other litigation pending is of a routine nature which does not affect the right of the Authority to conduct its business or affect the validity of its obligations.

LEGALITY OF THE BONDS FOR INVESTMENT

Under the provisions of the Act, bonds of the Authority are made securities in which all public officers and public bodies of the State and all municipalities in the State, 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, investment companies and other persons carrying on a banking business, and administrators, guardians, executors, trustees and other fiduciaries and all other persons whatsoever, who are now or may hereafter be authorized to invest in bonds or other obligations of the state, may properly and legally invest funds, including capital in their control or belonging to them.

CONTINUING DISCLOSURE UNDER SEC RULE 15c2-12

In order to assist the purchaser of the Series 2011 Bonds (the "Purchaser"), in complying with the provisions of paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission

("Rule 15c2-12"), the Authority and the County will undertake in a written agreement for the benefit of the holders of the 2011 Bonds (the "Agreement") to provide to the Municipal Securities Rulemaking Board ("MSRB") through EMMA, on an annual basis not later than the later to occur of one hundred eighty (180) days following the end of each fiscal year, or sixty (60) days after receipt of their annual audited financial statements (but in no event later than the last business day of the following fiscal year) financial and operating data concerning the Authority and the County of the type included in this Official Statement, referred to herein as "Annual Information" and described in more detail below.

The Annual Information shall consist of (a) financial and operating data of the type included in the Annual Financial Statements of the County set forth in Appendix D hereto, including, more specifically, information consisting of (1) for prior fiscal years, an analysis of cash — basis results for the Authority's and County's three most recent fiscal years, and a presentation of the Authority's and County's results in accordance with GAAP for at least the two most recent fiscal years for which that information is currently available; (2) for financing activities, a description of the types of financing the Authority and County is authorized to undertake, a presentation of the outstanding debt issued by the Authority and County and certain public authorities as well as information concerning debt service requirements on that debt; (3) for authorities and localities, information on certain public authorities and local entities whose financial status may have a material impact on the financial status of the Authority and the County; and (4) material information regarding the Authority's and the County's government employment and retirement systems; together with (b) such narrative explanation as may be necessary to avoid misunderstanding and to assist the reader in understanding the presentation of financial and operating data concerning the Authority and the County.

The Authority and the County will undertake to provide to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the 2011 Bonds: (1) principal and interest payment delinquencies; (2) non — payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the bonds, or other material events affecting the tax status of the bonds; (7) modifications to the rights of the bond holders; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the bonds; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the Authority, which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer; (13) the consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the Authority and the County will undertake, for the benefit of the holders of the Bonds, to provide to each such Repository or the MSRB, and to the State Information Depository, if any, in a timely manner, notice of

any failure by the Authority and the County to provide the Annual Information and financial statements by the date required in the Authority's and the County's undertaking described above.

The sole and exclusive remedy for breach or default under the Agreement described above is an action to compel specific performance of the undertakings of the County and the Authority and no person, including a holder of the 2011 Bonds may recover monetary damages thereunder under any circumstances. A breach or default under the Agreement shall not constitute an Event of Default either under the Resolution or the Service Agreement. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the Agreement, insofar as the provision of Rule 15c2-12 no longer in effect required the provision of such information, shall no longer be required to be provided.

The Authority is in compliance with prior agreements made pursuant to Rule 15c2-12 for the past five years.

Copies of the Agreement will be on file at the office of the Authority.

BONDS AS SECURITY FOR DEPOSIT

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

RATING

Standard & Poor's Ratings Services, a Division of The McGraw Hill Companies ("Standard & Poor's") will assign a rating of "AA-" to the 2011 Bonds. Such ratings reflect only the views of such organization and any desired explanation of the significance of such ratings should be obtained from the rating agency at the following address: Standard & Poor's, 55 Water Street, New York, New York 10041.

Generally, a 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 such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2011 Bonds.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2011 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). Bond Counsel is of the further opinion that interest on the 2011 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes although it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix G hereto.

2011 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2011 Bonds. The Authority has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2011 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2011 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2011 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the 2011 Bonds may adversely affect the value of, or the tax status of interest on, the 2011 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not be, relied upon in connection with any actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2011 Bonds is excluded from gross income for federal income tax purposes and is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York), the ownership or disposition of, or the accrual or receipt of interest on, the 2011 Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, on September 12, 2011 the Obama Administration announced a legislative proposal entitled the American Jobs Act of 2011. For tax years beginning on or after January 1, 2013, the American Jobs Act of 2011 generally would limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel’s judgment as to the proper treatment of the 2011 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service

("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2011 Bonds ends with the issuance of the 2011 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the 2011 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt obligations is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2011 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2011 Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

CERTAIN LEGAL MATTERS

All legal matters incident to the authorization, issuance, sale and delivery of the 2011 Bonds are subject to the approval of Orrick, Herrington & Sutcliffe, New York, New York, Bond Counsel to the Authority. The forms of the approving opinion and the original issue discount opinion of Bond Counsel are annexed hereto as Appendix G. Certain legal matters will be passed upon for the Authority by its Special Counsel, Drake, Loeb, Heller, Kennedy, Gogerty, Gaba & Rodd PLLC.

FINANCIAL ADVISOR

Environmental Capital LLC, New York, New York, is serving as Financial Advisor to the Authority with respect to the issuance of the 2011 Bonds.

FINANCIAL AND OTHER INFORMATION

The Authority has furnished all information contained herein other than information specifically attributed herein to other sources.

The Summary Reports of the Engineer, included as Appendix A hereto, and the headings "THE WATER SYSTEM" and "CONCLUSIONS OF ENGINEER hereinabove have been prepared by Savin Engineers, P.C., and are included in this Official Statement in reliance upon the expertise of such firm as consultants knowledgeable with respect to the design and operation of water and sewer systems or facilities. All financial forecasts contained herein have been prepared by the Authority.

The information in Appendix D hereto has been obtained from the County, and the information on the inside cover hereof relating to the initial offering prices of the 2011 Bonds has been furnished by the Underwriter of the 2011 Bonds.

The references, excerpts, and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents, and reference is made to all such documents for full and complete statements of all matters of fact relating to the 2011 Bonds, the security for the payment of the 2011 Bonds, and the rights of the holders thereof. The information contained in this Official Statement has been compiled from official and other sources deemed to be reliable, and while not guaranteed as to completeness or accuracy, is believed to be correct as of this date.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representation of fact, and no representation is made that any of the estimates will be realized. The information and expressions of opinion 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 since the date hereof.

The execution and delivery of this Official Statement have been duly authorized by the Authority.

DUTCHESS COUNTY WATER AND
WASTEWATER AUTHORITY

By: /s/ Thomas LeGrand
Thomas LeGrand, Chairman

Dated: November 3, 2011

APPENDIX A

Summary Reports of the Engineer

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October 5, 2011

Ms. Bridget Barclay
Executive Director
Dutchess County
Water & Wastewater Authority
27 High Street
Poughkeepsie, NY 12601

**RE: WATER SYSTEM
2011 SERIES REVENUE BONDS**

Dear Ms. Barclay:

We hereby submit the opinion of Savin Engineers, P.C. (“Savin”) on the condition of the Water System of the Dutchess County Water & Wastewater Authority (“the Authority”) in connection with the issuance of revenue bonds (the “2011 Water Bonds”) to finance various Water System capital expansion and improvement projects. The Water System is described in the Official Statement of the Authority dated _____, 2011.

Based on our experience with the Authority’s Water System, (as a result of being the Authority’s general engineering services firm since its inception in 1991); on our evaluation of each component of the Water System during the preparation of this opinion letter; on our review of the capital projects undertaken in the past 5 years; on our review of the Authority’s proposed capital projects list; and our review of the regulatory performance of the Water System over the last two years, Savin concludes that, overall, the Water System is operated in a professional and prudent manner. Further, Savin is of the opinion that

- Overall, the Water System is rated adequate.
- The operating expenses for the fiscal years 2011, 2012, 2013, 2014, 2015 and 2016 included in the Official Statement are adequate for continued reliable operation of the Water System.
- The Capital Improvement Program proposed in the Official Statement for the Water System is adequate to keep the system in operation.
- Staffing levels, with the proposed continuation of the current Contract Operators’ Services for the Authority’s Water System are adequate for proper operation and maintenance of the Water System. The Authority is currently able to provide Water Service (as defined in the Service Agreement between the Authority and Dutchess

County) to the Water System service area and that there is no foreseeable event of Service Failure (as defined in the Service Agreement between the Authority and the County).

The Consulting Engineer

Savin has served the Authority as its on-call general engineering services consulting engineer since the Authority's inception in 1991. Each year, the Authority has executed on-call services agreements with Savin.

Methodology

In order to develop information on the Water System, Savin reviewed in detail "The Water System" report, prepared by Authority Staff and the various evaluation and design work previously undertaken by Savin on the component systems of the Water System.

Savin has intimate knowledge of the Hyde Park Water Treatment Facility, having performed several design and construction management projects over the last seven (7) years including; the pump improvement projects (both raw and finished water); the sludge handling study; the standby generators and several chemical feed enhancement projects; the 10-year evaluation of the plant; the superpulsator project; and the seismic evaluation and retrofit design of the sludge thickener building.

Savin is also familiar with the Hyde Park Water Service Area (Zones A and B) having developed a hydraulic model of the service area and undertaken a balancing study of the two (2) elevated storage tanks. Savin also completed the design of the Route 9G Interconnection project.

Savin is familiar with the Staatsburg Service Area (Zone C) having completed the design and construction management of the Route 9 transmission main which connected Staatsburg to the Hyde Park system. Savin also completed a study of the effects of corrosion on the Zone C distribution system.

Savin has reviewed the Contract Documents that were prepared for the Hyde Park system Storage Tanks Re-Coating project.

In February 2000, Savin completed the initial field evaluation of the Rokeby Service Area for the Authority.

In 2001, Savin provided an opinion letter and a "Certificate of the Engineer" for the 2001 Bonds to finance the Harbour Hills, Zone D Project.

Savin was the design engineer for the Central Dutchess Water Transmission Line (CDWTL).



For the Dalton Farms Zone H Service Area, Savin conducted a detailed field evaluation of the physical components of the system and its operational performance. In 2004, Savin provided an Opinion Letter and a "Certificate of the Engineer" for the 2004 Bonds to finance the Dalton Farms system (water & sewer).

In November 2006, Savin completed the initial field evaluation of the Birch Hill system for the Authority. The contract documents for the treatment of iron, manganese and radionuclides were reviewed.

In November 2006, Savin completed the initial field evaluation of the Shore Haven water system and has subsequently been assisting the Authority in its negotiations with the New York State Department of Health and the Dutchess County Department of Health relating to the proposed improvements to the Shore Haven system. Preparation of designs for the system improvements are now ongoing.

In 2009, Savin provided an Opinion Letter and a "Certificate of the Engineer" for the 2009 Authority revenue bonds.

Savin conducted interviews with DCWWA staff and reviewed "The Water System" report regarding the other components of the Water System – Valleydale and Schreiber Water Systems.

Savin reviewed the monthly compliance reports submitted to the Dutchess County Department of Health for each of the Water System's components for the last 2 years.

Savin reviewed the annual O&M, capital debt projections and capital improvement program for the Water System for the current year and the next five years, as prepared by the Authority's staff and its financial consultants.

Very truly yours,

Savin Engineers, P.C.

James M. Gavin, P.E.
Executive Vice President

JMG:bl



CERTIFICATE OF THE ENGINEER

Savin Engineers, P.C. (the “Engineer”) HEREBY CERTIFIES that this Certificate is furnished to the Dutchess County Water and Wastewater Authority (the “Authority”) in connection with the sale of the bonds (the “Bonds”) more fully described in the Official Statement of the Authority dated _____, 2011 (the “Official Statement”) and prepared in connection with the sale of such Bonds.

1. The Engineer consents to the references to it in the Official Statement and the use of the Opinion Letter prepared by the Engineer contained in Appendix A of the Official Statement.

2. The Engineer’s Opinion Letter is based on assumptions, which the Engineer believes to be reasonable as of the date of this Certificate.

3. The Engineer has determined that the projections of the Operating Expenses and the Debt Service Requirements for the current year and for each of the five (5) fiscal years following issuance of the Bonds, as set forth in the Official Statement, are adequate for the continued reliable operation of the systems.

4. The Engineer is familiar with the physical components of the Hyde Park and Birch Hill water system facilities and the improvements thereto being financed by the Bonds (the “Project”). It is the Engineer’s opinion that the Project will be desirable in connection with the

operation of the Water System, will be technically feasible and is consistent with the Authority's long-term capital plans.

5. The Project cost estimate of \$1,905,800, which includes a contingency, is reasonable. The Project will be funded by the proceeds of the Bonds. The Hyde Park water system improvements are expected to be placed in operation by December 2011. The Birch Hill water system improvements are expected to be placed in operation by June 2012.

Dated: October 5, 2011

SAVIN ENGINEERS, P.C.

By: _____

James M. Gavin, P.E.
Executive Vice President



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APPENDIX B

GLOSSARY OF TERMS

Unless the context shall otherwise require, capitalized terms herein have the meaning given to them as follows:

“Act” means Title 6 — C of Article 5 of the Public Authorities Law of the State.

“Additional Indebtedness” means Additional Parity Indebtedness as defined in the Resolution.

“Additional Parity Indebtedness” means Additional Parity Indebtedness as defined in the Resolution.

“Alterations” means reconstruction, construction of additions to or any other improvements to the Water System which would be an increase and improvement to the Water System under Section 268 of the County Law of the State, as the same may be amended from time to time.

“Authority” means (i) the Dutchess County Water and Wastewater Authority and its successors and assigns, and (ii) any political subdivision resulting from or surviving any consolidation or merger to which the Authority or its successors may be a party.

“Basic Service Agreement Term” means the period commencing on the Closing Date and terminating on the earlier of (i) the date of maturity of the Bonds or (ii) the date on which the Bonds are paid or provision for the payment thereof has been made as provided in the Resolution.

“Birch Hill Water System” means the water supply and distribution system acquired by the Authority from Birch Hill Water Supply, Inc. to provide potable water to Birch Hill Manor and Highview Manor, all being within the Town of Beekman, including any additions thereto or deletions therefrom from time to time.

“Birch Hill Water System Operating Expenses” means the costs, fees and expenses incurred or to be incurred by or for the Authority (i) in connection with the operation of the Birch Hill Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Birch Hill Water System, or of providing potable water through any other means to Persons within the Zone K Zone of Assessment, each as may be necessary or proper to maintain Water Service to and for the Zone K Zone of Assessment, including, costs of Alterations for which Additional Indebtedness have not been issued, (ii) a portion of the costs of operating, maintaining, repairing, insuring or providing services to the Birch Hill Water System as the Authority shall determine from year to year to be the reasonable portion of such costs to be paid by the Zone K Zone of Assessment, (iii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone K Zone of Assessment, (iv) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expense incurred or to be incurred and payable by the Authority and not paid out of bond proceeds with respect to any Additional Indebtedness if the Authority determines such Additional Indebtedness benefits the Zone K Zone of Assessment, and (v) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the collection of water rates.

“Bondholder” means the Person in whose name any Bond is registered pursuant to the Resolution.

“Bonds” means, collectively, the 1998 Bonds, the 1999 EFC Refunding Bonds, the 2000 Bonds, the 2001 Bonds, the 2002 EFC Refunding Bonds, the 2004 Bonds, the 2009 Bonds, the 2011 Bonds and Additional Indebtedness.

“Business Day” means any day (other than Saturday or Sunday) during which (i) commercial banks located in the State or in the city in which the principal office of the Trustee are located are not required or authorized by law to close; and (ii) The New York Stock Exchange, Inc. is not closed.

“Closing Date” means the date of delivery of the 2011 Bonds.

“Condemnation” means, with respect to the Bonds, the lawful taking of the Water System or any part thereof by a governmental body and, with respect to the Sewer Bonds, the lawful taking of the Sewer System or any part thereof by a governmental body.

“County” means the County of Dutchess, New York, or its successors or assigns.

“Credit Facility” means any credit enhancement, guaranty, letter of credit, insurance policy, surety bond, standby bond purchase agreement or other credit facility or liquidity facility, and any extension or renewal thereof which is delivered to the Trustee as security or liquidity for the payment of the principal or purchase price of or interest on any series of Bonds or any portion thereof, and as further provided in the Resolution.

“Credit Facility Provider” means the provider of any Credit Facility.

“Crofton Mews Water Distribution System” means the water distribution system acquired by the Authority from Sarcar LLC to provide potable water from the Hyde Park Water system to the Crofton Mews Apartment Complex, including any additions thereto or deletions therefrom from time to time.

“Crofton Mews Water Distribution System Operating Expenses” means the costs, fees and expenses incurred or to be incurred by or for the Authority (i) in connection with the operation of the Crofton Mews Water Distribution System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Crofton Mews Water Distribution System, or of providing potable water through any other means to Persons within the Zone G Zone of Assessment, each as may be necessary or proper to maintain Water Service to the Zone G Zone of Assessment, (ii) a portion of the costs of operating, maintaining, repairing, insuring or providing services to the Hyde Park Water System as the Authority shall determine from year to year to be the reasonable portion of such costs to be paid by the Zone G Zone of Assessment, (iii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone G Zone of Assessment, (iv) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expense incurred or to be incurred and payable by the Authority and not paid out of Bond proceeds with respect to any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Zone G Zone of Assessment, and (v) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the collection of Water Rates.

“Dalton Farms Water System” means the water supply and distribution system acquired by the Authority from the Farms Water Company, Inc. to provide potable water to the Dalton Farms Development, the Poughquag Hamlet Water Improvement Area and the residential subdivisions known as or proposed to be known substantially as Victoria Estates and Plum Court, all being within the Town of Beekman, including any additions thereto or deletions therefrom from time to time.

“Dalton Farms Water System Operating Expenses” means the costs, fees and expenses incurred or to be incurred by or for the Authority (i) in connection with the operation of the Dalton Farms Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Dalton Farms Water System, or of providing potable water through any other means to Persons within the Zone H Zone of Assessment, (ii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone H Zone of Assessment (iii) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expenses incurred or to be incurred and payable by the Authority and not paid out of Bond proceeds with respect to either the 2011 Bonds or any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Zone H, Zone of Assessment, and (iv) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the collection of Water Rates.

“Debt Service Fund” means the Debt Service Fund as defined in the Resolution.

“Debt Service Requirements” means the Debt Service Requirements as defined in the Resolution.

“Debt Service Reserve Fund” means the Debt Service Reserve Fund as defined in the Resolution.

“Debt Service Requirements” means the Debt Service Requirements as defined in the Resolution.

“Debt Service Reserve Requirement” means the Debt Service Reserve Requirement as defined in the Resolution.

“Discharge Date” means the date on which the Bonds have been paid in full or provision therefrom made in accordance with the terms of the Resolution and, with respect to the Sewer Bonds, the date on which the Sewer Bonds have been paid in full or provision therefrom made in accordance with the terms of the Sewer Resolution. .

“Governmental Requirements” means federal, State and local laws, rules, regulations and ordinances applicable at the time to the construction, operation and maintenance of the Water System or the Sewer System, as the case may be.

“Harbour Hills Water District” means that water district created under the Town Law of the State by, and located in, the Town of Hyde Park, Dutchess County, New York known as the Harbour Hills Water District, or its successors or assigns.

“Harbour Hills Water System means the system for the distribution of potable water to be constructed by the Authority to serve Persons within the Zone D Zone of Assessment, including any additions thereto or deletions therefrom from time to time.

“Harbour Hills Water System Operating Expenses” means the costs, fees and expenses reasonably incurred or to be incurred by or for the Authority (i) in connection with the operation of the Harbour Hills Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Harbour Hills Water System, or of providing potable water through any other means to Persons within the Zone D Zone of Assessment, each as may be necessary or proper to maintain Water Service to the Zone D Zone of Assessment and fire hydrants for the Zone D Zone of Assessment, (ii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone D Zone of Assessment, (iii) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expense incurred or to be incurred and payable by the Authority and not paid out of Bond proceeds with respect to the 2000 Series B

Bonds, or any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Zone D Zone of Assessment, and (iv) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the imposition and collection of Water Rates.

“Hyde Park Fire and Water District” means that district corporation located in the Town of Hyde Park, Dutchess County, New York known as the Hyde Park Fire and Water District, or its successors or assigns.

“Hyde Park Water System” means the system for the supply, purification and distribution of potable water and the fire hydrants acquired by the Authority from the Hyde Park Fire and Water District on the Closing Date, including any addition thereto or deletion therefrom from time to time.

“Hyde Park Water System Operating Expenses” means the costs, fees and expenses reasonably incurred or to be incurred by or for the Authority (i) in connection with the operation of the Hyde Park Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Hyde Park Water System, or of providing potable water through any other means to Persons within the Zone A Zone of Assessment or the Zone B Zone of Assessment, each as may be necessary or proper to maintain Water Service to the Zone A Zone of Assessment and the Zone B Zone of Assessment and fire hydrants for the Zone A Zone of Assessment and for the Zone B Zone of Assessment, and, specifically, with respect to fire hydrants as may be required pursuant to Article I11 of the Transfer Agreement, including costs of any alteration for which Additional Indebtedness have not been issued, (ii) any Litigation Expenses or Other Litigation Expenses to be paid or paid by the Authority other than from Additional Indebtedness (iii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone A Zone of Assessment and to the Zone B Zone of Assessment, (iv) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expense incurred or to be incurred and payable by the Authority and not paid out of Bond proceeds with respect to the 1998 Series A Bonds, the 1998 Series B Bonds, the 1998 Series C Bonds, or any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Zone A Zone of Assessment or the Zone B Zone of Assessment, and (v) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the imposition and collection of Water Rates.

“Lien” means any sale, transfer, assignment, disposition, mortgage, pledge, security interest, lien, judgment lien, easement or other encumbrances on title, except Permitted Liens.

“1998 Bonds” means, collectively, the 1998 Series A Bonds, the 1998 Series B Bonds, the 1998 Series C Bonds, the 1998 Series Capital Construction Bonds and the 1998 Series Staatsburg Bonds.

“1998 Capital Construction” means the purchase and installation of an additional raw water pump and an additional finished water pump in or at the water treatment plant, being part of the Hyde Park Water System.

“1998 Series A Bonds” means the 1998 Series A Bonds as defined in the Resolution.

“1998 Series B Bonds” means the 1998 Series B Bonds as defined in the Resolution.

“1998 Series C Bonds” means the 1998 Series C Bonds as defined in the Resolution.

“1998 Series Capital Construction Bonds” means the 1998 Series Capital Construction Bonds as defined in the Resolution.

“1998 Series Staatsburg Bonds” means the 1998 Series Staatsburg Bonds as defined in the Resolution.

“1999 EFC Refunding Bonds” means the Series 1999 — SDW Bonds as defined in the Resolution.

“Operating Expenses” means collectively, Hyde Park Water System Operating Expenses, Staatsburg Water System Operating Expenses, Harbourd Hills Water System Operating Expenses, Schreiber Water System Operating Expenses, Valleydale Water System Operating Expenses, Rokeby Water System Operating Expenses, Crofton Mews water Distribution System Operating Expenses, Dalton Farms Water System Operating Expenses, Jeffrey Groves Water System Operating Expenses, Shorehaven Water System Operating Expenses, Birch Hill Water System Operating Expenses, Route 9G Water System Operating Expenses, and Other Operating Expenses (i) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone of Assessment and (ii) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expenses incurred or to be incurred and payable by the Authority and not paid out of Bond proceeds with respect to either the 2011 Bonds or any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Zone of Assessment.

“Other Operating Expenses” means fees and expenses similar to Hyde Park Water System Operating Expenses, Staatsburg Water System Operating Expenses, Harbourd Hills Water System Operating Expenses, Schreiber Water System Operating Expenses, Valleydale Water System Operating Expenses, Rokeby Water System Operating Expenses, Crofton Mews Water Distribution System Operating Expenses, Dalton Farms Water System Operating Expenses Jeffrey Groves Water System Operating Expenses, Shorehaven Water System Operating Expenses, Birch Hill Water System Operating Expenses, and Route 9G Water System Operating Expenses reasonably incurred or to be incurred by or for the Authority in connection with the provision of potable water by the Authority to areas other than the Zone A Zone of Assessment, the Zone B Zone of Assessment, the Zone C Zone of Assessment, the Zone D Zone of Assessment, the Zone E Zone of Assessment, the Valleydale Zone of Assessment, the Zone F Zone of Assessment, the Zone G Zone of Assessment, the Zone H Zone of Assessment , the Zone I Zone of Assessment, the Zone J Zone of Assessment, the Zone K Zone of Assessment or the Zone L Zone of Assessment pursuant to an amendment to the Service Agreement.

“Other Litigation Expenses” means expenses incurred by the Authority in the defense and payment of litigation against the Hyde Park Fire and Water District in accordance with Section 1.4(d) of the Transfer Agreement.

“Outstanding Bonds” means Outstanding Bonds as defined in the Resolution.

“Parts” means tangible and intangible chattels incorporated in the Water System.

“Permitted Liens” means Permitted Encumbrances as defined in the Resolution.

“Person” means an individual, a corporation, a partnership, an association, a joint stock company, a trust, any unincorporated organization, a governmental body, political subdivision, municipality or authority or any other group or entity.

“Renewal Service Agreement Term” means the Renewal Service Agreement Term provided in Article 6 of the Service Agreement.

“Reserve Fund Credit Facility” means the Reserve Fund Credit Facility as defined in the Resolution.

“Resolution” means the Resolution, including any supplemental Resolution, as the same may be amended from time to time.

“Revenue Fund” means the Revenue Fund as defined in the Resolution.

“Rokeby Water System” means the system for the supply and distribution of potable water acquired by the Authority from Rokeby Homes, Inc., to serve Persons within the Zone F Zone of Assessment, including any additions thereto or deletions therefrom from time to time.

“Route 9G Water System” means the system for the supply of potable water serving Persons within the Zone L Zone of Assessment, including any additions thereto or deletions therefrom from time to time.

“Route 9G Water System Operating Expenses” means the costs, fees and expenses incurred or to be incurred by or for the Authority (i) in connection with the operation of the Route 9G Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Route 9G Water System, or of providing potable water through any other means to Persons within the Zone L Zone of Assessment, each as may be necessary or proper to maintain Water Service to and for the Zone L Zone of Assessment, including, costs of Alterations for which Additional Indebtedness have not been issued, (ii) a portion of the costs of operating, maintaining, repairing, insuring or providing services to the Hyde Park Water System as the Authority shall determine from year to year to be the reasonable portion of such costs to be paid by the Zone L Zone of Assessment, (iii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone L Zone of Assessment, (iv) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expense incurred or to be incurred and payable by the Authority and not paid out of bond proceeds with respect to any Additional Indebtedness if the Authority determines such Additional Indebtedness benefits the Zone L Zone of Assessment, and (v) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the collection of water rates.

“Rokeby Water System Operating Expenses” means the costs, fees and expenses reasonably incurred or to be incurred by or for the Authority (i) in connection with the operation of the Rokeby Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Rokeby Water System, or of providing potable water through any other means to Persons within the Zone F Zone of Assessment, each as may be necessary or proper to maintain Water Service to the Zone F Zone of Assessment (ii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone F Zone of Assessment, (iii) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expense incurred or to be incurred and payable by the Authority and not paid out of Bond proceeds with respect to any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Zone F Zone of Assessment, and (iv) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the imposition and collection of Water Rates.

“Schreiber Water System” means the system for the supply of potable water serving Persons within the Zone E Zone of Assessment, including any additions thereto or deletions therefrom from time to time.

“Schreiber Water System Operating Expenses” means the costs, fees and expenses reasonably incurred or to be incurred by or for the Authority (i) in connection with the operation of the Schreiber Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Schreiber Water

System, or of providing a source of potable water through any other means for Persons within the Zone E Zone of Assessment, each as may be necessary or proper to maintain Water Service to the Zone E Zone of Assessment, (ii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone E Zone of Assessment, (iii) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expense incurred or to be incurred and payable by the Authority and not paid out of any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Zone E Zone of Assessment, and (iv) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the imposition and collection of Water Rates.

“Service Agreement” means the Service Agreement dated as of June 1, 1998, as amended and sixth restatement as of February 1, 2009 by and between the County and the Authority, as the same may be amended from time to time.

“Service Agreement Term” means, collectively, the Basic Service Agreement Term and any Renewal Service Agreement Term.

“Service Event of Default” means an event of default provided in Article 11 of each of the Service Agreement.

“Service Failure” means the failure of the Authority to provide Water Service to in excess of, collectively, twenty-five per centum of the Persons within the Zone A Zone of Assessment, the Zone B Zone of Assessment, the Zone C Zone of Assessment, the Zone D Zone of Assessment, the Zone E Zone of Assessment, the Valleydale Zone of Assessment, the Zone F Zone of Assessment, the Zone G Zone of Assessment, the Zone H Zone of Assessment, the Zone I Zone of Assessment, the Zone J Zone of Assessment, the Zone K Zone of Assessment and the Zone L of Assessment and such other Persons within the Water District as the Authority may agree with the County to provide Water Service to pursuant to an amendment to the Service Agreement, for a period of ninety consecutive days.

“Service Fee” means the Service Fee to be paid by the County to the Authority pursuant to Section 5.2 of the Service Agreement.

“Service Fee Payment Date” means the first day of the months of February, May, August and November.

“Shorehaven Water System” means the water supply and distribution system acquired by the Authority from the Shore Haven Civic Association Inc. to provide potable water to an area of the Town of Pawling west of Whaley Lake, including any additions thereto or deletions therefrom from time to time.

“Shorehaven Water System Operating Expenses” means the costs, fees and expenses incurred or to be incurred by or for the Authority (i) in connection with the operation of the Shorehaven Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Shorehaven Water System, or of providing potable water through any other means to Persons within the Zone J Zone of Assessment, each as may be necessary or proper to maintain Water Service to and for the Zone J Zone of Assessment, including, costs of Alterations for which Additional Indebtedness have not been issued, (ii) a portion of the costs of operating, maintaining, repairing, insuring or providing services to the Shorehaven Water System as the Authority shall determine from year to year to be the reasonable portion of such costs to be paid by the Zone J Zone of Assessment, (iii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone J Zone of Assessment, (iv) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expense incurred or to be incurred and payable by the Authority and not paid

out of bond proceeds with respect to any Additional Indebtedness if the Authority determines such Additional Indebtedness benefits the Zone J Zone of Assessment, and (v) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the collection of water rates.

“Sinking Fund” means the Sinking Fund as defined in the Resolution.

“State” means the State of New York.

“Staatsburg Water System” means the system for the distribution of potable water and the fire hydrants serving the Staatsburg area of the Towns of Hyde Park and Rhinebeck acquired by the Authority from the County on the Closing Date and the Route 9 Connecting Main and other facilities for the provision of potable water for persons within the Zone C Zone of Assessment, including any additions thereto or deletions therefrom from time to time.

“Staatsburg Water System Operating Expenses” means the costs, fees and expenses incurred or to be incurred by or for the Authority (i) in connection with the operation of the Staatsburg Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Staatsburg Water System, or of providing potable water through any other means to Persons within the Zone C Zone of Assessment, each as may be necessary or proper to maintain Water Service and fire hydrants to and for the Zone C Zone of Assessment, including, costs of Alterations for which Additional Indebtedness have not been issued, (ii) a portion of the costs of operating, maintaining, repairing, insuring or providing services to the Hyde Park Water System as the Authority shall determine from year to year to be the reasonable portion of such costs to be paid by the Zone C Zone of Assessment, (iii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone C Zone of Assessment, (iv) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expense incurred or to be incurred and payable by the Authority with respect to the 1998 Series Staatsburg Bonds or any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Zone C Zone of Assessment, and (v) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the collection of Water Rates.

“Stipulated Interest Rate” shall be the rate of interest provided in Section 3 — a of the General Municipal Law of the State, as the same may be amended from time to time.

“Transfer Agreement” means the agreement for the transfer of Hyde Park Water System dated as of November 20, 1997 by and between the Authority and the Hyde Park Fire and Water District, as the same may be amended from time to time.

“Trustee” means the Trustee for the Bondholders appointed under the Resolution.

“2000 Bonds” mean the 2000 Bonds as defined in the Resolution.

“2000 Harbour Hills Construction” means the construction of the Harbour Hills Water System, including the installation of approximately 18,000 feet of ductile iron water pipe with accessory valves and hydrants, the acquisition of the County — owned water line along County Route 40A and the acquisition of the assets of the Harbour Hills Water District.

“2001 Bonds” mean the 2001 Bonds as defined in the Resolution.

“2002 EFC Refunding Bonds” means the Series 2002 EFC Bonds as defined in the Resolution.

“2002 Refunding Bonds” means the Series 2002 Harbour Hills Bonds as defined in the Resolution.

“2004” Bonds means the Series 2004 Dalton Farms Bonds as defined in the Resolution.

“2009 Bonds” means the Series 2009 Service Agreement Revenue Bonds as defined in the Resolution.

“2011 Bonds” mean the 2011 Bonds as defined in the Resolution.

“Valleydale Water System” means the system for the distribution of potable water serving the Valleydale subdivision of the Town of Pleasant Valley acquired by the Authority from the Hillis Park Water Corporation, including any additions thereto or deletions thereof from time to time.

“Valleydale Water System Operating Expenses” means the costs, fees and expenses reasonably incurred or to be incurred by or for the Authority (i) in connection with the operation of the Valleydale Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Valleydale Water System, or of providing potable water through any other means to Persons within the Valleydale Zone of Assessment, each as may be necessary or proper to maintain Water Service to the Valleydale Zone of Assessment and fire hydrants for the Valleydale Zone of Assessment, if any, (ii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Valleydale Zone of Assessment, (iii) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related costs, fee or expense incurred or to be incurred and payable by the Authority and not paid out of Bond proceeds with respect to the 2000 Series A Bonds, or any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Valleydale Zone of Assessment, and (iv) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the imposition and collection of Water Rates.

“Valleydale Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix F to the Service Agreement.

“Water District” means the Dutchess County Water District described in Section 1142 of the Public Authorities Law of the State, or its successors or assigns.

“Water Service” means, collectively, either the service of supplying potable water to persons within the Zone A Zone of Assessment, the Zone B Zone of Assessment, the Zone C Zone of Assessment, the Zone D Zone of Assessment, the Valleydale Zone of Assessment, the Zone E Zone of Assessment, the Zone F Zone of Assessment, the Zone G Zone of Assessment, the Zone H Zone of Assessment, the Zone I Zone of Assessment, the Zone J Zone of Assessment, the Zone K Zone of Assessment, or the Zone L Zone of Assessment, and to any other Person within the Water District as the Authority may agree with the County pursuant to an amendment to the Service Agreement to provide Water Service, either through the Water System or by any other means.

“Water System” means, collectively, the Hyde Park Water System, the Staatsburg Water System, the Harbour Hills Water System, the Schreiber Water System, the Valleydale Water System, the Rokeby Water System, the Dalton Farms Water System, the Birch Hill Water System, the Shorehaven Water System and the Route 9G Water System as the same may be reconstructed, expanded or supplemented, from time to time, as necessary to provide Water Service pursuant to the Service Agreement.

“Water Treatment Plant” means the water treatment plant constituting part of the Hyde Park Water System, placed in operation in 1994.

“Water Treatment Plant Plans and Specifications” means the plans and specifications for the Water Treatment Plant on file in the office of the Authority.

“Zone A Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix A to the Service Agreement.

“Zone B Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix B to the Service Agreement.

“Zone C Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix C to the Service Agreement.

“Zone D Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix D to the Service Agreement.

“Zone E Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix E to the Service Agreement.

“Zone F Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix G to the Service Agreement.

“Zone G Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix H to the Service Agreement.

“Zone H Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix I to the Service Agreement.

“Zone I Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix J to the Service Agreement.

“Zone J Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix K to the Service Agreement.

“Zone K Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix L to the Service Agreement.

“Zone L Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix M to the Service Agreement.

Words of masculine gender shall mean and include correlative words of feminine and neuter genders. Words importing the singular number shall mean and include the plural number, and vice versa.

APPENDIX C

Dutchess County Water and Wastewater Authority's
Financial Statements for the Years Ended
December 31, 2009 and December 31, 2010

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**DUTCHESS COUNTY WATER &
WASTEWATER AUTHORITY
FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Trustees
Dutchess County Water & Wastewater Authority
27 High Street
Poughkeepsie, New York 12601

We have audited the accompanying Statements of Net Assets of the Dutchess County Water & Wastewater Authority (the Authority), a component unit of Dutchess County, as of December 31, 2010 and 2009, and the related Statement of Revenues, Expenses, and Changes in 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Dutchess County Water & Wastewater Authority as of December 31, 2010 and 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2011 on our consideration of the Dutchess County Water and Wastewater 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 important for assessing the results of our audit.

The Management's Discussion and Analysis and the Schedule of Funding Progress for the Other Postemployment Benefit Plan, listed in the Table of Contents, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sedon Hudson Valley CPAs

Poughkeepsie, New York
March 11, 2011

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Members of the Board of Trustees
Dutchess County Water & Wastewater Authority
27 High Street
Poughkeepsie, New York 12601

We have audited the financial statements of the business-type activities of the Dutchess County Water & Wastewater Authority as of and for the year ended December 31, 2010, which collectively comprise the Dutchess County Water & Wastewater Authority's basic financial statements, and have issued our report thereon dated March 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *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 Dutchess County Water & Wastewater Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Dutchess County Water & Wastewater Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Dutchess County Water & Wastewater 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 Authority's ability to initiate, authorize, record,

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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 Dutchess County Water & Wastewater Authority's financial statements that is more than consequential will not be prevented or detected by the Authority'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 Authority'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 over financial reporting 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 Dutchess County Water & Wastewater 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 the Authority Board and Management, others within the entity, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sedore Hudson Valley CPAs

Poughkeepsie, New York

March 11, 2011

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2010
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

The following Management Discussion and Analysis of the Dutchess County Water and Wastewater Authority's activities and financial performance provides an introduction and overview to the financial statements of the Dutchess County Water and Wastewater Authority (Authority) for the fiscal year ended December 31, 2010. This information should be considered in conjunction with the information contained in the Authority's Audited Financial Statements included with this report.

The mission of the Dutchess County Water and Wastewater Authority is to protect and enhance the health, environmental sustainability and economic stability of Dutchess County and its residents through the provision of clean drinking water and proper treatment of wastewater, acting at all times with a commitment to accountability and transparency.

The Authority was established in 1991 under the Dutchess County Water and Wastewater Authority Act. This act authorizes the Authority, among other things, to provide for the supply and sale of water for domestic, commercial and public purposes at retail to individual customers within the County or wholesale to municipalities, water districts or district corporations within the County and for the collection, treatment and disposal of sewage within the County. As of December 31, 2010, the Authority owns and operates a total of nine water systems and three sewer systems and, in addition, operates a 13 mile water transmission line. The Authority provides service in the aggregate to 2,940 separate water accounts and 1,177 separate sewer accounts. The Hyde Park Regional Water System provides water from the Authority's Hyde Park Water Treatment Plant on South Drive in the Town of Hyde Park to the Hyde Park service area (Zones A and B), the Staatsburg service area (Zone C) and the Zone D service area. The source of water for this conventional filtration treatment facility is the Hudson River. The remaining six water systems, Birch Hill, Dalton Farms, Rokeby, Schreiber, Shore Haven and Valley Dale, each utilize groundwater wells and pumping and chlorination facilities, which are located within their respective service areas, with the Valley Dale and Dalton Farms Water plants also having cartridge filtration systems. The three sewer systems each have rotating biological contact (RBC) treatment plants with tertiary treatment located on property within their service areas. The Central Dutchess Water Transmission line is a 13 mile water pipeline whereby the Authority purchases water from the Poughkeepsie Joint Water Board to serve areas south to the Town of East Fishkill. The water is received at a connection point in the Town of Poughkeepsie. The Authority currently serves two customers at the southernmost end of the line, International Business Machines Corporation (IBM) and the Hopewell Glen Water District in the Town of East Fishkill. In aggregate, the two customers have a "take or pay" contract with the Authority for two million fifty thousand gallons per day, with a rate accommodation for water not taken.

FINANCIAL OPERATIONS HIGHLIGHTS

Although all but one of the water systems are billed based on water use, a large portion of the budgets (anywhere from 50-70%) is comprised of costs that would realize their budgeted expectations due to their classification as "State of Readiness" costs, regardless of customer water use. As a result, budgets are prepared based on history and a conservative expectation of the coming fiscal year; determining a fiscally sound blend of Monthly Service Charges or

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2010
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

Minimum Use Charges, in conjunction with water or sewer use charges. Although most of the systems have single-tiered use charges, the Rokeby Water System has a two-tiered use charge. The Chelsea Cove Sewer System and the Valley Dale Sewer System are both billed with Flat Rate Fixed charges, as is the Shore Haven Water System. The systems which are not billed strictly on a calendar quarter (Birch Hill Water, Dalton Farms Water and Sewer, Rokeby Water, Schreiber Water, Shore Haven Water, Staatsburg Water and portions of the Hyde Park Water System) use estimates for those remaining months in the fiscal year which have not yet been billed. With the exception of the Shore Haven Water System and the Central Dutchess Water Transmission Line, all customer rates remained at their 2009 levels for the 2010 budget year. In 2010, we saw weather with an above average rainfall in the area compared to 2009, which experienced a slightly below normal wet weather pattern. As drier years can artificially inflate water use, revenue expectations for the 2010 budgets were based on conservative numbers evaluating the average use of the prior two year's billing history.

Water and Sewer Sales revenues varied in 2010. In particular, the Dalton Farms, Rokeby, Valley Dale and Zone D water systems 2010 revenues were less than in 2009. However, with the exception of Zone D, these systems met their budgeted revenue expectations. As the Dalton Farms Sewer system billing is based on the same usage figures that generate the revenue for the water system, it also experienced a decrease in revenue from the prior year, but met its budgeted revenue target. The Zone D water system revenues fell short of budgeted expectation by less than 3.5%. 2009 was the first full year of operation for the Shore Haven Water System and as such, is showing a 28.5% increase over 2009 revenues. Although the Central Dutchess Water Transmission Line appears to show a significant decrease in revenues, this is due to a new classification of a portion of the 2010 water sale revenues as deferred to 2011. The Staatsburg and Zone D Water Systems purchase their water from the Hyde Park Water System and the allocation is handled as a portion of the production costs. In 2009, these two systems experienced allocation adjustments to their water purchase price which brought them to consistency with the Hyde Park Water customers for the cost of water production. The following represent the sales revenue numbers for 2010 and 2009:

	<u>2010</u>	<u>2009</u>
<u>Sewer Revenues</u>		
Chelsea Cove	\$334,631	\$333,276
Dalton Farms	282,200	297,142
Valley Dale	<u>117,999</u>	<u>116,243</u>
Subtotal	\$734,830	\$746,661
<u>Water Sale Revenues</u>		
Birch Hill	56,148	55,455
CDWTL	1,649,435	1,878,728
Dalton Farms	156,589	166,112
Hyde Park	1,177,505	1,089,187

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2010
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

Rokeby	28,927	29,307
Schreiber	19,097	18,092
Staatsburg	268,818	257,573
Shore Haven	89,308	69,523
Valley Dale	74,210	75,653
Zone D	<u>178,498</u>	<u>178,901</u>
Subtotal	\$3,698,535	\$3,818,531
Total Sales Revenues	\$4,433,365	\$4,565,192

In addition, the Authority derives income from Rental Fees for fire hydrants in the Hyde Park, Staatsburg and Zone D Water Systems, and space for a cell tower located on its South water tank in the Hyde Park System.

	<u>2010</u>	<u>2009</u>
Rental Fees And Other Operating Revenue	\$100,844	\$103,485

2010 AUTHORITY OPERATIONS

In 2010 the Authority continued its successful management and operation of all systems.

The Authority currently provides services to over 4,100 customer accounts located in seven towns within the County. With the exception of the recently acquired Shore Haven Water System, all systems were in compliance with all relevant federal, state and local laws and regulations.

The Authority uses staff for operation and maintenance of the Hyde Park, Staatsburg and Zone D Water Systems and the Central Dutchess Water Transmission Line. Contract operators are hired for the remaining water and sewer systems. The Authority also maintains an office staff for the purpose of administration of the systems and further developmental activities. All systems' operation and maintenance expenses for 2010 ended the fiscal year within their budgeted amounts. Funds remaining were evaluated for use to either offset rate increases for 2011 or to remain in fund balance for anticipated improvement expenses.

Below are some of the system operational highlights from 2010:

- Ground Water Under Direct Influence sampling was completed for the Shore Haven system, resulting in a Health Department determination that wells are not surface-water influenced.

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- New flushing hydrants were installed and monthly flushing has been undertaken in order to address accumulation of sediment in the Shore Haven distribution system.
- A study was completed on the Hyde Park Water Treatment Facility sludge processing facilities, in order to identify options to increase capacity and improve efficiency of the facilities. Selected improvements will proceed to design and construction in 2011.
- A variable speed pump was installed in the Zone D pressure booster station.
- Seven water main breaks were repaired, along with thirteen service line leaks.
- A new meter pit was installed at the Mills-Norrie State Park site in Staatsburg
- Ground Water Under Direct Influence sampling was completed for the Schreiber Water System Well #2, resulting in a Health Department determination that the well is not surface-water influenced

MAJOR CAPITAL PROJECTS

Several major capital project initiatives were advanced during 2010:

Hyde Park Water Route 9G Interconnection - Construction was completed on the Route 9G Interconnection Main in the Town of Hyde Park, making public water available to a new service area (46 residential and commercial properties) and improving water flow and reliability of service throughout the Hyde Park Water System by completing a major distribution system loop. Service line connections, final restoration and contract close out will be completed in the spring of 2011.

Springwood Village Asbestos Cement Pipe Replacement – Engineering design and permitting was completed for the replacement of approximately 4,000 feet of asbestos cement lined pipe in the Hyde Park Water System. Construction will take place in 2011.

Hyde Park Water Storage Tank Re-Coating Project – Engineering design was commenced for the re-coating of the south (1.0 million gallon) and north (0.75 million gallon) water storage tanks. Design will be completed, and construction commenced, in 2011.

Shore Haven Water System The Authority completed a meter installation project in its Shore Haven Water System (Town of Pawling), funded primarily through a federal ARRA stimulus grant. Engineering design has commenced on water system treatment improvements to address disinfection by-products, radionuclide and iron and manganese problems within the Shore Haven system. Plans and permitting were completed for a new water supply well, to be drilled in early 2011.

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Birch Hill Water System Improvements – Engineering design has been completed for water treatment system improvements to address iron and manganese water quality issues. In response to a new regulatory requirement from the Health Department, engineering design was also completed for the treatment of radionuclides. The pump house building and electrical systems will also be upgraded as part of the project. Permits will be obtained and construction commenced in early 2011.

NEW SYSTEM ACQUISITIONS AND SYSTEM EXPANSIONS

The Authority continues to respond to numerous requests to acquire existing or proposed systems and to expand existing systems to provide service to new areas. Active projects in 2010 included the following:

Red Hook Sewer Project - At the request of the Town and Village of Red Hook, the Authority will take the lead in the construction of a low pressure sewer collection system, and the acquisition and expansion of the Red Hook Commons Sewer Plant, to provide sewer service to approximately 191 properties located along the existing commercial corridor of the Village and Town along Broadway and Market Street. Preliminary commitments were obtained for \$3.85 million in grant money and \$4.35 million in zero percent interest loans to fund the proposed Red Hook Sewer Project. Funding commitments will be finalized after the district creation process is completed in early 2011.

INTER-MUNICIPAL COOPERATION

The Authority receives annually from the Dutchess County Division of Water Resources an allocation of funds to support project initiation and community assistance activities. These funds are utilized to support activities related to regional and community water and wastewater planning, and preliminary evaluation and development of potential Authority water and wastewater projects. In 2010 the expenses associated with these funds were reclassified as non-operating and 2009 expenses were re-classified as well. The project and community assistance activities in 2010 included the following:

Amenia Sewer - The Authority has continued to work with the Town of Amenia Wastewater Committee to evaluate the feasibility of providing central sewer services to the Town's Hamlet of Amenia. At the request of the Town, the Authority has taken the lead on the project. Negotiation has continued on a Memorandum of Agreement with the Town, as well as with the developers of the proposed Silo Ridge Resort Community Project in the Town of Amenia, whom have agreed to provide treatment capacity for the Amenia Hamlet at the wastewater treatment plant they intend to construct as part of their Silo Ridge project.

Beekman Town Center - The Authority continues to participate in the Town of Beekman's Town Center Infrastructure Advisory Committee. The purpose of this volunteer committee is to review and discuss possible scenarios for the provision of central water and sewer services to the properties within Beekman's Town Center Zoning District, building on the conclusions and

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recommendations of a 2008 engineering feasibility study that was co-funded by the Authority and the Town.

Millerton/North East Sewer - The Authority is providing assistance to a joint Town and Village Sewer Committee, charged with evaluating the feasibility of creating a central sewer system to service the commercial core of the Village and Town. The Committee has completed the initial feasibility study, which is now under consideration by the Village and Town boards.

Town of Stanford Town Center Feasibility Study - At the request of the Town of Stanford, the Authority is providing technical and funding assistance to evaluate the feasibility of developing central water and wastewater facilities in support of the development of a Town Center area.

LONG-TERM DEBT ADMINISTRATION

The Authority has no taxing power, and its bonds are payable solely from the revenues, funds and assets pledged as security for the payment thereof, including payments from Dutchess County under the Service Agreements between the County and the Authority. These Service Fees include amounts sufficient to pay when due, all installments of principal of, premium, if any, and interest on all 1998, 1999 (re-financed in 2010) 2000, 2001, 2002, 2004, 2007 and 2009 Bonds issued by the Authority. The 2009 Service Agreement Revenue Bonds, issued in the amount of \$9,352,251, were issued to provide improvements to the Hyde Park, Birch Hill and Shore Haven Water Systems. These improvements included approximately 7,000 linear feet of water transmission main along the US Route 9G corridor and infrastructure work to the newly acquired Birch Hill and Shore Haven Water Systems. In 2010 the Authority issued a Service Agreement Revenue Note in the amount of \$1,905,800 to fund additional improvements to the Hyde Park and Birch Hill water systems with a plan to issue long-term financing in 2011.

We currently have one Service Agreement with Dutchess County that covers all County Water District Zones of Assessment and three Service Agreements with the County, on behalf of Part-County Sewer Districts #1, 2 and 3 (Chelsea Cove, Valley Dale and Dalton Farms), respectively. These Service Agreements require the Authority to provide service to established Zones of Assessment within the districts. The County has covenanted and agreed during the Service Agreement Term to annually levy benefit assessments to raise monies which, together with County monies to be appropriated, are sufficient to pay all Service Fees due under the Service Agreement. The Authority, under the Service Agreement, has agreed to raise monies sufficient to pay Operating Expenses through the fixing, charging and collection of Water and Sewer Rates.

Through the establishment of the County Water District Zones of Assessment and the Part-County Sewer Districts, the County has the ability to relevy any unpaid water or sewer bills. The Authority annually provides the County with a list and dollar amount for those properties in arrears. The County then places these amounts on the property tax bills for the following fiscal year and these amounts are then paid to the Authority. This places the Authority in the position of being at 100% collection of its water and sewer sales revenues.

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SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS

	December 31, 2010	December 31, 2009
	<hr/>	<hr/>
<u>Operating Revenues:</u>		
Water Sales	\$3,698,535	\$3,818,531
Sewer Charges	734,830	746,661
Rental Fees, Other Operating Revenue	100,844	103,485
Total Operating Revenues	<hr/> 4,534,209	<hr/> 4,668,677
<u>Operating Expenses:</u>		
Operation and Maintenance	3,227,325	3,168,555
Administration and General	1,094,921	1,082,979
Depreciation	980,761	988,609
Total Operating Expenses	<hr/> 5,303,007	<hr/> 5,240,143
Operating (Loss)	(768,798)	(571,466)
<u>Non-Operating Revenues (Expenses):</u>		
Interest and Investment Income	502,896	353,520
Projects Grants and Capital-Related Funding		
Dutchess County	2,965,185	2,506,550
Federal Grants	58,607	-
Project Administration and General	(290,175)	(370,860)
Other Revenues	17,240	15,246
Interest Expense	(1,687,720)	(1,654,646)
Bond Issuance Costs	(40,234)	(44,926)
Amortization	(76,250)	(78,620)
Net Non-Operating (Revenues)	<hr/> 1,449,549	<hr/> 726,264
Changes in Net Assets	\$680,751	\$154,798

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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FINANCIAL POSITION SUMMARY

Net assets can serve over time as a useful indicator of the Authority's financial position. The sale of State and Local Government Series Securities which resulted in additional investment earnings, and increased Project Grants and Capital-Related Funding played the primary role in the 2010 change in Net Assets. In addition, debt is currently being paid down at a faster rate than assets are being depreciated. Accreted interest (accrued interest pertaining to zero coupon bonds) is being accrued but will not be due until 2021 and beyond when principal payments in similar amounts will no longer be due. As a result, we show the expense, but we are not scheduled at this time to collect the offsetting revenue.

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
ASSETS:		
Current and other assets	\$15,767,521	\$15,819,341
Capital assets	52,872,151	51,500,754
TOTAL ASSETS	<u>68,639,672</u>	<u>67,320,095</u>
LIABILITIES:		
Long-term debt outstanding	35,196,438	36,679,308
Deferred Revenues	27,289,371	27,859,528
Other liabilities	6,152,690	3,460,837
TOTAL LIABILITIES	<u>68,638,499</u>	<u>67,999,673</u>
NET ASSETS:		
Restricted Funds	2,300,496	2,054,625
Invested in Capital – Type Assets		
Net of Related Debt	(1,577,191)	(2,458,624)
Unrestricted	<u>(722,132)</u>	<u>(275,749)</u>
TOTAL NET ASSETS	<u>\$1,173</u>	<u>\$(679,578)</u>

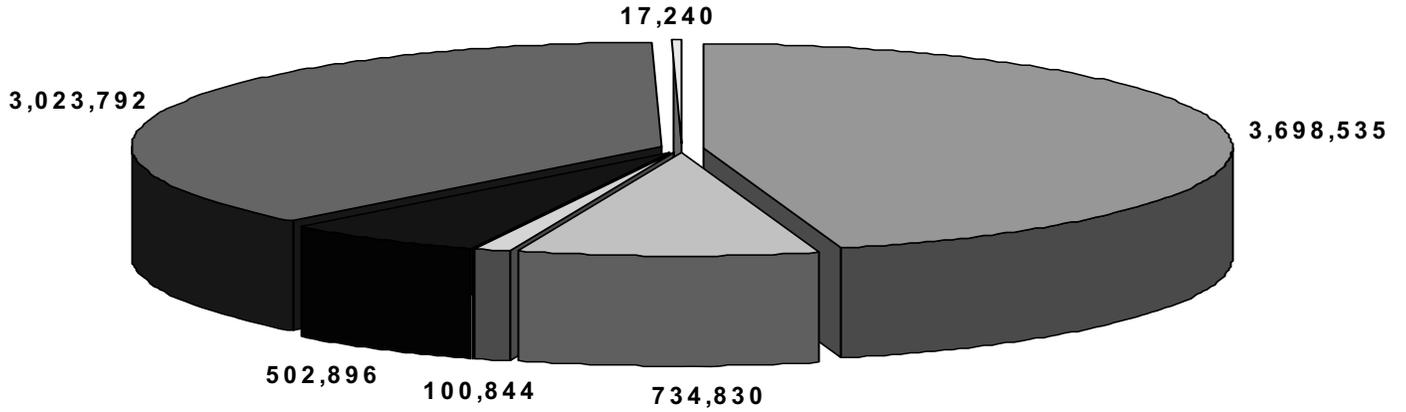
DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
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FINANCIAL STATEMENTS

The Authority's financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America and promulgated by the Governmental Accounting Standards Board (GASB). The Authority is structured as an Enterprise Fund. It is considered a component unit of the financial reporting entity, Dutchess County. The Authority recognizes revenues when earned, not when received and expenses when incurred, not when paid. Capital assets are recorded at cost, or if donated, at the estimated fair market value at the date of donation. The assets are then depreciated over their useful lives. See the notes to the financial statements for a summary of the significant accounting policies, descriptions of capitalized assets and outstanding debt.

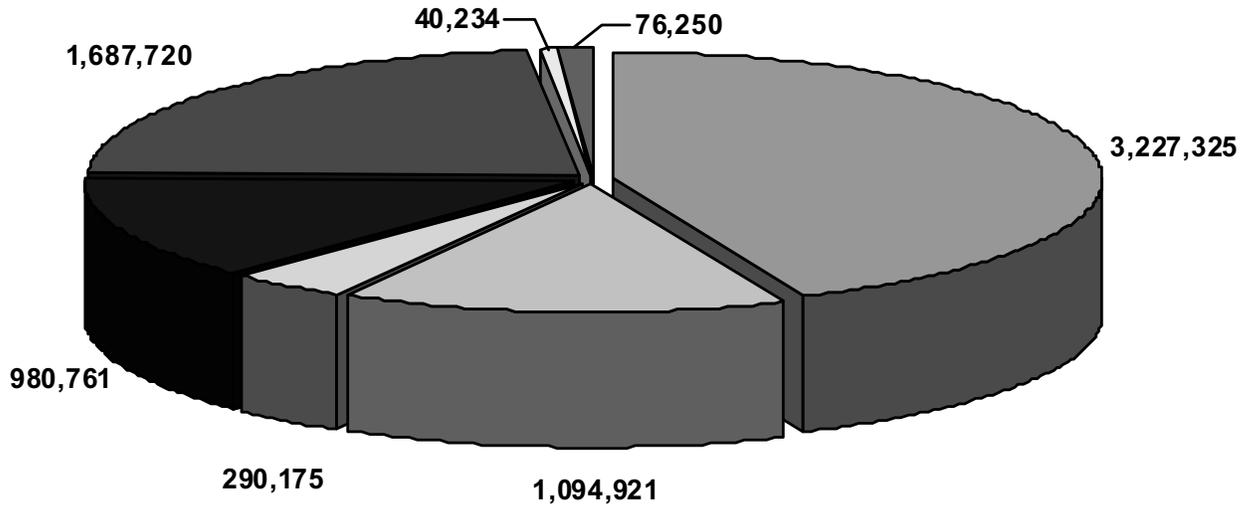
DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
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DCWWA - Actual - 2010 Revenues \$8,078,137



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 (Un-audited)

DCWWA - Actual - 2010 Expenses \$7,397,386



DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF NET ASSETS
DECEMBER 31, 2010 AND 2009

	December 31, <u>2010</u>	December 31, <u>2009</u>
Current Assets:		
Cash and Cash Equivalents	\$ 3,475,122	\$ 2,772,632
Cash and Cash Equivalents-Restricted	7,391,318	7,861,943
Accounts Receivable	1,214,543	1,385,912
Prepaid Expense	<u>40,948</u>	<u>45,704</u>
Total Current Assets	12,121,931	12,066,191
Cash and Cash Equivalents-Restricted Non-current	2,583,418	2,614,730
Property, Plant and Equipment Less Accumulated Depreciation	52,872,151	51,500,754
Deferred Bond Financing Costs, Net of Accumulated Amortization	<u>1,062,172</u>	<u>1,138,420</u>
Total Assets	<u>\$ 68,639,672</u>	<u>\$ 67,320,095</u>

The notes to the financial statement are an integral part of these statements.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF NET ASSETS (Continued)
DECEMBER 31, 2010 AND 2009

	December 31, <u>2010</u>	December 31, <u>2009</u>
Current Liabilities:		
Accounts Payable	\$ 377,051	\$ 276,527
Accrued Expenses Payable	137,859	123,845
Accrued Interest Payable	176,899	288,989
Due to Other Governments	11,441	26,652
Current Portion of Bonds Payable	1,871,923	1,635,000
Service Agreement Revenue Notes Payable	1,905,800	-
Retainage Payable	181,313	-
Current Portion of Deferred Revenues	814,452	605,353
Escrow Deposits	<u>66,052</u>	<u>69,971</u>
Total Current Liabilities	5,542,790	3,026,337
Deferred Revenues	27,289,371	27,859,528
Bonds Payable	35,196,438	36,679,308
Post Employment Benefit Obligations	<u>609,900</u>	<u>434,500</u>
Total Liabilities	<u>68,638,499</u>	<u>67,999,673</u>
 Net Assets:		
Invested in Capital - Type Assets		
Net of Related Debt	(1,577,191)	(2,458,453)
Restricted Net Assets	2,300,496	2,054,624
Unrestricted	<u>(722,132)</u>	<u>(275,749)</u>
Total Net Assets	<u>1,173</u>	<u>(679,578)</u>
Total Liabilities and Net Assets	<u>\$ 68,639,672</u>	<u>\$ 67,320,095</u>

The notes to the financial statement are an integral part of these statements.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Year Ended, <u>2010</u>	Year Ended, <u>2009</u>
Operating Revenues:		
Water Sales	\$ 3,698,535	\$ 3,818,531
Sewer Charges	734,830	746,661
Rental Fees and other operating revenues	<u>100,844</u>	<u>103,485</u>
Total Operating Revenues	4,534,209	4,668,677
Operating Expenses:		
Operation and Maintenance	3,227,325	3,168,555
Administration and General	1,094,921	1,082,979
Depreciation	<u>980,761</u>	<u>988,609</u>
Total Operating Expenses	5,303,007	5,240,143
Operating (Loss)	(768,798)	(571,466)
Non-Operating Revenues (Expenses):		
Interest and Investment Income	502,896	353,520
Project Grants and Capital-Related Funding		
Dutchess County	2,965,185	2,506,550
Federal Grants	58,607	-
Project Administration and General	(290,175)	(370,860)
Other Revenues	17,240	15,246
Interest Expense	(1,687,720)	(1,654,646)
Bond Financing Costs	(40,234)	(44,926)
Amortization	<u>(76,250)</u>	<u>(78,620)</u>
Net Non-Operating Revenues	1,449,549	726,264
Change in Net Assets	680,751	154,798
Net Assets, January 1	<u>(679,578)</u>	<u>(834,376)</u>
Net Assets, December 31	<u>\$ 1,173</u>	<u>\$ (679,578)</u>

The notes to the financial statement are an integral part of these statements.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF CASH FLOWS
DECEMBER 31, 2010 AND 2009

	Year Ended, <u>2010</u>	Year Ended, <u>2009</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 4,813,832	\$ 4,316,586
Payments to suppliers	(2,434,277)	(2,903,040)
Payments to employees and benefits	(1,625,136)	(1,360,317)
Rental fees and other operating revenues received	<u>100,844</u>	<u>103,485</u>
Net cash provided (used) by operating activities	855,263	156,714
Cash Flows from Non-Capital Financing Activities:		
Project Grants and Capital-Related Funding	<u>2,718,892</u>	<u>2,490,781</u>
Net cash provided by non-capital financing activities	2,718,892	2,490,781
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(2,734,835)	(362,893)
Other capital-related receipts and (disbursements)	38,528	(331,560)
Repayments of service agreement revenue notes	-	(1,500,000)
Proceeds of bond issue	-	8,697,524
Net bond premium proceeds	-	142,170
Proceeds of service agreement revenue note issue	1,905,800	-
Principal paid on capital debt	(1,733,077)	(1,395,000)
Interest paid on capital debt	(1,312,680)	(1,117,830)
Return of surplus Utility Corridor funds to participants	-	(4,209,736)
Bond financing costs paid	<u>(40,234)</u>	<u>(44,926)</u>
Net cash provided (used) by capital and related financing activities	(3,876,498)	(122,251)
Cash Flows from Investing Activities		
Interest and investment income received	<u>502,896</u>	<u>353,520</u>
Net cash provided by investing activities	502,896	353,520
Net Increase in Cash and Cash Equivalents	200,553	2,878,764
Cash and Cash Equivalents at the Beginning of the Year	<u>13,249,305</u>	<u>10,370,541</u>
Cash and Cash Equivalents at the End of the Year	<u>\$ 13,449,858</u>	<u>\$ 13,249,305</u>
Presented as:		
Cash and Cash Equivalents	\$ 3,475,122	\$ 2,772,632
Cash and Cash Equivalents - Current - Restricted	7,391,318	7,861,943
Cash and Cash Equivalents - Non Current - Restricted	<u>2,583,418</u>	<u>2,614,730</u>
Total	<u>\$ 13,449,858</u>	<u>\$ 13,249,305</u>

The notes to the financial statement are an integral part of these statements.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF CASH FLOWS
DECEMBER 31, 2010 AND 2009

	Year Ended, <u>2010</u>	Year Ended, <u>2009</u>
Reconciliation of operating (loss) to net cash (used) by operating activities		
Operating (Loss)	\$ (768,798)	\$ (571,466)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	980,761	988,609
Changes in Assets and Liabilities:		
Accounts Receivable	171,369	(248,606)
Prepaid Expenses	4,756	3,962
Accounts Payable	100,524	(159,811)
Accrued Expenses Payable	14,014	(19,497)
Post Employment Benefit Obligations	175,400	175,400
Capital Liabilities included in Accounts Payable	(31,862)	(11,877)
Deferred water sale revenues	<u>209,099</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ 855,263</u>	<u>\$ 156,714</u>

Non-cash investing, capital and financing activities:

In May, 2010, the New York State Environmental Facilities Corporation re-financed its debt, resulting in the payment of the 1998D, 1998A and 199B debt series with proceeds of the 2010C debt series, amounting to \$11,266,923. As these transactions were completed on the Authority's behalf, it neither received nor disbursed the cash.

The notes to the financial statement are an integral part of these statements.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

1. Organization and Purpose

Dutchess County Water & Wastewater Authority is a public benefit corporation established under Section 1123 of the New York Local Water and Sewer Act, duly enacted into law as Chapter 592 of the Laws of the State of New York. The act was requested by the Dutchess County Legislature to assist the County and its municipalities with managing water supplies and wastewater disposal. The legislation empowers the Authority to make plans and studies, develop, construct or maintain projects, acquire or lease real and personal property, to issue bonds and notes for financing and to fix rates and collect charges for the purpose of supplying and selling water and to collect, treat and discharge sewage in Dutchess County, New York.

The governing body of the Authority consists of eight members, five voting and three non-voting. Voting members serve five year terms with two members appointed by the County Executive, two appointed by the Chairman of the County Legislature and the fifth being a joint appointment confirmed by the entire Legislature. The non-voting members include the Director of the Dutchess County Environmental Management Council, the Director of the Dutchess County Soil and Water Conservation District, and the Commissioner of the Dutchess County Department of Planning and Economic Development.

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting policy body for establishing governmental accounting and financial reporting principles.

2. Summary of Significant Accounting Policies

A. The Reporting Entity

The Authority is considered a component unit of the financial reporting entity known as Dutchess County. Inclusion in the financial reporting entity, Dutchess County, is determined based on financial accountability as defined by GASB Statement No. 14, "The Financial Reporting Entity". All of the Authority's Board Members are appointed by the Dutchess County Executive, and/or Members of the County Legislature, as described above. This level of control meets the criteria for financial accountability as defined by GASB Statement No. 14.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

2. Summary of Significant Accounting Policies (Continued)

B. Proprietary Fund Accounting

As described above, the Authority performs the function of supplying water and sewer services to areas within the County of Dutchess. Its operations are financed primarily through user charges. Under standards set by the GASB, the Authority is considered an enterprise fund, a type of proprietary fund. Proprietary fund financial statements are prepared on the accrual basis of accounting, which records the financial effects on an enterprise of transactions and other events when these transactions and events occur. The measurement focus is the flow of economic resources. This basis differs from that used by governmental funds in that the effects of transactions in government funds are recorded when revenues are measurable and available and when expenditures are incurred. The measurement focus is the flow of current transactions.

The Authority considers all revenues pertaining to the operations of the water and sewer systems as operating revenues, and other revenues and grants which finance either capital or non-system related projects are reported as non-operating revenues.

The Authority generally applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

In accordance with Governmental Accounting Standards Board (GASB) No. 20 regarding proprietary fund accounting, the Authority applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, the American Institute of Certified Public Accountants (AICPA) Accounting Research Bulletins and any FASB or AICPA pronouncements made applicable by GASB Statement or Interpretation.

C. Cash, Cash Equivalents and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of inception.

State statutes govern the investment policies of the Authority. Permissible investments include obligations of the U.S. Treasury, U.S. Agencies, obligations of New York State and

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

2. Summary of Significant Accounting Policies (Continued)

C. Cash, Cash Equivalents and Investments (continued)

repurchase agreements secured by U.S. Treasury obligations. See also Note 3, Cash Equivalents and Investments.

D. Restricted Assets

Proceeds from acquisition and construction financing are set aside for completion of capital improvements and reduction of debt service. The disbursements from the restricted accounts are under the control of third party trustees.

E. Deferred Bond Financing Costs

Bond financing costs are amortized over the life of the related bond issue, using the straight-line method.

F. Fixed Assets

Property, plant and equipment are recorded at cost. Donated property, plant and equipment are recorded at the estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are expensed. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, and net of interest earned on the invested proceeds over the same period. Depreciation is computed using the straight-line methods over the following estimated useful lives, beginning in the year the asset is placed in service:

<u>Assets</u>	<u>Years</u>
Buildings	20
Improvements other than Buildings	30
Machinery & Equipment	3-20
Sewage Collection System	50
Water Transmission System	50

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

2. Summary of Significant Accounting Policies (Continued)

G. Revenues and Receivables

Revenues are derived generally from quarterly billing of user fees to customers and are considered to be operating revenues. Non-operating revenues include Dutchess County-funded revenues based on a contract with the Dutchess County Division of Water Resources to provide countywide water and wastewater planning and management. The Authority also derives revenues from Service Fee payments from the County pursuant to several Service Agreements, which are used to pay debt service and related expenses pertaining to debt obligations incurred for specific districts and/or systems.

Receivables represent outstanding user fees. The Authority has an agreement with Dutchess County that provides for collection of outstanding user fees through the real property tax levy. Therefore, the Authority has not established an allowance for uncollectible accounts.

H. Deferred Revenue

Revenues received in advance of the period to which they relate are deferred and recorded as revenue when earned. Grants and aid received for construction costs are deferred until construction is complete and the assets are placed in service.

I. Equity Classifications

Equity is classified as net assets and displayed in three components:

Invested in capital-type assets, net of related debt – Consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds attributable to acquisition, construction or improvement of those assets, increased by costs incurred to obtain such financing and decreased by un-amortized cost reimbursements.

Restricted net assets – Consist of net assets with constraints placed in their use either by (1) external groups such as creditors, grantors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – Consist of all other net assets that do not meet the definition of “restricted” or “invested in capital-type assets, net of related debt.

The Authority is required to segregate and reserve the net income generated under the service agreements between the Authority and the County and local municipalities by each service agreement area.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

2. Summary of Significant Accounting Policies (Continued)

J. Income Taxes

The Authority is exempt from federal income taxes under Internal Revenue Service Code Section 115.

K. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

L. Reclassifications

Several reclassifications have been made to the 2009 and 2010 presentations in order to more clearly present certain financial statement items. Current portion of deferred revenue now includes non-refundable capital reserves receipts received in relation to the maintenance and operation of the Central Dutchess Water Transmission Line, as well as certain amounts received in advance for water usage, in addition to the current portion of deferred revenue in relation to Transmission Line construction. Project administration expenses related to funding received from Dutchess County were previously shown as operating expenses, but have now been reclassified to non-operating expenses. None of these reclassifications have any impact on changes in net assets.

3. Cash Equivalents and Investments

As described in Note 2 C above, state statutes authorize the Authority to maintain deposits with financial institutions and to invest in certificates of deposits, obligations of New York State, the United States Government and its agencies, and repurchase agreements collateralized by U.S. obligations.

In addition, the Authority, through the General Bond Resolution adopted June 1, 1998 is authorized to invest funds held under the Resolution in "Qualified Investments". Qualified Investments include the above-described investments as well as certain types of commercial paper, money market accounts and investment agreements.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

3. Cash Equivalents and Investments (Continued)

Cash deposits are secured by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation insurance. The Authority's deposits are categorized below to give an indication of the level of risk assumed by the Authority.

- 1) Insured or collateralized with securities held by the Authority or by its agent in the Authority's name;
- 2) Collateralized with securities held by the pledging institution's trust department or agent in the Authority's name;
- 3) Uncollateralized.

Investments are categorized into these three categories of credit risk:

- 1) Insured or registered, or securities held by the Authority or its agent in the Authority's name; or,
- 2) Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the Authority's name; or,
- 3) Uninsured and unregistered, with securities held by the counter-party or by its trust department or agent, but not in the Authority's name.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

3. Cash Equivalents and Investments (Continued)

<u>Balances as of December 31, 2010</u>				
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Cash in Banks	<u>\$ 548,709</u>	<u>\$ 2,926,413</u>	<u>\$ -</u>	<u>\$ 3,475,122</u>
<u>Investments:</u>				
Money Market Funds	\$ 1,472,385	\$ -	\$ -	\$ 1,472,385
U.S. Treasury Bills & Notes	<u>8,502,351</u>	<u>-</u>	<u>-</u>	<u>8,502,351</u>
Investments Total	<u>\$ 9,974,736</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,974,736</u>

<u>Balances as of December 31, 2009</u>				
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Cash in Banks	<u>\$ 56,859</u>	<u>\$ 2,715,773</u>	<u>\$ -</u>	<u>\$ 2,772,632</u>
<u>Investments:</u>				
Money Market Funds	\$ 8,972,980	\$ -	\$ -	8,972,980
U.S. Treasury Bills & Notes	<u>1,503,693</u>	<u>-</u>	<u>-</u>	<u>1,503,693</u>
Investments Total	<u>\$ 10,476,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,476,673</u>

Disclosures relating to risk and type of investments as presented above are indicative of activity and positions held during the year.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

4. Restricted Assets

The restricted assets of the Authority consist of unexpended bond and note proceeds, which are invested in cash funds and investments under the control of bank trustees. These assets are restricted in use by bond covenants as described below:

	<u>2010</u>	<u>2009</u>
Litigation Reserve Funds	\$ 275,796	\$ 275,796
Construction Reserve Funds	6,793,611	7,429,384
Debt Service Sinking Funds	59,002	71,690
Debt Service Reserve Funds	<u>262,909</u>	<u>85,073</u>
Current Restricted Funds	7,391,318	7,861,943
Debt Service Reserve Funds	<u>2,583,418</u>	<u>2,614,730</u>
Total	<u><u>\$ 9,974,736</u></u>	<u><u>\$ 10,476,673</u></u>

The Debt Service Reserve Funds are funded in an amount equal to an amount which is the lesser of, the maximum annual debt service required under the bond resolutions, 125% of the average annual debt service required by certain bond resolutions or the maximum amount that may be held in the Debt Service Reserve Fund without adversely affecting the tax-exempt status of bond series intended to be tax-exempt, currently 10% of the original issue amount. Since these reserves are not anticipated to be used in the subsequent year, they have been classified as restricted non-current assets on the balance sheet. Interest earnings on these reserves have been classified as current as they are available to pay current debt.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

5. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	<u>Balance as of</u> <u>January 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance as of</u> <u>December 31, 2010</u>
Land	\$ 834,808	\$ -	\$ -	\$ 834,808
Improvements	120,255	-	-	120,255
Buildings	12,181,920	-	-	12,181,920
Water System	45,742,521	67,370	-	45,809,891
Machinery and Equipment	4,668,359	30,755	-	4,699,114
Sewage Collection System	1,364,871	-	-	1,364,871
Construction in Progress	<u>646,724</u>	<u>2,849,886</u>	<u>-</u>	<u>3,496,610</u>
Sub-total	65,559,458	2,948,011	-	68,507,469
Less: Accumulated Depreciation	<u>(14,058,704)</u>	<u>(1,576,614)</u>	<u>-</u>	<u>(15,635,318)</u>
Net Property, Plant and Equipment	<u>\$ 51,500,754</u>	<u>\$ 1,371,397</u>	<u>\$ -</u>	<u>\$ 52,872,151</u>

Depreciation was recorded in the amount of \$1,576,614 and \$1,584,472 respectively, less amortization of deferred revenues associated with the Central Dutchess Water Transmission Line of \$595,853 (which was put into service in 2007, see Note 9) for the years ended December 31, 2010 and 2009. The effect of netting these amounts resulted in \$980,761 and \$988,609 in depreciation expense for the years ended December 31, 2010 and 2009, respectively.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

6. Employee Retirement Systems

A. Plan Description

Through the acquisition of the assets and employees of the Hyde Park Fire and Water District, the Dutchess County Water and Wastewater Authority is required to participate in the New York State Local Employees' Retirement System and the Public Employees' Group Life Insurance Plan System. This is a cost sharing multiple employer retirement system. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes an Annual Report and required supplementary information.

That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12236.

B. Funding Policy

The systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System (System) after July 27, 1976 who contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Dutchess County Water and Wastewater Authority is required to contribute to the System at an actuarially determined rate. The required contributions for the current and prior two years were \$131,574, \$104,762 and \$115,786, respectively. The Authority's contributions made to the System were equal to 100% of the contributions required for those years.

7. Post-employment Benefits

From an accrual accounting perspective, the cost of post-employment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. Through implementation of the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, beginning in the year ended December 31, 2007, the Authority recognizes the cost of post-employment healthcare in the year when the employee

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

7. Post-employment Benefits (Continued)

services are received, reports the accumulated liability from prior year, and provides information useful in assessing potential demands on the Authority's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, which commenced with the 2007 liability.

A. Plan Description

The Authority provides continuation of medical insurance coverage to employees that retire under the New York Retirement Systems at the same time they end their service to the Authority. Currently, there are no retiree's receiving post-employment benefits. Based on the current employment policy, the retiree and his or her beneficiaries receive coverage for the life of the retiree based on the retiree's years of service at retirement. A summary of benefits is as follows:

<u>Years of Service</u>	<u>% Paid by Authority</u>	
	<u>Retiree</u>	<u>Dependent/Spouse</u>
10-14	50%	35%
15-19	60%	45%
20-24	70%	55%
25+	80%	65%

B. Funding Policy

The Authority is currently not paying post-employment benefits for any individuals. Although the Authority is considering the establishment of trusts that would be used to accumulate and invest assets necessary to pay for the accumulated liability, these financial statements assume that pay-as-you-go funding.

C. Annual Other Post-employment Benefit Cost

The Authority's OPEB cost (expense) amounted to \$175,400 for each of the years ended December 31, 2010 and 2009. The Authority's OPEB cost was equal to the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

7. Post-employment Benefits (Continued)

C. Annual Other Post-employment Benefit Cost (continued)

Benefit Obligations at Normal Cost

Actuarial Accrued Liability (AAL)	
Retired employees (0)	\$ -
Active employees (20)	1,703,200
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,703,200</u>

Level Dollar Amortization

Past Service Costs	\$ 64,800
Normal Costs	110,600
Annual Required Contribution (ARC)	<u>\$ 175,400</u>

Percent of annual OPEB cost contributed	0%
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Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding status of the plan and the annual expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value for plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

D. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

7. Post-employment Benefits (Continued)

D. Actuarial Methods and Assumptions (continued)

In the August 1, 2009, actuarial valuation, the liabilities were computed using the projected unit credit cost method and level dollar amortization. The actuarial assumptions utilized a 5% baseline discount rate. Because the plan is unfunded, reference to the general assets, which are short-term in nature (such as money market funds), was considered in the selection of the 5% rate. The valuation assumes an initial 10.50% healthcare cost inflation rate, reduced by decrements of .5% for the next 11 years at which time it would be 5%.

8. Long Term Obligations

A. Bonds Payable

The Authority issues revenue bonds to finance the acquisition of systems and the cost of the capital renovations to those systems and to pay costs of issuance. Such debt has been issued under the following authorizations:

Trust Indenture

As of June 1, 1995 the Authority executed a trust indenture authorizing the issuance of debt for the purpose of acquiring a sewage facility. This trust indenture was amended in 2007 to authorize debt issued for Part County Sewer Districts #1 and 2. One supplemental trust indenture was authorized under terms similar to those described in the General Bond Resolution described below.

Special Bond Resolution

As of September 30, 1997 the Authority adopted a special bond resolution authorizing debt to be sold at private sale for the purpose of acquiring a privately held water system.

General Bond Resolutions

As of June 1, 1998 the Authority adopted a General Bond Resolution which enabled the Authority to issue additional debt pursuant to supplemental resolutions without having to modify the form or general terms of the debt, referred to as additional parity debt. The Authority has issued seven supplemental resolutions pursuant to this general bond resolution, authorizing debt issues in the years of 1998, 1999, 2000, 2001, 2004, two issues in 2002, 2007 and 2008, and one debt issue in 2009 and 2010.

As of August 1, 2004 the Authority adopted a general bond resolution pertaining to the Part County Sewer District No 3, which enabled it to issue bonds to finance the purchase of Dalton Farms Sewer System.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

8. Long Term Obligations (Continued)

B. Description of Bonds Payable

	<u>2010</u>	<u>2009</u>
New York State Environmental Facilities Corporation State Water Pollution Control Revolving Fund Revenue Bond Series 2005D, due in various installments through 2015, interest 3.70%-5.55%	265,000	\$ 310,000
1998 Revenue Bonds (Zero Coupon) Series One, due in various installments starting in 2021 through 2029, interest 3.90%-5.40%	3,817,818	3,817,818
1998 Revenue Bond Series Two, due in various installments through 2019, interest 3.90%-5.43%	300,000	325,000
New York State Environmental Facilities Corporation State Clean Water and Drinking Water Revolving Fund Revenue (Refunding) Bond Series 1999B, due in various installments through 2019, interest 3.97%-5.43%	-	11,125,000
New York State Environmental Facilities Corporation State Clean Water and Drinking Water Revolving Fund Revenue (Refunding) Bond Series 1999B, due in various installments through 2019, interest 3.97%-5.43%	-	240,000
2000 Service Agreement Revenue Bond Series 2000, due in various installments through 2020, interest 5.65%	525,000	565,000
2001 Service Agreement Revenue (Refunding) Bond Series 2001, due in various installments through 2041, interest 3.00%-5.36% - Partially refunded in 2002 as described below	1,223,410	1,223,410
2002 Service Agreement Revenue (Refunding) Bond Series 2002 Harbour Hills, due in various installments through 2021, interest 1.333%-5.063%	1,980,000	2,130,000

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

8. Long-Term Obligations (Continued)

B. Description of Bonds Payable (continued)

New York State Environmental Facilities Corporation State Clean Water Revolving Fund Revenue (Refunding) Bonds Series 2002, due in various installments through 2023, interest 1.825%-5.705%	360,000	380,000
2004 Water Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00%-4.25%	1,625,000	1,710,000
2004 Sewer Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00%-4.25%	1,725,000	1,815,000
2007 Sewer Service Agreement Revenue Bond Series 2007, due in various installments through 2037, interest 4.00%-5.00%	1,795,000	1,830,000
2007 Sewer Service Agreement Revenue Bond Series 2007, due in various installments through 2027, interest 4.00%-4.625%	360,000	375,000
2009 Water Service Agreement Revenue Bond Series 2009, due in various installments through 2029, interest 3.00%-5.00%	7,160,000	7,350,000
2009 Water Service Agreement Revenue Bond Series 2009, due in various installments starting in 2030 through 2039, interest 5.62%-5.96%	1,347,524	1,347,524
2010 Water Service Agreement Revenue Notes Series 2010, maturing December 9, 2011, interest 1.51%	1,905,800	-

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

8. Long-Term Obligations (Continued)

Water and Drinking Water Revolving Fund Revenue (Refunding)

Bond Series 2010C, due in various installments through 2019,

interest .8450%-3.355%

10,326,923 -

Total Bonds Payable

34,716,475 34,543,752

Accreted Interest Recorded on Zero Coupon Bonds

4,257,681 3,770,551

Total Bonded Debt Payable

38,974,156 38,314,303

Portion Due Within One Year

(3,777,718) (1,635,000)

Net Long Term Debt Payable

\$ 35,196,438 \$ 36,679,303

C. Changes

	Balance at January 1, <u>2010</u>	New Issues/ <u>**Additions</u>	Maturities and/or <u>Payments</u>	Balance at December 31, <u>2010</u>	Due within <u>One Year</u>
Bonds Payable	\$ 38,314,308	\$ 13,659,848	\$ (13,000,000)	\$ 38,974,156	\$ 3,777,723
OPEB liability (see Note 7)	<u>434,500</u>	<u>175,400</u>	<u>-</u>	<u>\$ 609,900</u>	<u>-</u>
	<u>\$ 38,748,808</u>	<u>\$ 13,835,248</u>	<u>\$ (13,000,000)</u>	<u>\$ 39,584,056</u>	<u>\$ 3,777,723</u>

**Bonds payable increased by \$487,130 in adjustments for accreted interest on 1998 series one, 2001 debt, and 2009 debt.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

8. Long-Term Obligations (Continued)

D. Debt Service Requirements

Debt Service requirements to maturity as of December 31, 2010 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 3,777,718	\$ 1,002,202	\$ 4,779,920
2012	1,920,000	936,220	2,856,220
2013	1,955,000	887,835	2,842,835
2014	1,985,000	837,659	2,822,659
2015	2,070,000	780,248	2,850,248
2016-2020	10,056,591	3,890,930	13,947,521
2021-2025	6,355,315	7,212,023	13,567,338
2026-2030	4,286,696	5,923,281	10,209,977
2031-2035	1,438,732	2,320,968	3,759,700
2036-2040	841,098	1,925,398	2,766,496
2041-2044	30,320	1,448	31,768
Totals	<u><u>\$34,716,470</u></u>	<u><u>\$25,718,212</u></u>	<u><u>\$60,434,682</u></u>

E. Advance Refunding and Defeasance of Debt

In July 2002, the Authority refinanced a portion of the 2001 Series (Zone D project) and a portion of the 1999 Series (Water Pollution Control) bonds in transactions accounted for as advance refunding of debt. The Authority defeased bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all 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 December 31, 2010, the balance of the 2001 and 1999 defeased debt outstanding was \$1,925,000 and \$-0-, respectively.

The Authority recorded a deferred loss in the amount of \$97,853 pertaining to the 2001 Series debt, representing the difference between the net carrying value of the old debt and the reacquisition price. This loss will be amortized over the life of the new debt. The present values of the difference in debt service requirements including subsidies obtained through the New York State Environmental Facilities Corporation has resulted in an economic gain of \$272,360, while the difference in net cash flows resulted in a net savings of \$348,852.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

8. Long-Term Obligations (Continued)

E. Advance Refunding and Defeasance of Debt (Continued)

In May 2010, the Authority participated in a refinancing initiated by the New York State Environmental Facilities Corporation on behalf of the municipalities that participated in the State Clean Water and Drinking Water Revolving Funds Series 1998D, 1999A, and 1999B, amounting to \$11,266,923. A net present value savings of \$979,741 over the life of the new debt resulted from the refinancing transactions.

F. Bond Covenants

The Authority has agreed to maintain dedicated sources of revenues with respect to the projects financed in accordance with the State Act and in amounts such that the revenues of the Authority with respect to the financial projects shall be sufficient, together with all other funds available to the Authority for such purposes, to pay all costs of operating and maintaining the projects and to pay principal and interest requirements. The bonds payable are special obligations of the Authority, secured by the assets of the Authority and to be amortized solely from the revenues of the Authority.

The Authority has pledged its revenues, subject to the right to pay operating expenses, its interest in its Service Agreement with Dutchess County, its interest in cash and investments held by the Bond Trustee and any other property subsequently pledged.

In addition to pledging its revenues and other rights as described above, the Authority made certain covenants including that it will fix, charge and collect water rates together with other Authority revenues in amounts sufficient to provide for operating expenses as included in the Authority's budget. The Authority also pledges to maintain, in full force and effect, the service agreement with Dutchess County, as is further described in Note 13 - Economic Dependency.

9. Deferred Revenues

In June 2002 the Authority signed an agreement with Dutchess County outlining a project known as the Central Dutchess Utility Corridor (the "Corridor"), consisting of a 24" water transmission line and necessary pumping capacity for the purpose of transmission of water to serve the Hudson Valley Research Park in East Fishkill, New York and other future customers. The project was placed into service in July of 2007. The Authority had estimated the cost to be \$33,269,000, with funding coming in the form of grants from New York State, \$11,250,000, International Business Machines (IBM), \$11,375,000, the Town of East Fishkill, \$269,000 and Dutchess County, \$10,375,000. There were also interest earnings on advances and grants such that the total amount attributed to the project as of December 31, 2008 was approximately

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

9. Deferred Revenues (Continued)

\$34,034,902, which was accounted for as deferred revenues.

During 2009, the Authority returned \$4,209,736 in unused funds to Dutchess County and IBM. The Authority recognized \$595,853 in revenue for the years ended December 31, 2010 and 2009 and was recorded net of depreciation. The long term portion of deferred revenue amounted to \$27,289,371 and \$27,859,528 as of December 31, 2010 and 2009, all of which is related to the Utility Corridor. Current deferred revenue expected to be recognized in 2011 is as follows:

	<u>2010</u>	<u>2009</u>
Current Portion of Deferred Revenues:		
Utility Corridor	\$ 595,853	\$ 595,853
Dutchess County	9,500	9,500
Water Usage Billings Received in Advance	<u>209,099</u>	<u>-</u>
	<u><u>\$ 814,452</u></u>	<u><u>\$ 605,353</u></u>

10. Contingencies and Risk Management

The Authority is subject to various litigation and claims arising out of the course of its operations. While the results of the lawsuits cannot be predicted with certainty, management does not believe these matters will have an adverse effect on the Authority's overall financial position. The Authority assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Such risks are covered by the purchase of commercial insurance. Workers compensation coverage is provided through a retrospective policy, wherein premiums are recorded based on the ultimate cost of the experience to date of workers in similar occupations. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The Authority has purchased insurance with limits as follows: umbrella coverage of \$20,000,000, business auto of \$1,000,000, general liability of \$3,000,000, property of \$32,863,374 and workers compensation of \$100,000.

11. Commitments

Authorized Debt

In February 2004, the Authority authorized the issuance of up to \$625,000 in debt to fund renovations to the Fairview Pump Station. These renovations are part of the improvements

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

11. Commitments (Continued)

Authorized Debt (Continued)

needed to supply increased transmission capacity to the Dutchess Central Utility Corridor pipeline described above. No debt has been issued under this authorization, and Corridor funds were used instead.

12. Economic Dependency

As described in Note 8F - Long Term Obligations, the Authority has entered into service agreements with Dutchess County for the Water District and Part County Sewer Districts to provide water and/or sewer services and receive a service fee from Dutchess County based on a contractual formula, generally when revenues are insufficient to cover certain operating expenses and debt service requirements. The Authority also receives payments from Dutchess County for the completion of certain consulting projects. Although these payments are subject to budgetary resolutions by the Dutchess County Legislature for approval, no approvals have been withheld by the Legislature. For the years ended 2010 and 2009, the Authority recorded net revenues of \$2,965,185 and \$2,506,550, having recorded a return of \$50,241 and \$39,266 to the County during those years. Of those amounts, \$11,441 and \$26,166 was due to the County at each respective year-end. Since the Authority is a component unit of Dutchess County, these transactions are also considered related party transactions.

REQUIRED SUPPLEMENTAL INFORMATION

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
SCHEDULE OF FUNDING PROGRESS FOR
OTHER POST-EMPLOYMENT BENEFIT PLAN
DECEMBER 31, 2010 AND 2009

The schedule of funding progress presents the results of OPEB valuations as of and for the years ended December 31, 2008, 2009, and 2010.

<u>Year Ended,</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Accrued Liability (b)</u>	<u>Unfunded Accrued Liability (UAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2008	8/1/2007	\$ -	\$ 1,329,500	\$ 1,329,500	0.0%	N/A	N/A
12/31/2009	8/1/2009	\$ -	\$ 1,703,200	\$ 1,703,200	0.0%	N/A	N/A
12/31/2010	8/1/2009	\$ -	\$ 1,703,200	\$ 1,703,200	0.0%	N/A	N/A

APPENDIX D

Dutchess County's Financial Statements
for the Year Ending December 31, 2010

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Dutchess County, New York
Annual Financial Report
(and Report of Independent Auditors)
December 31, 2010

Dutchess County, New York
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Report of Independent Auditors

The Honorable Members of the County Legislature and
The County Executive
Dutchess County, New York

In our opinion, based on our audit and the reports of other auditors, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Dutchess County, New York (the "County") which collectively comprise the County's basic financial statements as listed in the table of contents, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County, at December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Dutchess Community College, the Dutchess County Resource Recovery Agency, the Dutchess County Water and Wastewater Authority, and the Dutchess County Industrial Development Agency, which in aggregate represented 99 percent of the assets, net assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors. As described in Note 2, the financial statements of the Dutchess Community College have been adjusted for the presentation of long-term liabilities and net assets included in these financial statements. They conducted their audits of these financial statements in accordance with auditing standards generally accepted in the United States of America 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 the auditor to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011 on our consideration of the County'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.



The management's discussion and analysis on pages 3 through 19 and budgetary comparison information on pages 96 and 97 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on this information.

Princeton Township Cooper LLP

September 30, 2011

Dutchess County, New York

Management's Discussion and Analysis

December 31, 2010

The following discussion and analysis of the financial statements of the County of Dutchess (the "County") provides an overview of the County's financial activities for the fiscal year ended December 31, 2010. It should be read in conjunction with the basic financial statements and notes to the financial statements contained herein.

Financial Highlights

- On November 23, 2010, the County issued \$21 million Public Improvement (Serial) Bonds providing funding for the governmental and proprietary funds for a variety of capital projects, including improvements to various county facilities, equipment and vehicle purchases.
- At December 31, 2010, undesignated fund balance for the general fund was approximately 29.9 million representing a slight increase of .4 million from the adjusted undesignated fund balance from 2009.
- The clothing exemption was repealed on March 1, 2010 resulting in increased revenue from Sales Tax.
- There was appropriated fund balance of \$14.1 million used for the 2010 budget adopted in 2009. The summary of details of the major components of fund balance can be found on page 20.
- The principal sources of County revenue, other than state and federal aid, consist of property taxes and sales tax. Property tax collections for 2010, including adjustments (interest and penalty; real property tax auction) were **\$106.1** million which represents a 9.8% **increase** over 2009 and 23.4% of total revenues.
- GASB Statement No. 45, "*Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions*," was implemented for the year ended December 31, 2007. It was calculated that as of December 31, 2010, the County wide obligation is \$294,965,700 which is to be paid out in health benefits for its active and retired employees. The amounts recognized for the year ending December 31, 2010 are \$19,435,200 for the County and \$137,600 for the Airport. The remaining amounts unfunded for the year ended December 31, 2010 are \$74,925,300 for the County and \$494,700 for the Airport. The fund balance is negatively impacted annually by the growing liability for the unfunded portion of the post-retirement benefits.

**Dutchess County, New York
Management's Discussion and Analysis
December 31, 2010**

Revised Financial Statements

In 2010, management identified accounting errors in posting liquidations of accounts payable to the County's general ledger during 2007, 2008 and 2009. Management determined these errors resulted from an issue within the County's financial management system that was implemented during 2006. Whereas, departments input liquidation adjustments into the system application, they were not properly updated to the general ledger. As a result, the County did not record a total of \$4,991,252 of liquidation adjustments (comprising of \$2,132,723, \$2,710,314 and \$148,215 in 2007, 2008 and 2009). The following summarizes the revisions of fund balances and net assets as of January 1, 2010:

	Total Fund Balance Governmental Funds	Total Net Assets Governmental Activities
Beginning balance at January 1, 2010 as previously reported	\$ 80,725,996	\$ (8,420,724)
Recognition of prior period adjustments	<u>4,991,252</u>	<u>4,991,252</u>
Balance at January 1, 2010, as revised	<u><u>\$ 85,717,248</u></u>	<u><u>\$ (3,429,472)</u></u>

The following summarizes the impact on expenses, net assets and fund balances by year, is as follows:

2009	As Reported	As Revised
Total expenditures	\$ 423,034,638	\$ 422,886,423
Expenses (total government activities)	440,538,584	440,390,369
Net assets	(8,420,724)	(3,429,472)
Fund balances	80,725,996	85,717,248

Accordingly, the 2009 Condensed financial information derived from the government wide financial statements has been adjusted for comparative purposes.

Dutchess County, New York
Management's Discussion and Analysis
December 31, 2010

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The basic financial statements consist of three components:

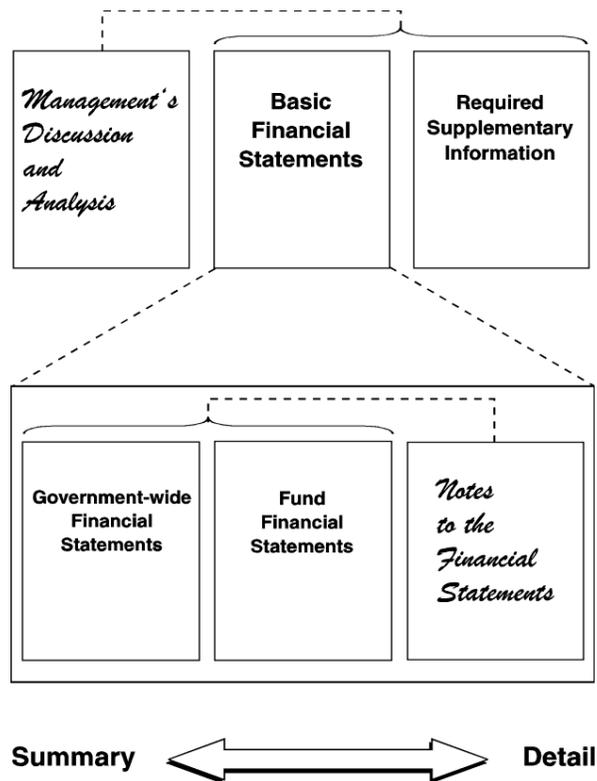


Figure A-2 summarizes the major features of the County's financial statements, including the portion of the County government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Dutchess County, New York
Management's Discussion and Analysis
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**Figure A-2
Major Features of Dutchess County's Government-wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	<i>Entire County government (except fiduciary funds) and the County's component units.</i>	<i>The activities of the County those are not proprietary or fiduciary, such as public safety, education and health.</i>	<i>Activities the County operates similar to private businesses, such as bus transportation and the airport.</i>	<i>Instances in which the County is the trustee or agent for someone else's resources.</i>
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances • Reconciliation of the Statement of Revenues, Expenditures and changes in fund balances to the Statement of Activities. 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses, and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
<i>Accounting basis and measurement focus</i>	<i>Accrual accounting and economic resources focus</i>	<i>Modified accrual accounting and current financial resources focus</i>	<i>Accrual accounting and economic resources focus</i>	<i>Accrual accounting and economic resources focus</i>
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the County's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Dutchess County, New York

Management's Discussion and Analysis

December 31, 2010

Government-Wide Statements

Government-wide financial statements – designed to provide a broad overview of County finances, in a manner similar to a private-sector business. These statements include the Statement of Net Assets and the Statement of Activities. The government-wide financial statements can be found on pages 17 and 18 of this report.

Fund Financial Statements

Fund financial statements – groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. These funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements.

The governmental fund financial statements can be found on pages 21 through 22 of this report.

Proprietary funds for the County are proprietary funds. Proprietary Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses proprietary funds to account for the Airport and the Loop Bus Transportation System.

The proprietary fund financial statements can be found on pages 24 through 26 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 27 and 28 of this report.

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Management's Discussion and Analysis
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Financial Analysis of the County's Funds

The table below presents condensed financial information derived from the government-wide financial statements for the County as of December 31, 2010 and 2009.

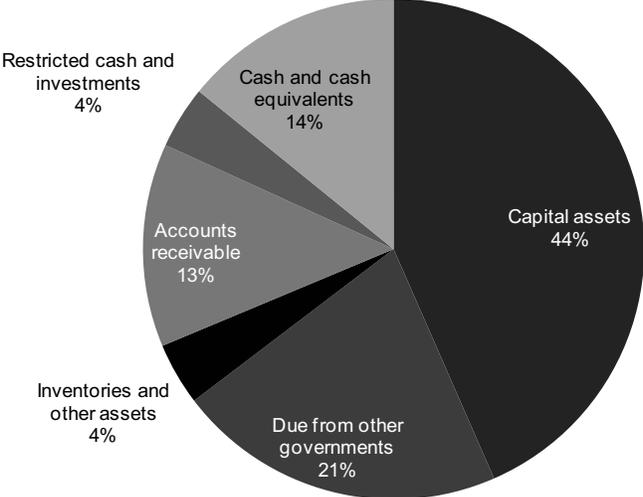
	2010			2009		
	Governmental Activities	Business-type Proprietary Funds	Total	Governmental Activities	Business-type Proprietary Funds	Total
Asset						
Current and other assets	\$ 209,759,598	\$ 9,322,172	\$219,081,770	\$ 202,916,386	\$ 5,666,840	\$208,583,226
Capital assets	162,533,430	25,035,697	187,569,127	148,478,419	20,489,595	168,968,014
Total assets	372,293,028	34,357,869	406,650,897	351,394,805	26,156,435	377,551,240
Liabilities						
Other liabilities	96,485,701	3,791,224	100,276,925	99,829,667	1,215,987	101,045,654
Long-term liabilities	283,129,620	5,923,219	289,052,839	254,994,590	3,711,295	258,705,885
Total liabilities	379,615,321	9,714,443	389,329,764	354,824,257	4,927,282	359,751,539
Net Assets						
Invested in capital assets, net of related debt	10,600,484	19,645,306	30,245,790	7,167,999	17,183,043	24,351,042
Restricted	19,669,696	-	19,669,696	8,951,971	-	8,951,971
Unrestricted (deficit)	(37,592,473)	4,998,120	(32,594,353)	(19,549,442)	4,046,110	(15,503,332)
Total net assets	\$ (7,322,293)	\$ 24,643,426	\$ 17,321,133	\$ (3,429,472)	\$ 21,229,153	\$ 17,799,681

The amount by which the County's assets exceeds its liabilities is the total net assets. At December 31, 2010, the County's total net assets were \$17.3 million. Of that amount, approximately \$30.2 million was invested in capital assets, net of related debt. Another \$19.7 million was subject to external restriction upon its use. The negative (\$32.6) million unrestricted net assets are a result of GASB Statement No.45, "Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions," implemented December 31, 2007 which records a cumulative unfunded liability for the County of \$74.9 million and \$0.5 million for the Airport.

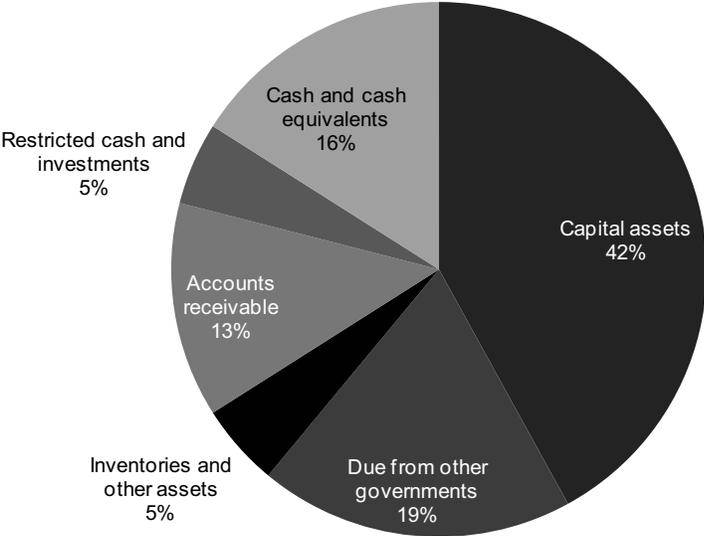
State and Federal Receivables within the General Fund, which is included in current and other assets, have increased from \$27 million in 2009 to \$29.4 million in 2010. Such reimbursements are principally for mental health and other ongoing programs. During 2010, the economic downturn has significantly impacted the timing of receipt of State and Federal monies due to the County.

**Dutchess County, New York
Management's Discussion and Analysis
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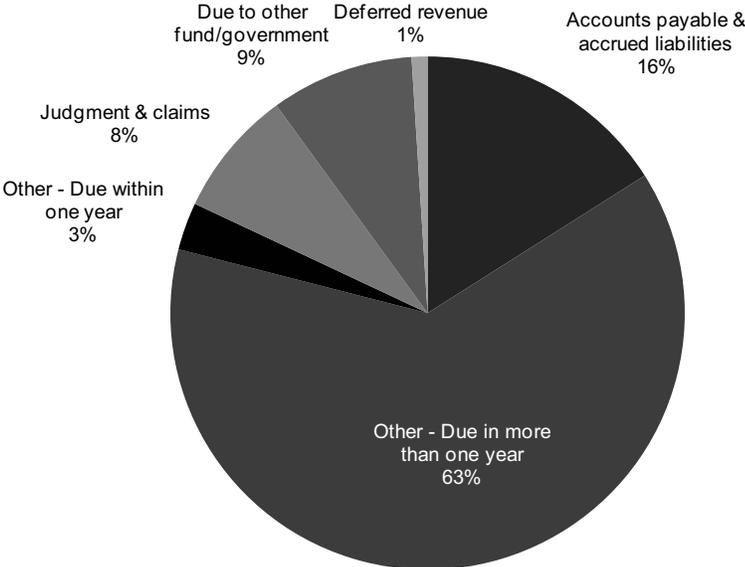
Assets – General Government – 2010 (Government Activities)



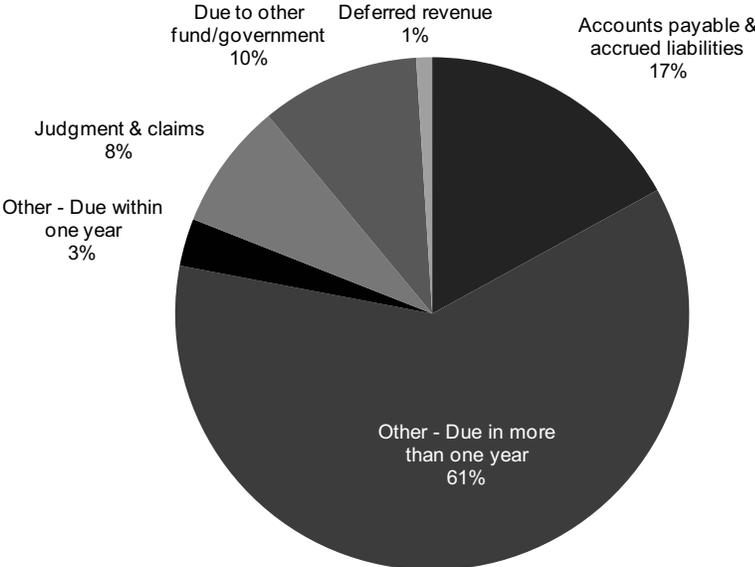
Assets – General Government – 2009 (Government Activities)



Liabilities – General Government – 2010 (Government Activities)



**Liabilities – General Government – 2009
 (Government Activities)
 (as revised)**



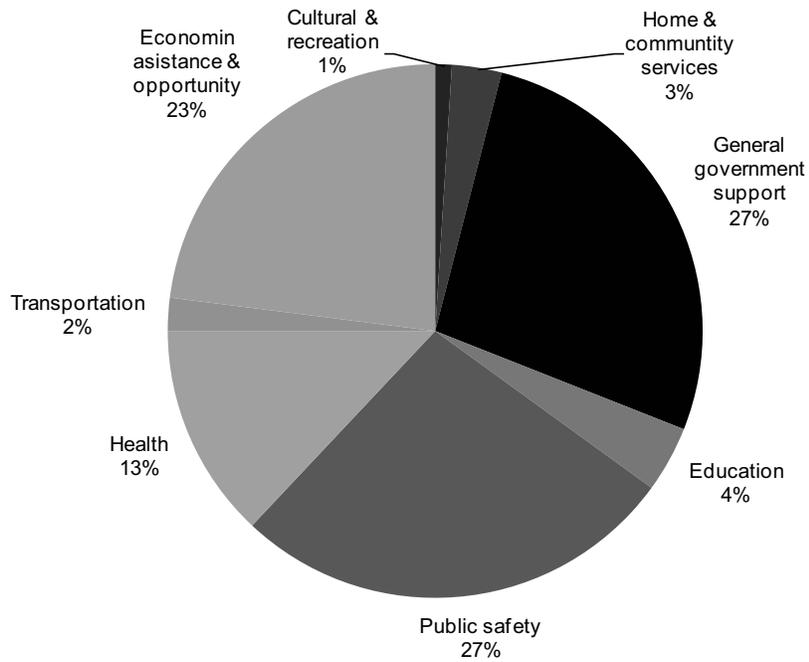
**Dutchess County, New York
Management's Discussion and Analysis
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Activities for the Years Ended December 31, 2010 and 2009

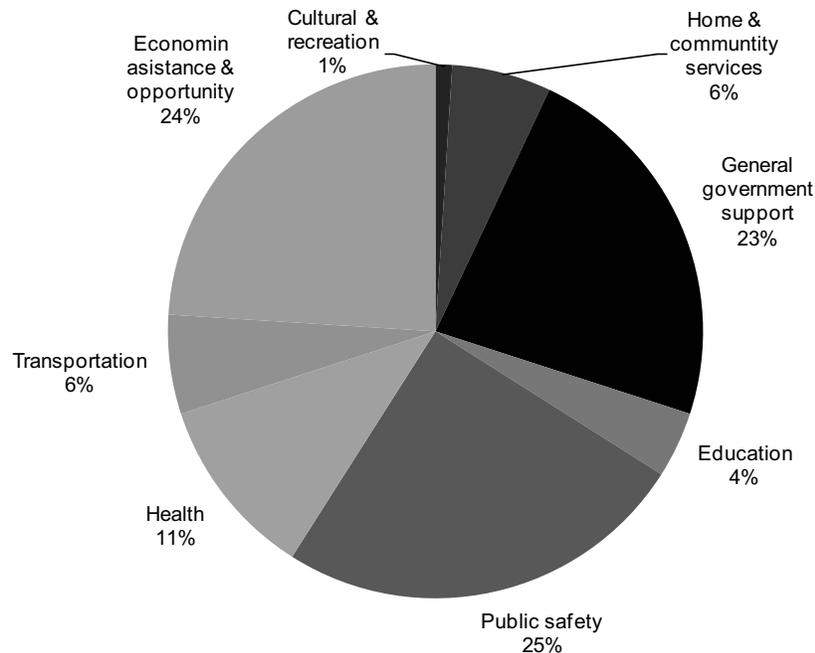
The table below presents condensed financial information derived from the government-wide financial statements for the County for the years ended December 31, 2010 and 2009.

	2010			2009		
	Governmental Activities	Business-type Activities - Proprietary Funds	Total	Governmental Activities	Business-type Activities - Proprietary Funds	Total
Program revenues						
Charge for services	\$ 28,202,393	\$ 3,606,434	\$ 31,808,827	\$ 45,447,163	\$ 2,774,797	\$ 48,221,960
Operating grants and contribution	124,570,920	3,373,542	127,944,462	112,132,002	3,466,079	115,598,081
Capital grants and contributions	13,761,222	4,728,918	18,490,140	5,974,442	926,394	6,900,836
General Revenues						
Property tax	109,911,123	-	109,911,123	98,661,226	-	98,661,226
Sales and other taxes	157,852,325	-	157,852,325	147,710,126	-	147,710,126
Interest income and other	4,027,135	80,146	4,107,281	4,709,276	149,400	4,858,676
Total Revenues	438,325,118	11,789,040	450,114,158	414,634,235	7,316,670	421,950,905
Program expenses						
General government	80,807,173	-	80,807,173	79,715,358	\$ -	79,715,358
Education	11,868,676	-	11,868,676	14,110,612	-	14,110,612
Public Safety	78,850,898	-	78,850,898	77,039,999	-	77,039,999
Health	70,385,974	-	70,385,974	74,739,757	-	74,739,757
Transportation	23,856,286	-	23,856,286	24,091,035	-	24,091,035
Economic assistance and opportunity	149,486,900	-	149,486,900	142,005,494	-	142,005,494
Culture and recreation	3,270,402	-	3,270,402	4,943,265	-	4,943,265
Home and community service	13,078,023	-	13,078,023	15,227,738	-	15,227,738
Debt service	8,267,792	-	8,267,792	8,665,326	-	8,665,326
Airport	-	3,527,455	3,527,455	-	3,151,747	3,151,747
Transportation	-	7,193,127	7,193,127	-	6,949,579	6,949,579
Total program expenses	439,872,124	10,720,582	450,592,706	440,538,584	10,101,326	450,639,910
Increase (decrease) in net assets before transfers	(1,547,006)	1,068,458	(478,548)	(25,904,349)	(2,784,656)	(28,689,005)
Transfers	(2,345,815)	2,345,815	-	(2,746,595)	2,746,595	-
Increase (decrease) in net assets	(3,892,821)	3,414,273	(478,548)	(28,650,944)	(38,061)	(28,689,005)
Net assets, beginning of year	(3,429,472)	21,229,153	17,799,681	25,221,472	21,267,214	46,488,686
Net assets, end of year	\$ (7,322,293)	\$ 24,643,426	\$ 17,321,133	\$ (3,429,472)	\$ 21,229,153	\$ 17,799,681

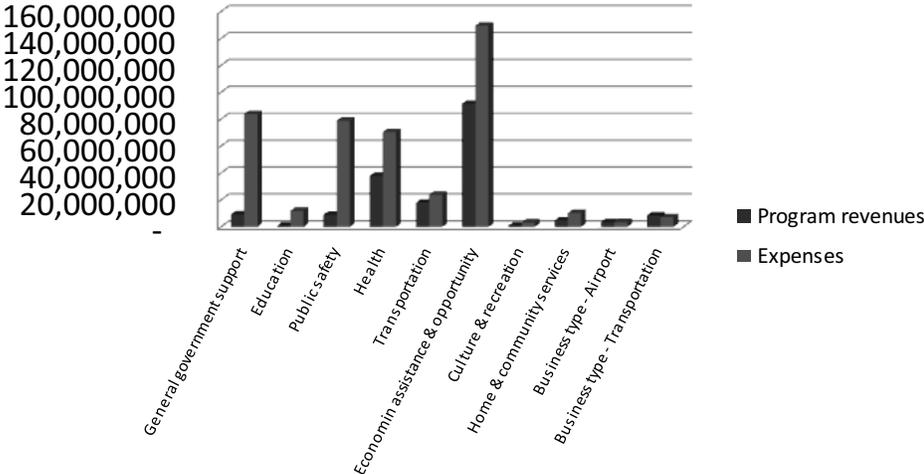
**Net (Expense) Revenue per Function from the Government Wide
 Financial Statements (excluding debt service) - 2010**



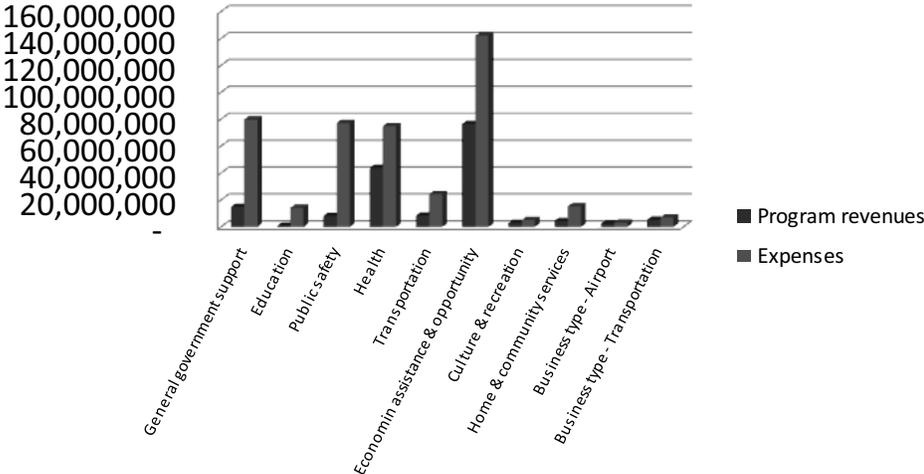
**Net (Expense) Revenue per Function from the Government Wide
 Financial Statements (excluding debt service) - 2009
 (as revised)**



**Program Revenue and Expenses (excluding
 debt service) - 2010**



Program Revenue and Expenses (excluding debt service) - 2009



Dutchess County, New York
Management's Discussion and Analysis
December 31, 2010

A summary of the County's overall financial position for individual funds (on the modified accrual basis of accounting) is presented below as of December 31.

	Financial Position			
	2010	2009	\$ Change	% Change
General Fund				
Total assets	\$ 150,682,596	\$ 153,093,331	\$ (2,410,735)	-1.57%
Total liabilities	94,119,579	96,257,761	-	0.00%
Fund balance	56,563,017	56,835,570	-	0.00%
Capital Projects				
Total assets	\$ 37,828,126	\$ 27,134,971	\$ 10,693,155	39.41%
Total liabilities	10,630,655	9,197,688	1,432,967	15.58%
Fund balance	27,197,471	17,937,283	9,260,188	51.63%
Other Governmental Funds				
Total assets	\$ 5,529,281	\$ 6,540,920	\$ (1,011,639)	-15.47%
Total liabilities	2,330,899	2,755,312	(424,413)	-15.40%
Fund balance	3,198,382	3,785,608	(587,226)	-15.51%
Dutchess TASC				
Total assets	\$ 6,976,189	\$ 7,158,787	\$ (182,598)	-2.55%
Fund balance	6,976,189	7,158,787	(182,598)	-2.55%

Total General Fund balance including the designated fund balance remained level from the 2009 to 2010. This is primarily due to controlled spending and fiscal stewardship despite the economic challenges facing the County at this time.

The ending fund balance for the Capital Projects fund can be attributed to proceeds from November 23, 2010 borrowing of \$21 million. These funds are intended to provide funding for capital projects during 2011 and beyond.

Dutchess County, New York
Management's Discussion and Analysis
December 31, 2010

A summary of the County's overall financial position for individual funds (on the modified accrual basis of accounting) is presented below for the years ended December 31.

	Results of Operations			
	2010	2009	\$ Change	% Change
General Fund				
Revenues	\$ 411,242,443	\$ 388,456,672	\$ 22,785,771	5.87%
Expenditures	398,430,187	382,391,553	16,038,634	4.19%
Excess (deficiency) of				
revenues over expenditures	12,812,251	6,065,119	6,747,132	111.24%
Other financing sources (uses)	(13,084,804)	(13,227,240)	142,436	-1.08%
Fund balance-beginning of year	56,835,570	63,997,691	(7,162,121)	-11.19%
Fund balance-end of year	56,563,017	56,835,570	(272,553)	-0.48%
Capital Projects				
Revenues	\$ 13,761,222	\$ 4,572,442	\$ 9,188,780	200.96%
Expenditures	23,011,469	15,461,334	7,550,135	48.83%
Excess (deficiency) of				
revenues over expenditures	(9,250,247)	(10,888,892)	1,638,645	-15.05%
Other financing sources (uses)	18,510,435	1,044,747	17,465,688	1671.76%
Fund balance-beginning of year	17,937,283	27,781,428	(9,844,145)	-35.43%
Fund balance-end of year	27,197,471	17,937,283	9,260,188	51.63%
Other Governmental Funds				
Revenues	\$ 20,026,733	\$ 20,177,609	\$ (150,876)	-0.75%
Expenditures	20,613,959	20,692,247	(78,288)	-0.38%
Excess (deficiency) of				
revenues over expenditures	(587,226)	(514,638)	(72,588)	14.10%
Other financing sources (uses)	-	-	-	#DIV/0!
Fund balance-beginning of year	3,785,608	4,300,246	(514,638)	-11.97%
Fund balance-end of year	3,198,382	3,785,608	(587,226)	-15.51%
Dutchess TASC				
Revenues	\$ 3,643,582	\$ 4,106,130	\$ (462,548)	-11.26%
Expenditures	3,826,180	4,489,504	(663,324)	-14.77%
Excess (deficiency) of				
revenues over expenditures	(182,598)	(383,374)	200,776	-52.37%
Fund balance-beginning of year	7,158,787	7,542,161	(383,374)	-5.08%
Fund balance-end of year	6,976,189	7,158,787	(182,598)	-2.55%

**Dutchess County, New York
Management's Discussion and Analysis
December 31, 2010**

General Fund Budgetary Highlights

Significant differences between the original budget and the modified budget for certain appropriations are summarized as follows (modified accrual basis of accounting):

Appropriations	Original	Increase	Modified	Actual
General government support	\$ 64,000,236	\$ 232,663	\$ 64,232,899	\$ 64,099,497
Public safety	55,364,302	2,286,651	57,650,953	54,355,405
Economic assistance and opportunity	134,108,616	3,664,823	137,773,439	141,533,184
Home and community services	7,651,573	1,805,676	9,457,249	10,884,579
Total	\$ 261,124,727	\$ 7,989,813	\$ 269,114,540	\$ 270,872,665

GASB Statement 33 "Accounting and Reporting for Non-exchange Transactions", as amended by Statement 36 "Recipient Reporting for Certain Shared Non-exchange Revenues", requires the County to recognize sales tax revenues on a gross basis and record expenditures for sales tax revenues that are shared. Gross Sales tax collected in 2010 is \$154.2 million with \$28.4 million in Sales Tax revenue shared between the cities, towns and villages leaving the County portion to be \$125.8 million.

Increases were required due to increased costs for the County Jail, various mandate increases to Department of Social Services and service fee to Dutchess County Resource Recovery Agency. Actual economic assistance and opportunity dollars include monies sent directly to recipients.

Capital Asset and Debt Administration

The County's investment in capital assets for its governmental and business-type activities as of December 31, 2010, amounted to \$179 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, infrastructure, and construction in progress. A breakdown of certain current year investments is as follows:

- \$12.0 million Various improvements to roads and bridges
- \$0.4 million Improvements at Dutchess Community College
- \$5.2 million Various building improvements and purchase of vehicles and equipment
- \$0.3 million Public Safety improvements
- \$5.2 million Various health, community service, culture and recreation improvements

The above have been offset by \$15.7 million in depreciation expense in the current year.

The County expended \$0.4 million on various improvements at Dutchess Community College. Financing for these projects was provided through operations and state and federal funds.

The New York State Local Finance Law limits the County's power to contract indebtedness to 7% of the five-year average full valuation of taxable real estate. At the end of 2010, the County's outstanding debt totaled \$110.7 million (without the Tobacco Asset Securitization Corporation) and represents approximately 4.53% of the County's debt limit.

Economic Factors and Next Year's Budgets and Rates

Dutchess County, like other counties in New York State, is challenged on a fiscal level by State imposed mandates. Medicaid is a federally mandated program that provides health benefits to low income individuals and their families. Medicaid was significantly impacted by New York State's enacted legislation (Chapter 58 of the Laws of 2005) effective January 1, 2006. The law implemented a new controlled growth formula of an annual escalator percentage of 3.5% in 2006, 3.25% in 2007, and 3% per year in 2008 and beyond, over the County's 2005 base year Medicaid costs.

Dutchess County, New York Management's Discussion and Analysis December 31, 2010

The following summarizes the County's spending in this area:

2009	\$ 38,896,722
2010	40,588,343
2011 (Budgeted)	41,821,497

In addition to Medicaid costs, Dutchess County participates in the New York State Retirement System, a cost sharing, multiple public employers system. The County of Dutchess is required to contribute at an actuarially determined rate. The following summarizes the County's spending for this appropriation:

2009	\$ 8,677,720
2010	13,918,830

The County has appropriated \$15.0 million in fund balance to finance the 2011 budget from various funds to meet budgetary needs. The undesignated fund balance is \$29 million in the general fund as of December 31, 2010.

The total tax levy for the 2011 budget is \$100.6 million resulting in a property tax rate of \$3.06 per thousand of assessed value which is 8.1% higher than \$2.83 in 2010.

Economically, Dutchess County contains a mix of industries, including service related sectors, state and local governments, manufacturing, agriculture and retail trades. IBM is the largest single employer with approximately 10,000 employees. IBM has committed to a \$50,000,000 investment for a five-year Poughkeepsie site upgrade including providing Smart Building Technology for increase energy efficiency. Significant investments would be made to the utility plant, site electrical distributions systems and other facility systems. Also included are building renovations and raised floor upgrades. While no new jobs are anticipated from this investment, it will help retain jobs in Dutchess County. Hudson Baylor Corporation has made a \$30 million investment to construct a new 60,000 SF single stream recycling facility in the City of Beacon which will result in 60 new jobs.

Agriculture plays a significant role in the economy of the County. There are dairy, produce and horse farms as well as vineyards and wine operations which in recent years have increased in importance. Approximately 1,500 workers benefit from direct employment through these operations and an additional 2,000 from farm related jobs. Annually, the agricultural sector contributes between \$100 to \$150 million to the County's economy.

Wealth levels for Dutchess County residents are above National averages. The U.S. Census Bureau estimated the per capita personal income of the County residents in 2009 was \$42,331 which placed the County 9th among all counties in the State for the year. Unemployment for the County was 7.5% as of July 2011, which is lower than both New York State and the United States as a whole.

**Dutchess County, New York
Management's Discussion and Analysis
December 31, 2010**

A summary of the County-wide budget for 2011 and 2010 is as follows:

	(millions) 2010 Adopted	(millions) 2011 Adopted
Appropriations		
Salaries and Wages	\$ 117.6	\$ 113.1
NYS Retirement System	14.5	17.6
Other Employee Benefits	38.0	38.1
Total Personal Services	<u>170.1</u>	<u>168.8</u>
Pre-School Special Education	23.0	23.3
Other Mandates including Medicaid	102.8	107.4
Total State Mandates	<u>125.8</u>	<u>130.7</u>
Other Services	105.0	104.4
	<u><u>\$ 400.9</u></u>	<u><u>\$ 403.9</u></u>
Revenues		
Property Tax (net of tax reserve)	\$ 99.8	\$ 99.6
Sales Tax	122.7	132.5
State Aid	65.4	65.5
Federal Aid	41.9	35.6
Other Revenues	57.0	55.7
Total Revenues	<u>386.8</u>	<u>388.9</u>
Appropriate Fund Balance		
Various Funds to meet Budget	14.1	15.0
Medicaid Stabilization	-	-
	<u><u>\$ 400.9</u></u>	<u><u>\$ 403.9</u></u>

Contacting the County's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Pamela Barrack, Commissioner of Finance, 22 Market Street, Poughkeepsie, New York 12601.

Dutchess County, New York
Statement of Net Assets
December 31, 2010

	Primary Government			Aggregate Discretely Presented Component Units
	Governmental Activities	Proprietary Funds	Total	
Assets				
Cash and cash equivalents	\$ 53,318,622	\$ 4,108,057	\$ 57,426,679	\$ 29,484,722
Restricted cash and investments	16,614,580	-	16,614,580	21,697,032
Investments	-	-	-	5,695,539
Receivables, net of allowance of \$4,047,253	46,734,343	5,130,499	51,864,842	9,348,266
Inventories	91,784	64,895	156,679	664,443
Due from other funds	2,569,974	436	2,570,410	-
Due from other governments	73,966,093	-	73,966,093	916,061
Deferred financing costs	984,409	-	984,409	-
Net deferred loss on bond refunding	2,246,174	-	2,246,174	-
Intangible and other assets	13,233,619	18,285	13,251,904	2,725,324
Capital assets				
Land	7,036,017	3,385,364	10,421,381	2,500,864
Right of way and easements	8,467,938	-	8,467,938	-
Buildings and improvements	134,568,918	10,476,944	145,045,862	161,249,460
Infrastructure	142,655,228	25,060,929	167,716,157	47,174,762
Machinery and equipment	59,305,983	15,245,791	74,551,774	15,472,795
Construction in progress	19,010,192	229,569	19,239,761	3,496,610
Less: Accumulated depreciation	(208,510,846)	(29,362,900)	(237,873,746)	(87,585,779)
Total capital assets	<u>162,533,430</u>	<u>25,035,697</u>	<u>187,569,127</u>	<u>142,308,712</u>
Total assets	<u>\$ 372,293,028</u>	<u>\$ 34,357,869</u>	<u>\$ 406,650,897</u>	<u>\$ 212,840,099</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 60,099,415	\$ 1,213,925	\$ 61,313,340	\$ 10,976,615
Deferred revenue	1,649,575	6,889	1,656,464	33,228,067
Due to other governments	34,736,711	-	34,736,711	710,218
Due to other funds	-	2,570,410	2,570,410	-
Long-term liabilities				
Due within one year	12,415,645	408,082	12,823,727	8,328,991
Due in more than one year	241,215,197	5,515,137	246,730,334	116,906,646
Judgments and claims	<u>29,498,778</u>	<u>-</u>	<u>29,498,778</u>	<u>-</u>
Total liabilities	<u>379,615,321</u>	<u>9,714,443</u>	<u>389,329,764</u>	<u>170,150,537</u>
Net Assets				
Invested in capital assets, net of related debt	10,600,484	19,645,306	30,245,790	34,624,614
Restricted for				
Capital projects	16,172,348	-	16,172,348	-
Debt service	3,497,348	-	3,497,348	-
Other	-	-	-	18,761,517
Unrestricted	<u>(37,592,473)</u>	<u>4,998,120</u>	<u>(32,594,353)</u>	<u>(10,696,569)</u>
Total net assets (liabilities)	<u>\$ (7,322,293)</u>	<u>\$ 24,643,426</u>	<u>\$ 17,321,133</u>	<u>\$ 42,689,562</u>

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

Dutchess County, New York
Statement of Activities
Year Ended December 31, 2010

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Proprietary Funds	Total	
Primary government								
Governmental activities								
General government	\$ 80,807,173	\$ 5,947,916	\$ 3,145,025	\$ 25,064	\$ (71,689,168)	\$ -	\$ (71,689,168)	\$ -
Education	11,868,676	1,020	-	868,856	(10,998,800)	-	(10,998,800)	-
Public safety	78,850,898	4,746,904	3,608,545	-	(70,495,449)	-	(70,495,449)	-
Health	70,385,974	9,700,299	27,330,027	-	(33,355,648)	-	(33,355,648)	-
Transportation	23,856,286	2,269,872	2,759,316	12,867,302	(5,959,796)	-	(5,959,796)	-
Economic assistance and opportunity	149,486,900	4,142,382	83,470,503	-	(61,874,015)	-	(61,874,015)	-
Culture and recreation	3,270,402	833,149	-	-	(2,437,253)	-	(2,437,253)	-
Home and community services	13,078,023	560,851	4,215,215	-	(8,301,957)	-	(8,301,957)	-
Debt service	8,267,792	-	42,289	-	(8,225,503)	-	(8,225,503)	-
Total governmental activities	<u>439,872,124</u>	<u>28,202,393</u>	<u>124,570,920</u>	<u>13,761,222</u>	<u>(273,337,589)</u>	<u>-</u>	<u>(273,337,589)</u>	<u>-</u>
Business-type activities								
Enterprise airport	3,527,455	1,645,693	-	1,679,670	-	(202,092)	(202,092)	-
Enterprise transportation	7,193,127	1,960,741	3,373,542	3,049,248	-	1,190,404	1,190,404	-
Total proprietary funds	<u>10,720,582</u>	<u>3,606,434</u>	<u>3,373,542</u>	<u>4,728,918</u>	<u>-</u>	<u>988,312</u>	<u>988,312</u>	<u>-</u>
Total primary government	<u>\$450,592,706</u>	<u>\$ 31,808,827</u>	<u>\$127,944,462</u>	<u>\$ 18,490,140</u>	<u>(273,337,589)</u>	<u>988,312</u>	<u>(272,349,277)</u>	<u>-</u>
Component units								
Resource Recovery	\$ 18,729,627	\$ 15,089,153	\$ 173,831	\$ -				(3,466,643)
Industrial Development Agency	280,245	218,785	-	-				(61,460)
Water and Wastewater Authority	7,397,386	4,551,449	-	58,607				(2,787,330)
Soil and Water Conservation	533,266	97,409	200,428	-				(235,429)
Local Development Corporation	9,148	245,869	-	-				236,721
Dutchess Community College	77,354,997	44,989,763	16,953,052	2,807,454				(12,604,728)
Total component units	<u>\$104,304,669</u>	<u>\$ 65,192,428</u>	<u>\$ 17,327,311</u>	<u>\$ 2,866,061</u>				<u>(18,918,869)</u>
General revenues								
Taxes								
Real property taxes, levied for general purposes					99,368,940		99,368,940	
Real property taxes, levied for debt service					10,542,183		10,542,183	
Sales and use taxes					154,170,385		154,170,385	
Other taxes					3,681,940		3,681,940	
TASC revenues					3,643,582		3,643,582	
Payments from primary government								18,086,222
Unrestricted interest income and other					383,553	80,146	463,699	(47,217)
Transfers					(2,345,815)	2,345,815	-	
Total general revenues and transfers					<u>269,444,768</u>	<u>2,425,961</u>	<u>271,870,729</u>	<u>18,039,005</u>
Change in net assets					(3,892,821)	3,414,273	(478,548)	(879,864)
Net assets (liabilities), beginning, as revised (Note 1)					(3,429,472)	21,229,153	17,799,681	43,569,426
Net assets (liabilities), ending					<u>\$ (7,322,293)</u>	<u>\$ 24,643,426</u>	<u>\$ 17,321,133</u>	<u>\$ 42,689,562</u>

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

Dutchess County, New York
Balance Sheet - Governmental Funds
December 31, 2010

	General (Major)	Capital Projects (Major)	Other Governmental Funds (Non-Major)	Dutchess Tobacco Asset Securitization Corporation (Major)	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 33,046,738	\$ 16,754,085	\$ 3,428,109	\$ 89,690	\$ 53,318,622
Restricted cash and cash equivalents	2,148,019	11,025,123	-	3,441,438	16,614,580
Delinquent property taxes, including interest, penalties and liens net of allowance of \$4,047,253	46,734,343	-	-	-	46,734,343
Inventories	91,784	-	-	-	91,784
Due from other funds	8,404,620	14,076	-	-	8,418,696
Due from other governments	56,819,692	10,034,842	1,907,498	3,445,061	72,207,093
Other assets	3,437,400	-	193,674	-	3,631,074
Total assets	<u>\$ 150,682,596</u>	<u>\$ 37,828,126</u>	<u>\$ 5,529,281</u>	<u>\$ 6,976,189</u>	<u>\$ 201,016,192</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 39,322,912	\$ 3,459,105	\$ 2,244,044	\$ -	\$ 45,026,061
Accrued liabilities	20,137	-	-	-	20,137
Due to other governments	34,736,711	-	-	-	34,736,711
Due to other funds	-	5,800,569	48,153	-	5,848,722
Other liabilities	1,024,390	732,583	38,702	-	1,795,675
Deferred revenue	19,015,429	638,398	-	-	19,653,827
Total liabilities	<u>94,119,579</u>	<u>10,630,655</u>	<u>2,330,899</u>	<u>-</u>	<u>107,081,133</u>
Fund balances					
Reserved for					
Encumbrances	6,070,263	9,103,563	33,090	-	15,206,916
Inventories	120,000	-	-	-	120,000
Workers' compensation	2,265,301	-	-	-	2,265,301
Capital reserve	4,552	-	-	-	4,552
Debt service	1,765,745	-	-	-	1,765,745
Other specified purposes	503,469	-	-	6,976,189	7,479,658
Unreserved					
Designated for					
Insurance reserve	2,143,466	-	-	-	2,143,466
Subsequent year's expenditure	13,795,717	-	1219,383	-	15,015,100
Undesignated	29,894,504	18,093,908	1,945,909	-	49,934,321
Total fund balances	<u>56,563,017</u>	<u>27,197,471</u>	<u>3,198,382</u>	<u>6,976,189</u>	<u>93,935,059</u>
Total liabilities and fund balances	<u>\$ 150,682,596</u>	<u>\$ 37,828,126</u>	<u>\$ 5,529,281</u>	<u>\$ 6,976,189</u>	<u>\$ 201,016,192</u>

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

Dutchess County, New York
Balance Sheet - Governmental Funds
December 31, 2010

Amounts reported for governmental activities in the statement of net assets are different because:

Fund balance above	\$ 93,935,059
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	154,065,492
Intangible assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	18,070,483
Deferred property tax revenue represents taxes not expected to be collected currently (within 60 days) and therefore reported as deferred revenue in the fund net assets of governmental activities	17,067,280
Deferred financing costs used in governmental activities are recorded as an expense in the governmental funds, but, are capitalized for government wide purposes gross	984,409
Net deferred loss on bond refunding is recorded as an asset on the government wide financial statements and is not considered an asset for governmental purposes	2,246,174
Deferred revenue from bond issuance represents amounts not expected to be collected currently (within 60 days) and therefore reported as deferred revenue in the fund net assets of governmental activities	936,972
Liabilities including bonds payable (\$ 169,101,484), compensated absences (\$9,284,034) judgments and claims (\$29,498,778) accrued interest (\$ 11,498,543) environmental cleanup costs (\$320,000) and post employment benefits (\$74,925,323) are not due and payable in the current period and therefore not reported in the governmental fund balance	<u>(294,628,162)</u>
Net assets (liabilities) of governmental activities	<u><u>\$ (7,322,293)</u></u>

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

Dutchess County, New York
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds
Year Ended December 31, 2010

	General Fund (Major)	Capital Projects (Major)	Other Governmental Funds (Non-Major)	Dutchess Tobacco Asset Securitization Corporation (TASC) (Major)	Total Governmental Funds
Revenues					
Real property taxes	\$ 95,283,341	\$ -	\$ 10,866,615	\$ -	\$ 106,149,956
Sales and use tax	154,170,385	-	-	-	154,170,385
Other taxes	3,681,940	-	-	-	3,681,940
Departmental	29,875,006	172,373	1,900,459	-	31,947,838
Interest and rentals	1,107,371	-	8,183	164,705	1,280,259
Grants and aid	115,903,348	13,563,785	7,120,644	-	136,587,777
Miscellaneous	11,221,047	25,064	130,832	3,478,877	14,855,820
Total revenues	<u>411,242,438</u>	<u>13,761,222</u>	<u>20,026,733</u>	<u>3,643,582</u>	<u>448,673,975</u>
Expenditures					
General Government	64,099,497	-	-	81,492	64,180,989
Education	1,952,830	-	-	-	1,952,830
Public safety	54,355,405	-	263,551	-	54,618,956
Health	59,569,469	-	-	-	59,569,469
Transportation	2,864,510	-	9,661,933	-	12,526,443
Economic assistance and opportunity	141,553,184	-	1,932,869	-	143,486,053
Culture and recreation	2,688,979	-	-	-	2,688,979
Home and community services	10,884,579	-	5,058,720	-	15,943,299
Employee benefits	46,021,322	-	3,696,886	-	49,718,208
Debt service					
Principal retirement	10,542,183	-	-	1,575,000	12,117,183
Interest	4,061,188	-	-	2,169,688	6,230,876
Self-insurance	(162,959)	-	-	-	(162,959)
Capital outlay		23,011,469	-	-	23,011,469
Total expenditures	<u>398,430,187</u>	<u>23,011,469</u>	<u>20,613,959</u>	<u>3,826,180</u>	<u>445,881,795</u>
Excess (deficiency) of revenues over expenditures	<u>12,812,251</u>	<u>(9,250,247)</u>	<u>(587,226)</u>	<u>(182,598)</u>	<u>2,792,180</u>
Other financing sources (uses)					
Proceeds of obligations	-	18,609,344	-	-	18,609,344
Transfers in	698,909	-	-	-	698,909
Transfers out	(13,783,713)	(98,909)	-	-	(13,882,622)
Total other financing sources (uses)	<u>(13,084,804)</u>	<u>18,510,435</u>	<u>-</u>	<u>-</u>	<u>5,425,631</u>
Net change in fund balances	(272,553)	9,260,188	(587,226)	(182,598)	8,217,811
Fund balances					
Beginning of year, as revised (Note 1)	56,835,570	17,937,283	3,785,608	7,158,787	85,717,248
End of year	<u>\$ 56,563,017</u>	<u>\$ 27,197,471</u>	<u>\$ 3,198,382</u>	<u>\$ 6,976,189</u>	<u>\$ 93,935,059</u>

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

Dutchess County, New York
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances – Governmental Funds to the Statement of Activities
Year Ended December 31, 2010

Net change in fund balances—total governmental funds		\$ 8,217,811
Amounts reported for governmental activities in the statement of activities are different because		
Revenues in the statement of activities that provide current financial resources are reported as revenues in the governmental funds.		3,761,167
Governmental funds report capital outlays as expenditures. Whereas such expenditures are capitalized and depreciated over estimated useful lives in the statement of activities.		
Expenditures for capital assets	28,746,201	
Less: Depreciation in the statement of activities	<u>(15,096,164)</u>	13,650,037
Governmental funds report the Wastewater Authority other asset capital outlay as expenditures in the statement of activities amortized over its estimated useful life.		
Expenditures for other asset	499,655	
Less: Amortization	<u>(274,571)</u>	225,084
Compensated absences not payable from current year resources are not reported as expenditures in governmental whereas in the statement of activities, these costs represent expenses.		199,591
Judgment and claims not payable from current year resources are not reported as expenditures in governmental whereas in the statement of activities, these costs represent expenses.		(1,803,257)
Post retirement annual required contribution is not recorded in governmental funds as an expense, net of contributions, whereas such costs represent expenses.		(19,435,200)
Pollution remediation costs are not recorded in the governmental funds as an expense whereas such costs represent expenses in the statement of activities.		300,000
Bond proceeds provide current financial resources to governmental funds, whereas issuing debt increases long-term liabilities in the statement of net assets.	(18,609,344)	
Repayment of bond principal is an expenditure in the governmental funds, whereas the repayment reduces long-term liabilities in the statement of net assets.	12,117,183	
Payment of financing costs requires the use of current financial resources for the governmental funds whereas such financing costs are capitalized and amortized over the life of the debt in the statement of activities.		
Amortization of deferred loss on bond refunding	(223,400)	
Amortization of deferred financing costs	(18,700)	
Amortization of bond discount/premium	<u>32,970</u>	(6,701,291)
Interest expense reported in the statement of activities does not require use of current financial resources and is therefore not reported as expenditures in the governmental funds.		<u>(2,306,763)</u>
Change in net assets of governmental activities		<u><u>\$ (3,892,821)</u></u>

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

Dutchess County, New York
Statement of Net Assets – Proprietary Funds
December 31, 2010

	Proprietary Funds		
	Airport	Transportation	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 1,856,271	\$ 2,251,786	\$ 4,108,057
Accounts receivable	363,620	4,766,879	5,130,499
Inventories	64,895	-	64,895
Due from other funds	358	78	436
Other assets	18,285	-	18,285
Total current assets	<u>2,303,429</u>	<u>7,018,743</u>	<u>9,322,172</u>
Noncurrent assets			
Net capital assets			
Land	3,136,399	248,965	3,385,364
Buildings and improvements	3,391,329	7,085,615	10,476,944
Infrastructure	25,060,929	-	25,060,929
Machinery and equipment	3,178,980	12,066,811	15,245,791
Construction-in-progress	109,765	119,804	229,569
Less: Accumulated depreciation	<u>(17,212,365)</u>	<u>(12,150,535)</u>	<u>(29,362,900)</u>
Total noncurrent assets	<u>17,665,037</u>	<u>7,370,660</u>	<u>25,035,697</u>
Total assets	<u>\$ 19,968,466</u>	<u>\$ 14,389,403</u>	<u>\$ 34,357,869</u>
Liabilities			
Current liabilities			
Accounts payable	\$ 739,088	\$ 272,536	\$ 1,011,624
Accrued liabilities	184,999	17,302	202,301
Deferred revenue	6,889	-	6,889
Current portion of long-term debt	586,374	48,980	635,354
Due to other funds	51,766	2,518,644	2,570,410
Total current liabilities	<u>1,569,116</u>	<u>2,857,462</u>	<u>4,426,578</u>
Noncurrent liabilities			
Compensated absences	38,128	-	38,128
Long-term debt	4,126,499	628,538	4,755,037
Other postemployment benefits	494,700	-	494,700
Total noncurrent liabilities	<u>4,659,327</u>	<u>628,538</u>	<u>5,287,865</u>
Total liabilities	<u>\$ 6,228,443</u>	<u>\$ 3,486,000</u>	<u>\$ 9,714,443</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 12,952,164	\$ 6,693,142	\$ 19,645,306
Unrestricted (Note 1B)	<u>787,859</u>	<u>4,210,261</u>	<u>4,998,120</u>
Total net assets	<u>\$ 13,740,023</u>	<u>\$ 10,903,403</u>	<u>\$ 24,643,426</u>

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

Dutchess County, New York
Statement of Revenues, Expenses, and Changes in Net Assets –
Proprietary Funds
Year Ended December 31, 2010

	Proprietary Funds		
	Airport	Transportation	Total
Operating revenues			
Charges for services	\$ 1,645,693	\$ 1,960,741	\$ 3,606,434
Operating grants and revenues	-	3,373,542	3,373,542
Other	9,701	46,193	55,894
Total operating revenues	<u>1,655,394</u>	<u>5,380,476</u>	<u>7,035,870</u>
Operating expenses			
Personal services	637,818	81,536	719,354
Employee benefits	420,172	29,682	449,854
Depreciation	1,396,782	911,114	2,307,896
Contracted services	<u>1,072,683</u>	<u>6,170,796</u>	<u>7,243,479</u>
Total operating expenses	<u>3,527,455</u>	<u>7,193,128</u>	<u>10,720,583</u>
Loss from operations	<u>(1,872,061)</u>	<u>(1,812,652)</u>	<u>(3,684,713)</u>
Nonoperating revenues (expenses)			
Interest income	178,048	3,151	181,199
Interest expense	<u>(139,159)</u>	<u>(17,788)</u>	<u>(156,947)</u>
Total nonoperating revenue (expense)	<u>38,889</u>	<u>(14,637)</u>	<u>24,252</u>
Loss before contributions and transfers	<u>(1,833,172)</u>	<u>(1,827,289)</u>	<u>(3,660,461)</u>
Capital contributions	1,679,670	3,049,248	4,728,918
Transfers in	600,686	1,795,129	2,395,815
Transfers out	<u>-</u>	<u>(50,000)</u>	<u>(50,000)</u>
Increase (decrease) in net assets	447,184	2,967,088	3,414,272
Net assets			
Beginning	<u>13,292,839</u>	<u>7,936,314</u>	<u>21,229,153</u>
Ending	<u>\$ 13,740,023</u>	<u>\$ 10,903,402</u>	<u>\$ 24,643,425</u>

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

Dutchess County, New York
Statement of Cash Flows – Proprietary Funds
Year Ended December 31, 2010

	Proprietary Funds		
	Airport	Transportation	Total
Cash flow from operating activities			
Charges for services and other	1,317,649	1,960,741	\$ 3,278,390
Receipt of operating grants and revenue	-	1,615,168	1,615,168
Payments to employees	(929,905)	(111,218)	(1,041,123)
Payments to suppliers of contracted services	(548,099)	(6,456,836)	(7,004,935)
Other receipts	9,701	46,193	55,894
Net cash used in operating activities	<u>(150,654)</u>	<u>(2,945,952)</u>	<u>(3,096,606)</u>
Cash flow from noncapital financing activities			
Operating transfers in	600,686	1,795,129	2,395,815
Operating transfers out	-	(50,000)	(50,000)
Net cash from noncapital financing activities	<u>600,686</u>	<u>1,745,129</u>	<u>2,345,815</u>
Cash flow from capital and related financial activities			
Capital contributions for fixed asset acquisitions	1,952,571	3,427,199	5,379,770
Acquisition of capital assets	(3,704,287)	(3,149,711)	(6,853,998)
Proceeds received from debt issuance	2,104,138	307,518	2,411,656
Principal paid on long-term debt	(307,817)	(20,000)	(327,817)
Interest paid on long-term debt	(139,159)	(17,788)	(156,947)
Net cash used in capital and related financing activities	<u>(94,554)</u>	<u>547,218</u>	<u>452,664</u>
Cash flow from investing activities			
Interest earned	178,048	3,151	181,199
Net cash provided by investing activities	<u>178,048</u>	<u>3,151</u>	<u>181,199</u>
Net increase (decrease) in cash and cash equivalents	533,526	(650,454)	(116,928)
Cash and cash equivalents - beginning of the year	1,322,745	2,902,240	4,224,985
Cash and cash equivalents - end of the year	<u>\$ 1,856,271</u>	<u>\$ 2,251,786</u>	<u>\$ 4,108,057</u>
Reconciliation of operating loss to net cash used in operating activities			
Loss from operations	\$ (1,872,061)	\$ (1,812,651)	\$ (3,684,712)
Adjustments to reconcile loss from operations to net cash used in operating activities			
Depreciation expense	1,396,782	911,114	2,307,896
Changes in assets and liabilities			
Accounts receivable	(310,817)	(4,115,224)	(4,426,041)
Inventories	12,005		12,005
Other assets	(8,801)		(8,801)
Accounts payable and accrued liabilities	521,380	(286,041)	235,339
Due to /from other funds	(12,015)	2,356,850	2,344,835
Compensated absences	(9,515)		(9,515)
Deferred revenue	(5,212)		(5,212)
Other postemployment benefits	137,600		137,600
Net cash used in operating activities	<u>\$ (150,654)</u>	<u>\$ (2,945,952)</u>	<u>\$ (3,096,606)</u>

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

Dutchess County, New York
Statement of Net Assets – Fiduciary Funds
December 31, 2010

	Private Purpose Trusts	Agency Funds
Assets		
Cash and cash equivalents	\$ 4,404	\$ 7,155,650
Mortgage tax receivable		730,619
Investments, at fair value	<u>1,500</u>	
Total assets	<u>5,904</u>	<u>7,886,269</u>
Liabilities		
Refunds payable and others	<u>-</u>	<u>7,886,269</u>
Total liabilities	<u>-</u>	<u>\$ 7,886,269</u>
Net Assets		
Net assets held in trust	<u>\$ 5,904</u>	

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

Dutchess County, New York
Statement of Changes in Net Assets – Fiduciary Funds
Year Ended December 31, 2010

	Private Purpose Trusts
Additions	
Interest	\$ 49
Deductions	49
Economic assistance & opportunity	-
Changes in net assets	49
Net assets	
Beginning of the year	5,855
End of the year	<u>\$ 5,904</u>

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

Dutchess County, New York

Notes to Financial Statements

December 31, 2010

1. Summary of Significant Accounting Policies

Dutchess County, New York (the "County") is a municipal corporation which performs local governmental functions within its jurisdiction, including public safety, health and economic assistance and opportunity. The County charter was adopted April 17, 1967 and became effective January 1, 1968. The County is governed by an elected County Executive and a twenty-five member County Legislature.

A. Reporting Entity

The accompanying general purpose financial statements of the County have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles. With respect to proprietary activities, including component units, the County has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. The County has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the County's accounting policies are described below.

The accompanying financial statements present the activities of the County (the primary government which include the Dutchess Tobacco Asset Securitization Corporation (TASC) as a blended component unit) and the County's five discretely presented component units, entities for which the County is financially accountable. Dutchess Community College, Dutchess County Resource Recovery Agency, Dutchess County Industrial Development Agency, Dutchess County Water and Wastewater Authority, and Dutchess County Soil and Water Conservation District, are combined and displayed in a separate, discrete column in the financial statements (to emphasize their legal separateness from the primary government). The TASC is a blended component unit based upon its financial accountability and governing authority.

The decision to include a potential component unit in the County's reporting entity is based on several criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, including legal standing, fiscal dependency, financial accountability, selection of governing authority, ability to significantly influence operations, and the primary government's economic benefit from resources of the affiliated entity. Based on the application of these criteria, the following is a summary of the component units included in the County's report.

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Notes to Financial Statements
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Included within the reporting entity:

Dutchess Community College

The Dutchess Community College ("DCC" or the "College") was established under Article 126 of the Education Act of the State of New York under the sponsorship of the County and is operated by a Board of Trustees under Paragraph (c) of Subdivision 6 of Section 6304 of the Education Act of the State of New York. DCC's year end is August 31. The Dutchess Community College Association, Inc. (the "Association") is organized under the not-for-profit laws of New York State to supplement and conduct activities and services for the students, faculty, staff and alumni of the College. The Association is presented as a component unit of the College, and its year end is June 30. The Dutchess Community College Foundation, Inc. (the "Foundation") is organized under the not-for-profit laws of New York State to raise funds to provide scholarships and to provide support for initiatives that will have a significant and measurable impact on the students, faculty and staff of the College. The Foundation is a component unit of the College and its year end is August 31.

Dutchess County Resource Recovery Agency

The Dutchess County Resource Recovery Agency ("RRA" or the "Agency") was established as a public benefit corporation to perform the function of solid waste management. The Agency constructed a solid waste disposal resource recovery plant to be used for that purpose. The construction of the plant was financed primarily by the issuance of Dutchess County Resource Recovery Agency revenue bonds and New York State Environmental Quality Bond Act ("EQBA") grant proceeds. The New York State Environmental Quality Bond Act grant proceeds have been recorded as contributed capital in these financial statements. In fulfilling its function, the Agency also operates a materials recycling facility. The Dutchess County Executive and/or members of the County Legislature appoint all of the Agency's board members.

Dutchess County Water and Wastewater Authority

The Dutchess County Water & Wastewater Authority ("WWA" or the "Authority") is a public benefit corporation established under Section 1123 of the New York Local Water and Sewer Act, duly enacted into law as Chapter 592 of the Laws of the State of New York. The Act was requested by the Dutchess County Legislature to assist the County and its municipalities with managing water supplies and wastewater disposal. The legislation empowers the Authority to make plans and studies; develop, construct or maintain projects; acquire or lease real and personal property; to issue bonds and notes for financing; and fix rates and collect charges for the purpose of supplying and selling water and to collect, treat and discharge sewage in Dutchess County. The governing body of the Authority consists of eight members – five voting and three nonvoting. Voting members serve five year terms with two members appointed by the County Executive, two appointed by the Chairman of the County Legislature and the fifth being a joint appointment confirmed by the entire Legislature. The nonvoting members include the Director of the Dutchess County Environmental Management Council, the Director of the Dutchess County Soil and Water Conservation District, and the Commissioner of the Dutchess County Department of Planning and Economic Development.

Dutchess County, New York

Notes to Financial Statements

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Dutchess County Industrial Development Agency (Non-Major Component Unit)

The Dutchess County Industrial Development Agency ("IDA") is a public benefit corporation established June 28, 1977 under the mandate of Article 18-A, "New York State Industrial Development Agency Act," of New York State general municipal law. The seven member board is appointed by the legislature of Dutchess County. The IDA was established to promote and assist in acquiring or constructing various business and recreational facilities and, in the process, advances the job opportunities, health, general prosperity and economic welfare of the people of Dutchess County. The IDA's function is to authorize the issuance of industrial revenue bonds for industrial development projects. The IDA reviews and determines whether to recommend approval of those applicants wishing to obtain financing. The IDA receives application fees from applicants and closing fees from those accepted for industrial revenue financing, such fees are recorded when earned.

Dutchess County Local Development Corporation (Non-Major Component Unit)

The Dutchess County Local Development Corporation ("LCD") is a public benefit corporation established in 2010 under section 1411 of the New York not-for-profit corporation law to act as an "on behalf of" issuer of conduit tax exempt bonds. In January 2008, civic facility legislation expired and Industrial Development Agencies no longer had the authority to issue tax exempt bonds or provide other financial assistance to 501(c)(3) organizations. The LCD was established to address the capital needs of these organizations. The LCD's function is via the issuance of industrial revenue bonds and other means to promote economic development. The LCD reviews and determines whether to recommend approval of those applicants wishing to obtain financing. The LCD receives fees from applicants and closing fees from those accepted for industrial revenue financing.

Dutchess County Soil and Water Conservation District (Non-Major Component Unit)

The Dutchess County Soil and Water Conservation District ("SWCD") (including the Dutchess County Environmental Management Council) is a nonprofit organization set up to coordinate state and federal conservation programs on a local level. The SWCD provides education and technical assistance on managing soil, water and related natural resources to municipalities, farmers, business owners and homeowners.

Dutchess Tobacco Asset Securitization Corporation (Blended Component Unit)

The Dutchess Tobacco Asset Securitization Corporation (the "TASC") is a special purpose local development corporation organized pursuant to Section 1411 of the Not-For-Profit Corporation Law of the State of New York, created by Dutchess County for the purposes of: (i) purchasing from the County all rights, title and interest in certain litigation awards under the Consent Decree and Final Judgment of the Supreme Court of the State of New York dated December 23, 1998 and in all portions due to the County under the Master Settlement Agreement with respect to tobacco related litigation among various settling states and participating manufacturers, (ii) to purchase, acquire, own, hold, sell, dispose of tobacco assets and any future rights of tobacco assets and (iii) to issue and sell bonds to pay for the acquisition of such tobacco assets. The sole member of the Corporation is the County Attorney. There are three directors, one appointed by the County Executive, one appointed by the Chairman of the Dutchess County Legislature and one jointly appointed by the County Executive and Chairman of the County Legislature.

Separately issued financial statements for all component units except Dutchess County Soil and Water Conservation District may be obtained from Dutchess County Finance Office at 22 Market Street, Poughkeepsie, New York.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

B. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the "County") and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to balances related to transfers between governmental funds and between proprietary funds, but not between governmental and proprietary funds. These statements distinguish between the governmental and business-type activities of the County and between the County and its discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for services rendered.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities and for each segment of the business-type activities of the County. Direct expenses are those that are specifically associated with a program or function and therefore are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. Indirect expenses are not allocated.

Governmental Funds: The fund financial statements provide information about the County's funds, including fiduciary funds. Separate statements for each fund category -- governmental, proprietary, and fiduciary -- are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The County reports the following major governmental funds:

General Fund

The general fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Project Fund

The capital project fund is used to account for the receipt and disbursement of resources for the construction of capital assets.

Dutchess Tobacco Asset Securitization Corporation (TASC)

The TASC is used to account for the receipt and disbursement of resources related to Tobacco Assets and related obligations.

The County reports the following major business type funds:

Proprietary Funds

The proprietary funds are used to account for the operations of the Dutchess County Airport (Airport) and the Dutchess County Bus Transportation System (Transportation). Both are considered to be major funds. These entities are financed and operated in a manner similar to a private business enterprise. The intent of the County is that the costs (expenses,

Dutchess County, New York

Notes to Financial Statements

December 31, 2010

including depreciation) of providing goods or services to the general public on a continuous basis is to be financed or recovered primarily through user charges. The County may provide administrative, legal and operational assistance to the proprietary funds, for which they may not be charged. Additionally, the general fund periodically provides advances to the proprietary funds for operational needs.

The County reports the following fiduciary fund types:

Agency Funds

Agency funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals or other governmental units.

Private Purpose Trust Funds

This fund represents a trust arrangement under which cemetery plots are maintained.

Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when all eligibility requirements are met and when they are measurable and available. The County considers property tax revenue reported in the governmental funds to be available if collected within sixty days after year-end and other revenues to be available if collected within one year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Cash and Cash Equivalents

The County's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Short-term investments consist of certificates of deposit, obligations of New York State, the United States Government and its agents.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

Property Tax Calendar

The County levies its real property taxes on December 31, prior to the year of collection and attached as an enforceable lien on January 1. On March 1 interest is accrued on all unpaid taxes in accordance with real property tax law. Property taxes are recognized in the period for which the tax was levied to finance the budget of that period.

Debt Financing Costs and Bond Premium/Discount Amortization

The County recognized debt financing costs of \$1,145,912 which are being amortized over the life of the debt. Amortization expense of \$18,700 was incurred in 2010. Discounts recognized from the issuance of debt of \$1,902,637 are amortized over the life of the debt. Amortization expense of \$73,840 was recognized in 2010. Premiums recognized from the issuance of debt amounted to \$2,108,585. Amortization expense for these premiums amounted to \$106,809 in the current year.

Deferred Loss on Bond Refunding

The difference between the reacquisition cost and carrying value of old debt from bond refundings of \$3,734,077 have been capitalized for government wide financial statement purposes and are being amortized over the shorter life of the defeased or new debt. Amortization expense of \$206,206 was recognized in 2010.

Investments

Investments are recorded at fair value.

Capital Assets

Capital assets are reported at historical cost or extended historical cost based on appraisals. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation method, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Thresholds	Depreciation Method	Estimated Useful Lives
Buildings and improvements	\$ 100,000	Straight-line	5–40 years
Infrastructure	100,000	Straight-line	10–50 years
Machinery and equipment	5,000	Straight-line	3–15 years

Real Property of the Dutchess Community College

Under the provisions of NYS Education Law Article 126, the Dutchess Community College (DCC) is prohibited from owning real property or incurring any obligations related to real property. Accordingly, the County holds title to all real property used by the DCC and has sole responsibility for payment of debt it has issued related to the property. Because the real property can only be used by the DCC, it is not considered to be capital assets of the County. Rather, the real property is held by the County in trust for the benefit of the DCC, effectively transferring the benefits and risks incident to the ownership of the property to the DCC. Accordingly, the discretely presented financial statement of the DCC, report real property as capital assets which are depreciated over the useful life of the assets. The County reports the obligation for the related debt as a general liability because it is legally required to make debt service payment.

Dutchess County, New York

Notes to Financial Statements

December 31, 2010

Judgments and Claims

Costs associated with workers' compensation or legal liabilities for both reported and unreported insured events of \$28,498,778 at December 31, 2010, which include estimates of both future payment of losses and related claim adjustment expenses, are recorded as long-term liabilities in the government wide financial statements.

Post Retirement Benefits

The County provides health insurance coverage and survivor benefits for retired employees and their survivors. The County's employees may become eligible for these benefits upon retirement, with a minimum of ten years of service. The County's annual OPEB expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years beginning in 2007. The obligation at December 31, 2010 was \$74,929,300 for the County and \$494,700 for the airport.

Compensated Absences

Vacation leave and other compensated absences with similar characteristics of \$9,284,033 at December 31, 2010, are accrued as a liability as the benefits are earned by the employees if the leave is attributable to past service and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

Net Assets

Net assets are classified and displayed in three components:

Invested in capital assets, net of related debt – Consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds attributable to acquisition, construction or improvement of those assets, increased by costs incurred to obtain such financing and decreased by un-amortized cost reimbursements.

Restricted net assets – Consist of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. This includes unspent construction funds.

Unrestricted net assets – Consist of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

The unrestricted net assets of the business type activity funds (proprietary funds) have been designated as follows at December 31, 2010:

	Airport	Transportation	Total
Unrestricted net assets undesignated	\$ (3,925,014)	\$ 3,532,743	\$ (392,271)
Unrestricted net assets, designated for debt repayment	<u>4,712,873</u>	<u>677,518</u>	<u>5,390,391</u>
	<u>\$ 787,859</u>	<u>\$ 4,210,261</u>	<u>\$ 4,998,120</u>

Use of Estimates

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

Revised Financial Statements

In 2010, management identified accounting errors in posting liquidations of accounts payable to the County's general ledger during 2007, 2008, and 2009. Management determined these errors resulted from an issue within the County's financial management system that was implemented during 2006. Whereas, departments input liquidation adjustments into the system application, they were not properly updated to the general ledger. As a result, the County did not record a total of \$4,991,252 of liquidation adjustments (comprising of \$2,132,723, \$2,710,314 and \$148,215 in 2007, 2008 and 2009). The following summarizes the revisions of fund balances and net assets as of January 1, 2010:

	Total Fund Balance Governmental Funds	Total Net Assets Governmental Activities
Beginning balance at January 1, 2010 as previously reported	\$ 80,725,996	\$ (8,420,724)
Recognition of prior period adjustments	<u>4,991,252</u>	<u>4,991,252</u>
Balance at January 1, 2010, as revised	<u>\$ 85,717,248</u>	<u>\$ (3,429,472)</u>

The following summarizes the impact on expenses, net assets and fund balances by year, is as follows:

2009	As Reported	As Revised
Total expenditures	\$ 423,034,638	\$ 422,886,423
Expenses (total government activities)	440,538,584	440,390,369
Net assets	(8,420,724)	(3,429,472)
Fund balances	80,725,996	85,717,248

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

2008	As Reported	As Revised
Total expenditures	\$ 432,199,414	\$ 429,870,981
Expenses (total government activities)	436,417,393	433,707,079
Net assets	25,221,472	30,364,509
Fund balances	103,621,526	108,464,563
2007	As Reported	As Revised
Total expenditures	\$ 413,024,150	\$ 410,891,427
Expenses (total government activities)	419,185,834	417,053,111
Net assets	51,803,464	53,936,187
Fund balances	118,737,399	120,870,122

Component Units:

Dutchess Community College

The College's financial information has been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States America applicable to public colleges and universities. The College's financial information applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The operations of the College are reported under the business-type activities model and as such, are accounted for on a flow of economic resources measurement focus. Within this measurement focus, all assets and liabilities associated with operations are included on the statement of net assets with revenues recorded when earned and expenses recorded at the time liabilities are incurred. The proprietary funds model requires the College to include a statement of net assets, a statement of revenue, expenses and changes in net assets and a statement of cash flow.

Net assets are required to be classified into these components - invested in capital assets (net of related debt); restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets* – This component of net assets consists of capital assets, net of accumulated depreciation, reduced (as applicable) by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – This component of net assets consists of constraints placed on net asset use through external restrictions imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets".

Dutchess County, New York
Notes to Financial Statements
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Significant Accounting Policies

The Association and Foundation are private nonprofit organizations that report under FASB standards, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*, and related staff positions.

Cash Equivalents

The College considers all highly liquid debt instruments, with original maturities of three months or less, to be cash equivalents. Cash equivalents consist principally of certificates of deposit.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of an escrow account opened pursuant to a municipal lease purchase agreement in 2007 to hold the proceeds received from the lessor. Funds in the escrow account are restricted to payments for the equipment identified in an energy services agreement for which the proceeds were received. All funds in the escrow account were expended during the year ended August 31, 2009 in accordance with the energy services agreement.

Capital Assets

Capital assets include land and improvements, buildings and improvements, infrastructure assets and furniture and equipment. Capital assets are defined by the College as assets with an initial unit cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the College are depreciated using the straight-line method over the following useful lives.

	Estimated Useful Life
Buildings	20–50
Building improvements	20–50
Furniture and equipment	3–10

Pursuant to New York State Education Law relating to community colleges, title to real property is held by the County in trust for the use of the College in carrying out its institutional purposes. The accompanying debt is also a legal obligation of the County. No revenues or assets of the College have been pledged or will be available to pay the principal and interest on this debt. Principal and interest payments on the debt are payable from amounts appropriated each year by the State of New York pursuant to the State Education Law, and the County in the case of County related debt, and from moneys in the debt service reserve fund held by the trustee. Capital appropriations include the annual debt service requirements on the County debt. The provisions of the State Education Law regarding the State appropriations for principal and interest payments do not constitute a legally enforceable obligation of the State.

Equipment made available to the College from its inception are stated at cost and were purchased from appropriations of the County and New York State, designated for that purpose, and from Federal grants.

Dutchess County, New York

Notes to Financial Statements

December 31, 2010

Operating Revenue

The College's operating revenues consist principally of student tuition and fees, state student grants and certain nongovernmental grants and contracts. Student tuition and fees revenues are recorded net of application scholarship allowance.

Deferred Student Revenue

Student revenue, which is received prior to August 31 and is applicable to the subsequent fall semester, is deferred and recognized as revenue in the following year concurrent with the commencement of the fall semester.

Nonoperating Revenue

Nonoperating revenues consist principally of state and local government appropriations and federal and state student financial aid grants.

State Aid

Operating revenues received from the State University of New York are regulated by a financing formula contained in the State University regulations. Under the formula, the amount of basic state aid is limited to the lower of 40 percent of the College's net allowable expenses or an established rate per full-time equivalent student (FTE) (\$2,675 for the first quarter and \$2,545 for the second, third and fourth quarters of the year ended August 31, 2010) added to 45.45 percent of rental costs.

Capital Chargebacks

The College is authorized by the New York State Education Law to charge and collect from each county within the State for each nonresident student an allocable portion of the local sponsor's capital share of the costs. The law requires that these amounts be separately accounted for and that the funds be utilized to meet capital expenditure requirements of future periods.

Income Taxes

The College is a political subdivision, and as such, is exempt from income taxes.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is December 22, 2010.

Resource Recovery Agency

Measurement Focus and Basis of Accounting

The Agency performs the function of solid waste management for the residents of the County of Dutchess. Its operations are financed primarily through user charges (tipping fees). Under standards set by the GASB, the Agency is considered an enterprise fund, a type of proprietary fund. Proprietary fund financial statements are prepared on the accrual basis of accounting, which records the financial effects on an enterprise of transactions and other events when these transactions and events occur. The measurement focus is the flow of economic resources.

The basis differs from that used by governmental funds in that the effects of transactions in government funds are recorded when revenues are measurable and available and when expenditures are incurred. The measurement focus is the flow of current transactions.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

The Agency considers all revenues as operating revenues, except that subsidies and grants which finance either capital or current operations are reported as nonoperating revenues.

The Agency generally applies unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The Agency's policy is to apply, first, (a) all GASB pronouncements, and then (b) Financial Accounting Standards Board Statements and Interpretations, APB Opinions, and Accounts Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Cash and Cash Equivalents

The Agency considers all cash and cash equivalents classified as current assets, whether unrestricted or restricted, with an original maturity of three months or less to be cash equivalents.

Capital Assets

Capital assets are recorded at cost less accumulated depreciation. Cost includes interest incurred during construction. The Agency provides for depreciation of the capital assets on a straight-line basis over periods ranging from 3 to 40 years.

Debt Issuance Costs

Costs incurred relating to the issuance of Agency bonds and bond anticipation notes have been capitalized and are amortized on a straight-line basis over the life of the related bonds and notes.

Income Taxes

The Agency is exempt from federal income taxes under Internal Revenue Service Code Section 115.

Insurance

The Agency assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Such risks are covered by the purchase of commercial insurance. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. Workers compensation coverage is provided through a retrospective policy, wherein premiums are recorded based on the ultimate cost of the experience to the duty of workers in similar occupations.

Equity Classifications

Equity is classified as net assets and displayed in three components:

Invested in capital-type assets, net of related debt - Consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds attributable to acquisition, construction or improvement of those assets, increased by costs incurred to obtain such financing and decreased by un-authorized cost reimbursements.

Restricted net assets - Consist of net assets with constraints placed in their use either by (1) external groups such as creditors, grantors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation; or (3) cash and cash equivalents that are restricted for capital asset acquisition.

Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital-type assets, net of related debt."

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

Postemployment Benefit Obligations

Effective with the financial report for the year ended December 31, 2007, the Agency adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for reporting the liability for nonpension postemployment benefits chiefly health care premiums for retirees.

Other Postemployment Benefits (OPEB) cost for healthcare is required to be measured and disclosed using the accrual basis of accounting regardless of the amount recognized as OPEB expense on the modified accrual basis of accounting. Annual OPEB cost should be equal to the annual required contributions to the OPEB plan, calculated in accordance with certain parameters.

Use of Estimates

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

Prior Year Restatement

A prior period reclassification was made to recognize repairs and maintenance expense that should have been capitalized in a previous period. Consequently, Fixed Assets increased by \$354,167 and Due from Related Party decreased by same amount. Further, unrestricted net assets were reduced by accrued interest payable, as such payment is made from unrestricted funds. There is no impact on the overall net assets from the prior year.

Water and Wastewater Authority

Measurement Focus and Basis of Accounting

The Authority performs the function of supplying water and sewer services to areas within the County of Dutchess. Its operations are financed primarily through user charges. Under standards set by the GASB, the Authority is considered an enterprise fund, a type of proprietary fund. Proprietary fund financial statements are prepared on the accrual basis of accounting, which records the financial effects on an enterprise of transactions and other events when these transactions and events occur. The measurement focus is the flow of economic resources.

This basis differs from that used by governmental funds in that the effects of transactions in government funds are recorded when revenues are measurable and available and when expenditures are incurred. The measurement focus is the flow of current transactions.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

In accordance with GASB No. 20 regarding proprietary fund accounting, the Authority applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statement and Interpretations, Accounting Principles Board Opinions, the American Institute of Certified Public Accountants (AICPA) Accounting Research Bulletins and any FASB or AICPA pronouncements made applicable by GASB Statement or Interpretation.

The Authority generally applies restricted resources when an expense is incurred for purpose for which both restricted and unrestricted net assets are available.

The Authority considers all revenues as operating revenues, except that subsidies and grants which finance either capital or current operations are reported as nonoperating revenues.

Cash, Cash Equivalents and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of inception.

State statutes govern the investment policies of the Authority. Permissible investments include obligations of the U.S. Treasury, U.S. Agencies, obligations of New York State and repurchase agreements secured by U.S. Treasury obligations.

Restricted Assets

Proceeds from acquisition and construction financing are set aside for completion of capital improvements and reduction of debt service. The disbursements from the restricted accounts are under the control of third party trustees.

Deferred Bond Financing Costs

Bond financing costs are amortized over the life of the related bond issue, using the straight-line method.

Capital Assets

Capital assets are recorded at cost. Donated capital assets are recorded at the estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are expensed. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, and is net of interest earned on the invested proceeds over the same period.

Dutchess County, New York
Notes to Financial Statements
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Depreciation is computed using the straight-line method over the following estimated useful lives, beginning in the year the asset is placed in service:

	Estimated Useful Life
Buildings	20
Improvements other than Buildings	30
Machinery & Equipment	3–20
Sewage Collection System	50
Water Transmission System	50

Revenues and Receivables

Revenues are derived generally from quarterly billing of user fees for customers and operating grants from Dutchess County, New York.

Receivables represent outstanding user fees. The Authority has an agreement with Dutchess County that provides for collection of outstanding user fees through the real property tax levy. Therefore, the Authority has not established an allowance for uncollectible accounts.

Deferred Revenue

Revenues received in advance of the period to which they relate are deferred and recorded as revenue when earned. Grants and aid received for construction costs are deferred until construction is complete and the assets are placed in service.

Equity Classifications

Equity is classified as net assets and displayed in three components:

Invested in capital-type assets, net of related debt - Consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds attributable to acquisition, construction or improvement of those assets, increased by costs incurred to obtain such financing and decreased by un-amortized cost reimbursements.

Restricted net assets-Consist of net assets with constraints placed in their use either by (1) external groups such as creditors, grantors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets-Consist of all other net assets that do not meet the definition of "restricted" or "invested in capital-type assets, net or related debt.

The Authority is required to segregate and reserve the net income generated under the service agreements between the Authority and the County and local municipalities by each service agreement area.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

Income Taxes

The Authority is exempt from federal income taxes under Internal Revenue Service Code Section 115.

Reclassifications

Several reclassifications have been made to the 2010 presentations in order to more clearly present certain financial statement items. Current portion of deferred revenue now includes nonrefundable capital reserves receipts received in relation to the maintenance and operation of the Central Dutchess Water Transmission line as well as certain amounts received in advance for water usage, in addition to the current portion of deferred revenue in relation to Transmission Line construction. Project administration expenses related to funding received from Dutchess County were previously shown as operating expenses, but have now been reclassified to nonoperating expenses. None of these reclassifications have any impact on changes in net assets.

2. Adjustment to DCC Separately Issued Financial Statements

The debt issued by the County for DCC is the obligation of the County, not DCC, as presented in DCC's separately issued financial statements. As the County has sole responsibility for the debt, it has been included in long-term liabilities of the County primary government; and, the net assets and long-term liabilities presented in the separately issued financial statements of DCC have been adjusted herein to conform with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*.

As a result of this adjustment, net assets and long-term liabilities of DCC, included in the aggregate discretely presented component unit column of these financial statements have been increased and decreased, respectively, for outstanding debt balance of \$12,736,508 at December 31, 2010 (Note 4).

3. Detailed Disclosures Regarding Assets and Revenues

A. Restricted and Unrestricted Cash and Cash Equivalents

Primary Government:

Statutes authorize the County to maintain deposits with financial institutions and to invest in certificates of deposit, obligations of New York State, the United States Government and its agencies, and repurchase agreements collateralized by U.S. obligations.

Cash equivalents consist of certificates of deposit and repurchase agreements and are stated at cost plus accrued interest receivable. Such basis approximates market.

At year end, the bank balance of the County's deposits of cash and cash equivalents and restricted cash was \$90,632,456, of which \$2,750,000 was covered by Federal Depository Insurance.

The bank balance of the County's cash and cash equivalents of \$85,264,703 are classified as Risk Category B, as defined by GASB, with securities held by the pledging financial institution's trust department or agency in the entity's name. The bank balance of the County's cash and cash equivalents of \$1,452,518 are classified as Risk Category C, as defined by GASB, are uncollateralized and includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name. Disclosures relating to risk and type of investment as presented above are indicative of activity and positions held during the year.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The TASC manages and attempts to minimize interest rate risk by investing in short-term investments that mature within one year, so that they can react to changing interest rates.

Restricted cash of the County consists of unexpended bond and note proceeds restricted for capital projects and debt service in the amounts of \$11,025,123 and \$3,441,438, respectively. Also included in restricted cash is a \$2,148,019 insurance reserve held for workers' compensation self-insurance plan.

Component Units:

Dutchess Community College

Deposits with Trustees

The College has entered into various financing agreements to finance construction projects and has deposited funds with trustees for such projects. Bond proceeds, not yet expended for new construction and used to establish debt service funds, and related accumulated investment income, are held on deposit for such projects.

Deposits with bond trustees consist of the following:

	August 31, 2010		
	DASNY	County	Total
Cash and cash equivalents	\$ 1,813	\$ 1,112	\$ 2,925
U.S. Government obligations and federal agency deposits:			
Construction Fund	49,996		49,996
Debt Service Fund	43,406		43,406
Debt Service Reserve Fund	149,283		149,283
Total	<u>\$ 244,498</u>	<u>\$ 1,112</u>	<u>\$ 245,610</u>

Deposits with DASNY are insured or collateralized by using a pooling method. Under this pooling method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the trustees' agents in the name of the trustees. Since the DASNY trustees are acting in a fiduciary capacity for the College, these deposits are considered to be held by agents in the College's name. The amount of the pledged collateral is based on an approval averaging method for noninterest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using a pooling method report to the trustees the adequacy of their pooled collateral covering uninsured deposits. The trustees do not confirm amounts of collateral pledged for the College under a pooling method, so the potential exists to be under-collateralized at any given point in time. However, the trustees must adhere to collateralization standards set forth by the State of New York.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the College manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

Information about the sensitivity of the fair value of the College's investments held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the College's investments by maturity. All of the investments below have a remaining maturity of less than one year.

At August 31, 2010, the College's deposits (including amounts in-transit) with the County and DASNY were covered by Federal Depository Insurance.

At August 31, 2010, the College's investments with DASNY were as follows:

Investment Type	Fair Value
U.S. Government Obligations	
U.S. Treasury Notes	\$ 19,700
U.S. Treasury Bills	217,009
U.S. Treasury Strips	
	<hr/>
	236,709
Federal Agencies	
Federal National Mortgage Association	
Federal Home Loan Bank	
	<hr/>
	5,976
	<hr/>
	5,976
	<hr/>
	\$ 242,685
	<hr/> <hr/>

With regard to amounts on deposit with bond trustees, the College does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Further, the College's investments with the DASNY include only U.S. Government Obligations and Federal Agency securities pursuant to the College's and DASNY investment policies.

Resource Recovery Agency

Cash and Cash Equivalents and Investments

Statutes authorize the Agency to maintain deposits with financial institutions and to invest in certificates of deposit, obligations of New York State, the United States of America Government and its agencies, and repurchase agreements collateralized by U.S. obligations.

Repurchase agreements involve purchases by a broker of portfolio securities concurrently with an agreement by the broker to sell the same securities at a later date at a fixed price. Generally, the effect of such a transaction is that the Agency can invest its excess cash balances at competitive interest rates. The Agency is subject to certain risks, specifically credit risk that parties to the repurchase agreement will not perform as required, market risk in that the value of the underlying securities may decline below cost and legal risk in that investments may be made in securities not authorized by state and local regulations. The Agency believes its contractual arrangements and short-term nature of its investments minimize these risks. Market value of the repurchase agreements, and other investments, approximates cost plus accrued interest.

Dutchess County, New York
Notes to Financial Statements
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In addition, the Agency, through the General Bond Resolution adopted August 6, 1998, is authorized to invest funds held under the Resolution in "Qualified Investments". Qualified Investments include the above described investments as well as certain types of commercial paper, money market accounts and investment agreements.

In January 1999, the Agency entered into a Flexible Draw Investment Agreement between the Agency, a commercial entity, and the Bond Trustee, which provides for the investment of certain restricted funds until the maturity date of the bonds. The Agency has obtained a financial guaranty insurance policy, which provides for payment of amounts due under the agreement, if not made when due.

As of December 31, 2010, the Agency had cash deposited in various banks aggregating approximately \$1,096,000, which are classified as Risk Category A, the lowest risk, as defined by the GASB, as insured by the FDIC or collateralized with securities held by the entity's agent in the entity's name. As of December 31, 2010, the Agency had cash and cash equivalents and investments of \$10,705,913 in various accounts, which are not covered by FDIC. Bank balances differ from the Agency's cash balances by the amount of outstanding items clearing in the following month. The cash balances and repurchase agreements are collateralized with securities held by the counter party's trust department or agent in the entity's name and the investments are held by the counter party's trust department in the entity's name which are considered Risk Category B, as defined by the GASB.

Total risk category B, cash and cash equivalents, and investments are as follows at December 31, 2010:

Bank Balance	\$ 1,042,664
U.S. Treasury Bills	4,476,355
Insured Investment	<u>5,186,894</u>
Total Risk Category B	<u><u>\$ 10,705,913</u></u>

Disclosures relating to risk and type of investments as presented above are indicative of activity and positions held during the year.

Restricted Cash and Investments

In accordance with the terms of the general bond resolution, bond and note proceeds, accrued interest receivable, the initial collection of tipping fees and energy revenues, and investments are administered and reported upon by a trustee on behalf of the Agency and are restricted.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

As of December 31, 2010, the trustee reported the following restricted cash and cash equivalents and investments:

1998 Series C	
Projected Funds	\$ 3,955
Reserve and contingency funds	<u>-</u>
Current restricted funds	3,955
Debt service reserve fund - noncurrent	<u>-</u>
Total 1998 Series C	<u>3,955</u>
1999 Series A	
Project funds	<u>161,013</u>
Current restricted funds	<u>161,013</u>
Reserve and contingency fund	447,957
Debt service reserve fund	<u>3,794,303</u>
Non-current restricted funds	<u>4,242,260</u>
Total 1999 Series A	<u>4,403,273</u>
2007 Series	
Project funds	413,863
Cost of insurance fund	98,176
Debt service reserve fund	<u>27</u>
Current restricted funds	<u>512,066</u>
Reserve and contingency fund	85,876
Debt service reserve fund	<u>858,758</u>
Non-current restricted funds	<u>944,634</u>
Total 2007 Series	<u>1,456,700</u>
Total	<u>\$ 5,863,928</u>

The Debt Service Reserve Funds are funded in an amount equal to the greater of any annual principal and interest or sinking fund payments, but limited to 10% of the original principal amount of the 1998 C and 1999 A Series bonds. The Reserve and Contingency Fund is funded in an amount at least equal to 10% of the debt service payments required for the current year. However, since these funds are not anticipated to be used in the subsequent year, they have been classified as restricted noncurrent assets in the statement of net assets.

In addition, as a result of the assignment of the service agreement and other documents, in 1998, the Agency received funds to be used for capital improvements. At December 31, 2010, these funds, including interest earnings, amounted to \$0.

The proceeds from collections of energy revenues, which had not yet been released by the trustee, and funds available for the January 1, bond principal and interest payments, amounted to \$5,594,032 at December 31, 2010, and are included in restricted cash and cash equivalents.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

Restricted assets are summarized as follows as of December 31, 2010:

Current restricted assets	
Series 1998 B&C bonds	\$ 3,955
Series 1999 A	161,013
Series 2007	512,066
Capital Improvement funds	-
Energy revenues and debt service funds	5,594,032
Total current restricted cash and investments	<u>6,271,066</u>
Noncurrent restricted cash and investments	
Series 1998 B&C bonds	-
Series 1999 A	4,242,260
Series 2007	944,634
Total non current restricted cash and investments	<u>5,186,894</u>
Total restricted cash and investments	<u>\$ 11,457,960</u>

Water and Wastewater Authority

Cash Equivalents and Investments

State statutes authorized the Authority to maintain deposits with financial institutions and to invest in certificates of deposits, obligations of New York State, the United States Government and its agencies, and repurchase agreements collateralized by U.S. obligations.

In addition, the Authority, through the General Bond Resolution adopted June 1, 1998 is authorized to invest funds held under the Resolution in "Qualified Investments". Qualified Investments include the above-described investments as well as certain types of commercial paper, money market accounts and investment agreements.

Cash deposits are secured by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation insurance. The Authority's deposits are categorized below to give an indication of the level of risk assumed by the Authority.

1. Insured or collateralized with securities held by the Authority or by its agent in the Authority's name;
2. Collateralized with securities held by the pledging institution's trust department or agent in the Authority's name;
3. Uncollateralized.

Dutchess County, New York
Notes to Financial Statements
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Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the Authority or its agent in the Authority's name; or,
2. Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the Authority's name; or,
3. Uninsured and unregistered, with securities held by the counter-party or by its trust department or agent, but not in the Authority's name.

Cash and cash equivalents and investments by category are as follows as of December 31, 2010:

	Category 1	Category 2	Category 3	Total
Cash in Banks	\$ 548,709	\$ 2,926,413	\$ -	\$ 3,475,122
Investments				
Money Market Funds	\$ 1,472,385	\$ -	\$ -	\$ 1,472,385
U.S. Treasury Bills & Notes	8,502,351	-	-	8,502,351
Investment Total	<u>\$ 9,974,736</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,974,736</u>

Disclosures relating to risk and type of investments as presented above are indicative of activity and positions held during the year.

Restricted Cash and Investments

The restricted cash and investments of the Authority consist of unexpended bond and note proceeds, which are invested in cash funds and investments under the control of bank trustees. These assets are restricted in use by bond covenants as described below as of December 31, 2010:

Litigation Reserve Funds	\$ 275,796
Construction Reserve Funds	6,793,611
Debt Service Sinking Funds	59,002
Debt Service Reserve Funds	<u>262,909</u>
Current Restricted Funds	7,391,318
Debt Service Reserve Funds Non Current	<u>2,583,418</u>
Total	<u>\$ 9,974,736</u>

The Debt Service Reserve Funds are funded in an amount equal to an amount which is the lesser of, the maximum annual debt service required under the bond resolutions, 125% of the average annual debt service required by certain bond resolutions or the maximum amount that may be held in the Debt Service Reserve Fund without adversely affecting the tax-exempt status of bond series intended to be tax-exempt, currently 10% of the original issue amount. Since these reserves are not anticipated to be used in the subsequent year, they have classified as restricted noncurrent assets on the balance sheet. Interest earnings on these reserves have been classified as current as they are available to pay current debt.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

B. Property Taxes

Primary Government

Tax collections are the responsibility of either the city tax collectors for the Cities of Poughkeepsie and Beacon or the town receivers or collectors for the towns in the County and are collected through May 31 or August 31, the later date being for certain towns that pay in installments. After these dates, uncollected taxes receivables of the towns are turned over for collection by the County. The towns satisfy the full amount of their tax levies from the first monies collected and remit all amounts thereafter to the County.

A local law provides for the collection, by the County, of delinquent village taxes. This law requires the amount of returned delinquent village taxes remaining unpaid, be paid to the village by the County by the first day of April following the return.

Tax rates are calculated using assessments prepared by individual city and town assessors utilizing the equalization rates established by the New York State Board of Equalization and Assessment for the purpose of comparability. The total taxable equalized assessed value of real property included in the tax levy of 2010 is \$35,565,853,486. The effective tax rate on this value is \$2.83 per thousand. The constitutional tax limit is 1.5% of the 5-year average of the equalized assessment. The 2010 levy represents approximately 18.2% of the constitutional tax limit.

Dutchess County, New York
Notes to Financial Statements
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C. Capital Assets

Primary Government:

Capital assets activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 5,139,023	\$ 1,896,994	\$ -	\$ 7,036,017
Right of way and easements	-	8,467,938	-	8,467,938
Construction in progress	14,329,923	22,581,938	(17,901,669)	19,010,192
Total capital assets, not being depreciated	<u>19,468,946</u>	<u>32,946,870</u>	<u>(17,901,669)</u>	<u>34,514,147</u>
Capital assets, being depreciated:				
Buildings and improvements	126,353,772	8,215,146	-	134,568,918
Infrastructure	144,974,304	7,289,551	(9,608,627)	142,655,228
Machinery and equipment	58,673,652	3,111,453	(2,479,122)	59,305,983
Totals	<u>330,001,728</u>	<u>18,616,150</u>	<u>(12,087,749)</u>	<u>336,530,129</u>
Less: Accumulated depreciation for:				
Buildings and improvements	(71,430,318)	(4,818,660)	3,495	(76,245,483)
Infrastructure	(88,239,754)	(6,661,495)	5,419,103	(89,482,146)
Machinery and equipment	(41,322,183)	(3,900,310)	2,439,276	(42,783,217)
Totals	<u>(200,992,255)</u>	<u>(15,380,465)</u>	<u>7,861,874</u>	<u>(208,510,846)</u>
Total capital assets, being depreciated, net	<u>129,009,473</u>	<u>3,235,685</u>	<u>(4,225,875)</u>	<u>128,019,283</u>
Governmental activity capital assets, net	<u>\$ 148,478,419</u>	<u>\$ 36,182,555</u>	<u>\$ (22,127,544)</u>	<u>\$ 162,533,430</u>
Proprietary funds				
Capital assets, not being depreciated:				
Land	\$ 3,385,364	\$ -	\$ -	\$ 3,385,364
Construction in progress	948,923	6,853,998	(7,573,352)	229,569
Total capital assets, not being depreciated	<u>4,334,287</u>	<u>6,853,998</u>	<u>(7,573,352)</u>	<u>3,614,933</u>
Capital assets, being depreciated:				
Buildings and improvements	10,427,481	49,463	-	10,476,944
Infrastructure	21,422,828	3,638,101	-	25,060,929
Equipment	12,615,458	3,885,788	(1,255,455)	15,245,791
Totals	<u>44,465,767</u>	<u>7,573,352</u>	<u>(1,255,455)</u>	<u>50,783,664</u>
Less: Accumulated depreciation for:				
Buildings and improvements	(6,596,521)	(452,228)	-	(7,048,749)
Infrastructure	(12,169,171)	(965,364)	-	(13,134,535)
Equipment	(9,544,768)	(890,303)	1,255,455	(9,179,616)
Totals	<u>(28,310,460)</u>	<u>(2,307,895)</u>	<u>1,255,455</u>	<u>(29,362,900)</u>
Total capital assets, being depreciated, net	<u>16,155,307</u>	<u>5,265,457</u>	<u>-</u>	<u>21,420,764</u>
Proprietary funds capital assets, net	<u>\$ 20,489,594</u>	<u>\$ 12,119,455</u>	<u>\$ (7,573,352)</u>	<u>\$ 25,035,697</u>

During 2010 the County adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The impact on the 2010 County financial statements was an increase of \$1.9 million in land and an increase of \$8.5 million in other capital assets not being depreciated. These amounts have been reclassified from infrastructure and include easements and right of ways which are capital assets that are not depreciated.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

Component Units:

Dutchess Community College

Capital assets activity consists of the following for the year ended August 31, 2010:

	Beginning Balance	Increases	Decreases	Ending Balance
Grounds	\$ 1,148,465	\$ -	\$ -	\$ 1,148,465
Building and improvements	82,623,720	157,034	(15,004)	82,765,750
Furniture and equipment	7,961,416	187,587	(289,129)	7,859,874
	<u>91,733,601</u>	<u>344,621</u>	<u>(304,133)</u>	<u>91,774,089</u>
Less: Accumulated depreciation	<u>33,373,228</u>	<u>2,184,862</u>	<u>(289,129)</u>	<u>35,268,961</u>
Capital assets, net	<u>\$ 58,360,373</u>	<u>\$ (1,840,241)</u>	<u>\$ (15,004)</u>	<u>\$ 56,505,128</u>

Assets under capital lease agreements are as follows at August 31:

	2010	2009
Cost basis	\$ 5,227,174	\$ 5,227,174
Accumulated depreciation	<u>(1,809,279)</u>	<u>(1,444,373)</u>
	<u>\$ 3,417,895</u>	<u>\$ 3,782,801</u>

Depreciation expense for the year ended August 31, 2010 was approximately \$2,224,185.

Resource Recovery Agency

Capital asset activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Property	\$ 517,591	\$ -	\$ -	\$ 517,591
Plant	66,181,536	-	-	66,181,536
Equipment	1,161,991	2,200	-	1,164,191
	<u>67,861,118</u>	<u>2,200</u>	<u>-</u>	<u>67,863,318</u>
Less: Accumulated depreciation	<u>(33,261,593)</u>	<u>(2,212,513)</u>	<u>-</u>	<u>(35,474,106)</u>
Capital assets, net	<u>\$ 34,599,525</u>	<u>\$ (2,210,313)</u>	<u>\$ -</u>	<u>\$ 32,389,212</u>

Depreciation was recorded in the amount of \$2,212,513 less amortization of deferred revenues associated with the funding of capital improvements of \$68,520 resulting in \$2,143,993 in depreciation expense for the year ended December 31, 2010.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

Water and Wastewater Authority

Capital assets consisted of the following as of December 31, 2010:

	Balance	Increase	Decrease	Balance
Land	\$ 834,808	\$ -	\$ -	\$ 834,808
Improvements	120,255	-	-	120,255
Buildings	12,181,920	-	-	12,181,920
Water system	45,742,521	67,370	-	45,809,891
Machinery and equipment	4,668,359	30,755	-	4,699,114
Sewage collection system	1,364,871	-	-	1,364,871
Construction in progress	646,724	2,849,886	-	3,496,610
Sub-total	65,559,458	2,948,011	-	68,507,469
Less: Accumulated depreciation	(14,058,704)	(1,576,614)	-	(15,635,318)
Net capital assets	<u>\$ 51,500,754</u>	<u>\$ 1,371,397</u>	<u>\$ -</u>	<u>\$ 52,872,151</u>

Depreciation was recorded in the amount of \$1,576,614, less amortization of deferred revenues associated with the Central Dutchess Water Transmission Line of \$595,853. The effect of netting these amounts resulted in \$980,761 in depreciation expense for the year ended December 31, 2010.

D. Depreciation Expense

Depreciation expense was charged to functions/programs as follows for the year ended December 31, 2010:

Primary Government:

Governmental activities

General government	\$ 4,718,249
Public safety	2,400,674
Health	48,177
Transportation	6,907,731
Economic assistance and opportunity	363,015
Culture and recreation	604,392
Home and community services	338,227
Total depreciation expense – governmental activities	<u>\$ 15,380,465</u>

Proprietary funds

Airport	\$ 1,396,782
Transportation	911,114
Total depreciation expense – proprietary funds	<u>\$ 2,307,896</u>

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

4. Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

A. Long-term Liabilities

Primary Government:

Long-term liability activity for the year ended December 31, 2010, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable					
General obligation bonds	\$ 99,150,978	\$ 19,546,316	\$ (10,648,992)	\$ 108,048,302	\$ 12,415,645
Tobacco Asset Securitization Bonds (TASC debt), net of discount	62,554,343	-	(1,501,161)	61,053,182	-
Total bonds and BANS payable	161,705,321	19,546,316	(12,150,153)	169,101,484	12,415,645
Judgments and claims	27,695,521	1,803,257	-	29,498,778	-
Post retirement liability	55,490,123	19,435,200	-	74,925,323	-
Compensated absences	9,483,625	-	(199,591)	9,284,034	-
Environmental clean up	620,000	-	(300,000)	320,000	-
Governmental activity long-term liabilities	<u>\$ 254,994,590</u>	<u>\$ 40,784,773</u>	<u>\$ (12,649,744)</u>	<u>\$ 283,129,619</u>	<u>\$ 12,415,645</u>

General obligation bonds of the County (not including the TASC debt) is issued principally as serial bonds, which are due at various times through 2028. The bonds are issued primarily to finance acquisition or construction of capital facilities. Bonds have been issued to advance-refund previously issued bonds. These bonds are guaranteed by the full faith and credit of the County and are being repaid from applicable taxes. Principal and interest payments are included in the expenditures of the General Fund. The County has utilized 4.53% of its constitutional debt limit as of December 31, 2010.

On June 2, 1993, the County of Dutchess issued \$7.445 million in General Obligation Bonds with an average interest rate of 4.37 percent to advance refund \$6.525 million of outstanding 1988 Series bonds with an average interest rate of 7.26 percent. The net proceeds of \$7.373 million (after payment of \$118,000 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1988 Series bonds. As a result, the 1988 Series bonds are considered to be defeased and the liability for those bonds has been removed from the County's long term liabilities. The balance of the defeased debt is approximately \$510,000 at December 31, 2010.

Dutchess County, New York

Notes to Financial Statements

December 31, 2010

In August 2001, the County refunded its outstanding 1990 Series bonds of \$1,575,000, its 1994 Series bonds of \$5,370,000 and its 1995 Series bonds of \$8,905,000, carrying a weighted average interest rate of 5.64% with new debt of \$16,360,000 issued with a weighted average interest rate of 3.25%. The net proceeds of \$16,360,000 plus an additional \$439,000 premium from bond issuance and \$53,000 of County monies (net of \$130,000 of issuance costs and discount) were used to purchase U.S. Government Securities, which were placed in an irrevocable trust with an escrow agent to provide for all future debt service for the 1990, 1994 and 1995 bonds. As a result, the bonds are considered to be defeased and the liabilities for these bonds have been removed from the County's long term liabilities. The balance of the defeased debt is approximately \$3,990,000 at December 31, 2010. In May 2006, the County refunded its outstanding 1996 Public Improvement Bond of \$5,800,000, its 1997 Public Improvement Bond of \$1,500,000 and its 1998 Public Improvement Bond of \$2,920,000 carrying a weighted average interest rate of 5.07% with new debt of \$10,265,000 issued with a weighted average interest rate of 4.46%. The net proceeds of the \$10,265,000 were used to purchase U.S. Government Securities, which were placed in an irrevocable trust with an escrow agent to provide for all future debt service for the 1996, 1997 and 1998 bonds. As a result, the bonds are considered defeased and the liability for these bonds has been removed from the County's long-term liabilities. The balance of the defeased debt is approximately \$8,515,000 at December 31, 2010.

In December 2003, the TASC issued \$47,815,000 in bonds (TASC debt, see below) to finance the acquisition of tobacco assets from the County. The TASC transferred \$40,811,628 in proceeds to the General Fund to refund \$36,141,402 of general obligation debt. The proceeds of \$47,815,000 (\$40,811,628 for the General Fund and \$1,158,722 for the Proprietary Funds), net of \$1,902,637 in discount, \$425,576 in bond issue costs and \$3,516,437 deposited into a liquidity reserve were transferred to the general fund which then deposited the \$41,970,350 in irrevocable trust with an escrow agent to provide for all future debt service payments for the 1996, 1997, 1998, 2001, 2004 Series bonds at interest rates ranging from 2% to 7%. As such, \$37,300,124 of debt was removed from the General Fund and Proprietary Funds debt. The County recorded a deferred loss from refunding in the amount of \$4,670,226 related to this transaction. This deferred loss is amortized over the life of the TASC debt; accordingly, amortization expense of \$233,511 was recognized in 2010. The balance of the defeased debt is \$34,816,903 at December 31, 2010. The TASC recorded \$45,912,363 of debt from this sale of tobacco bonds. The TASC debt will be repaid with proceeds from tobacco sales, in future periods, as dictated by the Master Settlement Agreement and Indenture Agreement, as defined.

In November 2005, the TASC issued \$26,236,279 in bonds (TASC debt, see below) to finance the acquisition of tobacco assets from the County. The proceeds of \$26,236,279, net of \$692,437 in bond issue costs were transferred (\$9,543,842) to the General Fund and (\$16,000,000) to the Capital Projects Fund. The County deposited the \$9,543,842 in an irrevocable trust with an escrow agent to provide for all future debt service payments for a portion of the 2004 Series bond at interest rates ranging from 6% to 7.85%. As such, \$10,090,000 of debt was removed from the General Fund. The County recorded a deferred gain from refunding in the amount of \$546,158 related to this transaction. This deferred gain is amortized over the life of the TASC debt; accordingly, amortization of \$27,305 was recognized in 2010. The balance of the defeased debt is \$26,236,279 at December 31, 2010. The TASC recorded \$26,236,279 of debt from this sale of tobacco bonds. The TASC debt will be repaid with proceeds from tobacco sales, in future periods, as dictated by the Master Settlement Agreement and Indenture Agreement, as defined.

In December 2006, the County issued \$24,000,000 in public improvement serial bonds with an average interest rate of 4.25%. The proceeds will be used to finance various capital projects. The balance of the debt is \$18,325,000 at December 31, 2010.

Dutchess County, New York

Notes to Financial Statements

December 31, 2010

Dutchess County issued \$10.3 million Public Improvement Refunding Bonds, 2006 Series dated May 18, 2006. The series consisted of \$8.7 million Public Improvement (Serial) Bonds 2006, Series A, maturity date February 15, 2018 and \$1.5 million Public Improvement (Serial) Bonds, Series B, maturity date August 15, 2014.

The 2006 bonds were issued to advance refund \$10.2 million in Public Improvement (Serial) Bonds originally issued by the County as follows: \$5.8 million remaining from the \$18.3 million Public Improvement (Serial) Bonds, July 15, 1996, maturity date March 15, 2016; \$1.5 million remaining from the \$5.2 million Public Improvement (Serial) Bonds, August 1, 1997, maturity date October 15, 2014; and \$2.9 million remaining from the \$11.5 million Public Improvement (Serial) Bonds, July 15, 1998, maturity date June 15, 2018. Their interest rates ranged between 5.50% and 4.6%.

In December 2007, the County issued \$27,000,000 in public improvement serial bonds with an average interest rate of 4.5%. The proceeds will be used to finance various capital projects. The balance of the debt is \$21,825,000 at December 31, 2010.

In December 2008, the County issued \$6,358,763 in public improvement serial bonds with an average interest rate of 4%. The proceeds will be used to finance various capital projects. The balance of the debt is \$5,550,000 at December 31, 2010.

In December 2010, the County issued \$21,021,000 in public improvement serial bonds with an average interest rate of 3.2%. The proceeds will be used to finance various capital projects. The balance of the debt is \$21,021,000 at December 31, 2010.

Dutchess County issued \$15,095,000 Public Improvement Refunding (Serial) Bonds, 2009 Series dated February 18, 2009. The series consisted of \$2.165 Million Public Improvement (Serial) Bonds 2009, Series A, maturity date February 15, 2018; and \$12.930 Million Public Improvement (Serial) Bonds, Series B, maturity date August 15, 2021. Their interest rates range from 3% to 4%. The 2009 bonds were issued to advance refund \$15,485,000 in Public Improvement (Serial) Bonds originally issued by the County as follows: \$2.24 Million remaining from the \$8.55 Million Public Improvement (Serial) Bonds, February 15, 1998, maturity date February 15, 2018 and \$13.24 Million remaining from the \$29.85 Public Improvement (Serial) Bonds, August 1, 2001, maturity date August 15, 2021. Their interest rates ranged between 4.875% and 4.00%. As a result of the refunding, the 1998 and 2001 Series bonds are considered to be defeased and the liability for those bonds has been removed from the County's long-term liabilities. The balance of the defeased debt is approximately \$12,930,000 at December 31, 2010.

The County recorded a gain on bond refunding in the amount of \$390,000 related to this transaction. The debt service payments for 2009 bonds are less than the total debt service payments for the refunded debt by \$584,000 which on a present value basis results in an economic gain of \$679,000.

TASC Debt

On December 18, 2003, the Corporation issued the 2003 New York Counties Tobacco Trust III Tobacco Settlement Pass-Through Bonds (Series 2003 Term Bonds) amounting to \$47,815,000., with an issue value of \$45,912,363, net of bond discount of \$1,902,637 proceeds of \$41,970,000 were used to purchase tobacco settlement rights from Dutchess County. The TASC recognized \$73,839 in amortization expense related to the bond discount and \$16,516 related to the amortization of deferred financing costs in 2010.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

On November 28, 2005, the Corporation issued the 2005 New York Tobacco Trust V, Tobacco Settlement Pass Through Bonds [Subordinate Turbo Capital Appreciation Bonds ("CABs")] amounting to \$26,236,279. The TASC recognized \$2,184 related to the amortization of deferred financing costs in 2010.

Collectively these bonds are considered the "TASC Debt".

The TASC debt is secured and payable from collections including all Tobacco Settlement Revenues (TSR) to be received by the TASC, reserves, amounts held in other accounts established by the indenture and the TASC's rights under the purchase agreement. The proceeds will be used for the purpose of (i) purchasing all rights, title and interest in certain litigation awards under the Master Settlement Agreement (MSA) entered into by participating cigarette manufacturers, and (ii) issuance of Tobacco Settlement Asset Backed Bonds to pay the purchase price for the rights. These rights were purchased from Dutchess County and accounted for as a transaction between entities under common control (therefore, no gain or loss on the transfer was recognized).

The TASC Debt is payable only from the assets of the TASC. In the event that the assets of the TASC have been exhausted, no amounts will thereafter be paid on the TASC Debt. The TASC Debt is not a legal or moral obligation of Dutchess County, and no recourse may be had thereto for payment of amounts owing on the TASC Debt. The TASC's only sources of funds for payments on the TASC Debt are the TSRs. The TASC has no taxing power. Because of the many adjustments included in the MSA, it is not possible to know the exact future collections under the MSA.

The ability of the TASC to make debt service payments on the TASC Debt is contingent upon the receipt of TSRs. TSR payments may vary based on inflation adjustments, volume adjustments of cigarette sales, litigation adjustments from nonsettling states, offsets for miscalculated or disputed payments, federal tobacco legislation offsets, litigation releasing parties offsets, and offsets for claims over the amounts of the award.

The assets of the TASC are not available to pay any creditor of Dutchess County. The TASC Debt issued by the TASC does not constitute a claim against the full faith, credit and taxing power of the General Fund of Dutchess County. The ability of the TASC to meet debt service payments of bonds is contingent upon the receipt of Tobacco Settlement awards.

The TASC Debt includes various administrative covenants, including required filing of audited financial statements within a specific timeframe.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

Long-term debt, the proceeds of which have been used primarily to provide funds for various capital projects, consists of the following at December 31, 2010:

Interest Rate	Date Issued	Maturity Date	Amount of Original Issue	Outstanding December 31, 2010	Annual Principal Installments
Serial Bonds					
2.50% – 5.25%	1993	2013	\$ 7,445,000	\$ 510,000	\$ 150,000 - 185,000
3.25 – 5.00	2001	2016	16,360,000	3,990,000	305,000 - 1,170,000
2.00 – 4.50	2003	2022	18,800,000	8,735,000	200,000 - 1,241,572
5.00 – 6.00	2003	2043	45,912,362	36,295,000	0 - 3,245,000
5.00 – 6.00	2004	2019	17,085,000	9,620,000	565,000 - 1,182,569
6.00 – 7.85	2005	2060	26,236,279	26,236,279	2,604,375 - 10,384,242
4.00 – 4.25	2006	2014	1,525,000	1,190,000	295,000 - 305,000
4.00 – 5.00	2006	2018	8,740,000	7,325,000	95,000 - 1,385,000
3.50 – 5.00	2006	2027	22,587,595	18,325,000	525,000 - 1,361,000
4.00 – 5.00	2007	2028	27,000,000	21,825,000	600,000 - 2,222,000
3.00 – 5.00	2008	2023	6,358,763	5,550,000	375,000 - 525,000
3.00 – 4.00	2009	2018	2,165,000	1,865,000	160,000 - 300,000
3.00 – 4.00	2009	2021	12,930,000	11,065,000	405,000 - 1,865,000
2.00 – 4.00	2010	2025	21,021,000	21,021,000	825,000 - 2,240,000
				<u>\$ 173,552,279</u>	

Compensated absences for governmental activities typically have been liquidated from the General Fund and the Special Revenue Funds. Claims and judgments typically have been liquidated from the General Fund.

Proprietary Funds

Long-term liability activity for the year ended December 31, 2010 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Proprietary Funds					
Bonds payable					
Airport bonds	\$ 2,916,552	\$ 2,104,138	\$ (307,817)	\$ 4,712,873	\$ 586,374
Transportation bonds	390,000	307,518	(20,000)	677,518	48,980
Total bonds payable	<u>3,306,552</u>	<u>2,411,656</u>	<u>(327,817)</u>	<u>5,390,391</u>	<u>635,354</u>
Compensated absences	47,643	-	(9,515)	38,128	
Other post employment benefits	357,100	137,600	-	494,700	-
Proprietary funds long-term liabilities	<u>\$ 3,711,295</u>	<u>\$ 2,549,256</u>	<u>\$ (337,332)</u>	<u>\$ 5,923,219</u>	<u>\$ 635,354</u>

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

Long-term debt at December 31, 2010 consists of the following:

Airport

2003 serial bonds, interest at 2% to 4.5% due in various installments through 2022	\$ 911,074
2004 public improvement bonds, interest at 2% to 5% due in various installments through 2019	1,030,661
2006 public improvement bonds, interest at 3.5% to 5% due in various installments through 2027	659,000
2007 public improvement bonds, interest at 4% to 5% due in various installments through 2028	8,000
2010 public improvement bonds, interest at 2.0% to 4% due in various installments through 2025	<u>2,104,138</u>
Total airport bonds	4,712,873
Less: current portion	<u>586,374</u>
Total bonds, net of current portion	<u><u>\$ 4,126,499</u></u>

Transportation

2004 public improvement bonds, interest at 3.5% to 5% due in various installments through 2027	\$ 370,000
2010 public improvement bonds, interest at 2.0% to 4% due in various installments through 2025	<u>307,518</u>
Total transportation bonds	677,518
Less: current portion	<u>48,980</u>
Total bonds, net of current portion	<u><u>\$ 628,538</u></u>

As of December 31, 2010, the County's debt service requirements relating to bonds payable are as follows:

Year Ended December 31	Government Activities General Obligation Bonds		TASC Bonds		Proprietary Funds Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
	2011	\$ 12,415,645	\$ 4,222,288	\$ -	\$ 2,130,313	\$ 635,355
2012	12,099,834	3,757,935	-	2,130,313	670,126	172,765
2013	11,712,508	3,301,108	-	2,130,313	562,492	152,794
2014	11,119,638	2,817,561	-	2,130,313	505,362	132,704
2015-2019	36,441,333	8,375,693	-	10,651,563	1,928,667	404,701
2020-2024	16,926,260	2,706,892	-	10,651,563	918,740	112,810
2025-2029	4,630,351	407,562	5,185,000	10,123,981	169,649	9,313
2030-2034	-	-	8,065,000	8,145,700	-	-
2035-2039	-	-	21,569,242	65,884,308	-	-
2040-2044	-	-	11,860,000	1,480,200	-	-
2045-2049	-	-	-	-	-	-
2050-2054	-	-	4,889,934	66,030,066	-	-
2055-2059	-	-	2,604,375	70,490,625	-	-
2060	-	-	8,357,728	547,342,272	-	-
Total	105,345,569	25,589,039	62,531,279	799,321,530	5,390,391	1,176,978
Less: Discount	-	-	(1,478,097)	-	-	-
Add: Premium	2,702,733	-	-	-	-	-
Total	<u>\$ 108,048,302</u>	<u>\$ 25,589,039</u>	<u>\$ 61,053,182</u>	<u>\$ 799,321,530</u>	<u>\$ 5,390,391</u>	<u>\$ 1,176,978</u>

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

Component Units:

Dutchess Community College

The following table summarizes changes in the College's long-term liabilities for the year ended August 31, 2010:

	Beginning September 1, 2009	New Issues/ Additions	Maturities and/or Payments	Balance August 31, 2010	Due Within One-Year
Bonds payable - capital projects					
Bonds payable - DASNY	\$ 21,098,382	\$ 3,609,861	\$ 4,436,192	\$ 20,272,051	\$ 627,698
Bonds payable - Sponsor	14,018,037	-	1,281,529	12,736,508	1,342,000
Total bonds payable	35,116,419	3,609,861	5,717,721	33,008,559	1,969,698
Other noncurrent liabilities					
Compensated absences	2,277,956	518,873	227,796	2,569,033	256,903
Other post employment benefit obligations payable	23,009,764	8,291,349	1,840,266	29,460,847	-
Total long-term liabilities	<u>\$ 60,404,139</u>	<u>\$ 12,420,083</u>	<u>\$ 7,785,783</u>	<u>\$ 65,038,439</u>	<u>\$ 2,226,601</u>

The College has entered into financing agreements with DASNY and Dutchess County to finance most of its educational facilities. The DASNY bonds for these facilities, which have a maximum 30-year life, will be repaid from the appropriations received from the State of New York. Dutchess County has issued general obligation bonds, with a maximum 30-year life, to fund their portion of the construction costs. The College is currently paying the County an annual fee for debt service on these bonds (\$600,000 in 2010) derived from capital chargebacks.

As of August 31, 2010 (Note 2), debt service requirements relating to these obligations are as follows:

Year Ending August 31,	DASNY	Dutchess County	Total Principal	Total Interest
2011	\$ 627,698	\$ 1,342,000	\$ 1,969,698	\$ 1,451,080
2012	835,096	1,373,000	2,208,096	1,375,986
2013	768,338	1,359,000	2,127,338	1,287,298
2014	895,097	1,277,000	2,172,097	1,200,524
2015-2019	1,297,243	5,231,000	6,528,243	1,108,498
2020-2024	5,568,723	1,081,000	6,649,723	4,014,570
2025-2029	5,860,555	10,000	5,870,555	2,285,000
2030-2034	3,507,441	-	3,507,441	1,085,836
2035-2039	815,197	-	815,197	441,625
2040-2041	96,663	1,063,508	1,160,171	390,567
	<u>\$ 20,272,051</u>	<u>\$ 12,736,508</u>	<u>\$ 33,008,559</u>	<u>\$ 14,640,984</u>

Interest on the DASNY bonds range from 2.0% to 6.0%. Interest on the Dutchess County bonds ranges from 3% to 6%.

Interest expense on total financing agreements for the College was approximately \$1,638,621 in 2010.

Dutchess County, New York
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Advance Refunding

During the 2010 fiscal year, the DASNY issued \$3,609,861 in serial bonds with interest at rates ranging from 2.0% to 5.0%. The proceeds were used to advance refund \$3,739,863 of outstanding 1999A serial bonds bearing interest at rates ranging from 5.0% to 5.25%. The bond proceeds (exclusive of costs) were placed in an irrevocable trust to provide for all future debt service payments on the refunded bonds. The College considers these bonds to be defeased. Accordingly, the trust account assets and liability for these bonds are not included in the College's financial statements.

The College advance refunded portions of these bonds to reduce its total debt service payments over 16 years by \$355,994 and to obtain a net present value economic gain of \$286,521.

As of August 31, 2010, \$3,739,863 of bonds outstanding were called and as such no amounts are outstanding.

Resource Recovery Agency

1998 A, B and C Series – Advance Refunding and Defeasance of Debt

In August 1998, the Agency refinanced both the 1990 A Series and the 1995 A&B Series Bonds in a transaction accounted for as an advance refunding of debt. The Agency issued a total of \$39,485,000 in new debt bearing interest rates from 4.10% to 6% to advance refund \$37,640,000 of outstanding 1990 and 1995 Solid Waste Management Revenue Bonds with interest rates ranging up to 7.50%. The proceeds, Agency and contractor contributions, and unspent prior bond proceeds, net of \$1,515,534 in underwriting fees, insurance, and other costs, amounting to \$39,709,458 were used to purchase U.S. government securities. These securities were deposited in irrevocable trusts with an escrow agent for all future debt service payments on the 1990 A and 1995 A&B Series bonds. As a result, the 1990 A and 1995 A&B Series bonds were considered to be in substance defeased and the liability for these bonds were removed from the Agency's financial statements.

The Agency recorded a deferred loss in the amount of \$3,303,920, representing the difference between the net carrying value of the old debt including unamortized bond issuance costs and the reacquisition price. This loss will be written off over the life of the new debt. The present values of the difference in debt service requirements and including the effect of the extension of the debt from 2010 to 2014 have resulted in an economic gain of \$1,130,250. The unamortized deferred loss at December 31, 2010 was \$287,969.

As of January 3, 2000 the 1990 A Series bonds were called and payments of \$29,923,500 in principal and \$1,089,870 in interest were made. As of January 2, 2003, 1995A and 1995B Series were called and payments of \$4,815,000 in principal and \$86,900 in interest were made.

Bond Terms

1999 A and 2007 Tax-Exempt Forward Series

In October 1999 the Agency issued the 1999 A Series Bonds in the amount of \$31,210,000, the proceeds of which were used to refund the 1998 A Series Bonds. The 1998 A Series Bonds, which were subject to a mandatory call and optional redemption on November 15, 1999, were called and payment of \$31,200,000 in principal and \$688,671 in interest was made.

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In November 2007, the Agency issued the 2007 Series Bonds in the amount of \$16,140,000 to permanently finance the Agency's plant improvements to be in compliance with the standards set forth by the U.S. Environmental Protection Agency (E.P.A.).

The 1998, 1999, and 2007 Series Bonds are payable from and secured by an express lien on the unexpended proceeds of the bonds held by the Trustee; the Agency's right to receive and/or enforce receipt of revenues; and the Agency's rights and remedies under certain agreements. In addition, the Agency is required to fulfill certain covenants as described below.

Bonds payable, with interest payable semiannually on January 1, and July 1, consist of the following as of December 31, 2010:

<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Outstanding December 31, 2010</u>
Series Bonds			
5.15%	1999	2010	\$ -
5.25%	1999	2011	3,075,000
5.35%	1999	2012	3,235,000
5.40%	1999	2013	3,410,000
5.45%	1999	2014	3,595,000
5.00%	2007	2015	925,000
5.00%	2007	2016	975,000
5.00%	2007	2017	1,020,000
5.00%	2007	2018	1,070,000
5.00%	2007	2019	1,125,000
4.25%	2007	2020	1,180,000
4.25%	2007	2021	1,230,000
4.25%	2007	2022	1,285,000
4.50%	2007	2023	1,340,000
4.50%	2007	2024	1,400,000
4.50%	2007	2025	1,465,000
4.50%	2007	2026	1,530,000
4.50%	2007	2027	1,595,000
Term Bonds			
5.00%	1999	2010	-
			<u>29,455,000</u>
Less: Current portion			(3,075,000)
Bond Payable - Long-Term			<u><u>\$ 26,380,000</u></u>

Dutchess County, New York
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Annual amortization and sinking fund requirements for Bonds Payable is as follows:

Years ended December 31,	Principal	Interest	Total
2011	\$ 3,075,000	\$ 1,376,497	\$ 4,451,497
2012	3,235,000	1,209,242	4,444,242
2013	3,410,000	1,030,636	4,440,636
2014	3,595,000	840,601	4,435,601
2015	925,000	719,513	1,644,513
2016-2020	5,370,000	2,840,865	8,210,865
2021-2025	6,720,000	1,479,094	8,199,094
2026-2027	3,125,000	142,089	3,267,089
Totals	<u>\$ 29,455,000</u>	<u>\$ 9,638,537</u>	<u>\$ 39,093,537</u>

The Series 1998 C Term Bonds maturing on January 1, 2010 are subject to mandatory redemption prior to maturity in part on any January 1, beginning January 1, 2004, from mandatory sinking fund installments made between 2004 and 2010.

Bond Covenants

The Agency has covenanted under the indenture that operating revenues earned from the disposal of solid waste at the plant plus investment earnings will equal or exceed the sum of (i) all operating expenses of the Agency contained in the budget for such bond year, (ii) an amount equal to 110% of the debt service requirement for such bond year and (iii) amounts, if any, necessary to fund the debt service reserve fund to the debt service reserve requirement or to fund the reserve and contingency fund to the reserve and contingency fund requirement.

The Agency must obtain additional certifications regarding events of default occurring, landfill capacity and the quantity of waste processed. The Agency must maintain various accounts, described as restricted assets, which are subject to minimum funding requirements. At December 31, 2010 these debt service reserves exceeded their funding requirements.

Water and Wastewater Authority

Bonds Payable

The Authority issues revenue bonds to finance the acquisition of systems and the cost of the capital renovations to those systems and to pay costs of issuance. Such debt has been issued under the following authorizations:

Trust Indenture

As of June 1, 1995 the Authority executed a trust indenture authorizing the issuance of debt for the purpose of acquiring a sewage facility. One supplemental trust indenture was authorized under terms similar to those described in the General Bond Resolution described below.

Special Bond Resolution

As of September 30, 1997 the Authority adopted a special bond resolution authorizing debt to be sold at private sale for the purpose of acquiring a privately held water system.

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General Bond Resolution

As of June 1, 1998 the Authority adopted a General Bond Resolution which enabled the Authority to issue additional debt pursuant to supplemental resolutions without having to modify the form or general terms of the debt, referred to as additional parity debt. The Authority has issued seven supplemental resolutions pursuant to this general bond resolution, authorizing debt issues in the years of 1998, 1999, 2000, 2001, 2004 and two issues during 2002, 2007 and 2008, and one debt issue in 2009 and 2010.

As of August 1, 2004, the Authority adopted a general bond resolution pertaining to the Part County Sewer District No. 3, which enabled it to issue bonds to finance the purchase of Dalton Farms Sewer System.

Dutchess County, New York
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Description

Debt issued under the above listed authorizations is as follows as of December 31, 2010:

New York State Environmental Facilities Corporation State Water Pollution Control Revolving Fund Revenue Bond Series 2005 D, due in various installments through 2015, interest 3.70% - 5.55%	\$ 265,000
1998 Revenue Bond (Zero Coupon) Series One, due in various installments starting in 2021 through 2029, interest 3.90% - 5.40%	3,817,818
1998 Revenue Bond Series Two, due in various installments through 2019, interest 3.90% - 5.43%	300,000
New York State Environmental Facilities Corporation State Clean Water and Drinking Water Revolving Fund Revenue (Refunding) Bond Series 1999B, due in various installments through 2019, interest 3.97% - 5.43%	-
New York State Environmental Facilities Corporation State Clean Water and Drinking Water Revolving Fund Revenue (Refunding) Bonds Series 1999B, due in various installments through 2019, interest 3.97% - 5.43%	-
2000 Service Agreement Revenue Bond Series 2000, due in various installments through 2020, interest 5.65%	525,000
2001 Service Agreement Revenue (Refunding) Bonds Series 2001, due in various installments through 2041, interest 3.00% - 5.36% - Partially refunded in 2002 as described below	1,223,410
2002 Service Agreement Revenue (Refunding) Bond Series 2002 Harbour Hills, due in various installments through 2021, interest 1.333%-5.063%	1,980,000
New York State Environmental Facilities Corporation State Clean Water Revolving Fund Revenue (Refunding) Bonds Series 2002, due in various installments through 2023, interest 1.825%-5.705%	360,000
2004 Water Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00%-4.25%	1,625,000
2004 Sewer Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00% - 4.25%	1,725,000
2007 Sewer Service Agreement Revenue Bond Series 2007, due in various installments through 2037, interest 4.00% - 5.00%	1,795,000
2007 Sewer Service Agreement Revenue Bond Series 2007, due in various installments through 2027, interest 4.00% - 4.625%	360,000
2009 Water Service Agreement Revenue Bond Series 2009, due in various installments through 2029, interest 3.00% - 5.00%	7,160,000
2009 Water Service Agreement Revenue Bond Series 2009, due in various installments starting in 2030 through 2039 interest 5.62% - 5.96%	1,347,524
2010 Water Service Agreement Revenue Bond Series 2010, maturing December 9, 2011, interest 1.51%	1,905,800
Water and Drinking Water Revolving Fund Revenue (Refunding) Bond Series 2010C, due in various installments through 2019, interest .8450% - 3.355%	<u>10,326,923</u>
Total bonds payable	34,716,475
Accreted interest recorded on zero coupon bonds	<u>4,257,681</u>
Total long term debt	38,974,156
Current portion of long term debt	<u>(3,777,718)</u>
Total long term debt, less current portion	<u>\$ 35,196,438</u>

	Balance at December 31, 2009	New Issues/ Additions**	Maturities and/or Payments	Balance at December 31, 2010	Due Within One Year
Bonds Payable	\$ 38,314,308	\$ 13,659,848	\$ (13,000,000)	\$ 38,974,156	\$ 3,777,723
OPEB liability	434,500	175,400		609,900	
	<u>\$ 38,748,808</u>	<u>\$ 13,835,248</u>	<u>\$ (13,000,000)</u>	<u>\$ 39,584,056</u>	<u>\$ 3,777,723</u>

Bonds payable increased by \$474,230 in adjustments and accreted interest on 1998 Series One, 2001 debt and 2009 debt.

Dutchess County, New York
Notes to Financial Statements
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Debt Service Requirements

Debt Service requirements to maturity as of December 31, 2010 are as follows:

Year Ending December 31,	Principal	Interest	Total
2011	\$ 3,777,718	\$ 1,002,202	\$ 4,779,920
2012	1,920,000	936,220	2,856,220
2013	1,955,000	887,835	2,842,835
2014	1,985,000	837,659	2,822,659
2015	2,070,000	780,248	2,850,248
2016-2020	10,056,591	3,890,930	13,947,521
2021-2025	6,355,315	7,212,023	13,567,338
2026-2030	4,286,696	5,923,281	10,209,977
2031-2035	1,438,732	2,320,968	3,759,700
2036-2040	841,098	1,925,398	2,766,496
2041-2044	30,320	1,448	31,768
Totals	<u>\$ 34,716,470</u>	<u>\$ 25,718,212</u>	<u>\$ 60,434,682</u>

Advance Refunding and Defeasance of Debt

In July 2002, the Authority refinanced a portion of the 2001 Series (Zone D Project) and a portion of the 1999 Series (Water Pollution Control) bonds in transactions accounted for as advance refundings of debt. The Authority defeased bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Authority's financial statements. At December 31, 2010, the balance of the 2001 and 1999 defeased debt outstanding was \$1,925,000 and \$0, respectively.

The Authority recorded a deferred loss in the amount of \$97,853 pertaining to the 2001 Series debt, representing the difference between the net carrying value of the old debt and the reacquisition price. This loss will be amortized over the life of the new debt. The present values of the difference in debt service requirements including subsidies obtained through the New York State Environmental Facilities Corporation has resulted in an economic gain of \$272,360, while the difference in net cash flows resulted in a net savings of \$348,852.

In May 2010, the Authority participated in a refinancing initiated by the New York State Environmental Facilities Corporation on behalf of the municipalities that participated in the State Clean Water and Drinking Water Revolving Funds Series 1998D, 1999A, and 1999B, amounting to \$11,266,923. A net present value savings of \$979,741 over the life of the new debt resulted from the refinancing transactions.

Dutchess County, New York
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Bond Covenants

The Authority has agreed to maintain dedicated sources of revenues with respect to the projects financed in accordance with the State Act and in amounts such that the revenues of the Authority with respect to the financial projects shall be sufficient, together with all other funds available to the Authority for cash purposes, to pay all costs of operating and maintaining the projects and to pay principal and interest requirements. The bonds payable are special obligations of the Authority, collateralized by the assets of the Authority and to be amortized solely from the revenues of the Authority.

The Authority has pledged its revenues, subject to the right to pay operating expenses, its interest in its Service Agreement with Dutchess County, its interest in cash and investments held by the Bond Trustee and any other property subsequently pledged.

In addition to pledging its revenues and other rights as described above, the Authority made certain covenants including that it will fix, charge and collect water rates together with other Authority revenues in amounts sufficient to provide for operating expenses as included in the Authority's budget. The Authority also pledges to maintain, in full force and effect, the service agreement with Dutchess County, as is further described in Note 5C – Commitments and Contingencies.

B. Lease Obligations

Primary Government:

The County leases, buildings and equipment under noncancellable operating leases. Total costs for such leases were \$1,079,261 for governmental activities for the year ended December 31, 2010. Future minimum lease payments at December 31, 2010 were as follows:

	Government Activities
2011	\$ 2,312,939
2012	1,492,997
2013	897,875
2014	740,878
2015	926,885
2016-2018	-
Totals	<u>\$ 6,371,574</u>

Dutchess County, New York
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Component Units:

Dutchess Community College

Capital Lease

The College has entered into an installment purchase agreement for equipment. The agreements provide that payments for any future fiscal period will not be required should funding not be appropriated. Interest on the purchase agreements ranges from 4.4% to 4.9%.

	Balance August 31, 2009	New Borrowings	Repayments	Balance August 31, 2010
Capital lease obligations	\$ 3,747,813	\$ -	\$ (258,757)	\$ 3,489,056
Less: Current portion	<u>258,757</u>			<u>410,354</u>
Noncurrent portion	<u>\$ 3,489,056</u>			<u>\$ 3,078,702</u>

The future minimum payments required under the lease as of August 31, 2010 follows:

	Principal	Interest
2011	\$ 410,354	\$ 147,936
2012	340,677	128,778
2013	291,434	115,011
2014	277,942	106,411
2015	207,623	90,917
Thereafter	<u>1,961,026</u>	<u>351,365</u>
	<u>\$ 3,489,056</u>	<u>\$ 940,418</u>

Interest expense related to capital lease obligations was approximately \$172,000 in 2010.

Operating Leases

The College leases buildings for use in its operations under operating lease agreement which expire in August 2017. The agreements require the following minimum future annual lease payments as of August 31, 2010:

2011	\$ 550,085
2012	550,085
2013	573,570
2014	573,570
2015	573,570
Thereafter	<u>1,147,140</u>
	<u>\$ 3,968,020</u>

Rental expense for 2010 was approximately \$550,000.

Dutchess County, New York
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Broadband Channel Leases

The College has been authorized by the Federal Communications Commission to operate certain educational broadband channels. In 2006, the College leased the excess capacity of those educational broadband channels to a third-party communications company. The rental lease term was for 10 years, with two 10-year renewal periods for up to a maximum duration of 30 years. The College is the lessor under these agreements. Under the lease agreements, the College received one-time up-front payments totaling approximately \$1.5 million and will receive monthly payments of approximately \$4,000 per month from the lessee. The initial up-front payments are being amortized on a straight-line basis over the initial term of the leases.

C. Interfund Balances and Activity

Primary Government

Interfund Receivables and Payables

Interfund balances at December 31, 2010 were as follows:

Payable from:	Payable to: General Fund
Capital projects	\$ 5,786,493
Airport	51,408
Transportation	2,518,566
Community development	48,153
Total	<u><u>\$ 8,404,620</u></u>

The purpose of these interfund receivables and payables result from cash advances made by the general fund to other funds to cover capital expenses.

Interfund Transfers

Interfund transfers for the year ended December 31, 2010 were as follows:

Transfer from:	General Fund	Airport	Transportation	Other Governmental Funds	Total
General fund	\$ -	\$ -	\$ 50,000	\$ 298,909	\$ 348,909
Airport	600,686	-	-	-	600,686
Transportation	1,795,129	-	-	-	1,795,129
Total	<u><u>\$ 2,395,815</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 50,000</u></u>	<u><u>\$ 298,909</u></u>	<u><u>\$ 2,744,724</u></u>

Amounts transferred to the Airport and Transportation funds were primarily the result of budgeted subsidies to fund capital project expenditures until federal and state funding is received.

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D. Retirement Plan

Primary Government:

Plan Description

The New York State and Local Retirement System (the "System") is a cost-sharing, multiple-employer public employee retirement system (PERS) comprised of the New York State and Local Employees' Retirement System (ERS) and Local Police and Fire Retirement System (PFRS). The System is established pursuant to the New York State Retirement and Social Security Law, to provide retirement allowances and other specified benefits for the State, local governments and their employees. Substantially all employees of the County are eligible to participate in the System. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of their funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

Funding Policy

The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contributes 3% of their salary for their first ten years of service, thereafter the Plan is noncontributory. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The County is required to contribute at an actuarially determined rate. The contributions for the current year and two preceding years were:

2010	\$ 13,918,830
2009	9,739,184
2008	8,677,720

The County's contributions made to the System were equal to 100 percent of the contributions required for the year.

Dutchess County, New York
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Component Units:

Dutchess Community College

Plan Description

The College participates in the New York State and Local Employees' Retirement System (ERS), the New York State Teachers' Retirement System (TRS) and the Teachers' Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF). ERS and TRS are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees for the TRS and ERS are governed by the Education Law and the New York State Retirement and Social Security Law (NYSRSSL). The Systems issue a publicly available financial report that includes financial statements and required supplementary information. The ERS report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12207. The TRS report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

Funding Policy

The Systems are noncontributory except for employees who joined the Systems after July 27, 1976 who contributed 3% of their salaries for the first ten years of service. For the New York State and Local Employees' Retirement System, the Comptroller shall certify annually the raises expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, rates are established annually for TRS by the New York State Teachers' Retirement Board.

The College is required to contribute at an actuarially determined rate. The actuarially determined rate and the required contributions for the current year:

ERS		TRS	
Tier/Plan	Rate	Tiers	Regular
1 75I	9.3%	1-4	6.19 %
2 75I	8.70%		
3 A14	7.1%		
4 A15	7.1%		

The College's contributions made to the Systems were equal to 100 percent of the contributions required for each year.

Teachers' Insurance and Annuity Association – College Retirement Equities Fund (TIAA – CREF)

TIAA-CREF is a defined contribution plan under Section 403(b) of the Internal Revenue Code. Under the Plan, the College is required to make contributions based on the gross salaries of the participants. Certain participants are also required to make a participating contribution. For the year ended August 31, 2010, the College incurred approximately \$1,445,358 in pension expense under this Plan.

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Resource Recovery Agency

Plan Description

The Agency participates in the New York State and Local Employees' Retirement System (ERS) (System), a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The New York State Retirement and Social Security Law (NYSRSSL) govern obligations of employers and employees to contribute and benefits to employees. As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of their funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

Funding Policy

The System is noncontributory except for employees who joined ERS after July 27, 1976 who contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Agency is required to contribute annually at an actuarially determined rate. The required contributions for the current year and two preceding years ending December 31 were:

	ERS
2010	\$ 48,011
2009	35,015
2008	<u>34,119</u>
Total	<u>\$ 117,145</u>

The Agency's contributions made to the System were equal to 100 percent of the contributions required for each year.

Water and Wastewater Authority

Pension Plan

Plan Description

Through the acquisition of the assets and employees of the Hyde Park Fire District and Water District, the Dutchess County Water and Wastewater Authority is now required to participate in the New York State Local Employees Retirement System and the Public Employees' Group Life Insurance Plan System. This is a cost sharing multiple employer retirement system. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes an Annual Report and required

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supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12236.

Funding Policy

The systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Authority is required to contribute at an actuarially determined rate. The required contribution for the current year and two prior years were \$131,574, \$104,762, and \$115,786, respectively. The Authority's contributions made to the System were equal to 100% of the contributions required for those years.

E. Deferred Compensation Plan

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In October 1997 the Governmental Accounting Standards Board issued Statement No. 32 Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. This statement established accounting and financial reporting standards for Internal Revenue Code Section 457 deferred compensation plans of state and local governments.

As of October 1, 1997 the New York State Deferred Compensation Board (the "Board") created a Trust and Custody agreement making Chase Manhattan Bank the Trustee and Custodian of the Plan. Consequently, Statement No. 32 became effective for the New York State Deferred Compensation Plan as of October 1, 1997. Since the Board is no longer the trustee of the plan, the plan no longer meets the criteria for inclusion in New York State's financial statements. Therefore, municipalities which participate in New York State's Deferred Compensation Plan are no longer required to record the value of the plan assets.

At December 31, 2010, the market value of the plan assets totaled \$89,607,287.

F. Post-retirement Benefits

Primary Government:

During 2007, the County implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employees for Post-Employment Benefits other than Pension* which requires an accrual by the County for post retirement benefits and related liabilities.

Plan Description

Dutchess County Retiree Medical Program is a single-employer defined benefit healthcare plan administered by the New York State Employee Retirement System. The County provides certain health care benefits for retired employees including employees at the Airport (an enterprise fund). The various collective bargaining agreements stipulate the employees covered and the percentage of contribution.

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Funding Policy

Contributions by the primary government and Airport (enterprise fund) may vary according to length of service. Substantially all employees may become eligible for those benefits if they reach normal retirement age and length of service requirement while working for these entities. The cost of retiree health care benefits is recognized as an expenditure as premiums are paid within the governmental funds.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other post retirement benefit (OBEB) cost (expense) is calculated based on the annual required contribution, (ARC), of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. GASB Statement No. 45 establishes standards for the measurement, recognition and display of the expenses and liabilities for retirees' medical insurance. As a result, reporting of expenses and liabilities will no longer be recorded on a "pay-as-you-go" approach. Instead of expensing the current year premiums paid, a per capita claims cost will be determined, which will be used to determine a "normal cost", an "actuarial accrued liability", and ultimately the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. For the year ended December 31, 2010, the County's and the Airport's annual OPEB costs of \$24,247,200 and \$145,100, respectively, was recognized through the government wide statement of activities. Participating employees and active plan members are required to contribute to the plan at rates expressed as percentages of the payroll of active plan members. The percentage that is contributed is determined by the class of employee and their adjusted benefit date. For management employees there is no contribution, confidential employees have no contribution if their adjusted benefit date is prior to January 1, 1982 and if it is after they contribute 10%. For CSEA employees their rate is 5%, 15%, or 20% if their adjusted benefit dates are prior to July 1, 1979 and January 1, 2007 and after January 1, 2007, respectively. For DCSEA employees there is no contribution, 15%, or 20% if their adjusted benefit dates are prior to November 1, 1979, between November 1, 1979 and January 1, 2004 and after January 1, 2004, respectively. For PBA employees there is no contribution and a 20% contribution if their adjusted benefit date is prior to November 1, 1979 and after November 1, 1979, respectively.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

The following table shows the calculation of the projected Net OPEB Obligation at December 31, 2010:

	Year Ended December 31, 2010		
	County Excluding Airport	Airport	Total
Annual Required Contribution	\$ 23,581,523	\$ 140,800	\$ 23,722,323
Interest on Net OPEB Obligation	2,774,500	17,900	2,792,400
Adjustment to ARC	<u>(2,108,800)</u>	<u>(13,600)</u>	<u>(2,122,400)</u>
Annual OPEB Cost	24,247,223	145,100	24,392,323
Contributions made	<u>(4,812,000)</u>	<u>(7,500)</u>	<u>(4,819,500)</u>
Increase in Net OPEB Obligation	19,435,223	137,600	19,572,823
Net OPEB Obligation - beginning of year	<u>55,490,100</u>	<u>357,100</u>	<u>55,847,200</u>
Net OPEB Obligation - end of year	<u><u>\$ 74,925,323</u></u>	<u><u>\$ 494,700</u></u>	<u><u>\$ 75,420,023</u></u>

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB Obligation for fiscal year 2010 and the two preceding fiscal years were as follows:

Total

Year Ended December 31,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 24,392,300	19.8 %	\$ 75,420,000
2009	\$ 21,932,400	18.5 %	\$ 55,847,200
2008	\$ 22,704,400	14.3 %	\$ 37,963,800

County Excluding Airport

Year Ended December 31,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 24,247,200	19.8 %	\$ 74,925,300
2009	\$ 21,805,600	18.5 %	\$ 55,490,100
2008	\$ 22,591,200	14.3 %	\$ 37,728,000

Airport

Year Ended December 31,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 145,100	5.2 %	\$ 494,700
2009	\$ 126,800	4.3 %	\$ 357,100
2008	\$ 113,200	3.6 %	\$ 235,800

Funded Status and Funding Progress. As of June 30, 2010, the actuarial accrued liability for benefits was \$294,965,700 all of which was unfunded. Funding for the plan has been established on a pay-as-you-go basis. The County currently has no assets set aside for the purpose of paying post retirement benefits.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

The total unfunded accrued liability, amortization period and required contribution for 2010 as follows:

	<u>County Excluding Airport</u>	<u>Airport</u>	<u>Total</u>
Accrued Liability	\$ 293,549,200	\$ 1,416,500	\$ 294,965,700
Assets	-	-	-
Unfunded Liability	<u>\$ 293,549,200</u>	<u>\$ 1,416,500</u>	<u>\$ 294,965,700</u>
Amortization Period	30 Years	30 Years	30 Years
Past Service Cost	\$ 11,156,200	\$ 53,900	\$ 11,210,100
Normal Cost	12,425,300	86,900	12,512,200
ARC for December 31, 2010	23,581,500	140,800	23,722,300
Interest obligation	2,774,500	17,900	2,792,400
Adjustments to the ARC	(2,108,800)	(13,600)	(2,122,400)
Annual postretirement benefit cost	24,247,200	145,100	24,392,300
Benefit Payouts for 2010	(4,812,000)	(7,500)	(4,819,500)
Net Impact	<u>\$ 19,435,200</u>	<u>\$ 137,600</u>	<u>\$ 19,572,800</u>

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Health insurance premiums - 2010 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Medical Inflation rate - The inflation assumptions include an initial rate of 9.17% going down to 4.7% over seventy years. The inflation assumption for Medicare part B include an initial rate of 6.36% going down to 4.7% over seventy years.

Payroll growth rate - The expected long-term payroll growth was assumed to be 4%.

Based on the historical and expected returns of the County's short-term investment portfolio, a discount rate of 5% was used. This rate is subject to market conditions and could change in the future. In addition, a simplified version of the projected unit credit cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010 was 27 years.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress
for the Retiree Health Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL)--- Simplified Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
8/1/2010	\$ -	\$ -	\$ -	0.0%	\$ -	-
8/1/2009	-	267,025,000	267,025,000	0.0%	119,015,473	224%
8/1/2008	-	-	-	0.0%	-	-

Component Units:

Dutchess Community College

Other Post Retirement Benefits

The College provides certain health care benefits for retired employees and their covered dependents. Certain classes of the College's employees may become eligible for those benefits if they reach normal retirement age while working for the College. Prior to 2007, the College recognized the cost of providing postretirement health insurance benefits by expensing those costs when paid.

During 2007, the College implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, prospectively. This Statement establishes standards for the recognition, measurement, and display of other postemployment benefits (retiree health insurance) expenses and related liabilities and note disclosures.

Plan Description

The College's annual other post employment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution, ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. GASB Statement No. 45 established standards for the measurement, recognition and display of the expenses and liabilities for retirees' medical insurance. As a result reporting of expenses and liabilities will no longer be accounted for under the "pay-as-you-go" approach. Instead of expensing the current year premiums paid, a per capita claims cost will be determined, which will be used to determine a "normal cost", an "actuarial accrued liability", and ultimately the annual required contribution ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Dutchess County, New York
Notes to Financial Statements
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Annual OPEB Cost and Net OPEB Obligation

The College's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC) and 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 amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the College's annual OPEB cost for 2010:

The following table reconciles the College's OPEB obligation at August 31, 2010:

Amortization Component:	College
Actuarial Accrued Liability as of September 1, 2009	\$ 82,309,965
Assets at Market Value	
Unfunded actuarial accrued liability ("UALL")	<u>82,309,965</u>
Funded Ratio	<u>0.00 %</u>
Covered Payroll (Active plan members)	<u>\$ 25,084,628</u>
UAAL as a percentage of Covered Payroll	328.13 %
Annual Required Contribution.	\$ 8,673,663
Interest on Net OPEB Obligation	920,391
Adjustment to Annual Required Contribution	<u>(1,302,705)</u>
Annual OPEB Cost	8,291,349
Contributions made	<u>(1,840,266)</u>
Increase in Net OPEB Obligation	6,451,083
Net OPEB Obligation - Beginning of Year	<u>23,009,764</u>
Net OPEB Obligation - End of Year	<u><u>\$ 29,460,847</u></u>

Dutchess County, New York
Notes to Financial Statements
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The measurement date for the calculation was September 1, 2008 and the discount rate utilized was 4%. No salary increases were assumed since benefits are not based on compensation. Health care costs were assumed to increase as follows:

Year	Trend Increase
2011	9.00%
2012	8.50%
2013	8.00%
2014	7.50%
2015	7.00%
2016	6.50%
2017	6.00%
2018	5.50%
2019	5.00%
2010	
Thereafter	

Resource Recovery Agency

Post Employment Benefits

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future when it will be paid. In adopting the requirements of GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, the Agency recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from the prior year and provides information useful in assessing potential demands on the Agency's cash flows.

Plan Description

The Agency provides continuation of medical insurance coverage to employees that retire under the New York Retirement Systems at the same time they end their services to the Agency. Currently, there are two retirees receiving post retirement benefits. Based on the current employment policy, the retiree and his or her beneficiaries receive coverage for life of the retiree based on the retiree's years of service at retirement. A summary of benefits is as follows:

Years of Service	<u>% Paid by Authority</u>	
	Retiree	Dependent/Spouse
10	50%	35%
15	60%	45%
20	70%	55%
25	80%	65%

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

Funding Policy

The Agency is currently paying postemployment benefits for two retirees. Although the Agency is considering the establishment of trusts that would be used to accumulate and invest assets necessary to pay the accumulated liability, these financial statements assume the pay-as-you-go funding.

Annual Other Postemployment Benefit Cost

For the year ended December 31, 2010, the OPEB cost (expense) amounted to \$64,700 which was equal to the Annual Required Contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded liabilities over a period of 30 years.

Benefit Obligation at Normal Cost	2010
Actuarial Accrued Liability (AAL)	
Retired and active employees	\$ 701,700
Unfunded actuarial accrued liability (UAAL)	<u>\$ 701,700</u>
Annual Required Contribution (ARC)	
Past Service Costs	\$ 26,700
Normal Costs	<u>38,000</u>
Annual Required Contribution (ARC)	<u>\$ 64,700</u>
Percent of annual OPEB cost contributed	11.4%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funding status of the plan and the annual expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the August 1, 2009, actuarial valuation, the liabilities were computed using the projected unit credit method. The actuarial assumptions utilized a 5% baseline discount rate. Because the plan is unfunded, reference to the general assets, which are short-term in nature (such as money market funds), was considered in the selection of the 5% rate. The valuation assumes a prescribed schedule of percentage increases in premiums over the next seventy years.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

Water and Wastewater Authority

Post retirement Benefits

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, beginning on the year ended December 31, 2007, the Authority recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability for the prior year, and provided information useful in assessing potential demands on the Authority's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2007 liability.

Plan Description

The Authority provides continuation of medical insurance coverage to employees that retire under the New York Retirement Systems at the same time they end their services to the Authority. Currently, there are no retirees receiving post retirement benefits. Based on the current employment policy, the retiree and his or her beneficiaries receive coverage for life of the retiree based on the retiree's years of service at retirement. A summary of benefits is as follows:

Years of Service	% Paid by Authority	
	Retiree	Dependent/Spouse
10–14	50%	35%
15–19	60%	45%
20–24	70%	55%
25+	80%	65%

Funding Policy

The Authority is currently not paying postemployment benefits for any individuals. Although the Authority is considering the establishment of trusts that would be used to accumulate and invest assets necessary to pay the accumulated liability, these financial statements assume the pay-as-you-go funding.

Dutchess County, New York
Notes to Financial Statements
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Annual Other Postemployment Benefit Cost

For the year ended December 31, 2010, the Authority's OPEB cost (expense) amounted to \$175,400 and was equal to the Annual Required Contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded liabilities over a period of 30 years.

Benefit Obligation at Normal Cost

Actuarial Accrued Liability (AAL)	
Retired employees (0)	\$ -
Active employees (20)	1,703,200
	<hr/>
Unfunded actuarial accrued liability (UAAL)	\$ 1,703,200
	<hr/> <hr/>

Level Dollar Amortization

Past Service Costs	\$ 64,800
Normal Costs	110,600
	<hr/>
Annual Required Contribution (ARC)	\$ 175,400
	<hr/> <hr/>
Percent of annual OPEB cost contributed	0%

Actuarial valuations of an ongoing plan involve estimates of the value reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funding status of the plan and the annual expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the August 1, 2009, actuarial valuation, the liabilities were computed using the projected unit credit method and level dollar amortization. The actuarial assumptions utilized a 5% baseline discount rate. Because the plan is unfunded, reference to the general assets, which are short-term in nature such as money market funds, was considered in the selection of the 5% rate. The valuation assumes an initial 10.5% healthcare cost inflation rate, reduced by decrements of .5% for the next 11 years at the time it would be 5%.

G. Self-Insurance - Workers' Compensation

Primary Government

The Dutchess County Self-Insured Workers' Compensation Plan was organized in 1980 to provide a program of workers' compensation coverage for its member organizations. All political subdivisions in the County of Dutchess are eligible to participate. The program's general objectives are to formulate, develop, and administer, on behalf of the member political subdivisions, a

Dutchess County, New York
Notes to Financial Statements
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program of workers' compensation insurance and to develop a comprehensive loss control program. Fund members are subject to a supplemental assessment in the event of deficiencies. If the assets of the Fund were to be exhausted, members would not be responsible for the Fund's liabilities but would remain responsible for their individual liabilities which would include their estimated claims and related administrative obligations. A Fund member would also be responsible for its individual liabilities if it were to withdraw from the Fund. Fund members currently include three towns, one village, Dutchess Community College, Dutchess County Resource Recovery Agency and Dutchess County. The activity of the Plan is recorded in the General Fund.

The Plan maintains insurance coverage for claims in excess of \$650,000.

The Plan establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following information supplied by the Plan Administrator represents changes in those aggregate liabilities for the Plan during the past two years:

	2010
Unpaid claims and claim adjustment expenses at beginning of year	\$ 26,695,521
Incurred claims and claim adjustment expenses:	
Provision for events of the current year	4,193,909
Decrease in provision for events of prior years	<u>(538,215)</u>
Total incurred claims and claim adjustment expenses	<u>30,351,215</u>
Payments:	
Claims and claim adjustment expenses attributable to events of the current year	258,028
Claims and claim adjustment expenses attributable to events of prior years	<u>1,594,409</u>
Total payments	<u>1,852,437</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u><u>\$ 28,498,778</u></u>

Summarized financial information for the self-insurance fund on the modified accrual basis at December 31, 2010 is as follows:

Total assets	\$ 6,018,740
Total revenues	\$ 1,147,813
Total expenses	\$ 387,041

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

5. Other Note Disclosures

Component Units

A. Condensed financial statements of component units

CONDENSED STATEMENT OF NET ASSETS

	Dutchess Community College	Resource Recovery Agency	Water and Wastewater Authority	Aggregated Non-Major Component Units	Total Aggregate Discretely Presented Component Units
Assets					
Cash and cash equivalents	\$ 23,162,674	\$ 237,770	\$ 3,475,122	\$ 2,609,156	\$ 29,484,722
Restricted cash and investments	245,610	11,457,960	9,974,736	18,726	21,697,032
Investments	5,695,539	-	-	-	5,695,539
Receivables, net	5,814,675	2,249,378	1,214,543	69,670	9,348,266
Inventories	664,443	-	-	-	664,443
Due from other governments	-	842,498	-	73,563	916,061
Other assets	829,426	792,028	1,103,120	750	2,725,324
Capital assets, net	<u>57,045,374</u>	<u>32,389,212</u>	<u>52,872,151</u>	<u>1,975</u>	<u>142,308,712</u>
Total assets	<u>93,457,741</u>	<u>47,968,846</u>	<u>68,639,672</u>	<u>2,773,840</u>	<u>212,840,099</u>
Liabilities					
Accounts payable and accrued liabilities	5,436,105	4,697,833	757,861	84,816	10,976,615
Deferred revenue	4,646,232	478,012	28,103,823	-	33,228,067
Due to other governments	-	698,214	11,441	563	710,218
Due within one year	1,294,955	3,075,000	3,959,036	-	8,328,991
Due within more than one year	<u>54,496,032</u>	<u>26,604,276</u>	<u>35,806,338</u>	<u>-</u>	<u>116,906,646</u>
Total liabilities	<u>65,873,324</u>	<u>35,553,335</u>	<u>68,638,499</u>	<u>85,379</u>	<u>170,150,537</u>
Net Assets (Deficit)					
Invested in capital, net of related debt	32,989,631	3,210,199	(1,577,191)	1,975	34,624,614
Restricted	4,968,657	11,457,960	2,300,496	34,404	18,761,517
Unrestricted	<u>(10,373,871)</u>	<u>(2,252,648)</u>	<u>(722,132)</u>	<u>2,652,082</u>	<u>(10,696,569)</u>
Total net assets (deficit)	<u>\$ 27,584,417</u>	<u>\$ 12,415,511</u>	<u>\$ 1,173</u>	<u>\$ 2,688,461</u>	<u>\$ 42,689,562</u>

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

CONDENSED STATEMENT OF ACTIVITIES

	Dutchess Community College	Resource Recovery Agency	Water and Wastewater Authority	Aggregated Non-Major Component Units	Total
Operating expenses					
Disposal fees	\$ -	\$ 2,424,357	\$ -	\$ -	\$ 2,424,357
Service fees	-	11,152,987	-	-	11,152,987
Administrative expenses	5,576,024	1,456,522	1,385,096	-	8,417,642
Interest expense	1,594,667	1,457,216	1,687,720	-	4,739,603
Depreciation	2,224,185	2,143,993	980,761	915	5,349,854
Amortization	-	94,552	76,250	-	170,802
Instruction	29,919,726	-	-	-	29,919,726
Public service	439,253	-	-	-	439,253
Academic support	3,946,007	-	-	-	3,946,007
Libraries	1,299,447	-	-	-	1,299,447
Student services	6,280,053	-	-	-	6,280,053
General institution	7,334,527	-	-	-	7,334,527
Operation and maintenance of plant	8,816,648	-	3,227,325	-	12,043,973
Student aid	5,222,658	-	-	-	5,222,658
Auxiliary	-	-	-	-	-
Bookstore	-	-	-	-	-
Food service and other	-	-	-	-	-
Day care	-	-	-	-	-
Personal services	-	-	-	315,537	315,537
Employee benefits	-	-	-	123,406	123,406
Purchases and contracted services	-	-	40,234	364,483	404,717
Other	4,701,802	-	-	18,317	4,720,119
Total operating expenses	77,354,997	18,729,627	7,397,386	822,658	104,304,668
Program revenues					
Tipping fees	-	12,202,295	-	-	12,202,295
Energy sales	-	2,885,335	-	-	2,885,335
Other charges for services	2,477,019	-	4,534,209	480,577	7,491,805
Student tuition and fees	20,008,932	-	-	-	20,008,932
Grants and contracts	12,730,511	-	-	-	12,730,511
Auxiliary	-	-	-	-	-
Bookstore	-	-	-	-	-
Other	9,773,301	1,523	17,240	81,485	9,873,549
Operating grants and contributions	16,953,052	173,831	-	200,428	17,327,311
Capital grants and contributions	2,807,454	-	58,607	-	2,866,061
Total program revenues	64,750,269	15,262,984	4,610,056	762,490	85,385,799
Net program expense	(12,604,728)	(3,466,643)	(2,787,330)	(60,168)	(18,918,869)

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

	Dutchess Community College	Resource Recovery Agency	Water and Wastewater Authority	Aggregated Non-Major Component Units	Total
General revenues					
Payments from					
Dutchess County	10,837,899	4,012,233	2,965,185	270,905	18,086,222
Unrestricted interest earnings and other	(802,491)	234,129	502,896	18,249	(47,217)
Total general revenues	<u>10,035,408</u>	<u>4,246,362</u>	<u>3,468,081</u>	<u>289,154</u>	<u>18,039,005</u>
Change in net assets (deficit)	(2,569,320)	779,719	680,751	228,986	(879,864)
Beginning net assets	<u>30,153,737</u>	<u>11,635,792</u>	<u>(679,578)</u>	<u>2,459,475</u>	<u>43,569,426</u>
Ending net assets (deficit)	<u>\$ 27,584,417</u>	<u>\$ 12,415,511</u>	<u>\$ 1,173</u>	<u>\$ 2,688,461</u>	<u>\$ 42,689,562</u>

B. Related Party Transactions

Primary Government:

The following schedule presents significant transactions between the primary government and its component units during the year ended December 31, 2010:

	Component Unit	Nature of Transaction
Community College	\$ 10,837,899	Operating and Capital Support
Resource Recovery Agency	4,012,233	Net Service Fees
Water and Wastewater Authority	2,965,185	Net Service Fee
Soil and Water Conservation District and IDA	270,905	Charges for Services
	<u>\$ 18,086,222</u>	

There was one related party receivable included in due from other governments in the County's financial statements for \$11,441 from the Water and Wastewater Authority. There was one related party payable that is included in due to other governments on the County's financial statements. This is due to the Resource Recovery Agency for \$817,509.

Component Units:

Resource Recovery Agency:

Dutchess County is responsible for net service fees due to the Agency. These fees amounted to \$4,012,233 in 2010. At December 31, 2010, \$817,509 was due from Dutchess County and included in Due from other governments.

In addition, Dutchess County allows the Agency to use the building designated for the Dutchess County Materials Recovery Facility rent-free. The Agency is only responsible for the repairs and maintenance on the building.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

Net asset amounts considered to be restricted or invested in capital-type assets, net of related debt as of December 31, 2008, have been reclassified to conform to the 2009 presentation. That presentation allocates accrued and accreted interest liabilities as a reduction of the related restricted cash first and a reduction of unrestricted net assets second, rather than the related capital-type asset. There is no effect on total net assets.

Water and Wastewater Authority:

The Authority has entered into a service agreement with Dutchess County to provide water service and receive a service fee from Dutchess County based on a contractual formula, generally when revenues are insufficient to cover certain operating expenses and debt service requirements. The Authority also receives payments from Dutchess County for the completion of certain consulting projects. Although these payments are subject to budgetary resolutions by the Dutchess County Legislature for approval, no approvals have been withheld by the Legislature. For the year ended December 31, 2010, the Authority recorded revenues of \$11,441 that was due to the County.

C. Commitments and Contingencies

Primary Government:

Grant Programs

The County participates in a number of grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of these programs may be conducted, in accordance with grantor requirements, on a periodic basis. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County believes, based upon its review of current activity and prior experience, the amount of such disallowances, if any, will be minimal.

Litigation

The County is a defendant in a number of lawsuits. In the opinion of the County Attorney, after considering all relevant facts including discussions with outside counsel in certain instances, such litigation will not in the aggregate have a material adverse effect on the financial position or results of operations of the County. At December 31, 2008, a liability of \$1,000,000 has been recorded in the caption "Judgments and claims" on the government-wide statement of net assets. Such estimate is based upon individual cases reported at December 31, 2010 for which the estimate of possible exposure is a range between \$1,000,000 and \$3,000,000.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

Commitments

The County had the following outstanding construction projects in progress as of December 31, 2010, as evidenced by contractual commitments.

Project	Commitment Remaining
Transportation	\$ 468,842
Airport	1,042,067
FMS system	6,067
Building and Building improvement	465,826
Criminal justice system	184,375
Emergency response training room	40,619
Highway equipment	296,594
Digital contour and mapping	6,455
County road	4,139,969
County bridges	366,928
Parks and recreation	<u>3,596,729</u>
	<u>\$ 10,614,471</u>

In 2006, the County entered into the Dutchess Utility Corridor Contract with Dutchess County Water and Wastewater Authority. The contract requires Dutchess County to provide \$10,375,000 to the Authority to pay for certain project costs. The County, in exchange, will receive the rights to utilize 50% of the capacity of the new system and be paid a service fee by the Authority for its usage of the line in conjunction with their operations. At December 31, 2009, the County has provided \$9,782,436 to the Authority which is reflected as "Other Assets" in the Statement of Net Assets. The project is being amortized on a straight-line basis over the next 40 years with amortization expense of \$274,571 in 2010.

Component Units:

Dutchess Community College

Contingencies

The College has received Federal and State Aid and Grants which are subject to audit by agencies of the Federal and State governments. Such audits may result in disallowance and a request for a return of funds to the Federal and State governments. The College believes disallowances, if any, will be immaterial.

The College is a defendant in several lawsuits. While the outcome of these lawsuits or other proceedings against the College cannot be predicted with certainty, the College does not expect that these matters will have a material adverse effect on its financial position.

Dutchess County, New York

Notes to Financial Statements

December 31, 2010

Rate Adjustment – Operating Chargebacks

The College is authorized by the New York State Education Law to charge and collect from each county within the State for each nonresident student an allocable portion of the operating costs of the College. The College calculates this charge on a yearly basis and bills the respective counties at this rate. This rate is adjusted by the State on a yearly basis.

Risk Management

The College is one of six participants in the Dutchess County Workers' Compensation Self Insurance Plan, a risk sharing pool, administered by Dutchess County, to insure workers' compensation claims. This is a public entity risk pool created under Article 5, Workers' Compensation Law, to finance liability and risks related to workers' compensation claims.

The College is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets and natural disasters. These risks are covered by a County-wide self-insurance program supplemented by commercial insurance purchased by Dutchess County that extends coverage to the College. The self-insured retention under these policies is \$1,000,000.

Resource Recovery Agency

Solid Waste Disposal Service Agreement

The Agency and Dutchess County entered into a solid waste disposal service agreement dated December 1, 1984, amended September 20, 1990 and September 1993. The County agreed to deliver at least 140,000 tons per year of solid waste to the plant and to pay net service fees to the Agency amounting to the excess of payments for debt service and reserves, fees to the contractor and accrued expenses over tipping fees, energy and other revenues. It is the Agency's obligation to process and to provide for disposal of the solid waste. The terms of the agreement were extended during 2007 to remain in effect through July 1, 2027.

Operations Service Agreement

The Agency has entered into an operations service agreement, with a commercial corporation wherein the corporation has agreed to operate the resource recovery plant, and the Agency is required to provide the plant with a guaranteed amount of solid waste, provide an ash landfill, and pay fees to the corporation. The agreement is to be in effect through June 2014.

The Agency has contracted to pay to the corporation \$34 per net ton of solid waste processed, adjusted based upon changes in labor and material price indexes, 15% of revenues from energy sales and 50% of revenues from energy sales in excess of agreed-upon levels, and, after meeting certain stream production levels, additional compensation based on 15% of the related electrical energy sales. In addition, the Agency has contracted to pay utilities, insurance and certain other expenses pertaining to plant operations subject to certain maximum levels.

In addition, the Agency is required to pay the corporation \$500,000 per year, plus an adjustment for price index increases to reimburse the corporation for repairs and replacement of major components of the plant.

The Agency's current operating permit allows for up to 164,000 tons to be delivered to the plant. However, the Agency is required to supply the corporation with a minimum of 140,000 tons or pay the corporation \$34 a ton for each ton of solid waste below that amount which is not delivered to the plant adjusted based upon changes in labor and material price indexes. However, during 2010 the Agency caused to have delivered 149,695 acceptable tons.

Dutchess County, New York

Notes to Financial Statements

December 31, 2010

Power Sales Agreement

The Agency and a commercial corporation have entered into a power sales agreement dated November 1, 1984. The Agency agrees to sell all electricity produced by the plant in excess of its own requirements to the corporation at a price based on tariffs filed with the New York State Public Service Commission. The terms of the agreement are effective through January 1, 2008 and include provisions for an automatic renewal for two consecutive 5-year periods.

Transportation of Ash Residue and Nonprocessable Waste

Effective January 2, 1999, the Agency executed a contract with a commercial corporation for the transportation of ash residue and nonprocessable waste to a municipal landfill for the period of January 2, 1999 through December 31, 2001 for incineration residue up to 40,000 tons per year, and up to 6,000 tons for unprocessed waste per year. The contract has continued in effect through report date on similar terms.

Commencing in November 2004, the Agency executed an amendment to the contract that the commercial corporation shall deliver up to 10,000 tons per year at a cost of \$25 per ton to an alternate landfill site.

Landfill Agreement

As of January 2008, the Agency entered into contracts with four different landfills to deliver ash residue and by-pass waste. Three of the contracts with the landfills are five year agreements which will expire on December 31, 2012. The fourth contract was renewed as of December 31, 2009 for two years and will expire on December 31, 2011. The terms of these agreements vary based on amount of tons that can be delivered to each landfill and the cost per ton.

Recyclable Processing Agreement

The Agency and Dutchess County entered into a revised recyclable processing agreement dated February 1, 1999. The County agreed to deliver at least 125 tons per week of uncontaminated recyclable materials to the Materials Recovery Facility, and it is the Agency's obligation to accept, process, and market recyclable materials. The Agency shall have the right to charge the County and the County shall have the obligation to pay the Agency net processing fees, as defined in the contract. The original terms of the agreement were in effect through December 2002, but include provisions for automatic renewal in five-year increments.

Materials Recovery Facility Project Agreement

The Agency entered into an agreement through December 31, 2008, with a commercial corporation to operate its materials recovery facility. This agreement has been on a month-to-month basis with the same commercial corporation for 2009. The Agency will provide the plant with commingled and source separated recyclable materials, provide for the removal and disposal of rejected materials, and pay to the corporation service fees to operate the facility at an annual rate of \$300,000 for the year ending December 31, 2010.

Economic Dependency

The Agency is entitled to receive net service fees from Dutchess County based on a contractual formula, generally when revenues are insufficient to cover operating expenses and debt service requirements. Although these payments are subject to resolutions by the Dutchess County Legislature approving the appropriation, no approvals have been withheld by the Legislature. For the year ended December 31, 2010, the Agency recorded net service revenue of \$4,012,233.

Dutchess County, New York
Notes to Financial Statements
December 31, 2010

Operating Permits

The Agency is required to maintain operating permits for its small power production and solid waste management facility which currently expire in July 2011.

The Agency is in the process of finalizing its 2009 annual engineer report with the corporation that is operating the resource recovery plant. Certain amounts and calculations from the final engineer report may vary based on continuing negotiations between the Agency and the corporation.

Water and Wastewater Authority

The Authority is subject to various litigation and claims arising out of the course of its operations. While the results of the lawsuits cannot be predicted with certainty, management does not believe these matters will have an adverse effect on the Authority's overall financial position.

The Authority assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Such risks are covered by the purchase of commercial insurance. Workers compensation coverage is provided through a retrospective policy, wherein premiums are recorded based on the ultimate cost of the experience to date of workers in similar occupations. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The Authority has purchased insurance with limits as follows: umbrella coverage of \$20,000,000, business auto of \$1,000,000, general liability of \$3,000,000, property of \$32,863,374 and workers compensation of \$100,000.

Authorized Debt

In February 2004, the Authority authorized the issuance of up to \$625,000 in debt to fund renovations to the Fairview Pump Station. These renovations are part of the improvements needed to supply increased transmission capacity to the Dutchess Central Utility Corridor pipeline described above. No debt has been issued under this authorization, and current plans provide for the use of Corridor funds instead.

Economic Dependency

The Authority has entered into a service agreement with Dutchess County to provide water service and receive a service fee from Dutchess County based on a contractual formula, generally when revenues are insufficient to cover certain operating expenses and debt service requirements. The Authority also receives payments from Dutchess County for the completion of certain consulting projects. Although these payments are subject to budgetary resolutions by the Dutchess County Legislature for approval, no approvals have been withheld by the Legislature. For the year ended December 31, 2010, the Authority recorded revenue of \$2,965,185 and at December 31, 2010, \$11,441 was due to the County. Since the Authority is a component unit of Dutchess County, these transactions are also considered related party transactions.

Dutchess County, New York
Budgetary Comparison Schedule of the General Fund - RSI
Year Ended December 31, 2010

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
Budgetary fund balance, January 1	\$ 51,844,318	\$ 51,844,318	\$ 56,835,570	\$ 4,991,252
Resources (inflows)				
Real property taxes	91,833,758	91,833,758	95,283,341	3,449,583
Sale and use taxes	128,512,157	156,961,218	154,170,385	(2,790,833)
Other taxes	6,352,700	6,352,700	3,681,940	(2,670,760)
Departmental	30,718,528	30,806,028	29,875,006	(931,022)
Interest and rentals	2,327,168	2,327,168	1,107,371	(1,219,797)
Grants and aid	103,761,461	106,829,576	115,903,348	9,073,772
Miscellaneous	3,559,652	3,749,261	11,221,047	7,471,786
Transfers in	-	-	698,909	698,909
Proceeds of obligations	-	-	-	-
Self insurance (added to departmental, misc. interest, transfer)	2,184,372	2,184,372	-	(2,184,372)
Appropriated reserve	-	148,870	-	(148,870)
Appropriated fund balance	17,723,651	20,724,530	-	(20,724,530)
Total revenues and appropriation of prior year's fund balance	<u>386,973,447</u>	<u>421,917,481</u>	<u>411,941,347</u>	<u>(9,976,134)</u>
Expenditures				
General government	36,223,546	64,232,899	64,099,497	133,402
Education	1,954,310	1,954,310	1,952,830	1,480
Public safety	55,364,302	57,650,953	54,355,405	3,295,548
Health	66,337,107	66,213,904	59,569,469	6,644,435
Transportation	3,022,074	2,888,779	2,864,510	24,269
Economic assistance and opportunity	134,108,616	137,773,439	141,553,184	(3,779,745)
Culture and recreation	2,969,380	2,968,553	2,688,979	279,574
Home and community services	7,651,573	9,457,249	10,884,579	(1,427,330)
Employee benefits	49,346,719	48,755,936	46,021,322	2,734,614
Debt service				
Principal retirement	10,542,183	10,542,183	10,542,183	-
Interest	4,061,191	4,061,191	4,061,188	3
Self insurance	2,184,372	2,184,372	(162,959)	2,347,331
Transfer out	13,208,074	13,233,713	13,783,713	(550,000)
Total expenditures	<u>386,973,447</u>	<u>421,917,481</u>	<u>412,213,900</u>	<u>\$ 9,703,581</u>
Fund balance, December 31	<u>\$ 51,844,318</u>	<u>\$ 51,844,318</u>	<u>\$ 56,563,017</u>	

Dutchess County, New York
Notes to Required Supplementary Information – General Fund
Year Ended December 31, 2010

**Explanation of Differences between Budgetary Inflows and Outflows and
GAAP Revenues and Expenditures**

	General Fund
Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 411,941,347
Differences—budget to GAAP	
Transfers from other funds are inflows of budgetary resources but are not <i>revenues</i> for financial reporting purposes.	<u>(698,909)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u><u>\$ 411,242,438</u></u>
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 412,213,900
Differences—budget to GAAP:	
Transfer to other funds are outflows of budgetary resources but are not expenses for financial reporting purposes	<u>(13,783,713)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u><u>\$ 398,430,187</u></u>

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APPENDIX E

The Resolution

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DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY

and

THE BANK OF NEW YORK,
as Trustee

1998 WATER SYSTEM
GENERAL REVENUE BOND RESOLUTION

Dated as of June 1, 1998

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ACKNOWLEDGMENTS

WATER SYSTEM GENERAL REVENUE BOND RESOLUTION

W I T N E S S E T H:

WHEREAS, capitalized terms shall have the meaning ascribed to them in this Resolution; and

WHEREAS, the Authority is a body corporate and politic, constituting a public benefit corporation of the State of New York; and

WHEREAS, the Authority is authorized under the Act to issue bonds, notes or other obligations to pay the Cost of any Project, including the acquisition of Projects by the Authority from any Municipality, including Hyde Park and the County, or for any other corporate purpose, including the establishment of reserves to secure the Bonds, the payment of principal of, premium, if any, and interest on the Bonds and the payment of incidental expenses in connection therewith; and

WHEREAS, Hyde Park has sold, transferred and otherwise conveyed Hyde Park's title and interest in the Hyde Park Water System to the Authority, and the County has sold, transferred and otherwise conveyed the County's title and interest in the Staatsburg Water System to the Authority; and

WHEREAS, the Authority has caused to be prepared the Route 9 Plans and Specifications for the Route 9 Connecting Main; and

WHEREAS, to pay Costs of acquiring the Water System and of constructing the Route 9 Connecting Main the Authority has issued its 1998 Bonds; and

WHEREAS, pursuant to the Service Agreement (i) the Authority, among other things, has agreed to use its best efforts to issue Additional Indebtedness from time to time for purposes specified in the Service Agreement, (ii) covenanted to set and collect rates, fees and charges, to the extent provided therein, sufficient to, among other things, pay the costs of operating and maintaining the Water System, and (iii) covenanted to operate and maintain the Water System; and

WHEREAS, the Authority has determined that the public interest will be best served and that the purposes of the Act can be more advantageously obtained by the Authority issuing bonds, notes and other obligations hereunder in one or more series pursuant to supplemental resolutions from time to time for the purposes authorized by the Act.

NOW, THEREFORE, BE IT RESOLVED by the Governing Board of the Authority as follows:

In order to secure (i) the payment of principal or redemption price of and interest on all Bonds issued and Outstanding under this Resolution according to their tenor, purport and effect, (ii) all Payment Obligations, (iii) any Subordinated Indebtedness, and (iv) the performance and observance of all the covenants, promises, stipulations, agreements, terms, provisions and conditions contained in the Bonds, any Subordinated Indebtedness and in this Resolution (i), (ii), (iii) and (iv) collectively, the "Secured Obligations"), and for and in consideration of the purchase and acceptance of the Bonds by the Beneficial Owners in the case of Bonds issued pursuant to the Book-Entry System and Registered Owners in the case of Bonds issued in certificated form and of the acceptance by the Trustee of the trust hereby created, the Authority, intending to be legally bound, does hereby pledge and grant a security interest unto the Trustee and its successors in the trust and its assigns, in and to the following:

FIRST GRANTING CLAUSE

Subject only to the right of the Authority to apply Revenues to pay operating expenses, all right, title and interest of the Authority in and to Revenues.

SECOND GRANTING CLAUSE

All right, title and interest of the Authority in and to the Service Agreement, provided that the Authority shall have full right to act in its own behalf under the Service Agreement as long as there shall not have occurred and be continuing an Event of Default hereunder.

THIRD GRANTING CLAUSE

All right, title and interest of the Authority in and to all money and Investment Securities from time to time held by the Trustee in any fund or account created hereunder; provided, however, that money and Investment Securities held in the Rebate Fund established under Section 5.12 hereof shall be applied solely to pay the Rebate Amount to the United States and shall not be available for the payment of any Secured Obligations and any amounts held by the Trustee to pay the purchase price of any Bonds tendered for purchase in accordance with a Supplemental Resolution shall be held exclusively for the benefit of the Registered Owners of such Bonds.

FOURTH GRANTING CLAUSE

Any and all other property rights and interests of every kind and nature from time to time hereafter by delivery or by writing of any kind granted, bargained, sold, alienated, demised, released, conveyed, assigned, transferred, mortgaged, pledged, hypothecated or otherwise subjected hereto, as and for additional security herewith, by the Authority or any other Person on its behalf or with its written consent, and the Trustee is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof.

FIFTH GRANTING CLAUSE

All rights and privileges of every kind and nature appurtenant to the properties described in First, Second, Third and Fourth Granting Clauses hereof, all proceeds thereof, and all the right, title and claim whatsoever, at law as well as in equity, which the Authority now has or may hereafter acquire in and to the property described in the above Granting Clauses, or any part thereof, whether now owned or hereafter acquired.

TO HAVE AND TO HOLD all and singular the Trust Estate sold, assigned, transferred, pledged and set over by the Authority as aforesaid or intended so to be, unto the said Trustee and its successors and assigns, forever.

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth, (i) for the equal and proportionate benefit, security and protection of all present and future Holders of the Bonds issued under and secured by this Resolution without privilege, priority or distinction as to the Lien or otherwise of any of the Bonds over any of the other Bonds except as otherwise expressly provided herein, (ii) for the benefit of any and all Credit Facility Providers as their interests may appear, and (iii) for the benefit of the holder of any Subordinated Indebtedness, expressly as provided herein;

PROVIDED, HOWEVER, that if the Authority shall (i) well and truly pay, or cause to be paid, all Secured Obligations, at the times and in the manner specified therefor according to the true intent and meaning thereof, or shall provide for the payment thereof as permitted hereunder and (ii) well and truly keep, perform and observe all of the Secured Obligations other than Payment Obligations to be kept, performed and observed by it, and (iii) pay or cause to be paid to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions hereof, then upon such final payments and performance this Resolution and the rights hereby granted, and all interest of the Trustee in the Trust Estate, shall cease, terminate and be void, and the Trustee shall forthwith release, surrender and otherwise cancel any interest it may have in this Resolution, otherwise this Resolution to be and remain in full force and effect; and

PROVIDED, FURTHER, HOWEVER, that if there is in effect a Credit Facility issued concurrently with the delivery of any series of Bonds and being security for such series of Bonds, or any replacement thereof permitted in accordance with any Supplemental Resolution pursuant to which the applicable Bonds were issued and there is not then in existence and continuing a Credit Facility Default with respect to any such Credit Facility, the pledge of the Resolution, to the Trustee as security for the Bonds shall be terminated and of no effect only if each Credit Facility Provider shall so notify the Trustee in writing;

AND IT IS HEREBY COVENANTED AND AGREED by and between the parties hereto, that the terms and provisions upon which the Bonds are to be issued, executed, authenticated, delivered and secured, and the trusts and conditions upon which the Trust Estate is to be held and disposed of, which said trust and conditions the said Trustee hereby accepts and agrees to discharge, are as follows:

ARTICLE I.

GENERAL PROVISIONS.

SECTION 1.1. Authority for the Resolution. This Resolution is entered into by virtue of the Act and pursuant to its provisions, and the Authority has ascertained and hereby determines that each and every matter and thing as to which provision is made in this Resolution is necessary in order to further secure the payment of the Secured Obligations and to carry out and effectuate the purposes of the Authority in accordance with the Act.

SECTION 1.2. Resolution to Constitute Contract. In consideration of the purchase and acceptance of the Secured Obligations and, without limitation, the Bonds by the Beneficial Owners in the case of Bonds issued pursuant to the Book-Entry System and Registered Owners in the case of Bonds issued in certificated form from time to time, the provisions of this Resolution shall be deemed to be and shall constitute a contract between the Authority, the Trustee and Holders of the Secured Obligations, and, without limitation, the Registered Owners from time to time of the Bonds and the covenants and agreements herein set forth to be performed on behalf of the Authority shall be for the equal benefit, protection and security of the Registered Owners of any and all of the Bonds, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof except as expressly provided herein.

SECTION 1.3. Scope of Resolution. Nothing in this Resolution shall limit the power of the Authority to issue obligations of the Authority outside this Resolution for any lawful purpose of the Authority or from granting liens on the Pledged Revenues which are expressly subordinate to the Lien of

this Resolution or from granting liens of any priority on revenues of the Authority which are not Revenues as defined herein.

SECTION 1.4. Construction. (a) In this Resolution (except as otherwise expressly provided or unless the context clearly otherwise requires) the singular includes the plural, the masculine includes the feminine, all definitions and references to documents include all amendments or supplements thereto, and all definitions and references to Persons or entities include their respective successors and assigns.

(b) Words importing the "redemption" "redeemed" or "calling for redemption" of Bonds do not include or connote the payment of Bonds at their stated maturity, or the payment of Bonds upon declaring such Bonds due and payable in advance of their maturity, or the purchase of Bonds.

(c) All references in this Resolution to designated "Articles," "Sections" and other subdivisions of this Resolution are to the designated Articles, Sections or other subdivisions of this instrument as amended from time to time. The words "herein," and "hereunder" and other words of similar import refer to this Resolution as a whole and not to any particular Article, Section or other subdivision unless otherwise specified.

SECTION 1.5. Definitions. The following terms whenever used in this Resolution shall have the meanings set forth in this Section except as otherwise expressly provided or unless the context clearly requires otherwise:

"Accountant" means such independent certified public accountant or accounting firm as shall at the time be employed by the Authority for the purpose of performing the functions and duties of the independent certified public accountant under this Resolution or the Act.

"Accreted Value" means at any particular time, the value of any Capital Appreciation Indebtedness or any Compound Interest Indebtedness used for the purpose of determining any required principal amount for Bondholders' consents or approvals, the amount of Bonds Outstanding, the redemption price of such Indebtedness or the priority of any claim for payment of interest or principal upon the occurrence of an Event of Default, and as otherwise provided in the Supplemental Resolution authorizing the issuance of any such Capital Appreciation Indebtedness or Compound Interest Indebtedness.

"Accrued Debt Service" means for any calendar month, the sum of Accrued Interest and Accrued Principal for that month for all Outstanding Bonds.

"Accrued Interest" means for any calendar month, the interest component of Debt Service Requirements which has accrued or will accrue on any particular series of Outstanding Bonds during that month less (i) any interest component which accrues during such period, which is to be paid from money or Investment Securities or the earnings thereon, which money or Investment Securities are on deposit in a separate fund or account, such as a capitalized interest sub-account, or are otherwise segregated for such purpose, and (ii) any interest which has accrued but is not due and payable within the twelve (12) month period immediately following such accrual. For purposes of this definition the interest component which has accrued but is not due and payable within the twelve (12) month period immediately following such accrual shall be included as Accrued Interest in twelve (12) equal consecutive monthly installments commencing on the twelfth month preceding the payment date. A Supplemental Resolution authorizing the issuance of Additional Parity Indebtedness, with the consent of each Credit Facility Provider, may modify or amend this definition of Accrued Interest for such Additional Parity Indebtedness.

"Accrued Principal" means for any calendar month, the principal component of Debt Service Requirements which has "accrued" or will "accrue" on a particular series of Outstanding Bonds during that month less any principal component which accrues during such period but is to be paid from money or Investment Securities or the earnings thereon which money or Investment Securities are on deposit in a separate fund or account or are otherwise segregated for such purpose. For purposes of this definition, it shall be assumed that the principal component accrues in twelve (12) equal monthly installments commencing on the twelfth month preceding the date on which payment is due, except that (i) with respect to the principal component of a series of Bonds which is payable more frequently than annually, the principal component shall accrue in equal monthly installments from one payment date to the next; (ii) if the first principal payment date on a series of Bonds is less than twelve (12) months after the issuance of such series of Bonds, the principal component due on such first payment date shall accrue in equal monthly installments from the date of issuance to the first payment date, and (iii) with respect to Balloon Indebtedness, the principal component maturing or payable on one date shall be deemed to accrue in the month in which such component matures or is payable and not in monthly installments prior to such date. In all events, principal shall be determined to accrue in monthly amounts sufficient to assure the full amount due on any principal payment date and to be paid from the Debt Service and Sinking Fund will be on deposit in the Debt Service and Sinking Fund on the payment date. If an Event of Default occurs and Bonds have been declared to be due and payable as provided in this Resolution, then, in each calendar month, the entire unpaid principal of all Bonds which have been accelerated shall be deemed to have accrued in that calendar month. A Supplemental Resolution authorizing the issuance of Additional Parity Indebtedness, with the consent of each Credit Facility

Provider, may modify or amend this definition of Accrued Principal with respect to such Additional Parity Indebtedness.

"Act" means (i) the Dutchess County Water and Wastewater Authority Act, being Title 6-C of Article 5 of the Public Authorities Law as enacted by Chapter 592 of the Laws of 1991 of the State, as it may from time to time be amended and (ii) any rules or regulations promulgated by the Authority pursuant to the Act as the same may from time to time be modified or amended.

"Act of Bankruptcy" means with respect to any Person the occurrence of one of the following events: (a) the Person shall become insolvent or shall fail to pay its debts generally as they become due, or shall admit in writing its inability to pay any of its indebtedness; (b) the Person shall file a case under the Federal Bankruptcy Code to be declared a bankrupt or for reorganization; (c) the Person shall consent to, or petition or apply to any authority for the appointment of a receiver, liquidator, trustee or similar official for itself or for all or any part of its properties; (d) any such receiver, liquidator, trustee or similar official shall otherwise have been appointed and shall not have been removed, dismissed or stayed within sixty (60) days of such appointment; or (e) insolvency, reorganization, arrangement or liquidation proceedings (or similar proceedings) shall have been instituted by or against the Person, and if instituted against the Person, shall not have been dismissed within sixty (60) days of being instituted.

"Additional Indebtedness" means any Indebtedness incurred by the Authority and issued hereunder subsequent to the issuance of the 1998 Bonds. Additional Indebtedness may constitute Additional Parity Indebtedness, Subordinated Indebtedness, Credit Notes or any combination thereof.

"Additional Parity Indebtedness" means any Indebtedness of the Authority incurred pursuant to Article III hereof secured by a Lien on the Trust Estate on a parity basis with the 1998 Bonds.

"Advance-Refunded Municipal Bonds" means obligations the interest on which is excluded from gross income for purposes of federal income taxation that have been advance-refunded prior to their maturity and that are fully and irrevocably secured as to principal and interest by Government Obligations described in subparagraphs (a), (b) or (n) of the definition of Investment Securities held in trust for the payment thereof, which Advance-Refunded Municipal Bonds are rated in the highest rating category by each Rating Agency that, pursuant to the request of the Authority, maintains a credit rating with respect to such Advance-Refunded Municipal Bonds.

"Authority" means the Dutchess County Water and Wastewater Authority, a body corporate and politic constituting a public benefit corporation created and existing under and by virtue of the Act.

"Authority Budget" shall mean the annual budget of the Authority, as amended or supplemented, adopted or in effect for a particular Fiscal Year, as provided in Section 9.7 hereof.

"Authorized Denominations" means (i) with respect to the 1998 Bonds, a minimum denomination of \$5,000 and integral multiples thereof, except with respect to Compound Interest Indebtedness which shall have a minimum denomination in \$5,000 maturity amounts and integral multiples thereof, and (ii) with respect to any Additional Indebtedness, a minimum denomination specified in the Supplemental Resolution under which such Additional Indebtedness is issued.

"Authorized Newspaper" means a newspaper selected by the Trustee printed in the English language and customarily published at least five (5) days each week and generally circulated within the Borough of Manhattan, City and State of New York, and when successive publications in an Authorized Newspaper are required, they may be made in the same or different Authorized Newspapers.

"Authorized Representative" or "Authorized Officer" means, with respect to the Authority, the Chairperson, Vice Chairperson, Treasurer or Secretary thereof, or any other officer or person authorized to perform specific acts or duties by resolution duly adopted by the Governing Board of the Authority and in the case of any Credit Facility Provider, the President or any Vice President of the Credit Facility Provider, or any other officer authorized to perform specific acts or duties by resolution duly adopted by the Board of Directors, or relevant committee thereof, of the Credit Facility Provider.

"Balloon Indebtedness" shall mean Indebtedness fifty percent (50%) or more of the initial principal amount of which matures or is payable at the option of the holders thereof on the same date, which portion of the principal is not required by the documents governing such Indebtedness to be amortized by redemption prior to such date. In calculating the Debt Service Requirement for purposes of determining the Debt Service Reserve Requirement or compliance with Additional Parity Indebtedness requirements, the Debt Service Requirement for such Indebtedness during such Fiscal Year shall be determined in accordance with the provisions of the Supplemental Resolution authorizing the issuance of such Balloon Indebtedness.

"Beneficial Owners" means purchasers of Bonds whose ownership interest is evidenced only in the Book-Entry System maintained by the Depository.

"Bond" or "Bonds" means the 1998 Bonds and any Additional Parity Indebtedness issued pursuant to this Resolution.

"Bond Counsel" means Willkie Farr & Gallagher or any other nationally recognized counsel experienced in matters of municipal

law and the tax-exempt status of obligations under the Code, acceptable to the Authority.

"Bondholder," "Holder," "holder" and "Registered Owner" means the Depository or its nominee, if the Book-Entry System maintained by the Depository pursuant to Section 2.6 is in effect, or the person in whose name any Bond is registered in the Bond Register System maintained by the Trustee pursuant to Section 2.7 hereof.

"Bond Redemption and Accumulated Surplus Fund" means the fund so designated which is created by Section 5.11 hereof.

"Bond Register System" means a system of Ownership and transfer of Bonds registered on the registration books of the Authority kept for that purpose by the Trustee, as Bond register.

"Book-Entry System" means a system for clearing and settlement of securities transactions among participants of a Depository (and other parties having custodial relationships with such participants) through electronic or manual book-entry changes in accounts of such participants maintained by the Depository for recording ownership of the Bonds by Beneficial Owners and transfers of ownership interests in the Bonds.

"Business Day" or "business day" means any day (other than Saturday or Sunday) during which (i) commercial banks located in the State or in any of the cities in which the Principal Office of the Trustee or the office of any then current Credit Facility Provider at which a draw or claim on the Credit Facility is to be made are located are not required or authorized by law to close; and (ii) The New York Stock Exchange, Inc. is not closed.

"Capital Appreciation Indebtedness" and "Compound Interest Indebtedness" mean any Bonds and any Additional Indebtedness with a stated value at maturity, the interest on which is not payable until maturity or earlier redemption. In calculating the Debt Service Requirement in any Fiscal Year for Capital Appreciation Indebtedness or Compound Interest Indebtedness for purposes of determining the Debt Service Reserve Requirement or compliance with Additional Parity Indebtedness requirements, the Debt Service Requirement for such Indebtedness during such Fiscal Year shall be determined in accordance with the provisions of the Supplemental Resolution authorizing the issuance of such Capital Appreciation Indebtedness or Compound Interest Indebtedness.

"Code" means the Internal Revenue Code of 1986, as amended, and with respect to a specific section thereof, such reference shall be deemed to include (i) the regulations promulgated under such section, (ii) any successor provision of similar import hereafter enacted, (iii) any corresponding provisions of any subsequent Internal Revenue Code, (iv) the regulations prescribed under the provisions described in (ii) and (iii), and (v) any published revenue rulings applicable thereto.

"Construction Fund" means the fund so designated which is established pursuant to Section 4.1 of this Resolution.

"Cost" or "Costs" or "Costs of the Project" means "Cost" as defined in the Act.

"Costs of Issuance" means any costs relating to the issuance of Bonds of any series of Bonds, including, without limitation, costs pertaining to credit enhancement, underwriting or placement fees, expenses and discounts, attorneys' fees and expenses, printing and advertising expenses, fees and expenses of consultants and governmental or administrative fees and expenses.

"Counsel" means an attorney at law or law firm (who may be counsel for the Authority, the Trustee or a Credit Facility Provider).

"County " means the County of Dutchess, New York, a municipal corporation of the State of New York, or its successors or assigns.

"Credit Agreement" means any agreement pursuant to which a Credit Facility is issued or provided for.

"Credit Facility" or "Credit Facilities" means any credit enhancement, guaranty, letter of credit, insurance policy, surety bond, standby bond purchase agreement or other credit facility or liquidity facility, and any extension or renewal thereof which is delivered to the Trustee as security or liquidity for the payment of the principal or purchase price of or interest on any series of Bonds or any portion thereof, and includes any Reserve Fund Credit Facility.

"Credit Facility Bonds" means those Bonds which are purchased from funds drawn under a Credit Facility by the Trustee during the period of time that such Bonds are not remarketed and are held by or for the account of any Credit Facility Provider.

"Credit Facility Default" means either (i) failure by the Credit Facility Provider to pay any claim or draw under the Credit Facility when due in accordance with its terms or (ii) Act of Bankruptcy of the Credit Facility Provider.

"Credit Facility Provider" means the provider of any Credit Facility, and includes any Reserve Fund Credit Facility Provider.

"Credit Note" means the promissory note or other instrument or agreement evidencing or setting forth the Authority's obligations to a Credit Facility Provider pursuant to a Credit Agreement.

"Debt Service and Sinking Fund" means the fund so designated which is established pursuant to Section 5.7 of this Resolution.

"Debt Service Requirements" means, with reference to any specified period, the amounts required to be paid by the Authority

to the Trustee for the holders of all Indebtedness (or any trustee or paying agent for such holders) in respect of the principal of all Indebtedness (including mandatory redemptions or prepayments) and the interest thereon, and the amounts required to be paid by the Authority as lease rentals in respect of Indebtedness in the form of capitalized leases provided that, for the purposes of the foregoing:

(a) The amount deemed payable by the Authority in respect of interest on any Indebtedness shall not include interest funded and available from the proceeds thereof, any interest subsidy or corpus allocation percentage reasonably anticipated by the Authority to be available under any Project Financing and Loan Agreement executed with the New York State Environmental Facilities Corporation, or any successor thereof or any similar State agency or instrumentality, or, upon initial issuance, any accrued interest; and

(b) The amount deemed payable by the Authority in respect of the principal of and interest on any Balloon Indebtedness, Capital Appreciation Indebtedness, Compound Interest Indebtedness or Variable Rate Indebtedness shall be calculated and, to the extent required, recalculated as provided in this Resolution.

"Debt Service Reserve Fund" means the fund so designated which is established pursuant to Section 5.8 of this Resolution.

"Debt Service Reserve Requirement" means with respect to a particular date, the lesser of: (a) the maximum annual Debt Service Requirements with respect to the Outstanding Bonds in the then current and all future Fiscal Years (for the purposes of which calculation any Variable Rate Indebtedness shall be calculated pursuant to the Supplemental Resolution pursuant to which the Indebtedness has been issued); (b) 125% of the average annual Debt Service Requirements with respect to the Outstanding Bonds in the then current and all future Fiscal Years (for the purposes of which calculation any Variable Rate Indebtedness shall be calculated pursuant to the Supplemental Resolution pursuant to which the Indebtedness has been issued); and (c) the maximum amount that may be held in the Debt Service Reserve Fund, in the opinion of Bond Counsel to the Authority, with respect to a series of Bonds intended to be tax-exempt without adversely affecting the Tax-Exempt status of such Bonds. The Debt Service Reserve Requirement may be satisfied in whole or in part by a Reserve Fund Credit Facility. For purposes of calculating the Debt Service Reserve Requirement, the cost of any applicable Credit Facility shall be included as if it were interest on the Bonds of the related series of Bonds.

"Depository" means The Depository Trust Company, New York, New York, or any other entity performing substantially the same function under a Book-Entry System, and any successor depository designated pursuant to Section 2.6 hereof.

"Eastern Time" means the prevailing local time in the City of New York, New York.

"Engineer" means such engineer or firm of engineers of recognized standing having skill and experience with respect to the design, construction or operation of a facility similar to and having like characteristics as the Water System, registered in the State as shall be at the time employed by the Authority for the purpose of performing the function and duties of an engineer under this Resolution or the Act and not unsatisfactory to the Trustee or any Credit Facility Provider. Except as otherwise expressly provided herein, the Engineer shall be Independent of the Authority.

"Event of Default" means any of the events described in Section 10.1 of this Resolution.

"Federal Bankruptcy Code" means Title 11 of the United States Code.

"First Supplemental Resolution" means the Supplemental Resolution, dated as of June 1, 1998, by and between the Authority and the Trustee that is supplemental hereto and relates to the 1998 Series A Bonds, the 1998 Series B Bonds, the 1998 Series C Bonds, the 1998 Series Staatsburg Bonds and the 1998 Series Capital Construction Bonds.

"Fiscal Year" means the period of twelve months beginning January 1 of each year and ending on December 31 of that year, or any other twelve (12) month period adopted hereafter from time to time by the Authority as its fiscal year for accounting purposes.

"Generally Accepted Accounting Principles" shall mean those accounting principles applicable in the preparation of financial statements of municipalities, authorities, or corporations as appropriate, as promulgated by the Financial Accounting Standards Board or such other body recognized as authoritative by the American Institute of Certified Public Accountants or any successor body.

"Governing Board" means the members of the Authority constituting and acting as the governing body of the Authority.

"Government Obligations" means United States Treasury bills or other interest-bearing direct obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or obligations the principal and interest of which are unconditionally guaranteed as to full and timely payment by, the United States of America, but not mutual funds (including unit investment trusts) investing in such obligations other than money market funds that are rated in the highest category by Moody's and S & P.

"Hyde Park" means the Hyde Park Fire and Water District, being that district corporation located in the Town of Hyde Park, Dutchess County, New York known as the Hyde Park Fire and Water District, or its successors or assigns.

"Hyde Park Water System" means the system for the supply, purification and distribution of potable water and the fire hydrants acquired by the Authority from Hyde Park, including any addition thereto or deletion therefrom from time to time.

"Indebtedness" means, as to the Authority, at a particular time, all items which would, in conformity with Generally Accepted Accounting Principles, be classified as liabilities on a balance sheet of the Authority at such time, but in any event including without limitation (a) indebtedness arising under acceptance facilities or in respect of all letters of credit issued for the account of the Authority and, without duplication, all drafts drawn thereunder, (b) obligations under leases which have been, or under Generally Accepted Accounting Principles are required to be, capitalized, and (c) all indebtedness secured by (or for which the holder of such indebtedness has the right to be secured by) any mortgage, deed of trust, pledge, security interest or other lien, charge or encumbrance upon property owned or acquired subject to such mortgage, deed of trust, pledge, security interest, lien, charge or encumbrance, whether or not the liabilities secured thereby have been assumed. Indebtedness shall not in any event include (a) current obligations payable from current revenue, including current payments for the funding of pension or other employee benefit plans (which shall be considered Operating Expenses) but shall include the current portion of Indebtedness classified as a current obligation under Generally Accepted Accounting Principles; (b) obligations under contracts for supplies, services and pensions, allocable to current operating expenses of future years in which the supplies are to be furnished, the services rendered or the pension benefits paid (which shall be considered Operating Expenses in such future years); and (c) rentals payable in future years under leases, other than leases properly capitalized under Generally Accepted Accounting Principles (which shall be considered Operating Expenses in such future years).

"Independent" means a Person who is not an officer, director or employee of a Credit Facility Provider or a member, officer or employee of the Authority; provided, however, that the fact that such Person is retained regularly by or transacts business with the Authority or the Credit Facility Provider shall not make such Person an employee within the meaning of this definition.

"Interest Payment Date" means for Bonds of a series of Bonds the date on which interest on such Bonds is payable according to the Supplemental Resolution pursuant to which such Bonds were issued.

"Investment Securities" means and includes any of the following:

(a) Government Obligations;

(b) Government Obligations which have been stripped of their unmatured interest coupons and interest coupons stripped from either Government Obligations or obligations of the Resolution Trust Company, which interest coupons are guaranteed by the United States of America;

(c) Bonds, debentures, notes or other evidence of indebtedness issued by any of the following: Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Bank for Cooperatives, Federal Intermediate Credit Banks, Federal Financing Bank, Export-Import Bank of the United States, or Federal Land Banks, or of the Resolution Trust Company;

(d) All other obligations issued or unconditionally guaranteed as to the timely payment of principal and interest by an agency or person controlled or supervised by and acting as an instrumentality of the United States government pursuant to authority granted by Congress;

(e) (i) Interest-bearing time or demand deposits, certificates of deposit, or other similar banking arrangements with any government securities dealer, bank, trust company, savings and loan association, national banking association or other savings institution (including the Trustee), provided that such deposits, certificates, and other arrangements are fully insured by the Federal Deposit Insurance Corporation or any successor federal deposit insurance corporation or entity or (ii) interest-bearing time or demand deposits or certificates of deposit with any bank, trust company, national banking association or other savings institution (including the Trustee), provided such deposits and certificates are in or with a bank, trust company, national banking association or other savings institution which either (A) has an unsecured, uninsured and unguaranteed obligation rated "Prime-1" or "A3" or better by Moody's and "A-1" or "A-" or better by S & P or (B) is the lead bank of a parent bank holding company with an unsecured, uninsured and unguaranteed obligation meeting the rating requirements in (e)(ii)(A) above, and provided further that with respect to (i) and (ii) any such obligations are held by the Trustee or a bank, trust company or national banking association other than the issuer of such obligations (unless the issuer is the Trustee);

(f) Repurchase agreements or investment agreements collateralized by securities described in subparagraphs (a), (b), (c) or (d) above or (l) or (m) below, to the extent that any municipal bonds are rated in the highest rate category of one or more Rating Agency, with any registered broker/dealer subject to the Securities Investors' Protection Corporation or that is an

approved Federal Reserve Bank primary dealer or with any commercial bank (including the Trustee), provided that (1) a specific written repurchase agreement or investment agreement governs the transaction, (2) the securities, free and clear of any lien, are held by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures described in 31 CFR 306.1 et seq. or 31 CFR 350. et seq., in such securities is created for the benefit of the Trustee, (4) the Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two (2) Business Days of such valuation, or, in the case of a repurchase agreement, the agreement has a term of thirty (30) days or less, (5) the fair market value of the collateral securities in relation to the amount of the repurchase obligation or the payment obligation, depending on whether it is a repurchase agreement or an investment agreement, including principal and interest, is equal to at least 100% and (6) the collateral was not acquired by the broker/dealer pursuant to a repurchase agreement or reverse repurchase agreement;

(g) Uncollateralized investment agreements issued or guaranteed by entities with debt obligations of comparable or longer maturity that are rated "Aa3" or better by Moody's and "AA-" or better by S & P;

(h) Money market funds rated "Am" or "Am-G" or better by Moody's and S & P;

(i) Commercial paper rated "Prime-1" or better by Moody's and "A-1" or better by S & P;

(j) Obligations rated "A3" or better by Moody's and "A-" or better by S & P;

(k) Shares of investment companies or cash equivalent investments which are authorized to invest only in assets or securities described in subparagraphs (a), (b), (c) and (d) above; provided, however, that investment in obligations described in this clause (i) shall not exceed \$500,000;

(l) Advance-Refunded Municipal Bonds;

(m) Tax-Exempt Obligations that are rated "A-3" or better or V-MIG 1 by Moody's and "A-" or better or A-1 by S & P, or shares of investment companies that invest only in such obligations;

(n) Certificates that evidence ownership of the right to payments of principal of or interest on Government Obligations, provided that (1) such obligations shall be held in trust by a bank or trust company or national banking association meeting the requirements for a successor Trustee under this agreement, (2) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying Government Obligations, and (3) the underlying Government Obligations are held in a special account separate from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian or any person to whom the custodian may be obligated; and

(o) The Trustee's "cash sweep account" or other short term investment fund of the Trustee, the assets of which consist of other Investment Securities defined above.

"Lien" means any sale, transfer, assignment, disposition, mortgage, pledge, security interest, lien, judgment lien, easement or other encumbrance on title, excluding Permitted Encumbrances.

"Moody's" means Moody's Investors Service, Inc., New York, New York, its successors and assigns, or if such corporation dissolves or no longer performs the functions of a securities rating agency, such other nationally recognized securities rating agency designated by the Authority and not unacceptable to either the Trustee or any Remarketing Agent.

"Municipality" means any county, city, town, village, or improvement district under the Town Law of the State, any other such instrumentality, including any agency, or public corporation of the State, or any of the foregoing or any combination thereof.

"1986 Code" means the Code.

"1998 Bonds" means, collectively, the Authority's 1998 Series A Bonds, 1998 Series B Bonds, 1998 Series C Bonds, 1998 Series Staatsburg Bonds, and the 1998 Capital Construction Bonds.

"1998 Series A Bonds" means the Authority's \$19,058,200.75 original aggregate principal amount Service Agreement Revenue Bonds, 1998 Series A issued pursuant to this Resolution as further provided in the First Supplemental Resolution and any Revenue Bonds issued in amendment, modification, replacement, reissuance or refunding thereof.

"1998 Series B Bonds" means the Authority's \$150,000 original aggregate principal amount Service Agreement Revenue Bonds, 1998 Series B issued pursuant to this Resolution as further provided in the First Supplemental Resolution and any Water System Revenue Bonds issued in amendment, modification, replacement, reissuance or refunding thereof.

"1998 Series C Bonds" means the Authority's \$400,000 original aggregate principal amount Service Agreement Revenue Bonds, 1998 Series C issued pursuant to this Resolution as further provided in the First Supplemental Resolution and any Revenue Bonds issued in amendment, modification, replacement, reissuance or refunding thereof.

"1998 Series Staatsburg Bonds" means the Authority's \$4,127,656.42 original aggregate principal amount Service Agreement Revenue Bonds, 1998 Series Staatsburg issued pursuant to this Resolution as further provided in the First Supplemental Resolution and any Revenue Bonds issued in amendment, modification, replacement, reissuance or refunding thereof.

"1998 Series Capital Construction Bonds" means the Authority's \$111,961.98 original aggregate principal amount Revenue Bonds, 1998 Series Capital Construction issued pursuant to this Resolution as further provided in the First Supplemental Resolution and any Revenue Bonds issued in amendment, modification, replacement, reissuance or refunding thereof.

"Non-Purpose Obligations" shall have the meaning given such term under Section 1.148-1(b) of the Income Tax Regulations of the United States Department of the Treasury.

"Officer's Certificate" means a certificate or statement signed by an Authorized Representative or Authorized Officer of the Authority, or, as the context may require, of the Credit Facility Provider.

"Operating Expenses" means, collectively, Hyde Park Operating Expenses, Staatsburg Operating Expenses and Other Operating Expenses as defined in the Service Agreement.

"Operating Fund" means the fund so designated which is described in Section 5.4 of this Resolution.

"Operating Revenues" means for any period the Revenues of the Authority derived from the operation of the Water System, excluding any extraordinary gain or loss resulting from the extinguishment of Indebtedness, the sale of capital assets, the proceeds of insurance claims, except business interruption insurance, and settlements and of condemnation awards or payments in lieu thereof, and the proceeds of any Indebtedness, all determined in accordance with Generally Accepted Accounting Principles.

"Outstanding," when used with reference to a series of Bonds, shall, subject to the provisions of the Resolution, mean as of any particular time all of the Bonds authenticated and delivered by the Trustee under the Resolution, except:

(a) Bonds theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(b) Bonds for the payment or redemption of which money in the necessary amount shall have been deposited with the Trustee, and with respect to Bonds to be redeemed prior to maturity, notice of such redemption shall have been given or provided for as provided in the Resolution;

(c) Bonds in substitution for which other Bonds shall have been authenticated and delivered pursuant to the terms of the Resolution; and

(d) Bonds which are deemed to have been paid pursuant to the provisions of Article XIV hereof.

"Paying Agent" shall mean the Trustee or any other or successor Paying Agent appointed in accordance with any Supplemental Resolution.

"Payment Date" or "payment date" means, (a) with respect to payments of principal of or interest on the 1998 Bonds or any Additional Indebtedness, including upon the redemption of any of the same, such dates as may be specified in the applicable Supplemental Resolution and (b) in the case of payments to Bondholders after the occurrence of an Event of Default, such other date or dates as the Trustee shall establish for the payment of principal or interest.

"Payment Obligations" means all amounts due and owing to a Credit Facility Provider under a Credit Agreement.

"Permitted Encumbrances" means, as of any particular time, (i) leases, encumbrances, mortgages, easements or rights of way with respect to real estate of the Authority which the Authority has determined by resolution to be necessary or desirable in connection with the development of Projects, (ii) liens for ad valorem taxes, assessments or other governmental charges, permitted to exist as provided herein or not then delinquent, (iii) any mortgage or security agreement securing any Credit Facility Provider as permitted herein, (iv) any Lien created under this Resolution, (v) existing utility, access and other easements and rights of way, restrictions and exceptions and future encumbrances of like nature not arising out of the borrowing of money or the securing of advances of credit which will not interfere with or impair the operation of the property for its intended purpose, (vi) liens arising in connection with workers' compensation, unemployment insurance, old age pensions and social security benefits and liens securing appeal and release bonds, provided that adequate provision for the payment of all such obligations has been made by the Authority, (vii) attachment and judgment liens, so long as the same are being contested in good faith and by appropriate legal proceedings, (viii) any mechanic's, laborer's, materialman's, supplier's or vendor's lien or right or purchase money security interest in respect thereof if payment is not yet due and payable under the contract in question or which is being contested in accordance with the provisions hereof and which is bonded if and to

the extent required by law, including without limitation the General Municipal Law of the State, (ix) those matters which were in existence at the time of the issuance of the 1998 Bonds, and (x) such minor defects, irregularities, encumbrances, easements, rights of way, and clouds on title as normally exist with respect to properties similar in character to the property and as do not, in the opinion of Counsel, have a materially adverse effect on the use of the property for the purposes intended.

"Person" means an individual, a corporation, a partnership, an association, a joint stock company, a trust, any unincorporated organization, a governmental body, political subdivision, municipality or authority or any other group or entity.

"Pledged Revenues" means all Revenues which have been pledged to the Trustee under this Resolution by the Granting Clauses hereof, whether or not they are held by the Trustee or its agent.

"Prime Rate" means the rate of interest publicly announced from time to time in The Wall Street Journal as the "prime rate" for major commercial banks, with the Prime Rate for any given calendar month being calculated by using the Prime Rate in effect as of the first day of such month.

"Principal Office," when referring to the Trustee or any Paying Agent, means the office where any such institution maintains its principal corporate trust office, and when referring to a Credit Facility Provider means the office at which a demand for payment must be made,

"Project" means any project as such term is defined in the Act.

"Project Budget" means a statement, and any amendments thereof, of the estimated Costs of a Project, as set forth in an Officer's Certificate of the Authority, setting forth the Costs in such categories and reasonable detail as shall be determined by the Authority.

"Rate Covenant" means the covenant of the Authority contained in Section 5.1 of this Resolution to establish and collect rates, rents, fees and other charges in each Fiscal Year so that Revenues collected in such Fiscal Year, together with other available funds, will be at least equal to certain specified amounts as therein provided.

"Rating Agencies" means S & P, or any other nationally recognized credit rating agency, to the extent that such entity then maintains a credit rating with respect to the relevant security.

"Rebate Amount" means all interest income and profits earned on the investment of the proceeds of Tax-Exempt Bonds which is required to be paid to the United States under Section 148(f) of

the Code, calculated and determined in accordance with the Regulations in effect from time to time under that Section.

"Rebate Fund" means the separate fund created under Section 5.12 hereof.

"Record Date" means, as the case may be, (i) the Record Date for payment of the purchase price, principal of or interest on a series of Bonds as provided in the Supplemental Resolution pertaining to such series of Bonds or (ii) the record date established by the Authority in accordance with Section 13.2 hereof for obtaining consents from bondholders.

"Registered Owner" means the Depository or its nominee, if the Book-Entry System maintained by the Depository pursuant to Section 2.6 is in effect, or the person in whose name any Bond is registered, if the Bond Register System maintained by the Trustee pursuant to Section 2.7 hereof is in effect.

"Remarketing Agent" means the person or entity appointed as such under any Supplemental Resolution with respect to the Bonds of the series of Bonds authorized thereunder.

"Repair and Improvement Fund" means the fund by that name established by Section 5.10 hereof.

"Reserve Fund Credit Facility" means the letter of credit, insurance policy or surety bond, together with any substitute or replacement therefor, if any, complying with the provisions of Section 5.8 hereof, thereby fulfilling all or a portion of the Debt Service Reserve Requirement.

"Reserve Fund Credit Facility Provider" means any provider of a Reserve Fund Credit Facility.

"Resolution" means this instrument, together with all modifications hereof and amendments and supplements hereto.

"Revenues" means all rates, fees, charges and other income and receipts derived from the operation of the Water System including, without limiting the generality of the foregoing, moneys due pursuant to the Service Agreement, investment proceeds and proceeds of insurance, condemnation, and sale or other disposition of assets, together with all federal, State or municipal aid, if any.

"Revenue Fund" means the fund so designated which is described in Section 5.2 of this Resolution.

"Route 9 Connecting Main" means the approximately 11,000 feet of 12+ inch water main to be purchased and installed in or along Route 9 connecting the Hyde Park Water System to the system for the distribution of potable water and fire hydrants serving the Zone C Zone of Assessment acquired by the Authority from the County, including a water tank and other improvements in connection

therewith and the Staatsburg distribution improvements, all as set forth on the Route 9 Connecting Main Plans and Specifications.

"Route 9 Connecting Main Plans and Specifications" means the Plans and Specifications for the Route 9 Connecting Main on file in the office of the Authority, as the same may be amended from time to time.

"Secured Obligations" means the various obligations secured by this Resolution as described in the granting clauses hereto.

"Service Agreement" means the Service Agreement dates as of June 1, 1998 by and between the Authority and the County in accordance with which, among other things, the Authority has agreed to provide potable water to certain areas of the County and in accordance with which the County has agreed to pay to the Authority annual amounts, including amounts necessary to permit the Authority to pay the 1998 Bonds.

"S & P" means Standard & Poor's Corporation, New York, New York, its successors and assigns, or if such corporation dissolves or no longer performs the functions of a securities rating agency, such other nationally recognized securities rating agency designated by the Authority and not unacceptable to either the Trustee or the remarketing agent, if any.

"Sinking Fund Installments" means for any Fiscal Year and any series of Bonds, the principal amount thereof subject to mandatory redemption pursuant to Section 5.5 hereof.

"Special Operating Fund" means the fund by that name established by Section 5.6 hereof.

"Staatsburg Water System" means the system for the distribution of potable water and the fire hydrants serving the Staatsburg area of the Towns of Hyde Park and Rhinebeck acquired by the Authority from the County and the Route 9 Connecting Main, including any additions thereto or deletions therefrom from time to time.

"State" means the State of New York.

"Stated Amount" means the amount set forth in any Credit Facility as the maximum amount the Trustee is permitted to draw from said Credit Facility, in respect of both principal and interest, as such amount is reduced and reinstated from time to time in accordance with the terms of the Credit Facility.

"Subordinated Indebtedness" means any Indebtedness of the Authority secured by a Lien on the Pledged Revenues that is by its terms expressly subordinated to the Lien on the Pledged Revenues securing the Bonds.

"Supplemental Resolution" means any Resolution amending, modifying or supplementing this Resolution made, signed and becoming effective in accordance with the terms hereof.

"Tax-Exempt" means, with respect to interest on any obligations of a state or local government or public instrumentality, including Bonds, that such interest is excluded from gross income for federal tax purposes (other than for an owner who is a "substantial user" of the project being financed or a "related person" within the meaning of Section 147(a) of the Code), whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code. The Trustee may conclusively rely on an opinion of Independent Counsel experienced in the field of Tax-Exempt obligations to the effect that a particular series of Bonds is Tax-Exempt.

"Tender Agent" means the person or entity designated as such in a Supplemental Resolution.

"Trust Estate" means the revenue, receipts, property, and rights and interest of the Authority which are subject to the Lien of this Resolution.

"Trustee" means The Bank of New York in its capacity as trustee under this Resolution, or its successors in the trust.

"Variable Rate Indebtedness" means any Bond, the rate of interest on which is subject to change prior to maturity and which cannot be determined in advance of such change, including but not limited to Bonds in a commercial paper mode. In calculating the Debt Service Requirement for purposes of compliance with Additional Parity Indebtedness requirements, such Variable Rate Indebtedness shall be deemed to be Indebtedness bearing interest calculated pursuant to the Supplemental Resolution pursuant to which the Indebtedness has been issued. Any ongoing liquidity activity charges and remarketing agent fees imposed in connection with such Variable Rate Indebtedness shall be deemed to be Operating Expenses.

"Water Rates" means water rates as defined in Section 5.1 hereof.

"Water System" means, collectively, the Hyde Park Water System and the Staatsburg Water System and any other Project added to the Water System pursuant to an amendment to the Service Agreement.

The words "hereof," "herein," "hereto," "hereby" and "hereunder" (except in the form of Bond) refer to the entire Resolution.

SECTION 1.6. Form of Documents. Every "request," "order," "demand," "application," "requisition," "appointment," "notice,"

"statement," "certificate," "consent," or similar action hereunder by the Authority, unless the form thereof is specifically provided, shall be in writing signed by an Authorized Representative or Authorized Officer.

ARTICLE II.

CONCERNING THE BONDS.

SECTION 2.1. Authorization of 1998 Bonds. (a) There shall be initially issued hereunder \$19,058,200.75 Service Agreement Revenue Bonds, 1998 Series A Bonds, \$150,000 Service Agreement Revenue Bonds, 1998 Series B Bonds, \$400,000 Service Agreement Revenue Bonds, 1998 Series C Bonds, \$4,127,656.42 Service Agreement Revenue Bonds, 1998 Series Staatsburg Bonds and \$111,961.98 Service Agreement Revenue Bonds, 1998 Series Capital Construction Bonds, as more particularly described in the First Supplemental Resolution. The 1998 Bonds (or any amendment, modification, replacement, reissuance or refunding of the 1998 Bonds) shall each be issued for such purposes, shall be in such form and denomination, shall bear such dates, shall be numbered, shall mature and bear interest and shall have such other terms and provisions (including the application of any Credit Facility) permitted under the Act and not contrary to the terms of this Resolution as shall be provided in the First Supplemental Resolution.

(b) Additional Parity Indebtedness may also be issued under this Resolution pursuant to and subject to the terms and conditions of Article III hereof. The Additional Parity Indebtedness shall be issued in such aggregate principal amounts, for such purposes, shall be in such form and denomination, shall bear such dates, shall be numbered, shall mature and bear interest and shall have such other terms and provisions (including the application of any Credit Facility) permitted under the Act and not contrary to the terms of this Resolution (including particularly but without limitation this Article II and Article III of the Resolution) as shall be provided in the Supplemental Resolution executed in connection with the issuance thereof.

(c) Bonds may also be issued under this Resolution pursuant to Section 2.10 hereof in lieu of Bonds theretofore issued which have been mutilated, lost, destroyed or stolen.

SECTION 2.2. Place, Manner and Source of Payment of Bonds. The principal of and interest on the Bonds issued and to be issued hereunder, and the redemption premium, if any, payable thereon in case of redemption, shall be payable as may be designated in the particular Bond issued or to be issued hereunder, in lawful money of the United States of America.

Interest on Bonds of each series of Bonds shall be payable at the rates and in the manner specified herein and in the Supplemental Resolution authorizing such series of Bonds and shall accrue from the dated date of such Bonds and be payable in arrears. The interest on Bonds shall be paid by check or draft of the Trustee mailed on the relevant Interest Payment Date to the Registered Owner of the Bond as of the close of business on the relevant Record Date. Interest on any Bonds may also be payable by wire transfer to any Registered Owner of such Bonds in the principal amount of \$1,000,000 or more as of the close of business on the Record Date next preceding any Interest Payment Date at a wire destination in the continental United States provided such owner submits to the Trustee a written request therefor at least five (5) days before the Record Date for such payment.

The principal amount of the Bond and any redemption premium shall be paid to the Registered Owner thereof upon the surrender of the Bond at the principal corporate trust office of the Trustee.

SECTION 2.3. Execution of Bonds. All Bonds issued hereunder shall be executed in the name of the Authority by the manual or facsimile signature of its Chairperson or Vice-Chairperson, and an actual impression or facsimile of the corporate seal shall be thereunto affixed and attested by the manual or facsimile signature of its Secretary (or in either case such other officer as may be designated by the Authority). Any such Bonds may be authenticated, issued and delivered notwithstanding that one or more of the officers signing such Bonds or whose facsimile signature shall be upon such Bonds or any thereof, shall have ceased to be such officer or officers at the time when such Bonds shall actually be delivered, and although at the nominal date of the Bonds any such person shall not have been such officer of the Authority.

SECTION 2.4. Authentication of Bonds. No Bonds shall become valid or obligatory for any purpose until such Bonds shall have been authenticated by the manual signature of an authorized officer of the Trustee, and such authentication by the Trustee upon any Bond shall be conclusive evidence and the only evidence that the Bond so authenticated has been duly authenticated pursuant to the written direction of the Authority and delivered hereunder and that the Registered Owner thereof is entitled to the benefit of the trust and lien hereby created.

SECTION 2.5. Bonds Are Negotiable Instruments. The Bonds shall have the qualities of negotiable instruments under the merchant law and the negotiable instruments law of the State, as well as the Uniform Commercial Code as adopted by the State, subject to the provisions for registration and transfer contained in Section 2.6 and in the Bonds.

SECTION 2.6. Transfer and Exchange of Bonds; Book-Entry System. (a) Except as provided in this Section 2.6 or in Section 2.7, each series of Bonds shall be subject to the

Book-Entry System of ownership and transfer. Each series of Bonds subject to the Book-Entry System of ownership and transfer shall initially be evidenced by one certificate for each maturity, in an amount equal to the aggregate principal amount thereof. The Bonds so initially delivered shall be registered in the name of "Cede & Co." as nominee for the Depository. The Bonds subject to the Book-Entry System of ownership and transfer may not thereafter be transferred or exchanged on the registration books of the Authority held by the Trustee as bond registrar except:

(i) to any successor Depository designated pursuant to (b) below;

(ii) to any successor nominee designated by a Depository; or

(iii) if the Authority shall, by resolution, elect to discontinue the Book-Entry System pursuant to (b) below, the Authority will cause the Trustee to authenticate and deliver replacement Bonds in fully registered form to such persons, and in such authorized denominations, as may be designated by the Depository, but without any liability on the part of the Trustee or the Authority for the accuracy of such designation; thereafter the provisions of Section 2.7 below regarding registration, transfer and exchange of Bonds shall apply.

(b) Upon the resignation of any institution acting as Depository hereunder, or if the Authority determines that continuation of any institution in the role of Depository is not in the best interests of the Beneficial Owners or the Authority, the Authority will attempt to identify another institution qualified to act as Depository hereunder. If the Authority is unable to identify such successor Depository prior to the effective date of the resignation, the Authority shall, by resolution, discontinue the Book-Entry System, as provided in (a)(iii) above with respect to the applicable series of Bonds.

(c) So long as the Book-Entry System is used for Bonds of a series of Bonds, the Authority and the Trustee shall treat the Depository (or its nominee) as the sole and exclusive owner of such Bonds registered in its name for the purposes of payment of the principal or redemption price of or interest on the Bonds, selecting the Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Bondholders under this Resolution, registering the transfer of such Bonds, obtaining any consent or other action to be taken by Bondholders and for all other purposes whatsoever, except as may otherwise be provided by law; and neither the Authority nor the Trustee shall be affected by any notice from any Person other than the Depository (or its nominee) to the contrary. None of the Authority, any Credit Facility Provider or the Trustee shall have any responsibility or obligation to any participant in the

Depository, any person claiming a beneficial ownership interest in Bonds subject to the Book-Entry System of ownership and transfer under or through the Depository or any such participant, or any other person which is not shown on the registration books of the Trustee as being a Bondholder, with respect to: (A) such Bonds; or (B) the accuracy of any records maintained by the Depository or any such participant; or (C) the payment by the Depository or any such participant of any amount in respect of the principal or redemption price of or interest on such Bonds; or (D) any notice which is permitted or required to be given to Bondholders under this Resolution; or (E) the selection by the Depository or any such participant or any person to receive payment in the event of a partial redemption of such Bonds; or (F) any consent given or other action taken by the Depository as Bondholder. The Trustee shall cooperate with the Depository in connection with any consent given or other action taken by the Depository as Bondholder if and to the extent the Depository has delegated by proxy such consent or action to other Persons.

(d) Notwithstanding the payment provisions contained in the forms of Bonds subject to the Book-Entry System of ownership and transfer, so long as such Bonds or any portion thereof are registered in the name of the Depository or any nominee thereof, all payments of the principal or redemption price of or interest on such Bonds shall be made to the Depository or its nominee in same day funds on the dates provided for such payments under this Resolution, except as provided in a Supplemental Resolution. Each such payment to the Depository or its nominee shall be valid and effective to fully discharge all liability of the Authority or the Trustee with respect to the principal or redemption price of or interest on such Bonds to the extent of the sum or sums so paid. In the event of the redemption of less than all of the Bonds subject to the Book-Entry System of ownership and transfer Outstanding, the Trustee shall not require surrender by the Depository or its nominee of the Bonds so redeemed, but the Depository (or its nominee) may retain such Bond certificate as to the amount of such partial redemption; provided that, in each case the Trustee shall request, and the Depository shall deliver to the Trustee, a written confirmation of such partial redemption and thereafter the records maintained by the Trustee shall be conclusive as to the amount of the Bonds of such series and maturity which have been redeemed.

(e) So long as the Bonds subject to the Book-Entry System of ownership and transfer or any portion thereof are registered in the name of the Depository or any nominee thereof, all notices required or permitted to be given to the Bondholders under this Resolution shall be given to the Depository.

SECTION 2.7. Provisions for Bond Register System. The Bonds or any series of Bonds may be subject to a Bond Register System of ownership and transfer if so designated by the Authority in the Supplemental Resolution authorizing such series of Bonds or as provided in Section 2.6. A Supplemental Resolution may provide

that Bonds of the Series of Bonds authorized thereby will be subject to a Book-Entry System of ownership only at particular times or from time to time. If the Book-Entry System shall be discontinued for any series of Bonds, the conversion to a Bond Register System for each such series of Bonds shall be effected pursuant to arrangements for the surrender of a single Bond for the applicable series of Bonds by the Depository and the issuance of Bonds of such series to Registered Owners that are reasonably satisfactory to the Trustee, which arrangements shall be communicated by the Trustee to the Depository on behalf of the Beneficial Owners. The conversion shall become effective hereunder and binding upon the Authority, the Trustee and all Registered Owners and Beneficial Owners at such time as may be specified in a Supplemental Resolution authorizing such series of Bonds or as specified in a resolution of the Authority. The general provisions of such Bond Register System, after conversion from the Book-Entry System, are as follows.

Any Bond may be transferred at the principal corporate trust office of the Trustee by the Registered Owner in person or by his attorney duly authorized in writing, and thereupon, the Authority shall execute in the name of the transferee or transferees, and the Trustee shall authenticate and deliver, a new Bond or Bonds, of the same series, of the same maturity, and for the same aggregate principal amount registered in such name or names as shall be requested. The Trustee shall register any transfer and shall deliver an appropriately registered and authenticated Bond or Bonds within seventy-two (72) hours of the receipt of the Bond or Bonds to be transferred and such other necessary documentation.

All Bonds shall be exchangeable for like Bonds of the same series of Bonds but different Authorized Denominations, in the same aggregate principal amount, maturing on the same dates and bearing the same rate of interest as the Bonds to be exchanged, all in the manner hereinafter provided. The Registered Owner of any Bond or Bonds, desiring to exchange such Bond or Bonds, shall present such Bond or Bonds, accompanied by appropriate instruments of transfer, at the principal corporate trust office of the Trustee, together with a written request for exchange, in form approved by the Authority, setting forth the denomination or denominations thereof and the person or persons in whose name such Bond or Bonds are to be registered. Thereupon, the Trustee shall authenticate and deliver to the Registered Owner thereunto entitled a new Bond or new Bonds of the same series of Bonds in authorized denominations aggregating the principal amount of the Bond or Bonds surrendered, maturing as to principal on the same date or dates, bearing the same rate of interest and bearing the same designation as to series.

Except as may be set forth in a Supplemental Resolution with respect to a series of Bonds, Bonds issued in exchange for or upon the registration of transfer of Bonds on or after the first Interest Payment Date thereon shall be dated as of the Interest Payment Date next preceding the date of delivery thereof by the

Trustee, except that (a) if such date of delivery shall be an Interest Payment Date thereof, said Bonds shall be dated as of such date of delivery, or (b) if there shall be no Interest Payment Date thereof preceding such date of delivery, then notwithstanding any of the foregoing provisions of this section, such Bonds shall be dated the date of Bonds of such series upon their original issuance, or (c) if such date of delivery is on or after a Record Date and before the next succeeding Interest Payment Date, such Bonds shall be dated the date of such next succeeding Interest Payment Date, or (d) if interest on such Bonds shall not have been paid in full in accordance with its terms, then, notwithstanding any of the foregoing provisions of this Section, such Bonds shall be dated as of the date to which interest has been paid in full on such Bonds.

Registration, transfer and exchanges of Bonds authorized under this Article shall be without expense to the Registered Owners of such Bonds, except that any taxes or other governmental charges shall be paid by the Registered Owner requesting any such transaction, as a condition precedent to the exercise of such privilege.

The Trustee shall not be required to issue or transfer any Bonds during a period beginning at the opening of business on the fifth day (whether or not a business day) next preceding any date of selection of Bonds to be redeemed and ending at the close of business on the day on which the applicable notice of redemption is given or to transfer any Bonds which have been selected or called for redemption in whole or in part.

All Bonds executed, authenticated and delivered in exchange for Bonds surrendered or upon the transfer of registered Bonds shall be valid obligations of the Authority, evidencing the same debt as the Bonds surrendered, and shall be secured by the lien of this Resolution to the same extent as such surrendered Bonds.

SECTION 2.8. Ownership of Bonds. The Authority, the Trustee and any Paying Agent designated in any Bond may treat the Registered Owner of the Bond as the absolute owner of such Bond for all purposes whether or not such Bond shall be overdue, and neither the Authority, the Trustee nor any Paying Agent shall be affected by any notice to the contrary. Any consent, waiver or other action taken by the Registered Owner of any Bond shall be conclusive and binding upon such Registered Owner, his heirs, successors or assigns, and upon all transferees of such Bond whether or not notation of such consent, waiver or other action, shall have been made on such Bond or on any Bond issued in exchange therefor or upon registration or transfer thereof.

SECTION 2.9. Temporary Bonds. Until Bonds of a series of Bonds in definitive form are ready for delivery, the Authority may execute, and upon its request in writing the Trustee shall authenticate and deliver in lieu of any thereof, and subject to the same provisions, limitations and conditions, one or more

printed, lithographed or typewritten Bonds of such series of Bonds in temporary form, substantially of the tenor of the Bonds hereinbefore described and with appropriate omissions, variations and insertions. Such Bond or Bonds in temporary form may be for the amount of any authorized denomination or any multiple thereof, as the Authority may determine. Until exchanged for Bonds of the same series of Bonds in definitive form such Bonds in temporary form shall be entitled to the lien and benefit of this Resolution. Unless otherwise agreed with the Registered Owner of such temporary Bond, the Authority shall, without unreasonable delay, prepare, execute and deliver to the Trustee, and thereupon, upon the presentation and surrender of any Bond or Bonds in temporary form, the Trustee shall authenticate and deliver, in exchange therefor, a Bond or Bonds in definitive form of the same series and the same maturity for the same aggregate principal amount as the Bond or Bonds in temporary form surrendered. Such exchange shall be made by the Authority at its own expense and without making any charge therefor. Until such Bonds in definitive form are ready for delivery, the Registered Owner of one or more Bonds in temporary form may, with the consent of the Authority, exchange the same, upon surrender thereof to the Trustee for cancellation, for Bonds in temporary form of like aggregate principal amount, of the same series and maturity and in authorized denominations.

SECTION 2.10. Mutilated, Destroyed, Lost or Stolen Bonds. Upon receipt by the Authority and the Trustee of evidence satisfactory to both of them that any Outstanding Bond has been mutilated, destroyed, lost or stolen, and of indemnity satisfactory to both of them, then the Authority, in its discretion, may execute and thereupon the Trustee shall authenticate and deliver, a new Bond of the same series and same maturity and of like tenor in exchange and substitution for, and upon surrender and cancellation of, the mutilated Bond or in lieu of and in substitution for the Bond so destroyed, lost or stolen.

The Authority may, for each new Bond authenticated and delivered under the provisions of this Section, require the payment of the expenses, including counsel fees, which may be incurred by the Authority and the Trustee in connection therewith. In case any such mutilated, destroyed, lost or stolen Bond has become or is about to become due and payable, the Authority, in its discretion, may, instead of issuing a new Bond, direct the payment thereof and the Trustee shall thereupon pay the same.

Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be destroyed, lost or stolen, shall constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be destroyed, lost or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Resolution with all other Bonds issued under this Resolution.

ARTICLE III.

ISSUANCE OF ADDITIONAL INDEBTEDNESS.

SECTION 3.1. Purposes of Additional Parity Indebtedness. The Authority may issue from time to time, and the Trustee shall authenticate, Additional Parity Indebtedness for any lawful corporate purpose, including but not limited to providing all or part of the funds necessary (i) to refinance or refund all or any portion of any Indebtedness of the Authority, including accrued and unpaid interest and redemption premium, if any; (ii) to plan, develop, construct, acquire, complete, restore or replace any Project or any portion thereof, including studies, planning and design and other preliminary costs and expenses in connection therewith; (iii) to provide working capital for the Authority or (iv) to pay Litigation Expenses or other Litigation Expenses; including in each case the costs and expenses of the financing, any increase in the Debt Service Reserve Requirement incidental thereto and the funding of any reserves.

SECTION 3.2. Conditions Precedent to the Issuance of Additional Parity Indebtedness. The Trustee shall not authenticate or deliver to the Authority on its order any Additional Parity Indebtedness pursuant hereto unless theretofore or simultaneously therewith there shall have been delivered or paid to the Trustee the following:

(a) a certified copy of a resolution or resolutions of the Governing Board of the Authority authorizing the issuance of such Additional Parity Indebtedness, stating the purpose or purposes for the issuance of such Additional Parity Indebtedness, describing in brief and general terms the Projects to be financed by the issuance of such Additional Parity Indebtedness, if any, authorizing the execution and delivery of the Supplemental Resolution, and fixing the terms of such Additional Parity Indebtedness.

(b) a Supplemental Resolution executed by the Authority providing for the issuance of the Additional Parity Indebtedness, and containing such other necessary or proper terms, requirements and provisions which shall not be inconsistent with this Resolution or any previous Supplemental Resolution, unless all Bonds, the Registered Owners of which are entitled to the protection of the provision or provisions with which the Supplemental Resolution is inconsistent, have been paid or redeemed or provision therefor duly made. The provisions of Article II of this Resolution shall apply to any Additional Parity Indebtedness unless the relevant Supplemental Resolution explicitly provides otherwise.

(c) a written opinion or opinions of Bond Counsel to the effect that: (i) all conditions precedent to the issuance of the Additional Parity Indebtedness pursuant to the Act, this Resolution and any relevant Supplemental Resolution have been

satisfied; (ii) the Additional Parity Indebtedness, when issued, will be valid and binding obligations of the Authority in accordance with their terms; (iii) it is proper for the Trustee to authenticate the Additional Parity Indebtedness; and (iv) if the Additional Parity Indebtedness is intended to be Tax-Exempt, an opinion to the effect that interest on the Additional Parity Indebtedness is Tax-Exempt.

(d) the written order of the Authority, signed by the Chairperson or Vice Chairperson of the Authority, ordering the Trustee to authenticate and deliver such Additional Parity Indebtedness, stating the amount of the proceeds of sale thereof and directing the application of such proceeds.

(e) the proceeds of the Additional Parity Indebtedness in the amounts stated in the order of the Authority described above, to be applied as described in such order.

(f) any additional deposit to the Debt Service Reserve Fund required with respect to the Additional Parity Indebtedness.

(g) evidence satisfactory to Bond Counsel that the annual payment of principal of, interest on and redemption for, if any, any Additional Parity Indebtedness, including coverage requirements, if any, will be included as a component of the "Service Fee" payable by the County under Section 5.2 of the Service Agreement.

(h) a certificate duly executed by the Accountant (or an Authorized Representative of the Authority, to the extent permitted by Section 3.3 hereof) stating that, based upon a review of the books and records of the Authority, for any twelve (12) consecutive month period of the eighteen (18) calendar months immediately preceding the month during which the Additional Parity Indebtedness is to be issued (i) the Authority has complied with the Rate Covenant, (ii) all deposits required to be paid into the Debt Service and Sinking Fund were made, and (iii) the Debt Service Reserve Fund Requirement was maintained in accordance with the Resolution.

(i) a certificate duly executed by an Engineer (or an Authorized Representative of the Authority, to the extent permitted by Section 3.3 hereof) setting forth in detail and based upon reasonable assumptions set forth therein (1) his or her estimate of the Operating Expenses for each of the five (5) Fiscal Years following the issuance of such series of Bonds, plus the Fiscal Year in which such Bonds are issued; and (2) the Debt Service Requirements for each such Fiscal Year.

(j) if the Additional Parity Indebtedness is being issued to finance Projects, a certificate duly executed by an Engineer (or an Authorized Representative of the Authority, to the extent permitted by Section 3.3 hereof) (1) stating that such Projects will be useful or desirable in connection with the operation of

the Water System, will be technically feasible and are in compliance with the Authority's approved water system plan, as the same may be amended from time to time, (2) setting forth in detail and based upon reasonable assumptions set forth therein the estimated Costs of the acquisition or construction of such Projects including any financing expenses and, if judged necessary, a balance for contingencies, the sources of funds expected to be applied to finance such Costs, and the time period which will be required for completion of the acquisition or construction of such Projects, (3) his or her opinion that the net proceeds of the Additional Parity Indebtedness, together with other moneys which are then available or are reasonably expected to be available therefor, will be sufficient to pay the Costs of the acquisition or construction of such Projects, and (4) his or her opinion as to the date when such Projects will be placed in commercial operation.

(k) if the Additional Parity Indebtedness is being issued to finance a refunding, the Authority may provide, in lieu of the certificate described in paragraph (i) of this Section, a certificate duly executed by an Accountant (or an Authorized Representative of the Authority, to the extent permitted by Section 3.3 hereof) stating that for the then current and each future Fiscal Year, the Debt Service Requirements for the refunding Bonds will be no more than ten per centum (10%) more than the Debt Service Requirements that would have existed for that Fiscal Year with respect to the portion of the Bonds being refunded.

(l) if the Additional Parity Indebtedness is being issued to finance a refunding (1) executed counterparts of such documents as are necessary or appropriate for the purposes of the refunding, including, specifically, an escrow deposit agreement providing for the deposit and application of funds for the refunding, (2) unless all refunded Indebtedness is to be redeemed or otherwise retired on the date of settlement for the refunding Bonds, such schedules, verified as to their mathematical accuracy by an Accountant, as are necessary to demonstrate the adequacy of funds deposited for the refunding and the income thereon for the purpose of paying, when due, the principal or redemption price of and interest on the refunded Indebtedness, and (3) evidence satisfactory to the Trustee that notice of any necessary redemption has been properly given, or that provisions satisfactory to the Trustee have been made therefor, or that sufficient waivers of such notice have been duly filed with the Trustee.

The opinion(s) of Bond Counsel described in paragraph (c) above may be accepted by the Trustee as conclusive evidence that the requirements of this Section have been complied with, and the Trustee shall thereupon be authorized to execute said Supplemental Resolution, to authenticate the Additional Parity Indebtedness and to deliver the same to or upon the order of the Chairperson or Vice Chairperson of the Authority.

SECTION 3.3. Exceptions for Certain Additional Parity Indebtedness. (a) Notwithstanding anything to the contrary in paragraphs (h), (i), and (j) of Section 3.2 above, the requirements of those paragraphs may be met by providing certificates as described in those paragraphs executed by an Authorized Representative of the Authority, so long as the aggregate principal amount of Additional Parity Indebtedness being issued pursuant to this Section does not exceed either \$2,000,000 or is for completion of a Project, provided, with respect to Bonds to be issued for completion of a Project, that the Engineer certifies that such funds are sufficient to complete the Cost of the construction of such Project.

(b) Furthermore, notwithstanding anything to the contrary in paragraphs (h), (i), (j) and (k) of Section 3.2 above, the Authority may issue Additional Parity Indebtedness without satisfying paragraphs (h), (i), (j) and (k) of Section 3.2 above in any authorized amount if (i) all Outstanding Bonds are secured as to the payment of the principal of and interest due on such Bonds by a Credit Facility or Credit Facilities and issued concurrently with the delivery of each series of Bonds and being security for each series of Bonds, or any replacement thereof permitted in accordance with any Supplemental Resolution pursuant to which the applicable Bonds were issued and no such Credit Facility Provider has wrongfully dishonored a draw request for payment under such Credit Facility, which wrongful dishonor remains uncured, and (ii) the Credit Facility Provider or Credit Facility Providers, as the case may be, of each series of such Bonds consents to the issuance of the Additional Parity Indebtedness without satisfaction of such paragraphs or (iii) if the proceeds of such Additional Parity Indebtedness will be expended on a Project required to be constructed to comply with any State or federal law, rule or regulation.

SECTION 3.4. Application of Proceeds of Additional Parity Indebtedness. The proceeds of the Additional Parity Indebtedness issued for the purpose of acquiring, constructing, completing, restoring or replacing Projects, after paying the costs and expenses of the financing and making any other payments and setting aside any reserves authorized by the Governing Board of the Authority, shall be deposited with the Trustee in a separate account within the Construction Fund. Any capitalized interest funded from the proceeds of such Additional Parity Indebtedness shall be deposited with the Trustee in the Special Operating Fund.

The Trustee shall be authorized to disburse the money in the Construction Fund from time to time for the purpose of paying or reimbursing the Authority for the Costs of construction, acquisition, completion, restoration or replacement of Projects upon submission of requisitions of the Authority of the character contemplated by Section 4.2, upon which the Trustee may conclusively rely, or as otherwise provided in the pertinent Supplemental Resolution. In the case of payments for the purchase

price of lands, rights of way or easements, or for any Project which is to be situate on lands, rights of way or easements for which the Authority has not previously received the opinion of Counsel hereinafter described, the Authority shall also furnish to the Trustee an opinion of Counsel, upon which the Trustee may conclusively rely, that the Authority has acquired title or such appropriate interest thereto, which opinion may be based and rely upon title insurance, provided that if all Bonds then Outstanding shall have the benefit of one or more Credit Facilities, such opinion shall not be required if the Credit Facility Provider or Providers shall state that the opinion is not required in a writing delivered to the Trustee before any such payment.

The proceeds of Additional Parity Indebtedness issued for refunding purposes shall, after paying all costs and expenses incidental to the redemption and to the financing, be directly or indirectly applied by the Trustee to the payment or redemption of the Indebtedness to be refunded pursuant to the written order of the Authority described in Section 3.2(d) hereof.

The proceeds of Additional Parity Indebtedness issued for a purpose other than acquiring, constructing, completing, restoring or replacing Projects or to accomplish a refunding program of the Authority shall, except as otherwise provided in a supplemental resolution, after paying all costs and expenses incidental to the financing, be deposited in the Construction Fund and disbursed to the Authority as provided in Article IV hereof, unless otherwise prescribed by the Supplemental Resolution authorizing the Additional Parity Indebtedness.

SECTION 3.5. Additional Parity Indebtedness on Parity. All Additional Parity Indebtedness issued from time to time under this Article III shall be on a parity with the 1998 Bonds and with all other Additional Parity Indebtedness issued hereunder, except as expressly provided herein or permitted by this Resolution.

SECTION 3.6. Subordinated Indebtedness. The Authority may issue from time to time one or more series of Subordinated Indebtedness pursuant to the terms of a Supplemental Resolution for any lawful purpose of the Authority (including the provision of working capital of the Authority), such Subordinated Indebtedness to be in substantially such form as may be approved by the Authority and specified in the Supplemental Resolution authorizing the same. The priority of payments of principal or redemption price and interest on such Subordinated Indebtedness and the security therefor shall be as provided in the applicable Supplemental Resolution, which shall make such provisions for payment of the Debt Service Requirements of the Subordinated Indebtedness from Revenues held in the Revenue Fund in a manner consistent with Article V of this Resolution.

SECTION 3.7. Credit Notes. The Authority may issue from time to time one or more Credit Notes pursuant to the provisions

of a Supplemental Resolution. Any Credit Note that secures a Credit Facility with respect to any series of Bonds shall be subordinate only to the Bonds of the series of Bonds to which the Credit Facility relates. Therefore, a Credit Facility Provider shall be entitled to share in the Trust Estate under and according to Section 10.10 hereof only when all amounts due and payable on the Bonds of the series of Bonds to which the Credit Facility it has issued relates have been fully paid. Any Credit Note that secures a Credit Facility with respect to Subordinated Indebtedness shall be likewise subordinated to such Subordinated Indebtedness. Furthermore, notwithstanding anything to the contrary contained herein, the Authority shall not be obligated to establish or fund a Debt Service Reserve Requirement with respect to any Credit Note, nor include any contingent payments under any Credit Note as part of any calculation of Debt Service Requirements.

ARTICLE IV.

CONSTRUCTION FUND AND COSTS OF ISSUANCE FUND.

SECTION 4.1. Establishment of Construction Fund. The Trustee shall establish and maintain a Construction Fund, which shall consist of separate accounts or sub-accounts for each Project or portion thereof the construction or acquisition of which is to be financed, or refinanced, with Bonds and which shall be held separate and apart from all other funds and accounts established under this Resolution and from all other money of the Trustee. No disbursements of funds held from time to time in the Construction Fund shall be made except as permitted in this Article IV. Any amounts on deposit in any account or sub-account for any Project subsequent to the date on which the Authority shall have certified to the Trustee that construction or acquisition, as the case may be, of such Project is complete, as provided in Section 4.7 hereof, shall be transferred to the Bond Redemption and Accumulated Surplus Fund and credited to the zone or zones of assessment or area upon which moneys shall be raised to pay Debt Service Requirements or Indebtedness issued to pay Costs of such construction. The Trustee shall invest the money on deposit in the Construction Fund pursuant to Section 6.2 hereof and shall apply the income from such investments as provided therein.

Any State, federal or municipal aid provided to the Authority for the construction or acquisition Costs of a Project shall be deposited by the Authority in the Construction fund.

SECTION 4.2. Payments from Construction Fund.

A. Projects to Be Constructed. The Trustee shall make payments from the Construction Fund with respect to Projects to be

constructed only (i) upon the prior receipt of a requisition, signed on behalf of the Authority by an Authorized Representative, and if with respect to construction costs, approved by the Engineer, stating (a) the date, (b) the name of the Person to whom the payment is to be made (which may be the Authority if it is to be reimbursed for advances made or obligations incurred by it and properly chargeable against the Construction Fund), (c) the amount to be paid, (d) in reasonable detail and if appropriate by reference to Cost categories in the Project Budget, the purpose for which the payment is to be made, (e) that the obligation was properly incurred and is a Cost of the Project, (f) that the amount requisitioned is due and unpaid, and has not been the subject of any previously paid requisition, (g) that following the payment the amount remaining on deposit in the Construction Fund either (i) is estimated to be sufficient to pay the remaining Cost of completing the Project or repair for which the payment was made or (ii) the Authority has certified to the Trustee that it is taking appropriate steps either to reduce the Cost or raise additional moneys (whether through increasing Revenues or through the issuance of debt) so that the amount remaining or deposited in the Construction Fund is estimated to be sufficient to pay the remaining Costs of completing the Project or repair, and (h) that with respect to items covered in the requisition, the signer has no knowledge of any vendors', mechanics' or other liens, conditional sales contracts, chattel mortgages, leases of personalty, title retention agreements or security interests which should be satisfied or discharged before the payments as requisitioned therein are made or which will not be discharged by such payment or (ii) as otherwise provided in a Supplemental Resolution. If the costs of the Project or repair in question are in aggregate less than \$5,000,000, the approving Engineer need not be Independent of the Authority.

B. Projects to Be Acquired. In the event that proceeds of Bonds are intended to be used in whole or in part to acquire a Project, whether or not the Project is completely or partly constructed, such proceeds shall be disbursed from the Construction Fund to or upon the order of the Authority for the payment of the purchase price of the Project upon the terms and conditions specified in the Supplemental Resolution authorizing the series of Bonds. In cases where the Project is intended to be acquired and construction may remain to be done following acquisition by the Authority, the Authority may direct the Trustee as to the amount of money held in the account established therefor in the Construction Fund that is to be allocated the purchase price of the Project and the remaining construction cost of the Project at the time of its acquisition.

C. The Trustee agrees that it shall hold all requisitions, affidavits, certificates and other documents delivered to the Trustee pursuant to paragraph A above for a period of at least seven (7) years after the date of receipt thereof. The Authority, the Engineer, Bondholders, and their agents and representatives shall have the right to inspect such requisitions, affidavits,

certificates and other documents at the Trustee's Principal Corporate Trust Office at reasonable times and upon reasonable notice.

Whenever disbursements are to be made to reimburse the Authority for advances or to discharge indebtedness of the Authority, the requisition shall relate to the underlying obligation for which the Authority is being reimbursed or for the payment of which the indebtedness of the Authority was incurred.

SECTION 4.3. Covenant to Complete Facilities. The Authority covenants and agrees to complete any construction or acquisition, free of all liens and encumbrances, of all Projects financed, or refinanced, with the proceeds of Bonds with all due dispatch and efficiency, provided, however, that if the Authority makes a determination, evidenced by a resolution of the Governing Board of the Authority, that to complete any individual Project would not be in the best financial interests of the Authority, then the Authority shall discontinue the completion of that Project and the Trustee, upon receipt of such resolution, shall transfer any amounts remaining in the Construction Fund with respect to such discontinued Project to a segregated account in the Bond Redemption and Accumulated Surplus Fund, and apply such funds to either the redemption of the series of Bonds issued to finance the Project in question or, if there is delivered to the Trustee an opinion of Bond Counsel to the effect that the exclusion of interest on such series of Bonds will not be adversely affected, the financing of Costs of another Project.

SECTION 4.4. Compliance with Laws. The Authority covenants that in the construction of all Projects by or under the control of the Authority, it will comply with all laws, acts, rules, regulations, permits, orders and requirements lawfully made, of any national, state, legislative, executive, administrative or judicial body, commission or office, or other competent public authorities now or hereafter existing, exercising any power of regulation or supervision over the Authority or over the manner of the construction or operation thereof.

SECTION 4.5. Construction Contracts and Bonds. The Authority covenants that it will enter into, or accept by assignment, construction contracts with competent contractors for any Project the construction of which is financed, or refinanced, with the proceeds of Bonds. The Authority shall obtain from each contractor either a performance bond and a labor and material payment bond executed by a surety company qualified to do business in the State and having a rating of at least A by a nationally recognized rating agency or a letter of credit written upon a financial institution acceptable to the Authority providing, respectively, that the contractor shall faithfully perform his or her contract and shall indemnify and save the Authority harmless from expenses and damages, and that the contractor shall pay or cause to be paid all sums due for material furnished and labor supplied or performed in the

prosecution of the work contemplated by his or her contract. The Authority shall deposit in the Construction Fund the net amounts recovered on such bonds or on any bonds or deposits delivered in connection with competitive bids of contractors or suppliers in connection with any Project, if any. Notwithstanding the above, the Authority may, in its discretion, waive the requirements for a performance bond, labor and material payment bond, or letter of credit for construction contracts in an amount equal to or less than \$50,000.

SECTION 4.6. Builder's Risk, Liability, and Worker's Compensation Insurance. The Authority will maintain, or cause to be maintained, builder's risk (or equivalent coverage) insurance upon any work done or materials furnished under construction contracts except excavations, foundations and any other structures not customarily covered by such insurance.

The Authority will also maintain or cause to be maintained, worker's compensation insurance covering all employees of contractors and subcontractors in amounts required by law, and public liability insurance against bodily injury and property damage in amounts not less than those recommended by the Engineer, who need not be Independent, and Authority Counsel.

If all Bonds are secured by Credit Facilities issued concurrently with the delivery of each series of Bonds and being security for each series of Bonds, or any replacement thereof permitted in accordance with any Supplemental Indenture pursuant to which the applicable Bonds were issued and the Credit Facility Providers of all such Credit Facilities approve and no such Credit Facility Provider has wrongfully dishonored a draw request for payment under such Credit Facility, which wrongful dishonor remains uncured, the terms and provisions of this Section may be varied by the Authority, or need not be followed by the Authority, without the need for the Authority to obtain the approval of any or all Bondholders.

SECTION 4.7. Procedure Upon Completion of a Project. The Authority shall deliver to the Trustee within a reasonable time after the substantial completion or acquisition of a Project, an Officer's Certificate of completion approved by the Engineer stating the date of substantial completion or acquisition of the Project and the sum, if any, to be retained in the relevant account of the Construction Fund for the payment of any unpaid Costs of the Project.

Upon delivery of such certificate to the Trustee, any amount remaining in the relevant account of the Construction Fund and not reserved for the payment of Costs of such Project shall be transferred by the Trustee to the Bond Redemption and Accumulated Surplus Fund and applied to permitted purposes.

SECTION 4.8. Costs of Issuance Fund. The Trustee shall create, at a minimum, one separate fund, entitled the "Costs of

Issuance Fund," to be held separate from all other funds and accounts of the Trustee.

The Authority shall transfer to the Trustee for deposit in the Costs of Issuance Fund any proceeds of Bonds or other amounts designated by the Authority. The Trustee shall apply the amounts on deposit in the Costs of Issuance Fund to the payment of Costs of Issuance of Bonds of the related series of Bonds at the written direction of the Authority. Any amounts on deposit therein that are not so applied within one year of deposit shall be applied to any fund created or established hereunder in which there is a deficiency, and, to the extent not so required, transferred to the Bond Redemption and Accumulated Surplus Fund. Costs of Issuance, including without limitation the Cost of any Credit Facility, shall be paid by the Trustee from the Costs of Issuance Fund without need of prior invoice from the Credit Facility Provider.

Amounts held in the Costs of Issuance Fund shall be invested by the Trustee pursuant to Section 6.2 hereof solely in Investment Securities, subject to the limitations imposed thereon by the Act.

SECTION 4.9. Sale of Property. The Authority may, from time to time, sell or permit the sale of any machinery, fixtures, apparatus, tools, instruments, or movable property or any materials used in connection therewith which are no longer needed or useful in connection with the operation of the Water System, provided that if the fair market value of such machinery, fixtures, apparatus, tools, instruments, or movable property or any materials used in connection therewith is reasonably expected to be in excess of \$100,000 an Engineer shall concur in writing with such declaration, and the proceeds thereof shall be applied to the replacement of the property so sold or disposed of or shall be deposited, at the Authority's discretion, in the Bond Redemption Fund or the Repair and Improvement Fund. The Authority may also from time to time sell or convey such real property as the Authority by resolution shall declare to be no longer necessary or useful in connection with the operation of the Water System, provided that if the fair market value of such real property is reasonably expected to be in excess of \$500,000 an Engineer shall concur in writing with such declaration. The proceeds of any sale of real property shall be deposited, at the Authority's discretion, in the Bond Redemption and Accumulated Surplus Fund or the Repair and Improvement Fund.

ARTICLE V.

REVENUES AND FUNDS.

SECTION 5.1. Rate Covenant. The Authority covenants that it will fix, charge and collect water rates pursuant to and in accordance with the applicable provisions of the Act and the

Service Agreement, so long as any Bonds shall remain Outstanding, which shall produce, together with other Authority Revenues available therefor, in the aggregate Operating Revenues which shall be sufficient in each Fiscal year to provide for the Operating Expenses of the Authority as set forth in the Authority Budget for such Fiscal year ("Water Rates").

For purposes of the preceding covenant, Operating Revenues shall include amounts (i) capitalized from proceeds of Bonds or (ii) otherwise made available and reserved and not already taken into account hereunder by reduction of the obligation which Operating Revenues must cover.

The Authority shall, not less frequently than once each year, review and adjust its Water Rates so as to produce Operating Revenues which, together with amounts capitalized from proceeds of Bonds or otherwise made available and reserved and not already taken into account hereunder by reduction of the obligation which Operating Revenues must cover shall be sufficient to comply with this Section. In the event the Water Rates in effect shall be inadequate to comply with this Section, from time to time and as often as shall appear necessary, the Authority covenants that it will adjust its Water Rates so as to produce Operating Revenues which, together with amounts capitalized from proceeds of Bonds or otherwise made available and reserved and not already taken into account hereunder by reduction of the obligation which Operating Revenues must cover, shall be sufficient to comply with this Section.

For the purposes of complying with the Rate Covenant, "amounts capitalized from proceeds of Bonds or otherwise made available and reserved and not already taken into account hereunder by reduction of the obligation which Operating Revenues must cover" shall mean money of the Authority held in a fund or account that is included within the Trust Estate and which the Trustee has been irrevocably instructed to apply to the payment of Operating Expenses within the Fiscal Year for which credit is given.

SECTION 5.2. Schedule of Water Rates. The Authority covenants and agrees to keep on file with the Trustee at all times a certified copy of the schedule of Water Rates currently in effect. The Authority further covenants that so long as any Bonds shall remain outstanding Water Rates will not be reduced until after the Authority has filed with the Trustee a copy of the proposed schedule of reduced Water Rates.

SECTION 5.3. Pledge of Revenues; Security Interest. As security for its obligation to make payments required hereunder and to secure the performance and observance of all the covenants and conditions contained herein, and in confirmation of and subject to the Granting Clauses hereof, the Authority pledges and grants to the Trustee, subject to the uses and applications authorized or required by this Resolution, a Lien on and security

interest in the Trust Estate. The pledge made by this Resolution shall be valid and binding from the time such pledge is made, and the covenants and agreements set forth herein to be performed by or on behalf of the Authority shall be for the benefit, protection and security of the Registered Owners of the Bonds and Subordinated Indebtedness with priority and distinction as expressly provided herein or permitted by this Resolution. The Trust Estate shall immediately be subject to the Lien of the pledge without any physical delivery thereof or further act, and, except as otherwise provided herein, shall be held by the Trustee until disbursed as authorized by this Resolution in trust for the benefit of the Registered Owners from time to time of the Bonds, and Subordinated Indebtedness issued and Outstanding under this Resolution.

Notwithstanding the above pledge, money from time to time deposited and held in the Debt Service and Sinking Fund for the payment of particular Bonds shall be held in trust by the Trustee for payment to the respective Registered Owners from time to time of the particular Bonds for the payment of which said money has been deposited in said Fund, and whenever Bonds shall be selected for redemption out of money on deposit in the Bond Redemption and Accumulated Surplus Fund, the money in such Fund to the amount necessary to pay principal, redemption premium, if any, and interest to the date fixed for redemption on the Bonds selected for redemption, shall be held by the Trustee in trust for the payment to the respective Registered Owners of the particular Bonds so selected for redemption.

SECTION 5.4. Revenue Fund; Application of Revenues. (a) There is hereby established a special fund, designated as the "Revenue Fund", to be held by the Trustee in trust separate and apart from the other funds and accounts of the Trustee.

(b) The Authority shall cause all Revenues received from the County pursuant to Sections 5.2(a)(i), (ii), (iii), (iv) and (v) of the Service Agreement to be transferred to the Trustee for deposit into the Revenue Fund promptly upon receipt. Amounts held in the Revenue Fund shall be invested solely as directed in writing by an Authorized Representative of the Authority in Investment Securities, subject to the limitations imposed thereon by the Act.

(c) Commencing on the first day of each calendar month succeeding the issuance of the 1998 Bonds, the Trustee shall make the following payments from the Revenue Fund in the following order of priority:

FIRST: If an Event of Default has occurred and is then continuing under the Service Agreement, and if the Trustee has exercised its remedy contained in Section 10.3(1)(ii) hereof, and the Trustee is required to pay all Operating Expenses, an amount to the applicable Operating Expenses sub-account estimated in the Annual Budget as the next month's applicable estimated Operating Expenses. In the

event that any unanticipated Operating Expenses in excess of the amounts set forth in the Annual Budget occur in any month the Trustee may transfer amounts from the Revenue Fund sufficient to meet such unanticipated Operating Expenses.

SECOND: From the balance, if any, in the Revenue Fund after making the deposit required by the preceding paragraph, an amount to the Debt Service and Sinking Fund as is necessary so that the balance in the Debt Service and Sinking Fund equals Accrued Debt Service.

THIRD: From the balance, if any, in the Revenue Fund after making the deposits required by the preceding paragraphs, an amount to the Debt Service Reserve Fund as is necessary so that the balance in the Debt Service Reserve Fund equals the Debt Service Reserve Requirement.

FOURTH: From the balance, if any, in the Revenue Fund after making the deposits required by the preceding paragraphs, such amount as is necessary to make all required payments for or in connection with Subordinated Indebtedness as provided in and in accordance with the provisions of any Supplemental Resolution or similar document pertaining to such Subordinated Indebtedness.

FIFTH: From the balance, if any, in the Revenue Fund after making the deposits required by the preceding paragraphs, such amount as is necessary to make all required payments in any fund or account as the Authority or the Trustee at the direction of the Authority may from time to time create pursuant to Section 5.15 of the Resolution in such amount as is required by said direction.

SIXTH: The balance at the end of each Fiscal Year, if any, in the Revenue Fund after making the deposits required by the preceding paragraphs, to the Bond Redemption and Accumulated Surplus Fund.

SECTION 5.5. Operating Fund. The Authority covenants to create and maintain one or more accounts in one or more banks or trust companies including but not limited to the banking department of the Trustee, designated as the "Operating Fund" separate and apart from the other funds and accounts of the Authority. The Operating Fund shall initially consist of one account, the Operating Expense Account. The Authority shall, except as provided in the following paragraph, deposit all revenues received from Water Rates in the Operating Fund immediately upon receipt. Any moneys held by the Authority in the Operating Expense Account, or any sub-account thereof as provided in the Service Agreement, shall be held by the Authority as trust funds and the amounts or deposits therein shall, except as provided in the following paragraph, be applied solely as provided in the Service Agreement.

If an Event of Default has occurred and is then continuing under the Service Agreement, and if the Trustee has exercised its remedy contained in Section 10.3(1)(ii) hereof, the Authority shall (i) deposit all moneys thereafter received or then held from Water Rates raised for Hyde Park Water System Operating Expenses in a sub-account to be created or established as a special account in the Operating Expense Account to be designated "Hyde Park Water System Expense Account", (ii) deposit all moneys thereafter received or then held from Water Rates raised for Staatsburg Water System Operating Expenses in a sub-account to be created or established in the Operating Expense Account to be designated "Staatsburg Water System Operating Expense Account", and (iii) deposit all moneys thereafter received or then held from Water Rates raised for Other Operating Expenses in a sub-account to be created or established in the Operating Expense Account to be designated "Other Operating Expense Account". The Trustee shall create or establish each such Operating Expenses sub-accounts, each of which to be held by the Trustee in trust separate and apart from other funds and accounts of the Trustee. The Trustee shall pay all Operating Expenses from such appropriate sub-accounts. Moneys in the Hyde Park Water System Expense Account not then needed to pay Hyde Park Water System Operating Expenses may be expended to pay Staatsburg Water System Operating Expenses or Other Operating Expenses, moneys in the Staatsburg Water System Operating Expense Account not then needed to pay Staatsburg Water System Operating Expenses may be expended to pay Hyde Park Water System Operating Expenses or Other Operating Expenses and moneys in the Other Operating Expense Account not then needed to pay Other Operating Expenses may be expended to pay Hyde Park Water System Operating Expenses or Staatsburg Water System Operating Expenses so long as such moneys are repaid to the appropriate account prior to the end of the quarter following the year in which such expenditure is made. In the event moneys are not available or are sufficient in the Hyde Park Water System Operating Expenses Account, in the Staatsburg Water System Operating Expense Account or in the Other Operating Expense Account to pay Operating Expenses the Trustee shall transfer from the Revenue Fund or, as permitted by Section 5.11 hereof, from the Bond Redemption and Accumulated Surplus Fund or, as permitted by Section 5.10 hereof, from the Repair and Improvement Fund, to the Operating Expense Account amounts sufficient to pay, or reimburse the Authority for having paid from sources other than Water Rates, such Operating Expenses.

Transfers from the Revenue Fund, the Bond Redemption and Accumulated Surplus Fund or from the Repair and Improvement Fund shall be made by the Trustee from time to time upon the written request of an Authorized Representative of the Authority as necessary to pay Operating Expenses due or to become due during the month of transfer or to reimburse the Authority for having paid Operating Expenses otherwise than with Water Rates.

Any money in the Operating Fund at the end of any Fiscal Year not required to pay accrued but unpaid Operating Expenses for such Fiscal Year, and not intended to be applied to pay Operating

Expenses during the next ensuing Fiscal Year quarter, shall be applied to any fund created or established under this Resolution in which there is a deficiency and, to the extent not so required, shall be transferred and deposited by the Trustee first to reimburse the Bond Redemption and Accumulated Surplus Fund and then the Repair and Improvement Fund for any such transfers not then reimbursed. Any moneys then remaining shall be transferred and deposited by the Trustee in the Bond Redemption and Accumulated Surplus Fund.

SECTION 5.6. Special Operating Fund. There is hereby created a special fund known as the Special Operating Fund which shall be held in trust by the Trustee until applied as hereinafter provided. Within the Special Operating Fund there shall be established the Capitalized Interest Account. Within the Capitalized Interest Account there shall be established a separate sub-account for each series of Bonds for which there is to be a deposit of capitalized interest. The Authority shall pay to the Trustee for deposit in the Special Operating Fund such amounts as the Authority shall determine from the proceeds of Bonds for allocation to the various accounts according to the terms of the applicable Supplemental Resolution of the Authority. Amounts held in the Special Operating Fund shall be invested solely by the Trustee as directed in writing by an Authorized Representative of the Authority in Investment Securities.

The Trustee shall transfer automatically on each Interest Payment Date from the Capitalized Interest Account of the Special Operating Fund to the Debt Service and Sinking Fund an amount equal to the interest component of the Debt Service Requirements for Bonds that has accrued through the last day of the immediately preceding Interest Payment Date on each series of Bonds for which there has been a deposit of capitalized interest in the Capitalized Interest Account of the Special Operating Fund. Such amounts, to the extent available, shall be taken from the sub-account of the Capitalized Interest Account established with respect to the series of Bonds for which the transfer is made and shall be credited to the sub-account for such series of Bonds in the Debt Service and Sinking Fund. The Authority may also withdraw upon written requisition filed with the Trustee identifying the purpose thereof from the sub-account of the Capitalized Interest Account relating to a series of Bonds amounts needed to pay the costs and fees of any Credit Facility or remarketing service in effect with respect to Bonds of such series of Bonds.

SECTION 5.7. Debt Service and Sinking Fund. There is hereby created a special fund known as the Debt Service and Sinking Fund which shall be held in trust by the Trustee until applied as hereinafter provided. The Debt Service and Sinking Fund shall include a separate account for each series of Bonds issued hereunder.

The Authority shall pay to the Trustee from available Revenues (after the deposit required by Section 5.5, if any, hereof) for

deposit in the relevant account of the Debt Service and Sinking Fund on or before the first Business Day of each calendar month an amount equal, in the aggregate, to Accrued Debt Service for all Bonds issued hereunder. In the event moneys are not sufficient for the payment of Debt Service on a payment Date, the Trustee shall, without instruction or further direction from the Authority, promptly transfer the requisite amounts from the Debt Service Reserve Fund to the relevant accounts of the Debt Service and Sinking Fund to make good any such deficiency.

The money held from time to time in the Debt Service and Sinking Fund shall be applied by the Trustee without further direction from the Authority to the payment of the Debt Service Requirements on the Bonds as and when the same shall become due and payable; provided that if the same shall have been paid under a Credit Facility (other than municipal bond insurance) relating to the series of Bonds on which the payments were due, including in those instances where Debt Service Requirements on a series of Bonds has been paid in the first instance from the proceeds of a Credit Facility, amounts equal to such payments on deposit in the account of the Debt Service and Sinking Fund established with respect to Bonds of such series of Bonds shall be paid to the Credit Facility Provider as reimbursement. If a Supplemental Resolution provides that Debt Service Requirements on Bonds of a series of Bonds issued thereunder are to be paid in the first instance from the proceeds of a Credit Facility, the Trustee shall comply with the terms of such Supplemental Resolution in that regard and draw upon the Credit Facility to pay Debt Service Requirements on Bonds of such series of Bonds.

Section 5.8. Debt Service Reserve Fund. There is hereby created a special fund known as the Debt Service Reserve Fund which shall be held in trust by the Trustee until applied as hereinafter provided. The Debt Service Reserve Fund shall include a separate account for each series of Bonds issued hereunder.

The Trustee shall be authorized, without further direction from the Authority, to apply the money in the Debt Service Reserve Fund toward the payment of the Debt Service Requirements from time to time becoming due and payable upon a series of Bonds, to the extent that the Debt Service and Sinking Fund shall at any time be insufficient with respect to such series of Bonds. The Trustee shall, for any particular series of Bonds, initially draw funds from the related account within the Debt Service Reserve Fund, and to the extent a deficiency in the Debt Service and Sinking Fund continues to exist subsequent to the exhaustion of such related account, the Trustee shall draw funds from all other accounts within the Debt Service Reserve Fund pro-rata on the basis of the amount held in each of the other accounts at the time of such draw.

In the event of any deficiency in the Debt Service Reserve Fund, the Authority shall thereafter make monthly transfers from the Revenue Fund, (after the deposits required by Sections 5.5, if

any, and 5.7 hereof), until the amount in each account in the Debt Service Reserve Fund in cash or investments shall equal the Debt Service Reserve Requirement for such account. Amounts held in each account of the Debt Service Reserve Fund shall be restored to their respective Debt Service Reserve Requirement within twelve (12) months after the occurrence of any deficiency therein. The investments of each account of the Debt Service Reserve Fund made pursuant to Section 6.2 shall, for the purpose of determining the amount from time to time in the Debt Service Reserve Fund, be valued annually by the Trustee at amortized cost. The investments of the accounts of the Debt Service Reserve Fund shall include (i) investments that at the time of acquisition would constitute Investment Securities if the stated level of required ratings, if any, for Investment Securities were at least the second highest whole rating category (without regard to pluses or minuses) for the type of rating in question (e.g. short-term or long-term) and (ii) investments which can be liquidated by or on behalf of the Trustee not later than ten (10) years from the date of their acquisition for an amount at least equal to the principal thereof and all accrued interest (or amortized discount) thereon to the liquidation date, whether by maturity, redemption, tender or otherwise.

Upon written instructions of an Authorized Officer of the Authority during the twelve (12) month period prior to the final maturity date of any series of Bonds, money held in the related account for such series of Bonds shall be credited against the amount otherwise transferable from the Revenue Fund to the Debt Service and Sinking Fund in respect of Debt Service Requirements for such Bonds and shall be transferred to the Debt Service and Sinking Fund for the payment of such Debt Service Requirements; provided, however, that no such credit shall be given and no such transfer shall be made if, immediately prior to such crediting and transfer, the amount on deposit in the related account for such series of Bonds is not at least equal to (i) the Debt Service Reserve Requirement with respect to such series of Bonds less (ii) the amounts previously transferred to the Debt Service and Sinking Fund for payment of such series of Bonds during such twelve (12) month period pursuant to this Section, and any amounts which are currently payable to the Rebate Fund.

Except to the extent that a Supplemental Resolution shall provide otherwise, when all Outstanding Bonds of a particular series shall have been paid, purchased or redeemed, or provision for their payment or redemption duly made, the amount then held in the Debt Service Reserve Fund pursuant to this Section 5.8 in respect of such series of Bonds (except for amounts payable to the Rebate Fund) shall, upon the written instructions of the Chairperson or Vice-Chairperson of the Authority, be transferred from the Debt Service Reserve Fund and deposited in the Bond Redemption and Accumulated Surplus Fund or applied by the Trustee pursuant to such instructions to the prompt purchase or redemption of Bonds.

SECTION 5.9 Reserve Fund Credit Facility. The Authority may elect to satisfy in whole or in part the Debt Service Reserve Requirement by means of a letter of credit, insurance policy or surety bond (together with any substitute or replacement therefor, the "Reserve Fund Credit Facility"), subject to the following requirements:

(A) The Reserve Fund Credit Facility Provider must have a credit rating issued by a Rating Agency not less than the then current rating on the related series of Bonds and in any event equal to one of the Rating Agency's three highest long-term rating categories;

(B) The Authority shall not secure any obligation to the Reserve Fund Credit Facility Provider by a Lien on the Trust Estate superior to the Lien on the Trust Estate granted to the Bondholders;

(C) Each Reserve Fund Credit Facility shall have a term of at least one (1) year (or, if less, the remaining term of the related series of Bonds) and shall entitle the Trustee to draw upon or demand payment at such times and for such purposes as the Trustee would be entitled to claim the funds and investments that would be on deposit in the Debt Service Reserve Fund were there no such Reserve Fund Credit Facility and receive the amount so requested in immediately available funds not later than five (5) Business Days after such draw or demand. To assure a timely draw on any Reserve Fund Credit Facility and timely payment of funds in the Debt Service and Sinking Fund as provided in Section 5.5 hereof, any Supplemental Resolution providing for a Reserve Fund Credit Facility shall provide that the date for deposit in the applicable account of the Debt Service and Sinking Fund for a series of Bonds for which a Reserve Fund Credit Facility has been provided shall be no later than five days prior to the first Business Day of each calendar month in which an Accrued Debt Service payment is due;

(D) The Reserve Fund Credit Facility shall permit a drawing by the Trustee for the full Stated Amount in the event (i) the Reserve Fund Credit Facility expires or terminates for any reason prior to the final maturity of the related series of Bonds, and (ii) the Authority fails to satisfy the Debt Service Reserve Requirement by the delivery to the Trustee of cash, obligations, a substitute Reserve Fund Credit Facility, or any combination thereof, for deposit in the related account in the Debt Service Reserve Fund on or before the date of such expiration or termination;

(E) If the rating issued by the Rating Agencies to the Reserve Fund Credit Facility Provider is withdrawn

or reduced below the rating assigned to that of the related series of Bonds immediately prior to such action by the Rating Agencies, the Authority shall provide a substitute Reserve Fund Credit Facility within sixty (60) days after said rating change, and, if no substitute Reserve Fund Credit Facility is delivered to the Trustee by such date, shall fund the Debt Service Reserve Requirement in not more than forty-eight (48) equal monthly payments commencing not later than the first day of the month immediately succeeding the date representing the end of said sixty (60) day period; and

(F) If the Reserve Fund Credit Facility Provider commences any insolvency proceedings or is determined to be insolvent or fails to make payments when due on its obligations, the Authority shall provide a substitute Reserve Fund Credit Facility within sixty (60) days thereafter, and, if no substitute Reserve Fund Credit Facility is delivered to the Trustee by such date, shall fund the Debt Service Reserve Requirement in not more than forty-eight (48) equal monthly payments commencing not later than the first day of the month immediately succeeding the date representing the end of said sixty (60) day period.

If the events described in either (E) or (F) above occur, the Trustee shall not relinquish the Reserve Fund Credit Facility at issue until after the Debt Service Reserve Requirement is fully satisfied by the provision of cash, obligations, or a substitute Reserve Fund Credit Facility or any combination thereof. In the event a Reserve Fund Credit Facility is delivered to the Trustee, the Trustee shall transfer the money and securities held in the related account of the Debt Service Reserve Fund, to the extent not needed to comply with the Debt Service Reserve Requirement, to the Bond Redemption and Accumulated Surplus Fund. The Trustee is hereby authorized and directed to draw upon or demand payment from any such Reserve Fund Credit Facility in accordance with its terms in the event funds are needed from the Debt Service Reserve Fund in accordance with Section 5.8 hereof. Any amount received from the Reserve Fund Credit Facility shall be deposited directly into the Debt Service and Sinking Fund and such deposit shall constitute the application of amounts in the Debt Service Reserve Fund. If amounts held in an account of the Debt Service Reserve Fund containing a Reserve Fund Credit Facility are less than the related Debt Service Reserve Requirement because the Reserve Fund Credit Facility has been drawn upon and has not been reinstated, the Authority shall transfer from the Revenue Fund, (after the deposits in Section 5.5, if any, 5.7, and 5.8 hereof, in amounts sufficient to reinstate said Reserve Fund Credit Facility, and the Trustee shall pay such amounts to the Reserve Fund Credit Facility Provider. Upon the reinstatement of the Reserve Fund Credit Facility, said payment shall constitute the replenishment of said account.

SECTION 5.10 Repair and Improvement Fund. There is hereby created a special fund to be known as the Repair and Improvement Fund which shall be held in trust by the Trustee until applied as hereinafter provided. There shall be deposited in the Repair and Improvement Fund at the time of the sale of the 1998 Bonds from moneys available for such purpose an amount equal to the Repair Reserve Requirement. To the extent that amounts on deposit in the Repair and Improvement Fund are less than the Repair Reserve Requirement, the Authority shall deposit in the Repair and Improvement Fund as soon as the Authority determines it to be practicable sufficient Revenues in an amount equal to the shortfall.

The money in the Repair and Improvement Fund shall be paid out from time to time by the Trustee upon requisitions or letters of instruction indicating in reasonable detail the purpose of the payment and signed on behalf of the Authority by its Chairperson or Vice-Chairperson. To the extent proceeds held in the Repair and Improvement Fund are to be applied towards the purposes described in paragraphs (a) or (c) below, the requisitions filed with the Trustee shall be of the character contemplated by Section 4.2 hereof.

The money on deposit in the Repair and Improvement Fund may be used for any one or more of the following purposes:

(a) to pay all or any part of the Cost of constructing, acquiring, completing or restoring Projects;

(b) to pay the Cost of Operating Expenses, renewals to or replacements of Projects or to pay the Cost of extraordinary maintenance and repairs thereto;

(c) to repay the temporary loans, or any part thereof, incurred for the purpose of acquiring or constructing Projects, renewals and replacements or undertaking extraordinary maintenance and repairs; or

(d) to pay other debts and liabilities of the Authority incurred in connection with the operation of the Water System not otherwise provided for, and to the payment of Debt Service Requirements.

In case of payments for the acquisition of land, rights-of-way and easements, the Authority shall also furnish the Trustee with an opinion of Counsel satisfactory to the Trustee, upon which the Trustee may conclusively rely, stating that the Authority has acquired or upon satisfactory completion of the transaction will acquire title to such lands, rights-of-way or easements.

SECTION 5.11 Bond Redemption and Accumulated Surplus Fund. There is hereby created a special fund to be known as the Bond Redemption and Accumulated Surplus Fund which shall be held in trust by the Trustee until applied as hereinafter provided. At

the end of each Fiscal Year the Authority shall deposit in the Bond Redemption and Accumulated Surplus Fund all Revenues then on hand and not otherwise on deposit in a fund or account, the net proceeds from the sale of any Project as well as insurance and condemnation proceeds received as a result of damage, destruction or condemnation of any Project in accordance with Section 8.1(b) hereof. Any such sale, insurance or condemnation proceeds shall be applied solely for the purpose of purchasing or redeeming Bonds as described below.

Whenever there shall be a deficiency in any other fund or account hereunder, the Trustee shall forthwith and without instructions from the Authority, make good such deficiency from moneys, except sale, insurance or condemnation proceeds on deposit in the Bond Redemption and Accumulated Surplus Fund. If there shall be no such deficiency in any of said funds or accounts, the money in the Bond Redemption and Accumulated Surplus Fund shall be paid out from time to time by the Trustee upon requisitions or letters of instruction indicating in reasonable detail the purpose of the payment and signed on behalf of the Authority by its Chairperson or Vice-Chairperson.

The money on deposit in the Bond Redemption and Accumulated Surplus Fund may be used upon the written request of the Authority to purchase or redeem any Bonds of any series at a price not greater than 100% of the principal amount thereof (or, to the extent permitted by law, the then current optional redemption price for such series of Bonds) plus accrued interest.

SECTION 5.12 Rebate Fund. (a) There is hereby created and established with the Trustee a special fund to be known as the Rebate Fund which shall be used for the deposit of the Rebate Amount, and shall not be subject to the lien of this Resolution.

(b) The Authority covenants to determine the Rebate Amount or cause the same to be determined in the manner provided in Section 148(f) of the Code, the Treasury Regulations promulgated thereunder and any other rules which may be promulgated thereafter by the Treasury Department or Internal Revenue Service (the "Rules") and to transfer or cause to be transferred to Trustee such determination for purposes of paragraph (c) of this Section 5.12.

(c) Records of each of the determinations required to be made pursuant to Section 5.12(b) hereof and the Rules shall be retained by the Trustee until a date which is six (6) years after the retirement of the last Bond.

(d) The Trustee shall deposit in the Rebate Fund the Rebate Amount which may be from deposits by the Authority or from available investment earnings on amounts held in the Construction Fund, the Debt Service Reserve Fund, the Special Operating Fund or the Bond Redemption and Accumulated Surplus Fund, as directed in writing by the Authority. If the Authority fails to make any

payment to the Trustee, the Trustee may, but shall not be required to, transfer money without requisition first from the Construction Fund and then from the Bond Redemption and Accumulated Surplus Fund to the Rebate Fund so that such payment can be made.

(e) If any amount shall remain in the Rebate Fund after the Trustee has made the final payment to the United States in accordance with the Rules, such amount shall be deposited in the Bond Redemption and Accumulated Surplus Fund.

(f) Any money held as a part of the Rebate Fund shall be invested or reinvested by the Trustee, as directed in writing by the Authority, in Investment Securities, subject to the restrictions set forth in the Rules. The Trustee may make any and all such investments through its own investment department. In making investments, the Trustee may rely upon the directions of the Authority as to the investments purchased and shall be and hereby is relieved of all liability with respect to making, holding, redeeming or selling such investments in accordance with the foregoing.

(g) Any and all money held as part of the Rebate Fund shall be considered proceeds of the Bonds for all purposes including, but not limited to, the limitations on investments in Non-purpose Obligations.

(h) The Rebate Amount shall be paid to the United States by the Trustee on behalf of and at the written direction of the Authority in installments as provided in the Rules. Each payment of an installment of the amount required to be paid to the United States shall be paid at the time and in the manner provided in the Rules. The duty of the Trustee to make payments to the United States pursuant to this Section 5.12(h) and the Rules shall be expressly limited to funds available in the Rebate Fund at the times such payments are required to be made (including all investment earnings on funds theretofore deposited by the Trustee in the Rebate Fund), and any other funds actually provided to the Trustee by the Authority for such payments. The Trustee shall not be under any duty to pay any amounts in excess of the amount available in the Rebate Fund, if any, or actually provided to it by the Authority. The Trustee shall not have any duty to determine the Rebate Amount or expend its own funds with respect to the determination that any amounts are rebatable or the calculation thereof.

SECTION 5.13. Transfer to Bond Redemption and Accumulated Surplus Fund. The Trustee shall on the last business day of each Fiscal Year, so long as any Bond is outstanding, transfer to the Bond Redemption and Accumulated Surplus Fund (a) any funds remaining in the Debt Service and Sinking Fund not required to pay or provide for the payment of Debt Service Requirements for the Bonds, and (b) any funds remaining in each account of the Debt Service Reserve Fund not required to maintain the Debt

Service Reserve Requirement for said account. The Trustee shall also deposit in the Bond Redemption and Accumulated Surplus Fund any amounts otherwise directed or required to be transferred thereto pursuant to the terms of the Resolution and the Service Agreement. The Trustee shall account for deposits into and transfers out of any account or fund on a first-in, first-out accounting basis.

SECTION 5.14. Discontinuation of Funds. In the event that the Authority shall desire to redeem and pay all Outstanding Bonds, and the money in the funds held by the Trustee under this Resolution, or in any one or more of said funds, together with other available money, are sufficient to effect such redemption or payment, including in addition to principal and interest, costs of redemption and proper charges and expenses of the Trustee, said funds or any one or more of them as the case may be, may be discontinued and the money therein applied toward such redemption or payment.

SECTION 5.15. Additional Funds or Accounts. (a) The Authority or the Trustee at the direction of the Authority may create such additional funds or accounts (or additional accounts or sub-accounts within existing funds or accounts) as the Authority deems necessary or desirable, including, without limitation, such funds or accounts relating to Subordinated Indebtedness. Any Supplemental Resolution may provide for additional amounts to be paid into any of the funds or accounts established hereunder and the manner of making payments into and disbursements from such funds or accounts not materially inconsistent with the provisions of this Resolution.

(b) The Authority may create, outside of the Trust Estate, additional funds or accounts funded solely with moneys not subject to the Lien of the Resolution.

ARTICLE VI.

SECURITY FOR AND INVESTMENT AND DEPOSIT OF FUNDS.

SECTION 6.1. Deposits and Security Therefor. All money received by the Trustee under this Resolution for deposit in any fund established hereunder shall, except as hereinafter provided in Section 6.2 hereof, be deposited in interest bearing accounts in the commercial or trust department of the Trustee, until or unless invested or deposited as provided in Section 6.2 hereof. All deposits in the commercial department of the Trustee (whether original deposits under this Section 6.1 or deposits or redeposits in time accounts under Section 6.2 hereof) in excess of the amount covered by insurance by the Federal Deposit Insurance Corporation, shall be secured by a pledge of Government Obligations having an aggregate market value, exclusive of accrued interest, at all times at least equal to the balance so

deposited, or secured as required by applicable law. If at any time the commercial or trust department of the Trustee is unwilling to accept such deposits or unable to secure them as provided above, the Trustee may deposit such money with any other depository which is authorized to receive them and is subject to supervision by public authorities. All deposits in any other depository (whether under this Section or Section 6.2 as aforesaid) in excess of the amount covered by insurance by the Federal Deposit Insurance Corporation shall to the extent permitted by law, be secured by a pledge of Government Obligations having an aggregate market value, exclusive of accrued interest, at all times at least equal to the balance so deposited. Such security shall be deposited with a Federal Reserve Bank or with a bank or trust company having a combined capital and surplus of not less than \$20,000,000.

Notwithstanding the foregoing, or anything else to the contrary herein, the proceeds of any payments under a Credit Facility and the proceeds of any remarketing of Bonds pursuant to a Supplemental Resolution shall be held by the Trustee or a Tender Agent, as the case may be, separate and apart from any other funds of the Authority, the Trustee or the Tender Agent and from any other funds held under this Resolution for the exclusive benefit of the parties to be paid therefrom and may be invested only in Government Obligations maturing coming due by the earlier of thirty (30) days following investment on the date needed for the purposes of this Resolution.

SECTION 6.2. Investment of Funds.

A. The Trustee shall, pursuant to written or oral (promptly confirmed in writing) investment instructions from an Authorized Representative of the Authority, invest and reinvest money held in any fund or account held by the Trustee under this Resolution in Investment Securities. Such instructions may authorize specific transactions with respect to the deposits to be made or the Investment Securities to be purchased and the prices to be paid, and may include general instructions for future reinvestments of cash as and when such obligations are paid or redeemed. The scope of such general instructions shall be satisfactory to the Trustee which may, if it deems it advisable, from time to time require specific instructions or general instructions within defined limits. All investments made pursuant to this Section 6.2 shall mature or be subject to redemption at not less than the principal amount thereof or the cost of acquisition, whichever is lower, and all deposits in time accounts shall be subject to withdrawal, not later than the date when the amounts will foreseeably be needed for purposes of this Resolution.

B. The interest and income received upon such investments and any interest paid by the Trustee or any other depository of any fund or account and any profit or loss resulting from the sale of any investment shall be added or charged to the fund or account in question, provided, however, that the Trustee

shall credit any investment income or loss with respect to any fund or account established hereunder to any other fund or account, as directed in writing by the Authority. Subject to the requirements of Section 5.8 hereof, investment earnings on amounts held in the Debt Service Reserve Fund shall be transferred to the Debt Service and Sinking Fund unless the Authority otherwise directs in writing.

C. Upon request of the Authority, whenever a payment is to be made out of any fund or account the Trustee shall sell such Investment Securities as may be requested to make the payment and restore the proceeds to the fund or account in which the Investment Securities were held. The Trustee shall not be accountable for any depreciation in the value of or the selection of any such Investment Security or for any loss resulting from the sale thereof.

SECTION 6.3. Valuation of Funds. To the extent the Trustee holds amounts in any fund or account established under this Resolution, and at the direction of the Authority, the Trustee shall compute the value of the assets of each such fund or account after taking into account any payments required to be made to Bondholders on such dates and any transfers required to be made hereunder. In computing the value of any fund or account, investments and accrued interest thereon shall be deemed a part thereof. Such investments shall be valued at the face value or the current market value thereof, whichever is the lower, or at the redemption price thereof, if then redeemable at the option of the owner, provided, however, that the value of investments with respect to the Debt Service Reserve Fund shall be calculated in accordance with Section 5.8 hereof.

ARTICLE VII.

REDEMPTION OF BONDS.

SECTION 7.1. Bonds Subject to Redemption. The Bonds issued or to be issued hereunder shall be subject to redemption at such time or times and from time to time, in such order, at such redemption prices, upon such notice, and upon such terms and conditions as may be expressed in the particular Bond, or, as the case may be, in this Resolution or in the pertinent Supplemental Resolution. In the event of a conflict between this Resolution and a Supplemental Resolution concerning these matters, including, without limitation, notice of any redemption, the Supplemental Resolution shall govern.

SECTION 7.2. Notice of Redemption. Whenever the Authority shall, by Resolution of the Authority, determine to redeem Outstanding Bonds in accordance with the right reserved to do so, the Authority shall give the Trustee not more than sixty (60) days' and at least forty-five (45) days' notice of the date fixed for redemption. When Bonds are called for redemption, whether at the option of the Authority or pursuant to mandatory redemption,

the Trustee shall cause a notice to be deposited in the United States mail first class, postage prepaid, not more than sixty (60) days and at least thirty (30) days prior to the redemption date addressed to the Registered Owners of the Bonds called for redemption, at the addresses appearing in the records kept by the Trustee. Such Notice shall be given in the name of the Authority, shall identify the Bonds to be redeemed by certificate number, CUSIP number, date of issue, interest rate, maturity date and any other identifying information (and in the case of a partial redemption of any Bonds, the respective principal amounts thereof to be redeemed and the numbers, including CUSIP numbers if applicable, of the Bonds to be redeemed which may, if appropriate, be expressed in designated blocks of numbers) shall specify the redemption date, the redemption price, and the Trustee's name and address and shall state that on the redemption date the Bonds called for redemption will be payable at the principal corporate trust office of the Trustee and that from the date of redemption interest will cease to accrue provided, however, that the Registered Owners of all Bonds to be redeemed may file written waivers of notice with the Trustee, and if so waived, such Bonds may be redeemed and all rights and liabilities of the Owners shall mature and accrue on the date set for such redemption, without the requirement of written notice. Any defect in or failure to give such notice with respect to any particular Bond or Bonds shall not affect the validity of any such redemption of other Bonds.

In addition, the Trustee shall cause copies of such notice of redemption to be sent by registered mail, certified mail, overnight delivery service or confirmed telecopy (or other similarly secure service acceptable to the Trustee) to the Depository and to two or more national information services that disseminate redemption information. Unless otherwise waived by the Depository, the notice to the Depository shall be sent at least two (2) business days in advance of the date notices addressed to registered owners and national information services are deposited in the United States mail. The current name and address of the Depository is as follows: The Depository Trust Company, 55 Water Street, New York, New York, 10041-0099. Certain national information services include: Kenny Information Systems, Inc., Called Bond Service, 55 Broad Street, 28th Floor, New York, New York 10004; Moody's Investors Service, Inc., Municipal and Government, 99 Church Street, 8th Floor, New York, New York 10007; Standard & Poor's Corporation, Called Bond Records, 25 Broadway, New York, New York 10004; and The Bond Buyer, One State Street Plaza, New York, New York 10004. The Trustee shall not be required to advertise said notice of redemption.

The Trustee shall send a second copy of said redemption notice by registered or certified mail, postage prepaid, to all registered bond owners that do not present their Bonds for payment within thirty (30) days following the Redemption Date.

If at the time of the notice of redemption the Authority shall not have deposited with the Trustee money sufficient to redeem all the Bonds called for redemption and the Trustee shall not otherwise hold such money for such purpose, such notice may state that it is conditional, that is, subject to the deposit of the redemption money with the Trustee not later than the opening of business on the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

SECTION 7.3. Payment of Redemption Price. Notice having been given in the manner hereinbefore provided, or written waivers of notice having been filed with the Trustee prior to the date set for redemption, the Bonds so called for redemption shall become due and payable on the redemption date so designated and, if an amount sufficient to pay the Redemption Price is on deposit with the Trustee for such purpose on such date, interest on such Bonds shall cease to accrue from the redemption date whether or not the Bonds shall be presented for payment. The principal amount of all Bonds or portions thereof so called for redemption, together with the accrued and unpaid interest thereon to the date of redemption shall be paid by the Trustee or the Paying Agent, if any, mentioned in the Bond called for redemption, upon presentation and surrender thereof in negotiable form. If any Outstanding Bond is redeemed in part, the Trustee shall authenticate and deliver to the Registered Owner thereof, a new Bond or Bonds of any authorized denomination as requested by such Registered Owner in an aggregate principal amount equal to the principal amount of the Outstanding Bond not called for redemption.

SECTION 7.4. Destruction of Bonds. All Bonds which shall be paid, purchased or redeemed by the Trustee or Authority pursuant to the terms and provisions of this Resolution, or of any Supplemental Resolution, shall be canceled by the Trustee which shall furnish the Authority with such canceled Bonds.

ARTICLE VIII.

INSURANCE.

SECTION 8.1. Damage or Destruction of the Water System; Application of Insurance Proceeds. The Authority has covenanted in Sections 4.3, 4.4 and 4.5 of the Service Agreement to insure or cause to be insured the Water System as therein set forth and to file with the Trustee policies and endorsements or memoranda of such insurance. In the event that any of the buildings, structures, additions or improvements of the Water System shall be wholly or partially destroyed by fire or other casualty covered by permanent insurance, the Authority has covenanted in the Service Agreement to take all such actions and do all such things as may be necessary to enable recovery to be made upon the policy or policies of insurance covering the risk to the end that all proceeds of insurance may be expeditiously collected.

The proceeds of permanent insurance shall be paid by the Authority to the Trustee and applied, subject to the provisions of this Section 8.1, to the reconstruction, restoration, replacement or repair of the damaged or destroyed property, or to the acquisition or construction of Projects or to the redemption or purchase of Bonds as follows:

(a) Deposit in Construction Fund. If the Authority shall by resolution determine to apply all or part of said proceeds to the reconstruction, restoration or repair of the damaged property or to the construction or acquisition of Projects, an Authorized Representative of the Authority shall provide a written authorization to the Trustee directing the Trustee to deposit such proceeds in the Construction Fund. Disbursements may be made from the Construction Fund by the Trustee from time to time upon requisitions made by an Authorized Representative of the Authority, stating the amount to be paid and designating the payee and certifying that the payment is due and payable for the reconstruction, restoration, replacement or repair of the damaged or destroyed property or for the construction or acquisition of a Project, and, if the Engineer is employed to supervise the work, upon submission of certificates of the Engineer in form satisfactory to the Trustee approving such payment; provided, however, that if the Authority shall certify to the Trustee that the amount to be so applied from said insurance proceeds is not more than \$1,000,000, then the Authority may retain said insurance proceeds for application toward the reconstruction, restoration, replacement or repair of the damaged or destroyed property or toward the construction or acquisition of Projects.

(b) Deposit in Bond Redemption and Accumulated Surplus Fund. All proceeds of permanent insurance not applied as hereinabove authorized shall be transferred to the Trustee for deposit in the Bond Redemption and Accumulated Surplus Fund and applied by the Trustee to redeem or purchase Bonds in accordance with the final paragraph of Section 5.11 hereof.

Nothing in this Section 8.1 shall be construed to relieve the Authority under the Service Agreement from its obligation to maintain the Water System in good repair, working order and condition, excepting only that to the extent that the proceeds of insurance shall be applied to the reconstruction, restoration, replacement or repair of damaged or destroyed property, or to the construction or acquisition of Projects, or shall be applied toward the purchase, redemption, or defeasance of Bonds, then and to such extent the Authority shall be relieved of such obligation with respect to the damaged or destroyed property.

ARTICLE IX.

PARTICULAR COVENANTS OF THE AUTHORITY.

SECTION 9.1. Payment of Bonds and Other Indebtedness. The Authority covenants that it will promptly pay from the Trust Estate the Debt Service Requirements for every Bond issued and to be issued hereunder and secured thereby, and all other Indebtedness secured thereby, including without limitation Credit Notes at the place and on the dates and in the manner specified herein and in said Bonds, or therein, according to the true intent and meaning thereof. The Authority further covenants that it will pay as and when due from sources legally available therefor the Debt Service Requirements on all other Indebtedness.

SECTION 9.2. No Impairment of Bondholders' Rights. The Authority covenants and agrees that so long as any of the Bonds secured hereby are Outstanding, none of the Pledged Revenues shall be used for any purpose other than as provided in this Resolution, and that no contract or contracts shall be entered into or amended or any action taken by which the rights or security of the Trustee or of the Bondholders may be impaired or diminished.

SECTION 9.3. Further Action. The Authority covenants that it will, from time to time, execute and deliver such further instruments and take such further action as may be reasonable and as may be required to carry out the purpose of this Resolution.

SECTION 9.4. Creation of Liens on Pledged Revenues. Except as provided in Article III hereof and the next ensuing sentence, the Authority shall not incur any Indebtedness which is secured by a pledge of or other Lien on the Secured Obligations and shall not create or cause to be created any Lien on the Pledged Revenues or any other part of the Trust Estate or on any amounts which are held by the Trustee or by any Paying Agent under the terms of this Resolution, other than Permitted Encumbrances or Liens which are expressly made subordinate to the lien of this Resolution. Notwithstanding the prior sentence, the Authority may from time to time borrow an amount outside this Resolution which shall not exceed \$500,000 in principal amount in the aggregate at any one time for working capital purposes and secure the repayment of the same by granting a Lien on Pledged Revenues that is on a parity with the Lien thereon securing the Bonds if the Authority presents to the Trustee a certificate of an Authorized Officer of the Authority to the effect that (i) the Authority needs the proceeds of the borrowing to operate the Water System properly and (ii) the Authority reasonably believes that it will meet its obligations on such borrowing and under this Resolution as and when the same come due.

SECTION 9.5. No Extension of Time for Payment of Interest. In order to prevent any accumulation of claims for interest after maturity, the Authority covenants and agrees that it will not

directly or indirectly extend or assent to the extension of time of payment of any claim for interest on any of the Bonds and will not, directly or indirectly, be a party to or approve any such arrangement by purchasing or funding such claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, such claim for interest shall not be entitled in case of any default hereunder, to the benefit or security of this Resolution except subject to the prior payment in full of the principal of all Bonds issued and Outstanding hereunder, and of all claims for interest which shall not have been so extended or funded.

SECTION 9.6. Accounts and Periodical Reports and Certificates. The Authority shall keep or cause to be kept proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions under this Resolution and which, together with all other books and papers of the Authority, shall at all reasonable times be subject to the inspection of the Trustee or the representative, duly authorized in writing, of the holder or holders of not less than 25% in principal amount of the Bonds then Outstanding.

SECTION 9.7. Authority Budget. The Authority covenants that it will adopt by resolution and file with the Trustee for each Fiscal Year, an Authority Budget or Budgets setting forth the estimated monthly Operating Expenses, Debt Service Requirements, and other expenses, if any. Any Authority Budget may be amended or supplemented at any time, but such amended or supplemented Authority Budget shall not supersede any prior Authority Budget until it shall have been authorized by a certified resolution of the Authority. The Authority Budget may authorize certain variances for various line items at the discretion of Authority officers, as the Governing Board of the Authority deems prudent, and amounts expended within such authorized variances shall be deemed to be within the amount provided for in the Authority Budget.

SECTION 9.8. Engineer. The Authority shall, until the Bonds and the interest thereon shall have been paid or provision for such payment shall have been made, for the purpose of performing and carrying out the duties imposed on the Engineer by this Resolution or the Service Agreement, employ an Independent Engineer or engineering firm having a nationwide and favorable repute for skill and experience in such work and, except in the case of the firm serving as Engineer at the time of the adoption of this Resolution, who shall be acceptable to the Trustee; provided, however that the acceptance of the Trustee shall not be unreasonably withheld, and if the Trustee shall fail to so accept, it shall deliver to the Authority a statement of its reasons for such failure. In rendering any report, certificate or opinion required pursuant to this Resolution or the Service Agreement, the Engineer may rely upon information, certificates, opinions or reports required to be provided by others pursuant to

this Resolution, and upon other sources which the Engineer considers reliable, and other considerations and assumptions as deemed appropriate by the Engineer.

SECTION 9.9. Financing Statements. The Authority shall cause financing statements relating to this Resolution to be filed, registered and recorded in such manner and at such places as may be required by law (in the opinion of Bond Counsel) to fully protect the security of the Registered Owners of the Bonds. The Authority shall perform or shall cause to be performed any acts, and execute and cause to be executed any and all further instruments as may be required by law (in the opinion of Bond Counsel) or as shall reasonably be requested by the Trustee for the protection of the interests of the Trustee and the Bondholders, and shall furnish satisfactory evidence to the Trustee of recording, registering, filing and refiling of such instrument and of every additional instrument which shall be necessary to preserve the Lien and security interest of this Resolution upon the Trust Estate or any part thereof until the principal of and interest on the Bonds secured hereby shall have been paid. The Authority and the Trustee shall execute or join in the execution of any such further or additional instrument and file or join in the filing thereof at such time or times and in such place or places as the Trustee may be advised by an opinion of Counsel will preserve the lien and security interest of this Resolution upon the Trust Estate or any part thereof until the aforesaid principal and interest shall have been paid.

SECTION 9.10. Federal Tax Covenants. The Authority hereby covenants not to take or omit to take any action so as to cause interest on any Tax-Exempt Bonds to be no longer excluded from gross income for the purposes of federal income taxation and to otherwise comply with the requirements of Section 103 and Sections 141 through 150 of the Code, and all applicable regulations promulgated with respect thereto, throughout the term of such Tax-Exempt Bonds. The Authority further covenants that it will make no investments or other use of the proceeds of any Tax-Exempt Bonds which would cause such Tax-Exempt Bonds to be "arbitrage bonds" as defined in Section 148 of the Code. The Authority further covenants to comply with the rebate requirements (including the prohibited payment provisions) contained in Section 148(f) of the Code and any regulations promulgated thereunder, including the payment of any Rebate Amount, to the extent applicable, and to pay any interest or penalty imposed by the United States for failure to comply with said rebate requirements, to the extent applicable.

SECTION 9.11. Maintenance of the Service Agreement. The Authority covenants and agrees to take all steps legally within its power to maintain in full force and effect, for its part, the Service Agreement, if any, to comply with its obligations under each of the foregoing and to enforce each of the foregoing against the other parties thereof.

SECTION 9.12. Issuance of Obligations. The Authority covenants not to issue any Indebtedness, or other obligations of any type with a maturity maturing on a date, or permit the same to remain outstanding beyond a date, that would cause the term of the Service Agreement to exceed the term allowed by law.

ARTICLE X.

EVENTS OF DEFAULT AND REMEDIES.

SECTION 10.1. Events of Default Defined. Each of the following shall be an "Event of Default" hereunder:

A. Payment of the principal of any Bond is not made when it becomes due and payable at maturity or upon redemption, or otherwise or if payment of any installment of interest on any Bond is not made when it becomes due and payable; or

B. If the Authority defaults in the due and punctual performance of any other covenant in the Bonds or in this Resolution, and such default continues for thirty (30) days after written notice requiring the same to be remedied shall have been given to the Authority by the Trustee; provided that if any such default cannot be cured within thirty (30) days the period shall be extended for such period as is reasonable to cure the same with due diligence if the Authority commences the cure within thirty (30) days and proceeds diligently; or

C. A default under the Service Agreement by the Authority shall have occurred and be continuing after any permitted period of cure therein provided for a period of forty-five days after written notice thereof stating that such notice is a "Notice of Default" to the Authority by the Trustee, or to the Authority and the Trustee by the holders of not less than twenty-five percent (25%) in principal amount of Bonds Outstanding; or

D. The occurrence of any Act of Bankruptcy with respect to the Authority; or

E. The failure of timely payment of the purchase price of any tendered Bond required to be paid according to the Supplemental Resolution authorizing such Bond; or

F. Such additional Events of Default as may be set forth in a Supplemental Resolution duly executed in connection with the issuance of any Bonds.

The Trustee shall give written or telephonic (promptly confirmed in writing or by confirmed telecopy) notice of any Event of Default, as herein defined, to the Authority and any Credit Facility Provider as soon as practicable after the occurrence of such Event of Default becomes known to the Trustee.

Notwithstanding the foregoing provisions, Additional Parity Indebtedness in the form of capitalized leases may provide for grace periods of up to twelve (12) months before the occurrence of a default under the lease shall constitute an Event of Default as herein defined hereunder.

SECTION 10.2. Bonds Declared Due and Payable. Upon the happening and continuance of any Event of Default specified in Section 10.1 of this Article, then and in every such case the Trustee may, and upon the written request of the Registered Owners of not less than twenty-five percent (25%) in principal amount of the Bonds Outstanding shall (but in all events only after giving thirty (30) days' notice in writing to the Authority), declare the principal of all the Bonds Outstanding (if not then due and payable) to be due and payable immediately, and upon such declaration the same shall become and be immediately due and payable, anything contained in the Bonds or in this Resolution to the contrary notwithstanding; provided, however, that if at any time after the principal of the Bonds shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under this Resolution, money shall have accumulated in the Debt Service and Sinking Fund sufficient to pay the principal of all Bonds which have matured and which should have been called for redemption from money in the Debt Service and Sinking Fund and all matured Bonds, if any, and all arrears of interest, if any, upon all the Bonds Outstanding (except the principal of any Bonds not then due by their terms except as provided above and the interest accrued on such Bonds since the last interest payment date), and the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee, and all other amounts then payable by the Authority hereunder shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee, and every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Bonds or in this Resolution (other than a default in the payment of the principal of such Bonds) then due only because of a declaration under this Section shall have been remedied to the satisfaction of the Trustee, then and in every such case the Trustee may, and upon the written request of the Registered Owners of not less than twenty-five percent (25%) in principal amount of the Bonds not then due by their terms and then Outstanding shall, by written notice to the Authority, rescind and annul such declaration and its consequences, but no such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

SECTION 10.3. Enforcement of Remedies by Trustee. Upon the happening and continuance of any Event of Default specified in Section 10.1 then and in every such case the Trustee may, and upon the written request of the Registered Owners of not less than twenty-five percent (25%) in principal amount of the Bonds then Outstanding hereunder, shall:

(1) By mandamus or other suit, action or proceeding at law or in equity enforce all rights of the Registered Owners, including the right (i) to require the Authority to collect Water Rates adequate to carry out any agreement as to, or pledge of, such Water Rates, (ii) to demand all moneys and securities then held by the Authority in any Operating Expense sub-account and all Revenues be promptly paid to the Trustee for deposit in the Revenue Fund, and (iii) to require the Authority to carry out any other agreements with the County under the Service Agreement or the Registered Owners of such Bonds and to perform its duties under this Resolution and the Act; and/or

(2) Bring suit upon such Bonds; and/or

(3) By action or suit in equity, require the Authority to account as if it were the trustee of an express trust for the Registered Owners of such Bonds; and/or

(4) Make demand for payment, or draw under, any Credit Facility that may be available for the payment of the Debt Service Requirements of Bonds of any series of Bonds; and/or

(5) By action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the Registered Owners of such Bonds; and/or

(6) Enforce the Service Agreement, as assignee of the Authority; and/or

(7) Perform the Authority's obligations under the Service Agreement.

The Trustee hereunder shall proceed in accordance with the Act, subject to the provisions of Section 10.1, to protect and enforce its rights and the rights of the Registered Owners under the laws of the State or under this Resolution by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained herein or in aid or execution of any power herein granted or for the enforcement of any proper legal or equitable remedy as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights. In the enforcement of any remedy under this Resolution the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming and at any time remaining due from the Authority for principal, interest or otherwise under any of the provisions of this Resolution or of the Bonds and unpaid, with interest on overdue payments at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings hereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the

Registered Owners, and to recover and enforce any judgment or decree against the Authority, but solely as provided herein and in such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect (but solely from money in the Debt Service and Sinking Fund, Debt Service Reserve Fund, Bond Redemption and Accumulated Surplus Fund and any other money available for such purpose) in any manner provided by law, the money adjudged or decreed to be payable.

Any suit, action or proceeding by the Trustee on behalf of Registered Owners shall be heard or maintained in a court of competent jurisdiction. The Trustee shall, in addition to the foregoing, have and possess all of the powers necessary or appropriate for the exercise of any functions specifically set forth in the Act or incident to the general representation of Registered Owners in the enforcement and protection of their rights as mandated in Section 1130 of the Act. All rights of action under this Resolution or under any of the Bonds secured hereby, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof at the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the Registered Owners of such Bonds, subject to the provisions of this Resolution.

SECTION 10.4. Effect of Discontinuance of Action. In case any proceeding taken by the Trustee on account of any default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee, then and in every such case the Authority, the Trustee and the Registered Owners shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

SECTION 10.5. Control of Proceedings. Anything in this Resolution to the contrary notwithstanding, the Registered Owners of not less than twenty-five percent (25%) in principal amount of the Bonds then Outstanding hereunder shall have the right, subject to the provisions of Section 10.6 of this Resolution, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Resolution.

SECTION 10.6. Restriction on Bondholders' Action. No Registered Owner of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust hereunder or for any other remedy hereunder unless (i) any Registered Owner previously shall have given to the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted which specifically refers to such event as an "Event

of Default", (ii) the Registered Owners of not less than twenty-five percent (25%) in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers hereinabove granted or to institute such action, suit or proceeding in its or their name; (iii) there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby; (iv) the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are hereby declared, in every such case at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of this Resolution or for any other remedy hereunder. It is understood and intended that no one or more Registered Owners of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Resolution, or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all Registered Owners of such Outstanding Bonds.

Nothing contained in this Article, however, shall affect or impair the right of any Registered Owner to enforce the payment of the principal of and interest on his Bonds, or the obligation of the Authority to pay the principal of, interest on and premium, if any, on each Bond issued hereunder to the Registered Owners thereof at the time and place expressed in said Bond.

SECTION 10.7. Appointment of Receiver. Upon the happening and continuance of any Event of Default specified in Section 10.1, the Trustee, whether or not the issue of Bonds represented by such Trustee has been declared due and payable, shall be entitled as of right to the appointment of a receiver of any part or parts of the properties the Revenues of which are pledged for the security of the Bonds of such issue and such receiver may enter and take possession of such part or parts of the properties and, subject to any pledge or agreement with Bondholders, shall take possession of all money and other property derived from such part or parts of the properties and proceed with any construction thereon or the acquisition of any property, real or personal, in connection therewith which the Authority is under obligation to do, and to operate, maintain and reconstruct such part or parts of the properties and collect and receive all Revenues thereafter arising therefrom subject to any pledge thereof or agreement with Bondholders relating thereto and perform the public duties and carry out the agreements and obligations of the Authority under the direction of the court. In any suit, action or proceeding by the Trustee the fees, counsel fees and expenses of the Trustee and of the receiver, if any, shall constitute taxable disbursements and all costs and disbursements allowed by the

court shall be a first charge on any Revenues from the properties.

SECTION 10.8. Extension of Maturity of Bonds. In case the maturity of any of the Bonds or the time for payment of any installments of interest shall be extended by mutual agreement between the Authority and the Registered Owner of any such Bonds, such Bonds or claims for interest shall not be entitled in case of any default hereunder to the benefit of this Resolution or to any payment out of any assets of the Authority or the funds (except funds held in trust by the Trustee for the payment of particular Bonds or claims for interest pursuant to this Resolution) held by the Trustee, subject to the prior payment of the principal of all Bonds issued and outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest.

SECTION 10.9. Modifications with Respect to Credit Facilities Pursuant to Supplemental Resolutions. If so specified in the Supplemental Resolution relating to a particular series of Bonds, any action that may be taken by and any consent that must be received from the Registered Owners of all or some lesser percentage of the Bonds Outstanding of such series of Bonds under Article X of this Resolution shall instead and in lieu thereof be taken by or received from the Credit Facility Provider of a Credit Facility under which Debt Service Requirements for Bonds of such series of Bonds are payable if and when there does not exist a Credit Facility Default with respect to such Credit Facility. If any such action or consent requires a vote by the Registered Owners of the Bonds of such series of Bonds because there are then Outstanding hereunder Bonds of more than one series of Bonds, the Supplemental Resolution may also specify that the Credit Facility Provider shall have the right to vote hereunder with respect to the action or consent fully as if it were the Registered Owner of all of the Bonds of the series of Bonds unless there shall then exist a Credit Facility Default with respect to the Credit Facility.

SECTION 10.10. Priority of Payments After Default. Notwithstanding any other provisions of this Resolution other than those contained in this Section 10.10, in the event that, subsequent to the occurrence of an Event of Default, the funds held by the Trustee shall be insufficient for the payment of interest and principal then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds or installments of interest which have theretofore become due at maturity or otherwise) and any other money received or collected by the Trustee, after making provision for the payment of any expenses necessary in its opinion to preserve the continuity of the Revenues or to provide for the continued operation of the Water System or otherwise to protect the interests of the Registered Owners of the Bonds, and for the payment of the charges, expenses (including those of its counsel) and

liabilities incurred and advances made by the Trustee in the performance of its duties hereunder, shall be applied as follows:

(a) If the principal of all of the Bonds shall not have become or have been declared due and payable,

First: To the payment to the persons entitled thereto all installments of interest then due on Bonds (with interest on overdue installments of interest then due on such Bonds, to the extent permitted by law, at the rate per annum borne by such Bonds) in the order of the maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference, except as to the difference, if any, in the respective rates of interest specified in the Bonds; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due (with interest on such Bonds at their rate from the respective dates upon which they became due) whether at maturity or by call for redemption, in the order of their due dates and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment ratably, according to the amounts of principal and interest due on such dates, to the persons entitled thereto, without any discrimination or preference except as to the difference, if any, in the respective rates of interest on the Bonds.

(b) If the principal of all the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds with interest on overdue interest and principal as provided above, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due, respectively, for any principal and interest, to the persons entitled thereto without any discrimination or preference, except as to the difference, if any, in the respective rates of interest specified in the Bonds.

(c) Payments of debt service on any Subordinated Indebtedness shall be made in accordance with the provisions of the Supplemental Resolution authorizing the issuance of such Subordinated Indebtedness.

Whenever money is to be applied pursuant to the provisions of this Section, such money shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such money available for application and the likelihood of additional money becoming available for such

application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be the earliest practicable date it deems suitable and which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such money and of the fixing of any such date, and shall not be required to make payment to the Holder of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

The Trustee may, in its sole discretion, hire one or more consultants experienced in the operation of water supply, transmission and distribution facilities for the purpose of determining what expenses are necessary to preserve the continuity of the Revenues or to provide for the continued operation of the Water System. The fees and expenses of any such consultant shall be considered expenses incurred by the Trustee in the performance of its duties for purposes of this Resolution. Subject to Section 11.7 hereof, the Trustee may conclusively rely on any determination made by such consultant.

Notwithstanding anything to the contrary in this Section 10.10, the proceeds of any Credit Facility that are intended to pay the Debt Service Requirements of a particular series of Bonds shall be applied exclusively to the payment of such Debt Service Requirements and for no other purpose. Until the Credit Facility Provider shall have been reimbursed through this Resolution for the payment of such Debt Service Requirements, the Debt Service Requirements shall not be deemed to have been discharged hereunder. Furthermore, in the event that the Credit Facility Provider of any such Credit Facility shall have paid all Debt Service Requirements of the applicable series of Bonds as and when due, such Credit Facility Provider shall be surrogated to the Registered Owners of the Bonds of such series of Bonds with respect to all rights such Registered Owners may have under this Resolution, including without limitation the rights to payment under this Section 10.10.

ARTICLE XI.

CONCERNING THE TRUSTEE.

SECTION 11.1. Acceptance of Trust; Abrogation of Right to Appoint Trustee. The Trustee accepts and agrees to execute the trust hereby created, but only upon the terms set forth in this Resolution, to all of which the parties hereto and the respective holders of the Bonds agree. The Trustee shall perform only such duties as are specifically set forth in this Resolution, and no implied covenants or obligations shall be read into this Resolution against the Trustee. The right of the holders of

Bonds to appoint a trustee under the Act is hereby abrogated as permitted by the Act.

SECTION 11.2. No Responsibility for Recitals. The recitals, statements and representations contained in the Resolution or in the Bonds, save only the Trustee's authentication upon the Bonds, shall be taken and construed as made by and on the part of the Authority, and not by the Trustee, and the Trustee assumes and shall be under no responsibility or obligation for the correctness of same.

SECTION 11.3. Power to Act Through Agents; Liability Limited. The Trustee may execute any of the trusts or powers hereof and perform the duties required by it, by or through attorneys, agents, receivers, or employees, and shall be entitled to advice of counsel concerning all matters of trust hereof and its duty hereunder, and the Trustee shall not be answerable for the default or misconduct of any such attorney, agent, or employees selected by it with reasonable care. The Trustee shall not be answerable for the exercise of any discretion or power under this Resolution or under any Supplemental Resolution, nor for anything whatever in connection with the trust, except only its own misconduct or negligence.

SECTION 11.4. Compensation. The Authority shall pay to the Trustee reasonable compensation for all services rendered by it hereunder and all advances, counsel fees and other expenses reasonably and necessarily made or incurred by the Trustee hereunder, all as may be mutually agreed to in writing between the Authority and the Trustee including any liability or loss except as such may result from the Trustee's willful misconduct or gross negligence. If any Event of Default shall have occurred and be continuing, the Trustee may, upon the failure by the Authority to pay any such compensation, deduct the same from any money coming into its hands (excluding the proceeds of any Credit Facility or of the remarketing of any Bonds) and shall be entitled to a preference in payment over any of the Outstanding Bonds hereunder (except from any such excluded proceeds). The Authority shall indemnify and save the Trustee harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder which are not due to the Trustee's willful misconduct or gross negligence.

SECTION 11.5. No Duty to Effect or Renew Insurance. The Trustee shall be under no duty to effect or to renew any policies of insurance, nor shall the Trustee incur any liability for the failure of the Authority to effect or renew insurance or to report claims thereunder, or be subject to any liability with respect to losses suffered from the investment of any funds on deposit with it under this Resolution, except for the safekeeping of the securities in which said funds are invested and the collection of interest thereon.

SECTION 11.6. Notice of Default; Right to Investigate. The Trustee shall, within ninety (90) days after the occurrence thereof, give written notice by first class mail to Registered Owners of Bonds of all Events of Default known to the Trustee to have occurred and be continuing. The Trustee shall not be deemed to have notice of any default under paragraph D or E of Section 10.1 unless notified in writing of such default by a Credit Facility Provider or the Registered Owners of at least 25% in principal amount of the Bonds then Outstanding, which notice shall specifically refer to such event as an "Event of Default". The Trustee may, however, at any time that it has reasonable cause to question the same, require of the Authority full information as to the performance of any covenant hereunder; and, if information satisfactory to it is not forthcoming, the Trustee may make or cause to be made, at the expense of the Authority, an investigation into the affairs of the Authority related to this Resolution and the properties covered thereby.

SECTION 11.7. Obligation to Act on Defaults. If any Event of Default of which the Trustee is deemed to have knowledge according to Section 10.1 hereof shall have occurred and be continuing, the Trustee shall exercise such of the rights and remedies vested in it by this Resolution and shall use the same degree of care in their exercise as a prudent man would exercise or use in the circumstances in the conduct of his own affairs; provided that, if in the opinion of the Trustee such action may tend to involve expense or liability, it shall not be obligated to take such action unless it is furnished with indemnity satisfactory to it.

SECTION 11.8. Records. The Trustee will keep proper books of record of all transactions relating to the receipts, disbursements, allocations and applications of all funds accruing to the Trustee hereunder, and such books shall be available for inspection by the Authority or any Bondholder at reasonable hours and under reasonable conditions. Other than its duty to enforce the terms of the Resolution, the Trustee shall have no responsibility for the nonperformance of any covenant or agreement by the Authority under any such instrument, nor any duty to see to the application of insurance or condemnation proceeds.

SECTION 11.9. Reliance on Requisitions, etc. The Trustee may conclusively rely and act on any requisition, resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, or other paper or document which it in good faith believes to be genuine and to have been passed or signed by the proper Persons or to have been prepared and furnished pursuant to any of the provisions of the Resolution; and the Trustee shall be under no duty to make any investigation as to any statement contained in any such instrument, but may accept the same as conclusive evidence of the accuracy of such statement.

SECTION 11.10. Trustee May Deal in Bonds. The Trustee may in good faith buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Bondholders may be entitled to take with like effect as if the Trustee were not a party to this Resolution. The Trustee may also engage in or be interested in any financial or other transaction with the Authority; provided that if the Trustee determines that any such relation is in conflict with its duties under this Resolution it shall eliminate the conflict or resign as Trustee.

SECTION 11.11. Advances to Cure Defaults. If the Authority shall fail to perform any of the covenants or agreements contained in this Resolution, the Trustee may, in its uncontrolled discretion and without notice to the Bondholders, at any time and from time to time, make advances to effect performance of the same on behalf of the Authority, but the Trustee shall be under no obligation so to do; and any and all money paid or advanced by the Trustee for any such purpose, together with interest thereon at the rate equal to [the Prime Rate plus two percent (2%) per annum,] shall be repaid by the Authority immediately upon demand therefor, and until such payment by the Authority shall be a lien in favor of the Trustee upon the Revenues on a parity with the lien of the Bonds; but no such advance shall operate to relieve the Authority from any default hereunder.

SECTION 11.12. Construction of Resolution. The Trustee may construe any of the provisions of this Resolution insofar as the same may appear to be ambiguous or inconsistent with any other provision hereof; and any construction of any such provisions hereof by the Trustee in good faith shall be binding upon the Bondholders.

SECTION 11.13. Resignation of Trustee. The Trustee may resign and be discharged of the trusts created by the Resolution by written resignation filed with the Chairperson of the Authority not less than sixty (60) days before the date when it is stated to take effect; provided notice of such resignation is given to the Bondholders in the same manner as notice of redemption. Such resignation shall take effect on the day specified therein unless a successor Trustee is previously appointed, in which event the resignation shall take effect immediately on the appointment of such successor, and unless no successor has been appointed as of the day specified therein, in which event the resignation shall not take effect until the successor is in fact appointed. Simultaneously with the effectiveness of the appointment of a successor Trustee, the former Trustee shall transfer to the successor Trustee any existing Credit Facility then in favor of the former Trustee.

SECTION 11.14. Removal of Trustee. Any Trustee hereunder may be removed at any time upon thirty (30) days' written notice to the Trustee and, with regard to clause (i) hereof, to the Authority by an instrument appointing a successor to the Trustee

so removed, executed by either (i) the Registered Owners of a majority in principal amount of the Bonds then Outstanding or (ii) so long as no Event of Default has occurred and is continuing, by an Authorized Representative of the Authority. Such Trustee shall continue to act as Trustee hereunder until the successor is in fact appointed. Simultaneously with the effectiveness of the appointment of a successor Trustee, the former Trustee shall transfer to the successor Trustee any existing Credit Facility then in favor of the former Trustee.

SECTION 11.15. Appointment of Successor Trustee. In case at any time the Trustee, or any Trustee hereinafter appointed, shall resign, or shall be removed, or be dissolved, or its property or affairs shall be taken under the control of any state or federal court or administrative body because of insolvency or bankruptcy, or for any other reason, a vacancy shall forthwith and ipso facto exist in the office of Trustee and a successor may be appointed, (i) so long as no Event of Default has occurred and is continuing, by the Authority by an instrument authorized by resolution of the Governing Board of the Authority and signed by an Authorized Representative of the Authority or (ii) if an Event of Default has occurred and is continuing, by the Registered Owners of a majority in principal amount of the Bonds then Outstanding, by an instrument or instruments in writing filed with the Chairperson of the Authority, signed by such Bondholders or by their attorneys in fact duly authorized. Copies of each instrument shall be promptly delivered by the Authority to the predecessor Trustee and to the Trustee so appointed.

Until a successor Trustee shall be appointed by the Bondholders as herein authorized, the Authority, by an instrument authorized by resolution of its Governing Board, may appoint a Trustee to fill such vacancy. After any appointment by the Authority, it shall deposit written notice of such appointment in the United States mail, first-class, postage prepaid, addressed to each Registered Owner of Bonds at the addresses appearing upon the Bond register. Any new Trustee so appointed by the Authority shall immediately and without further act be superseded by a Trustee appointed by the Bondholders in the manner above provided. In case at any time the Trustee shall resign and no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Article prior to the date specified in the notice of resignation as the date when such resignation shall take effect, the retiring Trustee or any Bondholder may forthwith apply to a court of competent jurisdiction for the appointment of a successor Trustee. Such court may thereupon after such notice, if any, as it may deem proper and prescribe, appoint a successor Trustee.

SECTION 11.16. Qualification of Successor Trustee. Every successor in the trust appointed in pursuance of the provisions of this Article XI shall be any trust company or a state or national bank with trust powers, within or without the State, having capital and paid in surplus of at least \$50,000,000, if

there be such a trust company or bank willing and able to accept the trust on reasonable and customary terms.

SECTION 11.17. Instruments of Succession. Any successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Authority an instrument accepting such appointment hereunder, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all the estates, property, rights, powers, trusts, duties and obligations of its predecessor in the trust hereunder, with like effect as if originally named Trustee herein. Upon request of such Trustee, the Trustee ceasing to act and the Authority shall execute and deliver an instrument transferring to such successor Trustee all the estates, property, rights, powers and trusts hereunder of the Trustee so ceasing to act; and the Trustee so ceasing to act shall pay over to the successor Trustee all money at the time held by it hereunder.

SECTION 11.18. Merger of Trustee. Any corporation into which any Trustee hereunder may be merged or with which it may be consolidated, or any corporation to which the Trustee transfers all or substantially all of its corporate trust business, or any corporation resulting from any merger or consolidation to which any Trustee hereunder shall be a party, shall be the successor Trustee under this Resolution, without the execution or filing of any paper or any further act on the part of the parties hereto, anything herein to the contrary notwithstanding.

ARTICLE XII.

EVIDENCE OF RIGHTS OF BONDHOLDERS.

SECTION 12.1. Proof from Registered Owners. Any request, consent or other instrument required by this Resolution to be signed and executed by Bondholders may be in any number of concurrent writings of substantially similar tenor and may be signed or executed by such Bondholders in person or by agent duly appointed by an instrument in writing. Proof of the execution of any such request, consent or other instrument or writing appointing any such agent shall be sufficient for any purpose of this Resolution and shall be conclusive in favor of the Trustee and of the Authority if made in the manner provided in this Article.

SECTION 12.2. Proof of Writing. The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer of any jurisdiction, authorized by laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him the execution thereof. Where such execution is by an officer of a corporation or association or a member of a partnership on behalf

of such corporation, association or partnership, such affidavit or certificate shall also constitute sufficient proof of his authority.

SECTION 12.3. Proof of Bonds Held. The ownership of Bonds shall be proved by the registration books of such Bonds kept by the Trustee.

Any request, consent, vote, other instrument or action, required by this Resolution of the Registered Owner of any Bond shall bind every future Registered Owner of the same Bond and the Registered Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority pursuant to such request, consent or vote, whether or not notation thereof be made on any Bond issued hereunder.

SECTION 12.4. Presumptions. In determining whether the Registered Owners of the requisite aggregate principal amount of Bonds shall have concurred in any demand, request, direction, consent or waiver under this Resolution, Bonds which are owned by the Authority or by any person directly or indirectly controlling or controlled by or under common control with the Authority shall be disregarded and deemed not to be Outstanding. For the purposes of determining whether the Trustee shall be protected in relying on such demand, request, direction, consent or waiver, only Bonds which the Trustee actually knows to be so owned shall be disregarded. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purpose of this Section if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by or under common control with the Authority. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of Counsel shall be full protection to the Trustee.

ARTICLE XIII.

SUPPLEMENTAL RESOLUTIONS.

SECTION 13.1. Supplemental Resolutions Without Bondholders' Consent. The Authority and the Trustee from time to time, and at any time, subject to the conditions and restrictions of this Resolution may enter into Resolutions supplemental hereto, which Resolutions thereafter shall form a part hereof, for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Authority under this Resolution or to surrender any right or power herein reserved or conferred upon the Authority and which shall not adversely affect the interests of the Registered Owners of the Bonds;

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provisions contained in this Resolution, or in regard to matters or questions arising under this Resolution, or to include provisions relating to the administration of any Credit Facility or the funds and accounts established hereunder or under any Supplemental Resolution, as the Authority and the Trustee may deem necessary or desirable and which shall not adversely affect the interests of the Registered Owners of the Bonds, or for other purposes as the Authority and the Trustee may deem desirable but only if and to the extent that such Supplemental Resolution does not in any manner adversely affect or impair the rights of the Bondholders under this Resolution;

(c) to subject, describe or redescribe any property subjected or to be subjected to the lien of this Resolution;

(d) to provide for the issuance of the 1998 Bonds or Additional Indebtedness (or any amendment, modification, replacement, reissuance or refunding of the 1998 Bonds or Additional Indebtedness) pursuant to Article III hereof or the issuance of a Credit Facility;

(e) to modify, amend or supplement this Resolution or any Resolution supplemental hereto in such manner as to permit the qualification hereof and thereof under the Trust Indenture Act of 1939, as amended, or any similar Federal statute hereafter in effect, and if they so determine, to add to this Resolution or any Resolution supplemental hereto such other terms, conditions and provision as may be required by said Trust Indenture Act of 1939, as amended, or similar Federal statute; provided, however, that no such modification shall adversely affect or impair the rights of the Bondholders or permit the creation of any lien prior to or on a parity with the lien of the Resolution (except as herein expressly permitted) or deprive the Bondholders of the lien created by the Resolution;

(f) to modify, amend or supplement the Resolution in such manner as may be necessary to obtain or maintain from the Rating Agencies a securities rating on the 1998 Bonds or any Additional Indebtedness; and

(g) to make any other change to this Resolution that affects one or more particular series of Bonds if notice by registered or certified mail, return receipt requested, of such change, including a copy of the proposed Supplemental Resolution, is given to each Holder of a Bond of such series at least thirty (30) days prior to the effective date of the Supplemental Resolution and if each such Holder shall have had at least one opportunity to require the purchase of such Bond pursuant to the terms of the Supplemental Resolution under which the particular Bonds were issued during a period beginning thirty (30) days

after the giving of such notice and ending on the effective date of the Supplemental Resolution.

Any Supplemental Resolution authorized by the provisions of this Section may be executed by the Authority and the Trustee without the consent of the Registered Owners of any of the Bonds at the time Outstanding, but the Trustee shall not be obligated to enter into any such Supplemental Resolutions which affect the Trustee's rights, duties or immunities under this Resolution or otherwise.

SECTION 13.2. Supplemental Resolutions with Bondholders' Consent. With the consent of the Registered Owners of a majority in aggregate principal amount of Bonds as of the relevant Record Date, the Authority and the Trustee, may from time to time and at any time enter into an Resolution or Resolutions supplemental hereto for the purpose of adding any provisions or changing in any manner or eliminating any of the provisions of this Resolution or of any Supplemental Resolution; provided, however, that no such supplemental Resolution shall (a) extend the fixed maturity of the Bonds or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the Registered Owner of each Bond so affected or (b) reduce the aforesaid percentage of Registered Owners of Bonds required to approve any such Supplemental Resolution. Upon receipt by the Trustee of certified resolutions authorizing the execution of any such Supplemental Resolutions, and upon the filing with the Trustee of evidence of the consent of Bondholders, as aforesaid, the Trustee shall join with the Authority in the execution of such Supplemental Resolution unless such Supplemental Resolution will affect the Trustee's own rights, duties and immunities under this Resolution or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such Supplemental Resolution.

The Authority shall in its sole discretion select a Record Date in connection with obtaining the consent of Registered Owners to supplemental Resolutions. Only Registered Owners as of the close of business on said Record Date shall be entitled to consent to any such supplemental Resolution. Any such consent shall be irrevocable and binding on all subsequent transferees, whether or not such supplemental Resolution has been executed or approved by the requisite number of Registered Owners at the time of any such consent or subsequent transfer. For the purpose of determining consents, any Bond in a denomination other than the minimum Authorized Denomination for that series shall be treated as representing such number of separate Bonds of that series as is obtained by dividing the actual principal amount of such Bond by the minimum Authorized Denomination of that series. The Registered Owner of more than one Bond shall be entitled to consent or disapprove of any supplemental Resolution as holder of any Bond independent of the consent or disapproval given as holder of any other Bonds.

For purposes of this Section, if Bonds are maintained by the Depository in a Book-Entry System, the Beneficial Owners of such Bonds shall be the Registered Owners of such Bonds.

It shall not be necessary for the consent of the Bondholders under this Section to approve the particular form of any proposed supplemental Resolution, but it shall be sufficient if such consent shall approve the substance thereof.

SECTION 13.3. Effect of Supplemental Resolutions. Upon the execution of any Supplemental Resolution pursuant to the provisions of this Article XIII, this Resolution shall be and be deemed to be modified and amended in accordance therewith and the respective rights, duties and obligations under this Resolution of the Authority, the Trustee and all Registered Owners of Bonds Outstanding thereunder shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments, and all the terms and conditions of any such Supplemental Resolution shall be and be deemed to be part of the terms and conditions of this Resolution for any and all purposes.

SECTION 13.4. Opinion of Counsel as to Supplemental Resolution; Reliance on Counsel. Before the Trustee shall enter into any supplemental Resolution pursuant to Section 13.1, there shall have been delivered to the Trustee an opinion of Counsel to the effect that such supplemental Resolution (i) is authorized under this Resolution and complies with the requirements of this Article, (ii) will, upon the execution and delivery thereof, be valid and binding upon the Authority in accordance with its terms, and (iii) will not affect the exclusion from gross income of the interest on any Tax-Exempt Bonds for federal income tax purposes. The Trustee may conclusively rely upon such an opinion of Counsel.

SECTION 13.5. Voting Rights of Credit Facility Provider. As long as the Credit Facility Provider has not failed to comply with its payment obligations under the Credit Agreement, the Credit Facility Provider shall have all rights and privileges of the Holders of the Credit Facility Bonds to exercise rights of approval, consent, discretionary waiver and make all requests on behalf of and in place of such Holders. For purposes of computing applicable percentages of Bondholders under this Resolution, actions taken by such Credit Facility Provider shall be treated as action taken by the Holder of such Credit Facility Bonds.

ARTICLE XIV.

DEFEASANCE.

SECTION 14.1. Defeasance. Subject to provisions of a Supplemental Resolution that may modify this Section 14.1 insofar

as it governs the Bonds authorized by such Supplemental Resolution, if the Authority shall pay or cause to be paid, in accordance with the provisions of this Resolution, to the Registered Owners of any Bond, the principal and interest and premium, if any, to become due thereon, at the times and in the manner stipulated therein and in the Resolution, then the pledge of the Trust Estate and any other money and securities hereby pledged and all other rights granted hereby shall be discharged and satisfied with respect to such Bond. In the event the Authority so provides for all Outstanding Bonds issued under this Resolution, the Trustee shall, upon the request of the Authority, execute and deliver to the Authority, all such instruments as may be desirable to evidence such discharge and satisfaction and the Trustee shall pay over or deliver, first to each Credit Facility Provider to the extent of any unreimbursed Payment Obligations, and then to the Authority, all money or securities held by it pursuant to the Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Notwithstanding the release and discharge of the Lien of this Resolution as provided above, those provisions of this Resolution and any applicable Supplemental Resolution relating to the maturity of the Bonds, interest payments and dates thereof, tender and purchase provisions, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, the holding of moneys in trust, and the duties of the Trustee, Tender Agent and Remarketing Agent in connection with all of the foregoing, remain in effect and shall be binding upon the Trustee, Tender Agent, Remarketing Agent, Issuer and the Bondholders.

Any Bond for the payment or redemption of which funds shall have been set aside and shall be held in trust by the Trustee (through deposit of funds for such payment or redemption or otherwise) whether at or prior to the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the first sentence of this Section. Subject to provisions of a Supplemental Resolution that may modify this Section 14.1 insofar as it governs the Bonds authorized by such Supplemental Resolution, any Outstanding Bond shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in the first sentence of this Section if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to give notice of redemption of such Bonds on said date as provided herein, (ii) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or noncallable Investment Securities of the type listed in subparagraphs (a), (b), or (n) of the definition of Investment Securities, the principal of and the interest on which when due will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient to

pay when due the principal, premium, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (iii) if said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days and such Bonds are to be redeemed the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to give notice to the Registered Owners of such Bonds that the deposit required by (ii) above has been made in accordance with this Section and stating such maturity or redemption date upon which money is to be available for the payment of the principal and premium, if applicable, on said Bonds. Neither Investment Securities or money deposited with the Trustee pursuant to this Section, nor principal or interest payable on any such Investment Securities, shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or premium, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee, if not then needed for such purpose, shall, at the written direction of the Authority and to the extent practicable, be reinvested in Investment Securities of the type hereinbefore described in this paragraph maturing at times and in amounts sufficient, together with other money available for the purpose, to pay when due the principal, premium, if applicable, and interest to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Authority, as received by the Trustee, free and clear of any trust, lien or pledge, provided, further that any Investment Securities may be sold, transferred, redeemed or otherwise disposed of, and the proceeds thereof applied to the purchase of other Investment Securities of the type permitted for this purpose, the principal of and interest on which, when due, together with money and other Investment Securities then held by the Trustee for such purpose shall be sufficient to pay when due the principal, premium, if applicable, and interest due and to become due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be.

Anything in the Resolution to the contrary notwithstanding and except as the escheat laws of the State may otherwise provide, any money held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed for four years after the date when all of the Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such money were held by the Trustee at such date, or for four years after the date of deposit of such money if deposited with the Trustee after the said date when all of the Bonds become due and payable, shall, at the written request of the Authority, be repaid by the Trustee to the Authority, as its or their absolute property and free from trust, and the Trustee shall thereupon be released and discharged; provided, however, that before being required to make any such payment, the Trustee shall, at the expense of the Authority, cause to be published once in an Authorized Newspaper, notice that said money remains unclaimed and that, after a date

named in said notice, which date shall be not less than ten (10) nor more than twenty (20) days after the date of first publication of such notice, the balance of such money then unclaimed will be returned to the Authority as provided above.

SECTION 14.2. Surplus Funds. Any surplus money held by the Trustee after all obligations arising under the Bonds and this Resolution have been paid shall be transferred to the Authority.

ARTICLE XV.

MISCELLANEOUS PROVISIONS.

SECTION 15.1. Benefit of Covenants. All the covenants, stipulations, promises and agreements in this Resolution contained by or on behalf of the Authority shall bind and inure to the benefit of its successors and assigns, whether so expressed or not.

SECTION 15.2. No Further Beneficiaries. Nothing expressed or implied in this Resolution or in the Bonds is intended or shall be construed to give to any person other than the parties hereto, any Credit Facility Providers, and the Registered Owners of the Bonds issued hereunder, any legal or equitable right, remedy or claim under or in respect of this Resolution or any covenants, conditions or provisions therein or herein contained.

SECTION 15.3. Waiver of Notice. Whenever in this Resolution the giving of notice by mail or otherwise shall be required, the giving of such notice may be waived in writing by all Persons entitled to receive such notice, and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 15.4. Severability. In case any one or more of the provisions contained in this Resolution or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Resolution or the Bonds, but this Resolution or the Bonds shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein or therein.

SECTION 15.5. Substitute Notice. If for any reason it shall be impossible to make publication of any notice required hereby in an Authorized Newspaper, then such publication in lieu thereof as shall be made with the approval of the Trustee shall constitute a sufficient publication of such notice.

SECTION 15.6. Notices. Except as otherwise provided herein, all notices, demands, requests, consents, certificates, directions, elections and waivers pursuant to any provision of

this Resolution shall be in writing and sent by United States registered or certified mail, return receipt requested, postage prepaid, or alternatively, by hand delivery, addressed to the Authority as follows:

Dutchess County Water and Wastewater Authority
27 High Street
Poughkeepsie, New York 12601

Attention: Chairperson

and to the Trustee as follows:

The Bank of New York
101 Barclay Street, Floor 21 West
New York, New York 10286

Attention: Corporate Trust Administration

and to S & P as follows:

Standard & Poor's Corporation
25 Broadway, 20th floor
New York, New York 10004

or to such other address as the party to receive the communication may hereafter designate by written notice to all other Persons listed above. Copies of all notices shall be sent to the Trustee at its address above. All notices shall be deemed to have been given hereunder on the day following mailing thereof in accordance with the requirements of this Section, except for telephonic notice pursuant to specific provisions hereof authorizing such notice or notice by hand delivery, which shall be deemed given immediately.

SECTION 15.7. Successors and Assigns. All the covenants, promises and agreements contained in this Resolution by or on behalf of the Authority, or by or on behalf of the Trustee, shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

SECTION 15.8. Headings for Convenience Only. The descriptive headings herein are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

SECTION 15.9. Counterparts. This Resolution may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute but one and the same instrument.

SECTION 15.10. Payments on Weekends, Holiday. Whenever the date fixed for the payment of the principal or redemption price of or the interest on any Bonds falls on any date that is not a

Business Day, then the payment of principal, redemption price or interest need not be made on such date, but may be made on the next-succeeding regular Business Day with the same force and effect as if made on the date fixed, and no interest shall accrue on such payment to the date payment is made.

SECTION 15.11. No Personal Liability. No recourse under or upon any obligation, covenant or agreement contained in this Resolution or in any Bond hereby secured, or under any judgment obtained against the Authority or by the enforcement of any assessment or by any legal or equitable proceeding by virtue of any constitution or statute or otherwise, or under any circumstances, under or independent of this Resolution, shall be had against any member, officer or employee, as such, past, present or future, of the Authority for the payment for or to the Authority or any receiver thereof, or for or to the Registered Owners of any Bonds issued hereunder or otherwise, of any sum that may be due and unpaid by the Authority upon any such Bond. Any and all personal liability of every nature, whether at common law or in equity, or by statute or by constitution or otherwise, of any such member, officer or employee of the Authority as such, to respond by reason of any act or omission on his part or otherwise, for the payment for or to the Registered Owner of any Bond issued thereunder or otherwise, of any sum that may remain due and unpaid upon the Bonds and hereby secured or any of them, is hereby expressly waived and released as a condition of and consideration for the execution of this Resolution and the issuance of such Bond.

SECTION 15.12. No Indebtedness Created. Neither the State, Oneida County nor any other municipality or public corporation shall be liable for the payment of the principal of or interest on any of the Bonds issued hereunder, or for the performance of any pledge, mortgage, obligation or agreement or indebtedness of the Authority, and none of the Bonds of the Authority issued hereunder shall be construed to constitute an indebtedness of said State, Oneida County or any other municipality or public corporation.

SECTION 15.13. Agreement of the State. There is hereby incorporated in this Resolution by this reference, fully as if set forth herein at length, the agreement of the State with the Registered Owners of Bonds set forth in Section 1133 of the Act.

SECTION 15.14. Governing Law. This Resolution shall be governed exclusively by the provisions hereof and by the applicable laws of the State without reference to conflict of law provisions.

SECTION 15.15. Consents. Whenever the consent of any Person is required pursuant to the terms of this Resolution, the same shall not be unreasonably withheld.

SECTION 15.16. Construction of Delivery by Trustee or Tender Agent. Any reference herein to delivery of Bonds by the Trustee or the Tender Agent shall be understood to mean only that the Trustee or the Tender Agent, as the case may be, shall make the Bond or Bonds available for pick-up during normal business hours at its principal corporate trust office in New York, New York.

SECTION 15.17. Action by Authority or Credit Facility Provider. Except as otherwise expressly stated herein, any action to be taken hereunder or under any Supplemental Resolution by the Authority or Credit Facility Provider may be taken by an Authorized Representative thereof.

IN WITNESS WHEREOF, DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY has caused this Resolution to be executed by its Chairperson and its corporate seal to be hereunto affixed, attested by its Secretary, and The Bank of New York has caused this Resolution to be executed by one of its authorized officers and its seal to be hereunto affixed and attested by its Secretary or other authorized officer, all as of the day and year first above written.

(SEAL)

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY

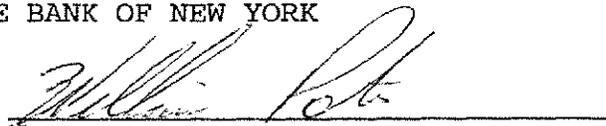
Attest:


Raymond Rhodes
Secretary

By 
Daniel J. Donovan
Chairman

THE BANK OF NEW YORK

By



Name:

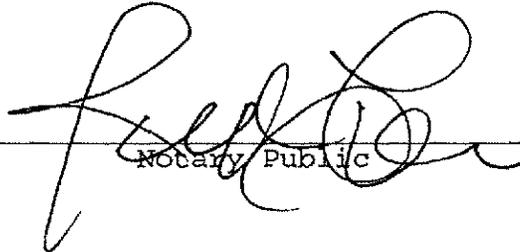
Title:

WILLIAM POTES
Assistant Treasurer

STATE OF NEW YORK :
: SS.
COUNTY OF DUTCHESS :

On this 17th day of June, 1998, personally appeared before me Daniel J. Donovan, personally known to me and known by me to be the person who executed the foregoing instrument in the name and on behalf of the Dutchess County Water and Wastewater Authority, who, being by me duly sworn, did depose and say that he is the Chairman of said Authority, that the said Authority is the body corporate and politic described in and that executed the said instrument, and acknowledged said instrument so executed to be his voluntary act and the voluntary act and deed of said Authority, and stated on oath that said instrument was so signed by him and sealed and attested by Raymond Rhodes, Secretary of said Authority, and delivered on behalf of said Authority and at its direction, and that the seal affixed to said instrument is the official seal of said Authority.

IN WITNESS WHEREOF, I have hereunto set my hand on the day and year aforesaid.



Notary Public

JAMES R. LOEB
Notary Public, State of New York
(Notary Seal)
Qualified in Orange County
Commission Expires September 30, 1998

My Commission Expires:

STATE OF NEW YORK :
: SS.
COUNTY OF NEW YORK :

On this 17th day of June, 1998, personally appeared before me William Potes, personally known to me and known by me to be the person who executed the foregoing instrument in the name and on behalf of The Bank of New York, who, being by me duly sworn, did depose and say that he is an Assistant Treasurer of said Trustee, that the said Trustee is the banking corporation described in and that executed the said instrument, and acknowledged said instrument so executed to be his voluntary act and the voluntary act and deed of said Trustee, and stated on oath that said instrument was so signed by him, and delivered on behalf of said Trustee and at its direction.

IN WITNESS WHEREOF, I have hereunto set my hand on the day and year aforesaid.

Anna Georgiou

Notary Public

ANNA GEORGIU
Notary Public, State of New York
No. 24-4678631
Qualified in Kings County
Commission Expires June 30, 19 *98*

APPENDIX F

The Service Agreement

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98-0910-6/29-PL-A10

SERVICE AGREEMENT

Dated as of June 1, 1998

Amended and Tenth Restatement As of February 1, 2009

between

COUNTY OF DUTCHESS, NEW YORK,
for and on behalf of the Dutchess County Water District

and

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY

Integrated Water Supply, Purification and Distribution System
Dutchess County, New York

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THIS SERVICE AGREEMENT, dated as of June 1, 1998, amended and Tenth Restatement as of February 1, 2009, by and between the COUNTY OF DUTCHESS, NEW YORK, a municipal corporation of the State of New York having its office at 22 Market Street, Poughkeepsie, New York for and on behalf of the Dutchess County Water District, a water district of the County having those powers provided in Article 5-A of the County Law and the DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY, a public benefit corporation of the State of New York having its office at 27 High Street, Poughkeepsie, New York.

WITNESSETH:

WHEREAS, the County is concerned with the need for the affordable provision of potable water to, generally, Persons within the Water District and, specifically, Persons within the Zones of Assessment and areas adjacent thereto to which affordable potable water may be provided through the Water System; and

WHEREAS, the Authority has, pursuant to the Act and (i) an Agreement For Transfer Of Water System, between the Authority and the Hyde Park Fire And Water District, acquired the Hyde Park Water System from the Hyde Park Fire And Water District, (ii) an agreement between the Authority and the County acquired the Staatsburg Water System, (iii) an agreement between the Authority and the Town of Hyde Park, acquired the assets of the Harbour Hills Water District, (iv) an agreement between the Authority and the Schreiber Water Works Corp., acquired the water supply system of the Schreiber Water Works, (v) an agreement between the Authority and the Hillis Park Water Corporation, acquired the Hillis Park Water System, a/k/a the Valley Dale Water System, (vi) an agreement between the Authority and Rokeby Homes, Inc., acquired the water distribution system serving Rokeby Homes, (vii) an agreement between the Authority and Sarcar LLC, acquired the water distribution system serving the Crofton Mews

Apartment Complex, (viii) an agreement between the Authority and the Farm Water Company, Inc., acquired the water supply and distribution system serving the Dalton Farms Development, the Poughquag Hamlet Water Improvement Area and the residential subdivisions known or proposed to be known substantially as Victoria Estates and Plum Court, all being within the Town of Beekman, (ix) an agreement between the Authority and the County to purchase and install the Route 9 Connecting Main, the 1998 Capital Construction and the 2000 Harbour Hills Capital Construction, (x) an agreement to acquire upon completion the water distribution facilities serving the Jeffrey Groves Estate subdivision in the Town of Hyde Park, (xi) an agreement between the Authority and Shore Haven Civic Association Inc., acquired the water supply and distribution system serving a residential community in the Town of Pawling west of Whaley Lake, (xii) an agreement between the Authority and Birch Hill Water Supply, Inc. acquired the water supply and distribution system serving a residential community in the Town of Beekman known as Birch Hill Manor and Highview Manor, and (xiii) an agreement between the Authority and the County to purchase and install the Route 9G Interconnection Main; and

WHEREAS, the parties propose to enter into this Service Agreement in order that the Authority may cause Water Service to be provided to Persons within certain areas within the Water District and that the County may accept and pay for such Water Service. So long as the Authority, its successors and assigns, provides Water Service, the County shall be obligated to pay Service Fees, all as more particularly set forth herein; and

WHEREAS, in consideration of the premises and the respective provisions and agreements hereinafter contained and other good and valuable consideration, receipt of which is hereby acknowledged, the Authority agrees to provide, and the County agrees to accept and pay for, Water Service on the following terms and conditions:

ARTICLE 1.

DEFINITIONS

Unless the context shall otherwise require, capitalized terms herein have the meaning given to them as follows:

“Act” means Title 6-C of Article 5 of the Public Authorities Law of the State.

“Additional Indebtedness” means Additional Parity Indebtedness as defined in the Bond Resolution.

“Alterations” means reconstruction, construction of additions to or any other improvements to the Water System which would be an increase and improvement to the Water System under Section 268 of the County Law of the State, as the same may be amended from time to time.

“Authority” means (i) the Dutchess County Water and Wastewater Authority and its successors and assigns, and (ii) any political subdivision resulting from or surviving any consolidation or merger to which the Authority or its successors may be a party.

“Basic Service Agreement Term” means the period commencing on the Closing Date and terminating on the earlier of (i) the date of maturity of the Bonds or (ii) the date on which the Bonds are paid or provision for the payment thereof has been made as provided in the Bond Resolution.

“Birch Hill Bonds” means the bonds (not exceeding \$850,000) issued by the Authority under the Bond Resolution to finance improvements to the Birch Hill Water System, reserves and costs of issuance.

“Birch Hill Water System” means the water supply and distribution system acquired by the Authority from Birch Hill Water Supply, Inc. to provide potable water to Birch Hill Manor and Highview Manor, all being within the Town of Beekman, including any additions thereto or deletions therefrom from time to time.

“Birch Hill Water System Operating Expenses” means the costs, fees and expenses incurred or to be incurred by or for the Authority (i) in connection with the operation of the Birch Hill Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Birch Hill Water System, or of providing potable water through any other means to Persons within the Zone K Zone of Assessment, each as may be necessary or proper to maintain Water Service and fire hydrants to and for the Zone K Zone of Assessment, including, costs of Alterations for which Additional Indebtedness have not been issued, (ii) a portion of the costs of operating, maintaining, repairing, insuring or providing services to the Birch Hill Water System as the Authority shall determine from year to year to be the reasonable portion of such costs to be paid by the Zone K Zone of Assessment, (iii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone K Zone of Assessment, (iv) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expense incurred or to be incurred and payable by the Authority and not paid out of bond proceeds with respect to any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Zone K Zone of Assessment, and (v) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the collection of water rates.

“Bondholder” means the Person in whose name any Bond is registered pursuant to the Bond Resolution.

“Bond Resolution” means the General Revenue Bond Resolution for the Bonds, including any supplemental Bond Resolution, as the same may be amended from time to time.

“Bonds” means, collectively, the 1998 Bonds, the 1999 EFC Refunding Bonds, the 2000 Bonds, the 2001 Bonds, the 2002 EFC Refunding Bonds, the 2002 Refunding Bonds, the 2004 Bonds, the Birch Hill Bonds, the Shore Haven Bonds, the Route 9G Interconnection Water Main Bonds, and any other Additional Indebtedness.

“Business Day” means any day (other than Saturday or Sunday) during which (i) commercial banks located in the State or in the city in which the principal office of the Trustee are located are not required or authorized by law to close; and (ii) The New York Stock Exchange, Inc. is not closed.

“Closing Date” means the date of delivery of the 1998 Bonds.

“Condemnation” means the lawful taking of the Water System or any part thereof by a governmental body.

“County” means the County of Dutchess, New York, or its successors or assigns.

“Credit Facility” means any credit enhancement, guaranty, letter of credit, insurance policy, surety bond, standby bond purchase agreement or other credit facility or liquidity facility, and any extension or renewal thereof which is delivered to the Trustee as security or liquidity for the payment of the principal or purchase price of or interest on any series of Bonds or any portion thereof, and as further provided in the Bond Resolution.

“Credit Facility Provider” means the provider of any Credit Facility.

“Crofton Mews Water Distribution System” means the water distribution system acquired by the Authority from Sarcar LLC to provide potable water from the Hyde Park Water system to the Crofton Mews Apartment Complex, including any additions thereto or deletions therefrom from time to time.

“Crofton Mews Water Distribution System Operating Expenses” means the costs, fees and expenses incurred or to be incurred by or for the Authority (i) in connection with the operation of the Crofton Mews Water Distribution System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Crofton Mews Water Distribution System, or of providing potable water through any other means to Persons within the Zone G Zone of Assessment, each as may be necessary or proper to maintain Water Service to the Zone G Zone of Assessment, (ii) a portion of the costs of operating, maintaining, repairing, insuring or providing services to the Hyde Park Water System as the Authority shall determine from year to year to be the reasonable portion of such costs to be paid by the Zone G Zone of Assessment, (iii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone G Zone of Assessment, (iv) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expense incurred or to be incurred and payable by the Authority and not paid out of Bond proceeds with respect to any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Zone G Zone of Assessment, and (v) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the collection of water rates.

“Dalton Farms Water System” means the water supply and distribution system acquired by the Authority from the Farm Water Company, Inc. to provide potable water to the Dalton Farms Development, the Poughquag Hamlet Water Improvement Area and the residential subdivisions known as or proposed to be known substantially as Victoria Estates and Plum Court, all being within the Town of Beekman, including any additions thereto or deletions therefrom from time to time.

“Dalton Farms Water System Operating Expenses” means the costs, fees and expenses incurred or to be incurred by or for the Authority (i) in connection with the operation of the Dalton Farms Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Dalton Farms Water System, or of providing potable water through any other means to Persons within the Zone H Zone of Assessment, (ii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone H Zone of Assessment (iii) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expenses incurred or to be incurred and payable by the Authority and not paid out of Bond proceeds with respect to either the 2004 Bonds or any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Zone H, Zone of Assessment, and (iv) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the collection of water rates.

“Discharge Date” means the date on which the Bonds have been paid in full or provision therefrom made in accordance with the terms of the Bond Resolution.

“Governmental Requirements” means federal, State and local laws, rules, regulations and ordinances applicable at the time to the construction, operation and maintenance of the Water System.

“Harbour Hills Water District” means that water district created under the Town Law of the State by, and located in, the Town of Hyde Park, Dutchess County, New York known as the Harbour Hills Water District, or its successors or assigns.

“Harbour Hills Water System” means the system for the distribution of potable water constructed by the Authority to serve Persons within the Zone D Zone of Assessment, including any additions thereto or deletions therefrom from time to time.

“Harbour Hills Water System Operating Expenses” means the costs, fees and expenses reasonably incurred or to be incurred by or for the Authority (i) in connection with the operation of the Harbour Hills Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Harbour Hills Water System, or of providing potable water through any other means to Persons within the Zone D Zone of Assessment, each as may be necessary or proper to maintain Water Service to the Zone D Zone of Assessment and fire hydrants for the Zone D Zone of Assessment, (ii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone D Zone of Assessment, (iii) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expense incurred or to be incurred and payable by the Authority and not paid out of Bond proceeds with respect to the 2000 Series B Bonds, or any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Zone D Zone of Assessment, and (iv) the fees and expenses incurred or

estimated to be incurred by or for the Authority associated with the imposition and collection of water rates.

“Hyde Park Fire and Water District” means that district corporation located in the Town of Hyde Park, Dutchess County, New York known as the Hyde Park Fire and Water District, or its successors or assigns.

“Hyde Park Water System” means the system for the supply, purification and distribution of potable water and the fire hydrants acquired by the Authority from the Hyde Park Fire and Water District on the Closing Date, including any addition thereto or deletion therefrom from time to time.

“Hyde Park Water System Operating Expenses” means the costs, fees and expenses reasonably incurred or to be incurred by or for the Authority (i) in connection with the operation of the Hyde Park Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Hyde Park Water System, or of providing potable water through any other means to Persons within the Zone A Zone of Assessment, the Zone B Zone of Assessment, or the Zone L Zone of Assessment, each as may be necessary or proper to maintain Water Service to the Zone A Zone of Assessment, the Zone B Zone of Assessment and the Zone L Zone of Assessment and fire hydrants for the Zone A Zone of Assessment, the Zone B Zone of Assessment and the Zone L Zone of Assessment, and, specifically, with respect to fire hydrants as may be required pursuant to Article III of the Transfer Agreement, including costs of any alteration for which Additional Indebtedness have not been issued, (ii) any Litigation Expenses or Other Litigation Expenses to be paid or paid by the Authority other than from Additional Indebtedness (iii) the applicable proportionate charge, as determined from year to year by the

Authority, of the administrative and general operating expenses of the Authority to the Zone A Zone of Assessment, the Zone B Zone of Assessment and the Zone L Zone of Assessment, (iv) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expense incurred or to be incurred and payable by the Authority and not paid out of Bond proceeds with respect to the 1998 Series A Bonds, the 1998 Series B Bonds, the 1998 Series C Bonds, or any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Zone A Zone of Assessment, the Zone B Zone of Assessment or the Zone L Zone of Assessment, and (v) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the imposition and collection of water rates.

"Jeffrey Groves Water System" the system for the distribution of potable water acquired by the Authority to serve Persons within the Zone I Zone of Assessment, including any addition thereto or deletion therefrom from time to time.

"Jeffrey Grove Water System Operating Expenses" means the costs, fees and expenses incurred or to be incurred by or for the Authority (i) in connection with the operation of the Jeffrey Groves Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Jeffrey Groves Water System, or of providing potable water through any other means to Persons within the Zone I Zone of Assessment, each as may be necessary or proper to maintain Water Service to the Zone I Zone of Assessment, including, costs of Alterations for which Additional Indebtedness have not been issued, (ii) a portion of the costs of operating, maintaining, repairing, insuring or providing services to the Hyde Park Water System as the Authority shall determine from year to year to be the reasonable portion of such costs to be paid

by the Zone I Zone of Assessment, (iii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone I Zone of Assessment, (iv) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expense incurred or to be incurred and payable by the Authority and not paid out of bond proceeds with respect to any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Zone I Zone of Assessment, and (v) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the imposition and collection of water rates.

“Lien” means any sale, transfer, assignment, disposition, mortgage, pledge, security interest, lien, judgment lien, easement or other encumbrances on title, except Permitted Liens.

“Litigation Expenses” means Litigation Expenses as defined in Section 1.4(b) of the Transfer Agreement in excess of \$400,000.

“1998 Bonds” means, collectively, the 1998 Series A Bonds, the 1998 Series B Bonds, the 1998 Series C Bonds, the 1998 Series Capital Construction Bonds and the 1998 Series Staatsburg Bonds.

“1998 Capital Construction” means the purchase and installation of an additional raw water pump and an additional finished water pump in or at the water treatment plant, being part of the Hyde Park Water System.

“1998 Series A Bonds” means the 1998 Series A Bonds as defined in the Bond Resolution.

“1998 Series B Bonds” means the 1998 Series B Bonds as defined in the Bond Resolution.

“1998 Series C Bonds” means the 1998 Series C Bonds as defined in the Bond Resolution.

“1998 Series Capital Construction Bonds” means the 1998 Series Capital Construction Bonds as defined in the Bond Resolution.

“1998 Series Staatsburg Bonds” means the 1998 Series Staatsburg Bonds as defined in the Bond Resolution.

“1999 EFC Refunding Bonds” means the Series 1999-SDW Bonds as defined in the Bond Resolution.

“Operating Expenses” means, collectively, Hyde Park Water System Operating Expenses, Staatsburg Water System Operating Expenses, Harbourd Hills Water System Operating Expenses, Schreiber Water System Operating Expenses, Valley Dale Water System Operating Expenses, Rokeby Water System Operating Expenses, Crofton Mews Water Distribution System Operating Expenses, Dalton Farms Water System Operating Expenses, Jeffrey Groves Water System Operating Expenses, Shore Haven Water System Operating Expenses, Birch Hill Water System Operating Expenses, and Other Operating Expenses.

“Other Operating Expenses” means fees and expenses similar to Hyde Park Water System Operating Expenses, Staatsburg Water System Operating Expenses, Harbourd Hills Water System Operating Expenses, Schreiber Water System Operating Expenses, Valley Dale Water System Operating Expenses, Rokeby Water System Operating Expenses, Crofton Mews Water Distribution System Operating Expenses, Dalton Farms Water System Operating Expenses, Jeffrey Groves Water System Operating Expenses, Shore Haven Water System Operating Expenses, and Birch Hill Water System Operating Expenses reasonably incurred or to be incurred by or for the Authority in connection with the provision of potable water by the

Authority to areas other than the Zones of Assessment pursuant to an amendment to the Service Agreement.

“Other Litigation Expenses” means expenses incurred by the Authority in the defense and payment of litigation against the Hyde Park Fire and Water District in accordance with Section 1.4(d) of the Transfer Agreement.

“Parts” means tangible and intangible chattels incorporated in the Water System.

“Permitted Liens” means Permitted Encumbrances as defined in the Bond Resolution.

“Person” means an individual, a corporation, a partnership, an association, a joint stock company, a trust, any unincorporated organization, a governmental body, political subdivision, municipality or authority or any other group or entity.

“Renewal Service Agreement Term” means the Renewal Service Agreement Term provided in Article 6 of the Service Agreement.

“Rokeby Water System” means the system for the supply and distribution of potable water acquired by the Authority from Rokeby Homes, Inc., to serve Persons within the Zone F Zone of Assessment, including any additions thereto or deletions therefrom from time to time.

“Rokeby Water System Operating Expenses” means the costs, fees and expenses reasonably incurred or to be incurred by or for the Authority (i) in connection with the operation of the Rokeby Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Rokeby Water System, or of providing potable water through any other means to Persons within the Zone F Zone of Assessment, each as may be necessary or proper to maintain Water Service to the Zone F Zone of Assessment (ii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating

expenses of the Authority to the Zone F Zone of Assessment, (iii) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expense incurred or to be incurred and payable by the Authority and not paid out of Bond proceeds with respect to any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Zone F Zone of Assessment, and (iv) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the imposition and collection of water rates.

"Route 9 Connecting Main" means the approximately 11,000 feet of 16+ inch water main to be purchased and installed in or along Route 9 connecting the Hyde Park Water System to the system for the distribution of potable water and fire hydrants serving the Zone C Zone of Assessment acquired by the Authority from the County on the Closing Date, including a water tank and other improvements in connection therewith and other Staatsburg distribution system improvements, all as set forth on the Route 9 Connecting Main Plans and Specifications.

"Route 9 Connecting Main Plans and Specifications" means the Plans and Specifications for the Route 9 Connecting Main on file in the office of the Authority, as the same may be amended from time to time.

"Route 9G Interconnection Main" means the approximately 7,600 feet of 12 inch water main to be installed in or along Route 9G in the Town of Hyde Park, from the northern end of the Zone D Zone of Assessment to connect to the existing Hyde Park Water System water main at White Oaks Road, including incidental improvements.

"Route 9G Interconnection Water Main Bonds" means the bonds (not exceeding \$6,000,000) issued by the Authority under the Bond Resolution to finance the Route 9G Interconnection Water Main, reserves, and costs of issuance.

“Schreiber Water System” means the system for the supply of potable water serving Persons within the Zone E Zone of Assessment, including any additions thereto or deletions therefrom from time to time.

“Schreiber Water System Operating Expenses” means the costs, fees and expenses reasonably incurred or to be incurred by or for the Authority (i) in connection with the operation of the Schreiber Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Schreiber Water System, or of providing a source of potable water through any other means for Persons within the Zone E Zone of Assessment, each as may be necessary or proper to maintain Water Service to the Zone E Zone of Assessment, (ii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone E Zone of Assessment, (iii) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expense incurred or to be incurred and payable by the Authority and not paid out of any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Zone E Zone of Assessment, and (iv) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the imposition and collection of water rates.

“Service Agreement” means this Service Agreement dated as of June 1, 1998, as amended and Tenth Restatement as of February 1, 2009 by and between the County and the Authority, as the same may be amended from time to time.

“Service Agreement Term” means, collectively, the Basic Service Agreement Term and any Renewal Service Agreement Term.

“Service Event of Default” means an event of default provided in Article 11 of the Service Agreement.

“Service Failure” means the failure of the Authority to provide Water Service to in excess of, collectively, twenty-five per centum of the Persons within the Zones of Assessment and such other Persons within the Water District as the Authority may agree with the County to provide Water Service to pursuant to an amendment to the Service Agreement, for a period of ninety consecutive days.

“Service Fee” means the Service Fee to be paid by the County to the Authority pursuant to Section 5.2 of the Service Agreement.

“Service Fee Payment Date” means the first day of the months of February, May, August and November.

“Shore Haven Bonds” means the bonds (not exceeding \$1,600,000) issued by the Authority under the Bond Resolution to finance improvements to the Shore Haven Water System (Zone of Assessment J), reserves and costs of issuance.

“Shore Haven Water System” means the water supply and distribution system acquired by the Authority from Shore Haven Civic Association Inc. to provide potable water to an area of the Town of Pawling west of Whaley Lake, including any additions thereto or deletions therefrom from time to time.

“Shore Haven Water System Operating Expenses” means the costs, fees and expenses incurred or to be incurred by or for the Authority (i) in connection with the operation of the Shore Haven Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Shore Haven Water System, or of providing potable water through any other

means to Persons within the Zone J Zone of Assessment, each as may be necessary or proper to maintain Water Service and fire hydrants to and for the Zone J Zone of Assessment, including, costs of Alterations for which Additional Indebtedness have not been issued, (ii) a portion of the costs of operating, maintaining, repairing, insuring or providing services to the Shore Haven Water System as the Authority shall determine from year to year to be the reasonable portion of such costs to be paid by the Zone J Zone of Assessment, (iii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone J Zone of Assessment, (iv) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expense incurred or to be incurred and payable by the Authority and not paid out of bond proceeds with respect to any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Zone J Zone of Assessment, and (v) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the collection of water rates.

“State” means the State of New York.

“Staatsburg Water System” means the system for the distribution of potable water and the fire hydrants serving the Staatsburg area of the Towns of Hyde Park and Rhinebeck acquired by the Authority from the County on the Closing Date and the Route 9 Connecting Main and other facilities for the provision of potable water for persons within the Zone C Zone of Assessment, including any additions thereto or deletions therefrom from time to time.

“Staatsburg Water System Operating Expenses” means the costs, fees and expenses incurred or to be incurred by or for the Authority (i) in connection with the operation of the Staatsburg Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing

services to the Staatsburg Water System, or of providing potable water through any other means to Persons within the Zone C Zone of Assessment, each as may be necessary or proper to maintain Water Service and fire hydrants to and for the Zone C Zone of Assessment, including, costs of Alterations for which Additional Indebtedness have not been issued, (ii) a portion of the costs of operating, maintaining, repairing, insuring or providing services to the Hyde Park Water System as the Authority shall determine from year to year to be the reasonable portion of such costs to be paid by the Zone C Zone of Assessment, (iii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Zone C Zone of Assessment, (iv) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related cost, fee or expense incurred or to be incurred and payable by the Authority with respect to the 1998 Series Staatsburg Bonds or any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Zone C Zone of Assessment, and (v) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the collection of water rates.

“Stipulated Interest Rate” shall be the rate of interest provided in Section 3-a of the General Municipal Law of the State, as the same may be amended from time to time.

“Transfer Agreement” means the agreement for the transfer of Hyde Park Water System dated as of November 20, 1997 by and between the Authority and the Hyde Park Fire and Water District, as the same may be amended from time to time.

“Trustee” means the Trustee for the Bondholders appointed under the Bond Resolution.

“2000 Bonds” means the 2000 Bonds as defined in the Bond Resolution.

“2000 Harbour Hills Construction” means the construction of the Harbour Hills Water System, including the installation of approximately 18,000 feet of ductile iron water pipe with

accessory valves and hydrants, the acquisition of the County-owned water line along County Route 40A and the acquisition of the assets of the Harbour Hills Water District.

“2001 Bonds” means the 2001 Bonds as defined in the Bond Resolution.

“2002 EFC Refunding Bonds” means the Series 2002 WPC Bonds as defined in the Bond Resolution.

“2002 Refunding Bond” means the Series 2002 Harbour Hills Bonds as defined in the Bond Resolution.

“2004 Bonds” means the 2004 Bonds as defined in the Bond Resolution.

“Valley Dale Water System” means the system for the distribution of potable water serving the Valley Dale subdivision of the Town of Pleasant Valley acquired by the Authority from the Hillis Park Water Corporation, including any additions thereto or deletions thereof from time to time.

“Valley Dale Water System Operating Expenses” means the costs, fees and expenses reasonably incurred or to be incurred by or for the Authority (i) in connection with the operation of the Valley Dale Water System, including, without limitation, all costs, fees and expenses incurred or to be incurred in connection with operating, maintaining, repairing, insuring or providing services to the Valley Dale Water System, or of providing potable water through any other means to Persons within the Valley Dale Zone of Assessment, each as may be necessary or proper to maintain Water Service to the Valley Dale Zone of Assessment and fire hydrants for the Valley Dale Zone of Assessment, if any, (ii) the applicable proportionate charge, as determined from year to year by the Authority, of the administrative and general operating expenses of the Authority to the Valley Dale Zone of Assessment, (iii) any credit enhancement, remarketing, trustee, fiscal advisory, legal, accounting or similar or related costs, fee or expense

incurred or to be incurred and payable by the Authority and not paid out of Bond proceeds with respect to the 2000 Series A Bonds, or any Additional Indebtedness if the Authority determines such Additional Indebtedness benefit the Valley Dale Zone of Assessment, and (iv) the fees and expenses incurred or estimated to be incurred by or for the Authority associated with the imposition and collection of water rates.

“Valley Dale Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix F attached hereto and made a part hereof.

“Water District” means the Dutchess County Water District described in Section 1142 of the Public Authorities Law of the State, or its successors or assigns.

“Water Service” means, collectively, either the service of supplying potable water to persons within the Zone A Zone of Assessment, the Zone B Zone of Assessment, the Zone C Zone of Assessment, the Zone D Zone of Assessment, the Valley Dale Zone of Assessment, the Zone F Zone of Assessment, the Zone G Zone of Assessment, the Zone H Zone of Assessment, the Zone I Zone of Assessment, the Zone J Zone of Assessment, the Zone K Zone of Assessment, the Zone L Zone of Assessment or the service of providing a source of potable water for Persons within the Zone E Zone of Assessment, and to any other Person within the Water District as the Authority may agree with the County pursuant to an amendment to the Service Agreement to provide Water Service, either through the Water System or by any other means.

“Water System” means, collectively, the Hyde Park Water System, the Staatsburg Water System, the Harbour Hills Water System, the Schreiber Water System, the Valley Dale Water System, the Rokeby Water System, the Dalton Farms Water System, the Jeffrey Groves Water

System, the Shore Haven Water System, and the Birch Hill Water System as the same may be reconstructed, expanded or supplemented, from time to time, as necessary to provide Water Service pursuant to the Service Agreement.

“Water Treatment Plant” means the water treatment plant constituting part of the Hyde Park Water System, placed in operation in 1994.

“Water Treatment Plant Plans and Specifications” means the plans and specifications for the Water Treatment Plant on file in the office of the Authority.

“Zone A Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix A attached hereto and made a part hereof.

“Zone B Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix B attached hereto and made a part hereof.

“Zone C Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix C attached hereto and made a part hereof.

“Zone D Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix D attached hereto and made a part hereof.

“Zone E Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix E attached hereto and made a part hereof.

“Zone F Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix G attached hereto and made a part hereof.

“Zone G Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix H attached hereto and made a part hereof.

“Zone H Zone of Assessment” means the zone of assessment created within the Water District having those boundaries set forth in Appendix I attached hereto and made a part hereof.

"Zone I Zone of Assessment" means the zone of assessment created within the Water District having those boundaries set forth in Appendix J attached hereto and made a part hereof.

"Zone J Zone of Assessment" means the zone of assessment created within the Water District having those boundaries set forth in Appendix K attached hereto and made a part hereof.

"Zone K Zone of Assessment" means the zone of assessment created within the Water District having those boundaries set forth in Appendix L attached hereto and made a part hereof.

"Zone L Zone of Assessment" means the zone of assessment created within the Water District having those boundaries set forth in Appendix M attached hereto and made a part hereof.

"Zones of Assessment" means the Zone A Zone of Assessment, Zone B Zone of Assessment, Zone C Zone of Assessment, Zone D Zone of Assessment, Valley Dale Zone of Assessment, Zone E Zone of Assessment, Zone F Zone of Assessment, Zone G Zone of Assessment, Zone H Zone of Assessment, Zone I Zone of Assessment, Zone J Zone of Assessment, Zone K Zone of Assessment, and Zone L Zone of Assessment.

Words of masculine gender shall mean and include correlative words of feminine and neuter genders. Words importing the singular number shall mean and include the plural number, and vice versa.

ARTICLE 2.

REPRESENTATIONS AND WARRANTIES

SECTION 2.1. Representations and Warranties of the County. The County represents and warrants as follows:

(a) The County is a municipal corporation of the State, constituting a political subdivision thereof, duly created and validly existing under the Constitution and laws of the State.

(b) The Water District is a County water district embracing all the territory located within the County, duly created and validly existing under the Constitution and laws of the State, having those powers as are provided in Article 5-A of the County Law of the State and the Act and governed in accordance with the provisions of the County Law of the State.

(c) The County has established within the Water District Zones of Assessment pursuant to and in accordance with provisions and requirements of the County Law of the State. Each of the Zones of Assessment has been duly created and each are validly existing under the Constitution and laws of the State.

(d) The County has the right and lawful authority and power to execute and deliver this Service Agreement, to perform the obligations and covenants contained herein and to consummate the transactions contemplated hereby.

(e) The County has duly authorized, by all necessary actions, the execution and delivery hereof and the performance of the obligations and covenants hereunder and the consummation of the transactions contemplated hereby.

(f) This Service Agreement constitutes a legal, valid and binding obligation of the County, enforceable against the County in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization or other laws relating to the enforcement of creditors' rights generally or the availability of any particular remedy.

(g) This Service Agreement, the execution and delivery hereof and the consummation of the transactions contemplated hereby (i) do not and will not in any material respect conflict with, or constitute on the part of the County a breach of or default under (a) any existing law, administrative regulation, judgment, order, decree or ruling by or to which their revenues, properties or operations are bound or subject or (b) any agreement or other instrument to which

the County is a party or by which it or any of its revenues, properties or operations are bound or subject, and (ii) except as expressly set forth herein or authorized hereby, will not result in the creation or imposition of any Lien, charge or encumbrance of any nature whatsoever upon any of the County's revenues, properties or operations.

(h) All consents, approvals, authorizations or orders of, or filings, registrations or declaration with, any court, governmental authority, legislative body, board, agency or commission which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the County of its obligations hereunder or the consummation of the transactions contemplated hereby, have been duly obtained and are in full force and effect.

(i) Except as set forth in the offering prospectus, official statement or other disclosure document prepared by the Authority with respect to the issuance of the Bonds, no action, suit, proceeding or investigation, in equity or at law, before or by any court or governmental agency or body, is pending or, to the best knowledge of the County, threatened, wherein an adverse decision, ruling or finding might adversely affect the transactions contemplated hereby or the validity or enforceability hereof or of any agreement or instrument to which the County is a party or any revenues or properties of the County and which is used or is contemplated for use in the consummation of the transactions contemplated hereby.

SECTION 2.2. **Representations and Warranties of the Authority.** (a) The Authority is a public corporation and a body corporate and politic, constituting a public benefit corporation, duly created and validly existing under the Constitution and laws of the State.

(b) The Authority is the lawful owner of the Hyde Park Water System, the Staatsburg Water System, the Harbour Hills Water System, the Schreiber Water System, the Valley Dale

Water System, the Rokeby Water System, the Crofton Mews Water Distribution System, the Dalton Farms Water System, the Jeffrey Groves Water System, the Shore Haven Water System, and the Birch Hill Water System and possesses all required permits to supply potable water to Persons within the Zones of Assessment. Upon information and belief, the Water Treatment Plant can produce 2.1 million gallons per day potable water. The Authority has a Water Supply Permit permitting withdrawal of water from the Hudson River of 6.0 million gallons per day.

(c) The Authority has the right and lawful authority and power to execute and deliver this Service Agreement, to perform the obligations and covenants contained herein and to consummate the transactions contemplated hereby.

(d) The Authority has duly authorized, by all necessary actions, the execution and delivery hereof and the performance of its obligations and covenants hereunder and the consummation of the transactions contemplated hereby.

(e) This Service Agreement constitutes a legal, valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization or other laws relating to the enforcement of creditors' rights generally or the availability of any particular remedy.

(f) This Service Agreement, the execution and delivery hereof and the consummation of the transactions contemplated hereby (i) do not and will not in any material respect conflict with, or constitute on the part of the Authority a breach of or default under (a) any existing law, administrative regulation, judgment, order, decree or ruling by or to which it or its revenues, properties or operations are bound or subject or (b) any agreement or other instrument to which the Authority is a party or by which it or any of its revenues, properties or operations are bound or subject, and (ii) except as expressly set forth herein or authorized hereby, will not result in the

creation or imposition of any Lien, charge or encumbrance of any nature whatsoever upon any of the Authority's revenues, properties or operations.

(g) All consents, approvals, authorizations or orders of, or filings, registrations or declarations with, any court, governmental authority, legislative body, board, agency or commission which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the Authority of its obligations hereunder or the consummation of the transactions contemplated hereby, have been duly obtained and are in full force and effect.

(h) Except as set forth in the offering prospectus, official statement or other disclosure document prepared by the Authority with respect to the issuance of the Bonds, no action, suit, proceeding or investigation, in equity or at law, before or by any court or governmental agency or body, is pending or, to the best knowledge of the Authority, threatened wherein an adverse decision, ruling or finding might adversely affect the transactions contemplated hereby or the validity or enforceability hereof or of any agreement or instrument to which the Authority is a party or any revenues or properties of the Authority and which is used or is contemplated for use in the consummation of the transactions contemplated hereby.

ARTICLE 3.

PROVISION AND PURCHASE OF SERVICES

SECTION 3.1. Water Service; Authority's Obligations. Upon the terms and conditions hereof, including, specifically and without limitations, Articles 4 and 5 hereof, the Authority shall provide to the County, and the County shall accept and pay for, Water Service.

ARTICLE 4.

THE WATER SYSTEM; OPERATION AND MAINTENANCE; INSURANCE

SECTION 4.1. **The Water System.** The Authority shall notify the County of the existence or occurrence of any (a) circumstances of which the Authority shall have actual knowledge and which could directly and materially adversely affect the ability of the Water System to provide Water Service or of the Authority to provide Water Service in accordance with this Service Agreement and (b) inquiry with respect to the Water System or the Authority's provision of Water Service by a federal or State authority of which the Authority has actual knowledge. The County shall have the right to assist or participate, at its expense, in any action or proceeding in which the Authority shall have a right to participate relating thereto.

SECTION 4.2. **Minimum Operation and Maintenance Standard for Water System.**

(a) Solely for the purpose of assuring that the Water System will conform to the needs of the County, the Authority will construct the Route 9 Connecting Main in accordance with the Route 9 Connecting Main Plans and Specifications and will construct, reconstruct and will operate the Water System so as to be capable of supplying, purifying and distributing potable water to Persons within the Zone A Zone of Assessment, the Zone B Zone of Assessment, the Zone C Zone of Assessment, the Zone D Zone of Assessment, the Valley Dale Zone of Assessment, the Zone F Zone of Assessment, the Zone G Zone of Assessment, the Zone H Zone of Assessment, the Zone I Zone of Assessment, the Zone J Zone of Assessment, the Zone K Zone of Assessment, and the Zone L Zone of Assessment and supplying potable water to Persons within the Zone E Zone of Assessment, and providing Water Service to any other Person within the Water System as the Authority may agree with the County pursuant to any amendment to the Service Agreement, in compliance with the Act and with applicable Governmental Requirements.

(b) The Authority agrees that during the Service Agreement Term it will operate and maintain the Water System and every part and parcel thereof in accordance with good commercial practice and in any event will (i) keep the Water System in good and safe condition, repair, working order and condition, ordinary wear and tear excepted; (ii) promptly make all necessary repairs, replacements and renewals to the Water System (whether ordinary or extraordinary, structural or nonstructural, foreseen or unforeseen); (iii) maintain the Water System in a neat and orderly condition, ordinary wear and tear excepted, and in a condition which permits compliance with, and the Authority will operate the Water System in compliance with, all applicable Governmental Requirements, including without limitation all federal, State and local laws relating to labor, wages, nondiscrimination, water quality, pollution discharge, environmental control, safety and other regulatory requirements; (iv) protect the Water System against deterioration, other than that attributable to ordinary wear and tear; (v) cause the Water Treatment Plant to continue to have the capacity and functional ability to perform, on a continuing basis, in normal commercial operation, at design capacity, the functions for which it was specifically designed, substantially in accordance with and as described in the Water Treatment Plant Plans and Specifications; (vi) comply with such standards and periodic maintenance inspections as shall be required to enforce warranty and similar claims against contractors for the Water System and any standards imposed by any insurance policies in effect at any time with respect to the Water System or any part thereof; (vii) provide all necessary labor, materials and equipment for the proper operation and maintenance of the Water System; (viii) cause the Water System at all times to be operated and maintained as a water system; (ix) maintain the safety of the Water System at a level consistent with applicable law and the sound operation of a water system; and (x) maintain the Water System in working order, ordinary wear

and tear excepted, and in as reasonably safe condition as its operations shall permit. Notwithstanding any of the foregoing, unless a Service Event of Default shall have occurred and be continuing (A) the Authority may provide that the operation of the Water System may be subject to periodic, scheduled or unscheduled, partial shutdowns of portions of the Water System for maintenance or repair, (B) compliance with applicable Governmental Requirements is subject to the provisions of Section 4.6 hereof and, (C) no repair, replacement or maintenance shall be required hereunder or under the provisions of Section 4.3 or 4.4 hereof with respect to portions of the Water System which the Authority, with the consent of the County, determines are no longer necessary to the provision of Water Service.

SECTION 4.3. **Insurance Required.** Without limiting any of the other obligations of the Authority under this Service Agreement, at all time throughout the Service Agreement Term the Authority shall maintain or cause to be maintained at least the following minimum insurance coverage with respect to the Water System:

(a) property damage insurance with respect to any at or above ground physical structures of the Water System insuring against loss or damage from all risks customarily insured against by Person of established reputation under “all-risk” policies with respect to a water supply, purification and distribution system similar to the Water System, including, without limitation, insurance against loss or damage from all risk of physical damage;

(b) “boiler and machinery” property damage insurance with respect to damage (not insured against pursuant to paragraph (a) above) to the machinery, plants, equipment, storage facilities and similar apparatus included in the Water System from risks customarily insured against under “boiler and machinery” policies in an amount equal to the amount established from

time to time known as the "maximum probable loss" that may result from the damage insured against under this paragraph (b);

(c) automobile liability coverage, with limits of not less than one million dollars (\$1,000,000) for each occurrence;

(d) comprehensive general public liability insurance applicable to the Water System, including, without limitation, blanket contractual, personal injury, property damage (including broad form property damage and explosion, collapse, and underground property damage) and damage to property of others, including resultant loss of use therefrom, with limits of one million dollars (\$1,000,000) per occurrence, two million dollars (\$2,000,000) for primary coverage and five million dollars (\$5,000,000) for excess coverage. All such policies listed in this subparagraph (d) shall list the County as an additional insured;

(e) Workers' Compensation insurance in the statutory amount, covering all employees of the Authority; and

(f) such other insurance with respect to the Water System in such amounts and against such hazards as is customarily carried by Persons of established reputation operating a water supply, purification and distribution system similar to the Water System.

All premiums with respect to the foregoing insurance shall be paid when due by the Authority and shall constitute an Operating Expense.

SECTION 4.4. **Additional Provisions Respecting Insurance.** (a) All insurance required by Section 4.3 hereof shall be procured and maintained in financially sound and generally recognized responsible insurance companies selected by the Authority and authorized to write such insurance in the State. Such insurance may provide deductible amounts in such maximum amounts as may be recommended by an independent insurance consultant retained by

the Authority. All insurance policies carried in accordance with Section 4.3 hereof and all policies taken out in substitution or replacement for any such policies shall provide that the insurance shall not be invalidated by any action or inaction of any Person and shall insure the Authority regardless of any breach or violation by any Person of any warranties, declarations or conditions contained in such policies, shall provide that as against the Authority the insurers shall waive any rights of subrogation, any right of set-off and counterclaim and any other right of deduction whether by attachment or otherwise (except for claims arising out of the willful misconduct or gross negligence of such insured), and shall provide that if such insurance is canceled for any reason whatever, or is changed in any material respect or if such insurance is allowed to lapse for nonpayment of premium, such cancellation, change or lapse shall not be effective for 30 days after receipt by the Authority of written notice from such insurers of such cancellation, change or lapse; provided, however, that if it is not commercially practicable at the time of contracting for such insurance to obtain the requirements specified above, such policies shall provide for such requirements for as long a period as shall then be commercially practicable to obtain, if any. Each insurance policy required under Section 4.3 hereof shall be primary without right of contribution from any other insurance which is carried by or on behalf of the Authority.

SECTION 4.5. Certificates, etc. (a) On or before the Closing Date, and annually on or before each January 1 thereafter, the Authority will furnish to the County, to the Trustee and to the Credit Facility Provider a certificate of a firm of independent insurance brokers (i) certifying that the insurance then carried and maintained on the Water System complies with the terms hereof, (ii) identifying underwriters, type of insurance, insurance limits and policy term, and (iii) specifically listing the special provisions enumerated for such insurance required by Section 4.4.

Upon request, the Authority will furnish to the County, to the Trustee and to the Credit Facility Provider copies of all insurance policies, binders and cover notes or other evidence of such insurance relating to the Water System. The Authority will cause such firm to advise the Authority, the County, the Trustee and the Credit Facility Provider in writing promptly of any default in the payment of any premium and of any other act or omission of which they have knowledge and which might invalidate or render unenforceable, in whole or in part, any insurance on the Water System.

SECTION 4.6. **Obligation to Rebuild.** If the Water System shall be damaged or destroyed at any time or title to, or the use of, any part of the Water System shall be taken by Condemnation, in a manner not resulting in a Service Failure, the Authority shall, from the proceeds of any Condemnation award or insurance received by the Authority or from moneys received by the Authority from the County or any other Person, and as provided in the Bond Resolution, promptly replace, repair, rebuild or restore the Water System to substantially the same condition and value as an operating entity as existed prior to such damage or destruction or Condemnation, with such changes, alterations and modifications as may be desired by the Authority, provided that such changes, alterations or modifications do not change the nature of the Water System adversely affecting the tax-exempt status of the interest payable on the Bonds.

SECTION 4.7. **Replacement of Parts.** Except after a Service Failure, the Authority will promptly replace all Parts which may from time to time become worn out, lost, stolen, destroyed, seized, confiscated, damaged beyond repair or permanently rendered unfit for use for any reason whatsoever. The Authority may remove in the ordinary course of maintenance, service, repair, overhaul or testing, any Parts, whether or not worn out, lost, stolen, destroyed, seized, confiscated, damaged beyond repair or permanently rendered unfit for use, provided that the

Authority will replace such Parts as promptly as possible. All replacement Parts shall be free and clear of all Liens and shall be in as good operating condition as, and shall have a value and utility at least equal to, the Parts replaced, assuming such replaced Parts were in the condition and repair required to be maintained by the terms hereof. Any cost incurred by the Authority in complying with this Section 4.7 shall constitute a Hyde Park Water System Operating Expense, a Staatsburg Water System Operating Expense, a Harbourd Hills Water System Operating Expense, a Schreiber Water System Operating Expense, a Valley Dale Water System Operating Expense, a Rokeby Water System Operating Expense, a Crofton Mews Water Distribution System Operating Expense, a Dalton Farms Water System Operating Expense, a Jeffrey Groves Water System Operating Expense, a Shore Haven Water System Operating Expense, a Birch Hill Water System Operating Expense or an Other Operating Expense, as determined by the Authority.

SECTION 4.8. **Alterations Required by Law.** Except after a Service Failure, the Authority shall during the Operating Term make such Alterations to the Water System as may be required from time to time to meet Governmental Requirements as soon as practicable after any such Governmental Requirements shall arise and, in any event, within the period specified by applicable law or by such Governmental Requirement, except to the extent Section 4.9 hereof shall apply. The Authority shall pay for the cost of any Alteration required by law through Additional Indebtedness or moneys available from any other source. The Authority shall use its best efforts to issue Additional Indebtedness to raise money to make such payment if the Authority determines the issuance of Additional Indebtedness to be financially prudent. The consent of the County to the issuance of any such Additional Indebtedness shall not be required.

The Authority, prior to the issuance of any such Additional Indebtedness, shall provide the County with a written notice setting forth in reasonable detail the following:

- (a) a description of the nature of and reason for the Alteration required to be made;
- and
- (b) an estimate of the cost of such Alteration.

SECTION 4.9. **Permitted Contests.** If, to the extent and for so long as (a) any contest with respect to any applicable Governmental Requirement relating to the operation or maintenance of the Water System shall be prosecuted in good faith by the Authority or the County or (b) compliance with such Requirement shall have been excused or exempt by a valid nonconforming use permit, waiver, extension or forbearance believed in good faith by the Authority or the County to exempt it from such requirement, the Authority shall not be required to comply with such requirement so long as such contest is being prosecuted or so long as such waiver, extension or forbearance from compliance with such requirement shall be in effect but only if such contest shall not, in the reasonable opinion of the Authority, involve any reasonable likelihood of any (i) foreclosure, sale, forfeiture or loss of, any part of the Water System or of impairment of the operation of the Water System, (ii) the nonpayment of Service Fees, or (iii) a Service Failure.

SECTION 4.10. **Maintenance Reports.** The Authority shall throughout the Service Agreement Term keep such maintenance and repair reports as are customarily kept by Persons of established reputation operating similar properties and as a subsequent operation of the Water System would require. Such reports shall be kept on file by the Authority at its offices and shall be made available to the County, to the Trustee and to the Credit Facility Provider upon reasonable request.

SECTION 4.11. **Litigation Expenses.** The Authority shall during the Service Agreement Term pay such Litigation Expenses and Other Litigation Expenses as shall become payable through Additional Indebtedness or moneys available from any other source, including, without limitation with respect to Litigation Expenses, from proceeds of the 1998 Series B Bonds. The Authority shall use its best efforts to issue Additional Indebtedness to raise moneys to make any such payment if the Authority determines the issuance of Additional Indebtedness to be financially prudent. The consent of the County to the issuance of any such Additional Indebtedness shall not be required. The Authority, prior to the issuance of any such Additional Indebtedness, shall provide the County with a copy of the judgment, compromise or settlement constituting such Litigation Expense or Other Litigation Expense and an estimate of all costs of such Litigation Expense or Other Litigation Expense.

ARTICLE 5.

TERM AND SERVICE FEE

SECTION 5.1. **Term.** This Service Agreement shall be in effect during the Basic Service Agreement Term and, if the County shall elect on the terms and conditions of Section 6.1, during any Renewal Service Agreement Term.

SECTION 5.2. **Service Fee.** (a) The County shall pay to the Authority on each Service Fee Payment Date a Service Fee equal to the sum of (i) the amount of principal of, interest on and redemption premium for, if any, the Bonds becoming due during the calculation period, including coverage requirements required under the Bond Resolution, if any, less investment earnings on deposit in the accounts for the Bonds in the Debt Service and Sinking Fund created and maintained pursuant to Section 5.7 of the Bond Resolution, if any, (ii) the amount of principal of, interest on and the redemption for, if any, less investment earnings on deposit in the account for such Additional Indebtedness in the Debt Service and Sinking Fund created and

maintained pursuant to Section 5.7 of the Bond Resolution, if any, any Additional Indebtedness becoming due during the calculation period, including coverage requirements required under the Bond Resolution, if any, to pay costs of Alterations to the Water System as may be required from time to time to meet Governmental Requirements as provided in Section 4.5 hereof, (iii) the amount of principal of, interest on and redemption premium for, if any, less investment earnings on deposit in the account for such Additional Indebtedness in the Debt Service and Sinking Fund created and maintained pursuant to Section 5.7 of the Bond Resolution, if any, any Additional Indebtedness becoming due during the calculation period, including coverage requirements required under the Bond Resolution, if any, to pay costs of ~~Litigation Expenses or Other~~ Litigation Expenses as provided in Section 4.11 hereof, (iv) the amount of principal of, interest on and redemption for, if any, less investment earnings on deposit in the account for such Additional Indebtedness in the Debt Service and Sinking Fund created and maintained pursuant to Section 5.7 of the Bond Resolution, if any, any other Additional Indebtedness due during the calculation period, including coverage requirements required under the Bond Resolution, if any, the issuance and the inclusion as a component of the Service Fee to which the County, as evidenced by resolution of the County Legislature, has consented, (v) the amount, if any, required to be deposited during the calculation period in any reserve fund established under the Bond Resolution, and (vi) the aggregate amount of Operating Expenses, less the aggregate amount deposited in the Operating Expense Accounts, or in the Other Operating Expense Account, as provided in paragraph (b) of Section 5.2. For purposes of this Section, a calculation period shall be (i) for payments due under the Bond Resolution, amounts payable on any Payment Date, as defined in the Bond Resolution, occurring during the period commencing on a Service Fee Payment Date and ending the Business Day preceding the next following Service

Fee Payment Date and (ii) for Operating Expenses amounts certified to the County by the Authority either as having been paid by the Authority for such expenses from revenues raised by the Authority other than through Water Rates, as defined in paragraph (b) of this Section 5.2, or as being payable by the Authority for such expenses payment of which the Authority does not have funds available for, and, in either case, not yet paid to the Authority by the County, such certificate to be delivered to the County not less than thirty (30) Business Days prior to the Service Fee Payment Date on which such payments shall be made by the County to the Authority. Any amounts paid by the County to the Authority for Operating Expenses as herein provided shall be repaid by the Authority to the County from revenues raised by the Authority through "Water Rates" as soon as practicable under the circumstances.

(b) The Authority hereby covenants and agrees during the Service Agreement Term (i) to raise such amounts as are necessary to pay Hyde Park Water System Operating Expenses through water rates pursuant to and in accordance with the applicable provisions of the Act within, except as hereafter provided in paragraph (f) of this Section, the Zone A Zone of Assessment, the Zone B Zone of Assessment and the Zone L Zone of Assessment, (ii) to raise such amounts as are necessary to pay Staatsburg Water System Operating Expenses through water rates pursuant to and in accordance with the applicable provisions of the Act within the Zone C Zone of Assessment, (iii) to raise such amounts as are necessary to pay Harbour Hills Water System Operating Expenses through water rates pursuant to and in accordance with the applicable provisions of the Act within the Zone D Zone of Assessment, (iv) to raise such amounts as are necessary to pay Schreiber Water System Operating Expenses through water rates pursuant to and in accordance with the applicable provisions of the Act within the Zone E Zone of Assessment, (v) to raise such amounts as are necessary to pay Valley Dale Water

System Operating Expenses through water rates pursuant to and in accordance with the applicable provisions of the Act within the Valley Dale Zone of Assessment, (vi) to raise such amounts as are necessary to pay Rokeby Water System Operating Expenses through water rates pursuant to and in accordance with applicable provisions of the Act within the Zone F Zone of Assessment, (vii) to raise such amounts as are necessary to pay Crofton Mews Water Distribution System Operating Expenses through water rates pursuant to and in accordance with applicable provisions of the Act within the Zone G Zone of Assessment, (viii) to raise such amounts as are necessary to pay Dalton Farms Water System Operating Expenses through water rates pursuant to and in accordance with applicable provisions of the Act within the Zone H Zone of Assessment, (ix) to raise such amounts as are necessary to pay Jeffrey Groves Water System Operating Expenses through water rates pursuant to and in accordance with applicable provisions of the Act within the Zone I Zone of Assessment, (x) to raise such amounts as are necessary to pay Shore Haven Water System Operating Expenses through water rates pursuant to and in accordance with applicable provisions of the Act within the Zone J Zone of Assessment, (xi) to raise such amounts as are necessary to pay Birch Hill Water System Operating Expenses through water rates pursuant to and in accordance with applicable provisions of the Act within the Zone K Zone of Assessment, (xii) to raise such amounts as are necessary to pay Other Operating Expenses through water rates pursuant to and in accordance with the applicable provisions of the Act outside of the Zones of Assessment, (xiii) to deposit all revenues raised through water rates in the Zone A Zone of Assessment, the Zone B Zone of Assessment and the Zone L Zone of Assessment in a separate account to be identified as the "Hyde Park Water System Operating Expense Account" and expend the same only to the payment of Hyde Park Water System Operating Expenses, (xiv) to deposit all revenues raised through water rates in the Zone C Zone

of Assessment in a separate account to be identified as the “Staatsburg Water System Operating Expense Account” and expend the same only to the payment of Staatsburg Water System Operating Expenses, (xv) to deposit all revenues raised through water rates in the Zone D Zone of Assessment in a separate account to be identified as the “Harbour Hills Water System Operating Expense Account” and expend the same only to the payment of Harbour Hills Water System Operating Expenses, (xvi) to deposit all revenues raised through water rates in the Zone E Zone of Assessment in a separate account to be identified as the “Schreiber Water System Operating Expense Account” and expend the same only to the payment of Schreiber Water System Operating Expenses, (xvii) to deposit all revenues raised through water rates in the Valley Dale Zone of Assessment in a separate account to be identified as the “Valley Dale Water System Operating Expense Account” and expend the same only to the payment of Valley Dale Water System Operating Expenses, (xviii) to deposit all revenues raised through water rates in the Zone F Zone of Assessment in a separate account to be identified as the “Rokeby Water System Operating Expense Account” and to expend the same only to the payment of Rokeby Water System Operating Expenses, (xix) to deposit all revenues raised through water rates in the Zone G Zone of Assessment in a separate account to be identified as the “Crofton Mews Water Distribution System Operating Expense Account” and to expend the same only to the payment of Crofton Mews Water Distribution System Operating Expenses, (xx) to deposit all revenues raised through water rates in the Zone H Zone of Assessment in a separate account to be identified as the “Dalton Farms Water System Operating Expense Account” and to expend the same only to the payment of Dalton Farms Water System Operating Expenses, (xxi) to deposit all revenues raised through water rates in the Zone I Zone of Assessment in a separate account to be identified as the “Jeffrey Groves Water System Operating Expense Account” and to expend

the same only to the payment of Jeffrey Groves Water System Operating Expenses, (xxii) to deposit all revenues raised through water rates in the Zone J Zone of Assessment in a separate account to be identified as the "Shore Haven Water System Operating Expense Account" and to expend the same only to the payment Shore Haven Water System Operating Expenses, (xxiii) to deposit all revenues raised through water rates in the Zone K Zone of Assessment in a separate account to be identified as the "Birch Hill Water System Operating Expense Account" and to expend the same only to the payment Birch Hill Water System Operating Expenses, such accounts collectively referred to as the "Operating Expense Accounts", (xxiv) to deposit all revenues raised through water rates for Other Operating Expenses in a separate account to be identified as the "Other Operating Expense Account" and expend the same only to the payment of Other Operating Expenses, and (xxv) to promptly, as soon as such information is available, notify the County of the amounts, if any, which the County must raise to pay the aggregate amounts of Operating Expenses after giving effect to the aggregate amount deposited or anticipated to be deposited in the Operating Expense Accounts and in the Other Operating Expense Account; provided, however, (i) moneys in any Operating Expense Account not then needed to pay Operating Expenses related to such account may be expended to pay any other Operating Expenses so long as such moneys are repaid to the appropriate account prior to the end of the quarter following the year in which such expenditure is made, and (ii) the amount of water rates so to be raised shall be reduced by the amount of moneys from any other source deposited or estimated to be available for timely deposit in the applicable Operating Expense Account.

(c) The County hereby further covenants and agrees during the Service Agreement Term to raise moneys through the levy of benefit assessments to pay all or any portion of the Service Fees due under this Service Agreement to pay the principal amount of, interest on and

redemption premiums for, if any, the 1998 Series A Bonds, the 1998 Series B Bonds, such portion of the 1999 EFC Refunding Bonds the proceeds of which were expended to refund Bonds issued to provide facilities benefiting the properties in the Zone A Zone of Assessment and the Zone B Zone of Assessment, the 2000 Bonds, the 2002 EFC Refunding Bonds and any Additional Indebtedness issued to pay Other Litigation Expenses, if any, becoming due during any calendar year, including coverage requirements required under the Bond Resolution, if any, through the annual levy of benefit assessments to be levied upon real property only in the Zone A Zone of Assessment and in the Zone B Zone of Assessment.

(d) The County hereby further covenants and agrees that during the Service Agreement Term the annual levy of benefit assessments to be levied on a "Residential Benefit Assessment Unit" in the Zone A Zone of Assessment to pay all or any portion of the Service Fee due under this Service Agreement to pay the amount of principal of, interest on and redemption premium for, if any, the 1998 Series A Bonds becoming due during any calendar year, including coverage requirements required under the Bond Resolution, if any, will not exceed the annual levy of benefit assessments to be levied for such purpose on a "Residential Benefit Assessment Unit" in the Zone B Zone of Assessment. For purposes of this Section, a "Residential Benefit Assessment Unit" shall mean the minimum parcel of land, without excess developable land, zoned, under zoning in effect on November 20, 1997, for single family residential use, either developed or undeveloped by the construction of a single family home, upon which a single family home has been constructed or can be, as a matter of right, constructed, shall constitute one (1) "Residential Benefit Assessment Unit".

(e) The County hereby further covenants and agrees that during the Service Agreement Term the annual levy of benefit assessments to be levied on a Residential Benefit

Assessment Unit in the Zone A Zone of Assessment to be raised to pay all or any portion of the Service Fee due under this Service Agreement for principal of, interest on and redemption premium for, if any, the 1998 Series A Bonds becoming due during any calendar year, including coverage requirements required under the Bond Resolution, if any, will not, except as hereinafter in this paragraph provided, exceed two hundred eighteen dollars (\$218) (the "Base Assessment"). It is acknowledged and agreed hereunder that limiting the levy of benefit assessments on a Residential Benefit Assessment Unit in the Zone A Zone of Assessment to be raised to pay the component of the Service Fee due under this Service Agreement for principal of, interest on and redemption premium, if any, on the 1998 Series A Bonds becoming due during certain calendar years to the Base Assessment may, and probably will, result in the aggregate levy of benefit assessments to be raised by the County to pay such component of the Service Fee due in certain calendar years being less than that necessary to pay such component of the Service Fee due in certain calendar years, it being an acknowledged intent and goal of the County in entering into this Service Agreement to levy benefit assessments on undeveloped and commercial properties in the Zone A Zone of Assessment and in the Zone B Zone of Assessment in an amount significantly less than that currently being levied by the Hyde Park Fire and Water District to permit properties taken by the County through foreclosure as a result of the failure of the then property owner to pay assessments or taxes, including Hyde Park Fire and Water District assessments or taxes levied for water purposes, to be sold and to permit and foster development of undeveloped and commercial properties in the Zone A Zone of Assessment and in the Zone B Zone of Assessment, and that, as a result thereof, the County will be required to pay general fund or other moneys (but not including benefit assessments or taxes paid by the County on County-owned property) for such component of the Service Fee during certain

calendar years, such payment being hereinafter referred to as a "County Advance" and being authorized by Section 1225(1) of the Public Authorities Law. The County hereby covenants and agrees that after all aggregate County Advances have been repaid to the County solely through "Additional Moneys", no representation concerning the likelihood of such repayment being herein made by the Authority, one-half of "Additional Moneys" thereafter received by the County during the Service Agreement Term shall be applied by the County to reduce the Base Assessment in the Zone A Zone of Assessment in such year or years and in such manner as the County shall determine reasonable and appropriate and the remaining one-half of "Additional Moneys" thereafter received by the County during the Service Agreement Term shall be applied to reduce benefit assessments on all real property, developed and undeveloped, residential and commercial, in the Zone A Zone of Assessment and in the Zone B Zone of Assessment in such year or years and in such manner as the County shall determine reasonable and appropriate. For purposes of this Section, "Additional Moneys" shall mean (i) net increases in water benefit assessment revenues paid to the County, being increases in assessment revenues realized (a) as a result of the conversion of real property from a residential to a commercial use in the Zone A Zone of Assessment less any decrease in assessment revenues realized as a result of the conversion of real property from a commercial use to a residential use in the Zone A Zone of Assessment, and (b) as a result of the development of vacant real property in the Zone B Zone of Assessment, each as may occur after the Closing Date, (ii) State or federal moneys, or any other sources of loans or grants, whether in the form of a refund, grant, allowance or subsidy, causing a reduction in the Authority's true interest cost on the remaining principal balance on or of the 1998 Series A Bonds and thereby reducing the amounts to be payable by the County therefor pursuant to Section 5.2(a)(i) hereof, and (iii) moneys paid to the County by the Authority as an

unexpended fire hydrant repair, maintenance and replacement fee pursuant to Section 3.1(g) of the Transfer Agreement. The Authority hereby covenants and agrees that during the Service Agreement Term it will pay all such unexpended fire hydrant repair, maintenance and replacement fees to the County to repay a portion of County advances as required by such Section 3.1(g) of the Transfer Agreement.

(f) The County hereby further covenants and agrees during the Service Agreement Term to raise moneys through the levy of benefit assessments to pay all or any portion of the Service Fees due under this Service Agreement to pay the amount of principal of, interest on and redemption premium for, if any, the 1998 Series C Bonds and any Additional Indebtedness issued from time to time to pay Litigation Expenses becoming due during any calendar year, including coverage requirements required under the Bond Resolution, if any, and any Litigation Expenses to be paid or paid by the Authority as Hyde Park Water System Operating Expenses through the annual levy of benefit assessments to be levied upon real property only in the Zone A Zone of Assessment. For purposes of said levy for Litigation Expenses, the definition of Residential Benefit Assessment Unit provided in Section 5.2(d) hereof shall apply.

(g) The County hereby further covenants and agrees during the Service Agreement Term to raise moneys through the levy of benefit assessments to pay all or any portion of the Service Fees due under this Service Agreement to pay the amount of principal of, interest on and redemption premium for, if any, the 1998 Series Staatsburg Bonds and such portion of the 1999 EFC Refunding Bonds the proceeds of which were expended to provide facilities benefiting the properties in the Zone C Zone of Assessment becoming due during any calendar year, including coverage requirements required under the Bond Resolution, if any, through the annual levy of benefit assessments to be levied upon real property only in the Zone C Zone of Assessment.

(h) The County hereby further covenants and agrees during the Service Agreement Term to raise moneys through the levy of benefit assessments to pay all or any portion of the Service Fees due under this Service Agreement to pay the amount of principal of, interest on and redemption premium for, if any, the 1998 Series Capital Construction Bonds becoming due during any calendar year, including coverage requirements required under the Bond Resolution, if any, through the annual levy of benefit assessments to be levied upon real property in either the Zone A Zone of Assessment, the Zone B Zone of Assessment, the Zone C Zone of Assessment or, in any zone of assessment to be established by the County in the future, or any combination thereof, as the County determines to be reasonable and appropriate to reflect the benefit of the 1998 Capital Construction. The Authority hereby agrees to timely recommend to the County the amount to be raised within each of such zones of assessment as it determines, from time to time, to be reasonable and appropriate to reflect the benefit of the 1998 Capital Construction, but such recommendation shall not be binding upon the County.

(i) The County hereby further covenants and agrees during the Service Agreement Term to raise moneys through the levy of benefit assessments to pay all or any portion of the Service Fees due under this Service Agreement to pay the amount of principal of, interest on and redemption premium for, if any, the 2001 Bonds and the 2002 Refunding Bonds becoming due during any calendar year, including coverage requirements required under the Bond Resolution, if any, through the annual levy of benefit assessments to be levied upon real property only in the Zone D Zone of Assessment.

(j) The County hereby further covenants and agrees during the Service Agreement Term to raise moneys through the levy of benefit assessments to pay all or any portion of the Service Fees due under this Service Agreement to pay the amount of principal of, interest on and

redemption premium for, if any, the 2004 Bonds becoming due during any calendar year, including coverage requirements required under the Bond Resolution, if any, through the annual levy of benefit assessments to be levied upon real property only in the Zone H Zone of Assessment.

(k) The County hereby further covenants and agrees during the Service Agreement Term to raise moneys through the levy of benefit assessments to pay all or any portion of the Service Fees due under this Service Agreement to pay the amount of principal of, interest on and redemption premium for, if any, the Shore Haven Bonds becoming due during any calendar year, including coverage requirements required under the Bond Resolution, if any, through the annual levy of benefit assessments to be levied upon real property only in the Zone J Zone of Assessment.

(l) The County hereby further covenants and agrees during the Service Agreement Term to raise moneys through the levy of benefit assessments to pay all or any portion of the Service Fees due under this Service Agreement to pay the amount of principal of, interest on and redemption premium for, if any, the Birch Hill Bonds becoming due during any calendar year, including coverage requirements required under the Bond Resolution, if any, through the annual levy of benefit assessments to be levied upon real property only in the Zone K Zone of Assessment.

(m) The County hereby further covenants and agrees during the Service Agreement Term to raise moneys through the levy of benefit assessments to pay all or any portion of the Service Fees due under this Service Agreement to pay the amount of principal of, interest on and redemption premium for, if any, the Route 9G Interconnection Water Main Bonds becoming due during any calendar year, including coverage requirements required under the Bond Resolution,

if any, through the annual levy of benefit assessments to be levied upon real property only in the Zone A Zone of Assessment, the Zone B Zone of Assessment, the Zone D Zone of Assessment, and the Zone L Zone of Assessment.

(n) The County hereby further covenants and agrees that during the Service Agreement Term the capitalized costs of extending Water Service to Persons in the Water District outside the Zone A Zone of Assessment and outside the Zone B Zone of Assessment, including, without limitation, the capitalized cost of any expansion of the capacity of the Water Treatment Plant required to provide Water Service to such Persons, will not be charged, directly or indirectly, to residential benefit assessment units in either the Zone A Zone of Assessment or the Zone B Zone of Assessment.

SECTION 5.3. **Payment on Business Days.** If any date on which payment of a Service Fee becomes due and payable is not a Business Day, then such payment need not be made on such scheduled date but may be made on the next succeeding Business Day with the same force and effect as if made on such scheduled date and (provided such payment is made on such next succeeding Business Day) no interest shall accrue on the amount of such payment from and after such scheduled date.

SECTION 5.4. **Place of Payment.** All Service Fees shall be paid by the County in immediately available funds before noon, local time at the place of payment, on the due dates therefor at any banking institution in the State with wire transfer facilities which the Authority may designate.

SECTION 5.5. **Late Payment.** If any Service Fee shall not be paid at the place and time provided in Section 5.4 hereof, the County shall pay to the Authority interest (to the extent permitted by law) on such overdue amount from and including the due date thereof to but

excluding the date of payment thereof (unless such payment shall be made after noon, local time, at the place of payment on such date of payment, in which case such date of payment shall be included) at the Stipulated Interest Rate. If any Service Fee shall be paid on the date when due, but after noon, local time, at the place of payment, interest shall be payable as aforesaid for one day.

SECTION 5.6. **Nature of Obligations.** (a) Notwithstanding any other provision of this Service Agreement other than Section 5.7, the County shall pay all Service Fees without notice (except to the extent expressly provided herein) or demand and without abatement, suspension, deferment, diminution, reduction, counterclaim, setoff, deduction or defense (except the defense of prior payment) whether or not the County shall have collected all benefit assessments lawfully levied therefor. The obligations of the County hereunder shall not be released, discharged or otherwise affected for any reason (except as expressly provided in Section 5.7), including without limitation (i) any defect in the design, operation, condition, quality, merchantability or fitness for use of the Water System or any part thereof, (ii) any damage to, or removal, abandonment, salvage, loss, scrapping, reduction, Condemnation, requisition or taking of the Water System or any part thereof, or any commercial frustration of purpose, (iii) any restriction, prevention or curtailment of or interference with Water Service or any use of the Water System or any part thereof, (iv) any defect in title to the Water System or any Lien on such title or on the Water System, (v) any change, waiver, extension, indulgence or other action or omission in respect of any obligation or liability of the Authority, (vi) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other like proceeding relating to the County, the Authority, the Trustee, or any other Person, or any action taken with respect to this Service Agreement by any custodian, trustee or receiver of any of the foregoing Persons or

by any court in any such proceeding, (vii) any claims that the County has or might have against any Person, including without limitation the Authority, the Trustee, or any Bondholder, (viii) any change in Governmental Requirements or any failure on the part of the Authority to perform or comply with any term hereof or of any other agreement or (ix) any other occurrence whatsoever, whether similar or dissimilar to the foregoing, whether or not the County shall have notice or knowledge of any of the foregoing. Neither this Service Agreement nor any provision hereof may be canceled by the County for any reason, and, except as expressly provided in Section 5.7, the County, to the extent permitted by law, waives all rights now or hereafter conferred by statute, constitution or otherwise to terminate or cancel this Service Agreement, or any provision hereof, or to any diminution or reduction of any Service Fee.

(b) Unless there shall have been a Service Failure, the Authority shall be conclusively deemed to have fully discharged its obligation to provide Water Service, notwithstanding any reduction, suspension, curtailment or temporary failure of Water Service, or any other circumstance, regardless of its substantiality, duration or cause.

SECTION 5.7. **Service Failure.** (a) Notwithstanding Section 5.6 or any other provision hereof or of the Bond Resolution, and whether or not this Service Agreement shall have been terminated pursuant to the terms of this Service Agreement or otherwise, the County shall have no obligation during a Service Failure to pay Service Fees on a Service Fee Payment Date.

(b) The Authority, at its option, may cure any Service Failure, provided that (i) within 30 days of the commencement of the Service Failure the Authority delivers to the County a notice (i) of its intention to cure, and (ii) which specifies in reasonable detail the action intended to be taken with respect thereof and the anticipated date of cure and (iii) within 90 days of the commencement of the Service Failure such cure has been completed. Thereafter, the County's

obligation to pay Service Fees shall be reinstated, and on the next succeeding Service Fee Payment Date the County shall pay the Service Fee that would otherwise have been payable on such Service Fee Payment Date. The County acknowledges that, pursuant to the Bond Resolution, the rights of the Authority under this Section 5.7(b) have been assigned to the Trustee, to the extent provided therein. This Service Agreement shall terminate after a Service Failure shall have occurred when it is no longer possible to exercise cure rights pursuant to this Section 5.7(b).

(c) Other than as expressly provided in Section 5.7(a) and (b), the County shall not be released during any Service Failure from any obligation hereunder notwithstanding any diminution, reduction, abatement, suspension, restriction, prevention or curtailment of or interference with Water Service.

ARTICLE 6.

RENEWAL OPTIONS

(a) Unless a Service Event of Default shall have occurred and be continuing, at the time of the notice given pursuant to Section 6.1(b) or at the end of the Basic Service Agreement Term or any Renewal Service Agreement Term during which such notice is given, the County shall have the right, at its option, to renew this Service Agreement (i) at the end of the Basic Service Agreement Term for a period of years not exceeding twenty as the County, in its sole judgment, may determine, commencing at the end of the Basic Service Agreement Term (the "First Renewal Service Agreement Term"), and (ii) if it shall have exercised its option to renew at the end of the Basic Service Agreement Term, at the end of the First Renewal Service Term for such additional periods not exceeding twenty years each as the County, in its sole judgment, may determine, commencing at the end of any such Renewal Service Agreement Term (each renewal being an "Additional Renewal Service Agreement Term").

(b) To exercise any option to renew this Service Agreement for any Renewal Service Agreement Term, the County shall give the Authority and the Trustee written notice of its election to so renew at least six months (which notice shall be tentative) and at least one month (which notice shall be irrevocable) prior to the commencement date of such Renewal or Additional Renewal Service Agreement Term.

(c) All the provisions of this Service Agreement shall be applicable during any Renewal or Additional Renewal Service Agreement Term.

ARTICLE 7.

DISCLAIMER OF WARRANTIES

NEITHER THE AUTHORITY NOR THE TRUSTEE HAS MADE OR SHALL BE DEEMED TO HAVE MADE TO THE COUNTY ANY REPRESENTATION OR WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, AS TO THE TITLE, MERCHANTABILITY, COMPLIANCE WITH SPECIFICATIONS, CONDITION, DESIGN, OPERATION, FREEDOM FROM PATENT OR TRADEMARK INFRINGEMENT, ABSENCE OF LATENT DEFECTS OR FITNESS FOR USE OF THE WATER SYSTEM (OR ANY PART THEREOF) OR THE WATER SERVICE, OR ANY OTHER REPRESENTATION OR WARRANTY WHATSOEVER, EXPRESS OR IMPLIED, WITH RESPECT TO THE WATER SYSTEM (OR ANY PART THEREOF) OR THE WATER SERVICE. The provisions of this paragraph have been negotiated, and, except to the extent otherwise expressly stated, the foregoing provisions are intended to be a complete exclusion and negation of any representation or warranty by either the Authority or the Trustee, express or implied, with respect to the Water System or the Water Service, that may arise pursuant to any law now or hereinafter in effect or otherwise.

ARTICLE 8.

INFORMATION AND INSPECTION

(a) The Authority shall furnish to the County, the Trustee and the Credit Facility Provider such information concerning the condition, use and operation of the Water System as the County, the Trustee and the Credit Facility Provider may reasonably request. Additionally, the Authority shall permit any authorized representative of the County, the Trustee and the Credit Facility Provider, at such Person's risk and expense, to visit and inspect the Water System, its condition, use and operation and the records maintained in connection therewith, provided that such visits and inspections do not interfere with the operations of the Water System or the Authority and are scheduled at the reasonable request of the County, the Trustee and the Credit Facility Provider at times mutually convenient to such Person and the Authority, the Authority hereby agreeing to make all reasonable efforts to arrange for such visits and inspections at times convenient for such Person. Neither the County, the Trustee nor the Credit Facility Provider shall have any duty to make any such inspection nor shall any of them incur any liability or obligation by reason of not making any such inspection.

(b) The Authority and the County shall each forward to the Credit Facility Provider such financial information and other information about themselves as the Credit Facility Provider may reasonably request.

ARTICLE 9.

NO INTEREST CONVEYED TO COUNTY

This Service Agreement does not convey to the County any right, title or interest in or to the Water System.

ARTICLE 10.

ASSIGNMENT

Neither the Authority nor the County shall assign any of its right or interest hereunder except as provided in Section 14.2. No such assignment by the County shall release the County from any of its obligations or liabilities of any nature whatsoever arising under this Service Agreement. The rights and obligations of the Authority and the County hereunder shall inure to the benefit of, and be binding upon the permitted successors and assigns of the Authority and the County, respectively.

ARTICLE 11.

EVENTS OF DEFAULT

The following events shall be Service Events of Default (whether any such event shall be voluntary or involuntary or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body).

(a) the County shall fail to make any payment of a Service Fee within 15 days of the date due;

(b) the County shall fail to perform or observe any covenant, condition or agreement to be performed or observed by it hereunder, and such condition shall materially impair the ability of the County to perform any material obligation hereunder and such failure shall continue unremedied for a period of 60 days after written notice thereof from the Authority.

(c) any representation or warranty made by the County herein proves to be false or misleading in any material respect, and such condition shall materially impair the ability of the County to perform any material obligation hereunder and shall continue unremedied for a period of 60 days after written notice thereof by the Authority; or

(d) the County shall file any petition for dissolution or liquidation of the County, or the County shall commence a case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or the County shall have consented to the entry of an order for relief in a case under any such law, or the County generally shall fail to pay its debts as such debts become due, or the County shall fail promptly to satisfy or discharge any execution, garnishment or attachment of such consequences as may impair its ability to carry out its obligations under this Service Agreement, or a receiver, custodian or trustee (or other similar official) for the County or any substantial part of its property shall have been appointed or taken possession thereof, or the County shall make a general assignment for the benefit of its creditors, or the County shall enter into an agreement or composition with its creditors, or the County shall take any action in furtherance of any of the foregoing; or there shall be filed against the County a petition in bankruptcy which results in an order for relief being entered or, notwithstanding that an order for relief has not been entered, the petition is not dismissed within 90 days of the date of the filing of the petition, or there shall be filed under any federal or State law relating to bankruptcy, insolvency or relief of debtors of a petition against the County for reorganization, composition, extension or arrangement with creditors which either (i) results in a finding or adjudication of insolvency of the County or (ii) is not dismissed within 90 days of the date of the filing of such petition.

ARTICLE 12.

ENFORCEMENT

SECTION 12.1. **Remedies.** Upon the occurrence of a Service Event of Default, and at any time thereafter so long as the same shall be continuing, the Authority may, at its option, by notice to the County declare this Service Agreement to be in default, and thereupon or at any

time thereafter the Authority may proceed by appropriate court action to enforce the terms hereof or to recover damages for the breach hereof.

It is understood that the Authority may not accelerate the payment of Service Fees upon the occurrence of any Service Event of Default.

SECTION 12.2. **Survival of County's Obligations.** The County shall remain and be liable, except as otherwise provided in Section 5.7 hereof, for any and all unpaid Service Fees due hereunder before, after or during the exercise of any of the foregoing remedies, including without limitation all reasonable legal fees and other costs and expenses incurred by the Authority and the Trustee by reason of the occurrence of any Service Event of Default or the exercise of the Authority's remedies with respect thereto.

SECTION 12.3. **Remedies Not Exclusive, etc.** No remedy referred to in Article 12 is intended to be exclusive, but each shall be cumulative and in addition to any other remedy referred to above or otherwise available to the Authority at law or in equity; and the exercise or beginning of exercise by the Authority of any one or more of such remedies shall not preclude the simultaneous or later exercise by the Authority of any or all of such other remedies. No express or implied waiver by the Authority of any Service Event of Default shall in any way be, or construed to be, a waiver of any future or subsequent Service Event of Default.

ARTICLE 13.

RIGHT TO PERFORM FOR COUNTY

If the County shall fail to make any payment of any Service Fee or shall fail to perform or comply with any of its other agreements contained herein, the Authority may make such payment or performance comply with such agreement, and the amount of such payment and the amount of the expenses of the Authority incurred in connection with such payment or the performance of or compliance with such agreement, as the case may be, together with interest

thereon at the Stipulated Interest Rate, shall be deemed to be a part of the next Service Fee payable by the County.

ARTICLE 14.

MISCELLANEOUS

SECTION 14.1. **Notices.** Unless otherwise specifically provided herein, all notices, consents, directions, approvals, instructions, requests and other communications required or permitted by the terms hereof to be given to any Person shall be given in writing and sent to the address specified in the Bond Resolution and shall become effective three Business Days after being deposited in the mails, certified or registered with appropriate postage prepaid for first-class mail or, if delivered by hand or in the form of a telex or telegram, when received, and shall be directed to the address of such Person. From time to time any such Person may designate a new address for purposes of communications hereunder by notice to the Authority, the County and the Trustee.

SECTION 14.2. **Assignment.** (a) In order to secure the obligations of the Authority under the Bond Resolution, the Bond Resolution provides for the assignment to the Trustee of its interest in this Service Agreement, subject to the reservations and conditions therein set forth. The County hereby acknowledges receipt of copies of the Bond Resolution, consents thereto and to the assignment effected thereby and (i) agrees that all its obligations and liabilities under the Service Agreement inure to the benefit of may be enforced by the Trustee pursuant to the Bond Resolution, to the extent assigned to the Trustee, and (ii) agrees to pay directly to the Trustee all amounts under such Sections of this Service Agreement to the extent required to discharge the Authority's obligations to the Trustee as are then due and owing pursuant to the Bond Resolution.

(b) Nothing contained in this Service Agreement shall prevent the consolidation of the County with, or merger of the County into, or transfer of all or substantially all the County's property and assets as an entirety to, any other political subdivision of the State which has the legal authority to perform the obligations of the County hereunder, or prevent the division of the County into one or more political subdivisions, provided that (i) the exempt status of the interest on the Bonds shall not be adversely affected thereby, (ii) immediately after giving effect to such consolidation, merger, transfer or division, no Service Event of Default shall have occurred and be continuing, (iii) upon any such consolidation, merger, transfer or division, the due and punctual performance and observance of all the agreements and conditions of this Service Agreement to be kept and performed by the County shall be expressly assumed in writing by the political subdivision or subdivisions resulting from such consolidation or surviving such merger or to which such property and assets shall be transferred or resulting from such division, and (iv) the County shall have given notice in reasonable detail to the Authority, the Credit Facility Provider, and the Trustee of any such consolidation, merger, transfer or division reasonably in advance of the consummation thereof.

SECTION 14.3. Performance of Obligations to Authority, Trustee, and Credit Facility Provider. The provisions of this Service Agreement which require or permit action by, the consent, approval or authorization of, the furnishing of any notice, document, paper of information to, or the performance of any other obligation to, the Authority, the Trustee, and the Credit Facility Provider shall not be effective, and the Section hereof containing such provisions shall be read as though there were no such requirement or permissions, after all the Bonds shall have been paid in full (or after provision for payment thereof has been made in accordance with Article 14 of the Bond Resolution).

SECTION 14.4. **Binding Effect: Successors and Assigns.** The terms and provisions of this Service Agreement, and the respective rights and obligations hereunder of the County, the Authority and the Trustee, shall be binding upon their respective successors and assigns and inure to the benefit of their respective permitted successors and assigns.

SECTION 14.5. **Construction and Applicable Law.** Any provision of this Service Agreement that shall be prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable the supplement, amendment or modification thereafter sought. The section headings in this Service Agreement and the table of contents are for convenience of reference only and shall not control, affect the meaning of or be taken as an interpretation of any provision hereof. This Service Agreement has been negotiated and delivered in the State and shall in all respects be governed by and construed in accordance with the laws of the State, including matters of construction, validity and performance.

SECTION 14.6. **Third Party Beneficiary Rights of Hyde Park Fire and Water District.** The County and the Authority hereby acknowledge and agree that Sections 5.2(b), (c), (d), (e), (f), (g) and (h) hereof are for the benefit of, among others, the Hyde Park Fire and Water District and that the Hyde Park Fire and Water district is a third party beneficiary thereof entitled to enforce such provisions to the same extent as if it were a party to this Service Agreement.

SECTION 14.7. **Prior Staatsburg Service Agreement.** This Service Agreement shall supersede all provisions of the Service Agreement dated as of September, 1997 between the County and the Authority relating to the providing of Water Service in the Hamlet of Staatsburg.

SECTION 14.8. **County Levy.** At the timely request of the Authority, at the time of the annual levy of County taxes the County shall, to the extent permitted by law, levy the amounts of any water rates duly imposed by the Authority in accordance with the Act in the Zones of Assessment, which then remain delinquent and uncollected against the respective parcels within the Zones of Assessment.

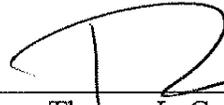
SECTION 14.9. **Severability.** In case any one of more of the provisions contained in this Service Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Service Agreement, and this Service Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein or therein.

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IN WITNESS WHEREOF, the Authority and the County have each caused this Service Agreement to be duly executed as of the day and year first above written.

DUTCHESS COUNTY WATER AND
WASTEWATER AUTHORITY

By:



Thomas LeGrand
Chairman

COUNTY OF DUTCHESS, NEW YORK

By:



William Steinhaus
County Executive

APPENDIX G

Opinion of Bond Counsel

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November __, 2011

Dutchess County Water and Wastewater Authority,
State of New York

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY, NEW YORK
\$1,940,000 SERVICE AGREEMENT REVENUE BONDS, SERIES 2011

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Dutchess County Water and Wastewater Authority, New York (the "Authority"), of \$1,940,000 aggregate principal amount of Service Agreement Revenue Bonds, Series 2011, dated the date of delivery, issued pursuant to a General Revenue Bond Resolution dated as of June 1, 1998 (the "General Resolution") by and between the Authority and The Bank of New York Mellon, as trustee (the "Trustee") and the Authority's Thirteenth Supplemental Resolution dated as of October 1, 2011 (the "Supplemental Resolution") by and between the Authority and the Trustee.

In such connection, we have reviewed the General Resolution, the Supplemental Resolution, the Constitution and statutes of the State of New York, the Tax Certificate of the Authority dated the date hereof (the "Tax Certificate"), a certified copy of proceedings of the finance board of the Authority and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority.

We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the General Resolution, the Supplemental Resolution and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact

that the rights and obligations under the Bonds, the General Resolution, the Supplemental Resolution, and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against municipal entities such as the Authority in the State of New York. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue or waiver provisions contained in the documents described in the second paragraph hereof. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Authority.
2. The General Resolution and Supplemental Resolution have been duly executed and delivered, and constitutes valid and binding agreements of the Authority.
3. The General Resolution and the Supplemental Resolution create a valid pledge to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts held by the Trustee in any fund or account established pursuant to the General Resolution, except the Rebate Fund, subject to the provisions of the General Resolution and Supplemental Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein.
4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Very truly yours,

/zmt

