



\$14,200,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
MASTER BOCES PROGRAM LEASE REVENUE BONDS
(HERKIMER – FULTON – HAMILTON – OTSEGO ISSUE), SERIES 2010

Payment and Security: The Series 2010 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 of the Sole Supervisory District of Herkimer, Fulton, Hamilton and Otsego Counties ("Herkimer BOCES") pursuant to a Lease and Agreement (the "Agreement"), dated as of June 23, 2010 between Herkimer 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 \$17,025,000 Master BOCES Program Lease Revenue Bonds (Herkimer – Fulton - Hamilton - Otsego Issue), Series 2010, adopted June 23, 2010 (the "Series 2010 Resolution" and, together with the Master Resolution, the "Resolutions").

The Agreement, which is a general obligation of Herkimer BOCES, requires Herkimer BOCES to pay amounts sufficient to pay, or cause to be paid, the principal and Redemption Price of and interest on the Series 2010 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 Herkimer 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 Herkimer BOCES an amount equal to the amount payable by Herkimer 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, Herkimer 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 Herkimer BOCES sufficient to pay such amounts (the "Pledged Revenues"). The Series 2010 Bonds will be secured by the pledge and assignment to the Trustee of the Basic Rent payments to be paid by Herkimer 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 Herkimer 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 2010 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 2010 BONDS."

The scheduled payment of principal of and interest on the Series 2010 Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Series 2010 Bonds by Assured Guaranty Municipal Corp. ("Assured Guaranty" or the "Insurer").



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

The Series 2010 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 2010 Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Interest (due February 15, 2011 and each August 15 and February 15 thereafter) on the Series 2010 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 Mellon, New York, New York, Trustee and Paying Agent.

The Series 2010 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 2010 Bonds will be made in Book-Entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2010 Bonds, payments of the principal and Redemption Price of and interest on such Series 2010 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 2010 BONDS – Book-Entry Only System" herein.

Redemption or Purchase In Lieu of Optional Redemption: The Series 2010 Bonds are subject to redemption or purchase in lieu of optional redemption prior to maturity as more fully described herein.

Tax Exemption: In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law and assuming continuing compliance with certain covenants and the accuracy of certain representations, (i) interest on the Series 2010 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and (ii) interest on the Series 2010 Bonds is exempt from personal income taxes imposed by the State of New York and political subdivisions thereof, including The City of New York and the City of Yonkers. Interest on the Series 2010 Bonds may be subject to certain federal taxes imposed only on certain corporations. For a more complete discussion of the tax aspects, see "PART 11 - TAX MATTERS" herein.

The Series 2010 Bonds are offered when, as and if issued and received by the Underwriter. The offer of the Series 2010 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 Squire, Sanders & Dempsey L.L.P., New York, New York, Bond Counsel to the Authority, and to certain other conditions. Certain legal matters will be passed upon for the Underwriter by its counsel, Holland & Knight LLP, New York, New York and for Herkimer BOCES by its counsel The Law Offices of Timothy R. McGill, Fairport, New York. The Authority expects to deliver the Series 2010 Bonds in definitive form in New York, New York, on or about August 4, 2010.

Roosevelt & Cross, Incorporated

\$14,200,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
MASTER BOCES PROGRAM LEASE REVENUE BONDS
(HERKIMER – FULTON – HAMILTON – OTSEGO ISSUE), SERIES 2010

<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⁽¹⁾</u>
2011	\$1,150,000	2.000%	0.650%	649905X92
2012	600,000	2.000	1.100	649905Y26
2012	250,000	3.000	1.100	659905Y34
2013	600,000	2.000	1.380	649905Y42
2013	250,000	3.000	1.380	649905Y59
2014	600,000	2.000	1.650	649905Y67
2014	250,000	3.000	1.650	649905Y75
2015	650,000	2.000	2.130	649905Y83
2015	250,000	3.000	2.130	649905Y91
2016	400,000	2.250	2.500	649905Z25
2016	500,000	4.000	2.500	649905Z33
2017	125,000	2.750	2.770	649905Z41
2017	800,000	4.000	2.770	649905Z58
2018	150,000	3.000	2.980	649905Z66
2018	775,000	4.000	2.980	649905Z74
2019	250,000	3.250	3.170	649905Z82
2019	700,000	4.000	3.170	649905Z90
2020	950,000	4.250	3.350	6499052A3

\$4,950,000 3.500% Term Bond Due August 15, 2025 to Yield 4.140% CUSIP 6499052B1⁽¹⁾

⁽¹⁾ Copyright 2009 American Bankers Association. CUSIP numbers have been assigned by an organization not affiliated with the Authority and are included solely for the convenience of the holders of the Series 2010 Bonds. Neither the Authority nor the Underwriter is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2010 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to change after the issuance of the Series 2010 Bonds as a result of various subsequent actions including but not limited to, a refunding in whole or 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 2010 Bonds.

No dealer, broker, salesperson or other person has been authorized by the Authority, Herkimer BOCES or the Underwriter to give any information or to make any representations with respect to the Series 2010 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, Herkimer 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 2010 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 Herkimer BOCES and other sources that the Authority believes are reliable. Neither the Authority nor the Underwriter 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 Underwriter.

Herkimer BOCES has reviewed the parts of this Official Statement describing Herkimer BOCES, the Project (as defined below), the Estimated Sources and Uses of Funds and Appendix B. Herkimer BOCES shall certify as of the dates of sale and delivery of the Series 2010 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. Herkimer 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 2010 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.

Assured Guaranty makes no representation regarding the Series 2010 Bonds or the advisability of investing in the Series 2010 Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "PART 2 - SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010 BONDS - Bond Insurance," " - The Surety Bond" and "Appendix F - Specimen Financial Guaranty Insurance Policy."

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 Herkimer BOCES have remained unchanged after the date of this Official Statement.

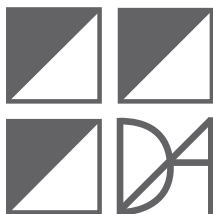
IN CONNECTION WITH THE OFFERING OF THE SERIES 2010 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2010 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

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DORMITORY AUTHORITY - STATE OF NEW YORK
PAUL T. WILLIAMS, JR. - PRESIDENT

515 BROADWAY ALBANY, N.Y. 12207
ALFONSO L. CARNEY, JR., ESQ. – CHAIR

OFFICIAL STATEMENT RELATING TO
\$14,200,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
MASTER BOCES PROGRAM LEASE REVENUE BONDS
(HERKIMER - FULTON - HAMILTON - OTSEGO ISSUE), SERIES 2010

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, Herkimer BOCES and the Insurer in connection with the offering by the Authority of \$14,200,000 aggregate principal amount of the Master BOCES Program Lease Revenue Bonds (Herkimer – Fulton – Hamilton – Otsego Issue), Series 2010 (the "Series 2010 Bonds").

The following is a description of certain information concerning the Series 2010 Bonds, the Authority and the Project (as hereafter described). A more complete description of such information and additional information that may affect decisions to invest in the Series 2010 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 2010 Bonds are being issued and will be used together with other available moneys to (i) pay Costs of the Project, (ii) make a deposit to the Debt Service Reserve Fund through the deposit of a surety bond, and (iii) pay all or a portion of the Costs of Issuance of the Series 2010 Bonds, including the payment of the premium for the municipal bond insurance policy and the surety bond. 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 or refinancing 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, Herkimer 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 Herkimer BOCES pursuant to the Lease and Agreement (the "Agreement").

The Series 2010 Bonds will be issued pursuant to the Master Resolution, the Series 2010 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. The Series 2010 Bonds will be the first series of bonds issued for Herkimer BOCES. See "PART 2 – SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010 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. See "PART 8 – THE AUTHORITY."

Herkimer, Fulton, Hamilton and Otsego BOCES

Herkimer BOCES was formed in 1948. Herkimer BOCES encompasses a land area of approximately 1,251 square miles in the Counties of Herkimer, Fulton, Hamilton and Otsego. Herkimer BOCES currently has 12 Component School Districts and the administrative offices are located in Herkimer, New York. Many of the services are intended to enhance local district educational programs and/or to help school districts operate more efficiently by having Herkimer BOCES provide shared educational programs to two or more school districts which an individual school district could not itself provide as efficiently or economically. See "PART 5 – HERKIMER, FULTON, HAMILTON AND OTSEGO BOCES."

The Series 2010 Bonds

The Series 2010 Bonds will be dated and bear interest from their delivery date, payable each February 15 and August 15, commencing February 15, 2011. The Series 2010 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 2010 BONDS – Description of the Series 2010 Bonds."

Payment of the Series 2010 Bonds

The Series 2010 Bonds are special obligations of the Authority payable solely from the Basic Rent payments to be made by Herkimer 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.

The Act provides that the Comptroller of the State of New York is to deduct from any State funds payable to Herkimer BOCES an amount equal to the amount payable by Herkimer 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 2010 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 2010 BONDS."

Herkimer BOCES does not have the power to levy and collect taxes. The component school districts of Herkimer BOCES, however, are required to pay their allocable share of Herkimer BOCES expenses related to the Project and have the power to levy and collect taxes. The Act provides that the amount due from Herkimer 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 – BOARDS OF COOPERATIVE EDUCATIONAL SERVICES."

Security for the Series 2010 Bonds

The Series 2010 Bonds will be secured by the pledge and assignment to the Trustee of Basic Rent, the proceeds from the sale of the Series 2010 Bonds (until disbursed as provided by the Master Resolution) and all funds and accounts authorized by the Master Resolution and established by the Series 2010 Resolution (with the exception of the Arbitrage Rebate Fund), which include a Debt Service Reserve Fund. The Agreement requires Herkimer 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, Herkimer BOCES will assign and pledge to the Authority a portion of any and all public funds apportioned by the State to Herkimer BOCES in an amount sufficient to pay such Rentals.

The Project

The Project consists of the renovation of various Herkimer BOCES buildings, together with related site improvements, original equipment, machinery, apparatus, appurtenances, related demolition of existing facilities, and other incidental improvements and expenses in connection therewith. For a further description of the Project expected to be financed with the proceeds of the Series 2010 Bonds, see "PART 6 – THE PROJECT".

Bond Insurance

Concurrently with the issuance of the Series 2010 Bonds, Assured Guaranty Municipal Corp. will issue its Financial Guaranty Insurance Policy (the "Policy") for the Series 2010 Bonds. The Policy guarantees the scheduled payment of principal and interest on the Series 2010 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 2010 Bonds, issue its surety bond (the "Surety Bond") for deposit in the Debt Service Reserve Fund. See "PART 2 - SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010 BONDS - Bond Insurance" and "Appendix F - Specimen Financial Guaranty Insurance Policy."

PART 2 – SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010 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 2010 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 Lease and 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 2010 Bonds

The Series 2010 Bonds are special obligations of the Authority. The principal and Redemption Price of and interest on the Series 2010 Bonds are payable solely from the Revenues. The Revenues consist of the Basic Rent required to be paid by Herkimer BOCES under the Agreement on account of the principal of and Redemption Price of and interest on the Series 2010 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 will be deposited in the Debt Service Reserve Fund to meet the Debt Service Reserve Fund Requirement. See "Appendix A – Definitions – Revenues." The Revenues and the right to receive them have been pledged to the Trustee.

Herkimer BOCES is to assign and pledge to the Authority a portion of any and all public funds payable by the State to Herkimer BOCES in an amount sufficient to pay all Rentals due under the Agreement. State aid is normally paid to Herkimer 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 Herkimer BOCES an amount equal to the amount payable by Herkimer BOCES to the Authority under the Agreement for the ensuing school year. It is expected that the September 1 payment of State aid to Herkimer 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 2010 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, Herkimer BOCES would be required to make such payment (with amounts paid later by the State or with other monies of Herkimer 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 2010 Bonds is to be paid to the Trustee on September 1 of each year commencing on September 1, 2010 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 Herkimer BOCES. The Commissioner is then required by law to certify to the State Comptroller the amount of State aid payable to Herkimer BOCES and the amount to be paid by Herkimer 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 Herkimer 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 Herkimer 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 2010 Bonds. The financial condition of the State may affect the amount of State aid appropriated by the State Legislature.

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

The Series 2010 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 2010 Bonds

The Series 2010 Bonds will be secured by the pledge and assignment to the Trustee of Basic Rent, the proceeds from the sale of the Series 2010 Bonds (until disbursed as provided by the Resolutions) and all funds and accounts authorized by the Master Resolution and established by the Series 2010 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. Pursuant to the terms of the Resolutions, the funds and accounts established by the Resolutions secure only the Series 2010 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 the Authority or the Underwriter as to the accuracy or completeness of the information.

The Insurance Policy

Concurrently with the issuance of the Series 2010 Bonds, Assured Guaranty will issue its financial guaranty insurance policy for the Series 2010 Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Series 2010 Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

The Insurer

Assured Guaranty is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty's financial strength is rated "AAA" (negative outlook) by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Recent Developments

On May 17, 2010, S&P published a Research Update in which it affirmed its "AAA" counterparty credit and financial strength ratings on Assured Guaranty. At the same time, S&P maintained its negative outlook on Assured Guaranty. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments. There can be no assurance as to the further action that S&P may take with respect to Assured Guaranty.

For more information regarding Assured Guaranty's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed by AGL with the Securities and Exchange Commission ("SEC") on March 1, 2010, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, which was filed by AGL with the SEC on May 10, 2010.

Capitalization of Assured Guaranty Corp.

As of March 31, 2010, Assured Guaranty had total admitted assets of \$4,536,097,977 (unaudited), total liabilities of \$3,467,253,729 (unaudited), total surplus of \$809,822,570 (unaudited) and total statutory capital (surplus plus contingency reserves) of \$1,686,157,791 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Incorporation of Certain Documents by Reference

The portions of the following documents relating to Assured Guaranty are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- The Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2009 (which was filed by AGL with the SEC on March 1, 2010); and
- The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (which was filed by AGL with the SEC on May 10, 2010).

All consolidated financial statements of Assured Guaranty and all other information relating to Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Series 2010 Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement regarding Assured Guaranty contained in a document incorporated herein by reference or contained herein under the heading "PART 2 - SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010 BONDS – Bond Insurance – the Insurance Policy" shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100. In addition, the information regarding Assured Guaranty that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC's web site at <http://www.sec.gov> and at AGL's web site at <http://www.assuredguaranty.com>, from the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Assured Guaranty makes no representation regarding the Series 2010 Bonds or the advisability of investing in the Series 2010 Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "PART 2 - SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010 BONDS - Bond Insurance".

Lease Payments

Consistent with the Act, Herkimer BOCES will, pursuant to the Agreement of Lease, lease certain property on which the Project is located to the Authority and the Authority will in turn sublease such property and the Project back to Herkimer BOCES pursuant to the Agreement. The Series 2010 Bonds are not secured by any real estate interest in the Project. The Agreement is a general obligation of Herkimer BOCES. Herkimer BOCES' obligations to pay Rentals under the Agreement are 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 2010 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 2010 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, Herkimer BOCES will assign and pledge to the Authority, a portion of any and all public funds payable by the State to Herkimer BOCES in an amount sufficient to pay such Rentals. Herkimer 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 2010 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 2010 Bonds payable during such year. The Debt Service Requirement for the Series 2010 Bonds is \$807,744.

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.”

The Surety Bond

In connection with the issuance of the Series 2010 Bonds, the Insurer shall deliver the Surety Bond for deposit in the Debt Service Reserve Fund in satisfaction of the Debt Service Reserve Fund Requirement on the Series 2010 Bonds.

Issuance of Additional Bonds

In addition to the Series 2010 Bonds, the Master Resolution authorizes the issuance of other Series of Bonds for Herkimer BOCES and other BOCES for other specified purposes, including refunding the 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 or refinance a project for Herkimer BOCES would be paid and secured on a subordinate basis to the Series 2010 Bonds unless otherwise consented to by a majority of the holders of the Series 2010 Bonds.

General

The Series 2010 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. 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 Herkimer 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 Herkimer 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 2010 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 2010 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 2010 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 2010 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 the Applicable Facility Provider of a Reserve Fund Facility or the written request of the Holders of not less than 25% in principal amount of the Outstanding Series 2010 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 2010 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 2010 Bonds under the Resolutions.

With respect to the Series 2010 Bonds, so long as the Insurer is not in default under the Policy, the Trustee will exercise remedies at the direction of the Insurer and will not exercise remedies at the direction of the Holders of the Insured Series 2010 Bonds without the consent of the Insurer. In addition, the Insurer shall be deemed to be the holder of all Series 2010 Bonds for purposes of granting any consent, direction or approval of taking any action permitted or required under the Resolutions, to be granted or taken by the holders of the Series 2010 Bonds.

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 2010 Bonds, with interest on overdue payments of the principal of or interest on the Series 2010 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 2010 Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders of such Series 2010 Bonds, and to recover and enforce a judgment or decree against the Authority but solely as provided in the Resolutions and in such Series 2010 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 2010 BONDS

Description of the Series 2010 Bonds

The Series 2010 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 2010 Bonds will be issued as fully registered bonds. The Series 2010 Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. The Series 2010 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 2010 Bonds will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the Series 2010 Bonds, the Series 2010 Bonds will be exchangeable for other fully registered Series 2010 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 2010 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 2010 Bonds by wire transfer to the Holder of such Series 2010 Bonds, each as of the close of business on the February 1 and August 1, as applicable, next preceding an interest payment date. The principal or redemption price of the Series 2010 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 Mellon, the Trustee and Paying Agent. As long as the Series 2010 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 2010 Bonds, see “Appendix D – Summary of Certain Provisions of the Master Resolution.”

Redemption and Purchase in Lieu of Optional Redemption Provisions

The Series 2010 Bonds are subject to optional, mandatory, special, and purchase in lieu of optional redemption as described below.

Optional Redemption

The Series 2010 Bonds maturing on or before August 15, 2020 are not subject to optional redemption prior to maturity. The Series 2010 Bonds maturing after August 15, 2020 are subject to redemption prior to maturity on or after August 15, 2020 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 2010 Bonds maturing on August 15, 2025 are 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 2010 Bonds specified for each of the years shown below:

Series 2010 Bonds Maturing on <u>August 15, 2025</u>	
<u>Year</u>	<u>Sinking Fund Installments</u>
2021	\$ 975,000
2022	975,000
2023	1,000,000
2024	1,000,000
2025	1,000,000†

†Final maturity.

Special Redemption

The Series 2010 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, from proceeds of a condemnation or insurance award, which proceeds are not used to repair, restore or replace the Project or upon the abandonment of the Project due to a legal or regulatory impediment.

Selection of Bonds to be Redeemed

In the case of redemptions of Series 2010 Bonds, the Authority will select the maturities to be redeemed. If less than all Series 2010 Bonds within a maturity are to be redeemed, as long as the Series 2010 Bonds are in book-entry form registered in the name of Cede & Co., as nominee of DTC, DTC will determine by lot the amount of the interest of each DTC Direct Participant in such maturity to be redeemed. If the Series 2010 Bonds are no longer in book-entry form registered in the name of Cede & Co., as nominee of DTC, the Bonds or portions thereof to be redeemed shall be selected for redemption by the Trustee, by lot, using such method of selection as the Trustee shall consider proper in its discretion.

Notice of Redemption

Generally, the Trustee is to give notice of the redemption of the Series 2010 Bonds in the name of the Authority, by first-class mail, postage prepaid, not less than 30 days nor more than 60 days prior to the redemption date to the registered owners of any Series 2010 Bonds which are to be redeemed, at their last known addresses appearing on the registration books of the Authority not more than 10 Business Days prior to the date such notice is given.

If on the redemption date moneys for the redemption of the Series 2010 Bonds of like maturity to be redeemed, together with interest thereon to the redemption date, are held by the Trustee so as to be available for payment of the redemption price, and if notice of redemption has been mailed, then interest on the Series 2010 Bonds of such maturity will cease to accrue from and after the redemption date and such Series 2010 Bonds will no longer be considered to be Outstanding.

Purchase in Lieu of Optional Redemption

The Series 2010 Bonds maturing on or before August 15, 2020 are not subject to purchase in lieu of optional redemption prior to maturity. The Series 2010 Bonds maturing after August 15, 2020, are subject to purchase in lieu of optional redemption prior to maturity on or after August 15, 2020, at the option of Herkimer BOCES with the prior written consents of the Authority and the Insurer, as a whole or in part at any time, at a purchase price of 100% of the principal amount to be purchased (the "Purchase Price") plus accrued interest to the date set for purchase (the "Purchase Date").

Notice of Purchase in Lieu of Optional Redemption and its Effect

Notice of purchase of the Series 2010 Bonds will be given in the name of Herkimer BOCES to the registered owners of the Series 2010 Bonds to be purchased by first-class mail, postage prepaid, not less than 30 days nor more than 60 days prior to the Purchase Date specified in such notice. The Series 2010 Bonds to be purchased are required to be tendered on the Purchase Date to the Trustee. Series 2010 Bonds to be purchased that are not so tendered will be deemed to have been properly tendered for purchase. If the Series 2010 Bonds are called for purchase in lieu of an optional redemption, such purchase will not extinguish the

indebtedness of the Authority evidenced thereby or modify the terms of the Series 2010 Bonds. Such Series 2010 Bonds need not be cancelled, and will remain Outstanding under the Resolutions and continue to bear interest.

Herkimer BOCES's obligation to purchase a Series 2010 Bond to be purchased or cause it to be purchased is conditioned upon the availability of sufficient money to pay the Purchase Price for all of the Series 2010 Bonds to be purchased on the Purchase Date. If sufficient money is available on the Purchase Date to pay the Purchase Price of the Series 2010 Bonds to be purchased, the former registered owners of such Series 2010 Bonds will have no claim thereunder or under the Resolutions or otherwise for payment of any amount other than the Purchase Price. If sufficient money is not available on the Purchase Date for payment of the Purchase Price, the Series 2010 Bonds tendered or deemed tendered for purchase will continue to be registered in the name of the registered owners on the Purchase Date, who will be entitled to the payment of the principal of and interest on such Series 2010 Bonds in accordance with their respective terms.

If not all of the Outstanding Series 2010 Bonds are to be purchased, the Series 2010 Bonds to be purchased will be selected by lot in the same manner as Series 2010 Bonds to be redeemed in part are to be selected.

For a more complete description of the redemption and other provisions relating to the Series 2010 Bonds, see "Appendix D - Summary of Certain Provisions of the Master Resolution." Also see "- Book-Entry Only System" below for a description of the notices of redemption to be given to Beneficial Owners of the Series 2010 Bonds when the Book-Entry Only System is in effect.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2010 Bonds. The Series 2010 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 2010 Bond certificate will be issued for each maturity of the Series 2010 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of Series 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2010 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 2010 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 the Series 2010 Bonds, except in the event that use of the book-entry system for the Series 2010 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2010 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 2010 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2010 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010 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 Series 2010 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2010 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2010 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 2010 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the 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 will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will 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 2010 Bonds registered in its name for the purposes of payment of the principal and redemption premium, if any, of, and interest on, the Series 2010 Bonds, giving any notice permitted or required to be given to registered owners under the Resolutions, registering the transfer of the Series 2010 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 2010 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 2010 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.

DTC may discontinue providing its service as depository with respect to the Series 2010 Bonds at any time by giving reasonable notice to the Authority and the Trustee. Under such circumstances, in the event that a successor depository is not obtained, the Series 2010 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Series 2010 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

Each person for whom a Participant acquires an interest in the Series 2010 Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications of DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments. **NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE SERIES 2010 BONDS.**

So long as Cede & Co. is the registered owner of the Series 2010 Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the Series 2010 Bonds (other than under the caption "PART 11— TAX MATTERS" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2010 Bonds.

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

For every transfer and exchange of Series 2010 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

The Authority, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Series 2010 Bonds if the Authority determines that (i) DTC is unable to discharge its responsibilities with respect to the Series 2010 Bonds or (ii) a continuation of the requirement that all of the Outstanding Series 2010 Bonds be registered in the registration books kept by the Trustee in the name of Cede & Co., as nominee of DTC, is not in the best interests of the Beneficial Owners. In the event that no substitute securities depository is found by the Authority or restricted registration is no longer in effect, Series 2010 Bond certificates will be delivered as described in the Resolutions and the Bond Series Certificate.

NEITHER THE AUTHORITY, HERKIMER BOCES NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT, (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2010 BONDS UNDER THE RESOLUTIONS; (III) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2010 BONDS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE SERIES 2010 BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE SERIES 2010 BONDS; OR (VI) ANY OTHER MATTER.

Debt Service Requirements

The following table sets forth the amounts required to be paid by Herkimer BOCES during each twelve month period ending August 14 of the Bond Years shown for the payment of debt service on the Series 2010 Bonds. Herkimer BOCES is required to pay on September 1 of each year an amount equal to the debt service on the Outstanding Herkimer BOCES Bonds on the succeeding February 15 and August 15. See “PART 2 – SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010 BONDS.”

<u>12-Month Period Ended August 14,</u>	<u>Debt Service Requirements on Series 2010 Bonds</u>
2011	\$1,615,489.06
2012	1,278,687.50
2013	1,259,187.50
2014	1,239,687.50
2015	1,270,187.50
2016	1,249,687.50
2017	1,245,687.50
2018	1,210,250.00
2019	1,199,750.00
2020	1,163,625.00
2021	1,148,250.00
2022	1,114,125.00
2023	1,105,000.00
2024	1,070,000.00
2025	1,035,000.00

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 688 of the 697 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 incurred for approved projects. 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 of the costs of approved projects.

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 2010 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 add the amount of its share of BOCES administrative expenses to its budget and 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 – HERKIMER, FULTON, HAMILTON AND OTSEGO BOCES

Herkimer BOCES was formed in 1948. Herkimer BOCES encompasses a land area of approximately 1,251 square miles in the Counties of Herkimer, Fulton, Hamilton and Otsego. Herkimer BOCES currently has 12 Component School Districts and the administrative offices are located in Herkimer, New York.

Purpose

Herkimer BOCES shared services are intended to enhance local district educational programs and to provide educational programs to component school districts which individual school districts could not themselves provide efficiently or economically. BOCES programs permit area schools to share and cooperate in educational programs and activities and offer advantages to school districts of specialization and economy of scale. Occupational education, education for the handicapped, management services, curriculum writing, staff development, and sharing of staff under certain conditions are examples of the programs and activities that are offered. The recurring uncertainty affecting the adoption of the New York State budget encourages the component school districts to utilize the services of the Herkimer BOCES to a greater degree. Districts are actively looking to become more efficient and to share costs due to such uncertainty.

Operations

Occupational students, representing the twelve component districts, attend the Voc/Tech Center located in Herkimer for part of their school day, training in different occupational areas in their junior and senior years. They are transported to and from their home schools by bus, attending half-day sessions as part of their regular high school program. Also under operation is an out of school suspension program providing at-risk students the opportunity to overcome personal and academic problems in preparation for returning to regular school.

For pupils with moderate to severe handicaps, who cannot be adequately served through the regular instructional programs, the BOCES offers a quality educational experience in classrooms located in several districts as well as at the BOCES center.

Special Education programs include the Trainable Mentally Handicapped, Severe Emotionally Handicapped, Severe Speech, Language and Hearing Impaired, Multiple Handicapped, and Autistic. The BOCES provides highly individualized learning environments and many supportive services, including psychological testing and counseling, speech therapy, remedial instruction, occupational education, supervised work experience, physical therapy, occupational therapy, and services of aides.

Adult Education is provided both during the day and evening. Adults may receive occupational training in a variety of programs or may complete their high school equivalency program. Counseling, assessment services, and job placement are available to assist in career planning for career changes or upgrading.

Many of the residents within the Herkimer BOCES service area are employed in industries and educational facilities located throughout the Counties. Major firms include Remington Arms, Herkimer Area Resource Center, and Wal-Mart Supercenter. A substantial employment sector within the Herkimer BOCES service area is government and education, including Herkimer County Government, local school districts, and Herkimer County Community College.

Member School Districts

Dolgeville Central School District	Mount Markham Central School District
Frankfort-Schuyler Central School District	Oppenheim-Ephratah Central School District
Herkimer Central School District	Owen D. Young Central School District
Ilion Central School District	Poland Central School District
Little Falls City School District	Richfield Springs Central School District
Mohawk Central School District	West Canada Valley Central School District

Governance

The Board of Cooperative Educational Services, which is the policy-making body of Herkimer BOCES, is governed by a board (the "Board") of nine members with overlapping three-year terms so that, as nearly as possible, an equal number are elected to the Board each year. The members are elected by a plurality vote of the boards of education of the Component School Districts. The President and Vice President of Herkimer BOCES are selected by the Board members.

The 2010-11 Board of Education consists of:

	Term Expires
W. Lee Bynon, President	06-30-13
Daniel LaLonde, Vice President	06-30-13
Vincent Casale	06-30-12
William Dodge	06-30-12
William Miller	06-30-11
Thomas Shypski	06-30-12
Lawrence Thibault	06-30-11
Scott Tranter	06-30-11
Daniel Voce	06-30-13

The administrative officers and professional advisors of the School District consist of:

Mark Vivacqua	District Superintendent
Mark Deierlein	Executive Director of Business Operation
Shawn Maxson	Board Clerk
Kathleen Loomis	Treasurer
Diana Cassidy	Internal Claims Auditor
Timothy R. McGill, Esq.	Outside Counsel

King & King, Architects	Architects
D'Arcangelo & Co., LLP	Certified Public Accountant
C&S Design Build, Inc.	Construction Manager
Dennis T. Barrett, Esq.	School District Attorney

Historical/Projected Enrollment (Component School Districts)

As schools are consolidating and becoming more efficient, they are utilizing the various BOCES in New York State for their service needs. BOCES were partially created to provide school districts with services that they could not perform efficiently by themselves. School population in the Herkimer BOCES area is declining which is making it more difficult for the districts to perform some tasks and services efficiently and programmatically well by themselves. The Component School Districts are redirecting their funding towards student services. As they do so, they are looking increasingly towards having Herkimer BOCES provide those services that they either do not have the number of students or internal resources to provide. As a result, the volume of some of Herkimer BOCES services are increasing.

The following table sets forth historical and projected enrollment for Herkimer BOCES.

2005-06	11,329
2006-07	11,309
2007-08	11,140
2008-09	10,942
2009-10	10,778
2010-11	10,614
2011-12	10,450
2012-13	10,286
2013-14	10,122
2014-15	9,958

Facilities

Herkimer BOCES presently occupies approximately 132,000 square feet in its main education building. There are three other owned structures at the facility that are currently used for storage. Herkimer BOCES also rents a portion of three other facilities as well as a number of individual classrooms in local school buildings.

Financial Information

Funding of Herkimer BOCES comes from the twelve component school districts. Each pays a proportional share of Herkimer 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. The 2010-11 administrative budget was passed on April 28, 2010. Herkimer 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 moneys to partially reimburse them for BOCES services and administrative expenses.

Upon adoption of the budget for the ensuing fiscal year, contracts are drafted and executed by Herkimer BOCES and the respective component school districts. Said contracts are based on the budget estimates. All contracts for the 2009-10 fiscal year of Herkimer BOCES have been approved and signed by the component school districts. The 2009-10 COSER forms (which specify program content of the proposed services to be performed by Herkimer BOCES) have been submitted to the State Education Department. Each component school district is billed pursuant to its contract, and makes a monthly payment between September and June to the Treasurer of Herkimer BOCES based on the invoice submitted to them. Invoices are updated to reflect changes in requests by the districts for increased services.

The following chart shows, for the school year ending June 30, 2009 and 2010 (unaudited), for each component school district, (a) the total amount payable from the school district to Herkimer BOCES and the percentage such amount represents of Herkimer BOCES’ overall receipts from component school districts, and (b) the proportionate share of Herkimer BOCES

administrative expenses paid by such component school district and the percentage such amount represents of Herkimer BOCES' overall administrative expenses.

Component School Districts' Share of BOCES Expenses

Component School District	2008-09				2009-10*			
	Total Amount Contracted to BOCES	Percentage Share of Total BOCES Contract	Share of Administrative Contract	Percentage Share of Administrative Contract	Total Amount Contracted to BOCES	Percentage Share of Total BOCES Contract	Share of Administrative Contract	Percentage Share of Administrative Contract
Dolgeville	\$ 1,873,989	9.26%	\$ 207,764	7.69%	\$ 1,923,916	8.36%	\$ 209,626	7.73%
Frankfort-Schuyler	1,840,987	9.09%	282,703	10.47%	2,489,883	10.82%	299,401	11.04%
Herkimer	2,054,487	10.15%	292,126	10.82%	2,414,276	10.49%	298,945	11.02%
Ilion	2,880,207	14.22%	398,252	14.75%	3,116,382	13.54%	388,264	14.31%
Little Falls	1,557,911	7.69%	274,850	10.18%	1,974,102	8.58%	281,628	10.38%
Mohawk	1,433,088	7.08%	210,232	7.79%	1,689,228	7.34%	212,361	7.83%
Mount Markham	2,901,571	14.33%	326,679	12.10%	3,181,270	13.83%	329,250	12.14%
Oppenheim-Ephratah	883,167	4.36%	109,491	4.05%	793,645	3.45%	104,357	3.85%
Owen D. Young	688,359	3.40%	63,496	2.35%	823,949	3.58%	62,888	2.32%
Poland	1,506,961	7.44%	173,212	6.41%	1,709,584	7.43%	168,612	6.22%
Richfield Springs	1,125,667	5.56%	152,570	5.65%	1,359,443	5.91%	146,283	5.39%
West Canada Valley	<u>1,501,299</u>	7.41%	<u>208,886</u>	7.74%	<u>1,534,241</u>	6.67%	<u>210,993</u>	7.78%
Total	<u>\$20,247,693</u>		<u>\$2,700,261</u>		<u>\$23,009,919</u>		<u>\$2,712,608</u>	

* unaudited

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

Herkimer BOCES Revenues and Expenses

	School Year Ending June 30, 2005	School Year Ending June 30, 2006	School Year Ending June 30, 2007	School Year Ending June 30, 2008	School Year Ending June 30, 2009
General Fund Revenue	\$ 17,078,287	\$ 17,993,642	\$ 19,486,812	\$ 20,141,570	\$ 20,918,234
General Fund Expenditures	<u>(16,756,061)</u>	<u>(17,389,309)</u>	<u>(18,025,223)</u>	<u>(20,413,156)</u>	<u>(20,883,087)</u>
Fiscal Year Surplus	\$ 617,314	\$ 1,221,647	\$ 2,683,236	\$ 2,411,650	\$ 2,446,797

State Aid

Herkimer BOCES receives very little financial assistance directly from the State. The majority of the funds for the BOCES are a result of direct charges to its component school districts for educational services rendered. In its budget for the 2009-10 fiscal year, the component school districts will receive approximately 44.00% of their BOCES expenditures back in the form of BOCES aid.

The following chart presents the amount of State aid accrued by Herkimer 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 Herkimer 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 Herkimer BOCES' budget for the year in which it is received.

State Aid Appropriations to Herkimer, Fulton, Hamilton and Otsego BOCES

School Year Ending June 30,	State Aid
2010	\$9,268,000*
2009	\$9,353,238
2008	\$7,749,708
2007	\$7,553,161
2006	\$7,080,304

* unaudited

If the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes in order to pay State aid to municipalities and school districts in the State, including Herkimer BOCES, in any year, Herkimer BOCES may be affected by a delay in the receipt of State aid until sufficient State taxes have been received by the State to make State aid payments. Additionally, if the State should not adopt its budget in a timely manner in this year, or future years, municipalities and school districts in the State, including Herkimer BOCES, may be affected by a delay in the payment of State aid.

The State is not constitutionally obligated to maintain or continue State aid to Herkimer BOCES. No assurance can be given that present State aid levels will be maintained in the future. State budgetary restrictions which eliminate or substantially reduce State aid could have a material adverse effect upon Herkimer BOCES requiring either a counterbalancing increase in revenues from other sources to the extent available, or a curtailment of expenditures.

Future Financing Plans

At the present time Herkimer BOCES has no specific plans to purchase other facilities but is continuing to assess opportunities to save its component school districts money following this strategy.

Any additional Series of Bonds issued to finance or refinance a project for Herkimer BOCES would be paid and secured on a subordinate basis to the Series 2010 Bonds unless otherwise consented to by a majority of the Bondholders.

Litigation

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

PART 6 – THE PROJECT

On December 10, 2008, the voters in the Herkimer BOCES component school districts approved a \$17,025,000 capital project consisting of the renovation of various Herkimer BOCES buildings, together with related site improvements, original equipment, machinery, apparatus, appurtenances, related demolition of existing facilities, and other incidental improvements and expenses in connection therewith (the "Project"). Plans and specifications have been submitted to the State Education Department for the Project at the Busacker Educational Complex located at 352 Gros Boulevard, Herkimer, New York. The Project received approval from the State Education Department on June 25, 2009 (for emergency work) and March 23, 2010 (for the balance). The scope of the approved Project specifically includes but is not limited to: installation of a new roof, upgrades to electrical system, improvements to lighting system, fire alarm system upgrades, new flooring, replacement of windows, doors, and HVAC system, exterior upgrades to parking lots and sidewalks. Construction is estimated to begin in July 2010 and last approximately 14 months.

PART 7 – ESTIMATED SOURCES AND USES OF FUNDS

Estimated sources and uses of funds are as follows:

Sources of Funds

Series 2010 Bond Proceeds.....	\$14,200,000
Net Original Issue Premium.....	<u>8,765</u>
Total Sources	\$14,208,765

Uses of Funds

Costs of the Project.....	\$13,596,774
Costs of Issuance and Additional Proceeds ¹	500,435
Underwriter's Discount.....	<u>111,556</u>
Total Uses	\$14,208,765

¹ Includes bond insurance and surety bond premiums.

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, 2010, the Authority had approximately \$42.7 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, 2010 were as follows:

<u>Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Notes Outstanding</u>	<u>Bonds and Notes Outstanding</u>
State University of New York				
Dormitory Facilities.....	\$ 2,350,316,000	\$ 1,043,710,000	\$ 0	\$ 1,043,710,000
State University of New York Educational and Athletic Facilities.....	14,043,272,999	6,283,774,856	0	6,283,774,856
Upstate Community Colleges of the State University of New York.....	1,590,645,000	662,375,000	0	662,375,000
Senior Colleges of the City University of New York.....	10,262,671,762	3,346,519,213	0	3,346,519,213
Community Colleges of the City University of New York.....	2,444,968,350	542,365,787	0	542,365,787
BOCES and School Districts.....	2,771,681,208	2,168,100,000	0	2,168,100,000
Judicial Facilities.....	2,161,277,717	704,492,717	0	704,492,717
New York State Departments of Health and Education and Other.....	6,138,795,000	4,184,350,000	0	4,184,350,000
Mental Health Services Facilities.....	8,032,895,000	3,881,765,000	0	3,881,765,000
New York State Taxable Pension Bonds.....	773,475,000	0	0	0
Municipal Health Facilities Improvement Program.....	<u>1,116,660,000</u>	<u>761,120,000</u>	<u>0</u>	<u>761,120,000</u>
Totals Public Programs.....	<u>\$ 51,686,658,036</u>	<u>\$ 23,578,572,573</u>	<u>\$ 0</u>	<u>\$ 23,578,572,573</u>

<u>Non-Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>	<u>Notes Outstanding</u>	<u>Bonds and Notes Outstanding</u>
Independent Colleges, Universities and Other Institutions.....	\$ 19,251,245,259	\$ 10,186,626,435	\$ 30,730,000	\$ 10,217,356,435
Voluntary Non-Profit Hospitals.....	14,434,254,309	8,005,120,000	0	8,005,120,000
Facilities for the Aged.....	2,010,975,000	873,025,000	0	873,025,000
Supplemental Higher Education Loan Financing Program.....	<u>95,000,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Totals Non-Public Programs.....	<u>\$ 35,791,474,568</u>	<u>\$ 19,064,771,435</u>	<u>\$ 30,730,000</u>	<u>\$ 19,095,501,435</u>
Grand Totals Bonds and Notes.....	<u>\$ 87,478,132,604</u>	<u>\$ 42,643,344,008</u>	<u>\$ 30,730,000</u>	<u>\$ 42,674,074,008</u>

Outstanding Indebtedness of the Agency Assumed by the Authority

At June 30, 2010, the Agency had approximately \$324.9 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, 2010 were as follows:

<u>Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Mental Health Services Improvement Facilities.....	<u>\$ 3,817,230,725</u>	<u>\$ 0</u>

<u>Non-Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Hospital and Nursing Home Project Bond Program.....	\$ 226,230,000	\$ 2,880,000
Insured Mortgage Programs.....	6,625,079,927	314,970,000
Revenue Bonds, Secured Loan and Other Programs.....	<u>2,414,240,000</u>	<u>7,045,000</u>
Total Non-Public Programs.....	<u>\$ 9,265,549,927</u>	<u>\$ 324,895,000</u>
Total MCFFA Outstanding Debt.....	<u>\$ 13,082,780,652</u>	<u>\$ 324,895,000</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:

ALFONSO L. CARNEY, JR., *Chair*, New York.

Alfonso L. Carney, Jr. was appointed as a Member of the Authority by the Governor on May 20, 2009. Mr. Carney is a principal of Rockwood Partners, LLC, which provides medical and legal consulting services in New York City. Consulting for the firm in 2005, he served as Acting Chief Operating Officer and Corporate Secretary for the Goldman Sachs Foundation in New York where, working with the President of the Foundation, he directed overall staff management of the foundation, and provided strategic oversight of the administration, communications and legal affairs teams, and developed selected foundation program initiatives. Prior to this, Mr. Carney held several positions with Altria Corporate Services, Inc., most recently as Vice President and Associate General Counsel for Corporate and Government Affairs. Prior to that, Mr. Carney served as Assistant Secretary of Philip Morris Companies Inc. and Corporate Secretary of Philip Morris Management Corp. For eight years, Mr. Carney was Senior International Counsel first for General Foods Corporation and later for Kraft Foods, Inc. and previously served as Trade Regulation Counsel, Assistant Litigation Counsel and Federal Government Relations Counsel for General Foods, where he began his legal career in 1975 as a Division Attorney. Mr. Carney is a trustee of Trinity College, the University of Virginia Law School Foundation, the Riverdale Country School and the Virginia Museum of Fine Arts in Richmond. In addition, he is a trustee of the Burke Rehabilitation Hospital in White Plains. Mr. Carney holds a Bachelors degree in Philosophy from Trinity College and a Juris Doctor degree from the University of Virginia School of Law. His current term expires on March 31, 2013.

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

John B. Johnson, Jr. was appointed as a Member of the Authority by the Governor on June 20, 2007. 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, 2013.

JACQUES JIHA, Ph.D., *Secretary*, Woodbury.

Jacques Jiha was appointed as a Member of the Authority by the Governor on December 15, 2008. Mr. Jiha is the Executive Vice President / Chief Operating Officer & Chief Financial Officer of Black Enterprise, a multi-media company with properties in print, digital media, television, events and the internet. He is a member of the Investment Advisory Committee of the New York Common Retirement Fund. Previously, Mr. Jiha served as Deputy Comptroller for Pension Investment and Public Finance in the Office of the New York State Comptroller. As the state's chief investment officer, he managed assets valued at \$120 billion and was also in charge of all activities related to the issuance of New York State general obligation bonds, bond anticipation notes, tax and revenue anticipation notes, and certificates of participation. Mr. Jiha was the Co-Executive Director of the New York State Local Government Assistance Corporation (LGAC) in charge of the sale of refunding bonds, the ratification of swap agreements, and the selection of financial advisors and underwriters. Prior thereto, Mr. Jiha was Nassau County Deputy Comptroller for Audits and Finances. He also worked for the New York City Office of the Comptroller in increasingly responsible positions: first as Chief Economist and later as Deputy Comptroller for Budget. Earlier, Mr. Jiha served as Executive Director of the New York State Legislative Tax Study Commission and as Principal Economist for the New York State Assembly Committee on Ways and Means. He holds a Ph.D. and a Master's degree in Economics from the New School University and a Bachelor's degree in Economics from Fordham University. His current term expires on March 31, 2011.

CHARLES G. MOERDLER, Esq., New York.

Charles Moerdler was appointed as a Member of the Authority by the Governor on March 16, 2010. Mr. Moerdler is a founding partner in the Litigation Practice of the law firm Stroock & Stroock & Lavan LLP. His areas of practice include defamation, antitrust, securities, real estate, class actions, health care, international law, labor law, administrative law and zoning. Mr. Moerdler also specializes in State and Federal appellate practice. He served as Commissioner of Housing and Buildings of

the City of New York, as a real estate and development consultant to New York City Mayor John Lindsay, as a member of the City's Air Pollution Control Board, and as Chairman and Commissioner of the New York State Insurance Fund. Mr. Moerdler currently serves on the Board of Directors of the New York City Housing Development Corporation and as a member of the New York City Board of Collective Bargaining. He holds a Bachelors of Arts degree from Long Island University and a Juris Doctor degree from Fordham University. His current term expires on March 31, 2012.

ANTHONY B. MARTINO, CPA, Buffalo.

Mr. Martino was appointed as a Member of the Authority by the Governor on December 15, 2008. 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. 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, 2010.

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.

GERARD ROMSKI, Esq., Mount Kisco.

Mr. Romski was appointed as a Member of the Authority by the Temporary President of the State Senate on June 8, 2009. He is Counsel and Project Executive for "Arverne By The Sea," where he is responsible for advancing and overseeing all facets of "Arverne by the Sea," one of New York City's largest mixed-use developments located in Queens, NY. Mr. Romski is also of counsel to the New York City law firm of Bauman, Katz and Grill LLP. He formerly was a partner in the law firm of Ross & Cohen, LLP (now merged with Duane Morris, LLP) for twelve years, handling all aspects of real estate and construction law for various clients. He previously served as Assistant Division Chief for the New York City Law Department's Real Estate Litigation Division where he managed all aspects of litigation arising from real property owned by The City of New York. Mr. Romski is a member of the Urban Land Institute, Council of Development Finance Agencies, the New York State Bar Association, American Bar Association and New York City Bar Association. He previously served as a member of the New York City Congestion Mitigation Commission and the Board of Directors for the Bronx Red Cross. Mr. Romski holds a Bachelor of Arts degree from the New York Institute of Technology and a Juris Doctor degree from Brooklyn Law School.

ROMAN B. HEDGES, Ph.D., Delmar.

Dr. Hedges was appointed as a Member of the Authority by the Speaker of the State Assembly on February 24, 2003. Dr. Hedges serves on the Legislative Advisory Task Force on Demographic Research and Reapportionment. He is the former Deputy Secretary of the New York State Assembly Committee on Ways and Means. Dr. Hedges previously served as the Director of Fiscal Studies of the Assembly Committee on Ways and Means. He 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.

DAVID M. STEINER, Ph.D., *Commissioner of Education of the State of New York, Albany; ex-officio.*

David M. Steiner was appointed by the Board of Regents as President of the University of the State of New York and Commissioner of Education on October 1, 2009. Prior to his appointment, Dr. Steiner served as the Klara and Larry Silverstein Dean of the School of Education at Hunter College CUNY. Prior to his time with Hunter College, Dr. Steiner served as Director of Arts Education at the National Endowment for the Arts and Chairman of the Department of Education Policy at Boston University. As Commissioner of Education, Dr. Steiner serves as chief executive officer of the Board of Regents, which has jurisdiction over the State's entire educational system, which includes public and non-public elementary, middle and secondary education; public and independent colleges and universities; museums, libraries and historical societies and archives; the vocational rehabilitation system; and responsibility for licensing, practice and oversight of numerous professions. He holds a Doctor of Philosophy in political science from Harvard University and a Bachelor of Arts and Master of Arts degree in philosophy, politics and economics from Balliol College at Oxford University.

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.

ROBERT L. MEGNA, *Budget Director of the State of New York, Albany; ex-officio.*

Mr. Megna was appointed Budget Director on June 15, 2009. He 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. Megna previously served as Commissioner of the New York State Department of Taxation and Finance, responsible for overseeing the collection and accounting of more than \$90 billion in State and local taxes, the administration of State and local taxes, including New York City and the City of Yonkers income taxes and the processing of tax returns, registrations and associated documents. Prior to this he served as head of the Economic and Revenue Unit of the New York State Division of the Budget where he was responsible for State Budget revenue projections and the development and monitoring of the State Financial Plan. Mr. Megna was Assistant Commissioner for Tax Policy for the Commonwealth of Virginia. He also served as Director of Tax Studies for the New York State Department of Taxation and Finance and as Deputy Director of Fiscal Studies for the Ways and Means Committee of the New York State Assembly. Mr. Megna was also an economist for AT&T. He holds Masters degrees in Public Policy from Fordham University and Economics from the London School of Economics.

The principal staff of the Authority is as follows:

PAUL T. WILLIAMS, JR. is the President and chief executive officer of the Authority. Mr. Williams is responsible for the overall management of the Authority's administration and operations. He most recently served as Senior Counsel in the law firm of Nixon Peabody LLP. Prior to working at Nixon Peabody, Mr. Williams helped to establish a boutique Wall Street investment banking company. Prior thereto, Mr. Williams was a partner in, and then of counsel to, the law firm of Bryan Cave LLP. He was a founding partner in the law firm of Wood, Williams, Rafalsky & Harris, which included a practice in public finance and served there from 1984-1998. Mr. Williams began his career as an associate at the law firm of Walker & Bailey in 1977 and thereafter served as a counsel to the New York State Assembly. Mr. Williams is licensed to practice law in the State of New York and holds professional licenses in the securities industry. He holds a Bachelor's degree from Yale University and a Juris Doctor degree from Columbia University School of Law.

MICHAEL T. CORRIGAN is the Vice President of the Authority, and assists the President 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 and Portfolio Monitoring. 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; overseeing the Authority's compliance with continuing disclosure requirements and monitoring the financial condition of existing Authority clients. 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.

PAUL W. KUTEY is the Chief Financial Officer of the Authority. Mr. Kutey oversees and directs the activities of the Office of Finance and Information Services. He is responsible for supervising the Authority's investment program, accounting functions, operation, maintenance and development of computer hardware, software and communications infrastructure; as well as the development and implementation of financial policies, financial management systems and internal controls for financial reporting. Previously, Mr. Kutey was Senior Vice President of Finance and Operations for AYCO Company, L.P., a Goldman Sachs Company, where his responsibilities included finance, operations and facilities management. Prior to joining AYCO Company, he served as Corporate Controller and Acting Chief Financial Officer for First Albany Companies, Inc. From 1982

until 2001, Mr. Kutey held increasingly responsible positions with PricewaterhouseCoopers, LLP, becoming Partner in 1993. He is a Certified Public Accountant and holds a Bachelor of Business Administration degree from Siena College.

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.

STEPHEN D. CURRO, P.E. 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. Mr. Curro joined the Authority in 2001 as Director of Technical Services, and most recently served as Director of Construction Support Services. He is a registered Professional Engineer in New York and Rhode Island and has worked in the construction industry for over 20 years as a consulting structural engineer and a technology solutions provider. Mr. Curro is also an Adjunct Professor at Hudson Valley Community College and Bryant & Stratton College. He holds a Bachelor of Science in Civil Engineering from the University of Rhode Island, a Master of Engineering in Structural Engineering from Rensselaer Polytechnic Institute and a Master of Business Administration from Rensselaer Polytechnic Institute's Lally School of Management.

CARRA WALLACE is the Managing Director of the Office of Executive Initiatives (OEI). In that capacity, she oversees the Authority's Communications and Marketing, Opportunity Programs, Environmental Initiatives, Client Outreach, Training, Executive Projects, and Legislative Affairs units. Ms. Wallace is responsible for strategic efforts in developing programs, maximizing the utilization of Minority and Women Owned Businesses, and communicating with Authority clients, the public and governmental officials. She possesses more than twenty years of senior leadership experience in diverse private sector businesses and civic organizations. Ms. Wallace most recently served as Executive Vice President at Telwares, a major telecommunications service firm. Prior to her service at Telwares, Ms. Wallace served as Executive Vice President of External Affairs at the NYC Leadership Academy. She holds a Bachelor of Science degree in management from the Pepperdine University Graziadio School of Business and Management.

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 2010 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, 2010. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

PART 9 – LEGALITY OF THE SERIES 2010 BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2010 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 2010 Bonds.

The Series 2010 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 2010 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 2010 Bonds.

PART 11 – TAX MATTERS

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law: (i) interest on the Series 2010 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and (ii) interest on the Series 2010 Bonds is exempt from personal income taxes imposed by the State of New York and political subdivisions thereof, including The City of New York and the City of Yonkers.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Authority and Herkimer BOCES contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Series 2010 Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the Authority’s certifications and representations or the continuing compliance with the Authority’s covenants.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel’s legal judgment as to exclusion of interest on the Series 2010 Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service (“IRS”) or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the Authority or Herkimer BOCES may cause loss of such status and result in interest on the Series 2010 Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2010 Bonds. Herkimer BOCES and, subject to certain limitations, the Authority have each covenanted to take the actions required of it for the interest on the Series 2010 Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Series 2010 Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel’s attention may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2010 Bonds or the market value of the Series 2010 Bonds.

Under the Code, interest on the Series 2010 Bonds is excluded from the calculation of a corporation’s adjusted current earnings for purposes of the corporate alternative minimum tax, but interest on the Series 2010 Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations. Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series 2010 Bonds. Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Series 2010 Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Series 2010 Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State legislature. Court proceedings may also be filed the outcome of which could modify the tax treatment of obligations such as the Series 2010 Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court,

after the date of issuance of the Series 2010 Bonds will not have an adverse effect on the tax status of interest on the Series 2010 Bonds or the market value of the Series 2010 Bonds.

Prospective purchasers of the Series 2010 Bonds should consult their own tax advisers regarding pending or proposed federal and state tax legislation and court proceedings, and prospective purchasers of the Series 2010 Bonds at other than their original issuance at the respective prices indicated on the inside cover of this Preliminary Official Statement should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Bond Counsel's engagement with respect to the Series 2010 Bonds ends with the issuance of the Series 2010 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, Herkimer BOCES, or the owners of the Series 2010 Bonds regarding the tax status of interest thereon in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Series 2010 Bonds, under current IRS procedures, the IRS will treat the Authority as the taxpayer and the beneficial owners of the Series 2010 Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Series 2010 Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value of the Series 2010 Bonds.

Original Issue Discount and Original Issue Premium

Certain of the Series 2010 Bonds ("Discount Bonds") as indicated on the cover of this Preliminary Official Statement were offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of a Discount Bond. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excluded from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Series 2010 Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. A purchaser of a Discount Bond in the initial public offering at the price for that Discount Bond stated on the cover of this Preliminary Official Statement who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond.

Certain of the Series 2010 Bonds ("Premium Bonds") as indicated on the cover of this Preliminary Official Statement were offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that is amortized during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the cover of this Preliminary Official Statement who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

Owners of Discount and Premium Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of OID or bond premium properly accruable or amortizable in any period with respect to the Discount or Premium Bonds and as to other federal tax consequences and the treatment of OID and bond premium for purposes of state and local taxes on, or based on, income.

PART 12 – STATE NOT LIABLE ON THE SERIES 2010 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 2010 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 Herkimer 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 2010 Bonds by the Authority are subject to the approval of Squire, Sanders & Dempsey L.L.P., New York, New York, Bond Counsel to the Authority, whose approving opinion will be delivered with the Series 2010 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 Underwriter by its counsel, Holland & Knight LLP, New York, New York and for Herkimer BOCES by its counsel, The Law Offices of Timothy R. McGill, Fairport, New York.

There is no pending litigation restraining or enjoining the issuance or delivery of the Series 2010 Bonds or questioning or affecting the validity of the Series 2010 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 Underwriter has agreed, subject to certain conditions, to purchase the Series 2010 Bonds from the Authority at an aggregate purchase price of \$14,097,209, including net original issue premium of \$8,764.50 and less underwriter's discount of \$111,555.50, and to make a public offering of the Series 2010 Bonds at prices that are not in excess of the public offering prices stated on the inside cover page of this Official Statement. The Underwriter will be obligated to purchase all such Series 2010 Bonds if any are purchased.

The Series 2010 Bonds may be offered and sold to certain dealers (including the Underwriter) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriter.

PART 16 – CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), Herkimer BOCES has undertaken in a written agreement for the benefit of the Series 2010 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 Herkimer BOCES ending June 30, 2010 for filing by DAC with the Municipal Securities Rulemaking Board (the "MSRB") pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the "Rule") adopted by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended (the "1934 Act"), 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 Herkimer 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 Herkimer BOCES, DAC has undertaken in a written agreement for the benefit of the Bondholders, on behalf of and as agent for Herkimer 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 Herkimer BOCES, with the MSRB. In addition, the Authority has undertaken, for the benefit of the Series 2010 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 – HERKIMER, FULTON, HAMILTON AND OTSEGO BOCES” under the heading “Financial Information” (only to the extent that this information is not included in the audited financial statements of Herkimer BOCES), together with (b) a narrative explanation, if necessary to avoid misunderstanding, regarding the presentation of financial and operating data concerning Herkimer BOCES and in judging the financial and operating condition of Herkimer BOCES.

The Notices include notice of any of the following events with respect to the Series 2010 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 2010 Bonds; (7) modifications to rights of the Holders of the Series 2010 Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2010 Bonds; and (11) rating changes. In addition, the Authority will undertake, for the benefit of the Holders of the Series 2010 Bonds, to provide to the MSRB, in a timely manner, notice of any failure by Herkimer BOCES to provide the Annual Information and annual financial statements by the date required in Herkimer 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 Herkimer BOCES and/or the Authority, and no person, including any Holder of the Series 2010 Bonds, may recover monetary damages thereunder under any circumstances. The Authority or Herkimer 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 2010 Bonds or by the Trustee on behalf of the Holders of Outstanding Series 2010 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 2010 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 2010 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 2010 Bonds. Copies of the Continuing Disclosure Agreement when executed by the parties thereto upon the delivery of the Series 2010 Bonds will be on file at the principal office of the Authority.

PART 17 – RATINGS

S&P and Moody's have assigned ratings of “AAA” (negative outlook) and “Aa3” (negative outlook), respectively, to the Series 2010 Bonds, in each case based upon the understanding that the payment of principal of and interest on the Series 2010 Bonds will be guaranteed by a financial guaranty insurance policy to be issued by Assured Guaranty simultaneously with the delivery of the Series 2010 Bonds. S&P and Moody's have assigned underlying ratings of “A+” and “Aa3” (stable outlook), respectively, to the Series 2010 Bonds.

None of these ratings is a recommendation by the rating agency to purchase, sell or hold the obligations rated or as to the market price or suitability of such obligations for a particular investor. Generally, a rating agency bases its rating and outlook, if any, on the information and material furnished to it and on investigations, studies and assumptions of its own. An explanation of the significance of any rating may be obtained only from the rating agency furnishing such rating. There is no assurance that such ratings will be in effect for any given period of time or that they will not be revised upward or downward or withdrawn entirely by any or all of such rating agencies if, in the judgment of any or all of them, circumstances so warrant. Any such downward revision or withdrawal of such rating or ratings may have an adverse effect on the market price or marketability of the Series 2010 Bonds.

PART 18 – SOURCES OF INFORMATION AND CERTIFICATIONS

Certain information concerning Herkimer 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 2010 Bonds, as to the accuracy of such information provided or authorized by it.

Herkimer, Fulton, Hamilton and Otsego BOCES. The information in “PART 4 – BOARDS OF COOPERATIVE EDUCATIONAL SERVICES,” “PART 5 – HERKIMER, FULTON, HAMILTON AND OTSEGO BOCES,” “PART 6 – THE PROJECT,” “PART 7 – ESTIMATED SOURCES AND USES OF FUNDS” and “Appendix B – Financial Statements of Herkimer BOCES” was supplied by Herkimer 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 Insurer. The information contained herein relating to the Insurer, the Bond Insurance and the Surety Bond has been reviewed for accuracy by the Insurer. 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 Lease and 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 Squire, Sanders & Dempsey L.L.P., New York, New York, Bond Counsel.

Independent Auditors. “Appendix B – Financial Statements of Herkimer, Fulton, Hamilton and Otsego BOCES” have been prepared by D'Arcangelo & Co., LLP, Herkimer, Fulton, Hamilton and Otsego 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 2010 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 Herkimer 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 2010 Bonds are fully set forth in the Resolutions, and neither any advertisement of the Series 2010 Bonds nor this Official Statement is to be construed as a contract with the purchasers of the Series 2010 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/ Paul Williams
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 June 23, 2010, between the Authority and Herkimer 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 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 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 Herkimer, Fulton, Hamilton and Otsego Counties, a corporation organized and existing under Section 1950(6) of the State Education Law duly organized and validly existing under the Constitution and the laws of the State of New York.

BOCES Lease means the Agreement of Lease, dated June 23, 2010, 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 2010 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 2010 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.

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.

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

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.

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 2010 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 2010 Resolution, authorizing the issuance of a Series of Bonds adopted by the Authority pursuant to the Master Resolution.

Series 2010 Bond Series Certificate means the Certificate of an authorized officer of the Authority, fixing terms, conditions and other details of the Series 2010 Bonds.

Series 2010 Resolution means the Series 2010 Resolution Authorizing Up To \$17,025,000 Master BOCES Program Lease Revenue Bonds (Herkimer – Fulton - Hamilton - Otsego Issue), Series 2010, adopted by the Authority on June 23, 2010.

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
HERKIMER, FULTON, HAMILTON AND OTSEGO BOCES**

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HERKIMER-FULTON-
HAMILTON-OTSEGO
COUNTIES BOCES

MANAGEMENT'S
DISCUSSION AND
ANALYSIS

AND

BASIC FINANCIAL
STATEMENTS

For the Year Ended
June 30, 2009

D'Arcangelo & Co., LLP
Certified Public Accountants & Consultants

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D'Arcangelo & Co., LLP
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Independent Auditor's Report

Board of Cooperative Educational Services
Herkimer-Fulton-Hamilton-Otsego Counties

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Cooperative Educational Services of Herkimer-Fulton-Hamilton-Otsego Counties (Herkimer County BOCES), as of and for the year ended June 30, 2009, which collectively comprise the Herkimer County BOCES' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Herkimer County BOCES' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Herkimer County BOCES, as of June 30, 2009, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, the BOCES adopted the provisions of Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" as of July 1, 2008. GASB 45 requires employer governments to account for and report the annual cost of other postemployment benefits in the same manner as they do for pensions. A portion of the unfunded actuarial accrued liability is accrued annually on the BOCES-wide financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated October 6, 2009, on our consideration of the Herkimer County 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 11 and budgetary comparison information and supplementary information on Pages 33 through 37 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America 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 of the BOCES. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

D'Arcangelo & Co., LLP

October 6, 2009

Rome, New York

**HERKIMER COUNTY BOCES
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended June 30, 2009**

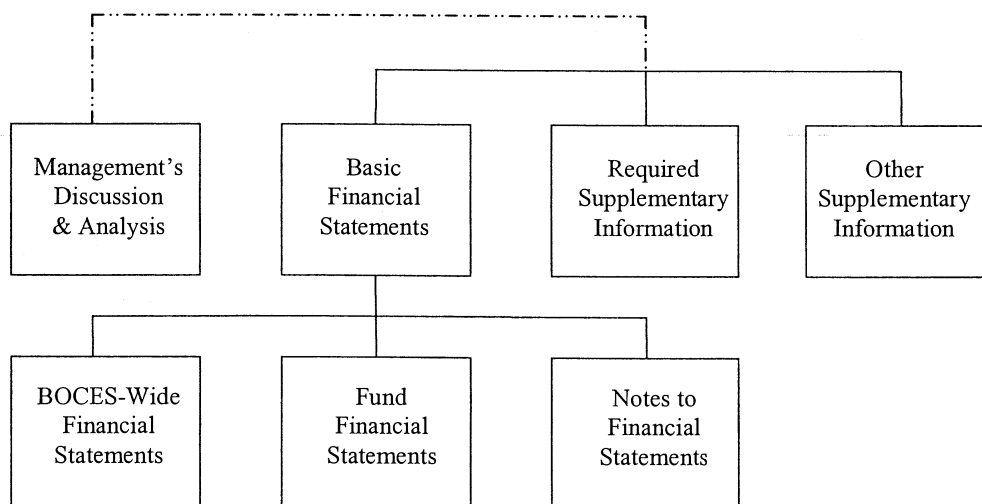
The following is a discussion and analysis of the BOCES' financial performance for the year ended June 30, 2009. This section is a summary of the BOCES' financial activities based on currently known facts, decisions and conditions. It is also based on both the BOCES-wide and fund-based financial statements. This section is only an introduction and should be read in conjunction with the BOCES' financial statements, which immediately follow this section.

1. FINANCIAL HIGHLIGHTS

- The BOCES' total net assets, as reflected in the BOCES-wide financial statements, decreased by \$3,965,437. The primary factor contributing to this decrease was due to the adoption of Government Accounting Standards Board's Statement No. 45, Accounting and Financial Reporting by Employers of Postemployment Benefits Other Than Pension. This required the recognition of a current year expenditure and liability for \$4,282,706.
- During the year, the BOCES had expenses in excess of revenues of \$4,605,072, which was supplemented by \$639,635 generated in interest, sales of property and compensation for loss, and other miscellaneous revenues.
- Program revenues included \$21.4 million in Charges for Services and \$3.4 million in Operating Grants and Contributions, which together comprise approximately 97% of total revenues.
- BOCES total General Fund revenue for 2009 was \$20.9 million. Approximately 98% of these revenues are from the billings for administration and other services to the component districts of the BOCES.
- The BOCES is required to return surplus billings in the subsequent year. During 2009-2010, the surplus of \$1,261,382 from the prior year will be returned. During 2008-2009, the surplus of \$1,203,873 from the prior year was returned.
- The BOCES borrowed and repaid \$2,500,000 in Revenue Anticipation Notes (RAN) during the 2008-2009 School year.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts: MD&A (this section), the financial statements, required supplementary information, and other supplementary information. The basic financial statements consist of BOCES-wide financial statements, fund financial statements, and notes to the financial statements. A graphic display of the relationship of these statements is as follows:



**HERKIMER COUNTY BOCES
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended June 30, 2009**

(Continued)

- The first two statements are BOCES-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 fund financial statements concentrate on the BOCES' most significant funds.
- 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.

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' contracts with component school districts 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, instructional support, 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 use 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:** All 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.

**HERKIMER COUNTY BOCES
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended June 30, 2009**

(Continued)

- **Fiduciary Funds:** The BOCES is the trustee, or fiduciary, for assets that belong to others, such as 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.

3. FINANCIAL ANALYSIS OF THE BOCES AS A WHOLE

The analysis below focuses on the net assets (Table A-2) and changes in net assets (Table A-3) of the BOCES' governmental activities. Illustrations on pages 10 and 11 provide a graph format of revenues by source and expenses by function.

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

	2009	2008
Current and Other Assets	\$ 10,124	\$ 11,731
Capital Assets, Net of Accumulated Depreciation	3,160	2,891
Total Assets	\$ 13,284	\$ 14,622
Long-Term Debt Outstanding	\$ 6,457	\$ 2,371
Other Liabilities	7,464	8,923
Total Liabilities	\$ 13,921	\$ 11,294
Net Assets		
Investment in Capital Assets		
Net of Related Debt	\$ 1,683	\$ 1,478
Unrestricted (Deficit)	(2,320)	1,850
Total Net Assets (Deficit)	\$ (637)	\$ 3,328

The BOCES' Capital Assets on June 30, 2009 and 2008, totaled \$3.2 and \$2.9 million (see Table A-2). The Busacker Complex and the building improvements made with the energy performance contract represent the major portion of the net capital assets.

The BOCES' Long-Term Debt Outstanding on June 30, 2009 and 2008 (see Table A-2) consists of an energy performance agreement, OPEB Liability and compensated absences.

Net Capital Assets represent the BOCES' investment in capital assets (i.e. land, buildings and improvements, and equipment), less any related debt (obligations under capital leases less unspent bond proceeds) used to acquire those assets that is still outstanding. The BOCES uses these capital assets to provide services to students and its components; consequently, these assets are not available for future spending. Although the BOCES' investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**HERKIMER COUNTY BOCES
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended June 30, 2009**

(Continued)

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

	2009	2008
Revenues		
Program Revenues		
Charges for Services	\$ 21,361	\$ 19,575
Operating Grants and Contributions	3,379	4,481
General Revenues		
Interest and Earnings	63	173
Sales of Property and Compensation for Loss	72	78
Miscellaneous	505	591
Total Revenues	<u>25,380</u>	<u>24,898</u>
Expenses		
Administration	7,414	2,695
Occupational Instruction	4,081	4,709
Instruction for Special Needs	3,658	4,124
Itinerant Services	2,379	2,672
General Instruction	6,073	6,238
Instructional Support	2,890	2,675
Other Services	2,701	1,600
School Lunch Program	149	120
Total Expenses	<u>29,345</u>	<u>24,833</u>
(Decrease) Increase in Net Assets	<u>\$ (3,965)</u>	<u>\$ 65</u>

- Salaries totaled \$9.9 million, while the associated fringe benefits of retirement, social security, unemployment, and health and dental insurance added \$9.6 million (including \$4.3 million for the GASB 45 accrual) to arrive at 67% of total expenditures.

4. FINANCIAL ANALYSIS OF THE BOCES' FUNDS

General Fund Budgetary Highlights

- The difference between the original approved budget of \$19,939,499 and the amended budget of \$21,349,048 is \$1,409,549 or 7%. The increase is due to the request for additional services from component school districts. The budgetary comparison information can be found on Page 35 which presents both original and amended budget totals compared with actual results for the General Fund for the year ended June 30, 2009.
- Actual expenditures were under the amended budget by \$1,727,343 or 8.1%, and actual revenues were under the amended budget by \$430,814 or 2.0%.

General Fund

- The General Fund is the chief operating fund of BOCES. BOCES has portions of the fund balance designated for Workers Compensation of \$175,985, Unemployment Insurance of \$202,235 Reserve for Encumbrances of \$141,192 and the Reserve for Employee Retirement of \$1,927,385.

**HERKIMER COUNTY BOCES
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended June 30, 2009**

(Continued)

- The General Fund Fund Balance increased by \$35,147. This resulted in the changes in the reserves as illustrated below:

	Beginning Balance	Increase (Decrease)	Ending Balance
Reserve for Encumbrances	\$ 313,289	\$ (172,097)	\$ 141,192
Reserve for Workers Compensation	167,669	8,316	175,985
Reserve for Unemployment Insurance	167,552	34,683	202,235
Reserve for Employee Retirement	1,763,140	164,245	1,927,385
Total	<u>\$ 2,411,650</u>	<u>\$ 35,147</u>	<u>\$ 2,446,797</u>

5. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009 and 2008, the BOCES had \$3.2 and \$2.9 million, respectively invested in a broad range of capital assets including buildings, transportation equipment, computer equipment, and furniture and fixtures. Table A-4 categorically illustrates the BOCES' capital assets net of related depreciation.

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

	2009	2008
Land	\$ 176	\$ 176
Construction in Progress	344	0
Buildings and Improvements	2,155	2,247
Furniture, Equipment, and Vehicles	485	468
Total Assets	<u>\$ 3,160</u>	<u>\$ 2,891</u>

The BOCES' Capital Assets, Net of Accumulated 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 \$2,000 or more on the acquired cost of equipment and fixtures.

Depreciation expense for the BOCES totaled \$239,440 and \$256,924 for June 30, 2009 and 2008, respectively.

Long-Term Debt

At June 30, 2009 and 2008, the BOCES had \$6.5 and \$2.4 million, respectively in long-term debt. Table A-5 provides a summary of the debt. The notes to the financial statements provide additional details regarding this debt.

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

	2009	2008
Energy Performance Agreement	\$ 1,685	\$ 1,798
Compensated Absences	489	573
OPEB Liability	4,283	0
Total Long-Term Debt	<u>\$ 6,457</u>	<u>\$ 2,371</u>

The BOCES Outstanding Long-Term debt (see Table A-5) consists of compensated absences for the earned vacation and sick time which employees have accrued but not yet taken, an Energy Performance Agreement, and the OPEB liability.

**HERKIMER COUNTY BOCES
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended June 30, 2009**

(Continued)

6. FACTORS BEARING ON THE BOCES FUTURE

Administration

As of June 30, 2009, the District Superintendent of the Herkimer BOCES had resigned and moved to another employment opportunity. The New York State Education Commissioner is charged by law with conducting a survey to determine if the BOCES should be merged with another BOCES prior to authorizing a merger study or a search for a replacement District Superintendent. The Commissioner, after reviewing the merger survey, has approved the Board of Education of the Herkimer BOCES to begin its search for a new District Superintendent rather than begin a merger study. The affirmation that the Herkimer BOCES will remain as a separate entity allows the District to continue meaningful planning for the future.

The Herkimer BOCES has already begun its planning by reducing the number of administrators budgeted by the BOCES for the 2009-2010 school year by two, resulting in a savings within the administrative budget as well as its program budgets. The BOCES has decided to utilize some of the savings to fund several studies on collaboration opportunities for services to component school districts and its students.

Efficiency of operations from the 2008-2009 school year has again provided a large surplus which will be returned to the component school districts.

Capital

A public referendum was held this past year which authorized a \$17,025,000 capital project for the Herkimer BOCES. The approved project focuses primarily on health, safety, and renovation of aging building components of the existing building. There are several portions of the project that are directly related to the provision of instruction to Career and Technical Education students. While the majority of the construction project is expected to begin in the summer of 2010, a portion is occurring during the summer of 2009.

Career and Technical Education

The demand for Career and Technical Education (CTE) services make this a strong program for BOCES. The CTE program is currently limited only by space. The program currently continues to enjoy a very high participation rate as a proportion of the number of juniors and seniors enrolled in their home school districts.

The student population in BOCES Supervisory is declining. The enrollment in the CTE program, even considering the high participation percentage, is also declining. The tuition charge to each School District is based upon average of the School District's attendance over the three previous years. This tuition methodology serves to smooth tuition costs due to fluctuating enrollment as well as to stabilize and control the size and capacity of the program from year to year. Since the 2005-06 school year there have been fewer students enrolled in the program which will tend to drive up the cost of tuition.

The program is continuing to re-evaluate the makeup of its services to students and component districts. During the 2007 and 2008 years, the CTE program made major changes in its automotive cluster, outdoor conservation cluster and planned the expansion of embedded academic credits. The program is again planning for a realignment of subjects to meet the needs of the component districts and their students. This past year and this coming year it is enhancing its "green" sustainable energy programs.

The capital project will offer renovated space for the Culinary Arts and the Masonry Programs. The Culinary Program has been increasing its size and has been allocated spaces that are not well suited to a program of its type. The project will renovate a space for the Culinary Program to provide its students with their own kitchen lab space as well as a space designated to promote education in the customer side of the culinary establishment.

The programs biggest challenge is taking into consideration the shrinking Juniors and Seniors that are eligible for the Program. The shrinking population translates into smaller enrollments which, causes an increase in the tuitions.

**HERKIMER COUNTY BOCES
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended June 30, 2009**

(Continued)

Special Education

The realignment of costs in the special education programs at BOCES has stabilized and reduced, in some cases, the per-student cost within BOCES. The population of students in the component districts requiring special education services has remained relatively stable over the past several years. Due to the reduced costs, the component districts have recently begun to send a larger number of students to some of the special education programs, particularly the 8:1:1 program for behavioral adjustment. The BOCES continues to utilize the component district school buildings wherever possible in order to provide a normative and integrated setting.

The component districts have continued to increase their usage of Itinerant Services BOCES staff. With few exceptions, we expect to continue this trend.

In the 2007-2008 school year the BOCES realigned its program, its costs, and tuitions. These changes resulted in increased participation and we continue to see evidence of continuing this trend into the 2009-2010 school year. The 2009-2010 year has been budgeted with a reduction in the administrative staff which has resulted in holding the line on the tuitions charged which is resulting in increased district participation.

The continued support of component school districts, in terms of both enrollment and the use of in-district classrooms, of the component school districts will remain one of the key determining factors when examining which programs will remain within the BOCES.

School Lunch Program

The BOCES is continuing to look at alternative, innovative, and cost-effective methods of providing breakfast and lunches to its students while the number of meals served at the center varies from year to year due to the changing needs of the component school districts. The Board is considering a proposal to raise lunch prices as well. BOCES is also looking at more innovative revenue generating methods which will help offset the deficit.

Management Services

The BOCES in the 2009-2010 school year enrolled three school districts in its Central Business Office. The Central Business Office will provide clerical fiscal services to the districts. It is the expectation of BOCES that this service will continue to expand as the component school districts of the BOCES continue their work to become more efficient through collaborating with BOCES, other school districts and municipalities.

7. CONTACTING THE BOCES' FINANCIAL MANAGEMENT

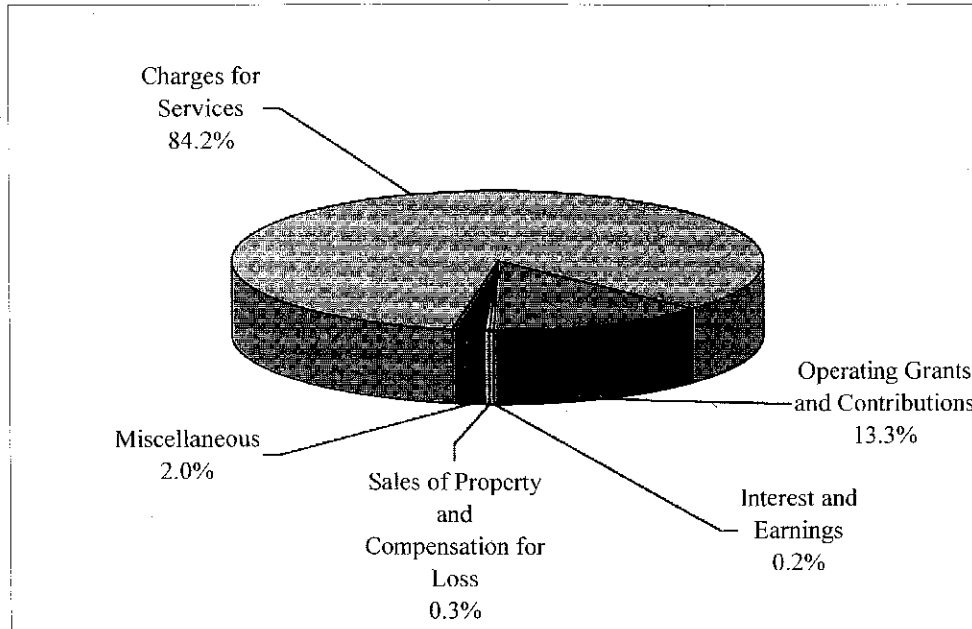
This financial report is designed to provide the BOCES citizens, taxpayers, customers, investors, and creditors with a general overview of the BOCES' finances and to demonstrate the BOCES' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Herkimer County BOCES, 400 Gros Boulevard, Herkimer, New York 13350.

**HERKIMER COUNTY BOCES
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended June 30, 2009**

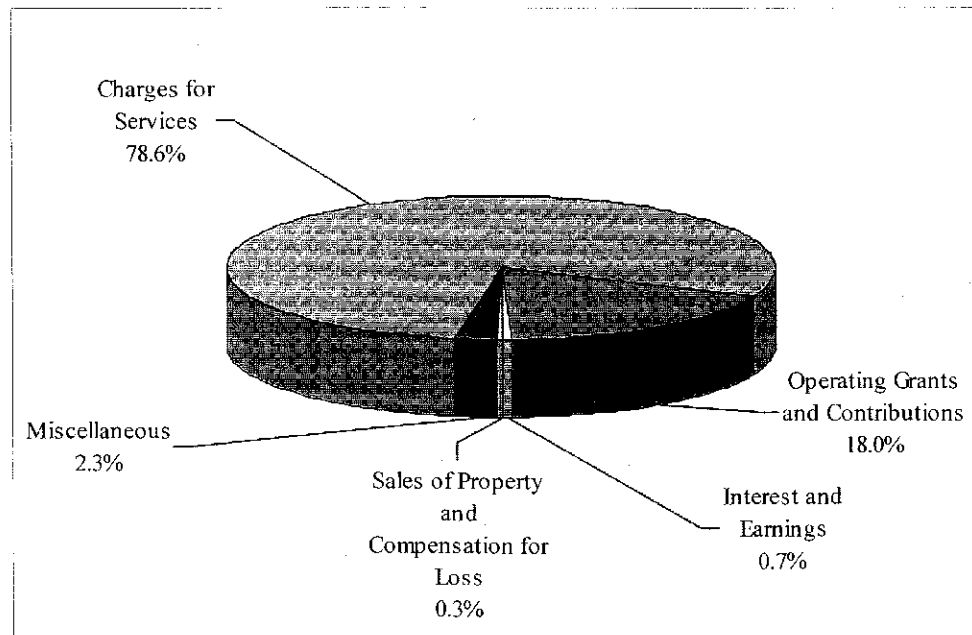
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A graphic display of the distribution of revenues for the two years follows:

For the Year Ended June 30, 2009



For the Year Ended June 30, 2008

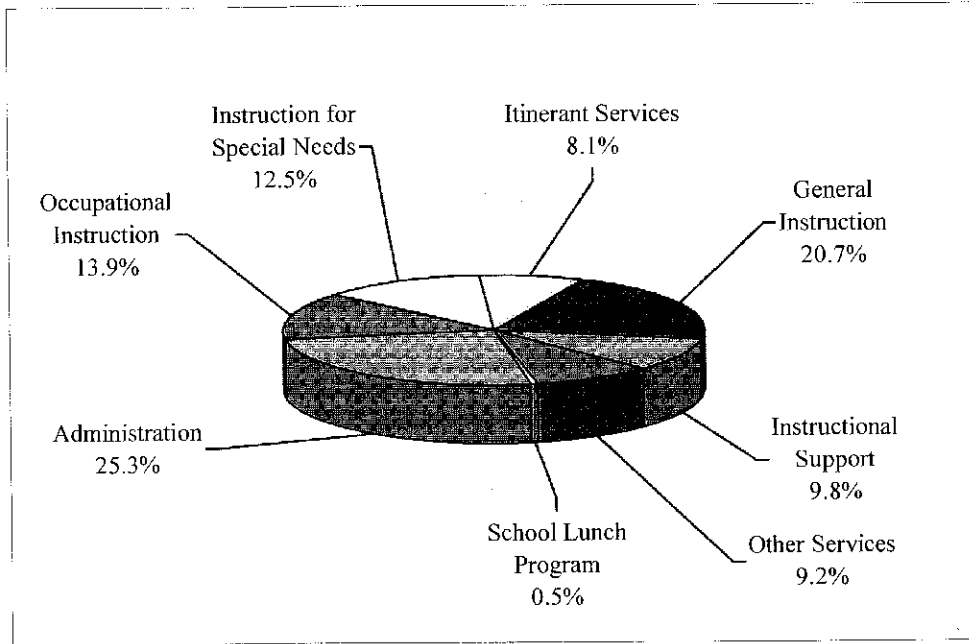


**HERKIMER COUNTY BOCES
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended June 30, 2009**

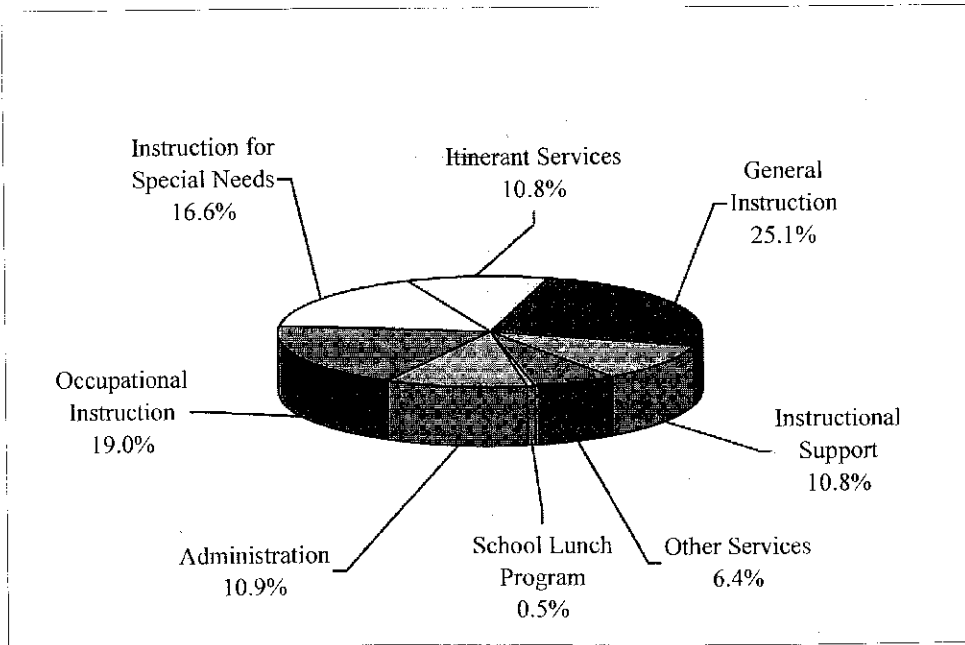
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A graphic display of the distribution of expenses for the two years follows:

For the Year Ended June 30, 2009



For the Year Ended June 30, 2008



HERKIMER COUNTY BOCES
STATEMENT OF NET ASSETS
June 30, 2009

Assets	
Cash and Cash Equivalents	\$ 1,402,447
Restricted Cash and Cash Equivalents	378,220
Receivables	
State and Federal Aid	5,717,704
Other Funds	40,000
Due from Components	2,164,647
Accounts Receivables	413,560
Inventory	8,195
Capital Assets Being Depreciated, Net of Accumulated Depreciation	<u>3,159,557</u>
Total Assets	<u>\$ 13,284,330</u>
Liabilities	
Due to Components - Refund of Surplus	\$ 1,261,382
Due to Components - State Aid	4,585,011
Due to	
Other Governments	537,537
Teachers' Retirement System	626,226
Employees' Retirement System	70,177
Accounts Payable	255,194
Deferred Credits	
Overpayments and Collections in Advance	5,000
Other Liabilities	123,713
Noncurrent Liabilities	
Due Within One Year	118,221
Due in More Than One Year	<u>6,338,571</u>
Total Liabilities	<u>13,921,032</u>
Net Assets	
Investment in Capital Assets (Net of Related Debt)	1,683,210
Unrestricted (Deficit)	<u>(2,319,912)</u>
Total Net Assets (Deficit)	<u>(636,702)</u>
Total Liabilities and Net Assets	<u>\$ 13,284,330</u>

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

HERKIMER COUNTY BOCES
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
Administration	\$ 7,106,837	\$ 2,622,380		\$ (4,484,457)
Administration - Capital	307,089	420,187		113,098
Occupational Instruction	4,080,505	3,972,956		(107,549)
Instruction for Special Needs	3,657,989	3,550,651		(107,338)
Itinerant Services	2,378,683	2,353,662		(25,021)
General Instruction	6,073,496	2,687,748	3,330,167	(55,581)
Instruction Support	2,890,320	2,786,499		(103,821)
Other Services	2,700,688	2,873,824		173,136
Food Service Program	149,435	92,783	49,113	(7,539)
Total Functions/Programs	<u>\$ 29,345,042</u>	<u>\$ 21,360,690</u>	<u>\$ 3,379,280</u>	<u>(4,605,072)</u>
General Revenues				
Interest and Earnings				62,721
Sales of Property and Compensation for Loss				72,112
Miscellaneous				<u>504,802</u>
Total General Revenues				<u>639,635</u>
Change in Net Assets				(3,965,437)
Net Assets, Beginning of Year				<u>3,328,735</u>
Net Assets (Deficit), End of Year				<u>\$ (636,702)</u>

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

HERKIMER COUNTY BOCES
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009

	General	School Lunch	Special Aid	Capital	Total
Assets					
Unrestricted Cash and Cash Equivalents	\$ 1,150,596	\$ 2,300	\$ 62,669	\$ 186,882	\$ 1,402,447
Restricted Cash and Cash Equivalents	378,220				378,220
Receivables					
State and Federal Aid	4,585,236	3,099	1,129,369		5,717,704
Due from Components	1,262,475		902,172		2,164,647
Due from Other Funds	1,623,459			21,999	1,645,458
Accounts Receivables	82,888	3,261	327,411		413,560
Inventory		8,195			8,195
Total Assets	<u>\$ 9,082,874</u>	<u>\$ 16,855</u>	<u>\$ 2,421,621</u>	<u>\$ 208,881</u>	<u>\$ 11,730,231</u>
Liabilities					
Due to Components - Refund of Surplus	\$ 1,261,382				\$ 1,261,382
Due to Components - State Aid	4,585,011				4,585,011
Due To					
Other Governments	115		537,422		537,537
Other Funds	21,999	12,000	1,571,459		1,605,458
Teachers' Retirement System	626,226				626,226
Employees' Retirement System	70,177				70,177
Accounts Payable	66,167		189,027		255,194
Deferred Credits					
Overpayments and Collections in Advance	5,000				5,000
Deferred Revenue			123,713		123,713
Total Liabilities	<u>6,636,077</u>	<u>12,000</u>	<u>2,421,621</u>		<u>9,069,698</u>
Fund Balance (Deficit)					
Reserved					
Reserve for Encumbrances	141,192		20,709		161,901
Reserve for Workers Compensation	175,985				175,985
Reserve for Unemployment Insurance	202,235				202,235
Reserve for Employee Retirement	1,927,385				1,927,385
Reserve for Inventory		8,194			8,194
Unreserved					
Undesignated (Deficit)		(3,339)	(20,709)	208,881	184,833
Total Fund Balance	<u>2,446,797</u>	<u>4,855</u>		<u>208,881</u>	<u>2,660,533</u>
Total Liabilities and Fund Balance	<u>\$ 9,082,874</u>	<u>\$ 16,855</u>	<u>\$ 2,421,621</u>	<u>\$ 208,881</u>	<u>\$ 11,730,231</u>

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

HERKIMER COUNTY BOCES
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCES
TO THE BOCES-WIDE NET ASSETS
June 30, 2009

Total Governmental Fund Balances \$ 2,660,533

Amounts reported for governmental activities in the Statement of Net Assets are different because:

The cost of building and acquiring capital assets (land, buildings, equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the Statement of Net Assets includes those capital assets among the assets of the BOCES as a whole, and their original costs are expensed annually over their useful lives.

Original Cost of Capital Assets	9,530,642
Accumulated Depreciation	<u>(6,371,085)</u>
	<u>3,159,557</u>

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Energy Performance Contract	(1,685,228)
Other Post Employment Liabilities	(4,282,706)
Compensated Absences Payable	<u>(488,858)</u>
	<u>(6,456,792)</u>

Total Net Assets \$ (636,702)

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

HERKIMER COUNTY BOCES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS
For the Year Ended June 30, 2009

	General	School Lunch	Special Aid	Capital	Total
Revenues					
Charges for Services	\$	\$	\$ 2,085,901	\$	\$ 2,085,901
Charges to Components - Administration	3,120,451				3,120,451
Charges to Components - Service Programs	17,127,242				17,127,242
Charges to Non-Components and Other BOCES	195,695				195,695
Interest and Earnings	62,721				62,721
Sale of Property and Compensation for Loss	74,322				74,322
Miscellaneous	337,803				337,803
Interfund Revenues				166,999	166,999
State and Local Sources		2,165	1,052,522		1,054,687
Federal Sources		46,948	2,277,645		2,324,593
School Lunch Sales		92,783			92,783
Total Revenues	<u>20,918,234</u>	<u>141,896</u>	<u>5,416,068</u>	<u>166,999</u>	<u>26,643,197</u>
Expenditures					
Administration	\$ 2,799,730	\$	\$	\$	\$ 2,799,730
Administration - Capital	420,186				420,186
Occupational Instruction	4,203,565				4,203,565
Instruction for Special Needs	3,684,066				3,684,066
Itinerant Services	2,353,662				2,353,662
General Instruction	618,932		5,416,068		6,035,000
Instruction Support	2,864,245				2,864,245
Other Services	2,677,319				2,677,319
General Support		92,250			92,250
Capital Outlay				343,946	343,946
Cost of Sales		56,010			56,010
Total Expenditures	<u>19,621,705</u>	<u>148,260</u>	<u>5,416,068</u>	<u>343,946</u>	<u>25,529,979</u>
Excess (Deficit) Revenues Over Expenditures	<u>1,296,529</u>	<u>(6,364)</u>		<u>(176,947)</u>	<u>1,113,218</u>
Other Financing Sources (Uses)					
Return of Surplus	(1,261,382)				(1,261,382)
Total Other Financing Sources (Uses)	<u>(1,261,382)</u>				<u>(1,261,382)</u>
Excess (Deficit) Revenues Over Expenditures and Other Financing Sources					
	35,147	(6,364)		(176,947)	(148,164)
Fund Balance, Beginning of Year	<u>2,411,650</u>	<u>11,219</u>		<u>385,828</u>	<u>2,808,697</u>
Fund Balance, End of Year	<u>\$ 2,446,797</u>	<u>\$ 4,855</u>	<u>\$</u>	<u>\$ 208,881</u>	<u>\$ 2,660,533</u>

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

HERKIMER COUNTY BOCES
RECONCILIATION OF THE STATEMENT OF REVENUES AND
EXPENDITURES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

Net Changes in Fund Balance - Total Governmental Funds \$ (148,164)

Capital Related Differences

Capital Outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are capitalized and shown in the Statement of Net Assets and allocated over their useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which capital outlays exceeded depreciation in the period.

Depreciation Expense	(239,440)	
Loss on Disposal	(2,210)	
Capital Outlays	<u>510,201</u>	268,551

Long-Term Debt Transaction Differences

Certain expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Long Term Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayments of long term debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Changes in Long-Term Debt are as follows:

Energy Performance Contract	113,097	
Other Post Employment Liabilities	(4,282,706)	
Compensated Absences	<u>83,785</u>	<u>(4,085,824)</u>

Change in Net Assets Governmental Activities \$ (3,965,437)

HERKIMER COUNTY BOCES
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2009

	<u>Agency</u>
Assets	
Cash and Cash Equivalents - Unrestricted	\$ 64,663
Receivables	<u>8,908</u>
Total Assets	<u>\$ 73,571</u>
Liabilities	
Accrued Liabilities	\$ 13,230
Due to Other Funds	40,000
Extraclassroom Activity Balances	<u>20,341</u>
Total Liabilities	<u>\$ 73,571</u>

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

HERKIMER COUNTY BOCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Herkimer County 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:

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.

There are twelve participating school districts in the Herkimer County 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.

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.

(a) *Extraclassroom Activity Funds*

The Extraclassroom Activity Funds of BOCES represent funds of the students of BOCES. These funds are included in the combined 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 starting on Page 47 of this report.

Joint Ventures

INSURANCE CONSORTIUMS - The BOCES is the sponsoring agency for the Herkimer County Consortium Health Plan and participated in the Madison-Oneida Herkimer Consortium Workers' Compensation Plan. Both are municipal corporations operating in Madison, Oneida, and Herkimer counties to provide cooperative programs for health benefits and workers' compensation benefits, respectively, to municipal employees by entering into intermunicipal agreements pursuant to Article 5-G of the General Municipal Law.

Separate audited financial statements of the Herkimer County Consortium Health Plan and the Madison-Oneida Herkimer Consortium Workers' Compensation Plan can be found at the BOCES' business office located at 400 Gros Boulevard, Herkimer, New York 13350 and Spring Road, Verona, New York 13478, respectively.

HERKIMER COUNTY BOCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

Basis of Presentation

(a) *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 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 requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

(b) *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. All funds of the BOCES are displayed as major funds. The BOCES reports the following major governmental funds:

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.

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

Capital Projects Fund: This fund is used to account for the financial resources used for acquisition, construction, or major repair of capital activities.

(c) *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 is one class of fiduciary funds:

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.

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.

HERKIMER COUNTY BOCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

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 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.

Adoption of Accounting Standards

The BOCES has adopted all current Statements of the Government Accounting Standards Board (GASB) that are applicable. At July 1, 2009, the BOCES implemented the following new standards issued by GASB:

- GASB Statement 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.
- GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

GASB Statement 43 establishes the uniform standards of reporting for postemployment benefits (OPEB) for governmental entities. OPEB refers to benefits provided to retirees other than pensions, which includes healthcare benefits. The Statement provides standards for financial reporting of the plan and disclosure of actuarial information about the funded status of the plan and the progress toward funding the postemployment liability.

GASB Statement 45 establishes standards for the accrual basis measurement and recognition of OPEB costs over a period that relates to when the service is provided to the employer, rather than recognizing those costs on a pay-as-you-go basis. The Statement provides information about the actuarial accrued liabilities for OPEB and its funding status. The Statement was implemented prospectively, with no beginning net OPEB obligation.

The effects of applying these standards are disclosed in note number 5.

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.

Budgetary Procedures and Budgetary Accounting

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 May. 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.

HERKIMER COUNTY BOCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

Cash and Cash Equivalents/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.

Investments are stated at fair value.

Receivables

Receivables 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.

Inventories

The inventories of food and/or supplies in the School Lunch Fund are recorded at cost on a first-in, first-out basis or, in the case of surplus food, at stated value which approximates market. Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase and are considered immaterial in amount.

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.

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.

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 9 to the financial statements.

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 \$2,000 (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>
Buildings and Improvements	15-40 Years	Straight Line
Furniture, Equipment, and Vehicles	5-10 Years	Straight Line

HERKIMER COUNTY BOCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

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.

Retirement Plans and Other Benefits

Eligible District employees participate in the New York State Teachers' Retirement System or the New York State Employees' Retirement System.

In addition to providing pension benefits, the District provides post-employment health insurance coverage and survivor benefits for retired employees and their survivors. Collective bargaining agreements determine if District employees are eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing postemployment benefits is shared between the District and the retired employee. Other postemployment benefit costs are measured and disclosed using the accrual basis of accounting (see Note 10).

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 recorded in governmental funds and government-wide financial statements arise when revenues are received prior to the BOCES having legal claim to them. For example, when grant monies are received prior to incurring qualified expenditures, then those monies are considered to be deferred revenue. 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.

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.

Fund Balance – Reservations and Designations

The following reserve funds are available to BOCES. Any capital gains or interest earned on reserve fund resources becomes 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.

(a) Reserve for Encumbrances

This reserve represents the amount of outstanding encumbrances at the end of the fiscal year to be potentially expended in the subsequent year. This reserve is accounted for in the Governmental Fund Types.

(b) 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.

HERKIMER COUNTY BOCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

(c) Reserve for Inventory

The purpose of this account is to limit the maximum investment in inventory and to restrict that portion of fund balance, which is not available for appropriation.

(d) Reserve for Workers' Compensation

This reserve is used to accumulate funds for the purpose of paying for compensation benefits and other expenditures authorized under Article 2 of the New York State Workers' Compensation Law and for payment of expenditures of administering this self-insurance program. Excess reserve amounts may be either transferred to another reserve or applied to the appropriations of the next succeeding fiscal year's budget.

(e) Reserve for Employees Retirement

Retirement Reserve GML §6-r is used for the purpose of financing retirement contributions. The reserve must be accounted for separate and apart from all other funds and a detailed report of the operation and condition on the fund must be provided to the Board.

2. EXPLANATION OF CERTAIN 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 resource management focus of the Statement of Activities, compared with the current financial resource management focus of the governmental funds.

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.

Statement of Revenues, Expenditures, and Changes in Fund Balance 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.

(a) 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.

(b) 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.

(c) 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.

HERKIMER COUNTY BOCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

3. CUSTODIAL AND CONCENTRATION OF CREDIT RISKS

The BOCES' investment policies are governed by state statutes and BOCES policy. 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 U.S. Treasury and U.S. 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 New York State and its municipalities. Investments are stated at fair value.

Custodial credit risk is the risk that in the event of a bank failure, the BOCES' deposits may not be returned to it. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either:

- A. Uncollateralized,
- B. Collateralized by securities held by the pledging financial institution, or
- C. Collateralized by securities held by the pledging financial institution's trust department or agent but not in the BOCES' name.

None of the BOCES' aggregate bank balances not covered by depository insurance were exposed to custodial credit risk as described above.

The BOCES did not have any investments at year end or during the year. Consequently, the BOCES was not exposed to any material interest rate risk or foreign currency risk.

4. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

Assets

(a) *Restricted Cash and Cash Equivalents*

Restricted cash and cash equivalents of \$378,220 in the General Fund represent funds held in the unemployment insurance and workers' compensation reserves established by the Board.

(b) *Capital Assets*

Capital asset activity for the year ended June 30, 2009, is as follows:

	07/01/2008 Beginning Balance	Increases	Decreases	06/30/2009 Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 176,400	\$	\$	\$ 176,400
Construction in Progress		343,946		343,946
Net Capital Assets Not Being Depreciated	<u>176,400</u>	<u>343,946</u>		<u>520,346</u>
Capital Assets Being Depreciated				
Building and Improvement	6,568,146	37,430		6,605,576
Furniture, Equipment, and Vehicles	2,454,080	128,825	178,185	2,404,720
Total Capital Assets Being Depreciated	<u>9,022,226</u>	<u>166,255</u>	<u>178,185</u>	<u>9,010,296</u>
Accumulated Depreciation				
Building and Improvements	4,321,647	129,239		4,450,886
Furniture, Equipment, and Vehicles	1,985,973	110,201	175,975	1,920,199
Total Accumulated Depreciation	<u>6,307,620</u>	<u>239,440</u>	<u>175,975</u>	<u>6,371,085</u>
Net Capital Assets Being Depreciated	<u>2,714,606</u>	<u>(73,185)</u>	<u>2,210</u>	<u>2,639,211</u>
Net Capital Assets	<u>\$ 2,891,006</u>	<u>\$ 270,761</u>	<u>\$ 2,210</u>	<u>\$ 3,159,557</u>

HERKIMER COUNTY BOCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

Depreciation expense of \$239,440 was allocated based on estimated usage by function as follows:

Function/Program	
Administration	\$ 16,497
Occupational Instruction	43,195
Itinerant Services	25,021
Instructional Support	26,075
Other Services	23,369
Instruction for Special Needs	45,182
General Instruction	58,926
School Lunch	<u>1,175</u>
Total Depreciation	<u>\$ 239,440</u>

Liabilities

(a) Short-Term Debt

Revenue Anticipation Notes (RAN) – For Governmental funds, notes issued in anticipation of the receipt of revenues is recorded as a liability of the fund that will actually receive the proceeds from the issuance of the notes. The RAN represents a liability that will be extinguished by the use of expendable, available resources of the fund.

Short-term liability balances and activity areas follow:

	Beginning <u>Balance</u>	Issued	Redeemed	Ending <u>Balance</u>
Revenue Anticipation Notes	\$ 3,000,000	\$ 2,500,000	\$ 5,500,000	\$ 0

Interest expense for the short-term debt totaled \$63,673 and is included in the BOCES' administrative expenditures.

(b) Long-Term Debt

Long-term liability balances and activity are as follows:

	Beginning <u>Balance</u>	Issued	Deletion/ <u>Redeemed</u>	Ending <u>Balance</u>	Amounts Due Within <u>One Year</u>
Governmental Activities					
Energy Performance Contract	\$ 1,798,325	\$	\$ 113,097	\$ 1,685,228	\$ 118,211
Compensated Absences	572,643		83,785	488,858	
OPEB Liability		<u>5,570,200</u>	<u>1,287,494</u>	<u>4,282,706</u>	
Total Long-Term Liabilities	<u>\$ 2,370,968</u>	<u>\$ 5,570,200</u>	<u>\$ 1,484,376</u>	<u>\$ 6,456,792</u>	<u>\$ 118,211</u>

Energy Performance Contract

The BOCES finalized an energy performance contract during the year ended June 30, 2006. The contract is defined in Section 9-102(4) of the New York State Energy Law as: "an agreement for the provision of energy services, including but not limited to electricity, heating, ventilation, cooling, steam, or hot water, in which a person agrees to install, maintain, or manage energy systems or equipment to improve the energy efficiency of, or produce energy in connection with a building or facility in exchange for a portion of the energy savings or revenues." The contract is accounted for as a capital lease. The lease payments are recorded as a component of the BOCES Administrative Budget function. The total net present value of the lease at June 30, 2009, is \$1,685,228.

HERKIMER COUNTY BOCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

The terms of the energy performance are as follows:

<u>Payable From/Description</u>	<u>Date of Original Issue</u>	<u>Original Amount</u>	<u>Date of Final Maturity</u>	<u>Interest Rate (%)</u>	<u>Outstanding Amount</u>
General Fund	03/10/05	\$ <u>2,037,907</u>	09/15/20	4.44%	\$ <u>1,685,228</u>

Principal and interest payments due on Energy Performance Contract are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 118,211	\$ 72,977	\$ 191,188
2011	123,555	67,632	191,187
2012	129,141	62,046	191,187
2013	134,979	56,208	191,187
2014	141,081	50,106	191,187
2015-2019	807,044	148,891	955,935
2020-2021	<u>231,217</u>	<u>7,767</u>	<u>238,984</u>
Total	<u>\$ 1,685,228</u>	<u>\$ 465,627</u>	<u>\$ 2,150,855</u>

Interest expense for long-term debt totaled \$78,090 and is included in the BOCES Administrator – Capital Expenditures.

Vacation Leave, Sick Leave, and Compensated Absences

The BOCES' employees are granted vacation leave, sick leave, and earned compensated absences in varying amounts in the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation leave, sick leave, and unused compensated absences at various rates subject to certain maximum limitations.

Payment of vacation and sick leave is dependent upon many factors, therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payments of vacation leave, sick leave, and compensated absences when such payment becomes due. Management also believes that the current portion of this liability is immaterial to the general purpose financial statements.

(c) Pension Plan

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 ERS is established pursuant to the New York State Retirement and Social Security Law to provide benefits for the State, local governments, and their employees. ERS plan benefits are guaranteed by the State constitution. The TRS is established pursuant to Article 11 of the Education Law to provide retirement allowances and other specified benefits for teachers employed by participating employers in the State of New York, excluding New York City.

Both systems issue publicly available financial reports that include financial statements and required supplementary information. These reports may be obtained by writing or calling the systems at the following locations:

NYS and Local Employees' Retirement System
 Governor Smith State Office Building
 Albany, NY 12244
 (518) 474-1101

NYS Teachers' Retirement System
 Corporate Woods Drive
 Albany, NY 12211
 (518) 447-2666

HERKIMER COUNTY BOCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

Funding Policy

Members who joined on or after July 27, 1976, are required by the respective governing laws to contribute 3% of their annual covered salary to the systems. Members who joined prior to that date, may make member contributions under certain conditions.

The BOCES is required to contribute to both systems on an annual basis. Contributions were made to the ERS for the period April 1, 2008 to March 31, 2009, based on estimated eligible employees' salaries. Contributions are adjusted in the following year based on actual salaries. Contributions were made to the TRS on eligible employees for the period July 1, 2008, to June 30, 2009.

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, 2009 were paid. The required contributions for the next System fiscal year will be made in 2009-2010. The amount below for 2009-2010 represents the three months of the BOCES' fiscal year that will be covered in the NYSERS 2009-2010 billing cycle. The TRS contribution 2008-2009 year will be made in 2009-2010. The required contributions for the current year and two preceding years were:

	For the Years Ended June 30,			
	2010	2009	2008	2007
ERS				
BOCES Contribution Rate	7.2%	8.20%	9.10%	10.04%
BOCES Contributions	\$ 55,985	\$ 183,691	\$ 228,177	\$ 167,008
TRS				
BOCES Contribution Rate	6.19%	7.63%	8.73%	8.60%
BOCES Contributions		\$ 567,116	\$ 622,461	\$ 512,322

5. POSTRETIREMENT HEALTH CARE BENEFITS

(a) Plan Description

The School District administers the Herkimer BOCES' retiree medical Plan (the Plan) as a single-employer defined benefit Other Postemployment Benefit plan. The Plan provides for continuation of medical insurance, reimbursement of Medicare Part B premiums, and dental and vision benefits for certain retirees and their spouses and can be amended by action of the School District subject to applicable collective bargaining and employment agreements. Generally, to be eligible an employee must be eligible to retire under the New York State employees' Retirement System or Teachers' Retirement System. The differing provisions of the applicable contracts are as follows:

- Administrators - The BOCES provides full reimbursement to employees retiring prior to July 1, 2007. Employees retiring after that date are required to contribute the same percentage they were required to pay as an active employee. Employees hired between to July 1, 2007 and June 30, 2010 contribute from 10% to 13%. Employees hired after that date are required to contribute 15%.
- Teachers - The BOCES provides full reimbursement to employees retiring prior to July 1, 2007. Employees retiring after that date are required to contribute the same percentage they were required to pay as an active employee. Employees hired subsequent to July 1, 2007 contribute 10%. Employees hired prior to that date were not required to contribute.
- CSEA- Employees must have worked full-time with the District for at least 10 continuous years and retired after June 8, 2006. Employees retiring after that date are required to contribute the same percentage they were required to pay as an active employee. Employees contribute 10% of their health insurance premium.

HERKIMER COUNTY BOCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

The Plan does not issue a stand alone publicly available financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

(b) Funding Policy

The obligations of the Plan members, employers, and other entities are established by action of the School District pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement, as stated above. The employer currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you go basis. The costs of administering the Plan are paid by the School District.

(c) Annual OPEB Cost

	2009
Normal Cost	\$ 2,182,334
Amortization of UAL	3,173,628
Interest on Normal Cost	87,293
Interest on OPEB Obligation	126,945
Annual Required Contribution (ARC)	5,570,200
Adjustment to ARC	0
OPEB Expense	\$ 5,570,200

(d) Reconciliation of Net OPEB Obligation

	2009
Net OPEB Obligation at the Beginning of the Year	\$ 0
OPEB Expense	5,570,200
Net OPEB Contributions Made During the Fiscal Year	(1,287,494)
Net OPEB Obligation at the End of the Year	\$ 4,282,706
Percentage of Expense Contributed	23.1%

(e) Funding Status

Actuarial Accrued Liability (AAL)	\$ 57,073,621
Actuarial Value of Assets	0
Unfunded Actuarial Accrued Liability (UAAL)	\$ 57,073,621
Funded Ratio (Assets as a Percentage of AAL)	0.0%
Annual Covered Payroll	\$ 7,350,513
UAAL as a Percentage of Covered Payroll	776.5%

(f) Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. For this reason, the results in this report should be viewed as estimates. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The projections of benefits are based on the types of benefits provided under the substantive plan at the time of the valuation date and on the pattern of cost-sharing between the employer and Plan members. In addition, the projections do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and Plan members in the future. The actuarial calculations reflect a long-term perspective; actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial measurement date was dated January 1, 2008.

HERKIMER COUNTY BOCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

(g) Health Care Trend Factors

Medical care costs are assumed to increase in accordance with the following schedule:

Year	Trend
2010	11.0%
2011	10.5%
2012	10.0%
2013	9.5%
2014 and Later	9.0 to 5.0%

(h) Additional Information

Actuarial Cost Method	Projected Unit Credit
Amortization Period	Single Amortization Period
Amortization Period (Years)	30
Amortization Discount	4.0%

6. BUDGET REVISIONS

The budget was increased by \$1,409,549 to provide for changes in program services by the component districts. The increases were approved by the Board during the year.

7. OPERATING LEASES

The BOCES also has various short-term leases for classroom space, predominantly of a one-year duration. All lease payments are expensed when paid. Lease expense totaled \$236,187 for the year ended June 30, 2009.

8. CONTINGENCIES

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.

Risk Financing and Related Insurance

The Herkimer County 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 participates with 9 other governmental entities in the Herkimer County BOCES Health Insurance Consortium for its health insurance coverage, as well as with 31 other school districts in the Madison, Oncida, Herkimer Workers' Compensation Consortium for its workers' compensation 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 120 days for workers' compensation or 30 days for health insurance prior to the plan's year end. 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 plan establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. 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.

HERKIMER COUNTY BOCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

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. Due to this arrangement, a possible contingent liability exists for the BOCES as a result of the possibility that any participating entity may have actual claims less than its annual premiums and try to recover its portion due to it through the Consortium participants.

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

9. INTERFUND RECEIVABLES AND PAYABLES

Fund	Interfund	
	Receivable	Payable
General	\$ 1,623,459	\$ 21,999
Special Aid		1,571,459
School Lunch		12,000
Capital	21,999	
Trust and Agency		40,000
Total Government Activities	<u>\$ 1,645,458</u>	<u>\$ 1,645,458</u>

- The BOCES typically transfers from the General Fund to the Special Aid Fund to cover Federal Fund expenses until the revenue is received and the School Lunch Fund for operating funds.
- Interfund receivables and payables, other than between governmental activities and fiduciary funds, are eliminated on the Statement of Net Assets.
- All interfund payables are expected to be repaid within one year.

10. FUND BALANCE RESERVES

The following is a summary of the change in reserve funds during the year ended June 30, 2009:

Reserve	Balance at 07/01/08	Increases/ Decreases	Balance at 6/30/09
General Fund			
Unemployment Insurance	\$ 167,552	\$ 8,433	\$ 175,985
Encumbrances	313,289	(172,097)	141,192
Workers' Compensation	167,669	34,566	202,235
Employee Retirement	1,763,140	164,245	1,927,385
Special Aid Encumbrances	17,260	3,449	20,709
School Lunch Inventory	6,062	2,132	8,194
Total	<u>\$ 2,434,972</u>	<u>\$ 40,728</u>	<u>\$ 2,475,700</u>

11. NET ASSET DEFICIT – BOCES-WIDE

The BOCES-wide net assets had a deficit at June 30, 2009 of \$636,702. The deficit is the result of the implementation of GASB Statement 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," which required the recording of an unfunded liability of \$4,282,706 for the first year. Since New York State Laws provide no mechanism for funding the liability, the subsequent accruals are expected to increase the deficit in subsequent years.

HERKIMER COUNTY BOCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

12. ACCOUNTING PRONOUNCEMENT APPLICABLE FOR SUBSEQUENT YEAR

GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets

GASB 51 provides guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, and water rights. GASB 51 provides that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). Relevant authoritative guidance for capital assets should be applied to these intangible assets.

The requirements of GASB 51 are effective for financial statements for periods beginning after June 15, 2009, and for the most part require retroactive application.

HERKIMER COUNTY BOCES
SCHEDULES OF A431 SCHOOL DISTRICT ACCOUNT
For the Year Ended June 30, 2009

Credit Balance, Beginning of Year	\$ <u>38,221</u>
Debits	
Billings to Components	20,443,388
Refund Balances Due School Districts - June 30, 2008	<u>1,203,873</u>
Total Debits	<u>21,647,261</u>
Subtotal	<u>21,685,482</u>
Credits	
Collections from Components	(20,423,007)
Refund Balances Due School Districts - June 30, 2009	<u>(1,261,382)</u>
Total Credits	<u>(21,684,389)</u>
Balance, End of Year	\$ <u>1,093</u>
<u>Summary:</u>	
A380 Accounts Receivable Components	1,262,475
A431 School District Accounts	<u>(1,261,382)</u>
Balance, End of Year	\$ <u>1,093</u>

HERKIMER COUNTY BOCES
SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND
For the Year Ended June 30, 2009

Project Title	Original Authorization	Revised Authorization	Expenditures			Unexpended Balance	Methods of Financing		Fund Balance June 30, 2009
			Prior Years	Current Year	Total		Local Sources	Total	
WEB Capital Project	\$ 17,025,000	\$ 16,557,000	\$	\$ 343,946	\$ 343,946	\$ 16,213,054	\$ 552,827	\$ 552,827	\$ 208,881
Emergency Ventilation		468,000				468,000			
Totals	\$ 17,025,000	\$ 17,025,000	\$	\$ 343,946	\$ 343,946	\$ 16,681,054	\$ 552,827	\$ 552,827	\$ 208,881

HERKIMER COUNTY BOCES
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2009

	Original Budget	Final Budget	Actual		Final Budget Variance With Actual
Revenues					
Administration	\$ 2,875,444	\$ 2,875,440	\$ 2,863,172		\$ (12,268)
Administration - Capital	420,187	420,187	420,188		1
Occupational Instruction	4,452,806	4,468,807	4,317,076		(151,731)
Instruction for Special Needs	4,135,748	4,371,344	4,276,333		(95,011)
Itinerant Services	2,550,661	2,699,688	2,621,835		(77,853)
General Instruction	683,182	694,242	645,633		(48,609)
Instruction Support	2,368,893	2,879,950	2,857,025		(22,925)
Other Services and Internal Services	2,452,578	2,939,390	2,916,972		(22,418)
Total Revenues	<u>\$ 19,939,499</u>	<u>\$ 21,349,048</u>	<u>20,918,234</u>		<u>(430,814)</u>
Expenditures					
Administration	\$ 2,875,444	\$ 2,875,440	2,799,730	\$ 10,737	64,973
Administration - Capital	420,187	420,187	420,186		1
Occupational Instruction	4,452,806	4,468,807	4,203,565	88,723	176,519
Instruction for Special Needs	4,135,748	4,371,344	3,684,066	35,107	652,171
Itinerant Services	2,550,661	2,699,688	2,353,662		346,026
General Instruction	683,182	694,242	618,932	2,243	73,067
Instruction Support	2,368,893	2,879,950	2,864,245	4,382	11,323
Other Services and Internal Services	2,452,578	2,939,390	2,677,319		262,071
Total Expenditures	<u>\$ 19,939,499</u>	<u>\$ 21,349,048</u>	<u>19,621,705</u>	<u>\$ 141,192</u>	<u>1,586,151</u>
Excess (Deficit) Revenues Over Expenditures			<u>1,296,529</u>		<u>\$ 1,155,337</u>
Other Financing Uses					
Return of Surplus			<u>1,261,382</u>		
Total Other Financing Sources			<u>1,261,382</u>		
Net Change in Fund Balances			35,147		
Fund Balances - Beginning of Year			<u>2,411,650</u>		
Fund Balances - End of Year			<u>\$ 2,446,797</u>		

HERKIMER COUNTY BOCES
INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT
For the Year Ended June 30, 2009

Capital Assets, Net	\$ 3,159,557
Add:	
Fund Balance Capital Fund	208,881
Deduct:	
Long-Term Debt Payable	<u>(1,685,228)</u>
Investment in Capital Assets, Net of Related Debt	<u>\$ 1,683,210</u>

HERKIMER COUNTY BOCES
SCHEDULES OF FUNDING PROGRESS OF OTHER-EMPLOYMENT BENEFITS
For the Year Ended June 30, 2009

Fiscal Year Ending	Actuarial Value of Assets	Actuarial Accrued Liability-Projected Unit Credit	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
	(a)	(b)	(b)-(a)	(a)/(b)	(c)	[(b)-(a)]/(c)
June 30, 2009	\$ 0	\$ 57,073,621	\$ 57,073,621	0%	\$ 7,350,513	776.5%

D'Arcangelo & Co., LLP

Certified Public Accountants & Consultants

200 E. Garden St., P.O. Box 4300, Rome, NY 13442-4300
315-336-9220 Fax: 315-336-0836

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 Cooperative Educational Services
Herkimer-Fulton-Hamilton-Otsego Counties

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Cooperative Educational Services Herkimer-Fulton-Hamilton-Otsego Counties (BOCES) as of and for the year ended June 30, 2009, which collectively comprise the BOCES' basic financial statements and have issued our report thereon dated October 6, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the following are material weaknesses.

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

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

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 that are required to be reported under Government Auditing Standards.

D'Arcangelo & Co., LLP
Certified Public Accountants & Consultants

We noted certain matters that we reported to management of BOCES in a separate letter dated October 6, 2009.

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

D'Arcangelo & Co., LLP

October 6, 2009

Rome, New York

D'Arcangelo & Co., LLP
Certified Public Accountants & Consultants

200 E. Garden St., P.O. Box 4300, Rome, NY 13442-4300
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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 Cooperative Educational Services
Herkimer-Fulton-Hamilton-Otsego Counties

Compliance

We have audited the compliance of the Board of Cooperative Educational Services Herkimer-Fulton-Hamilton-Otsego Counties (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 its major Federal program for the year ended June 30, 2009. The 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 is 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 auditing standards generally accepted in the United States of America; 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 Non-Profit 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, the BOCES complied, in all material respects, with the requirements referred to above that are applicable to its major Federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of BOCES is responsible for establishing and maintaining effective internal controls over compliance with 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the BOCES' internal control over compliance.

A control deficiency in the BOCES' internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the BOCES' ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the BOCES' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the BOCES' internal control.

D'Arcangelo & Co., LLP
Certified Public Accountants & Consultants

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

This report is intended solely for the information and use of the Board of Education, management, the New York State Education Department 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

October 6, 2009

Rome, New York

HERKIMER COUNTY BOCES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	Federal CFDA Number	Current Year Expenditures
<u>U.S. Department of Agriculture</u>		
(Passed Through the State Education Department of the State of New York - Pass-Through Grantor's No. 081003040000)		
School Breakfast Program	10.553	\$ 15,438
National School Lunch Program	10.555	<u>26,228</u>
Cash Assistance Subtotal		41,666
National School Lunch Program – Food Donation	10.555	<u>5,282</u>
Total U.S. Department of Agriculture		<u>46,948</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)		
Migrant Education - State Grant Program	84.011	1,158,404
Vocational Education - Basic Grants to States	84.048	72,754
Education for Homeless Children and Youth	84.196	70,669
Even Start - State Educational Agencies	84.213	<u>441,206</u>
Total U.S. Department of Education - Indirect		<u>1,743,033</u>
<u>(Direct)</u>		
Federal Family Education Loans	84.032	347,499
Federal Pell Grant Program	84.063	<u>187,108</u>
Total U.S. Department of Education - Direct		<u>534,607</u>
<u>Total Federal Financial Assistance</u>		<u>\$ 2,324,588</u>

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

HERKIMER COUNTY BOCES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2009

1. SIGNIFICANT ACCOUNTING POLICIES

Organization

The accompanying Schedule of Expenditures of Federal Awards represents all Federal awards administered by the Herkimer County BOCES. The Herkimer County BOCES' organization is defined in Note I to the Herkimer County BOCES' financial statements.

Basis of Accounting

The expenditures in the accompanying schedule are presented on an 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 general purpose financial statements.

Cluster Programs

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

Nutrition Cluster

- U.S. Department of Agriculture
- CFDA #10.550 Food Donation
- CFDA #10.553 School Breakfast Program
- CFDA #10.555 National School Lunch Program

Student Financial Aid Cluster

- U.S. Department of Education
- CFDA #84.032 Federal Family Education Loans
- CFDA #84.063 Federal Pell Grant Program

2. EVEN START GRANT

In accordance with terms of the grant, the BOCES has incurred matching costs totaling \$711,770 during the year ended June 30, 2009.

3. FOOD DONATION

Nonmonetary assistance is reported in the schedule at fair market value of the food commodities received. At June 30, 2009, the BOCES had food commodities totaling \$1,429 in inventory.

HERKIMER COUNTY BOCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS OMB CIRCULAR A-133 § .505
For the Year Ended June 30, 2009

Summary of Auditor's Results

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major Federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies reported for major Federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	<u>U.S. Department of Education</u> Migrant-Education – State Grant Program, CFDA# 84.011 Vocational Education – State Grant Program, CFDA# 84.048
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

(Continued)

HERKIMER COUNTY BOCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS OMB CIRCULAR A-133 § .505
For the Year Ended June 30, 2009

(Continued)

Findings – Financial Statement Audit

A. Significant Deficiency

09-01 Accounts Payable Controls and Disbursement Testing

During our audit, we noted the following opportunities for improvement with regard to the purchasing and accounts payable controls:

- a. We noted the available controls within Win-Cap are not utilized to prevent a purchase order from being created and approved when there are insufficient appropriations available.
- b. We also noted that there are no formal approval procedures in place in the event an invoice is received over the original purchase order amount. Currently, the accounts payable clerk pays invoices that are over the purchase order amount with no formal approval of the change in the purchase amount.
- c. We also noted, through our testing of 35 disbursement selections, the following:
 - 6 items where the invoice was dated prior to the purchase order
 - 1 item lacking the use of a purchase order

We recommend management review controls over the purchasing and accounts payable to prevent the ability to circumvent the existing controls. Employees should be re-instructed to adhere to current purchasing policies. Management should implement the available controls in Win-Cap to ensure compliance with proper authorization procedures. Purchase orders should be dated prior to all invoices.

09-02 Fixed Assets

During our audit, we noted the following comments in relation to controls over fixed assets:

- Although a physical inventory was done in the summer of 2008, it appears a full reconciliation between the physical inventory and the computerized fixed assets was not complete as of June 30, 2009.
- Currently, there is no formal documentation used to initiate the deletion of a fixed asset. It appears information is submitted informally to the Business Office to record the fixed asset deletions. At the end of the year, the Executive Business Official summarizes the activity that occurred during the year.
- During our testing of current year dispositions, we noted the assets listed on the "Excess Equipment" list submitted for Board approval did not agree to the deletion section of the fixed asset inventory listing.

We recommend that the controls over fixed assets be reviewed to address the areas listed above. The asset disposition process should be formalized to ensure that the "Excess Equipment" list is reconciled to the dispositions listed in the fixed asset listing.

Findings and Questioned Costs – Major Federal Award Programs

None noted.

**HERKIMER COUNTY BOCES
STATUS OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS OMB CIRCULAR A-133 § .505
For the Year Ended June 30, 2009**

Findings – Financial Statement Audit

None noted.

Findings and Questioned Costs – Major Federal Award Programs

08-01 Reporting – Vocational Education – State Grant Program, CFDA# 84.011

During our audit, we noted that the required payroll certifications were not completed for the program. This procedure is required by OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments."

We recommend that payroll certifications be completed on a biannual basis for all employees paid under a single Federal grant program. The Circular also requires more frequent certifications for employees whose time is split between two or more funding sources.

Status: Comment corrected as of June 30, 2009.

D'Arcangelo & Co., LLP

Certified Public Accountants & Consultants

200 E. Garden St., P.O. Box 4300, Rome, NY 13442-4300
315-336-9220 Fax: 315-336-0836

Independent Auditor's Report

Board of Cooperative Educational Services
Herkimer-Fulton-Hamilton-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 Herkimer-Fulton-Hamilton-Otsego Counties (Herkimer County BOCES) of as of June 30, 2009, 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 Herkimer County BOCES management. Our responsibility is to express an opinion on these financial statements based on our audit.

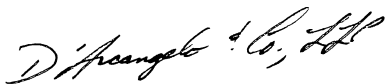
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining,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

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 examination of such receipts beyond the amounts recorded.

As explained in Note I, it is the Herkimer County BOCES' policy to prepare the financial statements of the Extraclassroom Activity Fund on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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 Herkimer County BOCES at June 30, 2009, and its revenue, expenditures, and changes in fund equity - cash basis for the year then ended on the basis of accounting described in Note I.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis 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 referred to above and, in our opinion, except for the effects of any adjustments that might have been determined to be necessary had we been able to perform adequate auditing procedures in regards to the receipts referred to in the third paragraph is fairly stated in all material respects in relation to the basic financial statements taken as a whole, on the basis of accounting described in Note I.



October 6, 2009

Rome, New York

**HERKIMER COUNTY BOCES
EXTRAClassroom Activity Fund
STATEMENT OF ASSETS, LIABILITIES, AND FUND EQUITY - CASH BASIS
June 30, 2009**

<u>Assets</u>	
Cash	\$ <u>20,341</u>
<u>Total Assets</u>	\$ <u>20,341</u>
<u>Liabilities and Fund Equity</u>	
Fund Equity	
Unreserved and Undesignated	\$ <u>20,341</u>
Total Fund Equity	<u>20,341</u>
<u>Total Liabilities and Fund Equity</u>	\$ <u>20,341</u>

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

**HERKIMER COUNTY BOCES
EXTRACLASSROOM ACTIVITY FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY - CASH BASIS
For the Year Ended June 30, 2009**

Revenues	
Charges for Services and Miscellaneous	\$ 56,626
Total Revenues	<u>56,626</u>
Expenditures	
Instruction - Club Activities	<u>61,320</u>
Total Expenditures	<u>61,320</u>
Expenditures Over Revenues	(4,694)
<u>Fund Equity, Beginning of Year</u>	<u>25,035</u>
<u>Fund Equity, End of Year</u>	<u>\$ 20,341</u>

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

**HERKIMER COUNTY BOCES
EXTRACLASSROOM ACTIVITY FUND
SUPPLEMENTAL SCHEDULE OF CASH RECEIPTS AND
DISBURSEMENTS - CASH BASIS
For the Year Ended June 30, 2009**

Activities	Cash and Fund Equity 07/01/2008	Cash Receipts	Cash Disbursements	Cash and Fund Equity 06/30/2009
Auto Tech - AM	36	0	36	0
Auto Tech - PM	37	0	37	0
Building Construction - AM	2	0	0	2
Business Info System - AM	3,840	6,195	7,534	2,501
Business Info System - PM	500	3,315	2,895	920
Computer Networking - AM	2,302	2,421	4,075	648
Computer Networking - PM	500	1,749	1,698	551
Cosmetology - AM	812	1,191	1,062	941
Cosmetology - PM	900	2,449	2,333	1,016
Cosmetology Retail -PM	2,370	692	649	2,413
Criminal Justice - AM	702	2,219	2,570	351
Criminal Justice - PM	72	647	602	117
Culinary/Hospitality - AM	58	0	58	0
Culinary/Hospitality - PM	39	1,651	1,535	155
Early Childhood Ed - AM	488	762	60	1,190
Early Childhood ED - PM	163	0	0	163
ECE Studio 2B - PM	387	0	387	0
Food Prep Assistant - AM	1,020	0	290	730
General Auto Service - AM	82	0	82	0
General Auto Service - PM	223	0	223	0
HOSA - AM	695	2,809	2,429	1,075
HOSA - PM	856	5,580	6,207	229
LPN Part Time - 1st Year	589	0	589	0
LPN Part Time - 2nd Year	2	615	617	0
Natural Resource Management	96	225	0	321
Pre-Voc Bannan - PM	876	0	273	603
Skills USA	5,025	21,804	22,552	4,277
State & National Awards	143	0	0	143
Visual Communications - AM	461	679	1,040	100
Visual Communications - PM	836	1,578	1,487	927
Interest Accured	923	45	0	968
Total	<u>25,035</u>	<u>56,626</u>	<u>61,320</u>	<u>20,341</u>

**HERKIMER COUNTY BOCES
EXTRACLASSROOM ACTIVITY FUND
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

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

The Herkimer County 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.

Basis of Accounting

The books and records of the Herkimer County 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.

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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 Lease and Agreement relating to the Series 2010 Bonds (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 2010 Bonds are first issued and delivered by the Authority, and will terminate on the earliest of the final maturity of the Series 2010 Bonds, and the date on which no Series 2010 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 2010 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 2010 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 the Series 2010 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 Project, 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 2010 Bonds payable on the next succeeding February 15 and August 15 and the principal and Sinking Fund Installments of Outstanding Series 2010 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

(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 2010 Bonds, if such prepayment is to be used for the purchase or redemption of such Series 2010 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 2010 Bonds, to the extent not paid from the proceeds of the Series 2010 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 2010 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 2010 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' 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 2010 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 2010 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 2010 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 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 2010 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' 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)

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 2010 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 2010 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 2010 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 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 2010 Bonds from gross income for purposes of federal income taxation; (ii) will not invest or otherwise

use “gross proceeds” of the Series 2010 Bonds in a manner which would cause any Series 2010 Bond (other than a Series 2010 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 2010 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 2010 Bonds (other than Series 2010 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)

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 2010 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 2010 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)

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**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 2010 Bonds

The Bonds will be issued pursuant to the Master Resolution, the Series 2010 Resolution and the Act. In addition to the Series 2010 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)

Authorization of Redemption

Bonds subject to redemption prior to maturity will be redeemable at such times, at such Redemption Prices and upon such terms as may be specified in the Master Resolution or in the Applicable Series Resolution authorizing their issuance or the Applicable Bond Series Certificate.

(Section 4.01)

Redemption at Election of the Authority

The Series, maturities and principal amounts of the Bonds to be redeemed at the election or direction of the Authority will be determined by the Authority in its sole discretion, subject to any limitations with respect thereto contained in the Master Resolution or in the Series Resolution authorizing such Series or the Applicable Bond Series Certificate. The notice of redemption required by the Master Resolution to be given will not be given with respect to Bonds to be redeemed pursuant to the

Master Resolution unless prior to the date such notice is to be given the Authority will have obtained the written consent of each Facility Provider to which Provider Payments are then due and unpaid.

(Section 4.02)

Selection of Bonds to Be Redeemed

Unless otherwise provided in the Series Resolution authorizing the issuance of Bonds of a Series or the Bond Series Certificate relating to such Bonds, in the event of redemption of less than all of the Outstanding Bonds of like Series, maturity and tenor, the Trustee will assign to each Outstanding Bond of the Series, maturity and tenor to be redeemed a distinctive number for each unit of the principal amount of such Bond equal to the lowest denomination in which the Bonds of such Series are authorized to be issued and will select by lot, using such method of selection as it will deem proper in its discretion, from the numbers assigned to such Bonds as many numbers as, at such unit amount equal to the lowest denomination in which the Bonds of such Series are authorized to be issued for each number, will equal the principal amount of such Bonds to be redeemed. In making such selections the Trustee may draw the Bonds by lot (i) individually or (ii) by one or more groups, the grouping for the purpose of such drawing to be by serial numbers (or, in the case of Bonds of a denomination of more than the lowest denomination in which the Bonds of such Series are authorized to be issued, by the numbers assigned thereto as provided in the Master Resolution) which end in the same digit or in the same two digits. In the case, upon any drawing by groups, the total principal amount of Bonds drawn will exceed the amount to be redeemed, the excess may be deducted from any group or groups so drawn in such manner as the Trustee may determine. The Trustee may in its discretion assign numbers to aliquot portions of Bonds and select part of any Bond for redemption. The Bonds to be redeemed will be the Bonds to which were assigned numbers so selected; provided, however, that only so much of the principal amount of each such Bond of a denomination of more than the lowest denomination in which the Bonds of such Series are authorized to be issued will be redeemed as will equal the lowest denomination in which the Bonds of such Series are authorized to be issued for each number assigned to it and so selected.

(Section 4.04)

Notice of Redemption

Whenever Bonds are to be redeemed, the Trustee will give notice of the redemption of the Bonds in the name of the Authority. Such notice will be given by mailing a copy of such notice not less than thirty (30) days nor more than sixty (60) days prior to the redemption date. Such notice will be sent by first class mail, postage prepaid, to the registered owners of the Bonds which are to be redeemed, at their last known addresses, if any, appearing on the registration books not more than ten (10) Business Days prior to the date such notice is given. Upon giving such notice, the Trustee will promptly certify to the Authority that it has mailed or caused to be mailed such notice to the registered owners of the Bonds to be redeemed in the manner provided in the Master Resolution. Such certificate will be conclusive evidence that such notice was given in the manner required by the Master Resolution. The failure of any Holder of a Bond to be redeemed to receive such notice will not affect the validity of the proceedings for the redemption of the Bonds.

Any notice of redemption, unless moneys will be received by the trustee prior to giving such notice sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed, may state that such redemption will be conditional upon the receipt of such moneys by the Trustee by 1:00 P.M. (New York time) on the date fixed for redemption. If such moneys are not so received said notice will be of no force and effect, the Authority will not redeem such Bonds and the Trustee will give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

(Section 4.05)

Payment of Redeemed Bonds

If, on the redemption date, moneys for the redemption of all Bonds or portions thereof of any like Series, maturity and tenor to be redeemed, together with interest accrued and unpaid thereon to the redemption date, will be held by the Trustee and Paying Agents so as to be available therefor on such date and if notice of redemption will have been mailed as stated in the Master Resolution, then, from and after the redemption date, interest on the Bonds or portions thereof so called for redemption will cease to accrue and such Bonds will no longer be considered to be Outstanding under the Master Resolution. If such moneys will not

be so available on the redemption date, such Bonds or portions thereof will continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

(Section 4.06)

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 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
- (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 BOCES 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 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 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 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 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)

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 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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Squire, Sanders & Dempsey L.L.P.
30 Rockefeller Plaza
New York, New York 10112

_____, 2010

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

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 its \$14,200,000 Dormitory Authority of the State of New York Master BOCES Program Lease Revenue Bonds (Herkimer-Fulton-Hamilton-Otsego Issue), Series 2010 (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, as amended and supplemented (the “Resolution”), and the Series Resolution Authorizing Up To \$17,025,000 Master BOCES Program Lease Revenue Bonds (Herkimer-Fulton-Hamilton-Otsego Issue), Series 2010, adopted June 23, 2010 (the “Series 2010 Resolution”). The Resolution and the Series 2010 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 June 23, 2010 (the “Agreement”), between the Authority and the Board of Cooperative Educational Services of the Sole Supervisory District of Herkimer, Fulton, Hamilton and Otsego Counties (“Herkimer BOCES”), whereby Herkimer BOCES leased the Project to the Authority. The Authority has entered into a Lease and Agreement, dated as of June 23, 2010, between the Authority and Herkimer BOCES (the “Lease Agreement”), whereby the Authority leased the Project back to Herkimer BOCES. The Lease Agreement provides, among other things, for making the proceeds of the Bonds available to Herkimer BOCES for the purposes permitted thereby and by the Resolutions. Pursuant to the Lease Agreement, Herkimer 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 certain 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, 2011. 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 and purchase in lieu of redemption prior to maturity, exchangeable, transferable and secured upon such terms and conditions as are contained in the Resolutions and the Bond Series Certificate.

We have examined a record of proceedings of the Authority in connection with the authorization and issuance of the Bonds and have made such investigation of law and such further review, inquiry or examinations as we have deemed necessary or desirable in rendering the opinions set forth herein.

We are of the opinion that:

1. The Authority is a body corporate and politic constituting a public benefit corporation of the State of New York, with the right and lawful authority and power to adopt the Resolutions and to issue the Bonds thereunder.

2. The Series 2010 Resolution has been duly and lawfully adopted in accordance with the provisions of the Resolution and is authorized and permitted thereby. The Resolutions have been duly and lawfully adopted by the Authority, are in full force and effect and are the legal, valid and binding obligations of the Authority enforceable in accordance with their terms.

3. The Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of New York, including the Act, and in accordance with the Resolutions. The Bonds are legal, valid and binding special obligations of the Authority payable as provided in the Resolutions, are enforceable in accordance with their terms and the terms of the Resolutions and are entitled to the benefits of the Resolutions and the Act.

4. The Authority has the right and lawful authority and power to enter into the Lease Agreement, and the Lease Agreement has been duly authorized, executed and delivered by the Authority and constitutes a legal, valid and binding obligation of the Authority enforceable in accordance with its terms.

5. The Internal Revenue Code of 1986, as amended (the "Code"), prescribes a number of qualifications and conditions for the interest on state and local obligations to be and to remain excluded from gross income for federal income purposes, some of which, including provisions for potential payments by the Authority to the federal government, require future or continued compliance after issuance of the Bonds in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with these requirements by the Authority or Herkimer BOCES may cause the interest on the Bonds to be included in gross income for federal income tax purposes and thus to be subject to federal income tax retroactively to the date of their issuance. The Authority and Herkimer BOCES have each covenanted to comply with the requirements of the Code, and to take the actions required of it for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. In our opinion, under existing law and assuming compliance with the aforementioned covenants, (i) interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Code and is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations, and (ii) interest on the Bonds is exempt from personal income taxes imposed by the State of New York and political subdivisions thereof, including the City of New York and the City of Yonkers.

We are further of the opinion that the difference between the principal amount of the Bonds maturing on August 15, 2015 (bearing interest at 2.000%), 2016 (bearing interest at 2.250%), 2017 (bearing interest at 2.750%) and August 15, 2025 ("Discount Bonds") and the initial offering price to the public (excluding bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount ("OID"). For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excluded from the owner's gross income for federal income tax purposes to the same extent and subject to the same considerations discussed above, as other interest on the Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. A purchaser of a Discount Bond at its issue price in the initial public offering who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond. Initial purchasers of the Bonds maturing on August 15, 2011 through 2014, inclusive, August 15, 2015 (bearing interest at 3.000%), 2016 (bearing interest at 4.000%), 2017 (bearing interest at 4.000%) and August 15, 2018 through 2020, inclusive, whose initial adjusted basis in such Bonds exceeds the respective principal amount of such Bonds ("Premium Bonds") will have bond premium to the extent of that excess. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield must be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that accrues during the period of ownership.

The opinions contained in paragraphs 2, 3, and 4 above are qualified to the extent that the enforceability of the Resolutions, the Bonds and the Lease Agreement may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally or as to the availability of any particular remedy.

Except as stated in paragraph 5 above, we express no opinion as to the federal or state tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other bond counsel.

In connection with the delivery of this opinion, we are not passing upon the authorization, execution and delivery of the Lease Agreement by Herkimer BOCES or as to the accuracy, completeness or sufficiency of the Official Statement or other offering materials relating to the Bonds except to the extent, if any, stated in the Official Statement.

Very truly yours,

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SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, 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 AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or 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 AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of 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" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "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 AGM 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.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM 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 AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. 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, ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.
(FORMERLY KNOWN AS FINANCIAL
SECURITY ASSURANCE INC.)

By _____
Authorized Officer

(212) 826-0100

Form 500NY (5/90)

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