

NEW ISSUE



\$47,755,000

**DORMITORY AUTHORITY OF THE STATE OF NEW YORK
MASTER BOCES PROGRAM LEASE REVENUE BONDS
(DELAWARE, CHENANGO, MADISON AND OTSEGO ISSUE), SERIES 2007**

Dated: Date of Delivery

Due: August 15, as shown on the inside cover

Payment and Security: The Series 2007 Bonds (as defined herein) will be special obligations of the Dormitory Authority of the State of New York (the "Authority"), payable solely from and secured by a pledge of certain payments to be made by the Board of Cooperative Educational Services for the Sole Supervisory District of Delaware, Chenango, Madison and Otsego Counties ("DCMO BOCES") pursuant to a Lease and Agreement (the "Agreement"), dated as of April 25, 2007, between DCMO BOCES and the Authority and all funds and accounts (except the Arbitrage Rebate Fund) authorized under the Authority's Master BOCES Program Lease Revenue Bond Resolution adopted August 15, 2001, as heretofore amended and supplemented (the "Master Resolution"), and established by the Authority's Series Resolution Authorizing Up To \$50,000,000 Master BOCES Program Lease Revenue Bonds (Delaware, Chenango, Madison and Otsego Issue), Series 2007, adopted April 25, 2007 (the "Series 2007 Resolution" and, together with the Master Resolution, the "Resolutions").

The Agreement, which is a general obligation of DCMO BOCES, requires DCMO BOCES to pay amounts sufficient to pay, or cause to be paid, the principal and Redemption Price of and interest on the Series 2007 Bonds as such payments become due (the "Basic Rent"), as well as additional rental fees and expenses of the Authority and the Trustee (collectively with the Basic Rent, the "Rentals"). Payment of DCMO BOCES obligations under the Agreement shall be made pursuant to the provisions of the Act (as hereinafter defined) which provides that the Comptroller of the State of New York shall deduct from any State funds payable to DCMO BOCES an amount equal to the amount payable by DCMO BOCES to the Authority under the Agreement for the ensuing school year. To secure its payment of all of the Rentals due under the Agreement, including the Basic Rent, DCMO BOCES will assign and pledge to the Authority a portion of any and all public funds apportioned by the State of New York (the "State") to DCMO BOCES sufficient to pay such amounts (the "Pledged Revenues"). The Series 2007 Bonds will be secured by the pledge and assignment to the Trustee of the Basic Rent payments to be paid by DCMO BOCES to the Authority under the Agreement and the Authority's interest in the Pledged Revenues. The apportionment of State aid is based on a statutory formula. Both the determination of the amount of State aid and the apportionment of such State aid are legislative acts and the State Legislature may amend or repeal the statutes relating to State aid and the formulas which determine the amount of State aid payable to DCMO BOCES. Such amendments could result in the increase, decrease or elimination of the amount of State aid available for the payment of debt service on the Series 2007 Bonds. The financial condition of the State may affect the amount of State aid appropriated by the State Legislature. See "PART 2 – SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS."

The scheduled payment of principal of and interest on the Series 2007 Bonds when due will be guaranteed by a municipal bond insurance policy to be issued concurrently with the delivery of the Series 2007 Bonds by XL Capital Assurance Inc. ("XLCA" or the "Insurer"). See "PART 2 – SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS - Bond Insurance."



DCMO BOCES does not levy and collect taxes. The component school districts of DCMO BOCES, however, are required to levy taxes to pay their allocable share of DCMO BOCES' administrative expenses, including the payment of each component school district's proportionate share of the amount due from DCMO BOCES to the Authority under the Agreement. See "PART 4 – BOARD OF COOPERATIVE EDUCATIONAL SERVICES."

The Series 2007 Bonds will not be a debt of the State of New York nor will the State be liable thereon. The Authority has no taxing power.

Description: The Series 2007 Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Interest (due February 15, 2008 and each August 15 and February 15 thereafter) on the Series 2007 Bonds will be payable by check mailed to the registered owners thereof and principal will be payable at the corporate trust office of The Bank of New York, New York, New York, Trustee and Paying Agent.

The Series 2007 Bonds will be issued initially under a Book-Entry Only System, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Individual purchases of beneficial interests in the Series 2007 Bonds will be made in Book-Entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2007 Bonds, payments of the principal and Redemption Price of and interest on such Series 2007 Bonds will be made directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. See "PART 3 – THE SERIES 2007 BONDS – Book-Entry Only System" herein.

Redemption: The Series 2007 Bonds are subject to redemption prior to maturity as more fully described herein.

Tax Exemption: 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 Series 2007 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Series 2007 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Series 2007 Bonds is exempt from personal income taxes of the State of New York and its political subdivisions. 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 Series 2007 Bonds. See "TAX MATTERS."

The Series 2007 Bonds are offered when, as and if issued and received by the Underwriters. The offer of the Series 2007 Bonds may be subject to prior sale or may be withdrawn or modified at any time without notice. The offer is subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the Authority, and to certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel Bond, Schoeneck & King, PLLC, Syracuse, New York and for DCMO BOCES by its counsel Ferrara, Fiorenza, Larrison, Barrett & Reitz, P. C., East Syracuse, New York. The Authority expects to deliver the Series 2007 Bonds in definitive form in New York, New York, on or about August 23, 2007.

A.G. Edwards & Sons, Inc.

RBC Capital Markets

Banc of America Securities, LLC

August 9, 2007

\$47,755,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
MASTER BOCES PROGRAM LEASE REVENUE BONDS
(DELAWARE, CHENANGO, MADISON AND OTSEGO ISSUE), SERIES 2007

\$32,000,000 Serial Bonds

<u>Due</u> <u>August 15</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP</u> ⁽¹⁾	<u>Due</u> <u>August 15</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP</u> ⁽¹⁾
2008	\$1,520,000	4.000%	3.680%	64982PE57	2016	\$2,120,000	5.500%	4.170%	64982PF56
2009	1,530,000	4.000	3.710	64982PE65	2017	2,240,000	5.500	4.240	64982PF64
2010	1,590,000	4.000	3.760	64982PE73	2018	2,360,000	5.000	4.320*	64982PF72
2011	1,655,000	5.000	3.820	64982PE81	2019	2,480,000	5.000	4.380*	64982PF80
2012	1,740,000	5.000	3.880	64982PE99	2022	2,870,000	4.375	4.600	64982PG22
2013	1,825,000	5.000	3.950	64982PF23	2023	3,000,000	5.000	4.480*	64982PG30
2014	1,915,000	5.000	4.020	64982PF31	2024	3,145,000	5.000	4.510*	64982PG48
2015	2,010,000	5.500	4.090	64982PF49					

\$ 5,340,000 5.000% Term Bonds Due August 15, 2021 to Yield 4.440%* CUSIP 64982PF98
\$10,415,000 5.000% Term Bonds Due August 15, 2027 to Yield 4.570%*CUSIP 64982PG55

*Priced to August 15, 2017 par call.

⁽¹⁾ Copyright 2005, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of the holders of the Series 2007 Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2007 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2007 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2007 Bonds.

No dealer, broker, salesperson or other person has been authorized by the Authority, DCMO BOCES or the Underwriters to give any information or to make any representations with respect to the Series 2007 Bonds, other than the information and representations contained in this Official Statement. If given or made, such information or representations must not be relied upon as having been authorized by the Authority, DCMO BOCES or the Underwriter.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be a sale of the Series 2007 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information in this Official Statement has been supplied by the DCMO BOCES and other sources that the Authority believes are reliable. Neither the Authority nor the Underwriters guarantees the accuracy or completeness of such information, and such information is not to be construed as a representation of the Authority or of the Underwriters.

DCMO BOCES has reviewed the parts of this Official Statement describing DCMO BOCES, the Project, the Estimated Sources and Uses of Funds and Appendix B. DCMO BOCES shall certify as of the dates of sale and delivery of the Series 2007 Bonds that such parts do not contain any untrue statements of a material fact and do not omit any material facts necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. DCMO BOCES makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

The New York State Department of Education (the "Department") has reviewed the parts of this Official Statement relating to BOCES generally and the Department's participation in the transaction contemplated herein. The Department shall certify as of the date of delivery of the Series 2007 Bonds that such parts do not contain any untrue statements of a material fact and do not omit any material facts necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. The Department makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

XL Capital Assurance Inc. ("XLCA" or the "Insurer") has reviewed the parts of the Official Statement under the captions "PART 1 – INTRODUCTION – Bond Insurance", "PART 2–SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS–Bond Insurance" and "Appendix F-Specimen Insurance Policies" herein and the Insurer shall certify as of the date of delivery of the Series 2007 Bonds, that such parts do not contain any untrue statements of a material fact and do not omit any material facts necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. The Insurer makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

References in this Official Statement to the Act, the Resolutions, the Agreement and the Agreement of Lease do not purport to be complete. Refer to the Act, the Resolutions, the Agreement and the Agreement of Lease for full and complete details of their provisions. Copies of the Resolutions, the Agreement and the Agreement of Lease are on file with the Authority and the Trustee.

The order and placement of material in this Official Statement, including its appendices, are not to be deemed a determination of relevance, materiality or importance and all material in this Official Statement, including its appendices, must be considered in its entirety.

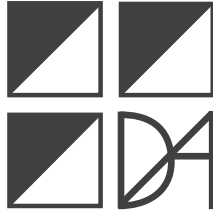
Under no circumstances shall the delivery of this Official Statement, or any sale made after its delivery, create any implication that the affairs of the Authority or DCMO BOCES have remained unchanged after the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2007 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2007 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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DORMITORY AUTHORITY - STATE OF NEW YORK - 515 BROADWAY ALBANY, N.Y. 12207
DAVID D. BROWN, IV - EXECUTIVE DIRECTOR **GAIL H. GORDON, ESQ. - CHAIR**

OFFICIAL STATEMENT RELATING TO
\$47,755,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
MASTER BOCES PROGRAM LEASE REVENUE BONDS
(DELAWARE, CHENANGO, MADISON AND OTSEGO ISSUE), SERIES 2007

PART 1 - INTRODUCTION

Purpose of the Official Statement

The purpose of this Official Statement, including the cover and the inside cover page and appendices, is to provide information about the Authority and the DCMO BOCES in connection with the offering by the Authority of \$47,755,000 aggregate principal amount of the Master BOCES Program Lease Revenue Bonds (Delaware, Chenango, Madison and Otsego Issue), Series 2007 (the "Series 2007 Bonds").

The following is a description of certain information concerning the Series 2007 Bonds, the Authority and the Project (as hereafter defined). A more complete description of such information and additional information that may affect decisions to invest in the Series 2007 Bonds is contained throughout this Official Statement, which should be read in its entirety. Certain terms used in this Official Statement are defined in Appendix A hereto.

Purpose of the Issue

The Series 2007 Bonds are being issued and will be used together with other available moneys to (i) pay Costs of the Project, (ii) to make a deposit to the Debt Service Reserve Fund and (iii) to pay all or a portion of the Costs of Issuance of the Series 2007 Bonds, including the payment of the premium for the municipal bond insurance policy. See "PART 7 – ESTIMATED SOURCES AND USES OF FUNDS."

Authorization of Issuance

The Dormitory Authority Act (the "Act") empowers the Authority, among other things, to issue its bonds for the purpose of financing the acquisition, construction or improvement of "board of cooperative educational services school facilities." The Act further authorizes any board of cooperative educational services in the State (a "BOCES"), when authorized by its voters, to convey a leasehold interest in property owned by such BOCES to the Authority and to lease the property back from the Authority for purposes of financing such BOCES' school facilities. Consistent with the Act, DCMO BOCES will, pursuant to the Agreement of Lease, lease certain property on which the Project is to be located to the Authority (the "Agreement of Lease" or the "BOCES Lease") and the Authority will in turn sublease the Project back to DCMO BOCES pursuant to the Lease and Agreement (the "Agreement").

The Series 2007 Bonds will be issued pursuant to the Master Resolution, the Series 2007 Resolution and the Act. The Master Resolution authorizes the issuance of multiple Series of Bonds for BOCES throughout the State. Each Series of Bonds is to be separately secured by (i) the funds and accounts, including a debt service reserve fund, but excluding the Arbitrage Rebate Fund, established pursuant to a Series Resolution, (ii) certain payments to be made under an Agreement to be executed by and between the Authority and the BOCES for whose benefit the applicable Series of Bonds is to be issued and (iii) the pledge and assignment by such BOCES in its Agreement of a portion of State aid payable to

such BOCES sufficient to pay the amounts due under such Agreement. Neither the funds and accounts established under any Series Resolution nor any Agreement nor the pledge of State aid for one Series of Bonds shall secure any other Series of Bonds, except that an additional Series of Bonds issued to finance a project for a BOCES for which Bonds have already been issued may be secured on a subordinate basis to the outstanding Series of Bonds for such BOCES. While numerous other series of bonds have been issued under the General Resolution, the Series 2007 Bonds will be the first series of bonds issued for the DCMO BOCES. See “PART 2 – SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS – Issuance of Additional Bonds.”

The Authority

The Authority is a public benefit corporation of the State, created for the purpose of financing and constructing a variety of public-purpose facilities for certain educational, governmental and not-for-profit institutions and to purchase and make certain loans in connection with its student loan program. See “PART 8 – THE AUTHORITY.”

DCMO BOCES

DCMO BOCES, was established in 1969. It provides services to 16 school districts in Delaware, Chenango, Madison and Otsego Counties serving approximately 16,500 students. Many of the services are intended to enhance local district educational programs, while others are dedicated to helping schools operate more efficiently. DCMO BOCES programs offer advantages of specialization and economy of scale. Through cooperative bidding and purchasing services, school business managers take advantage of buying through networks so they can save both time and money. See “PART 5 – DCMO BOCES.”

The Series 2007 Bonds

The Series 2007 Bonds will be dated and bear interest from their delivery date, payable each August 15 and February 15, commencing February 15, 2008. The Series 2007 Bonds will bear interest at the rates and mature at the times set forth on the inside cover page of this Official Statement. See “PART 3 – THE SERIES 2007 BONDS – Description of the Series 2007 Bonds.”

Payment of the Series 2007 Bonds

The Series 2007 Bonds are special obligations of the Authority payable solely from the Basic Rent Payments to be made by DCMO BOCES under the Agreement. Pursuant to the Master Resolution, such payments and the Authority’s right to receive the same have been pledged to the Trustee. See “PART 2 – SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS.”

The Act provides that the Comptroller of the State of New York is to deduct from any State funds payable to DCMO BOCES an amount equal to the amount payable by DCMO BOCES to the Authority under the Agreement for the ensuing school year. Such amount will be paid directly to the Trustee. The apportionment of State aid is based on a statutory formula. Both the determination of the amount of State aid and the apportionment of such State aid are legislative acts and the State Legislature may amend or repeal the statutes relating to State aid and the formulas which determine the amount of State aid payable to the BOCES. Such amendments could result in the increase, decrease or elimination of the amount of State aid available for the payment of debt service on the Series 2007 Bonds. The financial condition of the State may affect the amount of State aid appropriated by the State Legislature. See “PART 2 – SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS–Security for the Series 2007 Bonds.”

DCMO BOCES does not have the power to levy and collect taxes. The component school districts of DCMO BOCES, however, are required to levy real property taxes to pay their allocable share of DCMO BOCES expenses related to the Project. The Act provides that the amount due from DCMO BOCES to the Authority under the Agreement constitutes either an “administrative expense” or a “capital expense”, as determined by the Commissioner of the State Education Department. See “PART 4 – BOARD OF COOPERATIVE EDUCATIONAL SERVICES.”

Security for the Series 2007 Bonds

The Series 2007 Bonds will be secured by the pledge and assignment to the Trustee of Basic Rent, the proceeds from the sale of the Series 2007 Bonds (until disbursed as provided by the Master Resolution) and all funds and accounts authorized by the Master Resolution and established by the Series 2007 Resolution (with the exception of the Arbitrage

Rebate Fund), which include a Debt Service Reserve Fund. The Agreement requires DCMO BOCES to pay Basic Rent to the Authority as well as additional rental fees and expenses of the Authority and the Trustee (together with Basic Rent the "Rentals"). To secure the payment of the Rentals, DCMO BOCES will assign and pledge to the Authority a portion of any and all public funds apportioned by the State to DCMO BOCES in an amount sufficient to pay such Rentals.

Bond Insurance

Concurrently with the issuance of the Series 2007 Bonds, XL Capital Assurance Inc. ("XLCA" or the "Insurer") will issue its Municipal Bond Insurance Policy (the "Policy") for the Series 2007 Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Series 2007 Bonds when due as set forth in the form of the Policy included in Appendix F. The Insurer will also, concurrently with the issuance of the Series 2007 Bonds, issue its surety bond (the "Surety Bond") for deposit into the Debt Service Reserve Fund in order to satisfy the Debt Service Reserve Fund Requirement. See "PART 2–SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS–Bond Insurance" and the description of the Surety Bond in "PART 2–SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS–Debt Service Reserve Fund" and See "Appendix F – Specimen Insurance Policies."

The Project

The Project consists of renovations and additions to the Chenango and Harrold campuses. For a further description of the Project expected to be financed with the proceeds of the Series 2007 Bonds, see "PART 6 – THE PROJECT."

PART 2 – SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2007 BONDS

Set forth below is a narrative description of certain contractual and statutory provisions relating to the sources of payment and security for the Bonds, including the Series 2007 Bonds, issued under the Master Resolution. These provisions have been summarized and this description does not purport to be complete. Reference should be made to the Act, the Resolutions, the Agreement and the Agreement of Lease for a more complete description of such provisions. Copies of the Resolutions, the Agreement and the Agreement of Lease are on file with the Authority and the Trustee. See also "Appendix C – Summary of Certain Provisions of the Agreement" and "Appendix D - Summary of Certain Provisions of the Master Resolution" for a more complete statement of the rights, duties and obligations of the parties thereto.

Payment of the Series 2007 Bonds

The Series 2007 Bonds are special obligations of the Authority. The principal and Redemption Price of and interest on the Series 2007 Bonds are payable solely from the Revenues. The Revenues consist of the Basic Rent required to be paid by DCMO BOCES under the Agreement on account of the principal and Redemption Price of and interest on the Series 2007 Bonds and to maintain the Debt Service Reserve Fund at the Debt Service Reserve Fund Requirement as well as the Pledged Revenues and the Authority's right to receive same. A Reserve Fund Facility in the form of the Insurer's Surety Bond is may be deposited in the Debt Service Reserve Fund to meet the Debt Service Reserve Fund Requirement. See "Appendix A - Revenues." The Revenues and the right to receive them have been pledged to the Trustee.

DCMO BOCES is to assign and pledge to the Authority a portion of any and all public funds payable by the State to DCMO BOCES in an amount sufficient to pay all Rentals due under the Agreement. State aid is normally paid to DCMO BOCES by the State on or about February 1, June 1 and September 1 of each year (but such schedule may be changed by the State in its discretion). The Act provides that the Comptroller of the State of New York (the "State Comptroller") is to deduct from any State funds to become due to DCMO BOCES an amount equal to the amount payable by DCMO BOCES to the Authority under the Agreement for the ensuing school year. It is expected that the September 1 payment of State aid to DCMO BOCES will be sufficient to pay the Basic Rent due on such date (i.e., an amount sufficient to pay principal of and interest on the Series 2007 Bonds on the succeeding February 15 and August 15). To the extent that payments from the State Comptroller to the Trustee pursuant to the Resolution and the Memorandum of Understanding are less than the Basic Rent due on September 1, DCMO BOCES would be required to make such payment (with amounts paid later by the State or with other monies of DCMO BOCES) by January 15 (with respect to the February 15 debt service payment) and July 15 (with respect to the August 15 debt service payment).

The Basic Rent payable in connection with the Series 2007 Bonds is to be paid to the Trustee on September 1 of each year commencing between the Authority and the State Comptroller on September 1, 2007 in accordance with the provisions of the Act and the terms of the Memorandum of Understanding. Basic Rent is equal to the interest and principal coming due on the next succeeding February 15 and August 15. In addition, the installment due on September 1 of any year includes the amount, if any, required to restore the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement.

Direct Payment by State Comptroller

The Act requires the Authority to certify annually to the Commissioner of Education (the "Commissioner") the total amount payable to it in each year by DCMO BOCES. The Commissioner is then required by law to certify to the State Comptroller the amount of State aid payable to DCMO BOCES and the amount to be paid by DCMO BOCES to the Authority for the ensuing school year. The State Comptroller is thereafter required by law to deduct the amount so certified as payable to the Authority from any State aid to become due to DCMO BOCES and pay it to or upon the order of the Authority.

The State is not legally obligated to appropriate any moneys for the purpose of providing State aid or assistance to DCMO BOCES or any other BOCES. The apportionment of State aid is based on a statutory formula. Both the determination of the amount of State aid and the apportionment of such State aid are legislative acts and the State Legislature may amend or repeal the statutes relating to State aid and the formulas which determine the amount of State aid payable to the BOCES. Such amendments could result in the increase, decrease or elimination of the amount of State aid available for the payment of debt service on the Series 2007 Bonds. The financial condition of the State may affect the amount of State aid appropriated by the State Legislature.

DCMO BOCES does not have the power to levy and collect taxes. The component school districts of DCMO BOCES, however, are required to levy taxes to pay their allocable share of DCMO BOCES administrative expenses, including the payment of each component school district's proportionate share of the amount due from DCMO BOCES to the Authority under the Agreement. See "PART 4 – BOARD OF COOPERATIVE EDUCATIONAL SERVICES."

The Series 2007 Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power.

Security for the Series 2007 Bonds

The Series 2007 Bonds will be secured by the pledge and assignment to the Trustee of Basic Rent, the proceeds from the sale of the Series 2007 Bonds (until disbursed as provided by the Resolutions) and all funds and accounts authorized by the Master Resolution and established by the Series 2007 Resolution (with the exception of the Arbitrage Rebate Fund), which include a Debt Service Reserve Fund, and the Authority's security interest in the Pledged Revenues. The Series 2007 Bonds are the first series of bonds issued for DCMO BOCES under the Master Resolution. Pursuant to the terms of the Resolutions, the funds and accounts established by the Resolutions secure only the Series 2007 Bonds and do not secure any other Series of Bonds issued under the Master Resolution. See "– Issuance of Additional Bonds" herein.

Bond Insurance

The following information has been supplied by the Insurer for inclusion in this Official Statement. No representation is made by Authority or the Underwriter as to the accuracy or completeness of the information.

The Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer and its affiliates set forth under this heading. In addition, the Insurer makes no representation regarding the Series 2007 Bonds or the advisability of investing in the Series 2007 Bonds.

General

XL Capital Assurance Inc. is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore.

The Insurer is an indirect wholly owned subsidiary of Security Capital Assurance Ltd ("SCA"), a company organized under the laws of Bermuda. Through its subsidiaries, SCA provides credit enhancement and protection products to the public finance and structured finance markets throughout the United States and internationally. XL Capital Ltd currently beneficially owns approximately 47.5% of SCA's outstanding shares.

The common shares of SCA are publicly traded in the United States and listed on the New York Stock Exchange (NYSE: SCA). **SCA is not obligated to pay the debts of or claims against the Insurer.**

Financial Strength and Financial Enhancement Ratings of XLCA

The Insurer's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch, Inc. ("Fitch"). In addition, the Insurer has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of the Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XL Financial Assurance Ltd. ("XLFA") described under "Reinsurance" below.

The above ratings are not recommendations to buy, sell or hold securities, including the Series 2007 Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Series 2007 Bonds. The Insurer does not guaranty the market price of the Series 2007 Bonds nor does it guaranty that the ratings on the Series 2007 Bonds will not be revised or withdrawn.

Reinsurance

The Insurer has entered into a facultative quota share reinsurance agreement with XLFA, an insurance company organized under the laws of Bermuda, and an affiliate of the Insurer. Pursuant to this reinsurance agreement, the Insurer expects to cede up to 75% of its business to XLFA. The Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 75% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the Policy.

Based on the audited financials of XLFA, as of December 31, 2006, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of \$2,007,395,000, \$874,028,000, \$54,016,000 and \$1,079,351,000, respectively, determined in accordance with generally accepted accounting principles in the United States ("US GAAP"). XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The ratings of XLFA or any other member of the SCA group of companies are not recommendations to buy, sell or hold securities, including the Series 2007 Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to the Insurer described in this section, the Bondholders will have direct recourse against the Insurer only, and XLFA will not be directly liable to the Bondholders.

Capitalization of the Insurer

Based on the audited financials of XLCA, as of December 31, 2006, XLCA had total assets, liabilities, and shareholder's equity of \$1,224,735,000, \$974,230,000, and \$250,505,000, respectively, determined in accordance with U.S. GAAP.

Based on the unaudited statutory financial statements for XLCA as of December 31, 2006 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$429,073,000, total liabilities of \$222,060,000, total capital and surplus of \$207,013,000 and total contingency reserves of \$20,876,000 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP").

Based on the audited statutory financial statements for XLCA as of December 31, 2005 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$328,231,000 total liabilities of \$139,392,000, total capital and surplus of \$188,839,000 and total contingency reserves of \$13,031,000 determined in accordance with SAP.

Incorporation by Reference of Financials

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by SCA, may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included

in, or as exhibits to, documents filed by SCA or XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Series 2007 Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in the reports filed with the Commission by SCA or XL Capital Ltd is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of the Insurer

The Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE INSURER, INCLUDING THE INSURANCE POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of the Insurer are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

Lease Payments

Consistent with the Act, DCMO BOCES will, pursuant to the Agreement of Lease, lease certain property on which the Project is to be located to the Authority and the Authority will in turn sublease such property and the Project back to DCMO BOCES pursuant to the Agreement. The Series 2007 Bonds are not secured by any real estate interest in the Project. The Agreement is a general obligation of DCMO BOCES. DCMO BOCES' obligation to pay Rentals under the Agreement is absolute and unconditional without any right of set-off, recoupment or counterclaim against the Authority.

The Authority has covenanted for the benefit of the Holders of the Series 2007 Bonds that it will not create, or cause to be created, any lien or charge upon the Revenues or its interest in the Pledged Revenues, the proceeds of the Series 2007 Bonds or the funds or accounts established under the Master Resolution, which is prior to, or equal to, the pledge made by the Master Resolution.

Pledge of State Aid

As additional security for the payment of the Rentals, including Basic Rent, to the Authority, DCMO BOCES will assign and pledge to the Authority, a portion of any and all public funds payable by the State to DCMO BOCES in an amount sufficient to pay such Rentals. DCMO BOCES further agrees that all State and local officials concerned are authorized to apportion and pay to or upon the order of the Authority all such pledged funds. The pledge and assignment will be irrevocable (in accordance with the Act) and will continue until the date on which the liabilities of the Authority incurred as a result of the issuance of the Series 2007 Bonds have been paid or otherwise discharged.

Debt Service Reserve Fund

The Master Resolution requires that the Debt Service Reserve Fund be maintained at its requirement, which is an amount equal to one-half of the greatest amount required in the then current or any future calendar year to pay the sum of the principal and Sinking Fund Installments of and interest on Outstanding Series 2007 Bonds payable during such year.

Moneys in the Debt Service Reserve Fund are to be withdrawn and deposited in the Debt Service Fund whenever the amount in the Debt Service Fund on the fourth Business Day preceding each interest payment date is less than the amount which is necessary to pay the principal and Sinking Fund Installments, if any, of and interest on Outstanding Bonds payable on such interest payment date. The Master Resolution requires, and the Agreement provides, that the amount necessary to restore the Debt Service Reserve Fund to its requirement is to be included in the Basic Rent. Moneys in the Debt Service Reserve Fund in excess of its requirement may be deposited in other funds and accounts and applied by the Trustee in accordance with the Master Resolution. See “Appendix D – Summary of Certain Provisions of the Master Resolution.”

Issuance of Additional Bonds

In addition to the Series 2007 Bonds, the Master Resolution authorizes the issuance of other Series of Bonds for DCMO BOCES and other BOCES for other specified purposes, including to refund Outstanding Bonds issued under the Master Resolution. Each Series of Bonds issued under the Master Resolution will be separately secured by the pledge and assignment of the Applicable Revenues, the Authority’s interest in the Applicable Pledged Revenues, the proceeds from the sale of such Series of Bonds and all funds and accounts (with the exception of the Arbitrage Rebate Fund) authorized by the Applicable Series Resolution. Any additional Series of Bonds issued to finance a Project for DCMO BOCES would be paid and secured on a subordinate basis to the Series 2007 Bonds unless otherwise consented to by a majority of the holders of the Series 2007 Bonds. Therefore, to the extent Pledged Revenues or DCMO BOCES payments of Basic Rent were insufficient to pay for the Series 2007 Bonds and such additional Bonds, amounts would be applied first to pay the Series 2007 Bonds and then such additional Bonds.

General

The Series 2007 Bonds will not be a debt of the State of New York nor will the State be liable thereon. The Authority has no taxing power. The Authority has never defaulted in the timely payment of principal or sinking fund installments of or interest on its bonds or notes. See “PART 8 – THE AUTHORITY.”

Defaults and Remedies under the Agreement

Among the events that would constitute an “event of default” under the Agreement are the failure by DCMO BOCES to pay the Rentals within seven days after they become due or to observe or perform any of the covenants, conditions or agreements contained in the Agreement which continues for the applicable grace period after notice of such failure has been given to DCMO BOCES. In the event any such event of default will have happened and be continuing, the Authority may exercise such remedies available at law or in equity other than termination of the Agreement. In no event will an “event of default” under the Agreement cause an acceleration of the Rentals due under the Agreement.

Defaults and Remedies under the Master Resolution

“Events of Default” under the Master Resolution include: (i) the failure to pay principal, Sinking Fund Installments, if any, or Redemption Price of, and interest on the Bonds when due; (ii) the failure to comply with the provisions of the Code applicable to the Series 2007 Bonds necessary to maintain the exclusion of interest thereon from gross income under Section 103 of the Code, with the result that interest on the Series 2007 Bonds is no longer excludable from the gross income of the Holders thereof; and (iii) a default by the Authority in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Resolutions or in the Series 2007 Bonds on the part of the Authority to be performed and such default continues for 30 days after written notice specifying such default and requiring same to be remedied will have been given to the Authority by the Trustee, which may give such notice in its discretion and will give such notice at the written request of the Holders of not less than 25% in principal amount of such Outstanding Series 2007 Bonds, unless, if such default is not capable of being cured within 30 days, the Authority has commenced to cure such default within said 30 days and diligently prosecutes the cure thereof.

The Resolutions provide that if an “event of default” occurs and continues, the Trustee may proceed, and upon the written request of the Insurer or at the written request of the Facility Provider of a Reserve Fund Facility or of the Holders of not less than 25% in principal amount of the Outstanding Series 2007 Bonds (in either case, with the consent of the Insurer) or, in the case of a happening and continuance of an “event of default” specified in clause (ii) above, upon the written request of the Holders of not less than 25% in principal amount of the Outstanding Series 2007 Bonds with the consent of the Insurer, the Trustee will proceed (subject to the provisions of the Master Resolution), to protect and enforce its rights and the rights of the Bondholders or of such Facility Provider under the Resolutions or under the laws of the State by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the Resolutions or in aid or execution of any power therein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee deems most effectual to protect and enforce such rights. In no event will an “event of default” cause an acceleration of the Series 2007 Bonds under the Resolutions.

In the enforcement of any remedy under the Resolutions, the Trustee may 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 or interest or otherwise under any of the provisions of the Resolutions or of the Series 2007 Bonds, with interest on overdue payments of the principal or interest on the Series 2007 Bonds at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under the Resolutions and under such Series 2007 Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders of such Series 2007 Bonds, and to recover and enforce a judgment or decree against the Authority but solely as provided in the Resolutions and in such Series 2007 Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable.

PART 3 – THE SERIES 2007 BONDS

Description of the Series 2007 Bonds

The Series 2007 Bonds will be issued pursuant to the Master Resolution, will be dated the date of delivery and will bear interest at the rates and mature at the times set forth on the inside cover page of this Official Statement.

The Series 2007 Bonds will be issued as fully registered bonds. The Series 2007 Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. The Series 2007 Bonds will be registered in the name of Cede & Co., as nominee of DTC, pursuant to DTC’s Book-Entry Only System. Purchases of beneficial interests in the Series 2007 Bonds will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the Series 2007 Bonds, the Series 2007 Bonds will be exchangeable for other fully registered Series 2007 Bonds in any other authorized denominations of the same maturity without charge except the payment of any tax, fee or other governmental charge to be paid with respect to such exchange, subject to the conditions and restrictions set forth in the Master Resolution. See “Book-Entry Only System” herein and “Appendix D – Summary of Certain Provisions of the Master Resolution.”

Interest on the Series 2007 Bonds will be payable by check or draft mailed to the registered owners thereof at the address thereof as it appears on the registration books held by the Trustee, or, at the option of a Holder of at least \$1,000,000 in principal amount of the Series 2007 Bonds by wire transfer to the Holder of such Series 2007 Bonds, each as of the close of business on February 1 and August 1, as applicable next preceding an interest payment date. The principal or redemption price of the Series 2007 Bonds will be payable in lawful money of the United States of America at the principal corporate trust office of The Bank of New York, the Trustee and Paying Agent. As long as the Series 2007 Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See “– Book-Entry Only System” herein.

For a more complete description of the Series 2007 Bonds, see “Appendix D – Summary of Certain Provisions of the Master Resolution.”

Redemption Provisions

The Series 2007 Bonds are subject to optional, special and mandatory redemption as described below.

Optional Redemption

The Series 2007 Bonds maturing on or before August 15, 2017 are not subject to optional redemption prior to maturity. The Series 2007 Bonds maturing after August 15, 2017 are subject to redemption prior to maturity on or after August 15, 2017 in any order (a) from amounts in the Debt Service Fund in excess of moneys required to pay interest, principal and Sinking Fund Installments and in excess of amounts on deposit therein for special redemption, as a whole at any time or in part on any interest payment date, or (b) at the option of the Authority, as a whole or in part at any time, at par plus accrued interest to the redemption date.

Mandatory Redemption

In addition, the Series 2007 Bonds maturing on August 15, 2021 and August 15, 2027 are also subject to redemption, in part, on each August 15 of the years and in the respective principal amounts set forth below, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem on August 15 (or such preceding Interest Payment Date) of each year the principal amount of Series 2007 Bonds specified for each of the years shown below:

Series 2007 Bonds Maturing on <u>August 15, 2021</u>		Series 2007 Bonds Maturing on <u>August 15, 2027</u>	
<u>Year</u>	<u>Sinking Fund Installments</u>	<u>Year</u>	<u>Sinking Fund Installments</u>
2020	\$2,605,000	2025	\$3,305,000
2021†	2,735,000	2026	3,470,000
		2027†	3,640,000

†Final maturity.

Special Redemption

The Series 2007 Bonds are also subject to redemption, in whole or in part, at 100% of the principal amount thereof, at the option of the Authority on any interest payment date, (i) from proceeds of a condemnation or insurance award, which proceeds are not used to repair, restore or replace the Project; or (ii) from unexpended proceeds of the Series 2007 Bonds upon the abandonment of all or a portion of the Project due to a legal or regulatory impediment.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2007 Bonds. The Series 2007 Bonds will be issued as fully registered securities in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2007 Bond certificate will be issued for each maturity the Series 2007 Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity 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, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, also subsidiaries of DTCC, as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of Series 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007 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 any Series of the Series 2007 Bonds, except in the event that use of the book entry system for a Series of the Series 2007 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2007 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 2007 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2007 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007 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.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity of the Series 2007 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other nominee) will consent or vote with respect to Series 2007 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy (the "Omnibus Proxy") to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2007 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Series 2007 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 receipt of funds and corresponding detail information from the Authority or the Trustee on the 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 Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The Authority and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 2007 Bonds registered in its name for the purposes of payment of the principal and redemption premium, if any, of, or interest on, the Series 2007 Bonds, giving any notice permitted or required to be given to registered owners under the

Resolution, registering the transfer of the Series 2007 Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. The Authority and the Trustee shall not have any responsibility or obligation to any Direct or Indirect Participant, any person claiming a beneficial ownership interest in the Series 2007 Bonds under or through DTC or any Direct or Indirect Participant, or any other person which is not shown on the registration books of the Authority (kept by the Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Direct or Indirect Participant; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal, redemption premium, if any, or interest on the Series 2007 Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by the Authority; or other action taken by DTC as registered owner. Interest, redemption premium, if any, and principal will be paid by the Trustee to DTC or its nominee. Disbursement of such payments to the Direct or Indirect Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct or Indirect Participants.

For every transfer and exchange of beneficial ownership of any of the Series 2007 Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may discontinue providing its service with respect to the Series 2007 Bonds at any time by giving notice to the Authority and discharging its responsibilities with respect thereto under applicable law, or the Authority may terminate its participation in the system of book entry transfer through DTC at any time by giving notice to DTC. In either event, the Authority may retain another securities depository for the Series 2007 Bonds or may direct the Trustee to deliver bond certificates in accordance with instructions from DTC or its successor. If the Authority directs the Trustee to deliver such bond certificates, such Series 2007 Bonds may thereafter be exchanged for an equal aggregate principal amount of Series 2007 Bonds in any other authorized denominations and of the same maturity as set forth in the Resolution, upon surrender thereof at the principal corporate trust office of the Trustee, who will then be responsible for maintaining the registration books of the Authority.

Unless otherwise noted, certain of the information contained in the preceding paragraphs of this subsection "Book Entry Only System" has been extracted from information given by DTC. Neither the Authority, the Trustee nor the Underwriters make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO SUCH DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR SUCH DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS. PAYMENTS MADE TO DTC OR ITS NOMINEE SHALL SATISFY THE AUTHORITY'S OBLIGATION UNDER THE ACT AND THE RESOLUTION TO THE EXTENT OF SUCH PAYMENTS.

So long as Cede & Co. is the registered owner of the Series 2007 Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the Series 2007 Bonds (other than under the captions "TAX MATTERS" and "CONTINUING DISCLOSURE" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2007 Bonds.

Principal and Interest Requirements

The following table sets forth the amounts required to be paid by DCMO BOCES during each twelve month period ending August 14 of the Bond Years shown for the payment of debt service on the Series 2007 Bonds.

12-Month Period Ended <u>August 14,</u>	Principal of <u>Series 2007 Bonds</u>	Interest Payments on <u>Series 2007 Bonds</u>	Total Debt Service on <u>Series 2007 Bonds</u>
2008	\$1,520,000	\$2,302,923	\$3,822,923
2009	1,530,000	2,294,462	3,824,462
2010	1,590,000	2,233,263	3,823,263
2011	1,655,000	2,169,662	3,824,662
2012	1,740,000	2,086,913	3,826,913
2013	1,825,000	1,999,912	3,824,912
2014	1,915,000	1,908,663	3,823,663
2015	2,010,000	1,812,912	3,822,912
2016	2,120,000	1,702,363	3,822,363
2017	2,240,000	1,585,762	3,825,762
2018	2,360,000	1,462,563	3,822,563
2019	2,480,000	1,344,562	3,824,562
2020	2,605,000	1,220,563	3,825,563
2021	2,735,000	1,090,312	3,825,312
2022	2,870,000	953,563	3,823,563
2023	3,000,000	828,000	3,828,000
2024	3,145,000	678,000	3,823,000
2025	3,305,000	520,750	3,825,750
2026	3,470,000	355,500	3,825,500
2027	3,640,000	182,000	3,822,000

PART 4 – BOARDS OF COOPERATIVE EDUCATIONAL SERVICES

General Description of BOCES

The ability to create a Board of Cooperative Educational Services was first established in 1948 and is found in sections 1950 and 1951 of the State Education Law. Initially, the legislation was aimed at enabling small rural school districts to combine their resources to provide services that otherwise would have been uneconomical, inefficient or unavailable. Under the legislation, BOCES are formed regionally (usually by a county or adjoining counties) as a consortium of the public school districts within the region. At present there are 37 BOCES, serving 695 of the 704 school districts in the State. BOCES membership is not available to the five large city school districts in the State: New York City, Buffalo, Rochester, Yonkers and Syracuse.

A BOCES is formed under the State Education Law by the school districts of a supervisory district for the purpose of providing various educational services for such school districts on a cooperative or shared basis, which services may either be too expensive or duplicative for each school district to provide for itself. A BOCES is usually formed by an order of the Commissioner of Education (the "Commissioner") after a petition has been made to him requesting the establishment of the BOCES by the respective Boards of Education of the various school districts to be included in the proposed BOCES. The decision to establish a BOCES is not subject to voter approval.

The number of school districts comprising an individual BOCES varies. In each case, the territory within which each BOCES operates encompasses the territory of its component school districts. A school district may decide to join an established BOCES by vote of its board of education without voter approval. Once it has joined, however, a school district may not withdraw and is thereafter obligated for its share of BOCES administrative expenses (including the Rentals due to the Authority under an applicable Agreement).

Once formed by the Commissioner, a BOCES is governed by a Board, whose members are elected by the boards of education of the component school districts. A Board consists of five to fifteen members. Members of the BOCES Board are elected at the BOCES annual meeting and serve for terms of three years.

BOCES operate under the Education Law and the Rules and Regulations of the Commissioner of Education. The powers of the BOCES are set forth in the Education Law, which provides for their relationship with the local school districts and specifies their duties and responsibilities. A BOCES is not authorized to enter into an Agreement with the Authority unless a proposition authorizing the acquisition, construction, reconstruction or financing of a board of cooperative education services school facility and specifying the costs is approved by a majority vote of the voters throughout the BOCES' component school districts. In addition, the BOCES may not begin construction on any Project unless and until it has been approved by the Commissioner.

Each BOCES is authorized to provide such program services as the Commissioner may approve and must provide any educational service that is (a) requested by the component school districts and (b) approved by the Commissioner, who first determines that the proposed program service meets an educational need and can most effectively be provided on a regional, rather than local, level. Except for BOCES administrative and capital facilities expenses, which are allocated to and are a responsibility of the component school districts to the extent provided by the Education Law, each school district is responsible for the costs of only those educational programs or services in which it decides to participate.

The legislation permits BOCES to provide a wide variety of programs and services, which include:

General Education, including summer school.

Career Education – Vocational training in agriculture, distributive education, health, home economics, business and office programs, technical education and trade, industrial and service education.

Special Education - Educational services for children with special needs and/or handicaps.

Management and Instructional Support Services – A wide variety of administrative, educational and extracurricular activities.

Education in the Arts

Environmental Education

State Aid to BOCES

A BOCES has no taxing authority and except for certain Federal grants and payments for services rendered under certain contracts with public agencies, colleges and other entities, derives all of its financial support for operations from its component school districts and the State. State law provides that State aid is paid to the BOCES, and then is to be paid by the BOCES to the component school districts to partially reimburse them for payments made to the BOCES, based upon the amount paid by the component school districts for program services and administrative and facilities expenses. The component school districts pay for these expenses through real property tax levies. Program services are funded by component school districts based on the district's participation in a specific program. Administrative expenses of a BOCES (including the Rentals due to the Authority under an Applicable Agreement), as well as facilities expenses for capital projects not funded through surpluses are shared on a pro rata apportioned basis (based on attendance or enrollment formulas or property values) by the component school districts. All State aid payable to a BOCES, including services aid and facilities aid, as well as administrative aid, is available to be applied to pay Rentals.

BOCES costs are paid, and aided by the State, in the following manner:

BOCES Services Aid

When a school district decides to subscribe to one of the BOCES programs, it agrees to pay a tuition or service fee. The aggregate amount of fees equals the BOCES' costs of providing the service. Each participating school district pays its pro-rata share of the program's costs.

The participating school district pays its fee in installments during the school year in which the BOCES provides the service, enabling the BOCES to meet payroll and other expenses. These payments are made on an estimated basis during the year. At the end of the school year, the exact cost is determined by audit.

The audited cost then becomes the basis on which State aid is calculated. These moneys are then paid to the BOCES in the school year following the school year in which the service was provided. The BOCES, in turn, allocates and pays

this money to the component school districts as a reimbursement in the same school year that the BOCES receives it from the State. Therefore, in any given year, a school district will be paying to the BOCES its share of the estimated cost of the program it is currently participating in and will also be receiving moneys from the BOCES from State aid intended to partially reimburse such school districts for its share of audited educational costs paid by it to the BOCES in the prior year.

The amount of State aid paid to each BOCES is the sum of the amounts determined for each component school district by applying a State aid formula, which is prescribed by statute. Since this formula includes in its calculation the tax rate and actual valuation of taxable property of the various component school districts, the amount of the aid actually paid to each BOCES varies depending upon these tax rates and property valuations. In all cases, the amount of State aid is less than the total costs of each BOCES program services. Each school district is therefore directly responsible to its BOCES for its share of the cost of educational programs in which it participates, with State aid reimbursing a portion of the school district's share.

BOCES Administrative Aid

The BOCES administrative expenses, including the Rentals due to the Authority under an applicable Agreement, are charged against all component school districts based upon attendance or enrollment formulas or property values and regardless of their participation in any BOCES educational program.

Certain BOCES administrative expenses cannot exceed in the aggregate, for purposes of State aid payments, 10% of the total BOCES expenses, including the program operating expenses. The entire amount of BOCES payments to the Authority, as well as certain other BOCES expenses, are administrative expenses, but are not subject to the 10% limit in calculating State aid. Unlike State aid for BOCES program operating expenses, which is received by each BOCES (and therefore by its component school districts) in the school year following the school year of expenditure, State aid for BOCES payments to the Authority may be received by each BOCES in the current school year in which such payment is made. The State appropriations for this aid are made on an estimated basis and are paid to each BOCES. In all cases, the amount of State aid for administrative expenses is less than the actual amount of these administrative expenses. Each school district is therefore directly responsible to its BOCES for its share of administrative expenses, with State aid reimbursing a portion of the school district's share.

BOCES Facilities Aid

The BOCES' facilities expenses are charged against all component school districts based upon attendance or enrollment formulas or property values and regardless of their participation in any BOCES educational program.

BOCES Facilities Aid may be claimed for approved expenditures for facility construction, purchase or lease. The amount of aid payable on account of approved expenses is determined by multiplying the approved expenses by the aid ratio established by the State Education Law. Approved expenses are those incurred by the component school district during the current school year for approved debt service payments on debt instruments used to finance BOCES construction, for expenditures from budgetary appropriations or capital reserves in support of BOCES construction and for expenditures for lease of BOCES facilities. In all cases, the amount of State aid for facilities expenses is less than the actual amount of these facilities expenses. Each school district is therefore directly responsible to its BOCES for its share of facilities expenses, with State aid reimbursing a portion of the school district's share.

State Appropriations

The State has made appropriations to the BOCES program in each year since 1949 when the program was initiated. The amount of State aid payable to each BOCES has varied in accordance with a statutory formula set forth in the Education Law, except that payments in lieu of BOCES aid were made for the school year ending June 30, 2002 in an amount specified by the Legislature. The amount apportioned by the State for payment to a BOCES during a BOCES school year, which ends June 30th, is payable in installments, approximately 25% of which is payable in February, approximately 30% of which is payable in June, and the remaining balance is payable in September. During the BOCES fiscal year, the State aid payment made in February is made in one State fiscal year, and the State aid payments made in June and September occur in the subsequent State fiscal year.

All of the State aid payable to BOCES is subject to intercept under the Act up to the amount of the Rentals payable by the BOCES under its Agreement with the Authority. *While the BOCES program has received State aid in each year since its inception, both the determination of the amount of State aid and the apportionment of such State aid are legislative acts and the State Legislature may amend or repeal the statutes relating to State aid and the formulas which*

determine the amount of State aid payable to the BOCES. Such amendments could result in the increase, decrease or elimination of the amount of State aid available for the payment of debt service on the Series 2007 Bonds. The financial condition of the State may affect the amount of State aid appropriated by the State Legislature.

Obligations of Component School Districts

All component school districts are required to pay their allocable share of the BOCES administrative expenses notwithstanding that they may elect not to participate in any of the BOCES educational programs. Each component school district pays a proportional share of BOCES administrative expenses (based on attendance or enrollment formulas or property values) through tax levies and local school boards vote on the BOCES administrative budget each spring. The portion of the budget allocated to payments to the Authority, however, is not subject to such vote of the local school boards. The Education Law requires that each component school district will add the amount of its share of BOCES administrative expenses to its budget and will pay such amount to the BOCES. The moneys collected for and on behalf of the BOCES by each component school district are required by law to be paid by the school district to the BOCES treasurer. Under other provisions of New York law, component school districts of a BOCES are political subdivisions of the State of New York and (with certain exceptions) have the power to levy and collect ad valorem taxes on real property.

Under New York law, if the budget of a school district is not approved by the voters, provision is made for the board of education of the school district to adopt, without voter approval, a budget to pay for the basic or minimal needs of the school district which will include its allocable share of the BOCES administrative expenses.

All the taxable property of each such school district is subject to levy of ad valorem taxes, without limitation as to rate or amount, to pay the school district's allocable share of BOCES administrative expenses. In addition, each county or other political subdivision having responsibility for the enforcement of delinquent school taxes is required to pay to the school districts the full amount of school taxes which remain uncollected before the end of the school year.

PART 5 – DCMO BOCES

Description

DCMO BOCES furnishes educational and administrative services for 16 school districts to approximately 16,500 students encompassing Delaware, Chenango, Madison and Otsego Counties. The DCMO BOCES was established in 1969 and is one of the 37 BOCES across New York State. DCMO BOCES enables school districts, through combined resources, to be the beneficiaries of certain desired programs and services, which would otherwise be unavailable or too costly. These component districts are under the supervision of a District Superintendent, who is the regional representative of the Commissioner, as well as the Chief Executive Office of the BOCES. Governance of DCMO BOCES is by a seven member board of education, the members of whom are elected by the DCMO BOCES component district board members. DCMO BOCES works in partnership with its staff, components, and community stake-holders to develop and deliver high quality programs that meet local and regional needs. Funding sources include state and federal grants, service fees, tuition, and cross-contracted services with other BOCES.

Educational Programs/Services

The Board of Cooperative Educational Services for The Sole Supervisory District of Delaware, Chenango, Madison and Otsego Counties is a regional educational agency providing services in partnership with local school districts and municipalities. DCMO BOCES is one of 37 BOCES across the State offering programs to students, teachers, administrators and the community. A variety of instructional, instructional support, and management services are provided by the DCMO BOCES.

The Chief Executive Officer of the DCMO BOCES is the District Superintendent. Reporting to him are the Assistant Superintendent for Instructional Services, the Assistant Superintendent for Management Services, and the Director of Employee Relations. In addition, there are approximately 20 other administrators who supervise the many programs and the approximately 425 staff who are employed by the DCMO BOCES.

Career and Technical Education/Adult Education

- Career and Technical Education programs in 14 skill areas for high school students and adults;

- Innovative New Vision programs in Allied Health, Law and Government, Agriculture/Environmental Science, and Education Professions providing exposure to occupations in these areas;
- Integrated academics in Career and Technical Education classes that support the standards and graduation requirements;
- Career planning, training, financial aid information, and support services for adults seeking career training and assistance;
- Workshops for local businesses and industries seeking training and retraining of staff; and
- An alternative education program called Career Academy for middle school and high school students.

Special Education

- Even Start Program for identified families of children birth to seven years old with a focus on early literacy;
- Early intervention services for preschool children;
- Assistance to districts in meeting the needs of students with disabilities through specialized staff (interpreters, teachers of the visually impaired, physical, occupational and speech therapists);
- Support for the inclusion of students with special needs through expertise in assistive technology, behavioral and instructional modifications, and consultation;
- Self-contained classes for students with disabilities in a variety of settings; and
- Mental Health Services Coordination.

Instructional Support Services

- Staff development and training programs focused on improving student performance;
- Learning Technologies providing staff development, and hardware and software support;
- School Library System with regional database of library holdings, Interlibrary Loan Service and library automation;
- Technical Repair Services of audio/visual, TV, and computer equipment;
- Special Education Training and Resource Center for parents, educators, community service agencies and Board of Education members;
- Regional Summer School and Math Camp for remediation and enrichment; and
- Enrichment activities for students.

Management Services

- Coordination of bus communication across the region through bus radio towers;
- Support for management of school district records and fixed assets inventory;
- Employee Assistance Program for district employees with personal or financial problems;
- Cooperative Business Office support for payroll, accounts payable, ledgers, internal auditing, and State Aid;
- Cooperative Investments of school district funds;
- Cooperative Bidding for food, equipment, supplies, fuel, etc.;
- Assistance with negotiations and contract administration matters;
- Health Care Coordination of district health benefits;
- Printing/copying service for newsletters, calendars, brochures, report cards, forms, classroom materials, etc.;
- Coordination of alcohol and controlled substance testing for school bus drivers, radon testing, lead and water analysis, pesticide handling, Right-To-Know training, hazardous waste, SAVE regulations, and related areas;
- Substitute calling service for districts;
- School Food Management providing cafeteria administration for school cafeterias; and
- Special Program Finances Service providing assistance in tracking State Aid for districts.

Location

DCMO BOCES serves approximately 16,500 Pre K-12 students and over 1,800 teachers and administrators in these 16 school districts: Afton, Bainbridge-Guilford, Delhi, Downsville, Franklin, Gilbertsville-Mount Upton, Greene,

Hancock, Norwich, Otselec Valley, Oxford, Sherburne-Earlville, Sidney, Unatego, Unadilla Valley and Walton.

These school districts, located in Delaware, Chenango, Madison and Otsego Counties, cover 1,825 square miles, an area nearly twice the size of Rhode Island.

Governance

Delaware-Chenango-Madison Otsego BOCES fulfills its mission through a seven member board and a staff of approximately 400 salaried staff members. DCMO BOCES is governed just as local districts are governed - by a Board of Education that is made up of representatives from component school districts within the DCMO BOCES area. Board members are elected by the boards of education of the 16 component school districts, and each serve on a voluntary basis for a period of three years. Board members are responsible for curricular, financial, and other policy decisions, just as they are at the local district level.

The current members of the Delaware-Chenango-Madison-Otsego BOCES are as follows:

Timothy Thomas: Tim Thomas, DCMO BOCES Board President, is a resident of the Bainbridge-Guilford School District and has been a member of the DCMO BOCES Board of Education since 1987. He is currently serving his fifteenth term as President of the Board. Tim currently serves as a member of the New York State School Boards Association BOCES Advisory Committee. In 2000, Tim was selected as Outstanding School Board Member of the Year by the Chenango County School Boards Association. Tim owns and operates a contracting business in the Town of Bainbridge.

Anthia Robbins: Anthia Robbins was elected to the DCMO BOCES Board of Education in 1998, and served as a board member for the Delhi Central School from 1992-2000. A former vocal music teacher and currently a piano instructor, Anthia has resided in the Village of Delhi for over 30 years. She serves as the accompanist for the choirs at Delhi and is a professional organist. For many years Anthia was active with the Boy Scouts and Girl Scouts, serving as scout leader for both organizations. She has served as a member on the Board of Directors for the Kirkside Board and the Catskill Choral Society in Delaware County. Anthia presently serves on the Rural Schools Board of Directors and is Chairman of the Delhi Appeals Board.

Laura Ziemba: Laura Ziemba was first elected to the DCMO BOCES Board of Education on September 8, 2003. Laura served as a member of the Downsville School Board from 1993-98. During that time, she was appointed by the New York State School Boards Association to serve as a lobbyist. In addition to lobbying for programs, Laura also worked as a facilitator for NYSSBA, training new school board members across New York State. Laura has served on several church and planning boards in the area and continues to be active with school and community interests. Laura has been employed as a marketing consultant, has assisted her husband with a building business, and has recently returned to school to obtain a nursing degree.

Linda Zaczek: Linda Zaczek was first elected to the DCMO BOCES Board of Education in 1999, and is presently serving her second term. Linda was recently re-elected as Vice President of the DCMO BOCES Board for the third year. Linda has also served as a board member for the Mt. Upton and Gilbertsville-Mt. Upton School Boards from 1989 to 1997. In the past, Linda has served on the Board of Directors of the Southern Tier Chapter of the American Red Cross and as Treasurer of the Chenango County Council of the Arts. Linda and her husband own and operate a farm in Mt. Upton. Linda is a Vice President for NBT Bank, Norwich.

Robert Rogers: Robert Rogers was elected to the DCMO BOCES Board in 2001 and is serving his second term. A life long resident of Oxford, Bob graduated from Oxford Academy and is currently the owner of a consulting business, lending technical support to the Raymond Corporation and others. Bob is no stranger to boards of education, having served on the Oxford Board for 15 years from 1972-1987, with two years service as Vice President and 11 years as President. Bob also served on the Chenango County School Boards Association as Vice President, and was nominated as Outstanding School Board Member of the Year in 1982. In 1983, Bob served on the School Board Resolution Committee through the New York State School Boards Association.

Margery Secrest: Margery Secrest was elected to the DCMO BOCES Board of Education in 2001. A resident of Afton, Marge has been involved in education for many years beginning as a teacher and active participant in the Teachers' Association, leading to her service as a member of the Afton Board of Education. Marge has served on the Afton Board since 1985, and has held the office of President since 1995. Marge has devoted her time to community efforts such as the Afton Planning Board for over 31 years, the Indian Hills Girls Scout Council, the Chenango County Farm Bureau, the church choir and other organizations. Marge was selected as Outstanding School Board Member of the Year by the Chenango County School Boards Association in 1996, and presently serves as the BOCES representative on the Executive Board for the Association.

Richard Dillon: Richard Dillon was elected to the DCMO BOCES Board of Education for his first term which began July 1, 2002. Not new to education, Dick is a retired superintendent from Hancock Central School where he served as its leader from 1990-1998. Since his retirement, Dick has remained active in the educational arena, serving in interim capacities at area schools. Dick's experience and his continued commitment to education and students will serve the DCMO BOCES well as a contributing member of the DCMO BOCES Board of Education.

The principal staff of the DCMO BOCES are as follows:

Alan D. Pole - District Superintendent - Mr. Pole is a graduate of Niagara University with a Bachelor of Science degree in Natural Sciences. He participated in graduate study at Colgate University and obtained a Masters of Arts degree in Educational Administration from Syracuse University. As the District Superintendent of DCMO BOCES since 1990, Mr. Pole is also on staff with the New York State Education Department, acting as the field representative for the Commissioner of Education. He oversees approximately 80 different programs and an annual operating budget in excess of \$30 million. Mr. Pole has had 35 years of experience as an administrator in three different BOCES and has served as an adjunct faculty member at Syracuse University, Cortland State College and Ohio State University.

Marki Clair-O'Rourke - Assistant Superintendent for Instructional Services - Mrs. Clair-O'Rourke assumed her position as Assistant Superintendent for Instructional Services in January of 2003. Prior to her current position, she served as Director of Instructional Support Services for the DCMO BOCES for four years. Her educational experience includes a Bachelor of Arts degree in Special Education and a Masters Degree in Reading. She received her Certificate of Advanced Studies in school administration through SUNY Cortland. She is a New York State certified school district administrator and a New York State certified special education teacher and reading teacher. In her current position, Mrs. Clair-O'Rourke oversees Career and Technical Education, Alternative Education, Special Education, Adult Education, and Instructional Support Services.

David V. Blom - Assistant Superintendent for Management Services - Mr. Blom has been the Assistant Superintendent for Management Services since 2006. He received his Bachelors Degree in Mathematics from SUNY Oneonta, and his Certificate in Administration from SUNY Cortland. Prior to this position, Mr. Blom has served as a math teacher, school district administrator and business official, and has been at DCMO BOCES for the past eight years. In his present position, Mr. Blom oversees all financial and budgetary services for DCMO BOCES, business office support for 16 component districts, as well as Operations and Maintenance, Health and Safety, Cooperative Purchasing and all other Management Services.

Facilities

DCMO BOCES has two main campuses:

1. *Chenango Campus (Norwich)* - Administration, Management Services, Instructional Support Services, Career and Technical Education, Special Education, Special Education Training and Resource Center (SETRC), Adult Education, and Alternative Education/Career Academy; and
2. *Robert W. Harrold Education Campus (Masonville)* - Career and Technical Education, Special Education, Adult Education, and Alternative Education/Career Academy.

Financial Information

Funding of DCMO BOCES comes from the 16 component school districts. Each pays a proportionate share of DCMO BOCES administrative expenses (based on either attendance or enrollment formulas) through tax levies and local school boards vote on its administrative budget each spring. The portion of the budget allocated to payments to the Authority, however, is not subject to such vote of the local school boards. DCMO BOCES programs are funded by the districts based on each component school district's program use. The state gives the component school districts BOCES aid monies to partially reimburse them for BOCES services and administrative expenses.

The following chart shows, for the school year ending June 30, 2006, for each component school district, (a) the total amount payable from the school district to DCMO BOCES and the percentage such amount represents of DCMO BOCES overall receipts from the component school districts; and (b) the proportionate share of DCMO BOCES administrative expenses paid by such component school district and the percentage such amounts represents of DCMO BOCES' overall administrative expenses.

Component School Districts' Share of DCMO BOCES Expenses

Component School District	Total Amount Paid to BOCES	Percentage Share of Total BOCES Receipts	Amount Allocated to Administrative Expenses	Percentage Share of Administrative Expenses
Afton	\$ 1,030,545	3.76%	\$ 77,057	4.63%
Brainbridge-Guilford	1,996,960	7.29%	103,852	6.24%
Delhi	1,938,850	7.08%	104,851	6.30%
Downsville	837,864	3.06%	37,946	2.28%
Franklin	729,662	2.66%	36,614	2.20%
Gilbertsville-Mt. Upton	711,607	2.60%	59,415	3.57%
Greene	2,394,076	8.74%	142,796	8.58%
Hancock	1,123,282	4.10%	49,929	3.00%
Norwich	3,516,117	12.83%	227,176	13.65%
Otselic Valley	1,241,262	4.53%	49,263	2.96%
Oxford	1,596,117	5.83%	99,858	6.00%
Sherburne-Earlville	2,538,330	9.26%	181,408	10.90%
Sidney	2,524,453	9.21%	145,626	8.75%
Unadilla Valley	1,831,218	6.68%	104,351	6.27%
Unatego	1,680,282	6.13%	125,987	7.57%
Walton	1,709,630	6.24%	118,165	7.10%
Total	\$27,400,255	100.00%	\$1,664,294	100.00%

The following chart presents, for the preceding five school years, DCMO BOCES General Fund revenues, expenses, and fiscal year surpluses.

**DCMO BOCES Revenues and Expenses
Fiscal Year End Surplus
School Year Ending June 30,**

	2006	2005	2004	2003	2002
General Fund Revenues	\$29,903,782	\$28,089,478	\$26,583,977	\$26,983,948	\$26,040,783
General Fund Expenses	28,468,185	27,056,186	25,461,353	25,877,407	25,040,375
Surplus	<u>\$ 1,435,597</u>	<u>\$ 1,033,292</u>	<u>\$ 1,122,624</u>	<u>\$ 1,106,542</u>	<u>\$ 1,000,408</u>

The following chart presents the amount of State aid accrued by DCMO BOCES during the past five school years ended June 30 of the years shown, although a portion of such amount may have been received by DCMO BOCES in the next school year. State aid for administrative services expenses is based on the preceding year's expenditures, while capital and facilities rental aid is based on the DCMO BOCES budget for the year in which it is received.

State Aid Appropriations to DCMO BOCES

School Year Ending June 30,	State Aid
2006	\$10,838,230
2005	10,398,013
2004	10,604,192
2003	9,434,956
2002	8,598,841

Litigation

There are no suits pending or, to the knowledge of the members of the DCMO BOCES Board, threatened against DCMO BOCES wherein an unfavorable result would have a material adverse effect on the financial condition of DCMO BOCES or the Bonds. Any litigation pending is generally of a routine nature, which does not affect the right of DCMO BOCES to conduct its business or affect the validity of its obligations.

PART 6 – THE PROJECT

The Project consists of additions, renovations and alterations to two BOCES campuses: Chenango Campus in Norwich and the Harrold Campus in Masonville. The total amount of projects costs is approximately \$48,000,000.

Approximately 46,000 square feet of new space will be added at the Chenango Campus. This new space will be used primarily for academic classrooms and science labs for special education and alternative education students, a gymnasium, and a dining room. Renovations of the existing building will provide for larger Career and Technical Education shops and classrooms, a library-media center, and increased space for student support services such as physical therapy, occupational therapy and adaptive physical education. New electrical services, updated technology and a new geothermal heating, ventilating, and air conditioning system will also contribute to the complete renovation of the Chenango Campus.

Approximately 60,000 square feet of new space will be added at the Harrold Campus. This two story addition will connect two classroom buildings that are currently located at the Harrold Campus. This addition will contain academic classrooms for special education and alternative education students, science labs, a gymnasium, and a dining room. Renovations of the existing two buildings will provide for larger Career and Technical Education shops and classrooms, a library-media center, and additional space for student support services. New electrical service, updated technology will also contribute to the complete renovation of the Harrold Campus.

PART 7 – ESTIMATED SOURCES AND USES OF FUNDS

Estimated sources and uses of funds are as follows:

Sources of Funds

Series 2007 Bond Proceeds	\$47,755,000.00
Net Original Issue Premium	<u>2,049,054.20</u>
Total Sources	<u><u>\$49,804,054.20</u></u>

Uses of Funds

Deposit to the Construction Fund	\$46,810,449.73
Cost of Issuance*	757,044.85
Deposit to the Debt Service Reserve Fund	1,914,000.00
Underwriters' Discount	<u>322,559.62</u>
Total Uses	<u><u>\$49,804,054.20</u></u>

*Includes the bond insurance premium.

PART 8 – THE AUTHORITY

Background, Purposes and Powers

The Authority is a body corporate and politic constituting a public benefit corporation. The Authority was created by the Act for the purpose of financing and constructing a variety of facilities for certain independent colleges and universities and private hospitals, certain not-for-profit institutions, public educational institutions including The State

University of New York, The City University of New York and Boards of Cooperative Educational Services (“BOCES”), certain school districts in the State, facilities for the Departments of Health and Education of the State, the Office of General Services, the Office of General Services of the State on behalf of the Department of Audit and Control, facilities for the aged and certain judicial facilities for cities and counties. The Authority is also authorized to make and purchase certain loans in connection with its student loan program. To carry out this purpose, the Authority was given the authority, among other things, to issue and sell negotiable bonds and notes to finance the construction of facilities of such institutions, to issue bonds or notes to refund outstanding bonds or notes and to lend funds to such institutions.

On September 1, 1995, the Authority through State legislation (the “Consolidation Act”) succeeded to the powers, duties and functions of the New York State Medical Care Facilities Finance Agency (the “Agency”) and the Facilities Development Corporation (the “Corporation”), each of which will continue its corporate existence in and through the Authority. Under the Consolidation Act, the Authority has also acquired by operation of law all assets and property, and has assumed all the liabilities and obligations, of the Agency and the Corporation, including, without limitation, the obligation of the Agency to make payments on its outstanding bonds, and notes or other obligations. Under the Consolidation Act, as successor to the powers, duties and functions of the Agency, the Authority is authorized to issue and sell negotiable bonds and notes to finance and refinance mental health services facilities for use directly by the New York State Department of Mental Hygiene and by certain voluntary agencies. As such successor to the Agency, the Authority has acquired additional authorization to issue bonds and notes to provide certain types of financing for certain facilities for the Department of Health, not-for-profit corporations providing hospital, medical and residential health care facilities and services, county and municipal hospitals and nursing homes, not-for-profit and limited profit nursing home companies, qualified health maintenance organizations and health facilities for municipalities constituting social services districts. As successor to the Corporation, the Authority is authorized, among other things, to assume exclusive possession, jurisdiction, control and supervision over all State mental hygiene facilities and to make them available to the Department of Mental Hygiene, to provide for construction and modernization of municipal hospitals, to provide health facilities for municipalities, to provide health facilities for voluntary non-profit corporations, to make its services available to the State Department of Correctional Services, to make its services available to municipalities to provide for the design and construction of local correctional facilities, to provide services for the design and construction of municipal buildings, and to make loans to certain voluntary agencies with respect to mental hygiene facilities owned or leased by such agencies.

The Authority has the general power to acquire real and personal property, give mortgages, make contracts, operate dormitories and other facilities and fix and collect rentals or other charges for their use, contract with the holders of its bonds and notes as to such rentals and charges, make reasonable rules and regulations to assure the maximum use of facilities, borrow money, issue negotiable bonds or notes and provide for the rights of their holders and adopt a program of self-insurance.

In addition to providing financing, the Authority offers a variety of services to certain educational, governmental and not-for-profit institutions, including advising in the areas of project planning, design and construction, monitoring project construction, purchasing of furnishings and equipment for projects, designing interiors of projects and designing and managing projects to rehabilitate older facilities. In succeeding to the powers, duties and functions of the Corporation as described above, the scope of design and construction services afforded by the Authority has been expanded.

Outstanding Indebtedness of the Authority (Other than Indebtedness Assumed by the Authority)

At June 30, 2007, the Authority had approximately \$33.6 billion aggregate principal amount of bonds and notes outstanding, excluding indebtedness of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act. The debt service on each such issue of the Authority’s bonds and notes is paid from moneys received by the Authority or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue or from borrowers in connection with its student loan program.

The Authority’s bonds and notes include both special obligations and general obligations of the Authority. The Authority’s special obligations are payable solely from payments required to be made by or for the account of the institution for which the particular special obligations were issued or from borrowers in connection with its student loan program. Such payments are pledged or assigned to the trustees for the holders of respective special obligations. The Authority has no obligation to pay its special obligations other than from such payments. The Authority’s general obligations are payable from any moneys of the Authority legally available for the payment of such obligations. However,

the payments required to be made by or for the account of the institution for which general obligations were issued generally have been pledged or assigned by the Authority to trustees for the holders of such general obligations. The Authority has always paid the principal of and interest on its special and general obligations on time and in full.

The total amounts of the Authority bonds and notes (excluding debt of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act) outstanding at June 30, 2007 were as follows:

Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
State University of New York Dormitory Facilities	\$ 1,975,416,000	\$ 752,200,000	\$ 0	\$ 752,200,000
State University of New York Educational and Athletic Facilities	11,351,092,999	4,656,433,960	0	4,656,433,960
Upstate Community Colleges of the State University of New York	1,366,010,000	575,980,000	0	575,980,000
Senior Colleges of the City University of New York	8,609,563,549	3,146,002,270	0	3,146,002,270
Community Colleges of the City University of New York	2,194,081,563	549,157,730	0	549,157,730
BOCES and School Districts	1,569,416,208	1,180,200,000	0	1,180,200,000
Judicial Facilities	2,161,277,717	745,382,717	0	745,382,717
New York State Departments of Health and Education and Other	3,182,915,000	1,988,005,000	0	1,988,005,000
Mental Health Services Facilities	5,682,130,000	3,719,825,000	0	3,719,825,000
New York State Taxable Pension Bonds	773,475,000	0	0	0
Municipal Health Facilities Improvement Program	913,895,000	827,890,000	0	827,890,000
Totals Public Programs	<u>\$ 39,779,273,036</u>	<u>\$ 18,141,076,677</u>	<u>\$ 0</u>	<u>\$ 18,141,076,677</u>
Non-Public Programs	Bonds Issued	Bonds Outstanding	Notes Outstanding	Bonds and Notes Outstanding
Independent Colleges, Universities and Other Institutions	\$ 14,453,076,020	\$ 6,877,178,039	\$151,373,000	\$ 7,028,551,039
Voluntary Non-Profit Hospitals	12,032,779,309	7,404,650,000	0	7,404,650,000
Facilities for the Aged	1,960,585,000	1,065,765,000	0	1,065,765,000
Supplemental Higher Education Loan Financing Program	95,000,000	0	0	0
Totals Non-Public Programs	<u>\$ 28,541,440,329</u>	<u>\$ 15,347,593,039</u>	<u>\$151,373,000</u>	<u>\$ 15,498,966,039</u>
Grand Totals Bonds and Notes	<u>\$ 68,320,713,365</u>	<u>\$ 33,488,669,716</u>	<u>\$151,373,000</u>	<u>\$ 33,640,042,716</u>

Outstanding Indebtedness of the Agency Assumed by the Authority

At June 30, 2007, the Agency had approximately \$632 million aggregate principal amount of bonds outstanding, the obligations as to all of which have been assumed by the Authority. The debt service on each such issue of bonds is paid from moneys received by the Authority (as successor to the Agency) or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue.

The total amounts of the Agency’s bonds (which indebtedness was assumed by the Authority on September 1, 1995) outstanding at June 30, 2007 were as follows:

<u>Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Mental Health Services Improvement Facilities	\$ 3,817,230,725	\$ 0
<u>Non-Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Hospital and Nursing Home Project Bond Program	\$ 226,230,000	\$ 3,930,000
Insured Mortgage Programs	6,625,079,927	592,999,927
Revenue Bonds, Secured Loan and Other Programs	<u>2,414,240,000</u>	<u>34,635,000</u>
Total Non-Public Programs	<u>9,265,549,927</u>	<u>631,564,927</u>
Total MCFFA Outstanding Debt	<u>\$ 13,082,780,652</u>	<u>\$ 631,564,927</u>

Governance

The Authority carries out its programs through an eleven-member board, a full-time staff of approximately 660 persons, independent bond counsel and other outside advisors. Board members include the Commissioner of Education of the State, the Commissioner of Health of the State, the State Comptroller or one member appointed by him or her who serves until his or her successor is appointed, the Director of the Budget of the State, one member appointed by the Temporary President of the State Senate, one member appointed by the Speaker of the State Assembly and five members appointed by the Governor, with the advice and consent of the Senate, for terms of three years. The Commissioner of Education of the State, the Commissioner of Health of the State and the Director of the Budget of the State each may appoint a representative to attend and vote at Authority meetings. The members of the Authority serve without compensation, but are entitled to reimbursement of expenses incurred in the performance of their duties.

The Governor of the State appoints a Chair from the members appointed by him or her and the members of the Authority annually choose the following officers, of which the first two must be members of the Authority: Vice-Chair, Secretary, Treasurer, Assistant Secretaries and Assistant Treasurers.

The current members of the Authority are as follows:

GAIL H. GORDON, Esq., *Chair*, Slingerlands.

Gail H. Gordon was appointed as a Member of the Authority by the Governor on May 10, 2004. Ms. Gordon served as Deputy Commissioner and General Counsel for the Office of Children and Family Services from September 15, 1997 to December 31, 2006. She previously was of counsel to the law firm of Helm, Shapiro, Anito & McCale, P.C., in Albany, New York, where she was engaged in the private practice of law. From 1987 to 1993, Ms. Gordon served as Counsel to the Comptroller of the State of New York where she directed a legal staff of approximately 40 attorneys, was responsible for providing legal and policy advice to the State Comptroller and his deputies in all areas of the State Comptroller’s responsibilities, including the supervision of accounts of public authorities and in the administration, as sole trustee, of the New York State Employees Retirement System and the Policemen’s and Firemen’s Retirement System. She served as Deputy Counsel to the Comptroller of the State of New York from 1983 to 1987. From 1974 to 1983, Ms. Gordon was an attorney with the law firm of Hinman, Howard & Kattell, Binghamton, New York, where she concentrated in areas of real estate, administrative and municipal law. Ms. Gordon holds a Bachelor of Arts degree from Smith College and a Juris Doctor degree from Cornell University School of Law. Ms. Gordon’s term expired on March 31, 2007 and by law she continues to serve until a successor shall be chosen and qualified.

JOHN B. JOHNSON, JR., *Vice-Chair*, Watertown.

John B. Johnson, Jr. was appointed as a Member of the Authority by the Governor on April 26, 2004. Mr. Johnson is Chairman of the Board and Chief Executive Officer of the Johnson Newspaper Corporation, which publishes the Watertown Daily Times, Batavia Daily News, Malone Telegram, Catskill Daily Mail, Hudson Register Star, Ogdensburg Journal, Massena-Potsdam Courier Observer, seven weekly newspapers and three shopping newspapers. He is director of the New York Newspapers Foundation, a member of the Development Authority of the North Country and the Fort Drum Regional Liaison Committee, a trustee of Clarkson University and president of the Bugbee Housing Development Corporation. Mr. Johnson has been a member of the American Society of Newspaper Editors since 1978,

and was a Pulitzer Prize juror in 1978, 1979, 2001 and 2002. He holds a Bachelor's degree from Vanderbilt University, and Master's degrees in Journalism and Business Administration from the Columbia University Graduate School of Journalism and Business. Mr. Johnson was awarded an Honorary Doctor of Science degree from Clarkson University. Mr. Johnson's term expires on March 31, 2010.

JOSE ALBERTO CORVALAN, M.D., *Secretary*, Armonk.

Dr. Corvalan was appointed as a Member of the Authority by the Governor on June 22, 2005. Dr. Corvalan is Chief of Laparoscopic Surgery at St. Vincent's Midtown Hospital in Manhattan. Dr. Corvalan is a Diplomate, American Board of Surgery, and is a Fellow of the American College of Surgeons and the New York Academy of Medicine. Dr. Corvalan has held a number of teaching positions and is Associate Professor of Surgery at New York Medical College, Valhalla, New York. His current term expires on March 31, 2008.

BRIAN RUDER, Scarsdale.

Mr. Ruder was appointed as a Member of the Authority by the Governor on June 23, 2006. He is Chief Executive Officer of Skylight Partners, a strategic marketing and business development consulting group that he founded in 2001. Prior to Skylight Partners, Mr. Ruder served for four years as Executive Vice President of Global Marketing for Citigroup. He spent 16 years at the H.J. Heinz Co. in progressively responsible positions, including President of Heinz USA, President of Weight Watchers Food Company and corporate Vice President of Worldwide Infant Feeding. He also served as Director of Marketing, New Products and Sales for Pepsi USA in the mid-1980's. Mr. Ruder is Vice Chairman of the New York State Board of Science, Technology and Academic Research (NYSTAR), and also serves on the board of the Adirondack Council, the Scarsdale United Way, the New York Metro Chapter of the Young Presidents' Organization and PNC Private Client Advisors. Mr. Ruder earned a Bachelor of Arts degree in American History in 1976 from Washington University in St. Louis, Mo., and a Master of Business Administration degree in Marketing in 1978 from the Tuck School at Dartmouth College. His current term expires on March 31, 2009.

ANTHONY B. MARTINO, CPA, Buffalo.

Mr. Martino was appointed as a Member of the Authority by the Governor on April 26, 2004. A certified public accountant with more than 37 years of experience, Mr. Martino is a retired partner of the Buffalo CPA firm Lumsden & McCormick, LLP. He began his career at Price Waterhouse where he worked in the firm's Buffalo and Washington, DC, offices. He is a member of the Board of Directors of Natural Health Trends Inc., a public company, where he chairs the Audit Committee. Mr. Martino is a member of the American Institute of CPAs and the New York State Society of CPAs. Long involved in community organizations, he serves on the boards of the Buffalo Niagara Medical Campus as Vice Chairman, Mount Calvary Cemetery as Chair of the Investment Committee, Cradle Beach Camp of which he is a former Chair, the Kelly for Kids Foundation and Key Bank. Mr. Martino received a Bachelor of Science degree in accounting from the University at Buffalo. Mr. Martino's current term expires on August 31, 2007.

SANDRA M. SHAPARD, Delmar.

Ms. Shapard was appointed as a Member of the Authority by the State Comptroller on January 21, 2003. Ms. Shapard served as Deputy Comptroller for the Office of the State Comptroller from January, 1995 until her retirement in 2001, during which time she headed the Office of Fiscal Research and Policy Analysis and twice served as Acting First Deputy Comptroller. Previously, Ms. Shapard held the positions of Deputy Director and First Deputy Director for the New York State Division of Budget, from 1991 to 1994, and Deputy Assistant Commissioner for Transit for the State Department of Transportation, from 1988 to 1991. She began her career in New York State government with the Assembly in 1975 where, over a thirteen year period, she held the positions of Staff Director of the Office of Counsel to the Majority, Special Assistant to the Speaker, and Deputy Director of Budget Studies for the Committee on Ways and Means. Ms. Shapard also served as Assistant to the County Executive in Dutchess County. A graduate of Mississippi University for Women, Ms. Shapard received a Masters of Public Administration from Harvard University, John F. Kennedy School of Government, where she has served as visiting lecturer, and has completed graduate work at Vanderbilt University.

ROMAN B. HEDGES, Delmar.

Dr. Hedges was appointed as a Member of the Authority by the Speaker of the State Assembly on February 24, 2003. Dr. Hedges currently serves as the Deputy Secretary of the New York State Assembly Committee on Ways and Means. Dr. Hedges serves on the Legislative Advisory Task Force on Demographic Research and Reapportionment. He previously served as the Director of Fiscal Studies of the Assembly Committee on Ways and Means where he was responsible for the preparation of studies of the New York State economy and revenues of local government, tax policy

and revenue analyses, and for negotiating revenue and local government legislation for the Assembly. Dr. Hedges was an Associate Professor of Political Science and Public Policy at the State University of New York at Albany where he taught graduate and undergraduate courses in American politics, research methodology, and public policy. Dr. Hedges holds a Doctor of Philosophy and a Master of Arts degree from the University of Rochester and a Bachelor of Arts degree from Knox College.

KEVIN R. CARLISLE, Averill Park.

Mr. Carlisle was appointed as a Member of the Authority by the Temporary President of the Senate on January 29, 2007. After a career in public housing and business consulting, Mr. Carlisle retired in 2003 as Assistant Commissioner of the state Division of Housing and Community Renewal ("DHCR") and Vice President of the New York State Housing Trust Fund Corporation. He was responsible for capital development programs which financed approximately 4,000 units annually, with a total development cost of \$500 million. He conceived the state's Homes for Working Families Program, which received the 1999 Award for Program Excellence from the National Council of State Housing Finance Agencies. Similarly, Mr. Carlisle implemented the Rural Leveraging Partnership Program, which was cited as a national model by U.S. Rural Housing Services. He also served at DHCR as Director of Underwriting, Deputy Director of the Office of Rural Development, and designed the housing strategy that met the state's off-site commitment to induce the U.S. Army's 10th Mountain Division to locate at Fort Drum. Before he joined DHCR in 1982, Mr. Carlisle was a partner in Barrett Carlisle & Co., a real estate development and consulting firm, and served the City of Troy and the City of Cohoes in economic planning and real estate project management. Mr. Carlisle earned both a Bachelor's degree in Economics and a Master's degree in Urban and Environmental Studies from Rensselaer Polytechnic Institute.

RICHARD P. MILLS, *Commissioner of Education of the State of New York, Albany; ex-officio.*

Dr. Mills became Commissioner of Education on September 12, 1995. Prior to his appointment, Dr. Mills served as Commissioner of Education for the State of Vermont since 1988. From 1984 to 1988, Dr. Mills was Special Assistant to Governor Thomas H. Kean of New Jersey. Prior to 1984, Dr. Mills held a number of positions within the New Jersey Department of Education. Dr. Mills' career in education includes teaching and administrative experience at the secondary and postsecondary education levels. Dr. Mills holds a Bachelor of Arts degree from Middlebury College and a Master of Arts, a Master of Business Administration and a Doctor of Education degree from Columbia University.

PAUL E. FRANCIS, *Budget Director for the State of New York, Westchester County; ex-officio.*

Mr. Francis was appointed Director of the Budget on January 1, 2007. As Director of the Budget, Mr. Francis heads the New York State Division of the Budget and serves as the chief fiscal policy advisor to the Governor. Mr. Francis is responsible for the overall development and management of the State's fiscal policy, including overseeing the preparation of budget recommendations for all State agencies and programs, economic and revenue forecasting, tax policy, fiscal planning, capital financing and management of the State's debt portfolio, as well as pensions and employee benefits. Mr. Francis also currently serves as a Senior Advisor to the Governor. Prior to his appointment to Director of the Budget and Senior Advisor to the Governor, Mr. Francis served as policy director for Governor Spitzer's gubernatorial campaign and transition team. His private sector experience includes managing partner of the Cedar Street Group, a venture capital firm he founded in 2001; chief financial officer for Priceline.com from its formation in 1997 to 2000; chief financial officer for Ann Taylor stores from 1993 to 1997; and managing director at Merrill Lynch & Co., where he worked from 1986 to 1993. Mr. Francis is a graduate of Yale College and New York University Law School.

RICHARD F. DAINES, M.D., *Commissioner of Health, Albany; ex-officio.*

Richard F. Daines, M.D., became Commissioner of Health on March 21, 2007. Prior to his appointment he served as President and CEO at St. Luke's-Roosevelt Hospital Center since 2002. Before joining St. Luke's-Roosevelt Hospital Center as Medical Director in 2000, Dr. Daines served as Senior Vice President for Professional Affairs of St. Barnabas Hospital in the Bronx, New York since 1994 and as Medical Director from 1987 to 1999. Dr. Daines received a Bachelor of History degree from Utah State University in 1974 and served as a missionary for the Church of Jesus Christ of Latter-day Saints in Bolivia, 1970-1972. He received his medical degree from Cornell University Medical College in 1978. He served a residency in internal medicine at New York Hospital and is Board Certified in Internal Medicine and Critical Care Medicine.

The principal staff of the Authority is as follows:

DAVID D. BROWN, IV is the Executive Director and chief administrative and operating officer of the Authority. Mr. Brown is responsible for the overall management of the Authority's administration and operations. He previously served as Chief of the Investment Protection Bureau in the Office of the New York State Attorney General, supervising investigations of the mutual fund and insurance industries. From 2000 to 2003, Mr. Brown served as Vice President and Associate General Counsel at Goldman, Sachs & Co., specializing in litigation involving equities, asset management and brokerage businesses. Prior to that, he held the position of Managing Director at Deutsche Bank, where he served as the senior litigation attorney, managing major litigations and customer disputes. From 1994 to 1998, Mr. Brown was Managing Director and Counsel and senior litigation attorney for Bankers Trust Corporation. He holds a Bachelor's degree from Harvard College and a Juris Doctor degree from Harvard Law School.

MICHAEL T. CORRIGAN is the Deputy Executive Director of the Authority, and assists the Executive Director in the administration and operation of the Authority. Mr. Corrigan came to the Authority in 1995 as Budget Director, and served as Deputy Chief Financial Officer from 2000 until 2003. He began his government service career in 1983 as a budget analyst for Rensselaer County, and served as the County's Budget Director from 1986 to 1995. Immediately before coming to the Authority, he served as the appointed Rensselaer County Executive for a short period. Mr. Corrigan holds a Bachelor's degree in Economics from the State University of New York at Plattsburgh and a Master's degree in Business Administration from the University of Massachusetts.

PORTIA LEE is the Managing Director of Public Finance. She is responsible for supervising and directing Authority bond issuance in the capital markets, through financial feasibility analysis and financing structure determination for Authority clients; as well as implementing and overseeing financing programs, including interest rate exchange and similar agreements. Ms. Lee previously served as Senior Investment Officer at the New York State Comptroller's Office where she was responsible for assisting in the administration of the long-term fixed income portfolio of the New York State Common Retirement Fund, as well as the short-term portfolio, and the Securities Lending Program. From 1995 to 2005, Ms. Lee worked at Moody's Investors Service where she most recently served as Vice President and Senior Credit Officer in the Public Finance Housing Group. In addition, Ms. Lee has extensive public service experience working for over 10 years in various positions in the Governor's Office, NYS Department of Social Services, as well as the New York State Assembly. She holds a Bachelor's degree from the State University of New York at Albany.

JOHN G. PASICZNYK is the Chief Financial Officer of the Authority. Mr. Pasicznyk is responsible for investment management and accounting, as well as the development of the financial policies for the Authority. Before joining the Authority in 1985, Mr. Pasicznyk worked in audit positions at KPMG Peat Marwick and Deloitte & Touche. He holds a Bachelor's degree from Syracuse University and a Master of Business Administration degree from the Fuqua School of Business at Duke University.

JEFFREY M. POHL is General Counsel to the Authority. Mr. Pohl is responsible for all legal services including legislation, litigation, contract matters and the legal aspects of all Authority financings. He is a member of the New York State Bar, and most recently served as a counsel in the public finance group of a large New York law firm. Mr. Pohl had previously served in various capacities in State government with the Office of the State Comptroller and the New York State Senate. He holds a Bachelor's degree from Franklin and Marshall College and a Juris Doctor degree from Albany Law School of Union University.

JAMES M. GRAY, R.A., is the Managing Director of Construction. In that capacity, he is responsible for the Authority's construction groups, including design, project management, purchasing, contract administration, interior design, and engineering and other technology services. He has been with the Authority since 1986, and has held increasingly responsible positions within the Office of Construction, including Director of the State University of New York (SUNY) and Independent Institutions Construction Program. He began his public service career in 1977 in the New York State Office of General Services. He has been a registered architect in New York since 1983. Mr. Gray holds a Bachelor's degree in architecture from the New York Institute of Technology.

Claims and Litigation

Although certain claims and litigation have been asserted or commenced against the Authority, the Authority believes that these claims and litigation are covered by the Authority's insurance or by bonds filed with the Authority should the Authority be held liable in any of such matters, or that the Authority has sufficient funds available or the legal power and ability to seek sufficient funds to meet any such claims or judgments resulting from such litigation.

Other Matters

New York State Public Authorities Control Board

The New York State Public Authorities Control Board (the "PACB") has authority to approve the financing and construction of any new or reactivated projects proposed by the Authority and certain other public authorities of the State. The PACB approves the proposed new projects only upon its determination that there are commitments of funds sufficient to finance the acquisition and construction of the projects. The Authority has obtained the approval of the PACB for the issuance of the Series 2007 Bonds.

Legislation

From time to time, bills are introduced into the State Legislature which, if enacted into law, would affect the Authority and its operations. The Authority is not able to represent whether such bills will be introduced or become law in the future. In addition, the State undertakes periodic studies of public authorities in the State (including the Authority) and their financing programs. Any of such periodic studies could result in proposed legislation which, if adopted, would affect the Authority and its operations.

Environmental Quality Review

The Authority complies with the New York State Environmental Quality Review Act and with the New York State Historic Preservation Act of 1980, and the respective regulations promulgated thereunder respecting the Project to the extent such acts and regulations are applicable.

Independent Auditors

The accounting firm of KPMG LLP audited the financial statements of the Authority for the fiscal year ended March 31, 2007. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

PART 9 – LEGALITY OF THE SERIES 2007 BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2007 Bonds are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, administrators, guardians, executors, trustees, committees, conservators and other fiduciaries of the State may properly and legally invest funds in their control. However, enabling legislation or bond resolutions of individual public benefit corporations and authorities of the State may limit the investment of funds of such authorities in the Series 2007 Bonds.

The Series 2007 Bonds may be deposited with the State Comptroller to secure deposits of State moneys in banks, trust companies and industrial banks.

PART 10 – NEGOTIABLE INSTRUMENTS

The Series 2007 Bonds shall be negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Master Resolution and in the Series 2007 Bonds.

PART 11 – 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 Series 2007 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Series 2007 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Series 2007 Bonds is exempt from personal income taxes of the State of New York and its political subdivisions. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Series 2007 Bonds is less than the amount to be paid at maturity of such bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2007 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2007 Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Series 2007 Bonds is the first price at which a substantial amount of such maturity of the Series 2007 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2007 Bonds accrues daily over the term to maturity of such Series 2007 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2007 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2007 Bonds. Beneficial Owners of the Series 2007 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2007 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2007 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2007 Bonds is sold to the public.

Series 2007 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 Series 2007 Bonds. The Authority and DCMO BOCES have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2007 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 Series 2007 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2007 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 Series 2007 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2007 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2007 Bonds is excluded from gross income for federal income tax purposes and is exempt from personal income taxes of the State of New York and its political subdivisions, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2007 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.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2007 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 May 21, 2007, the United States Supreme Court agreed to hear an appeal from a Kentucky state court which ruled that the United States Constitution prohibited the state from providing a tax exemption for interest on bonds issued by the state and its political subdivisions but taxing interest on obligations issued by other states and their political subdivisions. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2007 Bonds. Prospective purchasers of the Series 2007 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax 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 Series 2007 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 DCMO BOCES, 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 and DCMO BOCES have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2007 Bonds ends with the issuance of the Series 2007 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, DCMO BOCES or the Beneficial Owners regarding the tax-exempt status of the Series 2007 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, DCMO BOCES and their 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 bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the DCMO BOCES legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2007 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 Series 2007 Bonds, and may cause the Authority, DCMO BOCES or the Beneficial Owners to incur significant expense.

PART 12 – STATE NOT LIABLE ON THE SERIES 2007 BONDS

The Act provides that notes and bonds of the Authority shall not be a debt of the State nor shall the State be liable thereon, nor shall such notes or bonds be payable out of any funds other than those of the Authority. The Master Resolution specifically provides that the Series 2007 Bonds shall not be a debt of the State nor shall the State be liable thereon.

PART 13 – COVENANT BY THE STATE

The Act states that the State pledges and agrees with the holders of the Authority's notes and bonds that the State will not limit or alter the rights vested in the Authority to provide project, to establish and collect rentals therefrom and to fulfill agreements with the holders of the Authority's notes and bonds or in any way impair the rights and remedies of the holders of such notes or bonds until such notes or bonds and interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the holders of such notes or bonds are fully met and discharged. Notwithstanding the State's pledges and agreements contained in the Act, the State may, in the exercise of its sovereign power, enact or amend its laws which, if determined to be both reasonable and necessary to serve an important public purpose, could have the effect of impairing these pledges and agreements with the Authority and with the holders of the Authority's notes or bonds. The Act specifically provides that the State covenants with holders of the Bonds not to repeal, revoke rescind or modify the provisions of the Act so as to limit, impair or impede the security afforded by that portion of the Act requiring the Comptroller of the State of New York to deduct from any State funds appropriated to a BOCES an amount equal to the amount payable by DCMO BOCES to the Authority under the Agreement for the ensuing school year and further provides that no lien or charge which is prior in time or superior in right to such deduction shall be created; provided however, that nothing in the Act shall require the State to continue the payment of State aid to boards of cooperative educational services or prevent the State repealing or amending any law providing for the apportionment of such aid.

PART 14 – LEGAL MATTERS

Certain legal matters incidental to the authorization and issuance of the Series 2007 Bonds by the Authority are subject to the approval of Orrick, Herrington & Sutcliffe, LLP, New York, New York, Bond Counsel to the Authority, whose approving opinion will be delivered with the Series 2007 Bonds. The proposed form of Bond Counsel's opinion is set forth in Appendix E hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, Bond, Schoeneck & King, PLLC, Syracuse, New York and for DCMO BOCES by its counsel, Ferrara, Fiorenza, Larrison, Barrett & Reitz, P. C., East Syracuse, New York.

There is no pending litigation restraining or enjoining the issuance or delivery of the Series 2007 Bonds or questioning or affecting the validity of the Series 2007 Bonds or the proceedings and authority under which they are to be issued. There is no litigation pending which in any manner questions the right of the Authority to finance the Project in accordance with the provisions of the Act, the Master Resolution and the Agreement.

PART 15 – UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2007 Bonds from the Authority at an aggregate purchase price of \$49,481,494.58 and to make a public offering of the Series 2007 Bonds at prices that are not in excess of the public offering prices stated on the inside cover page of this Official Statement. The Underwriters will be obligated to purchase all such Series 2007 Bonds if any are purchased.

The Series 2007 Bonds may be offered and sold to certain dealers (including the Underwriters) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters.

PART 16 – CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (“Rule 15c2-12”), DCMO BOCES has undertaken in a written agreement for the benefit of the Series 2007 Bondholders to provide to Digital Assurance Certification LLC (“DAC”), on behalf of the Authority as the Authority’s disclosure dissemination agent, on or before 120 days after the end of each fiscal year, commencing with the fiscal year of DCMO BOCES ending June 30, 2007 for filing by DAC with each nationally recognized municipal securities information repository designated by the Securities and Exchange Commission in accordance with Rule 15c2-12 (each a “Repository”), and if and when one is established, the New York State Information Depository (the “State Information Depository”), on an annual basis, operating data and financial information of the type hereinafter described which is included in this Official Statement (the “Annual Information”), together with DCMO BOCES’ annual financial statements prepared in accordance with generally accepted accounting principles and audited by an independent firm of certified public accountants in accordance with generally accepted accounting standards.

If, and only if, and to the extent that it receives the Annual Information and annual financial statements described above from DCMO BOCES, DAC has undertaken in a written agreement for the benefit of the Bondholders, on behalf of and as agent for DCMO BOCES, to file such information and financial statements, as promptly as practicable, but no later than three business days after receipt of the information by DAC from DCMO BOCES, with each such Repository and with the State Information Depository. In addition, the Authority has undertaken, for the benefit of the Series 2007 Bondholders, to provide DAC in a timely manner, the notices required to be provided by Rule 15c2-12 and described below (the “Notices”).

The Annual Information will consist of the following: (a) operating data and financial information of the type included in this Official Statement in “PART 5 – DCMO BOCES” under the heading “Financial Information” (only to the extent that this information is not included in the audited financial statements of DCMO BOCES), together with (b) a narrative explanation, if necessary to avoid misunderstanding, regarding the presentation of financial and operating data concerning DCMO BOCES and in judging the financial and operating condition of DCMO BOCES.

The Notices include notice of any of the following events with respect to the Series 2007 Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (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 or events affecting the tax-exempt status of the Series 2007 Bonds; (7) modifications to rights of the Holders of the Series 2007 Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2007 Bonds; and (11) rating changes. In addition, the Authority will undertake, for the benefit of the Holders of the Series 2007 Bonds, to provide to each Repository or the MSRB and the State Information Repository, in a timely manner, notice of any failure by DCMO BOCES to provide the Annual Information and annual financial statements by the date required in DCMO BOCES’ undertaking described above.

The sole and exclusive remedy for breach or default under the Continuing Disclosure Agreement is an action to compel specific performance of the undertakings of DCMO BOCES and/or the Authority, and no person, including any

Holder of the Series 2007 Bonds, may recover monetary damages thereunder under any circumstances. The Authority or DCMO BOCES may be compelled to comply with their respective obligations under the Continuing Disclosure Agreement (i) in the case of enforcement of their obligations to provide information required thereunder, by any Holder of Outstanding Series 2007 Bonds or by the Trustee on behalf of the Holders of Outstanding Series 2007 Bonds or (ii) in the case of challenges to the adequacy of the information provided, by the Trustee on behalf of the Holders of Outstanding Series 2007 Bonds. However, the Trustee is not required to take any enforcement action unless so directed by the Holders of not less than 25% in aggregate principal amount of Outstanding Series 2007 Bonds. A breach or default under the Continuing Disclosure Agreement will not constitute an Event of Default under the Master Resolution. 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 Continuing Disclosure Agreement, insofar as the provision of Rule 15c2-12 no longer in effect required the providing of such information, will no longer be required to be provided.

The foregoing undertakings are intended to set forth a general description of the type of financial information and operating data that will be provided; the descriptions are not intended to state more than general categories of financial information and operating data; and where an undertaking calls for information that no longer can be generated or is no longer relevant because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. The Continuing Disclosure Agreement, however, may under certain circumstances be amended or modified without the consent of Holders of the Series 2007 Bonds. Copies of the Continuing Disclosure Agreements when executed by the parties thereto upon the delivery of the Series 2007 Bonds will be on file at the principal office of the Authority.

PART 17 - SOURCES OF INFORMATION AND CERTIFICATIONS

Certain information concerning DCMO BOCES included in this Official Statement has been furnished or reviewed and authorized for use by the Authority by such sources as described below. While the Authority believes that these sources are reliable, the Authority has not independently verified this information and does not guarantee the accuracy or completeness of the information furnished by the respective sources. The Authority is relying on certificates from each source, to be delivered at or prior to the time of delivery of the Series 2007 Bonds, as to the accuracy of such information provided or authorized by it.

DCMO BOCES. The information in “PART 4 – BOARDS OF COOPERATIVE EDUCATIONAL SERVICES,” “PART 5 – DCMO BOCES,” “PART 6 – THE PROJECT”, “PART 7 – ESTIMATED SOURCES AND USES OF FUNDS” and “Appendix B – Financial Statements of DCMO BOCES” was supplied by DCMO BOCES. The Authority believes that this information is reliable, but the Authority makes no representations or warranties whatsoever to the accuracy or completeness of this information.

The New York State Department of Education (the "Department"). The information contained herein relating to BOCES generally and to the Department's participation in the transactions contemplated herein has been reviewed for accuracy by the Department. The Authority believes that this information is reliable, but the Authority makes no representations or warranties whatsoever to the accuracy or completeness of this information.

The information contained herein relating to XLCA, the Policy and “Appendix F – Specimen Insurance Policies,” has been reviewed for accuracy by XLCA. The Authority believes that this information is reliable, but makes no representations or warranties whatsoever to the accuracy or completeness of this information.

DTC. The information regarding DTC and DTC’s book-entry only system has been furnished by DTC. The Authority believes that this information is reliable, but makes no representations or warranties whatsoever to the accuracy or completeness of this information.

Bond Counsel. “Appendix A - Definitions”, “Appendix C - Summary of Certain Provisions of the Agreement”, “Appendix D - Summary of Certain Provisions of the Master Resolution” and “Appendix E – Form of Approving Opinion of Bond Counsel” have been prepared by Orrick, Herrington & Sutcliffe LLP New York, New York, Bond Counsel.

Independent Auditors. “Appendix B – Financial Statements of DCMO BOCES” have been prepared by D’Arcangelo & Co. LLP, DCMO BOCES’ independent auditors.

The Authority. The Authority provided the balance of the information in or appended to this Official Statement, except as otherwise specifically noted herein.

The Authority will certify that, both as of the date of this Official Statement and on the date of delivery of the Series 2007 Bonds, the information contained in this Official Statement is and will be fairly presented in all material respects, and that this Official Statement does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading (it being understood that the Authority has relied upon and has not undertaken independently to verify the information contained in this Official Statement relating to DCMO BOCES, but which information the Authority has no reason to believe is untrue or incomplete in any material respect).

The references herein to the Act, other laws of the State, the Resolutions, the Agreement and the Agreement of Lease are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and reference should be made to each for a full and complete statement of its provisions. The agreements of the Authority with the registered owners of the Series 2007 Bonds are fully set forth in the Master Resolution, and neither any advertisement of the Series 2007 Bonds nor this Official Statement is to be construed as a contract with the purchasers of the Series 2007 Bonds. So far as any statements are made in this Official Statement involving matters of opinion or an estimate, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Copies of the documents mentioned in this paragraph are on file at the offices of the Authority and the Trustee.

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

**DORMITORY AUTHORITY OF
THE STATE OF NEW YORK**

By: /s/ David D. Brown, IV
Authorized Officer

DEFINITIONS

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DEFINITIONS

The following are definitions of certain of the terms defined herein, or in the Master Resolution or the Agreement and used in this Official Statement.

Accreted Value means with respect to any Capital Appreciation Bond (i) as of any Valuation Date, the amount set forth for such date in the Series Resolution authorizing such Capital Appreciation Bond or the Bond Series Certificate relating to such Bond and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues during any semi-annual period in equal daily amounts on the basis of a year of twelve (12) thirty-day months, and (2) the difference between the Accreted Values for such Valuation Dates.

Act means the Dormitory Authority Act, being and constituting Title 4 of Article 8 of the Public Authorities Law of the State, as amended.

Administrative Expenses means expenses incurred by the Authority in carrying out its duties under the Agreement and under the Resolution, the BOCES Lease, and any other document, instrument, agreement, law, rule or regulation related to any Leased Property including, without limitation, accounting, administrative, financial advisory and legal expenses incurred in connection with the financing and construction of the Project, the fees and expenses of the Trustee, any Paying Agents or any other fiduciaries acting under the Resolution, the fees and expenses of any Facility Provider, the costs and expenses incurred in connection with the determination of the rate at which a Variable Interest Rate Bond is to bear interest and the remarketing of such Bond, the cost of providing insurance with respect to the Leased Property and the Project, judgments or claims payable by the Authority for the payment of which the Authority has been indemnified or held harmless pursuant to the Agreement, but only to the extent that moneys in the Construction Fund are not available therefor, and expenditures to compel full and punctual performance of the BOCES Lease, the Agreement, or any document, instrument or agreement related thereto in accordance with its terms.

Agreement means the Lease and Agreement, dated as of April 25, 2007, between the Authority and the BOCES, as from time to time amended or supplemented in accordance with the terms and provisions of the Agreement and the Resolution.

Annual Administrative Fee means when used with respect to any Bond Year, a share of the general overhead and administrative expenditures of the Authority reasonably allocated to the Project for such Bond Year by the Authority in accordance with a formula approved by the Comptroller of the State of New York.

Applicable means (i) with respect to any Construction Fund, Arbitrage Rebate Fund, Building and Equipment Reserve Fund, Debt Service Fund, Debt Service Reserve Fund, the fund so designated and established by an Applicable Series Resolution authorizing an Applicable Series of Bonds relating to a particular Project, (ii) with respect to any Debt Service Reserve Fund Requirement, the said Requirement established in connection with a Series of Bonds by the Master Resolution or the Applicable Series Resolution, (iii) with respect to any Series Resolution, the Series Resolution relating to a particular Series of Bonds, (iv) with respect to any Series of Bonds, the Series of Bonds issued under a Series Resolution for a particular Project for a BOCES, (v) with respect to any Agreement or Lease Agreement, the Applicable Agreement or Applicable Lease Agreement, as the case may be, entered into by and between a BOCES and the Authority, relating to all Projects for a particular BOCES, (vii) with respect to a Credit Facility or Liquidity Facility, the Credit Facility or Liquidity Facility identified in the Applicable Series Resolution, (viii) with respect to a Bond Series Certificate, such certificate authorized pursuant to an Applicable Series Resolution, (ix) with respect to a Reserve Fund Facility and a Facility Provider, a Reserve Fund Facility which constitutes all or any part of the Debt Service Reserve Fund Requirement in connection with an Applicable Series of Bonds or the Facility Provider thereof, and (x) with respect to Revenues and Pledged Revenues, the amounts payable to the Authority on account of a Series of Bonds.

Appreciated Value means with respect to any Deferred Income Bond (i) as of any Valuation Date, the amount set forth for such date in the Applicable Series Resolution authorizing such Deferred Income Bond or in the Bond Series Certificate relating to such Bond and (ii) as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation

Appendix A

Date to the next succeeding Valuation Date, calculated based on the assumption that Appreciated Value accrues during any semi-annual period in equal daily amounts on the basis of a year of twelve (12) thirty-day months, and (2) the difference between the Appreciated Values for such Valuation Dates, and (iii) as of any date of computation on and after the Interest Commencement Date, the Appreciated Value on the Interest Commencement Date.

Arbitrage Rebate Fund means each such fund so designated, created and established by the Applicable Series Resolution.

Authority Fee means the fee payable to the Authority in the amount of \$75,000 as compensation for all of the Authority's internal costs and overhead expenses attributable to an issuance of the Bonds, excluding Administrative Expenses and the Annual Administrative Fee.

Authorized Officer means (i) in the case of the Authority, the Chairman, the Vice-Chairman, the Treasurer, an Assistant Treasurer, the Secretary, an Assistant Secretary, the Executive Director, the Deputy Executive Director, the Chief Financial Officer, the General Counsel, the Chief Information Officer, and a Managing Director, and when used with reference to any act or document also means any other person authorized by a resolution or the by-laws of the Authority to perform such act or execute such document; (ii) in the case of a BOCES, when used with reference to any act or document, means the person identified in the Master Resolution or in the Applicable Agreement or Applicable Lease Agreement, as authorized to perform such act or execute such document, and in all other cases means the Superintendent or an officer or employee of a BOCES authorized in a written instrument signed by the Superintendent; and (iii) in the case of the Trustee, the President, a Vice President, a Corporate Trust Officer, an Assistant Corporate Trust Officer, a Trust Officer or an Assistant Trust Officer of the Trustee, and when used with reference to any act or document also means any other person authorized to perform any act or sign any document by or pursuant to a resolution of the Board of Directors of the Trustee or the by-laws of the Trustee.

Basic Rent means that portion of the Rentals payable pursuant to the Applicable Agreement.

BOCES means the Board of Cooperative Educational Services for The Sole Supervisory District of Delaware, Chenango, Madison and Otsego Counties, a corporation organized and existing under Section 1950(6) of the State Education Law.

BOCES Lease means that certain Agreement of Lease, dated as of April 25, 2007, by and between the BOCES, as lessor, and the Authority, as lessee, as it may be from time to time amended, modified and supplemented.

Bond or Bonds means any of the bonds of the Authority, including the Series 2007 Bonds, authorized and issued pursuant to the Master Resolution and to an Applicable Series Resolution.

Bond Counsel means an attorney or a law firm, appointed by the Authority with respect to a particular Series of Bonds, having a national reputation in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds.

Bond Series Certificate means the certificate of an Authorized Officer of the Authority, including the Series 2007 Bond Series Certificate, fixing terms, conditions and other details of Bonds of an Applicable Series in accordance with the delegation of power to do so under the Master Resolution or under the Applicable Series Resolution authorizing the issuance of such Bonds.

Bond Year means unless otherwise stated in the Applicable Series Resolution, a period of twelve (12) consecutive months beginning August 15 in any calendar year and ending on August 14 of the succeeding calendar year.

Bondholder, Holder of Bonds or Holder or any similar term, when used with reference to a Bond or Bonds, means the registered owner of any Bond.

Building and Equipment Reserve Fund means each such fund so designated and established by the Applicable Series Resolution.

Business Day means any day which is not a Saturday, Sunday or a day on which banking institutions chartered by the State or the United States of America are legally authorized to close in The City of New York; provided, however, that, with respect to Option Bonds or Variable Interest Rate Bonds of a Series, such term means any day which is not a Saturday, Sunday or a day on which the New York Stock Exchange, banking institutions chartered by the State or the United States

of America, the Trustee or the issuer of a Credit Facility or Liquidity Facility for such Bonds are legally authorized to close in The City of New York.

Capital Appreciation Bond means any Bond as to which interest is compounded on each Valuation Date therefor and is payable only at the maturity or prior redemption thereof.

Code means the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

Construction Fund means each such fund so designated, created and established by the Applicable Series Resolution pursuant to the Master Resolution.

Cost or Costs of Issuance means the items of expense incurred in connection with the authorization, sale and issuance of an Applicable Series of Bonds, which items of expense will include, but not be limited to, document printing and reproduction costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Trustee or a Depository, legal fees and charges, professional consultants' fees, fees and charges for execution, transportation and safekeeping of such Bonds, premiums, fees and charges for insurance on Bonds, commitment fees or similar charges of a Remarketing Agent or relating to a Credit Facility or a Liquidity Facility, costs and expenses of refunding such Bonds and other costs, charges and fees, including those of the Authority, in connection with the foregoing.

Cost or Costs of the Project means with respect to an Applicable Project costs and expenses or the refinancing of costs and expenses determined by the Authority to be necessary in connection with the Project, including, but not limited to, (i) costs and expenses of the acquisition of the title to or other interest in real property, including easements, rights-of-way and licenses, (ii) costs and expenses incurred for labor and materials and payments to contractors, builders and materialmen, for the acquisition, construction, reconstruction, rehabilitation, repair and improvement of such Project, (iii) the cost of surety bonds and insurance of all kinds, including premiums and other charges in connection with obtaining title insurance, that may be required or necessary prior to completion of such Project, which is not paid by a contractor or otherwise provided for, (iv) the costs and expenses for design, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising such Project, (v) costs and expenses required for the acquisition and installation of furnishings, equipment, machinery and apparatus, (vi) all other costs which the Applicable BOCES or the Authority will be required to pay or cause to be paid for the acquisition, construction, reconstruction, rehabilitation, repair, improvement and equipping of such Project, (vii) any sums required to reimburse the BOCES or the Authority for advances made by them for any of the above items or for other costs incurred and for work done by them in connection with such Project (including interest on borrowed money), (viii) interest on the Bonds prior to, during and for a reasonable period after completion of the acquisition, construction, reconstruction, rehabilitation, repair, improvement or equipping of such Project, and (ix) fees, expenses and liabilities of the Authority incurred in connection with such Project or pursuant hereto or to the Applicable Agreement or Applicable Lease Agreement, a Credit Facility, a Liquidity Facility or a Remarketing Agreement.

Credit Facility means an irrevocable letter of credit, surety bond, loan agreement, Standby Purchase Agreement, municipal bond insurance policy or other agreement, facility or insurance or guaranty arrangement issued or extended by a bank, a trust company, a national banking association, an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of any state of the United States of America, the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority, pursuant to which the Authority is entitled to obtain moneys to pay the principal, purchase price or Redemption Price of Bonds due in accordance with their terms, plus accrued interest thereon to the date of payment, purchase or redemption thereof, in accordance with the Master Resolution and with the Series Resolution authorizing such Bonds or a Bond Series Certificate, whether or not the Authority is in default under the Master Resolution.

Debt Service Fund means the fund so designated, created and established by the Applicable Series Resolution.

Debt Service Reserve Fund means the fund so designated, created and established by the Applicable Series Resolution.

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Debt Service Reserve Fund Requirement means, as of any particular date of computation, with respect to Bonds of a Series, one-half of the amount equal to the greatest amount required in the then current or any future calendar year to pay the sum of the principal and Sinking Fund Installments of and interest on such Series of Outstanding Bonds payable during such year, excluding interest accrued thereon prior to August 15 of the next preceding year, except that if, upon the issuance of a Series of Bonds, such amount would require moneys, in an amount in excess of the maximum amount permitted under the Code to be deposited therein from the proceeds of such Bonds, to be deposited therein, the Debt Service Reserve Fund Requirement will mean an amount equal to the maximum amount permitted under the Code to be deposited therein from the proceeds of such Bonds, as certified by an Authorized Officer of the Authority; provided, however, that for purposes of this definition (a) the principal and interest portions of the Accreted Value of a Capital Appreciation Bond and the Appreciated Value of a Deferred Income Bond becoming due at maturity or by virtue of a Sinking Fund Installment will be included in the calculations of interest and principal payable on August 15 of the year in which such Capital Appreciation Bond or Deferred Income Bond matures or in which such Sinking Fund Installment is due, (b) an Option Bond Outstanding during any Bond Year will be assumed to mature on the stated maturity date thereof, and (c) it will be assumed that a Variable Interest Rate Bond, prior to its conversion to bear interest at a fixed rate to its maturity, bears interest during any year at the higher of (1) a fixed rate of interest equal to that rate, as estimated by an Authorized Officer of the Authority, after consultation with the remarketing agent, if any, for such Variable Interest Rate Bond if it is also an Option Bond or, if it is not, with an investment banking firm which is regularly engaged in the underwriting of or dealing in bonds of substantially similar character, on a day not more than twenty (20) days prior to the date of initial issuance of such Variable Interest Rate Bond, which such Variable Interest Rate Bond would have had to bear to be marketed at par on such date as a fixed rate obligation maturing on the maturity date of such Variable Interest Rate Bond, and (2) a rate, not less than the initial rate of interest on such Variable Interest Rate Bond, set forth in or determined pursuant to a formula set forth in the Applicable Series Resolution authorizing such Variable Interest Rate Bond or in the Applicable Bond Series Certificate relating to such Bond, and (d) if a Variable Interest Rate Bond will be converted to a fixed rate Bond for the remainder of the term thereof and as a result of such conversion a deficiency will be created in the Debt Service Reserve Fund, the Debt Service Reserve Fund Requirement will be calculated so as to exclude the amount of such deficiency and the Debt Service Reserve Fund Requirement will be increased in each of the five (5) years after the date of such conversion by an amount which will be equal to twenty per centum (20%) of the aforesaid deficiency.

Defeasance Security means (a) a direct obligation of the United States of America, an obligation the principal of and interest on which are guaranteed by the United States of America (other than an obligation the payment of the principal of which is not fixed as to amount or time of payment), an obligation to which the full faith and credit of the United States of America are pledged (other than an obligation the payment of the principal of which is not fixed as to amount or time of payment) and a certificate or other instrument which evidences the ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, direct obligations of the United States of America, which, in each case, is not subject to redemption prior to maturity other than at the option of the holder thereof or which has been irrevocably called for redemption on a stated future date or (b) an Exempt Obligation (i) which is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, (ii) which is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or direct obligations of the United States of America which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (i) above, (iii) as to which the principal of and interest on the direct obligations of the United States of America which have been deposited in such fund, along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (i) above, and (iv) which are rated by a Rating Agency in the highest rating category of each such rating service for such Exempt Obligation; provided, however, that such term will not mean any interest in a unit investment trust or mutual fund.

Deferred Income Bond means any Bond as to which interest accruing thereon prior to the Interest Commencement Date of such Bond is compounded on each Valuation Date for such Deferred Income Bond, and as to which interest accruing after the Interest Commencement Date is payable semi-annually on February 15 and August 15 of each Bond Year.

Depository means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State, or its nominee, or any other person, firm, association or corporation designated in the Series Resolution authorizing a Series of Bonds or a Bond Series Certificate relating to a Series of Bonds to serve as securities depository for the Bonds of such Series.

Exempt Obligation means (i) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, which is not a "specified private activity bond" within the meaning of Section 57(a)(5) of the Code, and which, at the time an investment therein is made or such obligation is deposited in any fund or account under the Master Resolution, is rated, without regard to qualification of such rating by symbols such as "+" or "-" and numerical notation, in not less than the second highest rating category of each Rating Agency rating such obligation, or, if such obligation is not rated by a Rating Agency, has been assigned a comparable rating by another nationally recognized rating service or (ii) United States Treasury Demand Deposit Certificates of Indebtedness - State and Local Government Series, to the extent treated as a tax exempt obligation for purposes of Section 148 of the Code.

Facility Provider means the issuer of a Credit Facility, a Liquidity Facility or a Reserve Fund Facility delivered to the Applicable Trustee pursuant to the Master Resolution.

Fitch means Fitch, Inc., a corporation organized and created under the laws of the State of Delaware and its successors and assigns.

Government Obligation means a direct obligation of the United States of America, an obligation the principal of and interest on which are guaranteed by the United States of America, an obligation (other than an obligation the payment of the principal of which is not fixed as to amount or time of payment) to which the full faith and credit of the United States of America are pledged, an obligation of any federal agency approved by the Authority, a certificate or other instrument which evidences the ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, direct obligations of the United States of America or a share or interest in a mutual fund, partnership or other fund wholly comprised of such obligations.

Interest Commencement Date means, with respect to any particular Deferred Income Bond, the date prior to the maturity date thereof specified in the Applicable Series Resolution authorizing such Bond or in the Bond Series Certificate relating to such Bond, after which interest accruing on such Bond will be payable on the interest payment date immediately succeeding such Interest Commencement Date and semi-annually thereafter on February 15 and August 15 of each Bond Year;

Investment Agreement means an agreement for the investment of moneys with a Qualified Financial Institution.

Leased Property means the real property described in Exhibit A to the Agreement, the buildings and improvements situated thereon or from time to time erected thereon and the Personal Property now or hereafter situated on or used in connection therewith (but only to the extent such Personal Property is financed with the proceeds of Bonds) constituting "board of cooperative educational services school facilities" as defined in the Act.

Liquidity Facility means an irrevocable letter of credit, surety bond, loan agreement, Standby Purchase Agreement, line of credit or other agreement or arrangement issued or extended by a bank, a trust company, a national banking association, an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a savings bank, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings and loan association, an insurance company or association chartered or organized under the laws of any state of the United States of America, the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority, pursuant to which moneys are to be obtained upon the terms and conditions contained therein for the purchase or redemption of Option Bonds tendered for purchase or redemption in accordance with the terms hereof and of the Applicable Series Resolution authorizing such Bonds or the Applicable Bond Series Certificate relating to such Bonds.

Appendix A

Master Resolution means the Authority's Master BOCES Program Lease Revenue Bond Resolution, adopted on August 15, 2001.

Maximum Interest Rate means, with respect to any particular Variable Interest Rate Bond, the numerical rate of interest, if any, set forth in the Series Resolution authorizing such Bond or in the Bond Series Certificate relating to such Bond, that will be the maximum rate at which such Bond may bear interest at any time.

Memorandum of Understanding means the Memorandum of Understanding, among the Authority, the New York State Department of Education and the Office of State Comptroller.

Minimum Interest Rate means, with respect to any particular Variable Interest Rate Bond, a numerical rate of interest, if any, set forth in the Series Resolution authorizing such Bond or in the Bond Series Certificate relating to such Bond, that will be the minimum rate at which such Bonds may bear interest at any time.

Moody's means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, or its successors and assigns.

Option Bond means any Bond which by its terms may be tendered by and at the option of the Holder thereof for redemption by the Authority prior to the stated maturity thereof or for purchase thereof, or the maturity of which may be extended by and at the option of the Holder thereof in accordance with the Series Resolution authorizing such Bonds or the Bond Series Certificate related to such Bonds.

Outstanding, when used in reference to Bonds, means, as of a particular date, all Bonds authenticated and delivered under the Master Resolution and under any Applicable Series Resolution except: (i) any Bond canceled by the Applicable Trustee at or before such date; (ii) any Bond deemed to have been paid in accordance with the Master Resolution; (iii) any Bond in lieu of or in substitution for which another Bond will have been authenticated and delivered pursuant to the Master Resolution; and (iv) Option Bonds tendered or deemed tendered in accordance with the provisions of the Series Resolution authorizing such Bonds or the Bond Series Certificate related to such Bonds on the applicable adjustment or conversion date, if interest thereon will have been paid through such applicable date and the purchase price thereof will have been paid or amounts are available for such payment as provided in the Agreement and in the Series Resolution authorizing such Bonds.

Paying Agent means, with respect to the Bonds of any Series, the Trustee and any other bank or trust company and its successor or successors, appointed pursuant to the provisions of the Master Resolution or of a Series Resolution, a Bond Series Certificate or any other resolution of the Authority adopted prior to authentication and delivery of the Series of Bonds for which such Paying Agent or Paying Agents will be so appointed.

Permitted Encumbrances means and includes:

1. the lien of taxes and assessments and water and sewer rents and charges which are not yet due and payable;
2. rights reserved to or vested in any municipality or governmental or other public authority to control or regulate or use in any manner any portion of the Leased Property which do not materially impair the use of the Leased Property for the purposes for which it is or may reasonably be expected to be held;
3. minor defects and irregularities in the title to the Leased Property which do not in the aggregate materially impair the use of the Leased Property for the purposes for which it is or may reasonably be expected to be held;
4. easements, exceptions or reservations for the purpose of pipelines, telephone lines, telegraph lines, power lines and substations, roads, streets, alleys, highways, railroad purposes, drainage and sewerage purposes, dikes, canals, laterals, ditches, the removal of oil, gas, coal or other minerals, and other like purposes, or for the joint or common use of real property, facilities and equipment, which do not materially impair the use of such property for the purposes for which it is or may reasonably be expected to be held;
5. present or future valid zoning laws and ordinances;
6. any purchase money security interests in any Personal Property, other than with respect to Personal Property financed with the proceeds of the Bonds and any replacements thereof;
7. all other matters of record and state of title at the commencement date of the Agreement, rights of parties in possession and any state of facts which an accurate survey or physical inspection would show;

8. the BOCES Lease;
9. those matters referred to in any title insurance policy with respect to the Leased Property and accepted by the Authority; and
10. such other encumbrances or items to which the BOCES will have consented in writing signed by an Authorized Officer.

Personal Property means all articles of tangible personal property of every kind and description presently located or hereafter placed on or used in connection with the management or operation of the Leased Property other than those which, by the nature of their attachment to the Leased Property become real property pursuant to applicable law, including all escalators and elevators; all heating, ventilating, and air-conditioning equipment; all appliances, apparatus, machinery, motors and electrical equipment; all interior and exterior lighting equipment; all telephone, intercom, audio, music and other sound reproduction and communication equipment; all floor coverings, carpeting, wall coverings, drapes, furniture, trash containers, carts, decorative plants, planters, sculptures, fountains, artwork and other mall, common area, auditorium and office furnishings; all plumbing fixtures, facilities and equipment; all cleaning, janitorial, lawn, landscaping, disposal, firefighting, sprinkler and maintenance equipment and supplies; all books, records, files, financial and accounting records relating to the ownership, operation or management of the Project; all drawings, plans and specifications relating to the improvements; and all other personal property whether similar or dissimilar to the foregoing which is now or in the future used in the ownership, operation or management of the Project, including all additions thereto, proceeds received upon voluntary or involuntary disposition thereof, and all renewals or replacements thereof or articles in substitution therefor.

Plans and Specifications means the final design for the Project, including a complete set of architectural, structural, HVAC, plumbing, electrical, landscape and furniture and equipment drawings, specifications and a shop drawings list which comply with all applicable laws, as well as all required regulatory approvals and utility acceptances, together with any amendments thereto including increasing, decreasing or otherwise modifying the scope of the Project provided that such amendments are approved in writing by the State Education Department and filed with the Authority.

Pledged Revenues means the State funds that are pledged and assigned by a BOCES to the Authority pursuant to an Applicable Agreement to secure the BOCES obligations under such Agreement and that are required by the Act and the Education Law to be paid directly to the Authority or the Applicable Trustee.

Prior Pledges means the liens, pledges, charges, encumbrances and security interests made and given by a BOCES to secure prior obligations incurred by said BOCES, the maintenance of which has been approved by the Authority.

Project (as defined in the Master Resolution) means the acquisition, design, construction, reconstruction, rehabilitation, improvement and equipping of "board of cooperative educational services school facilities" as defined in the Act.

Qualified Financial Institution means (i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, (ii) a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of any state of the United States of America, (iii) a corporation affiliated with or which is a subsidiary of any entity described in (i) or (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity or (iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority; provided, however, that in the case of any entity described in (ii) or (iii) above, the unsecured or uncollateralized long-term debt obligations of which, or obligations secured or supported by a letter of credit, contract, agreement or surety bond issued by any such organization, at the time an Investment Agreement is entered into by the Authority are rated, without regard to qualification of such rating by symbols such as "+" or "-" or numerical notation, "A" or better by at least two Rating Agencies, or, if such obligations are not rated by at least two Rating Agencies, have been assigned a comparable rating by at least one Rating Agency, but in no event will such obligations be rated lower than the lowest rating assigned by a Rating Agency to any Outstanding Bonds.

Appendix A

Rating Agency means on any date each of Fitch, Moody's or S&P that then has, at the request of the Authority, assigned a rating to the Applicable Series of Bonds, and any nationally recognized rating service that has been designated as a rating service by the Authority for purposes of the Master Resolution.

Redemption Price, when used with respect to a Bond, means the principal amount of such Bond plus the applicable premium, if any, payable upon redemption prior to maturity thereof pursuant to the Master Resolution or to the Applicable Series Resolution or Bond Series Certificate.

Remarketing Agent means the person appointed by or pursuant to a Series Resolution authorizing the issuance of Option Bonds to remarket such Option Bonds tendered or deemed to have been tendered for purchase in accordance with such Series Resolution or the Bond Series Certificate relating to such Option Bonds.

Rentals means the rent payable under the Agreement.

Reserve Fund Facility means a surety bond, insurance policy or letter of credit which constitutes any part of the Debt Service Reserve Fund Requirement authorized to be delivered to the Trustee pursuant to the Master Resolution.

Resolution means the Master Resolution, as supplemented by the Series 2007 Resolution.

Revenues means (i) the Basic Rent paid by a BOCES pursuant to the Agreement, (ii) the Applicable Pledged Revenues and (iii) the right to receive the same and the proceeds thereof and of such right.

S&P means Standard & Poor's Ratings Series, a division of The McGraw-Hill Corporation, or its successors and assigns.

Series means all of the Bonds authenticated and delivered on original issuance and pursuant to the Master Resolution and to the Applicable Series Resolution authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Master Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions.

Series Resolution means a resolution of the Authority, including the Series 2007 Resolution, authorizing the issuance of a Series of Bonds adopted by the Authority pursuant to the Master Resolution.

Series 2007 Bond Series Certificate means the Certificate of an authorized officer of the Authority, fixing terms, conditions and other details of the Series 2007 Bonds.

Series 2007 Resolution means the Series 2007 Resolution Authorizing Up To \$50,000,000 Master BOCES Program Lease Revenue Bonds (Delaware, Chenango, Madison and Otsego Issue), Series 2007, adopted by the Authority on April 25, 2007.

Sinking Fund Installment means, as of any date of calculation, when used with respect to any Bonds of a Series, other than Option Bonds or Variable Interest Rate Bonds, so long as any such Bonds are Outstanding, the amount of money required hereby or by the Series Resolution pursuant to which such Bonds were issued or by the Bond Series Certificate relating thereto, to be paid on a single future August 15 for the retirement of any Outstanding Bonds of said Series which mature after said future August 15, but does not include any amount payable by the Authority by reason only of the maturity of a Bond, and said future August 15 is deemed to be the date when a Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Bonds are deemed to be Bonds entitled to such Sinking Fund Installment, and when used with respect to Option Bonds or Variable Interest Rate Bonds of a Series, so long as such Bonds are Outstanding, the amount of money required by the Series Resolution pursuant to which such Bonds were issued or by the Bond Series Certificate relating thereto, to be paid on a single future date for the retirement of any Outstanding Bonds of said Series which mature after said future date, but does not include any amount payable by the Authority by reason only of the maturity of a Bond, and said future date is deemed to be the date when a Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Option Bonds or Variable Rate Interest Bonds of such Series are deemed to be Bonds entitled to such Sinking Fund Installment.

State means the State of New York.

Supplemental Resolution means any resolution of the Authority amending or supplementing the Master Resolution, any Applicable Series Resolution or any Supplemental Resolution adopted and becoming effective in accordance with the terms and provisions of the Master Resolution.

Term Bonds means the Bonds so designated in an Applicable Series Resolution or an Applicable Bond Series Certificate and payable from Sinking Fund Installments.

Trustee means the bank or trust company appointed as Trustee for the Bonds pursuant to the Applicable Series Resolution or Applicable Bond Series Certificate and having the duties, responsibilities and rights provided for in the Master Resolution with respect to such Series, and its successor or successors and any other bank or trust company which may at any time be substituted in its place pursuant to the Master Resolution.

Valuation Date means (i) with respect to any Capital Appreciation Bond, the date or dates set forth in the Series Resolution authorizing such Bond or in the Bond Series Certificate relating to such Bond on which specific Accreted Values are assigned to such Capital Appreciation Bond, and (ii) with respect to any Deferred Income Bond, the date or dates prior to the Interest Commencement Date and the Interest Commencement Date set forth in the Series Resolution authorizing such Bond or in the Bond Series Certificate relating to such Bond on which specific Appreciated Values are assigned to such Deferred Income Bond.

Variable Interest Rate means the rate or rates of interest to be borne by a Series of Bonds or any one or more maturities within a Series of Bonds which is or may be varied from time to time in accordance with the method of computing such interest rate or rates specified in the Series Resolution authorizing such Bonds or the Bond Series Certificate relating to such Bonds, which will be based on (i) a percentage or percentages or other function of an objectively determinable interest rate or rates (e.g., a prime lending rate) which may be in effect from time to time or at a particular time or times or (ii) a stated interest rate that may be changed from time to time as provided in the Series Resolution authorizing such Bonds or the Bond Series Certificate relating to such Bond; provided, however, that such variable interest rate may be subject to a Maximum Interest Rate and a Minimum Interest Rate and that there may be an initial rate specified, in each case as provided in such Series Resolution or a Bond Series Certificate; provided, further, that such Series Resolution or Bond Series Certificate will also specify either (x) the particular period or periods of time or manner of determining such period or periods of time for which each variable interest rate will remain in effect or (y) the time or times at which any change in such variable interest rate will become effective or the manner of determining such time or times.

Variable Interest Rate Bond means any Bond which bears a Variable Interest Rate; provided, however, that a Bond the interest rate on which has been fixed for the remainder of the term thereof will no longer be a Variable Interest Rate Bond.

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**FINANCIAL STATEMENTS OF
DELAWARE CHENANGO MADISON OTSEGO
BOCES**

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DELAWARE-CHENANGO-
MADISON AND OTSEGO
BOCES

MANAGEMENT'S
DISCUSSION AND
ANALYSIS

AND

BASIC FINANCIAL
STATEMENTS

For the Year Ended
June 30, 2006

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES

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D'Arcangelo & Co., LLP

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315-336-9220 Fax: 315-336-0836

Independent Auditor's Report

Board of Education

Delaware-Chenango-Madison and Otsego BOCES

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Delaware-Chenango-Madison and Otsego BOCES, as of and for the year ended June 30, 2006, which collectively comprise the BOCES' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Delaware-Chenango-Madison and Otsego BOCES' management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Delaware-Chenango-Madison and Otsego BOCES, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 24, 2006, on our consideration of the BOCES' 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 13 and budgetary comparison information and supplementary information on Pages 39 through 42 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles and the New York State Education Department. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the BOCES' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

D'Arcangelo & Co., LLP

August 24, 2006

Rome, New York

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

The following is a discussion and analysis of the BOCES' financial performance for the year ended June 30, 2006. This section is a summary of the BOCES' financial activities based on currently know facts, decisions, or conditions. It is also based on both the government-wide and fund-based financial statements. This section is only an introduction and should be read in conjunction with the BOCES' financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Total BOCES' total assets increased by \$1,333,241 or 7% while BOCES' liabilities increased by \$1,031,285 or 13% as of June 30, 2006.
- Net assets increased by \$301,956 to \$11,826,410 or 3%.
- Capital assets consist of the combination of the valued buildings, and the fixtures and equipment. For the purpose of this report which was prepared in accordance with the Government Accounting and Standards Board Statement No. 34, (GASB No. 34) – the assets of the BOCES are shown after accumulated depreciation is taken. The capitalization policy of the Delaware-Chenango-Madison and Otsego BOCES depreciates equipment with an acquired cost of \$3,500 or more.
- The total expenses of basic programs were \$32,906,703, which is an increase of \$2,294,942 or 8% from the prior year.
- Total BOCES revenue for 2006 was \$33,208,659. This was an increase of \$1,746,388 from 2005 or 6%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: MD&A (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the BOCES.

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the BOCES' overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the BOCES, reporting the BOCES' operations in more detail than the BOCES-wide statements.
- The governmental funds statements disclose how basic services such as regular and special education were financed in the short term, as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the BOCES acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the BOCES' budget for the year.

Table A-1 summarizes the major features of the BOCES' financial statements, including the portion of the BOCES' activities they cover and the types of information they contain. The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

	Fund Financial Statements		
	BOCES-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire BOCES (except fiduciary funds)	The activities of the BOCES that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the BOCES administers resources on behalf of someone else, such as scholarship programs and student activities monies
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 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the 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 the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

BOCES-Wide Statements

The BOCES-wide statements report information about the BOCES as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the BOCES' assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two BOCES-wide statements report the BOCES' net assets and how they have changed. Net assets – the difference between the BOCES' assets and liabilities – is one way to measure the BOCES' financial health or position.

Over time, increases or decreases in the BOCES' net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the BOCES' overall health, consider additional nonfinancial factors such as changes in the BOCES' component participation in services and the condition of BOCES' buildings and other facilities.

In the BOCES-wide financial statements, the BOCES' activities are shown as Governmental activities. Most of the BOCES' basic services are included here, such as regular and special education, transportation, and administration. Charges for services finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the BOCES' funds, focusing on its most significant or "major" funds – not the BOCES as a whole. Funds are accounting devices the BOCES uses to keep track of specific sources of funding and spending on particular programs:

- Certain funds are required by State law and by bond covenants.
- The BOCES establishes other funds to control and to manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as Federal grants).

The BOCES has two types of funds:

- **Governmental Funds:** Most of the BOCES' basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that allows the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the BOCES' programs. Because this information does not encompass the additional long-term focus of the BOCES-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.
- **Fiduciary Funds:** The BOCES is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The BOCES is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The BOCES excludes these activities from the BOCES-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE BOCES AS A WHOLE

Table A-2 – Condensed Statement of Net Assets (000's omitted)

	<u>2006</u>	<u>2005</u>
Current and Other Assets	\$ 12,145	\$ 11,143
Capital Assets, Net of Depreciation	<u>9,012</u>	<u>8,681</u>
Total Assets	<u>\$ 21,157</u>	<u>\$ 19,824</u>
Long-Term Debt Outstanding	\$ 847	\$ 861
Other Liabilities	<u>8,484</u>	<u>7,439</u>
Total Liabilities	<u>\$ 9,331</u>	<u>\$ 8,300</u>
Net Assets		
Investment in Capital Assets, Net of Related Debt	\$ 8,837	\$ 8,572
Restricted	246	263
Unrestricted	<u>2,743</u>	<u>2,689</u>
Total Net Assets	<u>\$ 11,826</u>	<u>\$ 11,524</u>

The BOCES' combined net assets were larger on June 30, 2006, than they were the year before, increasing by 3% to \$11,826,410. (See Table A-2.) This change in the BOCES' financial position came primarily from an increase in capital assets, cash, and amounts due from components.

The BOCES' Current and Other Assets on June 30, 2006, were \$12,145,390 (see Table A-2). This year the Current Assets are more than in previous years. Items that comprise the Current and Other Assets include cash, accounts receivables (from component school districts, other BOCES, and Governmental Agencies), and prepaid assets.

The BOCES' Capital Assets on June 30, 2006, totaled \$9,011,543 (see Table A-2). This figure includes the substantial completion of the Wastewater Treatment Facility during the prior year, along with emergency projects performed in 2005-2006.

The BOCES' Long-Term Debt Outstanding of \$847,400 on June 30, 2006 (see Figure A-2) consists of compensated absences of \$823,638 and the remainder of an installment purchase agreement of \$23,762. Compensated Absences increased due to an increase in obligations to pay for long-term sick and vacation for employees.

The BOCES' Other Liabilities on June 30, 2006, increased to \$8,483,123 (see Table A-2). This increase in the Other Liabilities came from an increase in the return of surplus and accrued liabilities accounts, including amounts due to the retirement system and collection in advance.

The BOCES' Net Assets Invested in Capital Assets, Net of Related Debt on June 30, 2006, totaled \$8,837,421 (see Table A-2). The portion of this amount that relates to outstanding debt is the remaining payments on equipment installment purchase agreements of \$23,762.

The BOCES' Restricted Assets on June 30, 2006, were \$245,858 (see Table A-2), which was a decrease from the previous year due to unemployment insurance expenses higher than amounts earned in the reserve.

The BOCES' Unrestricted Assets on June 30, 2006, were \$2,743,131 (see Table A-2). This amount in the Unrestricted Assets comes from items such as funds surplus from services and funds reserved for the future payment of retirement incentives and postemployment benefits.

Table A-3 – Changes in Net Assets from Operating Results (000's Omitted)

	<u>2006</u>	<u>2005</u>
Revenues		
Program Revenues		
Charges for Services	\$ 28,614	\$ 26,399
Operating Grants and Contributions	2,471	3,487
Capital Grants and Contributions	51	205
General Revenues		
Interest and Earnings	105	52
(Loss) on Capital Asset Disposal	(26)	0
Miscellaneous	<u>1,994</u>	<u>1,319</u>
Total Revenues	<u>33,209</u>	<u>31,462</u>
Expenses		
Administration	2,549	2,132
Occupational Instruction	5,145	4,691
Instruction for Special Needs	7,750	7,445
Itinerant Services	1,348	1,255
General Instruction	6,462	6,801
Instructional Support	5,607	5,286
Other Services	3,965	3,001
School Lunch Program	<u>81</u>	<u>0</u>
Total Expenses	<u>32,907</u>	<u>30,611</u>
Increase in Net Assets	<u>\$ 302</u>	<u>\$ 851</u>

Total revenues of the BOCES were \$33,208,659, an increase of \$1,746,388 or 6% over the prior year due to an increase mostly in charges for services and miscellaneous income.

The total cost of all programs and services increased by 8% to \$32,906,703. The BOCES' expenses are predominantly related to instruction and pupil-related services which are approximately 79.8% of the BOCES' expenditures. Other services accounted for 12.1% of total cost. The BOCES' administrative activities accounted for 7.8% of total costs and the BOCES School Lunch Program accounted for .3% of total costs.

General revenues of the BOCES governmental activities were \$2,073,566 (see Table A-3). This figure includes interest earnings, use of money and property, and miscellaneous. This is an increase of \$702,114 from the prior year.

Operating grants and contributions on June 30, 2006, were \$2,470,753 (see Table A-3). This is funding received from New York State and local municipalities as well as Federal sources and is down \$1,016,200 from the prior year.

The BOCES' Charges for Services on June 30, 2006, was \$28,613,629, which is 8% more than in the prior year (see Table A-3). This consists of the cost of component district's requested services, the administrative charges, and the cost for services such as Daycare, Special Education, Preschool, Summer School, and Management Services Programs.

The BOCES' Capital Grants and Contributions for the year ended June 30, 2006, was \$50,711 (compared to \$204,876 in the prior year, see Table A-3). This came from the Wastewater Treatment Facility reconstruction. This multi-year project is more fully explained at the end of this report. The 2006 year shows the expenses of \$51,630 for this \$2.7 million project. The State-funding source for this project is the NYS Environmental Facilities Corporation and the NYC Department of Environmental Protection. The Wastewater Treatment Facility is located on the BOCES' property located at the Harrold Campus in Delaware County.

The BOCES' Interest Earnings of \$105,151 on June 30, 2006, increased from the year before (see Table A-3).

The BOCES' Miscellaneous Revenues on June 30, 2006, was \$1,994,422 (see Table A-3). The BOCES' Miscellaneous Revenues came from sales of services, sales of surplus, insurance recoveries, activity sales, refund of prior-year expense, and other miscellaneous sales.

Total revenues surpassed the expenses, increasing net assets \$301,956.

The BOCES' Expenses for Administration was \$2,549,254 on June 30, 2006 (see Table A-3). The charges for Administration make up about 8% of the total expenses.

The BOCES' Expenses for Occupational Instruction was \$5,144,561 (see Table A-3). This expense for Occupational Instruction is from the school district student enrollment in a Vocational Occupational Program provided at the BOCES.

The BOCES' Expenses for the Instruction for Special Needs Students was \$7,749,810, an increase of \$304,805 or 4% (see Table A-3). The expenses cover the costs associated with providing education to students with a wide variety of special learning needs including the costs of aides to the students, additional specialized equipment, and specialized learning plans.

The BOCES' Expenses for Itinerant Services was \$1,347,753 (see Table A-3). This charge is based on school districts' requests for shared services of a BOCES' employee to provide services to their students. This year these services included Speech Services, Counselors, Home and Career Teachers, Music Teachers, Physical Education Teachers, School Psychologists, Curriculum Coordinators, Interpreters, Home-based Instruction, and Speech Supervision for Medicaid.

The BOCES' Expenses for General Instruction was \$6,462,062, an increase of \$339,272 (see Table A-3). This includes expenses for programs provided at the requests of school districts to assist in the assorted instructional needs of students as well as services provided to Local, State, and Federal municipalities to instruct students from pre-school to adult education programs.

The BOCES' Expenses for Instructional Support is \$5,607,008, an increase of \$320,656 (see Table A-3). This expense is for programs which serve every teacher and administrator within component districts with an array of programs and services ranging from instructional technology, media production, library services, technical repair services, and distance learning for school improvement and staff development.

The BOCES' Expenses for Other Services totaled \$3,965,378 (see Table A-3). This expense includes operation and maintenance expenses essential to the operation of an educational program. Expenses for telephone and computer services, heat and electric as well as transportation for students and staff are included in this category.

The BOCES' Expenses for Depreciation is \$671,821. This represents the depreciation of buildings, equipment, and fixtures over their useful life.

Table A-4 – Capital Net Assets, Net of Depreciation (000's Omitted)

	<u>2006</u>	<u>2005</u>
Buildings and Improvements	\$ 7,516	\$ 7,146
Furniture, Equipment and Vehicles	<u>1,496</u>	<u>1,535</u>
Total Assets, Net of Depreciation	<u>\$ 9,012</u>	<u>\$ 8,681</u>

The BOCES' Capital Net Assets, Net of Depreciation (See Table A-4) is, for the purpose of this report, the Assets owned and purchased by the BOCES less the depreciated value over the useful life of the item. The capitalization policy of the BOCES places a threshold of \$3,500 or more on the acquired cost of equipment and fixtures.

Table A-5 – Outstanding Long-Term Debt (000's Omitted)

	<u>2006</u>	<u>2005</u>
Compensated Absences	\$ 824	\$ 753
Installment Purchase Obligations	<u>24</u>	<u>108</u>
Total Long-Term Debt Outstanding	<u>\$ 847</u>	<u>\$ 861</u>

The BOCES Outstanding Long-Term debt (see Figure A-5) consists of compensated absences for the earned vacation and sick time which employees have accrued but not yet taken, and the remaining three-year expense on equipment installment purchase agreements.

FINANCIAL ANALYSIS OF THE BOCES FUNDS

Governmental Fund Highlights

As the BOCES completed the year, its governmental funds reported combined fund balances of \$3,542,014. This is less than last year's ending fund balances of \$3,546,609 or a decrease of \$4,595.

The BOCES' governmental funds had more expenditures than revenues in 2006, thereby contributing to the decrease in total funds balance. The General Fund showed a return of surplus for services to school districts of \$1,435,597. The General Fund fund balance increased to \$4,278,987 by June 30, 2006.

Decreases in participation in various Special Aid Fund programs and increased employee benefit costs caused a net excess of expenditures in this fund. The fund balance in the Special Aid Fund decreased by \$175,868 during 2006.

Capital Fund expenditures totaled \$684,075 primarily for the BOCES' Wastewater Treatment Facility, Harrold and Chenango Campus Vocational Buildings, and emergency projects.

The BOCES began a new School Lunch Program in 2006. The Fund balance of the School Lunch Fund was \$9,456 at June 30, 2006, due to an operating surplus of that amount.

General Fund Budgetary Highlights

Over the course of the year, the BOCES revised the annual operating budget. This was primarily due to changes in service requests from school districts and the awarding of State and Federal programs to the BOCES.

The BOCES' original budget totaled \$28,894,599. Increases for estimated expenses for the operation and providing of the requested services of \$875,520 were made to salaries, supplies, contractual, and benefit expense lines.

The total amended revenue and expenditure budget was \$29,770,119.

Actual revenues were more than the budgeted amount by \$133,470.

Actual expenditures were under the amended budget by \$1,629,637.

FACTORS BEARING ON THE BOCES FUTURE

At the time these financial statements were prepared and audited, the BOCES was aware of the following existing circumstances that could significantly affect its financial health in the future:

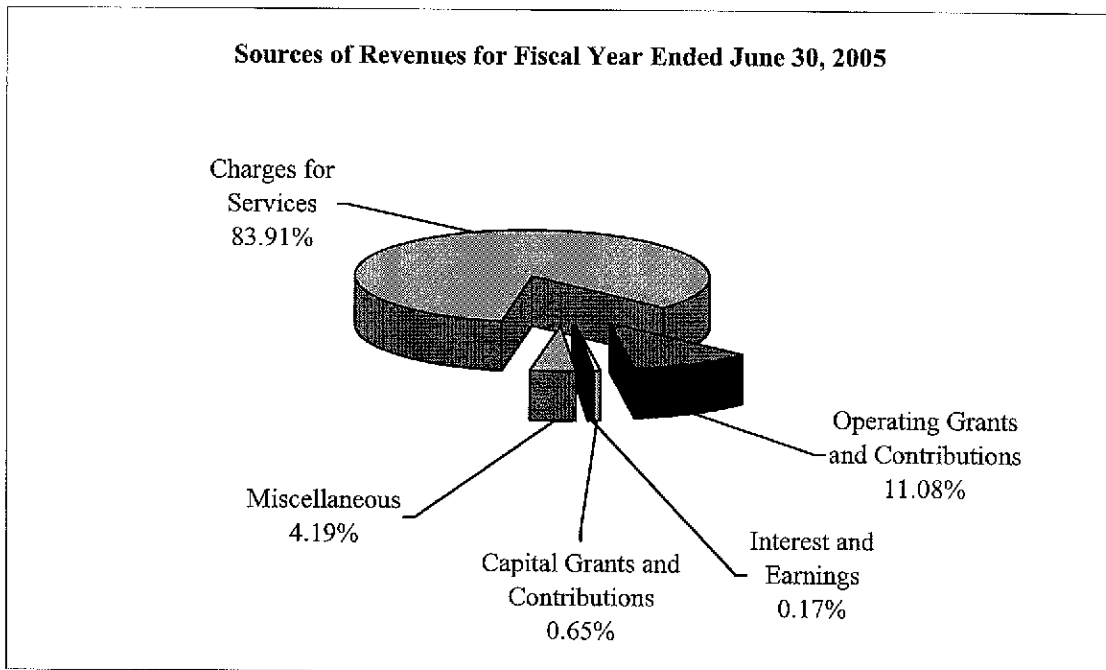
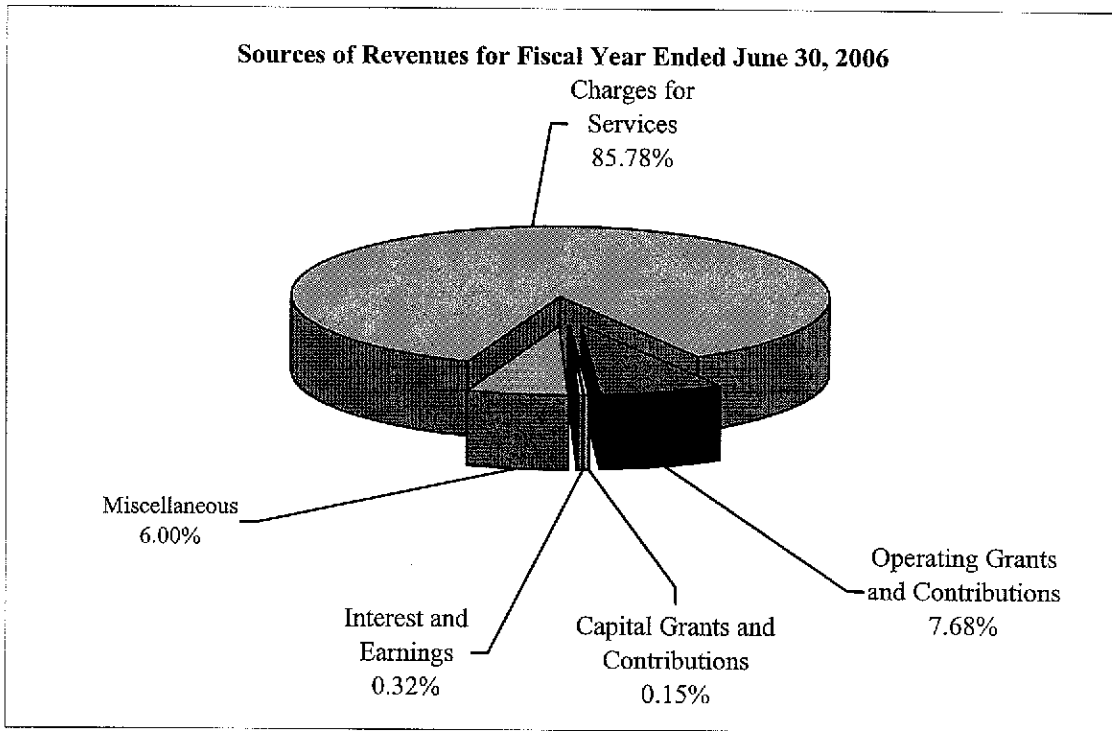
- During the year, the component school district's of the BOCES approved a building expansion and improvement project of approximately \$48,000,000. The construction will be in phases over the next several years.

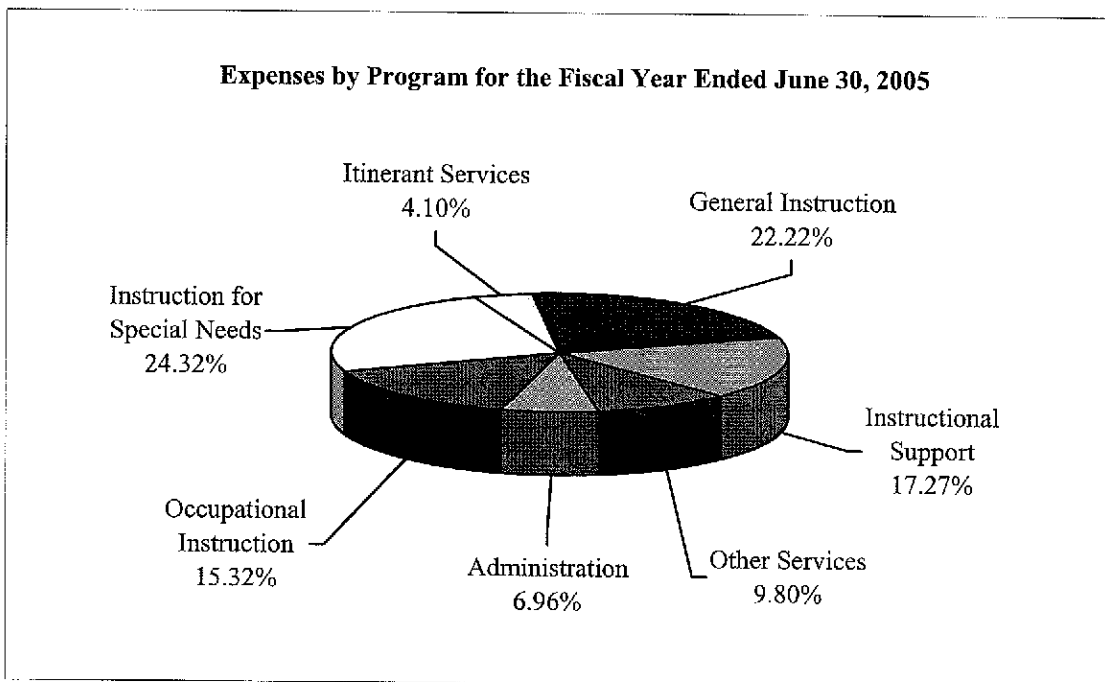
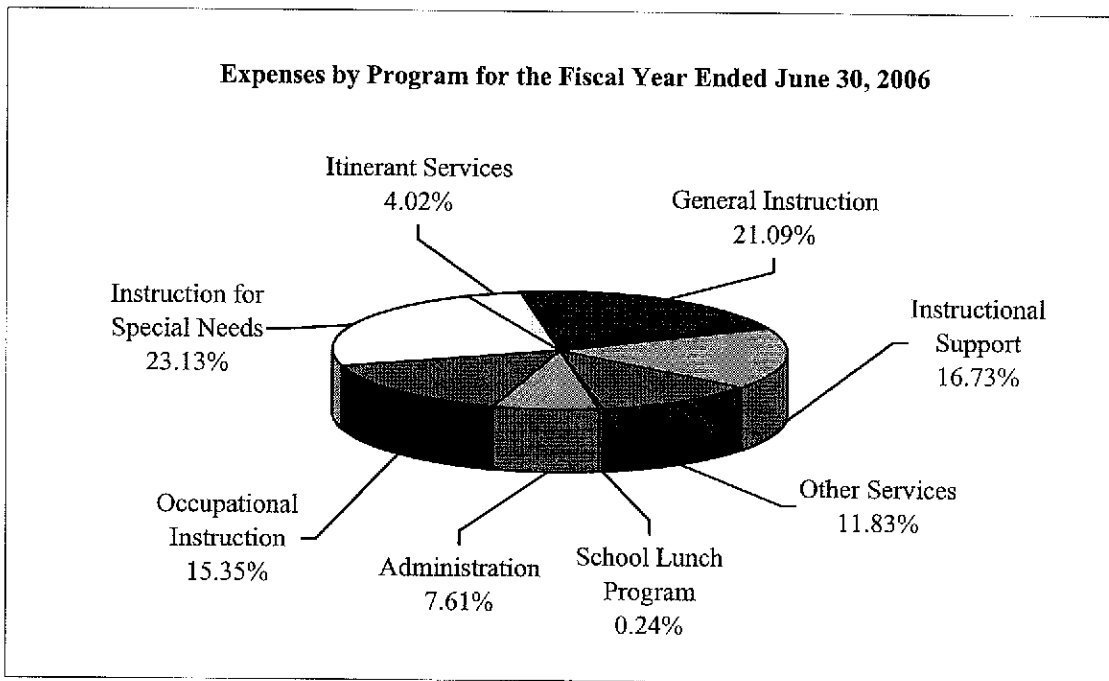
- The BOCES faces many rising costs that are beyond our control. We continue to see extremely high increases in retirement and health insurance costs.
- Projected employer retirement costs rose from 5.63% to 7.97% for Teacher Retirement. These increased costs continue to significantly impact BOCES across the State. The rate for 2007 is 8.6%.

CONTACTING THE BOCES FINANCIAL MANAGEMENT

This financial report is designed to provide the BOCES citizens, taxpayers, customers, investors, and creditors with a general overview of the BOCES' finances and to demonstrate the BOCES' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Delaware-Chenango-Madison-Otsego BOCES, 6678 County Route 32, Norwich, New York 13815.

Illustration A-1





DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES

STATEMENT OF NET ASSETS

June 30, 2006

Assets

Cash and Cash Equivalents	\$ 4,731,418
Restricted Cash and Cash Equivalents	245,858
Accounts Receivable	287,416
Due from Components	1,565,761
Inventory	5,434
State and Federal Aid Receivable	5,295,395
Prepaid Assets	14,108
Capital Assets, Net	<u>9,011,543</u>
Total Assets	<u>\$ 21,156,933</u>

Liabilities

Due to Components	
Return of Surplus	\$ 1,435,597
State Aid	4,886,046
Accounts Payable	211,961
Accrued Liabilities	270,956
Deferred Revenue	104
Due to Retirement Systems	834,784
Due to Other Governments	54,801
Collections in Advance	788,874
Noncurrent Liabilities	
Due Within One Year	128,722
Due in More Than One Year	<u>718,678</u>
Total Liabilities	<u>9,330,523</u>

Net Assets

Invested in Capital Assets, Net of Related Debt	8,837,421
Restricted For	
Insurance Reserves	245,858
Unrestricted	<u>2,743,131</u>
Total Net Assets	<u>11,826,410</u>

Total Liabilities and Net Assets \$ 21,156,933

The Accompanying Notes are an Integral Part of These Financial Statements.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
	<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
	<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>
		<u>Contributions</u>	<u>Contributions</u>	<u>Net Assets</u>
Expenditures				
Administration	\$ 2,549,254	\$ 2,391,104	\$	\$ (158,150)
Occupational Instruction	5,144,561	4,917,410		(227,151)
Instruction for Special Needs	7,749,810	7,620,804		(129,006)
Itinerant Services	1,347,753	1,336,319		(11,434)
General Instruction	6,462,062	3,525,577	2,411,854	50,711
Instructional Support	5,607,008	5,153,909		(453,099)
Other Services	3,965,378	3,637,728		(327,650)
School Lunch Program	80,877	30,778	58,899	8,800
Total Functions/Programs	<u>\$ 32,906,703</u>	<u>\$ 28,613,629</u>	<u>\$ 2,470,753</u>	<u>\$ 50,711</u>
General Revenues				
Interest Earnings				105,151
(Loss) on Capital Asset Disposal				(26,007)
Miscellaneous				<u>1,994,422</u>
Total General Revenue				<u>2,073,566</u>
Change in Net Assets				301,956
Net Assets, Beginning of Year				<u>11,524,454</u>
Net Assets, End of Year				<u>\$ 11,826,410</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
BALANCE SHEET - GOVERNMENTAL FUNDS
(INCLUDING THE RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES)

June 30, 2006

	General	Special Aid	School Lunch	Capital Project Fund	Total
Assets					
Unrestricted Cash and Cash Equivalents	\$ 4,613,782	\$ 97,194	\$ 9,315	\$ 11,127	\$ 4,731,418
Restricted Cash and Cash Equivalents	245,858				245,858
Accounts Receivable	99,857	187,559			287,416
Due from Other Funds	1,329,953				1,329,953
State and Federal Aid Receivables	4,886,046	409,168	181		5,295,395
Due from Components	1,565,761				1,565,761
Inventory			5,434		5,434
Prepaid Expenditures	13,204	800		104	14,108
Total Assets	<u>\$ 12,754,461</u>	<u>\$ 694,721</u>	<u>\$ 14,930</u>	<u>\$ 11,231</u>	<u>\$ 13,475,343</u>
Liabilities					
Due to Components - Refund of Surplus	\$ 1,435,597	\$	\$	\$	\$ 1,435,597
Due to Components - State Aid	4,886,046				4,886,046
Accounts Payable	153,863	58,098			211,961
Accrued Liabilities	243,488	27,468			270,956
Due to Other Funds		1,163,020	5,446	161,487	1,329,953
Due to Other Governments	50,177	4,596	28		54,801
Due to Teachers' Retirement System	687,274				687,274
Due to Employees' Retirement System	147,510				147,510
Compensated Absences	120,253				120,253
Collections in Advance	751,266	37,608			788,874
Deferred Revenue				104	104
Total Liabilities	<u>8,475,474</u>	<u>1,290,790</u>	<u>5,474</u>	<u>161,591</u>	<u>9,933,329</u>
Fund Balance (Deficit)					
Fund Balance - Reserved					
Reserve for Unemployment Insurance	157,759				157,759
Reserve for Employee Benefit Accrued Liability	3,384,512				3,384,512
Reserve for Insurance	88,099				88,099
Reserve for Liability	648,617				648,617
Fund Balance-Unreserved					
Undesignated (Deficit)	(736,973)	(596,069)	9,456	(150,360)	(736,973)
Total Fund Balance (Deficit)	<u>4,278,987</u>	<u>(596,069)</u>	<u>9,456</u>	<u>(150,360)</u>	<u>3,542,014</u>
Total Liabilities and Fund Balance	<u>\$ 12,754,461</u>	<u>\$ 694,721</u>	<u>\$ 14,930</u>	<u>\$ 11,231</u>	

Amounts reported for governmental activities in the statement of net assets are different due to the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

9,011,543

Long-term liabilities, including installment purchase agreements, are not due and payable in the current period and, therefore, are not reported as liabilities in these funds. These liabilities, at June 30, 2006, are as follows:

	Installment Purchase Agreement	(23,762)
	Compensated Absences	(703,385)
Total Net Assets of Governmental Activities		<u>\$ 11,826,410</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

	General	Special Aid	School Lunch	Capital Project Fund	Total
Revenues					
Charges for Services	\$	\$ 1,746,761	\$	\$	\$ 1,746,761
Charges to Components - Administration	2,666,163				2,666,163
Charges to Components	24,748,960				24,748,960
Charges to Other BOCES	856,564				856,564
Interest Earnings	105,151				105,151
Miscellaneous/Other Revenues	1,526,751				1,526,751
State and Local Sources		791,745	2,832	50,711	845,288
Federal Sources		1,620,109	56,067		1,676,176
Interfund Revenues				470,173	470,173
School Lunch Sales			30,778		30,778
Total Revenues	<u>29,903,589</u>	<u>4,158,615</u>	<u>89,677</u>	<u>520,884</u>	<u>34,672,765</u>
Expenditures					
Administration	2,528,583				2,528,583
Occupational Instruction	5,102,846				5,102,846
Instruction for Special Needs	7,686,971				7,686,971
School Lunch Program			80,221		80,221
Itinerant Services	1,336,825				1,336,825
General Instruction	1,990,488	4,334,483		686,577	7,011,548
Instructional Support	5,561,544				5,561,544
Other Services	3,933,225				3,933,225
Total Expenditures	<u>28,140,482</u>	<u>4,334,483</u>	<u>80,221</u>	<u>686,577</u>	<u>33,241,763</u>
Excess (Deficit) Revenues Over Expenditures	<u>1,763,107</u>	<u>(175,868)</u>	<u>9,456</u>	<u>(165,693)</u>	<u>1,431,002</u>
Other Financing (Uses)					
Return of Surplus	<u>(1,435,597)</u>				<u>(1,435,597)</u>
Total Other Financing (Uses)	<u>(1,435,597)</u>				<u>(1,435,597)</u>
Excess (Deficit) Revenues Over Expenditures and Other Financing (Uses)	327,510	(175,868)	9,456	(165,693)	(4,595)
Fund Balance (Deficit), Beginning of Year	<u>3,951,477</u>	<u>(420,201)</u>		<u>15,333</u>	<u>3,546,609</u>
Fund Balance (Deficit), End of Year	<u>\$ 4,278,987</u>	<u>\$ (596,069)</u>	<u>\$ 9,456</u>	<u>\$ (150,360)</u>	<u>\$ 3,542,014</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
RECONCILIATION OF THE STATEMENT OF REVENUES AND
EXPENDITURES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Net Changes in Fund Balance - Total Governmental Funds \$ (4,595)

Capital Outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net assets and allocated over their useful lives as depreciation expenses in the statement of activities. This is the amount by which Capital Outlays exceeds depreciation in the period.

	Capital Outlays	1,028,861	
	Depreciation	(671,821)	
	Loss on Disposal of Capital Assets	<u>(26,007)</u>	331,033

Repayment of installment purchase obligations is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 84,196

In the statement of activities, certain operating expenses -- compensated absences and special termination benefits - are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the noncurrent amount decreased as follows:

	Compensated Absences	<u>(108,678)</u>
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Change in Net Assets Governmental Activities \$ 301,956

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2006

	Private Purpose Trusts	Agency
	<u> </u>	<u> </u>
Assets		
Cash and Cash Equivalents	\$	\$ 35,601
Restricted Cash	1,349	
Other Receivables		<u>455</u>
Total Assets	<u>\$ 1,349</u>	<u>\$ 36,056</u>
 Liabilities		
Accrued Liabilities	\$	\$ 24,722
Due to Extraclassroom Activity Funds		<u>11,334</u>
Total Liabilities		<u>\$ 36,056</u>
 Net Assets		
Restricted for Scholarships	<u>1,349</u>	
Total Net Assets	<u>1,349</u>	
 Total Liabilities and Net Assets	 <u>\$ 1,349</u>	

The Accompanying Notes are an Integral Part of These Financial Statements.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended June 30, 2006

	<u>Private Purpose Trusts</u>
Additions	
Interest Earned	\$ <u>49</u>
Deductions	
Scholarships and Awards	<u>200</u>
Change in Net Assets	(151)
Net Assets, Beginning of Year	<u>1,500</u>
Net Assets, End of Year	<u>\$ 1,349</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Delaware-Chenango-Madison and Otsego BOCES have been prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP) that apply to governmental units. Those principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Certain significant accounting principles and policies utilized by the BOCES are described below:

A. REPORTING ENTITY

The BOCES is governed by the laws of New York State. The BOCES is an independent entity governed by an elected Board of Education. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for, and controls all activities related to public school education within the BOCES. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal members.

The reporting entity of the BOCES is based upon criteria set forth by GASB. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The accompanying basic financial statements present the activities of the BOCES. The BOCES is not a component unit of another reporting entity. The decision to include a potential component unit in the BOCES' reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief description of certain entities included in the BOCES' reporting entity.

1. EXTRACLASSROOM ACTIVITY FUND

The Extraclassroom Activity Funds of Delaware-Chenango-Madison and Otsego BOCES represent funds of the students of BOCES. These funds are included in the basic financial statements in the Fiduciary Funds as agency funds because the Board of Cooperative Educational Services exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of BOCES with respect to its financial transactions and designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found on pages 52 through 58.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

2. JOINT VENTURES

- a. **BOCES PROGRAM** - There are sixteen participating school districts in the Delaware-Chenango-Madison and Otsego BOCES. The BOCES is a joint venture in which the participating districts have an ongoing financial responsibility, no equity interest, and no single participant controls the financial or operating policies of the BOCES. The BOCES was formed under State law for the purpose of providing shared educational programs and instruction in subjects approved by the State Education Commissioner. The BOCES' governing board is elected based on the vote of members of the participating districts' governing boards. The BOCES charges districts for program costs based on participation and for administrative costs. During the year ended June 30, 2006, the BOCES billed its component districts \$27,415,123 for administrative and program costs.
- b. **INSURANCE CONSORTIUMS** - The BOCES is the sponsoring agency for the Delaware-Chenango-Madison and Otsego BOCES Health Consortium. The Consortium is a municipal corporation operating in Delaware, Chenango, Madison, and Otsego counties to provide cooperative programs for health benefits to municipal employees by entering into intermunicipal agreements pursuant to Article 5-G of the General Municipal Law.

Separate audited financial statements of the Delaware-Chenango-Madison and Otsego BOCES Health Consortium can be found at the BOCES' business office at 6678 County Road 32, Norwich, New York 13815.

- c. **COOPERATIVE INVESTMENT POOL** - The BOCES is the custodian and also participates in a multi-municipal cooperative investment pool agreement pursuant to New York State General Municipal Law Article 5-G, Section 119-o. At June 30, 2006, the BOCES held, as custodian, \$61,660,086 in certificates of deposit for various municipalities. These certificates of deposit were collateralized by United States Government Securities totaling \$73,746,755. The BOCES charges participants for administrative costs of the program. Separate audited financial statements of the Delaware-Chenango-Madison and Otsego BOCES' Cooperative Investment Pool can be found at the BOCES' business office located at 6678 County Road 32, Norwich, New York 13815.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2006

B. BASIS OF PRESENTATION

1. BOCES-WIDE STATEMENTS

The Statement of Net Assets and the Statement of Activities present financial information about the BOCES' governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through charges to components, State aid, intergovernmental revenues, and other exchange and nonexchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the BOCES' governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs, and 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, are presented as general revenues.

2. FUND FINANCIAL STATEMENTS

The fund statements provide information about the BOCES' funds, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The BOCES reports the following major governmental funds:

General Fund: This is the BOCES' primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.

Special Aid Fund: This fund accounts for the proceeds of specific revenue sources, such as Federal and State grants, that are legally restricted to expenditures for specified purposes.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

School Lunch Fund: This fund is used to account for transactions of the BOCES' lunch and breakfast programs.

Capital Projects Funds: These funds are used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

3. FIDUCIARY FUNDS

This fund is used to account for fiduciary activities. Fiduciary activities are those in which the BOCES acts as trustee or agent for resources that belong to others. These activities are not included in the BOCES-wide financial statements, because their resources do not belong to the BOCES, and are not available to be used. There are two classes of fiduciary funds:

Private Purpose Trust Funds: These funds are used to account for trust arrangements in which principal and income benefits annual third party awards and scholarships for students. Established criteria govern the use of the funds and members of the BOCES or representatives of the donors may serve on committees to determine who benefits.

Agency Funds: These funds are strictly custodial in nature and do not involve the measurement of results of operations. Assets are held by the BOCES as agent for various student groups or extraclassroom activity funds and for payroll or employee withholding.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The BOCES-wide 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 transaction takes place. Nonexchange transactions, in which the BOCES gives or receives value without directly receiving or giving equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The BOCES considers all revenues reported in the governmental funds to be available if the revenues are collected within six months after the end of the fiscal 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

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

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. Postretirement health insurance costs are recognized as an expenditure when funded. The unfunded portion has not been actuarially determined and is not recorded as a long-term liability.

D. 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, potential contingent liabilities, and useful lives of long-lived assets.

E. BUDGETARY PROCEDURES AND BUDGETARY ACCOUNTING

1. BUDGET PROCEDURES

The BOCES' administration prepares a proposed budget for approval by the Board of Education for the General Fund for which legal (appropriated) budgets are adopted.

The BOCES' administration submits a tentative budget to the Board of Cooperative Educational Services for the fiscal year commencing the following July 1. The BOCES' administrative budget must be approved by the School Boards of each component district in April. The tentative budget includes proposed expenditures and the proposed means of financing for all funds.

Appropriations established by adoption of the budget constitute a limitation on expenditures which may be incurred. Appropriations lapse at the fiscal year end.

All modifications of the budget must be approved by the Board of Cooperative Educational Services. However, the BOCES Superintendent is authorized to transfer certain budgeted amounts within departments.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

F. CASH AND INVESTMENTS

The BOCES' cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. New York State law governs the BOCES' investment policies. Resources must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and Districts.

G. ACCOUNTS RECEIVABLE

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

H. PREPAID ITEMS

Prepaid items represent payments made by the BOCES for which benefits extend beyond year end.

I. INSURANCE

BOCES insures against liability for most risks including, but not limited to, property damage and personal injury liability. 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.

J. INTERFUND TRANSACTIONS

The operations of the BOCES include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The BOCES typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include the transfer of expenditure and revenues to provide financing or other services.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

The amounts reported on the Statement of Net Assets for due to and due from other funds represents amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the interfund transactions for governmental funds throughout the year is shown in Note IV to the financial statements.

K. CAPITAL ASSETS

Capital assets are reported at actual cost. Donated assets are reported at estimated fair market value at the time received.

The BOCES uses capitalization thresholds of \$3,500 (the dollar value above which assets acquisitions are added to the capital assets accounts for grouped-like assets or individual assets). Depreciation methods and estimated useful lives of capital assets reported in the BOCES-wide statements are as follows:

	<u>Lives</u>	<u>Depreciation Method</u>
Furniture, Equipment, and Vehicles	5-10 Years	Straight Line
Land, Buildings and Improvements	15-40 Years	Straight Line

L. COMPENSATED ABSENCES

The BOCES' employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods.

Sick leave eligibility and accumulation is specified in negotiated labor contracts and in individual employment contracts. Upon retirement, resignation, or death, employees may receive a payment based on unused accumulated sick leave, based on contractual provisions.

Consistent with GASB, an accrual for accumulated sick leave is included in the compensated absences liability at year end. The compensated absences liability is calculated based on the pay rates in effect at year end.

In the fund statements, only the amount of matured liabilities is accrued within the General Fund based upon expendable and available financial resources. These amounts are expensed on a pay-as-you go basis.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

M. DEFERRED REVENUES

Deferred revenues are reported when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when the BOCES receives resources before it has legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the BOCES has legal claim to the resources, the liability for deferred revenues is removed and revenues are recorded.

O. RESTRICTED RESOURCES

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the BOCES' policy concerning which to apply first varies with the intended use, and with associated legal requirements, many of which are described elsewhere in these notes.

P. FUND BALANCE – RESERVATIONS AND DESIGNATIONS

The following reserve funds are available to BOCES. Any capital gains or interest earned on reserve fund resources become part of the respective reserve fund. While a separate bank account is not necessary for each reserve fund, a separate identity for each reserve fund must be maintained.

1. UNEMPLOYMENT INSURANCE RESERVE

Unemployment Insurance Reserve (GML §6-m) is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method. The reserve may be established by Board action and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. If the BOCES elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund. This reserve is accounted for in the General Fund.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

2. RESERVE FOR INSURANCE

This reserve is used to pay liability, casualty, and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity and surety, credit, title residual value, and mortgage guarantee. This reserve is funded by budgetary appropriations. There is no limit on the amount that may be accumulated in the Insurance Reserve; however, the annual contribution to this reserve may not exceed the greater of \$33,000 or 33% of the budget. Settled or compromised claims up to \$25,000 may be paid from the reserve without judicial approval. This reserve is accounted for in the General Fund.

3. RESERVE FOR EMPLOYEE BENEFIT ACCRUED LIABILITY

Reserve for Employee Benefit Accrued Liability (GML §6-p) is used to reserve funds for the payment of accrued employee benefits due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. The reserve is accounted for in the General Fund.

4. RESERVE FOR ENDOWMENTS AND SCHOLARSHIPS

The Reserve for Endowments and Scholarships is used to account for various endowment and scholarship awards. This reserve is accounted for in the Fiduciary Fund.

5. RESERVE FOR LIABILITY

This reserve is used to accumulate funds to pay liability claims incurred. The total amount accumulated in the reserve may not exceed 3% of the total annual budget. The reserve is accounted for in the General Fund.

II. DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND BOCES-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the BOCES-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

A. TOTAL FUND BALANCES OF GOVERNMENTAL FUNDS COMPARED TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

Total fund balances of the BOCES' governmental funds differs from "net assets" of governmental activities reported in the Statement of Net Assets. This difference primarily results from the additional long-term economic focus of the Statement of Net Assets versus the solely current financial resources focus of the governmental fund Balance Sheet.

B. STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES VS. STATEMENT OF ACTIVITIES

Differences between the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balance and the Statement of Activities fall into one of three broad categories.

1. LONG-TERM REVENUE/EXPENDITURE DIFFERENCES

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available," whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used in the Statement of Activities.

2. CAPITAL RELATED DIFFERENCES

Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.

3. LONG-TERM DEBT TRANSACTION DIFFERENCES

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Assets.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

III. DETAIL NOTES ON ALL FUNDS

A. ASSETS

1. UNRESTRICTED CASH

Custodial credit risk is the risk that in the event of a bank failure, the BOCES' deposits may not be returned to it. While the BOCES does not have a specific policy for custodial credit risk, New York State statutes govern the BOCES' investment policies, as discussed previously in these notes.

As of June 30, 2006, BOCES' bank balances of \$1,686,101 were exposed to custodial credit risk as follows:

A) \$	0	Uncollateralized,
B)	1,686,101	Collateralized with securities held by the pledging financial institution in the BOCES' name, or
C)	<u>0</u>	Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the BOCES' name.
\$	<u>1,686,101</u>	Total

2. RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents of \$245,858 in the General Fund represent the following:

<u>Description</u>	<u>Amount</u>
Reserve for Unemployment Insurance	\$ 157,759
Reserve for Insurance	<u>88,099</u>
Total	<u>\$ 245,858</u>

Restricted cash and cash equivalents of \$1,349 in the Trust and Agency Fund represents various expendable trust funds held by the BOCES.

3. INVESTMENT POOL

The BOCES participates in a multi-municipal cooperation investment pool agreement pursuant to New York State General Municipal Law Article 5-G, Section 119-0, whereby it holds a portion of the investments in cooperation with other participants. At June 30, 2006, the BOCES held \$4,035,811 in cash collateralized by investments consisting of various investments in securities issued by the United States and its agencies.

This amount is recorded in the General Fund cash and cash equivalents as described above.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated				
Land, Buildings, and Improvements	\$ 12,237,804	\$ 710,389	\$	\$ 12,948,193
Furniture, Equipment, and Vehicles	<u>8,209,390</u>	<u>318,472</u>	<u>164,116</u>	<u>8,363,746</u>
	<u>20,447,194</u>	<u>1,028,861</u>	<u>164,116</u>	<u>21,311,939</u>
Accumulated Depreciation				
Building and Improvements	5,091,730	341,087		5,432,817
Furniture, Equipment, and Vehicles	<u>6,674,954</u>	<u>330,734</u>	<u>138,109</u>	<u>6,867,579</u>
	<u>11,766,684</u>	<u>671,821</u>	<u>138,109</u>	<u>12,300,396</u>
Net Capital Assets	<u>\$ 8,680,510</u>	<u>\$ 357,040</u>	<u>\$ (26,007)</u>	<u>\$ 9,011,543</u>

Depreciation expense of \$671,821 is charged to program expenditures as follows:

Function/Program	
Administration	\$ 51,073
Occupational Instruction	103,069
Instruction for Special Needs	155,264
Itinerant Services	27,002
General Instruction	142,014
Instruction Support	112,334
Other Services	79,445
School Lunch Program	<u>1,620</u>
Total Depreciation	<u>\$ 671,821</u>

B. LIABILITIES

1. LONG-TERM DEBT

a. Summary of Long-Term Debt - At June 30, 2006, the total outstanding indebtedness of BOCES aggregated \$847,400 which represents remaining payments on installment purchases made for equipment and compensated absences.

b. Long-term liability balances and activity are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Compensated Absences	\$ 752,612	\$ 71,026	\$	\$ 823,638	\$ 120,253
Installment-Purchase Obligations	<u>107,958</u>	<u></u>	<u>(84,196)</u>	<u>23,762</u>	<u>8,469</u>
Total Long-Term Liabilities	<u>\$ 860,570</u>	<u>\$ 71,026</u>	<u>\$ (84,196)</u>	<u>\$ 847,400</u>	<u>\$ 128,722</u>

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

Principal and interest payments due on the installment obligation debt is as follows:

	<u>Principal</u>	<u>Interest</u>
2007	\$ 8,469	\$ 1,851
2008	9,263	1,056
2009	<u>6,030</u>	<u>227</u>
Total	<u>\$ 23,762</u>	<u>\$ 3,134</u>

- c. Compensated Absences – The BOCES’ employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods.

Sick leave eligibility and accumulation is specified in negotiated labor contracts and in individual employment contracts. Upon retirement, resignation, or death, employees may receive a payment based on unused accumulated sick leave, based on contractual provisions.

- d. Installment Purchase Agreements – The BOCES is obligated under certain installment purchase agreements. Assets purchased under the agreements totaled \$142,487 at June 30, 2006.

Interest expense on long-term debt for the year ended June 30, 2006, was \$6,600 and is reported as a program expenditure.

2. PENSION PLAN

- a. PLAN DESCRIPTIONS - BOCES contributes to the New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement System (TRS). These systems are cost-sharing, multiple-employer defined benefit pension plans. Both systems offer retirement and disability benefits, annual cost of living increases, and death benefits to plan members and beneficiaries.

The New York State Teachers’ Retirement Board administers NYSTRS. The System provides benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. NYSTRS issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to NYSTRS, 10 Corporate Woods Drive, Albany, New York 12211-2395.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

NYSERS provides retirement benefits as well as death and disability benefits. New York State Retirement and Social Security Law governs obligations of employers and employees to contribute and benefits to employees. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to NYSERS, Governor Alfred E. Smith State Office Building, Albany, New York 12244.

The Systems are noncontributory, except for employees who joined the Systems after July 27, 1976, who contribute 3% of their salary, except that employees in the Systems more than ten years are no longer required to contribute. For NYSERS, the Comptroller certifies the rates expressed as proportions of members' payroll annually, which are used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS.

The BOCES is required to contribute at an actuarially determined rate. The NYSERS bills the BOCES based on a fiscal year end of March 31. All required contributions for the NYSERS fiscal year ended March 31, 2006, were paid. The required contributions for the next System fiscal year will be made in 2006-2007. The amount below for 2006-2007 represents the three months of the BOCES's fiscal year that will be covered in the NYSERS 2006-2007 billing cycle. The TRS contribution for the 2005-2006 year will be made in 2006-2007. The required contributions for the current year and two preceding years were:

	<u>For the Years Ended June 30,</u>			
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<u>ERS</u>				
BOCES Contribution Rate	<u>9.9-13.3%</u>	<u>10.40-15.10%</u>	<u>11.50-17.20%</u>	<u>4.50%</u>
BOCES Contributions	\$ <u>147,510</u>	\$ <u>496,736</u>	\$ <u>559,780</u>	\$ <u>222,175</u>
<u>TRS</u>				
BOCES Contribution Rate		<u>7.97%</u>	<u>5.63%</u>	<u>2.52%</u>
BOCES Contributions		\$ <u>614,038</u>	\$ <u>440,023</u>	\$ <u>188,282</u>

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

3. POSTEMPLOYMENT BENEFITS

In addition to the retirement benefits described in Note III(B)(2), the BOCES provides postemployment health and dental insurance coverage to its retired employees and their survivors in accordance with the provisions of the employment contracts negotiated between the BOCES and its employee groups. Substantially all of these employees may become eligible for these benefits if they reach normal retirement age while working for the BOCES. Currently, 64 retirees meet those eligibility requirements. The BOCES pays the following percentages of the cost of premiums to an insurance company which provides the health care insurance:

All Retirees

- 50% for Retired Employees' Coverage
- 35% for Retired Employees' Spousal Coverage

The retired employee reimburses the BOCES monthly for the amount needed to make the above percentages equal to 100%. The percentage reimbursed varies on the type of coverage which is obtained as shown above.

Postemployment dental care insurance benefits are provided to those retirees who participated prior to retirement at a cost of \$180 per year for family coverage and \$95 per year for individual coverage.

Although not actuarially determined, the BOCES recognized an estimated cost of providing postemployment benefits for the fiscal year 2006 by recording approximately \$231,048 as an expenditure. This amount represents approximately \$207,198 for health insurance premiums for 64 currently enrolled retirees and \$23,850 for dental premiums for 53 currently enrolled retirees.

IV. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at June 30, 2006, were as follows:

<u>Fund Type</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 1,329,953	\$
Capital		161,487
Special Aid		1,163,020
School Lunch		5,446
Total	\$ <u>1,329,953</u>	\$ <u>1,329,953</u>

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

V. BUDGET REVISIONS

The General Fund budget was increased by \$875,520 to provide for changes in program services by the component districts. The increases were approved by the Board during the year.

VI. OPERATING LEASES

Short-term operating leases, predominantly of a one-year duration, have been negotiated for the use of certain classrooms and facilities. All lease payments are expensed when paid and totaled \$100,667 for the year.

During 1993, the BOCES entered into a 10-year lease for their support services center. The lease is contingent upon the budget being passed annually. Effective November 1, 2004, the BOCES renewed the lease for an additional five years at \$105,000 per year until October 31, 2008. Future minimum rental payments under the terms of the renewal lease are payable as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2007	\$ 43,500
2008	38,500
2009	<u>12,833</u>
Total	<u>\$ 94,833</u>

VII. CONTINGENCIES

A. POTENTIAL GRANTOR LIABILITY

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal and State governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

B. RISK FINANCING AND RELATED INSURANCE

The Delaware-Chenango-Madison and Otsego BOCES is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The BOCES administers and participates in the Delaware-Chenango-Madison and Otsego BOCES Health Consortium consisting of nine other governmental entities for their health insurance coverage. Entities joining the plan must remain members for a minimum of one year; a member may withdraw from the plan after that time by submitting a notice of withdrawal 30 days prior to the plan's year end.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

Plan members are subject to a supplemental assessment in the event of deficiencies. If the plan's assets were to be exhausted, members would be responsible for the plan's liabilities. The plan uses a reinsurance agreement to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from the reinsurer, although it does not discharge the liability of the plan as direct insurer of the risks reinsured. The plans establish a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. However, because actual claim costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and claims that have been incurred but not reported. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The Consortium is an intermunicipal agreement pursuant to Article 5-G of the General Municipal Law whereby each entity pays annual premiums based on the expected claims for the enrollees. Paid claims are also accounted for by individual entity. BOCES paid \$3,779,159 in premiums to the Consortium. The Consortium paid \$3,792,062 in claims for the BOCES for the year ended June 30, 2006.

The BOCES continues to carry commercial insurance for all other risks of loss such as general liability.

C. CONSTRUCTION COMMITMENTS

1. VARIOUS PROJECTS

At June 30, 2006, the BOCES had various ongoing capital projects. The total authorization for these projects was \$3,946,567. The BOCES has entered into various construction contracts and equipment purchases that substantially cover the authorizations. At June 30, 2006, the BOCES has expended \$3,853,761 of the total capital project authorizations. The remaining commitment is contingent on the contractor's performance and delivery of equipment purchases and will be funded through component billings.

2. BOCES BUILDING PROJECTS

During the year, the voters of the component school districts approved a building expansion and renovation project totaling \$48,170,000. Expenditures through June 30, 2006, totaling \$161,526 are for preliminary project costs, which will be funded with long-term financing.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

VIII. FUND BALANCE RESERVES

The following is a summary of the change in reserve funds during the year ended June 30, 2006:

<u>Reserve</u>	<u>Balance at 07/01/05</u>	<u>Additions/ (Deletions)</u>	<u>Balance at 6/30/06</u>
General Fund			
Unemployment Reserve	\$ 194,839	\$ (37,080)	\$ 157,759
Insurance Reserve	67,752	20,347	88,099
Liability Reserve	399,473	249,144	648,617
Employee Benefits			
Accrued Liability Reserve	<u>3,289,413</u>	<u>95,099</u>	<u>3,384,512</u>
Total	<u>\$ 3,951,477</u>	<u>\$ 327,510</u>	<u>\$ 4,278,987</u>

IX. FUND DEFICITS

A. SPECIAL AID FUND

The BOCES' Special Aid Fund had a deficit fund balance of \$596,069 at June 30, 2006. This deficit was caused by decreased participation in several programs run by the BOCES. The deficit will be funded by excess revenues from future programs or transfers from the BOCES General Fund.

B. CAPITAL PROJECT FUND

The BOCES' Capital Project Fund had a deficit fund balance of \$150,360 at June 30, 2006. This deficit is due to preliminary expenditures on the BOCES' building project, which will be eliminated when permanent financing is obtained.

DELAWARE-CHENANGO BOCES
SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND
For the Year Ended June 30, 2006

PROJECT TITLE	Expenditures					Methods of Financing				Fund Balance June 30, 2006	
	Original Budget	Revised Budget	Prior Years	Current Year	Total	Unexpended Authorization	Proceeds of Obligations	State Aid	Local Sources		Total
Wastewater Treatment Facility Local 750	\$ 590,000	\$ 355,650	\$ 355,650	\$	\$ 355,650	\$	\$	\$ 355,650	\$	\$ 355,650	\$
Wastewater Treatment Facility											
Regulatory Portion	2,140,055	2,218,196	2,168,572	51,753	2,220,325	(2,129)		2,220,202		2,220,202	(123)
SPDES - I and I	195,000	195,000	194,127		194,127	873		194,127		194,127	
SPDES	190,000	248,700	247,974		247,974	726		247,974		247,974	
Harold Campus Building B 2004-2005	147,500	172,850	182,720	9,443	192,163	(19,313)			187,789	187,789	(4,374)
Harold Campus Building A 2004-2005	155,500	151,000	123,089	7,351	130,440	20,560			129,787	129,787	(653)
Chenango Occupational Center 2004-2005	87,000	66,150	56,578		56,578	9,572			61,727	61,727	5,149
Harold Campus Building B 2005-2006	132,500	132,500		79,036	79,036	53,464			206,635	206,635	127,599
Harold Campus Building A 2005-2006	99,500	99,500		68,477	68,477	31,023			71,810	71,810	3,333
Chenango Occupational Center 2005-2006	219,612	219,612		203,710	203,710	15,902			82,933	82,933	(120,777)
BOCES Building Project	48,170,000	48,170,000		161,526	161,526	48,008,474					(161,526)
White House	16,601	16,601		16,738	16,738	(137)			17,750	17,750	1,012
Building Conditions Survey				17,750	17,750	(17,750)			17,750	17,750	
Sewer Lines	21,000	22,000		21,994	21,994	6			21,994	21,994	
Harold Campus Modular	35,627	48,808		48,799	48,799	9			48,799	48,799	
	<u>\$ 52,199,895</u>	<u>\$ 52,116,567</u>	<u>\$ 3,328,710</u>	<u>\$ 686,577</u>	<u>\$ 4,015,287</u>	<u>\$ 48,101,280</u>	<u>\$ 0</u>	<u>\$ 3,017,953</u>	<u>\$ 846,974</u>	<u>\$ 3,864,927</u>	<u>\$ (150,360)</u>

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Current Year's Actual	Variance Favorable (Unfavorable)
Revenues				
Administration	\$ 2,720,294	2,720,294	\$ 2,803,642	\$ 83,348
Occupational Instruction	5,145,096	5,200,319	5,218,250	17,931
Instruction for Special Needs	8,211,983	7,874,613	7,752,992	(121,621)
Itinerant Services	1,427,775	1,510,088	1,470,976	(39,112)
General Instruction	1,822,311	2,069,451	2,088,216	18,765
Instructional Support	5,772,434	5,983,848	5,823,718	(160,130)
Other Services and Internal Services	<u>3,794,706</u>	<u>4,411,506</u>	<u>4,745,795</u>	<u>334,289</u>
Total Revenues	<u>28,894,599</u>	<u>29,770,119</u>	<u>29,903,589</u>	<u>133,470</u>
Expenditures				
Administration	2,720,294	2,720,294	2,528,583	191,711
Occupational Instruction	5,145,096	5,200,319	5,102,846	97,473
Instruction for Special Needs	8,211,983	7,874,613	7,686,971	187,642
Itinerant Services	1,427,775	1,510,088	1,336,825	173,263
General Instruction	1,822,311	2,069,451	1,990,488	78,963
Instructional Support	5,772,434	5,983,848	5,561,544	422,304
Other Services	<u>3,794,706</u>	<u>4,411,506</u>	<u>3,933,225</u>	<u>478,281</u>
Total Expenditures	<u>28,894,599</u>	<u>29,770,119</u>	<u>28,140,482</u>	<u>1,629,637</u>
Excess Revenues Over Expenditures			<u>1,763,107</u>	<u>1,763,107</u>
Other Financing (Uses)				
Return of Surplus			<u>(1,435,597)</u>	<u>(1,435,597)</u>
Total Other Financing (Uses)			<u>(1,435,597)</u>	<u>(1,435,597)</u>
Excess Revenues Over Expenditures and Other Financing (Uses)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 327,510</u>	<u>\$ 327,510</u>

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
SCHEDULE OF A431 SCHOOL DISTRICT ACCOUNT
For the Year Ended June 30, 2006

Credit Balance, Beginning of Year		\$ <u>83,930</u>
Debits		
Billings to Components and Other BOCES		28,382,127
Refund of Balances Due School Districts		115,573
Refund of 2005 Surplus		<u>1,033,292</u>
Total Debits		<u>29,530,992</u>
 Subtotal		 <u>29,614,922</u>
Credits		
Collections from Components		28,049,161
Adjustment - Credits to School Districts - Revenues		<u>1,435,597</u>
Total Credits		<u>29,484,758</u>
 Balance, End of Year		 \$ <u><u>130,164</u></u>

Summary:

A380 Accounts Receivable Components		\$ 1,565,761
A431 School District Accounts		<u>(1,435,597)</u>
Balance, End of Year		\$ <u><u>130,164</u></u>

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT
For the Year Ended June 30, 2006

Capital Assets, Net	\$ 9,011,543
Less:	
Capital, Fund Balance (Deficit)	(150,360)
Installment Purchase Debt	<u>(23,762)</u>
Investment in Capital Assets, Net of Related Debt	<u>\$ 8,837,421</u>

D'Arcangelo & Co., LLP

Certified Public Accountants & Consultants

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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

Board of Education

Delaware-Chenango-Madison and Otsego BOCES

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Delaware-Chenango-Madison and Otsego BOCES (BOCES) as of and for the year ended June 30, 2006, which collectively comprise BOCES' basic financial statements, and have issued our report thereon dated August 24, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered BOCES' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BOCES' 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 Board of Education, management, New York State Education Department, the New York State Comptroller's office, and Federal and other awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

D'Arcangelo & Co., LLP

August 24, 2006

Rome, New York

D'Arcangelo & Co., LLP

Certified Public Accountants & Consultants

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Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Education
Delaware-Chenango-Madison and Otsego BOCES

Compliance

We have audited the compliance of Delaware-Chenango-Madison and Otsego BOCES (BOCES) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended June 30, 2006. BOCES' major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs are the responsibility of BOCES' management. Our responsibility is to express an opinion on BOCES' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about BOCES' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of BOCES' compliance with those requirements.

In our opinion, BOCES' complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of BOCES is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered BOCES' internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management, New York State Education Department, and the New York State Comptroller's office, and Federal and other awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

D'Arcangelo & Co., LLP

August 24, 2006

Rome, New York

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Current Year Expenditures</u>
<u>U.S. Department of Agriculture</u> (Passed Through the State Education Department of the State of New York - Pass-Through (Grantor's No. 14-6013200-C6))		
National School Lunch Program (Noncash)	10.555	\$ <u>3,962</u>
School Breakfast Program	10.553	17,457
National School Lunch Program Cash Assistance	10.555	<u>34,648</u> <u>52,105</u>
Total U.S. Department of Agriculture		<u>56,067</u>
<u>U.S. Department of Education</u> (Passed Through the State Education Department of the State of New York - Pass-Through (Grantor's No. 14-6013200-C6))		
Adult Education - State Grant Program	84.002	73,061
Special Education - Grants to States	84.027	305,903
Vocational Education - Basic Grants to States	84.048	273,281
Even Start - State Educational Agencies	84.213	<u>562,148</u>
Total U.S. Department of Education - Indirect		<u>1,214,393</u>
<u>(Direct)</u>		
Federal Family Education Loans	84.032	242,397
Federal Pell Grant Programs	84.063	<u>121,554</u>
Total U.S. Department of Education - Direct		<u>363,951</u>
<u>Total U.S. Department of Education</u>		<u>1,578,344</u>
<u>U.S. Department of Health and Human Services</u> (Passed Through the State of New York Department of Health Contract No. C-015541)		
Abstinence Education (HRSA)	93.235	<u>1,741</u>
Total U.S. Department of Health and Human Services		<u>1,741</u>
<u>U.S. Corporation for National and Community Service</u> (Passed Through the State Education Department of State of New York)		
Learn and Serve America Higher Education	94.004	<u>40,024</u>
Total U.S. Corporation for National and Community Service		<u>40,024</u>
<u>Total Federal Financial Assistance</u>		<u>\$ 1,676,176</u>

See Notes to Schedule of Expenditures of Federal Awards and
Independent Auditor's Report.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

I. SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The accompanying Schedule of Expenditures of Federal Awards represents all Federal awards administered by the Delaware-Chenango-Madison and Otsego BOCES. The BOCES' organization is defined in Note I to the BOCES' basic financial statements.

B. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the BOCES and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

II. MATCHING COSTS

In accordance with terms of the grants, the Organization has incurred matching costs totaling \$300,643 during the year ended June 30, 2006, for Even Start CFDA #84.213.

III. CLUSTER PROGRAMS

The following programs are identified by "OMB Circular A-133 Compliance Supplement" to be part of a cluster of programs:

U.S Department of Education

Student Financial Aid Cluster:

CFDA #84.032 Federal Family Education Loans
CFDA #84.063 Federal Pell Grant Programs

U.S Department of Agriculture

Nutrition Cluster:

CFDA #10.553 School Breakfast Program
CFDA #10.555 National School Lunch Program

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
For the Year Ended June 30, 2006

A. Summary of Auditor's Results

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major Federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major Federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	<u>U.S. Department of Education</u> Vocational Education – Basic Grants to States CFDA #84.048 Special Education – Grants to States CFDA #84.027
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

(Continued)

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505

For the Year Ended June 30, 2006

(Continued)

B. Findings and Questioned Costs – Major Federal Award Programs Audit and Financial Statements Audit

There were no findings required to be reported during the audit of the major Federal award programs for the fiscal year ended June 30, 2006.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
SCHEDULE OF PRIOR YEAR'S FINDINGS - FEDERAL
COMPLIANCE REQUIREMENTS
For the Year Ended June 30, 2006

No findings were noted in the audit for the year ended June 30, 2005.

D'Arcangelo & Co., LLP

Certified Public Accountants & Consultants

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Independent Auditor's Report

Board of Cooperative Educational Services
Sole Supervisory District of
Delaware-Chenango-Madison and Otsego Counties

We have audited the accompanying statement of assets, liabilities, and fund equity - cash basis of the Extraclassroom Activity Fund of the Board of Cooperative Educational Services Sole Supervisory District Delaware-Chenango-Madison and Otsego Counties (BOCES) of as of June 30, 2006, and the related statement of revenues, expenditures, and changes in fund equity - cash basis for the year then ended. These financial statements are the responsibility of the BOCES management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Insufficient accounting controls are exercised over cash receipts at the point of collection to the time of submission to the Central Treasurer. Accordingly, it was impracticable to extend our audit of such receipts beyond the amounts recorded.

As explained in Note I, it is the BOCES' policy to prepare the financial statements of the Extraclassroom Activity Fund on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, except for the effects of any adjustments which might have resulted had the cash collections referred to above been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund equity - cash basis of the Extraclassroom Activity Fund of the BOCES at June 30, 2006, arising from cash collected and disbursements made during the year then ended on the basis of accounting described in Note I.

Our audit was made for the purpose of expressing limited assurance on the financial statements taken as a whole. The supplemental schedule of cash receipts and disbursements – cash basis is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and we are not aware of any material modifications that should be made in order for such information to be in conformity with U.S. generally accepted accounting principles except as described in the fourth paragraph.

D'Arcangelo & Co., LLP

August 24, 2006

Rome, New York

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
EXTRACLASSROOM ACTIVITY FUND
STATEMENT OF ASSETS, LIABILITIES, AND
FUND BALANCE - CASH BASIS
June 30, 2006

<u>Assets</u>	
Cash	\$ <u>11,334</u>
<u>Total Assets</u>	<u>\$ 11,334</u>
<u>Liabilities and Fund Balance</u>	
Fund Balance	
Unreserved and Undesignated	\$ <u>11,334</u>
Total Fund Balance	<u>11,334</u>
<u>Total Liabilities and Fund Balance</u>	<u>\$ 11,334</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
EXTRACLASSROOM ACTIVITY FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - CASH BASIS
For the Year Ended June 30, 2006

Revenues	
Charges for Services, Sale of Property, and Miscellaneous	\$ <u>64,826</u>
Total Revenues	<u>64,826</u>
Expenditures	
Instruction - Club Activities	<u>66,238</u>
Total Expenditures	<u>66,238</u>
(Deficit) Revenues Over Expenditures	(1,412)
<u>Fund Balance, Beginning of Year</u>	<u>12,746</u>
<u>Fund Balance, End of Year</u>	<u>\$ 11,334</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
EXTRACLASSROOM ACTIVITY FUND
SUPPLEMENTAL SCHEDULE OF CASH RECEIPTS AND
DISBURSEMENTS - CASH BASIS
For the Year Ended June 30, 2006

Activities	Cash and Fund Equity 07/01/05	Cash Receipts	Cash Disbursements	Cash and Fund Equity 06/30/06
<u>Western Delaware Center</u>				
FFS - Conservation IV	\$ 38	\$ 3,073	\$ 2,923	\$ 188
Special Education	139	2,457	1,865	731
VICA - Child Care PM	470		60	410
VICA - Cosmetology	1,607	6,491	7,578	520
VICA - General	1,304	9,713	9,347	1,670
VICA - Human Services	1,166	5,330	5,435	1,061
VICA - Nursing	64	259	293	30
Auto Mechanics	2		2	
Career Academy	3			3
Security and Law	88	701	722	67
Sales Tax	420	1,075	1,230	265
Interest Earned		63		63
Total Western Delaware Center	<u>5,301</u>	<u>29,162</u>	<u>29,455</u>	<u>5,008</u>
<u>Chenango Center</u>				
FFA - General AM	2,012	7,341	8,156	1,197
Nurse Assisting	443		61	382
OSEP - Home and Institutional	736	84	296	524
NTHS	195		177	18
Unique Placement	297	807	834	270
VICA - Cosmetology AM	1,993		1,993	
VICA - Cosmetology PM	529	8,980	7,974	1,535
Early Childhood Education		1,078	760	318
Foods	25	2,879	2,900	4
Pre-school		255		255
VICA - General	1,052	13,017	12,565	1,504
Option 2 Ben	71		55	16
Sales Tax	68	1,156	1,012	212
Interest Earned	24	67		91
Total Chenango Center	<u>7,445</u>	<u>35,664</u>	<u>36,783</u>	<u>6,326</u>
<u>Total</u>	<u>\$ 12,746</u>	<u>\$ 64,826</u>	<u>\$ 66,238</u>	<u>\$ 11,334</u>

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
EXTRACLASSROOM ACTIVITY FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. OPERATIONS

The transactions of the Extraclassroom Activity Fund are not considered part of the reporting entity of the BOCES. The related year-end cash balances are shown as part of the Trust and Agency Funds with the respective offset being shown as agency liabilities.

The BOCES makes rules and regulations for the conduct, operation, and maintenance of the Extraclassroom Activity Fund and for the safeguarding, accounting, and auditing of all monies received and derived therefrom.

B. BASIS OF ACCOUNTING

The books and records of the BOCES' Extraclassroom Activity Fund are maintained on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Under this basis of accounting, revenues are recognized when cash is received, and expenditures are recognized when cash is disbursed.

DELAWARE-CHENANGO-MADISON AND OTSEGO BOCES
EXTRACLASSROOM ACTIVITY FUND
SUMMARY OF FINDINGS

June 30, 2006

A. CASH RECEIPTS

At present, there are insufficient accounting controls over cash collections prior to the initial entry in the accounting records by the Central Treasurer.

Detail of receipts by student or activity should accompany the Activity Club Close-Out Report. Actual receipts deposited should be deposited in a timely manner and agree to the actual records per the Activity Club Close-Out Report.

B. CASH DISBURSEMENTS

At present, there are insufficient accounting controls over cash disbursements. Proper documentation should accompany the purchase order or claim form. Checks should not be disbursed unless all required documentation is present including official disbursement request with all applicable signatures.

C. ACTIVITY FUND MANAGEMENT

The Board of Education has the ultimate responsibility for the safeguarding of the Extraclassroom Activity Fund. The Board delegates this responsibility to the Central Treasurer, the faculty advisors, and the activity treasurers.

In order to help monitor the plans and operations of the various activities, we suggest at the start of each school year the activity advisors and activity officers prepare a program outline indicating the various events to be held, the anticipated profits, and the plan for the proceeds. As each event is completed, the program outline should be compared to the actual results and the "Student Activity Fund Raising Report" filed with the activity records for future reference. A copy of the program outline should be given to the faculty advisor and Central Treasurer so they can anticipate the various events throughout the year.

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**SUMMARY OF CERTAIN PROVISIONS
OF THE LEASE AND AGREEMENT**

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SUMMARY OF CERTAIN PROVISIONS OF THE LEASE AND AGREEMENT

The following is a brief summary of certain provisions of the Agreement. Such summary does not purport to be complete and reference is made to the Agreement for full and complete statements of such and all provisions. Defined terms used in the Agreement will have the meanings ascribed to them in Appendix A or in the body of this Official Statement.

Term of Lease

The term of the Agreement will commence on the date on which the Series 2007 Bonds are first issued and delivered by the Authority, and will terminate on the earliest of August 15, 2027, the date on which no Series 2007 Bonds are Outstanding and the BOCES has satisfied its obligations under the Agreement (the "Lease Term"). Notwithstanding the termination of the term of the Agreement, the obligations of the BOCES under the Agreement will not terminate unless and until no Series 2007 Bonds are outstanding and the BOCES has satisfied its obligations under the Agreement, provided that the sections from the Agreement as summarized under the headings "Indemnification of Authority and Limitation on Liability" and "Tax Exempt Status of the Bonds" herein will survive such termination.

(Section 2.02)

Construction of Project

The BOCES agrees that, whether or not there are sufficient moneys available to it under the provisions of the Master Resolution, the Series 2007 Resolution and the Agreement, the BOCES will complete the acquisition, design, construction, reconstruction, rehabilitation, renovation and improving or otherwise providing and furnishing and equipping of the Project in connection with which the Authority has issued Series 2007 Bonds, substantially in accordance with the Plans and Specifications related thereto as such Plans and Specifications may be amended by the BOCES with the approval of the State Education Department and filed with the Authority. Subject to the conditions of the Agreement, the Authority will, to the extent of moneys available in the Construction Fund, cause the BOCES to be reimbursed for, or pay, any costs and expenses incurred by the BOCES which constitute Costs of the Projects, provided such costs and expenses are approved by the Authority, which approval will not be unreasonably withheld. In order to provide moneys for payment of the Cost of the Project, upon the written request of the BOCES, the Authority may issue additional Bonds.

(Section 3.01)

Payment of Rentals

(a) The BOCES will pay to the Authority the following Basic Rent in the amounts and on the dates as follows:

(i) Subject to subdivision (e) of this subsection, on each September 1, or if such September is not a Business Day then the next succeeding Business Day, the interest on Outstanding Series 2007 Bonds payable on the next succeeding February 15 and August 15 and the principal and Sinking Fund Installments of Outstanding Series 2007 Bonds payable by reason of maturity and redemption on the next succeeding August 15;

(ii) Subject to subdivision (e) of this subsection, on each September 1, or if such September is not a Business Day then the next succeeding Business Day, the amount, if any, as will have been set forth in the certificate of the Trustee made pursuant to the Master Resolution as summarized in Appendix D under the heading "Debt Service Reserve Fund" as necessary to restore the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement; and

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(iii) On the fifth Business Day prior to each interest payment date, the amount, if any, necessary to cause the amount on deposit in the Debt Service Fund to equal the amount of principal of and interest payable on the Bonds on such interest payment date.

The BOCES will have the option to make from time to time prepayments in part of payments due as aforesaid of Basic Rent, together with interest accrued and to accrue and premium, if any, to be paid on the Series 2007 Bonds, if such prepayment is to be used for the purchase or redemption of such Series 2007 Bonds. To the extent that the BOCES prepays all of the Basic Rent payable with respect to a Project (as determined by the Authority and the BOCES), such Project may be released from the Agreement. The Trustee will apply such prepayments in such manner consistent with the provisions of the Master Resolution as may be specified in writing by the BOCES at the time of making such prepayment.

Subject to the provisions of the Agreement and of the Master Resolution, the BOCES will receive a credit against the amount required to be paid by the BOCES pursuant to subparagraph (i) of this subsection (a) on account of any Sinking Fund Installments if, not less than forty-five (45) days prior to an August 15 on which a Sinking Fund Installment is scheduled to be due, there will be delivered to the Trustee for cancellation one or more Bonds of the Series and maturity to be so redeemed on such August 15. The amount of the credit will be equal to the principal amount of Bonds so delivered and cancelled.

(b) The BOCES will pay to the Authority, as additional rent for the Project, the amounts, and on the dates, as follows:

(i) On the date of delivery of the Series 2007 Bonds, to the extent not paid from the proceeds of the Series 2007 Bonds, the Authority Fee and any Administrative Expenses, as estimated by an Authorized Officer of the Authority, incurred in connection with the issuance of the Series 2007 Bonds;

(ii) On each March 31 or such other date as may be agreed to by the Authority, the Annual Administrative Fee;

(iii) The Administrative Expenses of the Authority, the Trustee and each Paying Agent for the Series 2007 Bonds, within sixty (60) days after notice of the amount thereof is given to the BOCES; and

(iv) The amount determined by an Authorized Officer of the Authority as required to be rebated to the Department of the Treasury of the United States of America in excess of the amount available therefor in the Arbitrage Rebate Fund.

(c) The Authority will furnish the BOCES not less than sixty (60) days prior to the date on which a payment is due pursuant to this subsection, a statement of the amount, purpose and payment date of each payment required to be made pursuant to this subsection. With respect to the payment of Basic Rent pursuant to subsection (a) above, the amount set forth in such statement will be net of amounts on deposit in the Debt Service Fund, including the State funds received and such interest earnings thereon, if any, as of the date of such statement and such statement will set forth the amount of such State funds received, such interest earnings thereon and amounts still owed to the Authority. The failure to furnish such statement will not excuse the BOCES's failure to pay, when due, the Basic Rent payable pursuant to this section.

(d) In addition to the payments required under this heading, in the event a Reserve Fund Facility is deposited for all or part of the Debt Service Reserve Fund Requirement in accordance with the Master Resolution, as summarized in Appendix D under the heading "Debt Service Reserve Fund," the BOCES will be obligated (i) to make payments to the Trustee to restore the Debt Service Reserve Fund to its requirement so that the Facility Provider may be reimbursed for amounts paid by it pursuant to such Reserve Fund Facility and (ii) to pay the Administrative Expenses of the Authority incurred in connection with such Reserve Fund Facility,

including without limitation, amounts necessary to pay fees, expenses and interest payable to the Facility Provider by the Authority in connection with such Reserve Fund Facility. If the Reserve Fund Facility is to be replaced with money pursuant to the third paragraph of the heading "Debt Service Reserve Fund" summarized in Appendix D, the BOCES will be obligated to make payments to the Trustee in amounts and at the times that deposits are to be made to the Debt Service Reserve Fund pursuant to such paragraph.

(e) The BOCES will receive a credit against payment due under the Agreement equal to the amount of State funds received by the Trustee or the Authority to be applied towards such payment. If the amount of such State funds received by the Trustee or the Authority on September 1 is less than the amount required to be paid under the Agreement, the Authority will give notice to the BOCES not more than ten (10) days from such September 1. Such notice will state the amount received by the Trustee and the Authority and the amount still due and payable.

The Authority will notify the BOCES of the receipt of any payment of State funds by the Authority or the Trustee after September 1 no more than ten (10) days after receipt of such funds, which notice will state the amount received by the Trustee and the Authority and the amount still due and payable. If the amount of State funds received by the Trustee or the Authority by January 1 of each year is less than the amount of interest payable on the Series 2007 Bonds on February 15, the BOCES will pay to the Trustee by January 15 the difference between the amount of State funds received and the interest payable on the Series 2007 Bonds on February 15. If the amount of State funds received by the Trustee or the Authority by July 1 of each year, after the application of the amounts necessary to make the interest payments due on the preceding February 15, is less than the amount of principal and interest payable on the Series 2007 Bonds on August 15, the BOCES will pay to the Trustee by July 15 the difference between the amount of State funds received and the principal and interest payable on the Bonds on August 15.

If on January 1 of each year the amount of moneys on deposit in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement, the BOCES will pay to the Trustee by January 15 the difference between the amount of State funds received and the amount of money to make up the deficiency in the Debt Service Reserve Fund and satisfy the Debt Service Reserve Fund Requirement. If on July 1 of each year the amount of moneys on deposit in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement, the BOCES will pay to the Trustee by July 15 the difference between the amount of State funds received and the amount of money to make up the deficiency in the Debt Service Reserve Fund and satisfy the Debt Service Reserve Fund Requirement.

(Section 4.01)

Indemnification of Authority and Limitation on Liability

Both during the Lease Term and thereafter, the BOCES, to the extent permitted by law, (i) hereby releases the Authority and each director, officer and employee of the Authority from claims for damages or liability arising from or out of the design, acquisition, construction, reconstruction, rehabilitation, improvement, or use of the Leased Property pursuant the Agreement, and (ii) will indemnify and hold the Authority and each member, officer and employee of the Authority harmless against any and all liabilities, losses, costs, damages or claims, and will pay any and all judgments or expenses of any and all kinds or nature and however arising, imposed by law, including interest thereon, which it or any of them may sustain, be subject to or be caused to incur by reason of any claim, action, suit, charge or proceeding arising (1) from or out of the design, acquisition, construction, reconstruction, rehabilitation, improvement or use of the Leased Property (including the Project), pursuant hereto, based upon: personal injury, death, or damage to property, whether real, personal or mixed; or upon or arising out of contracts entered into by the Authority; or (2) upon or arising out of the

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Authority's ownership of a leasehold estate of the Leased Property or the leasing thereof to the BOCES; or (3) upon or arising out of the acquisition of the Leased Property, or upon or arising out of an allegation that an official statement, prospectus, placement memorandum or other offering document prepared in connection with the sale and issuance of the Series 2007 Bonds contained an untrue or misleading statement of a material fact obtained from the BOCES relating to the BOCES or the Project, or omitted to state a material fact relating to the BOCES or the Project necessary in order to make the statements made therein in light of the circumstances under which they were made not misleading; provided, however, that neither the Authority nor a member, officer or employee of the Authority will be released, indemnified or held harmless from any claim for damages, liability, loss, cost, damage, judgment or expense arising out of the gross negligence or willful misconduct of the Authority, such member, officer or employee.

(Section 4.03)

Nature of Obligation

The obligation of the BOCES to pay Rentals and to pay all other amounts provided for in the Agreement and to perform its obligations thereunder are absolute and unconditional, and such Rentals and other amounts are payable without any rights of set-off, recoupment or counterclaim it might have against the Authority, the Trustee or any other person and whether or not any or all of the Project is used or occupied or available or suitable for use or occupancy and whether or not the BOCES Lease is in effect. If the BOCES has paid all amounts required under the Agreement and continues to pay the same when due, it will not be precluded from bringing any action it may otherwise have against the Authority; provided, however, that the BOCES will not as a result of the BOCES's failure to pay any Administrative Expenses or Annual Administrative Fee be precluded from bringing any such action if the amount thereof is disputed or is being contested by the BOCES in good faith.

The Agreement is a general obligation of the BOCES and any successor thereto. Any payment required to be made by the BOCES to the Authority pursuant thereto will be deemed an administrative expense within the meaning of section nineteen hundred fifty of the Education Law of the State.

(Section 4.04)

Operation, Maintenance and Repair

During the Lease Term, the BOCES will be responsible for, and pay all costs of, operating the Leased Property, maintaining the same in condition suitable and sufficient for the use for which they are intended, and making all necessary repairs and replacements, interior and exterior, structural and nonstructural.

The BOCES is responsible for the over-all supervision of the Leased Property, for the overhead and general administrative costs of the BOCES which are incurred because of the Leased Property and for the integration of the operation of the Leased Property into the BOCES educational program.

(Section 5.01)

Utilities, Taxes and Governmental Charges

The BOCES will pay or cause to be paid all charges for water, electricity, light, heat or power, sewage, telephone and other utility service, rendered or supplied upon or in connection with the Leased Property during the Lease Term.

In addition, the BOCES will (i) pay, or make provision for payment of, all lawful taxes and assessments (other than those which are the basis of a Permitted Encumbrance), including income, profits, property or excise taxes, if any, or other municipal or governmental charges, levied or assessed by any federal, state or any municipal government upon the Authority or the BOCES with respect to or upon the Leased Property or any part thereof or upon any payments under the Agreement when the same will become due; (ii) not create or suffer to be created any lien or charge upon the Leased Property or any part thereof, except Permitted Encumbrances, or upon the payments in respect thereof pursuant hereto; and (iii) pay or cause to be discharged or make adequate provision to satisfy and discharge, within sixty (60) days after the same will come into force, any lien or charge upon the Leased Property or any part thereof, except Permitted Encumbrances, or upon any payments under the Agreement and all lawful claims or demands for labor, materials, supplies or other charges which, if unpaid, might be or become a lien upon any payments under the Agreement.

The Authority will cooperate fully with the BOCES in the payment of taxes or assessments and in the handling and conduct of any prospective or pending litigation with respect to the levying of taxes or assessments on the Leased Property and will, to the extent it may lawfully do so, permit the BOCES to litigate in any such proceeding in the name and behalf of the Authority.

(Section 5.02)

Additions, Enlargements and Improvements

The BOCES will have the right at any time and from time to time during the Lease Term, at its own cost and expense, to make such additions, enlargements, improvements and expansions to, or repairs, reconstruction and restorations of, a Project, as the BOCES will deem necessary or desirable in connection with the use thereof; provided, however, that no addition to or enlargement, improvement, expansion, repair, reconstruction or restoration of, a Project which requires structural change of the Project, or which modifies or changes any aspect or feature thereof designed or intended to protect the life or provide for the safety of the occupants of the Project, will be made by the BOCES without the prior written consent of an Authorized Officer of the State Education Department. The cost of any such additions, enlargements, improvements, expansions, repairs, reconstruction or restorations will be promptly paid or discharged so that the Project will at all times be free of liens for labor and materials supplied thereto other than Permitted Encumbrances. All additions, enlargements, improvements and expansions to, or repairs, reconstruction and restorations of, a Project on the Leased Property will be and become a part of the Project and the property leased to the Authority under the Agreement.

(Section 5.03)

Insurance

The BOCES will, in accordance with the requirements of the Agreement, procure and maintain, or cause to be procured and maintained, to the extent reasonably obtainable, from responsible insurers, insurance of the type and in the amounts customarily maintained by educational institutions providing services similar to those provided by the BOCES. All policies of insurance required by the Agreement will be primary to any insurance maintained by the Authority. In the event the BOCES fails to provide the insurance required by the Agreement, the Authority may elect at any time thereafter to procure and maintain the insurance required therein at the expense of the BOCES.

(Section 5.05)

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Damage or Destruction

The BOCES agrees to notify the Authority and the Trustee immediately in the case of damage to or destruction of the Leased Property or any portion thereof in an amount exceeding \$100,000 resulting from fire or other casualty. The Authority agrees that the net proceeds of any insurance relating to such damage or destruction, not exceeding \$100,000, may be paid directly to the BOCES.

In the event the Leased Property or any portion thereof is damaged or destroyed by fire or other casualty and the damage or destruction is estimated to exceed \$100,000, the net proceeds of any insurance will be initially paid directly to the Authority for deposit and application as provided in the Agreement. The BOCES will within one hundred eighty (180) days after such damage or destruction determine whether or not to repair, reconstruct, restore or improve the Leased Property and give written notice of such determination to the Authority. If the BOCES elects to repair, reconstruct, restore or improve the Leased Property it will proceed forthwith to repair, reconstruct, restore or improve the Leased Property to substantially the same condition as it existed prior to the event causing such damage or destruction. So long as the BOCES is not in default under the Agreement as summarized herein under the heading "Events of Default" hereof, any net proceeds of insurance relating to such damage or destruction received by the Authority will be deposited to the credit of the Construction Fund and applied to payment of the costs of such repairs, reconstruction, restoration or improvement in the same manner and upon the same conditions as set forth in the Master Resolution for the payment of the Costs of the Project from the Construction Fund.

It is further understood and agreed that in the event the BOCES will elect to repair, reconstruct, restore or improve the Leased Property, the BOCES will complete the repairs, reconstruction, restoration or improvement of the Leased Property.

In the event the BOCES elects not to repair, reconstruct, restore or improve the Leased Property, the net proceeds of any insurance will be paid to the Authority, as a prepayment of the Rentals under the Agreement, for deposit to the Debt Service Fund and application to the redemption of Outstanding Series 2007 Bonds or for payment to the Trustee, to be held by the Trustee, in trust, pursuant to the Master Resolution as summarized in Appendix D under the heading "Defeasance" for the payment of Outstanding Series 2007 Bonds in accordance with the written instructions of an Authorized Officer of the Authority.

(Section 5.06)

Condemnation

The Agreement and the interest of the BOCES will terminate as to a Project or portion thereof on Leased Property and the Leased Property appertaining thereto condemned or taken by eminent domain when title thereto vests in the party condemning or taking the same (hereinafter referred to as the "termination date"). The BOCES hereby irrevocably assigns to the Authority all right, title and interest of the BOCES in and to any net proceeds of any award, compensation or damages (hereinafter referred to as an "award"), payable in connection with any such condemnation or taking during the Lease Term. Such net proceeds will be initially paid to the Authority for deposit and application as hereinafter provided.

In the event of any such condemnation or taking, the BOCES will within ninety (90) days after the termination date therefor determine whether or not to repair, reconstruct, restore or improve such Project and give written notice of such determination to the Authority. If the BOCES elects to repair, reconstruct, restore or improve such Project, so long as the BOCES is not in default under the Agreement as summarized under the heading "Events of Default and Remedies" herein, any such net proceeds received by the Authority will be deposited to the credit of the Construction Fund and be applied to finance the costs of such repairs, reconstruction,

restoration or improvements in the same manner and upon the same conditions set forth in the Master Resolution for the payment of the Costs of the Project from the Construction Fund.

In the event the BOCES elects not to repair, reconstruct, restore or improve such Project, the award will be paid to the Authority, as a prepayment of the Rentals under the Agreement, for deposit to the Debt Service Fund and application to the redemption of Outstanding Series 2007 Bonds or for payment to the Trustee, to be held by the Trustee, in trust, pursuant to the Master Resolution as summarized in Appendix D under the heading "Defeasance" for the payment of Outstanding Bonds in accordance with the written instructions of an Authorized Officer of the Authority.

The Authority will cooperate fully with the BOCES in the handling and conduct of any prospective or pending condemnation proceedings with respect to a Project on Leased Property or any part thereof and will, to the extent it may lawfully do so, permit the BOCES to litigate in any such proceeding in the name and behalf of the Authority. In no event will the Authority voluntarily settle, or consent to the settlement of, any prospective or pending condemnation proceedings with respect to a Project on Leased Property or any part thereof without the written consent of the BOCES.

(Section 5.07)

Assignment by BOCES

The BOCES will not sell, sublease or otherwise dispose of or encumber its interest in a Project except as provided herein under the heading "Sale; Subletting." The Agreement may not be assigned in whole or in part by the BOCES.

(Section 7.04)

Use of Project

The BOCES agrees that the Project will be occupied or used only by or for students, members of the faculty, staff and personnel, officers and employees of the BOCES, and the district superintendent of schools, in each case in connection with their respective duties, functions and responsibilities relating to the operation of the Project, or, on a temporary basis, by or for individuals connected with educational activities; provided, however, that any occupancy or use of the Project which is from time to time Authorized or permitted by the provisions of the Education Law of the State relating to boards of cooperative educational services will be deemed to be authorized or permitted by this section.

(Section 7.05)

Restrictions on Religious Use

The BOCES agrees that with respect to any Project or portion thereof, so long as such Project or portion thereof exists and unless and until such Project or portion thereof is sold for the fair market value thereof, such Project or any portion thereof will not be used for sectarian religious instruction or as a place of religious worship or in connection with any part of a program of a school or department of divinity for any religious denomination; provided, however, that the foregoing restriction will not prohibit freedom of speech, the free exercise of any religion and will not restrict or inhibit compliance with the Equal Access Act, 20 U.S.C. Sections 4071-4074; and, further provided, however, that if at any time hereafter, in the opinion of Bond Counsel, the then applicable law would permit the Project or a portion thereof to be used without regard to the above stated restriction, said

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restriction will not apply to such Project and each portion thereof. The Authority and its agents may conduct such inspections as the Authority deems necessary to determine whether the Project or any portion of real property thereof financed by Bonds is being used for any purposed proscribed hereby. The BOCES hereby further agrees that prior to any disposition of any portion of the Project for less than fair market value, it will execute and record in the appropriate real property records an instrument subjecting, to the satisfaction of the Authority, the use of such portion of such Project to the restriction that (i) so long as such portion of such Project (and, if included in such Project, the real property on or in which such portion of such Project is situated) will exist and (ii) until such portion of such Project is sold or otherwise transferred to a person who purchases the same for the fair market value thereof at the time of such sale or transfer, such portion of such Project will not be used for sectarian religious instruction or as a place of religious worship or used in connection with any part of the program of a school or department of divinity of any religious denomination. The instrument containing such restriction will further provide that such restriction may be enforced at the instance of the Authority or the Attorney General of the State, by a proceeding in any court of competent jurisdiction, by injunction, mandamus or by other appropriate remedy. The instrument containing such restriction will also provide that if at any time thereafter, in the opinion of Bond Counsel, the then applicable law would permit such portion of such Project, or, if included in such Project, the real property on or in which such portion is situated, to be used without regard to the above stated restriction, then said restriction will be without any force or effect. For the purposes of this paragraph an involuntary transfer or disposition of the Project or a portion thereof, upon foreclosure or otherwise, will be considered a sale for the fair market value thereof.

(Section 7.06)

Sale; Subletting

No Leased Property will be sold by the BOCES, or any other person or entity succeeding to any of their respective interests without the prior written consent of the Authority, accompanied by an opinion of Bond Counsel to the effect that such sale would not adversely affect the exclusion of the interest on any of the Bonds from gross income for federal income tax purposes.

No Leased Property will be sublet by the BOCES, or any other person or entity succeeding to any of their respective interests without the prior written consent of the Authority, accompanied by an opinion of Bond Counsel to the effect that such sublease would not adversely affect the exclusion of the interest on any of the Bonds from gross income for federal income tax purposes.

The sale or subletting of Leased Property will not reduce the Rentals payable under the Agreement and will not otherwise affect the obligations of the BOCES thereunder.

(Section 7.07)

Tax Exempt Status of the Bonds

The BOCES, so long as it leases a Project and Leased Property under the Agreement, (i) will take no action, or permit any action to be taken, or omit to take any action, with respect to the Project or any Project which will adversely affect the exclusion of interest on any Series 2007 Bonds from gross income for purposes of federal income taxation; (ii) will not invest or otherwise use "gross proceeds" of the Series 2007 Bonds in a manner which would cause any Series 2007 Bond (other than a Series 2007 Bond designated as federally taxable) to be an "arbitrage bond" within the meaning of Section 148 of the Code, and any proposed or final regulations thereunder as are applicable to any Series 2007 Bond; and (iii) will not, nor will any "related person," as defined in Section 147(a)(2) of the Code, pursuant to an arrangement, formal or informal, purchase

Series 2007 Bonds (other than Series 2007 Bonds designated as federally taxable) in an amount related to the amount of any obligation to be acquired by the Authority from the BOCES.

(Section 7.09)

Events of Default and Remedies

An "event of default" or a "default" will mean, whenever they are used in the Agreement, any one or more of the following events:

(a) Failure by the BOCES to pay or cause to be paid when due the Rentals to be paid under the Agreement which failure continues for a period of seven (7) days after payment thereof was due;

(b) Failure by the BOCES to pay or to cause to be paid when due any other payment required to be made under the Agreement which failure continues for a period of thirty (30) days after payment thereof was due, provided that written notice thereof will have been given to the BOCES not less than thirty (30) days prior to the due date thereof;

(c) Failure by the BOCES to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in subparagraphs (a) and (b) of this section, which failure will continue for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the BOCES by the Authority or such longer period, as is required to cure such default, if by reason of the nature of such failure the same cannot be remedied within such thirty (30) day period and the BOCES has within such thirty (30) day period commenced to take appropriate actions to remedy such failure and is diligently pursuing such actions;

(d) Any representation or warranty of the BOCES contained in the Agreement will have been at the time it was made untrue in any material respect; or

(e) The BOCES will generally not pay its debts as such debts become due, or will admit in writing its inability to pay its debts generally, or will make a general assignment for the benefit of creditors; or any proceeding will be instituted by or against the BOCES seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for it for any substantial part of its property; or the BOCES will authorize any of the actions set forth above in this subparagraph (e).

(Section 8.01)

Whenever any event of default referred to above will have happened and be continuing, the Authority may take whatever action at law or in equity may appear necessary or desirable to collect the payments then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the BOCES under the Agreement.

(Section 8.02)

Appendix C

Amendments, Changes and Modifications

The Agreement may be amended, changed or modified in any respect provided that each amendment, change or modification is in writing signed by an Authorized Officer of the Authority and of the BOCES; provided, however, that no amendment, change or modification will take effect unless and until (i) if the consent of Holders of Outstanding Series 2007 Bonds is required by the Master Resolution as summarized in Appendix D under the heading "Amendment, Change, Modification or Waiver of Agreement," there will have been filed with the Trustee the written consents of the Holders of the percentages of Outstanding Series 2007 Bonds specified under such heading of the Master Resolution, (ii) if the consent of the Trustee is required by such section, the Trustee will have consented thereto and (iii) an executed copy of such amendment, change or modification, certified by an Authorized Officer of the Authority, will have been filed with the Trustee.

(Section 9.04)

**SUMMARY OF CERTAIN PROVISIONS
OF THE MASTER RESOLUTION**

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SUMMARY OF CERTAIN PROVISIONS OF THE MASTER RESOLUTION

The following is a brief summary of certain provisions of the Master Resolution. Such summary does not purport to be complete and reference is made to the Master Resolution for full and complete statements of such and all provisions. Defined terms used in the Master Resolution will have the meanings ascribed to them in Appendix A or in the body of this Official Statement.

Master Resolution, Series Resolution and Bonds Constitutes Separate Contracts

With respect to each Applicable Series of Bonds, in consideration of the purchase and acceptance of any and all of the Bonds of an Applicable Series authorized to be issued under the Master Resolution and under the Applicable Series Resolution by those who will hold or own the same from time to time, the Master Resolution and the Applicable Series Resolution will be deemed to be and will constitute a contract among the Authority, the Trustee and the Holders from time to time of such Bonds, and the pledge and assignment made in the Master Resolution and the covenants and agreements set forth to be performed by or on behalf of the Authority will be for the equal and ratable benefit, protection and security of the Holders of any and all of such Bonds of an Applicable Series, all of which, regardless of the time or times of their issue or maturity, will be of equal rank without preference, priority or distinction of any such Bonds of such Series over any other Bonds except as expressly provided in the Master Resolution or permitted by the Master Resolution or by the Applicable Series Resolution.

(Section 1.03)

Authorization of the Series 2007 Bonds

The Bonds will be issued pursuant to the Master Resolution, the Series 2007 Resolution and the Act. In addition to the Series 2007 Bonds, the Master Resolution authorizes the issuance of other Series of Bonds for such other purposes as are authorized by the Master Resolution.

The Bonds of the Authority will not be a debt of the State, nor will the State be liable thereon, nor will the Bonds be payable out of any funds other than those of the Authority pledged by the Master Resolution to the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds.

(Section 2.01)

Additional Bonds and Other Obligations

The Authority reserves the right to issue bonds, notes or any other obligations or otherwise incur indebtedness pursuant to other and separate resolutions or agreements of the Authority, so long as such bonds, notes or other obligations are not, or such other indebtedness is not, except as provided in the Master Resolution or Applicable Series Resolution, entitled to a charge or lien or right prior or equal to the charge or lien created by the Master Resolution, or prior or equal to the rights of the Authority and Holders of Bonds provided by the Master Resolution or with respect to the moneys pledged under thereunder or pursuant to an Applicable Series Resolution.

(Section 2.05)

Pledge of Revenues

The proceeds from the sale of the Bonds, the Applicable Revenues, the Authority's security interest in the Applicable Pledged Revenues, and, all funds established by the Master Resolution and an Applicable Series Resolution, other than the Applicable Arbitrage Rebate Fund, are pledged and assigned to the Trustee as security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds and as security for the performance of any other obligation of the Authority under the Resolution and under any Series Resolution, all in accordance with the provisions of the Master Resolution and any Series Resolution. The pledge of the Revenues will relate only to the Bonds of an Applicable Series authorized by such Series Resolution and no other Series of Bonds and such pledge will not secure any such other Series of Bonds. The pledge is valid, binding and perfected from the time

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when the pledge attaches and the proceeds from the sale of the Bonds, the Revenues, the Authority's security interest in the Applicable Pledged Revenues and the funds and accounts established by the Master Resolution and by any Series Resolution will immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge will be valid, binding and perfected as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof. No instrument by which such pledge is created nor any financing statement need be recorded or filed. The Bonds will be special obligations of the Authority payable solely from and secured by a pledge of the proceeds from the sale of the Bonds, the Revenues, the Authority's security interest in the Applicable Pledged Revenues and the funds and accounts established by the Master Resolution, which are pledged by the Master Resolution as provided in the Master Resolution, which pledge will constitute a first lien thereon, subject only, with respect to such Applicable Pledged Revenues, to the Applicable Prior Pledges.

(Section 5.01)

Establishment of Funds

Unless otherwise provided by the Applicable Series Resolution, the following funds are authorized to be established, held and maintained for each Applicable Series by the Trustee under the Applicable Series Resolution separate from any other funds established and maintained pursuant to any other Series Resolution:

Construction Fund;

Debt Service Fund;

Debt Service Reserve Fund;

Building and Equipment Reserve Fund; and

Arbitrage Rebate Fund

Accounts and sub-accounts within each of the foregoing funds may from time to time be established in accordance with an Applicable Series Resolution, an Applicable Bond Series Certificate or upon the direction of the Authority. All moneys at any time deposited in any fund created by the Master Resolution, other than the Applicable Arbitrage Rebate Fund, will be held in trust for the benefit of the Holders of the Applicable Series of Bonds, but will nevertheless be disbursed, allocated and applied solely in connection with Applicable Series of Bonds for the uses and purposes provided in the Master Resolution.

(Section 5.02)

Application of Moneys in the Construction Fund

As soon as practicable after the delivery of each Series of Bonds, there will be deposited in the Applicable Construction Fund the amount required to be deposited therein pursuant to the Series Resolution authorizing such Series or the Bond Series Certificate relating to such Series. In addition, the Authority will deposit in the Applicable Construction Fund any moneys paid to the Authority for the acquisition, construction, reconstruction, rehabilitation or improvement of any Project, including without limitation, the equity contribution, if any, provided by a BOCES. Moneys deposited in the Construction Fund will be used only to pay the Costs of Issuance of the Bonds and the Costs of the Applicable Project.

An Applicable Project will be deemed to be complete (a) upon delivery to the Authority and the Trustee of a certificate signed by an Authorized Officer of the BOCES which certificate will be delivered as soon as practicable after the date of completion of such Project or (b) upon delivery to the BOCES and the Trustee of a certificate of the Authority which certificate may be delivered at any time after completion of such Project. Each such certificate will state that such Project has been completed substantially in accordance with the Plans and Specifications, if any, applicable to such Project and that such Project is ready for occupancy, and, in the case of a certificate of an Authorized Officer of such BOCES, will specify the date of completion.

Upon receipt by the Trustee of the certificate required pursuant to this subdivision, the moneys, if any, then remaining in the Applicable Construction Fund, after making provision in accordance with the direction of the Authority for the payment of any Costs of Issuance of an Applicable Series of Bonds and Costs of an Applicable Project then unpaid, will be paid by the Trustee as follows and in the following order of priority:

First: To the Applicable Arbitrage Rebate Fund, the amount determined by the Authority to be required to be deposited therein;

Second: To the Applicable Debt Service Reserve Fund, such amount as will be necessary to make the amount on deposit in such fund equal to the Applicable Debt Service Reserve Fund Requirement; and

Third: To the Applicable Debt Service Fund, to be applied in accordance with the Master Resolution as summarized under the heading "Debt Service Fund", any balance remaining.

Following the occurrence and during the continuation of an Event of Default under an Applicable Agreement, the Authority may, in its sole discretion, transfer moneys in the Applicable Construction Fund to the Trustee for application pursuant to the provisions of the Master Resolution as summarized under the heading "Debt Service Fund".

(Section 5.04)

Allocation of Revenues

The Applicable Revenues and any other moneys which, by any of the provisions of the Applicable Agreement, are required to be deposited in the Applicable Debt Service Fund, will upon receipt by the Trustee be deposited to the credit of the appropriate account in the Applicable Debt Service Fund. To the extent not required to pay, (a) the interest becoming due on Outstanding Bonds of the Applicable Series on the next succeeding interest payment date or dates of such Bonds to and including August 15; (b) the amount necessary to pay the principal and Sinking Fund Installments becoming due on the Applicable Series of Outstanding Bonds on such August 15; and (c) moneys which are required or have been set aside for the redemption of Bonds of the Applicable Series, moneys in the Applicable Debt Service Fund will be paid by the Trustee on or before the business day preceding each interest payment date as follows and in the following order of priority:

First: To reimburse, pro rata, each Facility Provider which has issued a Reserve Fund Facility which constitutes any part of the Applicable Debt Service Reserve Fund for moneys advanced thereunder, including interest thereon, in proportion to the respective amounts advanced by each such Facility Provider;

Second: To the Applicable Debt Service Reserve Fund, the amount, if any, necessary to make the amount on deposit therein equal to the Applicable Debt Service Reserve Fund Requirement; and

Third: To the Authority, unless otherwise paid, such amounts as are payable to the Authority relating to such Series for: (i) any expenditures of the Authority for fees and expenses of auditing, and fees and expenses of the Applicable Trustee and Paying Agents, all as required hereby, (ii) all other expenditures reasonably and necessarily incurred by the Authority in connection with the financing of the Applicable Project, including expenses incurred by the Authority to compel full and punctual performance of all the provisions of the Applicable Agreement and/or the Applicable Lease Agreement in accordance with the terms thereof, and (iii) any fees of the Authority; but only upon receipt by the Trustee of a certificate of the Authority, stating in reasonable detail the amounts payable to the Authority pursuant to this paragraph Third.

(Section 5.05)

Debt Service Fund

The Trustee will on or before the Business Day preceding each interest payment date pay to itself and any other Paying Agent out of the Debt Service Fund:

(a) the interest due and payable on all Outstanding Bonds of the Applicable Series on such interest payment date;

(b) the principal amount due and payable on all Outstanding Bonds of the Applicable Series on such interest payment date; and

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(c) the Sinking Fund Installments or other amounts related to a mandatory redemption, if any, due and payable on all Outstanding Bonds of the Applicable Series on such interest payment date.

The amounts paid out pursuant to (a), (b) and (c) above will be irrevocably pledged to and applied to such payments.

Notwithstanding the above, the Authority may, at any time subsequent to the first day of any Bond Year but in no event less than forty five (45) days prior to the succeeding date on which a Sinking Fund Installment is scheduled to be due, direct the Trustee to purchase, with moneys on deposit in the Applicable Debt Service Fund, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Term Bonds to be redeemed from such Sinking Fund Installment.

In the event that on the fourth Business Day preceding any interest payment date there are insufficient amounts in the Applicable Debt Service Fund, the Trustee is required to withdraw from the Applicable Debt Service Reserve Fund and deposit to the Applicable Debt Service Fund such amount as will increase the amount therein to an amount sufficient to make the required payments from such fund.

Moneys in the Applicable Debt Service Fund in excess of the amount required to pay the principal and Sinking Fund Installments of Outstanding Bonds of the Applicable Series payable during the next succeeding Bond Year, the interest on Outstanding Bonds of the Applicable Series payable on and prior to the earlier of the next succeeding February 15 or August 15, and the purchase price or Redemption Price of Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, will be paid or applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority (i) to the purchase of Outstanding Bonds of the Applicable Series at purchase prices not exceeding the Redemption Price applicable on the next interest payment date on which such Bonds are redeemable, plus accrued and unpaid interest to such date, at such times, at such purchase prices and in such manner as an Authorized Officer of the Authority will direct or (ii) to the redemption of Bonds of the Applicable Series as provided in the Master Resolution, at the Redemption Prices specified in the Applicable Series Resolution or Applicable Bond Series Certificate.

(Section 5.07)

Debt Service Reserve Fund

The Trustee will deposit to the credit of the Debt Service Reserve Fund such proceeds of the sale of Bonds, if any, as will be prescribed in the Applicable Series Resolution authorizing the issuance of such Series of Bonds or the Applicable Bond Series Certificate relating to such Series. Moneys held for the credit of the Debt Service Reserve Fund are required to be withdrawn by the Trustee and deposited to the credit of the Debt Service Fund at the times and in the amounts required to comply with the provisions of the Master Resolution.

In lieu of or in substitution for moneys, the Authority may deposit or cause to be deposited with the Trustee a Reserve Fund Facility for the benefit of the Holders of the Bonds for all or any part of the Debt Service Reserve Requirement; provided, however, (i) that any such surety bond or insurance policy will be issued by an insurance company or association duly authorized to do business in the State and either (A) the claims paying ability of such insurance company or association is rated in the highest rating category accorded by a nationally recognized insurance rating agency or (B) obligations insured by a surety bond or an insurance policy issued by such company or association are rated at the time such surety bond or insurance policy is delivered, without regard to qualification of such rating by symbols such as "+" or "-" or numerical notation, in the highest rating category by a Rating Agency and (ii) that any letter of credit will be issued by a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provision of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provision of law, or a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, the unsecured or uncollateralized long term debt obligations of which, or long term obligations secured or supported by a letter of credit issued by such person, are rated at the time such letter of credit is delivered, without regard to qualification of such rating by symbols such as "+" or "-" or numerical notation, in not less than the second highest rating category by a Rating Agency.

In addition to the conditions and requirements set forth above, no Reserve Fund Facility will be deposited in full or partial satisfaction of the Debt Service Reserve Fund Requirement unless the Trustee and each Facility Provider of a Reserve Fund Facility will have received prior to such deposit (i) an opinion of counsel acceptable to the Trustee and to each Facility Provider of a Reserve Fund Facility to the effect that such Reserve Fund Facility has been duly authorized, executed and delivered by the Facility Provider thereof and is valid, binding and enforceable in accordance with its terms, (ii) in the event such Facility Provider is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Trustee and to each Facility Provider and (iii) in the event such Reserve Fund Facility is a letter of credit, an opinion of counsel acceptable to the Trustee and to each Facility Provider of a Reserve Fund Facility substantially to the effect that payments under such letter of credit will not constitute avoidable preferences under Section 547 of the United States Bankruptcy Code in a case commenced by or against the Authority or the County thereunder.

Notwithstanding the foregoing, if at any time after a Reserve Fund Facility has been deposited with the Trustee the ratings on any Outstanding Bonds are less than (without regard to qualification of such rating by symbols such as "+" or "-") the second highest rating category of a Rating Agency and the unsecured or uncollateralized long term debt of the Facility Provider or the long term debt obligations secured or supported by a surety bond, insurance policy or letter of credit of a Facility Provider is reduced below A by a Rating Agency, the Authority will either (i) replace or cause to be replaced said Reserve Fund Facility with another Reserve Fund Facility which satisfies the requirements of the two preceding paragraphs or (ii) deposit or cause to be deposited in the Debt Service Reserve Fund an amount of moneys equal to the value of the Reserve Fund Facility of such Facility Provider, such deposits to be, as nearly as practicable, in ten equal semiannual installments commencing on the earlier of the February 15 or August 15 next succeeding the reduction in said ratings.

Each such surety bond, insurance policy or letter of credit will be payable (upon the giving of such notice as may be required thereby) on any date on which moneys are required to be withdrawn from the Debt Service Reserve Fund and such withdrawal cannot be made without obtaining payment under such Reserve Fund Facility.

For the purposes of the Master Resolution, in computing the amount on deposit in the Debt Service Reserve Fund, a Reserve Fund Facility will be valued at the amount available to be paid thereunder on the date of computation; provided, however, that, if the unsecured or uncollateralized long term debt of such Facility Provider, or the long term debt obligations secured or supported by a surety bond, insurance policy or letter of credit of said Facility Provider has been reduced below the ratings required by the Master Resolution, said Reserve Fund Facility will be valued at the lesser of (i) the amount available to be paid thereunder on the date of calculation and (ii) the difference between the amount available to be paid thereunder on the date of issue thereof and an amount equal to a fraction of such available amount the numerator of which is the aggregate number of February 15th's and August 15th's which has elapsed since such ratings were reduced and the denominator of which is ten.

The income or interest earned on investments in the Debt Service Reserve Fund will be withdrawn by the Trustee, as received, and deposited in the Applicable Arbitrage Rebate Fund, the Applicable Debt Service Fund or the Applicable Construction Fund for application in accordance with such direction. If the value of the moneys and investments held for the credit of the Debt Service Reserve Fund exceeds the Debt Service Reserve Fund Requirement, such excess will, upon direction of an Authorized Officer of the Authority, be deposited in the Arbitrage Rebate Fund, the Debt Service Fund or the Applicable Construction Fund in accordance with such direction; provided, however, that if such amount results from the substitution of a Reserve Fund Facility for moneys or investments in the Debt Service Reserve Fund, such amount will not be deposited in the Applicable Debt Service Fund or the Applicable Construction Fund unless in the opinion of Bond Counsel such application will not adversely effect the exclusion of interest on any of the Applicable Bonds from gross income for federal income tax purposes.

Notwithstanding the provisions above, if, upon a Bond having been deemed to have been paid in accordance with the section of the Master Resolution described below under the heading "Defeasance," the moneys and investments held for the credit of the Applicable Debt Service Reserve Fund will exceed the Applicable Debt Service Reserve Fund Requirement, then the Trustee will withdraw all or any portion of such excess from the Applicable Debt Service Reserve Fund and either (i) apply such amount to the payment of the principal or Redemption Price of and interest on such Bond or to fund any reserve for the payment of the principal and Sinking Fund Installments of or interest on the bonds, notes or other obligations, if any, issued to provided for the payment of such Bond or (ii) pay such amount to the Authority for deposit to the Applicable Construction Fund if, in the opinion of Bond Counsel, application of such moneys to make

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the payment of Costs of the Project will not adversely affect the exclusion of interest on any Bonds from gross income for federal income tax purposes; provided, however, that after such withdrawal the amount remaining in the Applicable Debt Service Reserve Fund will not be less than the Applicable Debt Service Reserve Fund Requirement.

If the value of the moneys and investments held for the credit of the Applicable Debt Service Reserve Fund is less than the Applicable Debt Service Reserve Fund Requirement, the Trustee will immediately notify the Authority, the Applicable BOCES and each Facility Provider, if any, of such deficiency. The amount of such deficiency will be included in the Basic Rent payable during the next succeeding Bond Year.

(Section 5.08)

Arbitrage Rebate Fund

The Trustee will deposit to the Applicable Arbitrage Rebate Fund any moneys delivered to it by the Applicable BOCES for deposit therein and, notwithstanding any other provisions of the Master Resolution, will transfer to the Arbitrage Rebate Fund, in accordance with the directions of an Authorized Officer of the Authority, moneys on deposit in any other funds held by the Trustee under the Master Resolution at such times and in such amounts as will be set forth in such directions.

Moneys on deposit in the Applicable Arbitrage Rebate Fund will be applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to make payments to the Department of the Treasury of the United States of America at such times and in such amounts as the Authority will determine to be required by the Code to be rebated to the Department of the Treasury of the United States of America. Moneys which an Authorized Officer of the Authority determines to be in excess of the amount required to be so rebated will first, be applied to reimburse, pro rata, each Facility Provider for moneys advanced under an Applicable Reserve Fund Facility, including interest thereon, which is then unpaid, in proportion to the respective amounts advanced by each such Facility Provider; and then be deposited to any fund or account established under the Master Resolution in accordance with the written direction of such Authorized Officer.

If and to the extent required by the Code, the Authority will periodically, at such times as may be required to comply with the Code, determine the amount required by the Code to be rebated to the Department of the Treasury of the United States of America with respect to each Series of Bonds and (i) transfer or direct the Trustee to transfer from any other of the funds and accounts held under the Master Resolution and deposit to the Arbitrage Rebate Fund, such amount as the Authority will have determined to be necessary in order to enable it to comply with its obligation to rebate moneys to the Department of the Treasury of the United States of America with respect to each Applicable Series of Bonds and (ii) pay out of the Applicable Arbitrage Rebate Fund to the Department of the Treasury of the United States of America the amount, if any, required by the Code to be rebated thereto.

(Section 5.09)

Computation of Assets of Certain Funds

The Trustee, after the end of each calendar month, will compute the value of the assets in the Applicable Debt Service Reserve Fund on the last day of each such month, and notify the Authority, the BOCES and each Applicable Facility Provider as to the results of such computation and the amount by which the value of the assets in the Applicable Debt Service Reserve Fund exceeds or is less than the Applicable Debt Service Reserve Fund Requirement.

(Section 5.12)

Security for Deposits

All moneys held under the Master Resolution by the Trustee will be continuously and fully secured, for the benefit of the Authority and the Holders of the Applicable Series of Bonds, by direct obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America of a market value equal at all times to the amount of the deposit so held by the Trustee; provided, however, (a) that if the securing of such moneys is not permitted by applicable law, then in such other manner as may then be required or permitted by applicable

State or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds, and (b) that it will not be necessary for the Trustee or any Paying Agent to give security for the deposit of any moneys with them pursuant to the sections of the Master Resolution described under the headings "Debt Service Fund" and "Defeasance," and held in trust for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of or interest on any Bonds, or for the Trustee to give security for any moneys which will be represented by obligations purchased or other investments made under the provisions of the Master Resolution as an investment of such moneys.

(Section 6.01)

Investment of Funds and Accounts

Moneys held under the Master Resolution, if permitted by law, will, as nearly as may be practicable, be invested in Government Obligations or Exempt Obligations; provided, however, that each such investment will permit the moneys so deposited or invested to be available for use at the times at which the Authority reasonably believes such moneys will be required for the purposes of the Master Resolution. Moneys held under the Master Resolution by the Trustee will be invested by the Trustee upon the direction of an Authorized Officer of the Authority, given or confirmed in writing, which direction will specify the amount to be invested.

In lieu of the investments of moneys in obligations authorized in the Master Resolution, the Trustee will, to the extent permitted by law, upon direction of the Authority given or confirmed in writing, signed by an Authorized Officer of the Authority, invest moneys in the Debt Service Reserve Fund, and the Authority may, to the extent permitted by law, invest moneys in the Applicable Construction Fund, in (i) interest bearing time deposits, certificates of deposit or other similar investment arrangements including, but not limited to, written repurchase agreements relating to Government Obligations, with Qualified Financial Institutions; (ii) Exempt Obligations or (iii) Investment Agreements; provided, however, that (w) each such investment will permit the moneys so deposited or invested to be available for use at the times at, and in the amounts in, which the Authority reasonably believes such moneys will be required for the purposes of the Master Resolution, (x) all moneys in each such interest bearing time deposit, certificate of deposit or other similar investment arrangement will be continuously and fully secured by ownership of or a security interest in Government Obligations of a market value, determined by the Trustee or its agent not less frequently than monthly, equal to the amount deposited or invested including interest accrued thereon, (y) the obligations securing such interest bearing time deposit or certificate of deposit or which are the subject of such other similar investment arrangement will be deposited with and held by the Trustee or an agent of the Trustee approved by an Authorized Officer of the Authority, and (z) the Government Obligations securing such time deposit or certificate of deposit or which are the subject of such other similar investment arrangement will be free and clear of claims of any other person.

Obligations purchased or other investments made as an investment of moneys in any fund or account held under the provisions of the Master Resolution will be deemed at all times to be a part of such fund or account and the income or interest earned, profits realized or losses suffered by a fund or account due to the investment thereof will be credited or charged, as the case may be, to such fund or account.

In computing the amount in any fund or account held by the Trustee under the provisions of the Master Resolution, obligations purchased as an investment of moneys therein or held therein will be valued at par or the market value thereof, plus accrued interest, whichever is lower, except that investments held in the Debt Service Reserve Fund will be valued at par or the cost thereof, including accrued interest, whichever is lower.

(Section 6.02)

Accounts and Audits

The Authority covenants to keep proper books of records and accounts (separate from all other records and accounts), which may be kept on behalf of the Authority by the Trustee, in which complete and correct entries will be made of its transactions relating to each Series of Bonds, which books and accounts, at reasonable hours and subject to the reasonable rules and regulations of the Authority, will be subject to the inspection of the Trustee, the BOCES or of any Holder of a Bond or his representative duly authorized in writing. The Trustee will annually prepare a report which

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will be furnished to the Authority, each Facility Provider, each Credit Facility Issuer and the Applicable BOCES. Such report will include at least: a statement of all funds (including investments thereof) held by such Trustee and the Authority pursuant to the provisions of the Master Resolution and of each Applicable Series Resolution; a statement of the Applicable Revenues collected in connection with the Master Resolution and with each Applicable Series Resolution; a statement that the balances in the Applicable Debt Service Reserve Fund meet the requirements of the Master Resolution and of the Applicable Series Resolution; and complete and correct entries of all transactions relating to an Applicable Series of Bonds. A copy of such report, will, upon receipt of a written request therefor, and payment of any reasonable fee or charge made in connection therewith, be furnished to the registered owner of a Bond of the Applicable Series or any beneficial owner of a Book Entry Bond of the Applicable Series requesting the same.

(Section 7.05)

Creation of Liens

The Authority covenants not to create or cause to be created any lien or charge prior or equal to that of the Bonds of an Applicable Series on the proceeds from the sale of the Bonds, the Applicable Revenues or the funds and accounts established by the Master Resolution or by any Applicable Series Resolution which are pledged by the Master Resolution; provided, however, that nothing contained in the Master Resolution will prevent the Authority from issuing bonds, notes or other obligations under another and separate resolution so long as the charge or lien created by such resolution is not prior or equal to the charge or lien created by the Master Resolution.

(Section 7.06)

Enforcement of Obligations of the BOCES

The Authority covenants to take all legally available action to cause a BOCES to perform fully its obligation to pay Basic Rent and other amounts which under the Applicable Agreement are to be paid to the Trustee, in the manner and at the times provided in the Applicable Agreement.

(Section 7.07)

Amendment, Change, Modification or Waiver of Agreement

Neither an Applicable Agreement nor an Applicable Lease Agreement may be amended, changed, modified, altered or terminated so as to materially adversely affect the interest of the Holders of the Outstanding Bonds of the Applicable Series without the prior written consent of the Holders of at least a majority in aggregate principal amount of such Bonds then Outstanding; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any Applicable Series remain Outstanding, the consent of the Holders of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds of the Applicable Series under the Master Resolution; provided, further, that no such amendment, change, modification, alteration or termination will reduce the percentage of the aggregate principal amount of Outstanding Bonds of such Series the consent of the Holders of which is a requirement for any such amendment, change, modification, alteration or termination, or decrease the amount of any payment required to be made by the BOCES under the Applicable Agreement that is to be deposited with the Trustee or extend the time of payment thereof. Except as otherwise provided in the Master Resolution, an Agreement or a Lease Agreement may be amended, changed, modified or altered without the consent of the Holders of Outstanding Bonds of the Applicable Series or the Applicable Trustee. Specifically, and without limiting the generality of the foregoing, an Agreement or a Lease Agreement may be amended, changed, modified or altered without the consent of the Trustee and the Holders of Outstanding Bonds of such Series (i) to provide changes in connection with the acquisition, construction, reconstruction, rehabilitation, renovation and improvement or otherwise, the providing, furnishing and equipping of any facilities constituting a part of the Applicable Project or which may be added to such Project; (ii) to provide for the financing of additional Costs of the Project leased pursuant to such Applicable Agreement or the financing of Additional Projects for the Applicable BOCES through the issuance of an additional Series of Bonds (provided that such amendment provide for additional rent to be paid by the Applicable BOCES sufficient to pay such the debt service on such additional Series of Bonds and related costs and will further

provide that the pledge of Pledged Revenues to secure such additional rent is subordinate to any pledge of Pledged Revenue previously made by such BOCES and that additional rent payable on a particular day may only be paid after the payment of the amounts to be paid by such BOCES on such date prior to such amendment); (iii) to provide for the issuance of Bonds of an Applicable Series; or (iv) to cure any ambiguity or correct or supplement any provisions contained in the Applicable Agreement or the Applicable Lease Agreement, as the case may be, which may be defective or inconsistent with any other provisions contained herein or in such Agreement or a Lease Agreement.

An Applicable Series will be deemed to be adversely affected by an amendment, change, modification or alteration of the Agreement or Lease Agreement if the same adversely affects or diminishes the rights of the Holders of the Bonds of such Series in any material respect. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Bonds of an Applicable Series would be adversely effected in any material respect by any amendment, change, modification or alteration, and any such determination will be binding and conclusive on the Authority and all Holders of such Bonds.

The purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase from the Authority, may consent to an amendment, change, modification, termination or waiver permitted by the Master Resolution with the same effect as a consent given by the Holder of such Bonds.

(Section 7.10)

Notice as to Agreement Default

The Authority covenants to notify the Trustee in writing that an "event of default" under the Applicable Agreement, as such term is defined in the Applicable Agreement, has occurred and is continuing, which notice is required to be given within five (5) days after the Authority has obtained actual knowledge thereof.

(Section 7.11)

Modification and Amendment without Consent of Holders

The Authority may adopt at any time or from time to time Supplemental Resolutions for any one or more of the following purposes, and any such Supplemental Resolution will become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority:

(a) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds of an Applicable Series, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Master Resolution;

(b) To prescribe further limitations and restrictions upon the issuance of Bonds of an Applicable Series and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(c) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Master Resolution, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Master Resolution;

(d) To confirm, as further assurance, any pledge under the Master Resolution or under the Applicable Series Resolution, and the subjection to any lien, claim or pledge created or to be created by the provisions of the Master Resolution, of the Applicable Revenues, or any pledge of any other moneys, investments thereof or funds;

(e) To modify any of the provisions of the Master Resolution or of any previously adopted Series Resolution or Supplemental Resolution in any other respects, provided that such modifications will not be effective until after all Bonds of an Applicable Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution will cease to be Outstanding, and all Bonds of an Applicable Series issued under an Applicable Series Resolution will contain a specific reference to the modifications contained in such subsequent resolutions; or

(f) With the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision in the Master Resolution or to insert such provisions clarifying matters or questions arising under the Master Resolution as are necessary or desirable, provided that any such modifications are not contrary to or inconsistent herewith as theretofore

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in effect, or to modify any of the provisions of the Master Resolution or of any previously adopted Applicable Series Resolution or Supplemental Resolution in any other respect, provided that such modification will not adversely affect the interests of the Bondholders of the Applicable Series in any material respect.

(Section 9.02)

General Provisions Relating to Series Resolutions and Supplemental Resolutions

The Master Resolution will not be modified or amended in any respect except in accordance with and subject to the provisions of the Master Resolution. Nothing contained in the Master Resolution will affect or limit the rights or obligations of the Authority to adopt, make, do, execute or deliver any resolution, act or other instrument pursuant to the provisions of the Master Resolution or the right or obligation of the Authority to execute and deliver to the Trustee or any Paying Agent any instrument elsewhere in the Master Resolution provided or permitted to be delivered to the Trustee or any Paying Agent.

A copy of every Series Resolution and Supplemental Resolution adopted by the Authority, when filed with the Trustee, will be accompanied by an opinion of Bond Counsel stating that such Series Resolution or Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the Master Resolution, is authorized or permitted by the Master Resolution and is valid and binding upon the Authority and enforceable in accordance with its terms.

The Trustee is authorized to accept delivery of a certified copy of any Series Resolution or Supplemental Resolution permitted or authorized pursuant to the provisions of the Master Resolution and to make all further agreements and stipulations which may be contained therein, and, in taking such action, the Trustee will be fully protected in relying on the opinion of Bond Counsel that such Series Resolution or Supplemental Resolution is authorized or permitted by the provisions of the Master Resolution.

No Series Resolution or Supplemental Resolution changing, amending or modifying any of the rights or obligations of the Trustee or of any Paying Agent will become effective without the written consent of the Trustee or Paying Agent affected thereby.

(Section 9.04)

Powers of Amendment

Any modification or amendment of the Master Resolution and of the rights and obligations of the Authority and of the Holders of the Bonds under the Master Resolution, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in the section of the Master Resolution described below under the heading "Supplemental Resolutions Effective with Consent of Bondholders", (i) of the Holders of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, or (ii) in case the modification or amendment changes the amount or date of any Sinking Fund Installment, of the Holders of at least a majority in principal amount of the Bonds of the Applicable Series, maturity and interest rate entitled to such Sinking Fund Installment, Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series, maturity and tenor remain Outstanding, the consent of the Holders of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds described under this heading. No such modification or amendment will permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or will reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment.

(Section 10.01)

Supplemental Resolutions Effective with Consent of Bondholders

The Authority may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of the Master Resolution to take effect when and as provided in the Master Resolution. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the Trustee) together with a request to the Bondholders for their consent thereto in form satisfactory to the Trustee, will promptly after adoption be mailed by the Authority to the Bondholders (but failure to mail such copy and request to any particular Bondholder will not affect the validity of the Supplemental Resolution when consented to as provided in the Master Resolution). Such Supplemental Resolution will not be effective unless and until (i) there will have been filed with the Trustee (a) the written consent of the Holders of the percentages of Outstanding Bonds specified in the section of the Master Resolution described above under the heading "Powers of Amendment" and (b) an opinion of Bond Counsel stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the Authority in accordance with the provisions of the Master Resolution, is authorized or permitted by the Master Resolution, and is valid and binding upon the Authority and enforceable in accordance with its terms, and (ii) a notice will have been mailed as provided in the Master Resolution. Each such consent will be effective only if accompanied by proof of the holding or owning at the date of such consent, of the Bonds with respect to which such consent is given, which proof will be such as is permitted by the Master Resolution. A certificate or certificates by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with the Master Resolution will be conclusive proof that the consents have been given by the Holders of the Bonds described in the certificate or certificates of the Trustee. Any consent given by a Bondholder will be binding upon the Bondholder giving such consent and, anything in the Master Resolution to the contrary notwithstanding, upon any subsequent Holder of such Bond and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Bondholder giving such consent or a subsequent Holder thereof by filing such revocation with the Trustee, prior to the time when the written statement of the Trustee hereinafter in this paragraph provided for is filed. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after the Holders of the required percentages of Bonds will have filed their consents to the Supplemental Resolution, the Trustee will make and file with the Authority and the Trustee a written statement that such Holders of such required percentages of Bonds have filed such consents. Such written statement will be conclusive that such consents have been so filed. At any time thereafter a notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by the Authority on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Bonds and will be effective as provided in this paragraph, will be given to the Bondholders by the Authority by mailing such notice to the Bondholders and, at the discretion of the Authority, by publishing the same at least once not more than ninety (90) days after the Holders of the required percentages of Bonds will have filed their consents to the Supplemental Resolution and the written statement of the Trustee hereinabove provided for is filed (but failure to publish such notice will not prevent such Supplemental Resolution from becoming effective and binding as in this paragraph provided). The Authority will file with the Trustee proof of the mailing of such notice, and, if the same will have been published, of the publication thereof.

For the purposes of the Master Resolution, the purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase from the Authority, may consent to a modification or amendment permitted by the sections of the Master Resolution described herein the headings "Powers of Amendment" or "Modifications by Unanimous Consent" in the manner provided in the Master Resolution, except that no proof of ownership will be required, and with the same effect as a consent given by the Holder of such Bonds; provided, however, that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the modification or amendment and the provisions for the purchaser consenting thereto will be described in the official statement, prospectus, offering memorandum or other offering document prepared in connection with the primary offering of the Bonds of such Series by the Authority.

(Section 10.02)

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Modifications by Unanimous Consent

The terms and provisions of the Master Resolution and the rights and obligations of the Authority and of the Holders of the Bonds may be modified or amended in any respect upon the adoption and filing with the Trustee by the Authority of a copy of a Supplemental Resolution certified by an Authorized Officer of the Authority and the consent of the Holders of all of the Applicable Bonds then Outstanding.

(Section 10.03)

Consent of Facility Provider

Whenever by the terms of the Master Resolution the consent of any of the Holders of the Bonds to a modification or amendment of the Master Resolution made by a Series Resolution or Supplemental Resolution is required, such modification or amendment will not become effective until the written consent of each Facility Provider has been obtained; provided, however, that the consent of a Facility Provider which has provided a Credit Facility will not be required unless the modification or amendment requires the consent of the Holders of any percentage in principal amount of Outstanding Bonds or of the Holders of any percentage in principal amount of the Bonds of the Series in connection with which such Credit Facility was provided. No modification or amendment of the Master Resolution which adversely affects a Facility Provider will be made without the written consent thereto of the Facility Provider affected thereby. Notice of the adoption of any such Series Resolution or Supplemental Resolution and of the effectiveness of the modification or amendment made thereby will be given to each Facility Provider by mail at the times and in the manner provided in the Master Resolution with respect to notices thereof required to be given to the Holders of the Bonds. Notice thereof will also be given to each Rating Agency as soon as practical after adoption of such Supplemental Resolution and of the effectiveness thereof.

(Section 10.04)

Events of Default

Events of Default under the Master Resolution include: failure by the Authority to pay the principal, Sinking Fund Installments or Redemption Price of any Bond when the same will become due and payable; failure by the Authority to pay an installment of interest on any Bond when the same will become due and payable; the Authority defaults in the due and punctual performance of the tax covenants contained in the Series Resolution and, as a result thereof, the interest on the Bonds of a Series is no longer excludable from gross income under Section 103 of the Code (a "Taxability Default"); and default by the Authority in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Master Resolution or in the Bonds or in any Series Resolution on the part of the Authority to be performed and such default continues for thirty (30) days after written notice specifying such default and requiring same to be remedied has been given to the Authority by the Trustee, which may give such notice in its discretion and must give such notice at the written request of the Holders of not less than twenty five per centum (25%) in principal amount of the Outstanding Bonds, unless, if such default is not capable of being cured within thirty (30) days, the Authority has commenced to cure such default within said thirty (30) days and diligently prosecutes the cure thereof.

(Section 11.02)

Enforcement of Remedies

Upon the happening and continuance of any Event of Default specified in the section of the Master Resolution described above under the heading "Events of Default", then and in every such case, the Trustee may proceed, and upon the written request of the Facility Provider of a Reserve Fund Facility, or of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Applicable Series or, in the case of a happening and continuance of a Taxability Default, upon the written request of the Holders of not less than twenty five per centum (25%) in principal amount of the Outstanding Bonds of the Applicable Series affected thereby, will proceed (upon receiving compensation, expenses and indemnity to its satisfaction), to protect and enforce its rights and the rights of the Bondholders or of such Facility Provider under the Master Resolution or under any Applicable Series Resolution or

under the laws of the State by such suits, actions or special proceedings in equity or at law, as the Trustee deems most effectual to protect and enforce such rights.

(Section 11.04)

Limitation of Rights of Individual Bondholders

No Holder of any of the Bonds will have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Master Resolution, or for any other remedy under the Master Resolution unless such Holder previously will have given to the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of not less than twenty five per centum (25%) in principal amount of the Outstanding Bonds or, in the case of a Taxability Default, the Holders of not less than twenty five per centum (25%) in principal amount of the Outstanding Bonds of the Series affected thereby, will have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, will have accrued, and will have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Master Resolution or to institute such action, suit or proceeding in its or their name, and unless, also, there will have been offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee will have refused or neglected to comply with such request within a reasonable time.

(Section 11.08)

Defeasance

If the Authority pays or causes to be paid to the Holders of Bonds of an Applicable Series the principal, Sinking Fund Installments, if any, or Redemption Price of and interest thereon, at the times and in the manner stipulated therein, in the Master Resolution, and in the Applicable Series Resolution and Bond Series Certificate, then the pledge of the Revenues or other moneys and securities pledged to such Bonds and all other rights granted by the Master Resolution to such Holders of Bonds will be discharged and satisfied.

Bonds for the payment or redemption of which moneys will have been set aside and will be held in trust by the Trustee (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof will be deemed to have been paid within the meaning and with the effect expressed in the paragraph above. All Outstanding Bonds of any Series or any maturity within a Series or a portion of a maturity within a Series will prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the paragraph above if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority will have given to the Trustee, in form satisfactory to it, irrevocable instructions to give as provided in the Master Resolution notice of redemption on said date of such Bonds, (b) there has been deposited with the Trustee either moneys in an amount which will be sufficient, or Defeasance Securities the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, will be sufficient to pay when due the principal or Redemption Price, 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, (c) the Trustee has received the written consent of each Facility Provider which has given written notice to the Trustee and the Authority that amounts advanced under a Credit Facility, Liquidity Facility or Reserve Fund Facility issued by it or the interest thereon have not been repaid to such Facility Provider, and (d) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority has given the Trustee, in form satisfactory to it, irrevocable instructions to give, as soon as practicable, by first class mail, postage prepaid, to the Holders of said Bonds at their last known addresses appearing on the registration books, a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this paragraph and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on said Bonds. The Authority will give written notice to the Trustee of its selection of the Series and maturity payment of which will be made in accordance with this paragraph. The Trustee will select the Bonds of like Series and maturity payment of which will be made in accordance with the Master Resolution. Neither Defeasance Securities nor moneys deposited with the Trustee pursuant to this

Appendix D

paragraph nor principal or interest payments on any such Defeasance Securities will be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on said Bonds; provided, however, that any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, must, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be.

(Section 12.01)

No Recourse under Master Resolution or on the Bonds

All covenants, stipulations, promises, agreements and obligations of the Authority contained in the Master Resolution will be deemed to be the covenants, stipulations, promises, agreements and obligations of the Authority and not of any member, officer or employee of the Authority in his individual capacity, and no recourse will be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claims based thereon, on the Master Resolution or on a Series Resolution against any member, officer or employee of the Authority or any person executing the Bonds, all such liability, if any, being expressly waived and released by every Holder of Bonds by the acceptance of the Bonds.

(Section 14.04)

**FORM OF APPROVING OPINION
OF BOND COUNSEL**

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August __, 2007

Dormitory Authority of the
State of New York
515 Broadway
Albany, New York 12207

Re: \$47,755,000 Dormitory Authority of the State of New York Master BOCES Program Lease Revenue Bonds (Delaware, Chenango, Madison and Otsego Issue), Series 2007

Ladies and Gentlemen:

We have acted as bond counsel to the Dormitory Authority of the State of New York (the "Authority") in connection with the issuance of \$47,755,000 aggregate principal amount of its above-referenced bonds (the "Bonds"), issued pursuant to the provisions of the Dormitory Authority Act, as amended, constituting Chapter 524 of the Laws of 1944 of New York, as amended (constituting Title 4 of Article 8 of the New York Public Authorities Law), and the Authority's Master BOCES Program Lease Revenue Bond Resolution, adopted August 15, 2001 (the "Resolution"), and the Series Resolution Authorizing Up To \$50,000,000 Master BOCES Program Lease Revenue Bonds (Delaware, Chenango, Madison and Otsego Issue), Series 2007, adopted April 25, 2007 (the "Series 2007 Resolution"). The Resolution and the Series 2007 Resolution are herein collectively referred to as the "Resolutions." Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolutions.

The Authority has entered into an Agreement of Lease, dated as of April 25, 2007 (the "Agreement"), between the Authority and the Board of Cooperative Educational Services for The Sole Supervisory District of Delaware, Chenango, Madison and Otsego Counties ("DCMO BOCES"), whereby DCMO BOCES leased the Project to the Authority. The Authority has entered into a Lease and Agreement, dated as of April 25, 2007, between the Authority and DCMO BOCES (the "Lease Agreement"), whereby the Authority leased the Project to DCMO BOCES. The Lease Agreement provides, among other things, for making the proceeds of the Bonds available to DCMO BOCES for the purposes permitted thereby and by the Resolutions. Pursuant to the Lease Agreement, DCMO BOCES is required to make payments sufficient to pay the principal, sinking fund installments and redemption price of and interest on the Bonds as the same become due, which payments have been pledged by the Authority to the Trustee for the benefit of the owners of such Bonds.

The Bonds are secured by, among other things, funds and accounts held under the Resolutions and a pledge of payments to be made under the Lease Agreement.

Interest on the Bonds is to be payable semiannually on February 15 and August 15 of each year, commencing on February 15, 2008. The Bonds are to mature on the dates and in the years and amounts set forth in the Bond Series Certificate executed and delivered pursuant to the Resolutions concurrently with the issuance of the Bonds.

The Bonds are to be issued in fully registered form in denominations of \$5,000 at maturity or any integral multiple thereof. The Bonds are payable, subject to redemption prior to maturity, exchangeable, transferable and secured upon such terms and conditions as are contained in the Resolutions and the Bond Series Certificate.

In such connection, we have reviewed the Resolutions, the Agreement, the Lease Agreement, the Tax Certificate and Agreement dated as of the date hereof (the "Tax Certificate and Agreement") between the Authority and DCMO BOCES, opinions of counsel to the Authority, the Trustee and DCMO BOCES, certificates of the Authority, the Trustee, DCMO BOCES and others, and such other documents, opinions 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

Appendix E

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 and certificates, and of the legal conclusions contained in the opinions, referred to above. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolutions, the Agreement, the Lease Agreement and the Tax Certificate and Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure 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 Resolutions, the Agreement, the Lease Agreement and the Tax Certificate and Agreement 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 and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Resolutions, the Lease Agreement, or the Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material 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 Authority has been duly created and is validly existing as a body corporate and politic constituting a public benefit corporation of the State of New York.
2. The Bonds have been duly and validly authorized to be issued and constitute the valid and binding special obligations of the Authority enforceable in accordance with their terms and the terms of the Resolutions, will be payable solely from the sources provided therefor in the Resolutions, and will be entitled to the benefit of the Resolutions and the Act.
3. The Resolutions are in full force and effect, have been duly adopted by, and constitute the valid and binding obligations of, the Authority. The Resolutions create a valid pledge to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Resolutions, except the Arbitrage Rebate Fund subject to the provisions of the Resolutions permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolutions.
4. The Lease Agreement has been duly executed and delivered by the Authority and, assuming due execution and delivery thereof by DCMO BOCES, constitutes the valid and binding agreement of the Authority in accordance with its terms.
5. The Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of New York or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of New York, and said State is not liable for the payment thereof.
6. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Interest on the Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

**SPECIMEN
INSURANCE POLICIES**

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: []

Policy No: []

BONDS: []

Effective Date: []

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XLCA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

Name:
Title:

Name:
Title:

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