

NEW ISSUE



DAC Bond®

\$20,930,000

**DORMITORY AUTHORITY
OF THE STATE OF NEW YORK
SMITHTOWN SPECIAL LIBRARY DISTRICT
REVENUE BONDS, SERIES 2008**

Dated: Date of Delivery

Due: July 1, as shown on inside cover

Payment and Security: The Smithtown Special Library District Revenue Bonds, Series 2008 (the “Series 2008 Bonds”) are 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 under the Loan Agreement (the “Loan Agreement”) dated as of September 24, 2008 between the Smithtown Special Library District (the “Library”) and the Authority and all the funds and accounts (except the Arbitrage Rebate Fund) authorized under the Authority’s Smithtown Special Library District Revenue Bond Resolution, adopted September 24, 2008 (the “Resolution”) and established under the Authority’s Series Resolution Authorizing Up To \$21,000,000 Smithtown Special Library District Revenue Bonds, Series 2008, adopted September 24, 2008 (the “Series 2008 Resolution”).

The Loan Agreement is a general obligation of the Library and requires the Library to pay, in addition to the fees and expenses of the Authority and the Trustee, amounts sufficient to pay the principal and Redemption Price of and interest on the Series 2008 Bonds, as such payments become due. The obligations of the Library under the Loan Agreement are secured by a pledge of the revenues of the Library, including real property tax assessments on real property located in the Smithtown Special Library District for library purposes.

The Series 2008 Bonds will not be a debt of the State of New York (the “State”) nor will the State be liable thereon. The Authority has no taxing power.

Description: The Series 2008 Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Interest (due July 1, 2009 and each January 1 and July 1 thereafter) on the Series 2008 Bonds will be payable by check or draft mailed to the registered owners thereof. Principal and Redemption Price of the Series 2008 Bonds will be payable at the principal corporate trust office of The Bank of New York Mellon, New York, New York, the Trustee and Paying Agent (the “Trustee”).

The Series 2008 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 2008 Bonds will be made in book entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2008 Bonds, payments of the principal and Redemption Price of and interest on such Series 2008 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 2008 BONDS - Book-Entry Only System”.

Redemption: *The Series 2008 Bonds are subject to redemption and purchase in lieu of redemption prior to maturity as more fully described in this Official Statement.*

Tax Exemption: In the opinion of Winston & Strawn LLP, Bond Counsel to the Authority, based on existing statutes, regulations, rulings and court decisions, interest on the Series 2008 Bonds is not includable in gross income for federal income tax purposes, assuming continuing compliance with certain covenants and the accuracy of certain representations. In the further opinion of Bond Counsel, interest on the Series 2008 Bonds is not an “item of preference” for purposes of federal alternative minimum tax on individuals and corporations; however such interest will be includable in adjusted current earnings used to calculate the federal alternative minimum tax on corporations. Bond Counsel is also of the opinion that under existing statutes interest on the Series 2008 Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including the City of New York). Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or the accrual or receipt of interest on, the Series 2008 Bonds. See “PART 10 – TAX MATTERS” herein.

The Series 2008 Bonds are offered when, as and if issued and received by the Underwriter. The offer of the Series 2008 Bonds may be subject to prior sale or withdrawn or modified at any time without notice. The offer is subject to the approval of legality of the Series 2008 Bonds by Winston & Strawn, LLP, New York, New York, Bond Counsel and to certain other conditions. Certain legal matters will be passed upon for the Underwriter by its counsel Orrick Herrington & Sutcliffe LLP, New York, New York and for the Library by its counsel, Kevin Seaman, Esq., Stony Brook, New York. The Authority expects to deliver the Series 2008 Bonds in definitive form in New York, New York on or about December 4, 2008.

Roosevelt & Cross Incorporated

November 21, 2008

\$20,930,000
DORMITORY AUTHORITY OF THE STATE OF NEW YORK
SMITHTOWN SPECIAL LIBRARY DISTRICT
REVENUE BONDS, SERIES 2008

\$13,485,000 Serial Bonds

<u>Due July 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Number¹</u>	<u>Due July 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Number¹</u>
2009	\$585,000	4.000%	1.850%	649903 5G2	2017	\$175,000	5.000%	4.300%	649903 5R8
2010	685,000	3.500%	2.470%	649903 5H0	2017	740,000	4.500%	4.300%	649903 5S6
2011	710,000	3.500%	2.800%	649903 5J6	2018	965,000	5.000%	4.510%	649903 5T4
2012	735,000	3.500%	3.120%	649903 5K3	2019	1,015,000	5.000%	4.770%	649903 5U1
2013	415,000	3.750%	3.350%	649903 5L1	2020	1,065,000	5.000%	5.000%	649903 5V9
2013	350,000	4.000%	3.350%	649903 5M9	2021	1,120,000	5.000%	5.140%	649903 5W7
2014	795,000	4.000%	3.640%	649903 5N7	2022	1,180,000	5.125%	5.240%	649903 5X5
2015	830,000	5.000%	3.840%	649903 5P2	2023	1,245,000	5.250%	5.320%	649903 5Y3
2016	875,000	5.000%	4.060%	649903 5Q0					

\$7,445,000 6.00% Term Bonds
Due July 1, 2028 to Yield 5.70% * CUSIP¹ Number 649903 5Z0

* Priced to the first par call on July 1, 2018.

¹ CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of the holders of the Series 2008 Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2008 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Series 2008 Bonds.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Library, or the Underwriter to give any information or to make any representations with respect to the Series 2008 Bonds, other than the information and representations contained in this Official Statement. If given or made, any such information or representations must not be relied upon as having been authorized by any of the foregoing.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be a sale of the Series 2008 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information in this Official Statement has been supplied by the Library and other sources that the Authority believes are reliable. The Authority does not guarantee the accuracy or completeness of such information and such information is not to be construed as a representation of the Authority.

The Library has reviewed the parts of this Official Statement describing the Library, the Project, the Estimated Sources and Uses of Funds and Appendix B. The Library will certify as of the dates of sale and delivery by the Authority of the Series 2008 Bonds that such parts of this Official Statement do not contain any untrue statements of a material fact and do not omit any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. The Library makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

References in this Official Statement to the Act, the Resolution, the Series 2008 Resolution and the Loan Agreement do not purport to be complete. Refer to the Act, the Resolution, the Series 2008 Resolution, and the Loan Agreement for full and complete details of their provisions. Copies of the Resolution, the Series 2008 Resolution and the Loan Agreement 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.

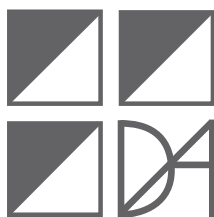
Under no circumstances shall the delivery of this Official Statement or any sale made after its delivery create any implication that the affairs of the Authority or the Library have remained unchanged after the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2008 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF SUCH BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

<u>Part</u>	<u>Page</u>	<u>Part</u>	<u>Page</u>
1. INTRODUCTION	1	13. LEGAL MATTERS.....	30
2. SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS	3	14. UNDERWRITING	30
3. THE SERIES 2008 BONDS	6	15. CONTINUING DISCLOSURE.....	30
4. THE LIBRARY	11	16. RATINGS.....	32
5. THE PROJECT.....	20	17. MISCELLANEOUS.....	32
6. ESTIMATED SOURCES AND USES OF FUNDS	20	Appendix A – Definitions	A-1
7. THE AUTHORITY.....	21	Appendix B – Audited Financial Statements of the Smithtown Special Public Library District	B-1
8. LEGALITY OF THE SERIES 2008 BONDS FOR INVESTMENT AND DEPOSIT.....	27	Appendix C – Summary of Certain Provisions of the Loan Agreement	C-1
9. NEGOTIABLE INSTRUMENTS.....	27	Appendix D – Summary of Certain Provisions of the Resolution.....	D-1
10. TAX MATTERS.....	27	Appendix E – Form of Approving Opinion of Bond Counsel.....	E-1
11. STATE NOT LIABLE ON THE 2008 BONDS .	30		
12. COVENANT BY THE STATE	30		

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DORMITORY AUTHORITY - STATE OF NEW YORK
PAUL T. WILLIAMS, JR. – EXECUTIVE DIRECTOR

515 BROADWAY, ALBANY, N.Y. 12207
GAIL H. GORDON, ESQ – CHAIR

OFFICIAL STATEMENT RELATING TO

\$20,930,000

DORMITORY AUTHORITY OF THE STATE OF NEW YORK
SMITHTOWN SPECIAL LIBRARY DISTRICT
REVENUE BONDS, SERIES 2008

PART 1 – INTRODUCTION

Purpose of the Official Statement

The purpose of this Official Statement, including the cover page and appendices, is to provide information about the Authority and the Library in connection with the offering by the Authority of \$20,930,000 principal amount of its Smithtown Special Library District Revenue Bonds, Series 2008 (the “Series 2008 Bonds”).

The following is a brief description of certain information concerning the Series 2008 Bonds, the Authority and the Library. A more complete description of such information and additional information that may affect decisions to invest in the Series 2008 Bonds is contained throughout this Official Statement, which should be read in its entirety. Certain capitalized terms used in this Official Statement are defined in Appendix A hereto.

Purpose of the Issue

The Series 2008 Bonds are being issued (i) to pay the Costs of the Project; and (ii) to pay the Costs of Issuance of the Series 2008 Bonds. See “PART 5 – THE PROJECT” and “PART 6 – ESTIMATED SOURCES AND USES OF FUNDS.”

Authorization of Issuance

The Series 2008 Bonds will be issued pursuant to the Resolution, the Series 2008 Resolution and the Act. The Resolution authorizes the issuance of multiple Series of Bonds. Each Series of Bonds is to be separately secured by (i) the funds and accounts established pursuant to a Series Resolution and (ii) a Loan Agreement to be executed by and between the Authority and the Library. The Series 2008 Resolution authorizes the issuance of the Series 2008 Bonds in an amount not to exceed \$21,000,000. Neither the funds and accounts established under any Series Resolution, nor any Loan Agreement entered into or Mortgage granted in connection with one Series of Bonds will secure any other Series of Bonds. See “PART 2 – SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS” and “PART 3 – THE SERIES 2008 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 7 – THE AUTHORITY.”

The Library

The Library is an independent special public library district with the power to cause the Town of Smithtown, New York (the “Town”) to levy special district taxes (the “Annual Tax”) upon all real property lying within the Smithtown Special Library District (the “Library District”). The Library is chartered by the Board of Regents of the State. The Library operates a library system located in the Town for the benefit of residents of said Town. See “PART 4 – THE LIBRARY” and “Appendix B – Audited Financial Statements of the Smithtown Special Library District.”

The Series 2008 Bonds

The Series 2008 Bonds will be dated their date of delivery and will bear interest from such date (payable July 1, 2009 and on each January 1 and July 1 thereafter) at the rates and will mature at the times set forth on the inside cover page of this Official Statement. See “PART 3 – THE SERIES 2008 BONDS – Description of the Series 2008 Bonds.”

Payment of the Series 2008 Bonds

The Series 2008 Bonds will be special obligations of the Authority payable solely from the Revenues, which consist of certain payments to be made by the Library under the Loan Agreement. The Loan Agreement is a general obligation of the Library. Pursuant to the Resolution and the Series 2008 Resolution, the Revenues and the Authority’s right to receive the Revenues have been pledged to the Trustee. See “PART 2 – SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS – Payment of the Series 2008 Bonds.”

Authorization of Project, Payment and Tax Levy

A referendum passed on March 4, 2008 by the qualified voters in the Library District authorized the Library to enter into the Loan Agreement to finance the construction of an addition to and reconstruction of the main library building and renovation, reconstruction and construction of additions to the three library branches (the “Project”). The qualified voters also authorized the Library to assign and pledge to the Authority funds in an amount sufficient to repay all obligations of the Library under the Loan Agreement, and authorized such funds to be raised by a real property tax assessment on real property located within the Library District to be levied annually for library purposes by the Library District.

Security for the Series 2008 Bonds

The Series 2008 Bonds will be secured by the pledge and assignment to the Trustee of the Revenues and the security interest in the Pledged Revenues granted by the Library to the Authority under the Loan Agreement. Pursuant to the Loan Agreement, the Library has covenanted that the Authority’s security interest in the Pledged Revenues will be a first lien thereon and will not be subject to any preexisting liens. The Pledged Revenues consist primarily of real property taxes levied by the Town on behalf of the Library. The Real Property Tax Law and the Suffolk County Tax Act govern methods and procedures to levy and collect real property taxes in the Town. The Series 2008 Bonds will also be secured by all funds and accounts authorized by the Resolution and established by the Series 2008 Resolution (with the exception of the Arbitrage Rebate Fund). The Library may incur additional debt secured by a parity lien on certain of the Pledged Revenues with the prior written consent of the Authority. See “PART 2 – SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS – Security for the Series 2008 Bonds.”

The Resolution authorizes the issuance by the Authority, from time to time, of Bonds in one or more Series, each such Series to be authorized by a separate Series Resolution and to be separately secured from each other Series of Bonds. The Holders of Bonds of a Series shall not be entitled to the rights and benefits conferred upon the Holders of Bonds of any other Series.

The Series 2008 Bonds will not be a debt of the Town of Smithtown nor will the Town of Smithtown be liable thereon or under the Loan Agreement.

The Series 2008 Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power.

The Mortgage

The Library's obligations to the Authority under the Loan Agreement will be additionally secured by a Mortgage on the Mortgaged Property and security interests in certain fixtures, furnishings and equipment now or hereafter located therein or used in connection therewith. The Authority may, but has no present intention to, assign the Mortgage and such security interests to the Trustee. Upon the happening of an Event of Default under the Resolution (other than a covenant default by the Authority which results in the interest on the Series 2008 Bonds no longer being excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code")), the Authority is required to assign the Mortgage and such security interest to the Trustee. Unless the Mortgage and such security interests are assigned to the Trustee, neither the Mortgage, the security interests in such fixtures, furnishings and equipment nor any proceeds there from will be pledged to the Holders of the Series 2008 Bonds and the Holders of the Series 2008 Bonds should not regard the Mortgage as security for payment of principal of and interest on the Series 2008 Bonds. Property subject to the Mortgage may be released and the Mortgage may be amended without the consent of the Trustee or the Holders of any Series 2008 Bonds. See "PART 2 – SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS – The Mortgage."

The Project

The Project consists of the construction of an addition to and reconstruction of the existing main library building at 1 North Country Road in Smithtown, New York and renovation, reconstruction and construction of additions to the Library's Commack and Kings Park branches and construction of a new library branch in Nesconset, New York (collectively, the "Project"). See "PART 5 – THE PROJECT."

PART 2 – SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2008 BONDS

Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2008 Bonds and certain related covenants. These provisions have been summarized and this description does not purport to be complete. Reference should be made to the Act, the Resolution, the Series 2008 Resolution, the Loan Agreement, and the Mortgage. Copies of the Resolution, the Series 2008 Resolution, the Loan Agreement and the Mortgage are on file with the Authority and the Trustee. See also "Appendix C – Summary of Certain Provisions of the Loan Agreement" and "Appendix D – Summary of Certain Provisions of the Resolution" for a more complete statement of the rights, duties and obligations of the parties thereto. All references to the Debt Service Fund refer to such fund established pursuant to the Resolution and the Series 2008 Resolution.

Payment of the Series 2008 Bonds

The Series 2008 Bonds will be special obligations of the Authority. The principal and Redemption Price of and interest on the Series 2008 Bonds are payable solely from the Revenues. The Revenues consist of (i) required payments to be made by the Library under the Loan Agreement to satisfy the principal and Redemption Price of and interest on the Series 2008 Bonds and (ii) all amounts received as a consequence of enforcement of the Loan Agreement including amounts derived from the foreclosure or sale or realization upon the Pledged Revenues. The Revenues and the right to receive them have been pledged to the Trustee for the benefit of the Series 2008 Bondholders.

The Loan Agreement is a general obligation of the Library and obligates the Library to make payments on account of the principal Redemption Price of and interest on Outstanding Series 2008 Bonds. Such payments are to be made annually on or before February 1, in an amount equal to the principal and interest coming due on the next succeeding July 1 and the interest coming due on the next succeeding January 1. The Loan Agreement also obligates the Library to pay, at least 45 days prior to a redemption date of Series 2008 Bonds called for redemption, the amount, if any, required to pay the Redemption Price of such Series 2008 Bonds. See "PART 3 – THE SERIES 2008 BONDS – Redemption Provisions."

The Authority is authorized under the Act to direct State and local officers including without limitation, officers of the Town, to pay over to the Authority any and all Public Funds owed to the Library by the State or any political subdivision of the State in an amount sufficient to make all payments required to be made under the Loan

Agreement. In connection with the issuance of the Series 2008 Bonds, the Library, the Authority, the Town, The Bank of New York Mellon, as depository (the "Bank") and the Trustee will enter into a Tax Pledge and Collection Agreement (the "Tax Pledge Agreement") governing the remittance and application of the annual tax levied against taxable real property within the Library District, and collected by the Town on behalf of the Library (the "Annual Tax"). Pursuant to the Tax Pledge Agreement and for so long as the Series 2008 Bonds remain outstanding, the Town, at the direction of the Library, will remit the Annual Tax to the Bank. Promptly upon receipt thereof, the Bank will transfer thirty per cent (30%) thereof to the Trustee for deposit in the Debt Service Fund for the Series 2008 Bonds and seventy per cent (70%) thereof to the Library until such time as the sum of all receipts transferred by the Bank to the Trustee during such calendar year is equal to the aggregate debt service due on the Series 2008 Bonds on the next succeeding July 1 and January 1. The Tax Pledge Agreement further provides, however, that if as of January 21 of any year, the sum of all receipts transferred by the Bank to the Trustee during such calendar year to said date is less than the aggregate debt service due on the Series 2008 Bonds on the next succeeding July 1 and January 1, the Bank shall thereafter transfer one hundred per cent (100%) of receipts thereafter received to the Trustee for deposit in the Debt Service Fund until such time as the sum of all receipts transferred by the Bank to the Trustee during such calendar year is equal to the debt service due on the Series 2008 Bonds on the next succeeding July 1 and January 1.

Authorization of Project, Payment and Tax Levy

By referendum approved on March 4, 2008 by the qualified voters in the Library District, the qualified voters authorized the Library to (i) finance the expansion and renovation of the existing facilities of the Library by borrowing an amount not to exceed \$21,000,000 through the issuance of bonds by the Authority, (ii) levy a tax within the Library District payable in annual installments in an amount not to exceed \$1,740,000 per year over a maximum of twenty years, (iii) assign and pledge such tax to the Authority, and (iv) enter into any loan or mortgage agreement incidental to the foregoing.

Security for the Series 2008 Bonds

The Series 2008 Bonds will be secured by the pledge and assignment to the Trustee of the Revenues, the proceeds from the sale of the Series 2008 Bonds (until disbursed as provided in the Resolution), all funds and accounts authorized under the Resolution and established under the Series 2008 Resolution (with the exception of the Arbitrage Rebate Fund) and the Authority's security interest in the Pledged Revenues.

Pledged Revenues

The Series 2008 Bonds will be secured by a pledge of the Pledged Revenues, consisting of all revenues of the Library, including the real property tax levies made on behalf of the Library by the Town on all non-exempt real property situated within the Library District to be paid over annually to the Library and the right to receive such Pledged Revenues. Pursuant to the Loan Agreement, the Library has covenanted that the Authority's security interest in the Pledged Revenues will be a first lien thereon and will not be subject to any preexisting liens. The Library may incur additional debt secured by a parity lien on certain of the Pledged Revenues with the prior written consent of the Authority. See "PART 4 – THE LIBRARY" and "Appendix B – Audited Financial Statements of the Smithtown Special Library District."

The Series 2008 Bonds will not be a debt of the Town of Smithtown nor will the Town of Smithtown be liable thereon or under the Loan Agreement.

The Mortgage

In connection with the delivery of the Series 2008 Bonds, the Library will execute and deliver a Mortgage to the Authority and grant the Authority a security interest in certain fixtures, furnishings and equipment to secure the required payments to be made by the Library pursuant to the Loan Agreement. The Authority may assign its rights under the Loan Agreement and the Mortgage and its security interests to the Trustee, but has no present intention to do so. Upon the happening of an Event of Default under the Resolution (other than a covenant default by the Authority which results in the interest on the Series 2008 Bonds no longer being excludable from gross income under Section 103 of the Code), the Authority is required to assign the Mortgage and such security interest to the Trustee.

Unless the Mortgage and such security interests are assigned to the Trustee, neither the Mortgage, the security interests in such fixtures, furnishings and equipment nor any proceeds there from will be pledged to the Holders of the Series 2008 Bonds and the Holders of the Series 2008 Bonds should not regard the Mortgage as security for payment of principal of and interest on the Series 2008 Bonds. Property subject to the Mortgage may be released, and the Mortgage may be amended, without the consent of the Trustee or the Holders of any Series 2008 Bonds.

Events of Default and Acceleration

The Resolution provides that events of default thereunder and under the Series 2008 Resolution constitute events of default only with respect to the Series 2008 Bonds. The following are events of default under the Resolution: (i) a default in the payment of the principal or Redemption Price of or interest on such Series 2008 Bonds; (ii) the Authority takes any action, or fails to take any action, which would cause such Series 2008 Bonds to be “arbitrage bonds” within the meaning of the Code, or fails to comply with the provisions of the Code and as a result thereof, interest on the Series 2008 Bonds becomes includable in gross income for federal income tax purposes; (iii) a default by the Authority in the due and punctual performance of any other covenant, condition, agreement or provision contained in the Series 2008 Bonds or in the Resolution or in the Series 2008 Resolution which continues for 30 days after written notice thereof is given to the Authority by the Trustee (such notice to be given at the Trustee’s discretion or at the written request of Holders of not less than 25% in principal amount of Outstanding Series 2008 Bonds); or (iv) an “Event of Default,” as defined in the Loan Agreement arising out of or resulting from the failure of the Library to comply with the Loan Agreement, has occurred and is continuing and all sums payable by the Library under the Loan Agreement have been declared immediately due and payable (unless such declaration has been annulled). Unless all sums payable by the Library under the Loan Agreement are declared immediately due and payable, an event of default under the Loan Agreement is not an event of default under the Resolution.

The Resolution provides that if an event of default (other than as described in clause (ii) of the preceding paragraph) occurs and continues, the Trustee must, upon the written request of the Holders of not less than 25% in principal amount of the Outstanding Series 2008 Bonds, declare the principal of and interest on all the Outstanding Series 2008 Bonds to be due and payable immediately. At the expiration of 30 days from the giving of such notice, such principal and interest shall become immediately due and payable.

The Trustee may, with the written consent of the Holders of not less than 25% in principal amount of the Series 2008 Bonds then Outstanding, annul such declaration and its consequences under the terms and conditions specified in the Resolution with respect to such annulment.

Upon the happening and continuance of any event of default, the Trustee may proceed, and upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of a Series, shall proceed to protect and enforce its rights and the rights of the Holders by such suits, actions or special proceedings in equity or at law for the performance of any covenant contained in the Resolution or the Series 2008 Resolution.

The Resolution provides that the Trustee shall give notice in accordance with the Resolution of each event of default known to the Trustee to the Holders of the Series 2008 Bonds within 30 days, after knowledge of the occurrence thereof unless such default has been remedied or cured before the giving of such notice; provided, however, that except in the case of default in the payment of principal or Redemption Price of, or interest on, any of the Series 2008 Bonds, the Trustee shall be protected in withholding such notice thereof to the Holders if the Trustee in good faith determines that the withholding of such notice is in the best interests of the Holders of the Series 2008 Bonds.

Limited Obligation

The Series 2008 Bonds will not be a debt of the State or the Town of Smithtown nor will the State or the Town of Smithtown be liable thereon. The Authority has no taxing power. The Authority has never defaulted in the timely payment of principal of or interest on its bonds or notes. See “PART 7 – THE AUTHORITY.”

PART 3 – THE SERIES 2008 BONDS

Description of the Series 2008 Bonds

The Series 2008 Bonds will be issued pursuant to the Resolution and the Series 2008 Resolution, will be dated the date of delivery of the Series 2008 Bonds and will bear interest from such date (payable July 1, 2009 and on each January 1 and July 1 thereafter) at the rates and will mature at the times set forth on the inside cover page of this Official Statement.

The Series 2008 Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. The Series 2008 Bonds may be exchanged for Series 2008 Bonds of the same maturity of any other authorized denomination. The Trustee may impose a charge sufficient to reimburse the Authority or the Trustee for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of a Series 2008 Bond.

The cost, if any, of preparing each new Series 2008 Bond issued upon such exchange or transfer and any other expenses of the Authority or the Trustee incurred in connection therewith, will be paid by the person requesting such exchange or transfer. The Authority will not be obligated to make any exchange or transfer of Series 2008 Bonds after (i) the Record Date next preceding an interest payment date for such Series 2008 Bonds, or (ii) the date on which the Trustee commences selection of Series 2008 Bonds for redemption.

The principal or Redemption Price of the Series 2008 Bonds will be payable at the principal corporate trust office of The Bank of New York Mellon, New York, New York, the Trustee. Interest on the Series 2008 Bonds will be payable by check or draft mailed to the registered owners thereof at their addresses as shown on the registration books held by the Trustee. Interest is payable to the registered owners who are such registered owners at the close of business on the fifteenth day of the calendar month next preceding an interest payment date. In the event the Series 2008 Bonds shall no longer be issued in book-entry only form, interest will be paid to any Bondholder of \$1,000,000 or more aggregate principal amount of Series 2008 Bonds by wire transfer to the wire transfer address, within the continental United States specified by such Bondholder, upon the written request of such Holder received not less than 5 days prior to the Record Date, which written request may apply to multiple interest payment dates. In addition, in the event the Series 2008 Bonds shall no longer be issued in book-entry form, such Bondholders may receive the Redemption Price to be paid on their Series 2008 Bonds by wire transfer at the address in the continental United States specified by such Bondholders in a written request given to the Trustee at the time presentation and surrender of the Series 2008 Bonds to be redeemed is made.

For a more complete description of the Series 2008 Bonds, see “Appendix D – Summary of Certain Provisions of the Resolution.”

Optional Redemption

The Series 2008 Bonds maturing on or before July 1, 2018 are not subject to optional redemption prior to maturity. The Series 2008 Bonds maturing after July 1, 2018 are subject to redemption prior to maturity, on or after July 1, 2018 in any order at the option of the Authority, as a whole or in part at any time, at a Redemption Price of 100% of the principal amount to be redeemed plus accrued interest to the redemption date.

Mandatory Redemption

In addition, the Series 2008 Bonds are also subject to redemption, in part, on July 1 of each 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 July 1 (or such preceding Interest Payment Date) of each year the principal amount of Series 2008 Bonds specified for each of the years show below:

Series 2008 Bonds Maturing on July 1, 2028

<u>Year</u>	<u>Sinking Fund Installments</u>
2024	\$1,315,000
2025	1,395,000
2026	1,485,000
2027	1,575,000
2028 ⁺	1,675,000

⁺Final maturity

Special Redemption

The Series 2008 Bonds are also subject to redemption as a whole or in part at any time at a Redemption Price of 100% of the principal amount thereof, from proceeds of a condemnation or insurance award, which proceeds are not used to repair, restore or replace the Project and from unexpended proceeds of the Series 2008 Bonds upon the abandonment of all or a portion of the Project due to legal or regulatory impediment.

Purchase in Lieu of Redemption

The Series 2008 Bonds maturing on or before July 1, 2018 are not subject to purchase in lieu of redemption prior to maturity. The Series 2008 Bonds maturing after July 1, 2018, are subject to purchase in lieu of redemption prior to maturity on or after July 1, 2018, at the option of the Library with the prior written consent of the Authority and, 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").

Selection of Bonds to be Redeemed

In the case of redemptions of the Series 2008 Bonds described above under the subheading "*Optional Redemption*," the Authority will select the maturities of the Series 2008 Bonds to be redeemed. In the case of redemption of Series 2008 Bonds described above under the subheading "*Special Redemption*," Series 2008 Bonds will be redeemed to the extent practicable pro rata among the Outstanding Series 2008 Bonds of each maturity, but only in integral multiples of \$5,000 within each maturity. If less than all of the Series 2008 Bonds of a maturity are to be redeemed (pursuant to an optional, special or mandatory redemption), the Series 2008 Bonds of such maturity to be redeemed will be selected by the Trustee, by lot, using such method of selection as the Trustee shall consider proper in its discretion.

Notice of Redemption

The Trustee is to give notice of the redemption of the Series 2008 Bonds in the name of the Authority given by first-class mail, postage prepaid, not less than 30 days nor more than 45 days prior to the redemption date to the registered owners of any Series 2008 Bonds which are to be redeemed, at their last known addresses appearing on the registration books. The failure of any owner of a Series 2008 Bond to be redeemed to receive notice of redemption thereof will not affect the validity of the proceedings for the redemption of such Series 2008 Bond. If directed in writing by an Authorized Officer of the Authority, the Trustee is to publish or cause to be published such notice in an Authorized Newspaper not less than 30 days nor more than 45 days prior to the redemption date, but such publication is not a condition precedent to such redemption and failure to publish such notice or any defect in such notice or publication will not affect the validity of the proceedings for the redemption of such Series 2008 Bonds.

If, on the redemption date, moneys for the redemption of the Series 2008 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 shall have been mailed, then interest on the Series

2008 Bonds of such maturity will cease to accrue from and after the redemption date and such Series 2008 Bonds will no longer be considered to be Outstanding under the Resolution and the Series 2008 Resolution.

Notice of Purchase in Lieu of Redemption and Its Effect

Notice of purchase of the Series 2008 Bonds in lieu of redemption will be given in the name of the Library to the registered owners of the Series 2008 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 2008 Bonds to be purchased are required to be tendered on the Purchase Date to the Trustee. Series 2008 Bonds to be purchased that are not so tendered, will be deemed to have been properly tendered for purchase. In the event the Series 2008 Bonds are called for purchase in lieu of redemption, such purchase shall not operate to extinguish the indebtedness of the Authority evidenced thereby or modify the terms of the Series 2008 Bonds and such Series 2008 Bonds need not be cancelled, but shall remain Outstanding under the Resolution and in such case shall continue to bear interest.

The Library's obligation to purchase a Series 2008 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 2008 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 2008 Bonds to be purchased, the former registered owners of such Series 2008 Bonds will have no claim thereunder or under the Resolution 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 2008 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 2008 Bonds in accordance with their respective terms.

In the event that not all of the Outstanding Series 2008 Bonds of a maturity are to be purchased, the Series 2008 Bonds of such maturity to be purchased will be selected by lot in the same manner as Series 2008 Bonds of a maturity to be redeemed in part are to be selected.

For a more complete description of the redemption, purchase in lieu of redemption and other provisions relating to the Series 2008 Bonds, see "Appendix D - Summary of Certain Provisions of the Resolution."

Book-Entry Only System

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Series 2008 Bonds. The Series 2008 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered, Series 2008 Bond will be issued for each maturity of the Series 2008 Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations.

DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and

clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”).

The DTC Rules applicable to its Direct and Indirect Participants (collectively, “Participants”) are on file with the Securities and Exchange Commission. More information about DTC can be found at .

Purchases of Series 2008 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2008 Bond (“Beneficial Owner”) is in turn to be recorded on the 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 Participants through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2008 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 definitive Series 2008 Bonds, except in the event that use of the book-entry system for the Series 2008 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008 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 2008 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 2008 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2008 Bonds are credited, which may or may not be the Beneficial Owners. The 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 Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2008 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2008 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Resolution and other related documents. For example, Beneficial Owners of Series 2008 Bonds may wish to ascertain that the nominee holding the Series 2008 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar for the Series 2008 Bonds and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2008 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 Series 2008 Bonds unless authorized by a Direct Participant in accordance with DTC’s procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts Series 2008 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, and principal and interest payments on the Series 2008 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 (or its nominee), the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, and principal and interest payments 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 the Participants.

DTC may discontinue providing its services as depository with respect to the Series 2008 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, definitive Series 2008 Bonds 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, definitive Series 2008 Bonds will also be printed and delivered.

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, the Trustee and the Library assume no responsibility for the accuracy thereof.

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

So long as Cede & Co. is the registered owner of the Series 2008 Bonds, as nominee for DTC, references herein to the Bondholders, Holders, owners or registered owners of the Series 2008 Bonds (other than under the captions "PART 10 – TAX MATTERS" herein and "PART 15 – CONTINUING DISCLOSURE") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2008 Bonds.

Principal and Interest Requirements for the Series 2008 Bonds

The following table sets forth the amounts required to be paid by the Library during each twelve-month period ending December 31 of the Bond Years shown for the payment of the principal of and interest on the Series 2008 Bonds payable on July 1 of such year and the interest on the Series 2008 Bonds payable on the succeeding January 1 and the aggregate payments to be made by the Library during each such period with respect to the Series 2008 Bonds.

<u>12 Month Period Ending December 31*</u>	<u>Principal</u>	<u>Interest Payments</u>	<u>Total Debt Service</u>
2009	\$ 585,000	\$1,135,755.00	\$1,720,755.00
2010	685,000	1,032,012.50	1,717,012.50
2011	710,000	1,007,600.00	1,717,600.00
2012	735,000	982,312.50	1,717,312.50
2013	765,000	954,668.75	1,719,668.75
2014	795,000	923,987.50	1,718,987.50
2015	830,000	887,337.50	1,717,337.50
2016	875,000	844,712.50	1,719,712.50
2017	915,000	801,812.50	1,716,812.50
2018	965,000	756,662.50	1,721,662.50
2019	1,015,000	707,162.50	1,722,162.50
2020	1,065,000	655,162.50	1,720,162.50
2021	1,120,000	600,537.50	1,720,537.50
2022	1,180,000	542,300.00	1,722,300.00
2023	1,245,000	479,381.25	1,724,381.25
2024	1,315,000	407,250.00	1,722,250.00
2025	1,395,000	325,950.00	1,720,950.00
2026	1,485,000	239,550.00	1,724,550.00
2027	1,575,000	147,750.00	1,722,750.00
2028	1,675,000	50,250.00	1,725,250.00

* Date reflects application of monies collected as of each annual tax levy and provided to the Authority by said date.

PART 4 – THE LIBRARY

GENERAL INFORMATION

Introduction

The Smithtown Special Library District is an independent special library district chartered by the Board of Regents of the State of New York to serve the residents of the Town of Smithtown excluding areas served by the Sachem Public Library and the Emma S. Clark Memorial Library. The Library District is located in the Town of Smithtown, New York. The Library operates a main library at 1 North Country Road in Smithtown, as well as three branch libraries in Commack, Kings Park and Nesconset. The Library is a member of the Suffolk Cooperative Library System which was founded in 1961 and is one of 23 cooperative public library systems providing services to over 740 public libraries throughout New York State. The Library is Long Island's largest library in terms of population and the second largest in terms of square miles served at 53.9.

The Library was chartered as an Association Library in 1911 and the Library's first permanent building opened on August 12, 1912. That building was moved to its present location in 1950. In 1952, the Library was rechartered as a municipal library. Chapter 193 of the Laws of 2001 authorized the independent establishment of a special public library district, subject to referendum. On November 6, 2001, Town residents voted in a town-wide referendum to establish the Smithtown Special Library District. Accordingly, the Library operates as an independent tax district. On April 30, 2002, the Library held its first budget vote and trustee election.

The Library offers Town residents a full program of public library services. In addition to traditional resources, the Library has integrated modern technologies into every aspect of its services. The Library is also noted for its wide range of adult, young adult and children's programming and an outstanding electronic media collection. The Library serves approximately 115,000 Town residents including the hamlets of Commack, Fort Salonga, Hauppauge, Kings Park, Nesconset, Saint James and Smithtown. It has an annual operating budget for fiscal year 2008 of \$10,603,600. Total library holdings of 495,204 items include 305,136 books, 185,451 audio and video recordings, including DVD's, CD's and other media. The Library also offers access to a multitude of electronic databases at the Library and by remote access. There are currently over 50,000 registered borrowers. In 2007, there were over 670,000 patron visits to the Library and the Library hosted 2,531 library-sponsored programs with over 78,000 attendees. The Library also circulated over 800,000 items in 2007. In addition, community, cultural, and civic groups meet regularly at the Library. The total staff comprises approximately 78 full-time and 82 part-time employees. The Library and its branches are open to the public for, on average, 60 hours per week.

The Series 2008 Bonds will not be a debt of the Town and the Town will not be liable thereon.

Governance and Administration

The Library is governed by a Board of Trustees (“the Board”) consisting of seven members, all of whom are elected by the residents of the Library District. Any resident of the Library District who is 18 years of age or older and a qualified voter of the Town otherwise qualified to vote at a general Town election is eligible for election. Board members are elected for staggered three-year terms. The Board meets twelve times a year, or more frequently as required. The present members of the Board are:

<u>Name</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Erica B. Rinear, <i>President</i>	Teacher	2008 *
Joseph Vallone, <i>Vice President</i>	Insurance (Retired)	2010
June S. Carlson, Trustee	Teacher (Retired)	2009
Eric J. Johansson, Trustee	College Professor	2010
Anthony J. Monteleone, Trustee	Guidance Counselor (Retired)	2011
Charles A. Sauer, Trustee	IT Manager (Retired)	2009
Carolyn Ciarelli	School Librarian (Retired)	2011
Rose Palazzolo	Accounting Clerk (Retired)	2010

* Term expires December 31, 2008 after which date the term of Carolyn Ciarelli begins.

Robert Lusak has served as the Library Director since September, 2006. He succeeds Peter Ward, who had served as Library Director since 1998. As Director, Mr. Lusak supervises the day-to-day operations of the Library and acts as chief administrative officer of the Library, as liaison to the Board, and as director of all duties pertaining to library and financial operations. Prior to his term as Director, Mr. Lusak was the Director of the Babylon Public Library. Mr. Lusak is a graduate of St. Bonaventure University (B.A., 1987) and holds a Masters in Library Science from Long Island University at CW Post (M.L.S., 1993). He holds a Public Librarian Certificate from the New York State Education Department.

Robert Goykin was appointed as the Library's Assistant Director in February 2003. Mr. Goykin assists the Director in the day-to-day operations of the Library, including managing the current Nesconset branch and internet operations. Mr. Goykin received his Bachelor of Science degree from the University of Bridgeport (B.S., 1978) and his Masters of Library Science from Long Island University at CW Post (M.L.S., 1990). He holds a Public Librarian Certificate from the New York State Education Department. The Assistant Director has been authorized by the Board of Trustees to assume the full responsibilities of the Director in his absence.

Joanne Thomas Grove was appointed Treasurer/Administrator in March 2002. Ms. Grove is responsible for the day-to-day financial operations and contract management of the Library. She is a graduate of Babson College (B.S., 1977) and holds a Masters in Management from SUNY at Stony Brook (M.S., 1985).

Service Area

The Library serves the area coterminous with that of the Town, except for small portions covered by the Sachem Public Library of Sachem Central School District and the Emma S. Clark Memorial Library of the Three Village School District. The Library District's taxing power is conterminous with this service area.

The Town is located in the north central section of Long Island, about 45 miles from New York City, and has a land area of approximately 54 square miles. The Town of Huntington borders on the west, the Town of Brookhaven borders on the east, and the Town of Islip borders on the south. Three incorporated villages are situated within the Town (The Branch, Head of the Harbor and Nissequogue), as well as a number of larger unincorporated communities including Smithtown, Kings Park, Ft. Salonga, St. James and Nesconset, and sections of both Commack and Hauppauge.

There are several large shopping centers in the Town, including one of Long Island's largest retail centers, the Smithhaven Mall, which is situated on the Smithtown-Brookhaven border. The Smithhaven Mall occupies 102 acres (part in each town), has over 150 stores including Macy's and Sears Roebuck, and has mall areas completely enclosed for year-round shopping comfort. The Smithhaven Mall has just completed a major expansion and renovation which includes the addition of several new major retail outlets. Another large shopping complex located in Commack is anchored by a Target Department Store, Home Depot Expo and Costco.

There is one hospital within the Town, St. Catherine of Siena, located on Route 25A in Smithtown. The hospital, with a bed capacity of 366, has modern medical facilities containing diagnostic and therapeutic equipment for complete medical, surgical, obstetrical and pediatric care.

The Town operates a number of beaches, parks and playgrounds. In addition, there are five private country clubs, as well as four private yacht clubs and marinas. The Town operates the Paul J. Fitzpatrick Smithtown Landing Country Club (the "Club") which is one of the few remaining large tracts of land on the north shore of Long Island. The Club provides three swimming pools, tennis courts and open space as well as two golf courses, pro shop, restaurant, snack bars and numerous meeting rooms and dining rooms. Senior citizens use the facilities extensively at special rates, and meet there regularly.

Six independently governed school districts are located wholly or partially within the Town which rely on their own taxing powers granted by the State to raise revenues. The school districts use the Town's assessment roll as their basis for taxation of property located within the Town.

The Town maintains its own interior road network. New York State Highways No. 25 (Jericho Turnpike), 25A (North Country Road) and Veterans Memorial Highway are major commercial east-west travel

routes. In addition, the Long Island Expressway and Northern State Parkway cross the Town in its southwestern sector. Air travel is provided for the residents of the Town at the Long Island MacArthur Airport, located nearby in Islip, which is served by several scheduled airlines with flights throughout the northeast and Florida. The Long Island Rail Road stops at three stations within the Town: Kings Park, Smithtown, and St. James.

Real Property Taxes

Funding for the operations of the Library is primarily derived from real property taxes levied by the Town on behalf of the Library. The Town derives its power to levy an ad valorem real property tax on behalf of the Library from the State Constitution, Chapter 193 of the Laws of 2001, the State Education Law and the State Real Property Tax Law. The Real Property Tax Law and Suffolk County Tax Act govern the methods and procedures to levy, collect and enforce this tax. The Town prepares real property assessment rolls to levy the Library tax, and in conjunction with the State Board of Real Property Services, determines assessment valuations. In addition, the State Board of Real Property Services annually establishes equalization rates for all localities in the State, which are determined by statistical sampling of market sales/assessment studies. The equalization rates are used in the calculation and distribution of certain state aid and are used by many localities in the calculation of debt contracting and real property tax limitations.

Tax Collection Procedure

The Board of Trustees of the Library establishes, with voter approval, any increases to the tax levy the Library requires to fund its annual operating budget. Once approved by the voters, the annual tax levy for library taxes can not change from year to year unless it is affirmatively increased or decreased by the voters of the Library District. At the special referendum conducted on March 4, 2008, the voters of the Library District approved an additional levy of library taxes in a maximum annual amount of \$1,740,000 for twenty (20) years to pay the annual debt service for the Project.

The Town collects taxes in two installments. The first half is due December 1st of the preceding fiscal year and payable until January 10th without penalty, or full tax payment can be made at this time. Second half taxes are due May 10th each year and are payable to May 31st, without penalty. After January 10th, 1% per month is added to first half taxes. After May 31st, when the rolls are turned over to the County, all taxes are payable to the County Treasurer with an additional penalty to the date of payment. Tax sales are held annually by the County. The Library receives its full levy from the Town between January and June of the Library's fiscal year. Uncollected amounts and any deficiency in tax collection are the liability of Suffolk County, which has the power to relevel, lien upon, and sell delinquent properties to recoup its liability.

There are no uncollected items at the close of the fiscal year. The Receiver of Taxes of the Town (the "Town Receiver") collects the County tax as well as the General Town, Town Highway, School and Special District levies. Before the tax rolls are returned to the County at the end of the tax period, (May 31st), the Town Receiver pays in full to the Town, the General Town, Town Highway, School and Special District levies. Any uncollected items are deducted from the amount returned to the County and the County assumes the responsibility for obtaining payment.

Library Budget

The Library's fiscal year extends from January 1st to December 31st. In the summer of the preceding calendar year, the budget is developed by the Library Director with input from the Assistant Director and Treasurer. The Library Board then refines the proposed budget prior to submission to the public. Under New York State Education Law, only changes to the Library tax levy are submitted to the voters of the Library. The 2008 budget included a levy of \$10,318,228, which was approved by the Library voters on October 13, 2007. An additional \$1,740,000 was approved by the voters on March 4, 2008 for a twenty year period. The 2009 budget was rejected by the voters on October 14, 2008, and in accordance with the New York State Education Law, the Library's 2008 budget and 2008 tax levy will remain in effect for 2009, including, however, the additional \$1,740,000 authorized. In the event of a defeat by the electorate of a levy change in any year, the Library's appropriation reverts to the tax levy including debt service for the previous year. A summary of the Library budget is set forth in more detail below.

Insurance

The Library maintains a comprehensive package of insurance coverage. The policy coverage (both its limits and policy scope) is periodically evaluated to assure the appropriate coverage is maintained based upon

replacement value of existing physical library structures and an analysis of potential liabilities. At the present time, the Library has \$26,842,997 in aggregate coverage on real and personal property, including valuable papers coverage, \$11,000,000 (aggregate) in liability coverage, \$11,000,000 (aggregate) in director and officers' liability coverage, \$500,000 (aggregate) in worker's compensation coverage, \$250,000 in employee dishonesty coverage, and \$1,000,000 in electronic data processing coverage. There also exists a \$4,000,000 builder's risk policy and a \$1,000,000 Treasurer's Bond.

Employees

The Library currently employs approximately 78 full-time and 82 part-time individuals, all under the supervision of the Library Director, of whom 44 are professionals with Masters Degrees in Library Science. The remaining staff consists of administrative, clerical, page and maintenance staff. The Library staff is organized in a bargaining unit represented by CSEA. The Library has a history of satisfactory relations with its employees.

ANNUAL FINANCIAL STATEMENT INFORMATION

The Library's audited financial statements for the fiscal year ending December 31, 2007 are attached as Appendix B to this Official Statement. The financial information that follows will be provided by the Library annually via the filing of the Library's annual financial statements in compliance with Rule 15c2-12 promulgated by the Securities and Exchange Commission as described in "PART 15 – CONTINUING DISCLOSURE".

Revenues and Expenditures

The Library generally receives approximately ninety-five percent (95%) of its operating revenue from a real property tax levied and collected by the Town on all non-exempt real property situated within the Library District. For the 2007 fiscal year, property taxes represented 76% of operating revenue. This decrease of approximately 19% from the norm was not the result of lower tax revenue, rather it was due to the receipt of a donation of real estate valued at \$2,487,556. (If the donation were excluded from total revenue, property taxes would have represented 94% of the operating revenue.)

The revenues earmarked for debt service on the Project are expected to be one-hundred percent (100%) supported by a real property tax levy not to exceed the \$1,740,000 per year as approved by the voters.

The revenues and expenses of the Library are determined by the operating budget proposed by the Library staff and voted upon by the residents of the Library District annually. The fiscal management of the Library is governed according to each annual operating budget.

Below is a summary of the Library's unrestricted revenues and expenditures for the last four fiscal years.

Smithtown Special Library District
Summary of Revenues, Expenditures and Changes in Net Assets

For the Years Ending December 31:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Revenues:				
Real Property Taxes.....	\$ 7,248,681	\$ 8,698,417	\$ 9,528,849	\$ 9,970,278
Other Tax Items.....	42,344	27,622	67,757	77,180
Local Revenue.....	182,584	229,775	311,298	3,005,068 *
State Sources.....	33,474	38,156	35,872	35,156
Federal Sources.....		49,600		
Other Revenues.....	<u>400</u>	<u>698</u>	<u>246</u>	<u>4,133</u>
Total Revenues.....	<u>7,507,483</u>	<u>9,044,268</u>	<u>9,944,022</u>	<u>13,091,815</u>

* Market value of recently acquired property, which includes a \$2,487,556 donation described above.

Expenses:				
Salaries & Related Costs.....	\$ 6,483,010	\$ 6,611,132	\$ 6,994,171	\$ 7,564,643
Library Operations/contractual.....	1,333,697	1,478,655	1,624,375	1,830,594
Depreciation.....	113,810	87,838	76,803	73,119
Debt Service.....	<u>466</u>	<u>10,501</u>	<u>32,775</u>	<u>4,426</u>
Total Expenses.....	<u>7,930,983</u>	<u>8,188,126</u>	<u>8,728,124</u>	<u>9,472,782</u>
Excess (Deficiency) of Revenue				
Over Expenses.....	<u>\$ (423,500)</u>	<u>\$ 856,142</u>	<u>\$ 1,215,898</u>	<u>\$ 3,619,033</u>
Source: Audited Financial Statements				

The Library's budget is based on estimates of revenues and expenses. The table below sets forth the Library's operating budget for fiscal year 2008.

2008 Budget *	
<u>Revenues</u>	
Real Property Taxes	\$10,318,228
Departmental Income	138,000
Interest Income	100,000
Misc. Local Revenue	11,500
State Sources	<u>35,872</u>
Total Revenues	<u>\$10,603,600</u>
<u>Expenditures</u>	
Salaries	\$5,426,500
Employee Benefits	2,660,900
Library Materials and Programs	772,500
Equipment and Other Capital Outlays	97,000
Operation and Maintenance of Buildings	792,500
Other Expenses	<u>854,200</u>
Total Expenses	<u>\$10,603,600</u>

* The 2009 Budget was rejected by the voters on October 14, 2008. The Library will operate from the 2008 Budget for the 2009 year plus the additional \$1,740,000 which was approved by the qualified voters of the Library District on March 4, 2008.

Less than 1% of the Library's 2008 revenues are derived from State Aid. The State is not constitutionally obligated to maintain or continue State aid to the Library. No assurance can be given that present State aid levels will be maintained in the future. In view of the State's continuing budget problems, future State aid reductions are possible.

Net Assets

The State's General Municipal Law governs the Library's investment policies. The table below was prepared from the Library's financial statements which are prepared in accordance with generally accepted accounting principles (GAAP). The table represents the restricted and unrestricted portion of the net assets for each of the years ending December 31, 2004 through December 31, 2007.

	Net Assets			
	For the Years Ending December 31:			
	<u>2004</u> ¹	<u>2005</u> ¹	<u>2006</u>	<u>2007</u>
Net Assets:				
Investment in capital assets, net of related debt	\$ 690,191	\$ 712,472	\$ 700,731	\$ 3,339,218
Unrestricted.....	<u>(2,686,907)</u>	<u>(1,853,045)</u>	<u>(625,406)</u>	<u>355,140</u>
Total Net Assets	<u>\$ (1,996,716)</u>	<u>\$ (1,140,573)</u>	<u>\$ 75,325</u>	<u>\$ 3,694,3580</u>

¹ Deficiencies in 2004 and 2005 were a result of the assumption of obligations from the Town upon conversion of the library services from a department of the Town to an independent special Library District.

TAX DATA

Funding for the operations of the Library is primarily derived from real property taxes levied by the Town on behalf of the Library on all non-exempt real property located within the Library District. The following information summarizes the tax base upon which the Library is dependent for funding.

Valuations, Tax Rates and Levies

Summary of Valuations

<u>Year Ending June 30</u>	<u>Assessed Value Of Taxable Real Property</u>	<u>State Equalization Rates</u>	<u>Full Value</u>
2008	\$261,454,542	1.12	\$23,344,155,535
2007	261,616,186	1.21	21,621,172,396
2006	261,135,900	1.30	20,087,376,923
2005	263,592,461	1.44	18,305,032,013
2004	263,592,461	1.56	16,896,952,628

Source: Town Assessor; NY State Office of Real Property Services.

Library Tax Rates per \$1,000 of

Assessed Valuation

<u>Year</u>	<u>Homestead Rate</u>
2003-2004	27.71
2004-2005	33.00
2005-2006	36.49
2006-2007	38.11
2007-2008	39.46

Source: Town Assessor

The real property tax revenues received for the past four years are included in the table entitled "Smithtown Special Library District Summary of Revenues, Expenditures and Changes in Net Assets" hereinabove provided.

Selected Listing of Largest Tax Payers in the Town

<u>Name of Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>
LIPA	Utility	\$2,201,904
LILCO/Keyspan	Utility	1,527,175
Reckson Operating Partnership	Commercial	1,398,732
Forest Laboratories	Commercial	920,530
P.J. Venture FG LLC	Commercial	836,765
Verizon	Utility	807,642
Keyspan	Utility	734,309
Smithtown Galleria Assoc.	Commercial	733,845
Commack Market	Shopping Center	605,000
Commack Shopping Center	Shopping Center	550,000

The ten larger taxpayers listed above have a total assessed valuation of \$10,315,902, which represents 4.07% of the tax base of the Library.

Source: Town Assessor.

Economic and Demographic Information

The following table sets forth population statistics for the Town of Smithtown, Suffolk County and the State of New York.

Population Trends

<u>Year</u>	<u>Town</u>	<u>Suffolk County</u>	<u>New York State</u>
1970	114,657	1,127,030	18,241,391
1980	116,663	1,284,231	17,557,288
1990	113,406	1,321,864	17,990,455
2000	115,715	1,419,369	18,976,457
2007	119,999	1,504,947	19,297,729

Source: U.S. Department of Commerce, Bureau of the Census and the Long Island Power Authority.

Selected Wealth and Income Indicators

The following tables set forth per capita and family median income statistics for the Town of Smithtown, Suffolk County and the State of New York. The information set forth below is included for informational purposes only.

	<u>Per Capita Income</u>			<u>Median Family Income</u>		
	<u>1990</u>	<u>2000</u>	<u>2006</u>	<u>1990</u>	<u>2000</u>	<u>2006</u>
Town of Smithtown	\$21,465	\$31,401	\$35,400	\$64,058	\$87,355	\$103,507
County of Suffolk	18,481	26,577	32,323	53,247	72,112	86,993
State of New York	16,501	23,389	28,158	39,741	51,691	59,686

Note: 2007 data is not available at this time.

Source: U. S. Department of Commerce; Bureau of the Census

Major Employers

<u>Name</u>	<u>Type of Service</u>	<u>Approximate Employees</u>
St. Catherine of Siena Hospital	Hospital	1,600
Development Disabilities Institute	Health Care Services	1,559
L.I. Developmental Disabilities Services	Health Care Services	1,495
Smithtown Central School District	Public Schools	1,335
Town of Smithtown	Local Government	1,100
United Cerebral Palsy Assoc.	Health Care Services	1,000
Suffolk County	Local Government	1,000
Commack School District	Public Schools	966
Standard Microsystem Corp.	Semiconductors	800
Hauppauge School District	Public Schools	669
Utopia Home Care	Health Care Services	610
Southern Container Corp.	Mfrg. Packaging	600
Linotype-Heli Co.	Typesetting Machines	600
Kings Park School District	Public Schools	600
Audiovox Corp.	Mfrg. - Sound System	400
St. Catherine of Sienna	Nursing Home	300

Source: Suffolk County Planning Dept., Smithtown Library

Unemployment Rate Statistics

Unemployment statistics for the Town of Smithtown are set forth below:

	<u>Annual Average</u>						
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Town	2.8%	3.6%	3.6%	4.6%	3.7%	3.5%	3.4%
New York State	4.9%	6.2%	6.4%	5.8%	5.0%	4.5%	4.5%

	<u>2008 Monthly Figures</u>											
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
Town	4.0%	4.1%	4.0%	3.5%	4.1%	4.3%	4.6%	4.6%	--	--	--	--
New York State	5.6%	5.0%	5.1%	4.6%	4.9%	5.2%	5.3%	5.6%	--	--	--	--

Source: Department of Labor, State of New York. (Note: Figures not seasonally adjusted).

Litigation

There are no suits pending or, to the knowledge of the Library's officers and members of the Board, threatened against the Library wherein an unfavorable result would have a material adverse effect on the financial condition of the Library or impair the levy and collection of the ad valorem taxes authorized by the March 4, 2008 referendum.

PART 5 - THE PROJECT

The Project consists of the following:

Smithtown Main Library (\$6.8 million): Construction of a new two-story 6,000 square foot addition at 1 North Country Road, in Smithtown. This project includes a complete interior renovation, drainage and energy efficiency upgrades. Additional public space will be gained by moving some Library offices to the new Nesconset Branch. The completed building will be approximately 28,100 square feet.

Commack Branch (\$3.1 million): Complete interior renovation of the branch, new doors and windows, ADA compliance, reconfigured parking and drainage system improvements. Also included are energy efficient HVAC and electrical system upgrades. A 1,500 square foot addition will bring the branch to a total of approximately 12,100 square feet.

Nesconset Branch (\$8.2 million): The New York State Armory building (the "Armory") was transferred to the Library by the Town in 2007 to create a permanent Nesconset Branch Library and house technical services, storage and Library Offices. The conversion of the abandoned 22,400 square foot Armory building will result in approximately 15,000 square feet of public space to replace the current rented store front branch. 4,179 square feet will house Technical Services, and Library storage space which are currently located in rented quarters. The remaining 3,221 will be used to relocate offices that are currently in the Main Library.

Kings Park Branch (\$2.9 million): Renovation of the branch at 1 Church Street, including construction of an addition of 1,500 square feet as well as the replacement of the windows, elevator, ADA compliance, HVAC and electrical systems. The building and addition will result in approximately 11,500 square feet of usable space.

The Project requires various approvals from the Town of Smithtown and the Village of the Branch which the Library anticipates receiving in December, 2008. Construction is expected to begin in the Spring of 2009.

PART 6 – ESTIMATED SOURCES AND USES OF FUNDS

Estimated sources and uses of funds are as follows:

Sources of Funds

Principal Amount of Series 2008 Bonds	\$20,930,000
Net Original Issue Premium	<u>378,557</u>
Total Sources	<u><u>21,308,557</u></u>

Uses of Funds

Deposit to the Construction Fund	\$20,671,443
Costs of Issuance*	545,846
Underwriter's Discount	<u>91,268</u>
Total Uses	<u><u>21,308,557</u></u>

* Includes New York State Bond Issuance Charge

PART 7 – 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 September 30, 2008, the Authority had approximately \$36.9 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 September 30, 2008 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	\$ 2,250,196,000	\$ 974,760,000	\$ 0	\$ 974,760,000
State University of New York Educational and Athletic Facilities	11,757,912,999	4,849,608,949	0	4,849,608,949
Upstate Community Colleges of the State University of New York	1,397,910,000	577,550,000	0	577,550,000
Senior Colleges of the City University of New York	8,950,698,549	2,778,741,000	0	2,778,741,000
Community Colleges of the City University of New York	2,250,831,563	468,219,000	0	468,219,000
BOCES and School Districts	1,911,191,208	1,444,745,000	0	1,444,745,000
Judicial Facilities	2,161,277,717	731,557,717	0	731,557,717
New York State Departments of Health and Education and Other	4,675,320,000	3,257,740,000	0	3,257,740,000
Mental Health Services Facilities	6,198,585,000	3,794,045,000	0	3,794,045,000
New York State Taxable Pension Bonds	773,475,000	0	0	0
Municipal Health Facilities Improvement Program	<u>985,555,000</u>	<u>802,230,000</u>	<u>0</u>	<u>802,230,000</u>
Totals Public Programs	<u>\$ 43,312,953,036</u>	<u>\$ 19,679,196,666</u>	<u>\$ 0</u>	<u>\$ 19,679,196,666</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	\$ 16,554,756,020	\$ 8,083,977,833	\$184,725,000	\$ 8,268,702,833
Voluntary Non-Profit Hospitals	13,397,904,309	7,931,815,000	0	7,931,815,000
Facilities for the Aged	1,996,020,000	1,017,785,000	0	1,017,785,000
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>\$ 32,043,680,329</u>	<u>\$ 17,033,577,833</u>	<u>\$184,725,000</u>	<u>\$ 17,218,302,833</u>
Grand Totals Bonds and Notes	<u>\$ 75,356,633,365</u>	<u>\$ 36,712,774,499</u>	<u>\$184,725,000</u>	<u>\$ 36,897,499,499</u>

Outstanding Indebtedness of the Agency Assumed by the Authority

At September 30, 2008, the Agency had approximately \$382.8 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 September 30, 2008 were as follows:

<u>Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Mental Health Services Improvement Facilities.....	\$ 3,817,230,725	\$ 0
<u>Non-Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Hospital and Nursing Home Project Bond Program	\$ 226,230,000	\$ 3,605,000
Insured Mortgage Programs	6,625,079,927	370,965,939
Revenue Bonds, Secured Loan and Other Programs.....	<u>2,414,240,000</u>	<u>8,255,000</u>
Total Non-Public Programs.....	\$ 9,265,549,927	\$ 382,825,939
Total MCFFA Outstanding Debt.....	<u>\$ 13,082,780,652</u>	<u>\$ 382,825,939</u>

Governance

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

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

The current members of the Authority are as follows:

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

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

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

John B. Johnson, Jr. was appointed as a Member of the Authority by the Governor on April 26, 2004. Mr. Johnson is Chairman of the Board and Chief Executive Officer of the Johnson Newspaper Corporation, which publishes the Watertown Daily Times, Batavia Daily News, Malone Telegram, Catskill Daily Mail, Hudson Register Star, Ogdensburg Journal, Massena-Potsdam Courier Observer, seven weekly newspapers and three shopping newspapers. He is director of the New York Newspapers Foundation, a member of the Development Authority of the North Country and the Fort Drum Regional Liaison Committee, a trustee of Clarkson University and president of the Bugbee Housing Development Corporation. Mr. Johnson has been a member of the American Society of Newspaper Editors since 1978, and was a Pulitzer Prize juror in 1978, 1979, 2001 and 2002. He holds a Bachelor’s degree from Vanderbilt University, and Master’s degrees in Journalism and Business Administration from the Columbia University Graduate School of Journalism and Business. Mr. Johnson was awarded an Honorary Doctor of Science degree from Clarkson University. Mr. Johnson’s term expires on March 31, 2010.

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

Dr. Corvalan was appointed as a Member of the Authority by the Governor on June 22, 2005. Dr. Corvalan is currently an Attending Surgeon at St. Vincent's Hospital in Manhattan. Dr. Corvalan was Chief of Laparoscopic Surgery at St. Vincent's Hospital in Manhattan. Previously, Dr. Corvalan served as Chief of Surgery and President of the Medical Staff at St. Vincent's Midtown Hospital in Manhattan. He is a Diplomate of the American Board of Surgery, and is a Fellow of the American College of Surgeons and the New York Academy of Medicine. Dr. Corvalan has held a number of teaching positions and is Associate Professor of Surgery at New York Medical College, Valhalla, New York. His current term expired on March 31, 2008 and by law he continues to serve until a successor shall be chosen and qualified.

BRIAN RUDER, Scarsdale.

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

ANTHONY B. MARTINO, CPA, Buffalo.

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

SANDRA M. SHAPARD, Delmar.

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

ROMAN B. HEDGES, 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.

KEVIN R. CARLISLE, Averill Park.

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

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

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

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

Ms. Anglin was appointed Budget Director on January 1, 2008. As Budget Director, she 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. Ms. Anglin previously served as First Deputy Budget Director from January 2007 to December 2007. She was appointed Deputy Comptroller of the Division of Retirement Services in January 2003 and was responsible for overseeing the administration and managing the operations of the New York State and Local Retirement System. From 1996-2003, Ms. Anglin worked in the New York State Assembly where she served as Director of Budget Studies for the Assembly Ways and Means Committee and as First Deputy Fiscal Director for the Committee. Ms. Anglin has also held the position of Econometrician in the Department of Taxation and Finance from 1992-1996 and began her career as an Economist for the Department of Environmental Conservation. Ms. Anglin holds a Bachelor of Arts degree and a Masters degree in Economics from the State University of New York at Albany.

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

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

The principal staff of the Authority is as follows:

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

PORTIA LEE is the Managing Director of Public Finance 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.

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

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

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.

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 2008 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, 2008. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

PART 8 – LEGALITY OF THE SERIES 2008 BONDS FOR INVESTMENT AND DEPOSIT

Under New York State law, the Series 2008 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 in the State may properly and legally invest funds in their control. However, enabling legislation or bond resolutions of individual authorities of the State may limit the investment of funds of such authorities in the Series 2008 Bonds.

The Series 2008 Bonds may be deposited with the State Comptroller to secure deposits of State moneys in banks, trust companies and industrial banks.

PART 9 – NEGOTIABLE INSTRUMENTS

The Series 2008 Bonds shall be negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution and in the Series 2008 Resolution.

PART 10 – TAX MATTERS

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements that must be met at and subsequent to the issuance and delivery of the Series 2008 Bonds in order that interest on the Series 2008 Bonds will be and remain not includable in gross income under Section 103 of the Code. Included among these continuing requirements are certain restrictions on the use of proceeds of the Series 2008 Bonds and the bond-financed facilities, restrictions on the investment of proceeds of the Series 2008 Bonds and other amounts, the rebate to the United States of certain earnings in respect of such investments and required ownership of the bond-financed facility by a governmental unit. Failure to comply with the continuing requirements may cause interest on the Series 2008 Bonds to be includable in gross income for federal income tax purposes retroactive to the date of their issuance irrespective of the date on which such noncompliance occurs. In the Series Resolution and the Loan Agreement and accompanying documents, exhibits and certificates, the Authority and the Library have covenanted to comply with certain procedures, and have made certain representations and certifications, designed to assure compliance with the requirements of the Code.

In the opinion of Winston & Strawn LLP, New York, New York (“Bond Counsel”), based upon an analysis of existing statutes, regulations, rulings and court decisions, interest on the Series 2008 Bonds is not includable in gross income for federal income tax purposes, assuming continuing compliance by the Authority and the Library (and their successors) with the covenants and the accuracy of the representations (as to which Bond Counsel has made no independent investigation) referenced above. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

Certain requirements and procedures contained or referred to in the Resolution, the Series Resolution, the Loan Agreement, and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series 2008 Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Winston & Strawn LLP.

Bond Counsel is further of the opinion that interest on the Series 2008 Bonds is not an “item of tax preference” for purposes of the federal alternative minimum tax on individuals and corporations. However, interest on the Series 2008 Bonds owned by corporations (other than S corporations, Regulated Investment Companies, Real Estate Investment Trusts, Real Estate Mortgage Investment Conduits and Financial Asset Securitization Investment Trusts) will be included in the calculation of adjusted current earnings, a portion of which is an adjustment to corporate alternative minimum taxable income for purposes of calculating the alternative minimum tax imposed on corporations (but not individuals). Corporate purchasers of the Series 2008 Bonds should consult their tax advisors concerning the computation of any alternative minimum tax.

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 2008 Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the 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.

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2008 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification”, or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding”, which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2008 Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2008 Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the IRS.

Certain maturities of the Series 2008 Bonds are initially offered to the public at prices less than the principal amount thereof payable at maturity. If the first price at which a substantial amount of the Series 2008 Bonds of the same maturity is sold in the initial offering to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) is less than the principal amount thereof payable at maturity, the difference between such price and principal amount constitutes original issue discount with respect to each Series 2008 Bond of the same maturity (the “Discount Bonds”). Bond counsel is of the opinion that original issue discount, as it accrues, is excludable from gross income for federal income tax purposes and is subject to the alternative minimum tax to the same extent as is interest on the Series 2008 Bonds. Original issue discount accrues in each taxable year over the term of the Discount Bonds under the “constant yield method” described in regulations interpreting Section 1272 of the Code, with certain adjustments. Original issue discount may be treated as continuing to accrue in each taxable year even if payment of the Discount Bonds becomes doubtful in the event the Library encounters financial difficulties. Accruals of original issue discount are treated as tax-exempt interest earned by holders on the accrual basis of tax accounting and as a tax-exempt interest received by holders on the cash basis of tax accounting, even though no cash corresponding to the accrual is received in the year of accrual. The tax basis of a Discount Bond if held by an original purchaser, can be determined by adding to such holder's purchase price of such

Discount Bond the original issue discount that has accrued. Holders of Discount Bonds should consult their own tax advisors with respect to the calculation of the amount of the original issue discount that will be treated for federal income tax purposes as having accrued for any taxable year (or portion thereof) of the holder and with respect to other federal, state and local tax consequences of owning and disposing of the Discount Bonds.

Certain maturities of the Series 2008 Bonds are initially offered to the public at prices greater than the principal amount thereof payable at maturity. If Series 2008 Bonds are sold at prices in excess of their principal amount ("Premium Bonds"), the excess constitutes amortizable bond premium which, as it amortizes, will reduce the owner's tax cost of the Premium Bonds used to determine, for federal income tax purposes, the amount of gain or loss upon the sale, redemption at maturity or other disposition of the Premium Bonds. Accordingly, an owner of a Premium Bond may have taxable gain from the disposition of the Premium Bond, even though the Premium Bond is sold, or disposed of, for a price equal to the owner's original cost of acquiring the Premium Bond. No deduction is allowable for amortizable bond premium. Bond premium amortizes over the term of the Premium Bonds under the "constant yield method" described in regulations interpreting Section 1272 of the Code. Generally, under this method, the portion of bond premium which amortizes in a taxable year will increase from taxable year to taxable year in a geometrical progression over the term of the Premium Bonds. Owners of Premium Bonds should consult their own tax advisors with respect to the calculation of the amount of bond premium which will be treated for federal income tax purposes as having amortized for any taxable year (or portion thereof) of the owners and with respect to other federal, state and local tax consequences of owning and disposing of the Premium Bonds.

Prospective purchasers of the Series 2008 Bonds should be aware that ownership of, accrual or receipt of interest on, or disposition of tax-exempt obligations may have collateral federal income tax consequences for certain taxpayers, including financial institutions, certain subchapter S corporations, United States branches of foreign corporations, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, taxpayers eligible for the earned income credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. The foregoing is not intended as an exhaustive list of potential tax consequences. Prospective purchasers should consult their tax advisors regarding any possible collateral consequences with respect to the Series 2008 Bonds. Bond Counsel expresses no opinion regarding any such collateral consequences.

In the opinion of Bond Counsel, the interest on the Series 2008 Bonds is exempt under existing statutes from personal income taxes imposed by the State of New York and its political subdivisions (including The City of New York).

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2008 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2008 Bonds. Future tax legislation, administrative actions taken by tax authorities, and court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2008 Bonds under Federal or state law and could affect the market price or marketability of the Series 2008 Bonds. Prospective purchasers of the Series 2008A Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation and prospective purchasers of the Series 2008 Bonds at other than their original issuance at the respective prices indicated on the inside cover of this 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 2008 Bonds ends with the issuance of the Series 2008 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the Library or the beneficial owners regarding the tax status of interest on the Series 2008 Bonds 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 2008 Bonds, under current IRS procedures, the IRS will treat the Authority as the taxpayer and the beneficial owners of the Series 2008 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 2008 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 prices for the Series 2008 Bonds.

PART 11 – STATE NOT LIABLE ON THE SERIES 2008 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 Resolution specifically provides that the Series 2008 Bonds shall not be a debt of the State nor shall the State be liable thereon.

PART 12 – 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 projects, to establish and collect rentals there from 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.

PART 13 – LEGAL MATTERS

Certain legal matters incidental to the authorization and issuance of the Series 2008 Bonds by the Authority are subject to the approval of Winston & Strawn, LLP, Bond Counsel to the Authority, whose approving opinion will be delivered with the Series 2008 Bonds. The proposed form of Bond Counsel's approving opinion is set forth in Appendix E hereto.

Certain legal matters will be passed upon for the Underwriter by its counsel Orrick Herrington & Sutcliffe LLP, New York, New York and certain legal matters will be passed upon for the Library by its Counsel, Kevin Seaman, Esq., Stony Brook, New York.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2008 Bonds or questioning or affecting the validity of the Series 2008 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 Resolution, the Series 2008 Resolution and the Loan Agreement.

PART 14 – UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Series 2008 Bonds from the Authority at an aggregate purchase price, including net original issue premium and less underwriters discount, of \$21,217,289.50 and to make a public offering of the Series 2008 Bonds at prices that are not in excess of the public offering prices stated on the inside cover page of this Official Statement. The Series 2008 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 15 – CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the Library has undertaken in a written agreement for the benefit of the Bondholders to provide to Digital Assurance Certification LLC ("DAC"), on behalf of the Authority as the Authority's disclosure dissemination agent, on or before 150 days after the end of each of its fiscal years, commencing December 31, 2008, for filing by DAC with each Nationally Recognized Municipal Securities Information Repository (each a "Repository"), and if and when one is established, the New York State Information Depository (the "State Information Depository"), on an annual basis, certain operating data and financial information of the type hereinafter described which is included in "PART 4 — THE LIBRARY" of this Official Statement (the "Annual Information"), together with the Library's 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; provided, however, that if audited financial statements are not then available, unaudited financial statements shall be delivered to DAC for delivery to each Repository and to the State Information Depository when they become available .

If, and only if, and to the extent that it receives the Annual Information and annual financial statements described above from the Library, DAC has undertaken in the Continuing Disclosure Agreement, on behalf of and as agent for the Library and the Authority, 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 the Library, with each such Repository and to the State Information Depository. In addition, the Authority, the Library and the Trustee have undertaken, for the benefit of the Bondholders, to provide to DAC, in a timely manner, the notices required to be provided by Rule 15c2-12 described below (the “Notices”). Upon receipt of Notices from the Authority, DAC will file the Notices to each such Repository or to the Municipal Securities Rulemaking Board (the “MSRB”), and to the State Information Depository, in a timely manner. With respect to the Bonds, DAC has only the duties specifically set forth in the Continuing Disclosure Agreement. DAC’s obligation to deliver the information at the times and with the contents described in the Continuing Disclosure Agreement is limited to the extent the Library has provided such information to DAC as required by the Continuing Disclosure Agreement. DAC has no duty with respect to the content of any disclosure or Notices made pursuant to the terms of the Continuing Disclosure Agreement and DAC has no duty or obligation to review or verify any information contained in the Annual Information, Audited Financial Statements, Notices or any other information, disclosures or notices provided to it by the Library or the Authority and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Library, the Holders of the Bonds or any other party. DAC has no responsibility for the Authority’s failure to provide to DAC a Notice required by the Continuing Disclosure Agreement or duty to determine the materiality thereof. DAC shall have no duty to determine or liability for failing to determine whether the Library or the Authority has complied with the Continuing Disclosure Agreement and DAC may conclusively rely upon certifications of the Library and the Authority with respect to their respective obligations under the Continuing Disclosure Agreement.

The Annual Information means annual information concerning the Library which consists of financial and operating data of the type included in this Official Statement for the Library, which shall include information as described in “PART 4 – THE LIBRARY” under the headings “ANNUAL FINANCIAL STATEMENT INFORMATION” (unless such information is included in the audited financial statements of the Library) and “TAX DATA,” relating to *valuations, tax rates and levies* similar to that set forth under the additional subheadings, “Summary Of Valuations” and “Library Tax Rates per \$1,000 of Assessed Valuation,” together with a narrative explanation, if necessary to avoid misunderstanding, regarding the presentation of financial and operating data concerning the Library and in judging the financial and operating condition of the Library.

The Notices include notices of any of the following events with respect to the Series 2008 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 2008 Bonds; (7) modifications to the rights of holders of the Series 2008 Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2008 Bonds; and (11) rating changes. In addition, DAC will undertake, for the benefit of the Holders of the Series 2008 Bonds, to provide to each Repository or the MSRB and to the State Information Depository, in a timely manner, notice of any failure by the Library to provide the Annual Information and annual financial statements by the date required in the Library’s undertaking described above.

The sole and exclusive remedy for breach or default under the agreement to provide continuing disclosure described above is an action to compel specific performance of the undertaking of DAC, the Library and/or the Authority, and no person, including any Holder of the Series 2008 Bonds, may recover monetary damages thereunder under any circumstances. A breach or default under the agreement shall not constitute an Event of Default under the Resolution, the Series 2008 Resolution or the Loan Agreement. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the agreement, insofar as the provision of Rule 15c2-12 no longer in effect required the providing of such information, shall no longer be required to be provided.

The foregoing undertaking is intended to set forth a general description of the type of financial information and operating data that will be provided; the description is 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. As a result, the parties to the agreement do not anticipate that it often will be necessary to amend the informational undertaking. The agreement, however, may be amended or modified without Bondholders consent under certain circumstances set forth therein. Copies of the agreement when executed by the parties thereto upon the delivery of the Series 2008 Bonds will be on file at the principal office of the Authority.

PART 16 – RATINGS

Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's") and Moody's Investors Service Inc. ("Moody's") have assigned ratings of "AA" and "A2", respectively, to the Series 2008 Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agencies at the following addresses: Standard & Poor's, 55 Water Street, New York, New York 10041; and Moody's, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. There is no assurance that such ratings will prevail for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating agencies if, in the judgment of either or both of them, circumstances so warrant. Any such downward revision or withdrawal of such rating or ratings may have any adverse effect on the market price of the Series 2008 Bonds.

PART 17 – MISCELLANEOUS

Reference in this Official Statement to the Act, the Resolution, the Series 2008 Resolution and the Loan Agreement do not purport to be complete. Refer to the Act, the Resolution, the Series 2008 Resolution and the Loan Agreement for full and complete details of their provisions. Copies of the Resolution, the Series 2008 Resolution and the Loan Agreement are on file with the Authority and the Trustee.

The agreements of the Authority with Holders of the Series 2008 Bonds are fully set forth in the Resolution and the Series 2008 Resolution. Neither any advertisement of the Series 2008 Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2008 Bonds.

Any statements in this Official Statement involving matters of opinion, whether or not expressly stated, are intended merely as expressions of opinion and not as representations of fact.

The information regarding the Library and the Project was supplied by the Library. The Authority believes that this information is reliable, but the Authority makes no representations or warranties whatsoever as to the accuracy or completeness of this information.

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.

"Appendix A – Definitions," "Appendix C – Summary of Certain Provisions of the Loan Agreement," "Appendix D – Summary of Certain Provisions of the Resolution," and "Appendix E – Form of Approving Opinion of Bond Counsel," have been prepared by Winston & Strawn, LLP, New York, New York, Bond Counsel to the Authority.

"Appendix B – Audited Financial Statements of the Smithtown Special Library District" contains certain audited financial statements of the Library for the years ended December 31, 2006 and December 31, 2007 and the report of the Library's independent auditor, Baldessari & Coster, LLP, on such financial statements.

The Library has reviewed the parts of this Official Statement describing the Library, the Project, the Estimated Sources and Uses of Funds and Appendix B hereto. The Library shall certify as of the dates of sale and delivery of the Series 2008 Bonds that such parts do not contain any untrue statement of a material fact and do not omit any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading.

The Library has agreed to indemnify the Authority and certain others against losses, claims, damages and liabilities arising out of any untrue statements or omissions of statements of any material fact as described in the preceding paragraph.

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 T. Williams, Jr.
Authorized Officer

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DEFINITIONS

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CERTAIN DEFINITIONS

In addition to the other terms defined in this Official Statement, when used in this Official Statement, including the summaries of certain provisions of the Resolution and the Loan Agreement, the following terms have the meanings ascribed to them below. Any capitalized term not defined herein shall have the definition ascribed to it under the Resolution and/or the Loan Agreement.

Act means the Dormitory Authority Act being Title 4 of Article 8 of the Public Authorities Law of the State, as amended, including, without limitation, by the Healthcare Financing Construction Act, being Title 4-B of the Public Authorities Law of the State of New York, as amended;

Annual Administrative Fee means the annual fee for the general administrative and supervisory expenses of the Authority in the amount or percentage stated in the Loan Agreement;

Arbitrage Rebate Fund means the fund so designated and established by a Series Resolution pursuant to the Resolution;

Authority means the Dormitory Authority of the State of New York, a body corporate and politic constituting a public benefit corporation of the State created by the Act, or any body, agency or instrumentality of the State which shall hereafter succeed to the rights, powers, duties and functions of the Authority;

Authority Fee means the fee payable to the Authority consisting of all of the Authority's internal costs and overhead expenses attributable to the issuance of the Bonds and the construction of the Project in an amount set forth in the Loan Agreement;

Authorized Newspaper means *The Bond Buyer* or any other newspaper of general circulation printed in the English language and customarily published at least once a day for at least five (5) days (other than legal holidays) in each calendar week in the Borough of Manhattan, City and State of New York, designated by the Authority;

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 Managing Director of Public Finance, the Managing Director of Construction, the Managing Director of Policy and Program Development, and the General Counsel, 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 the Institution, the person or persons authorized to perform any act or sign any document by or pursuant to a resolution of the Institution's Board of Trustees or its Executive Committee or the by-laws of the Institution; 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;

Bond or Bonds means any of the bonds of the Authority authorized pursuant to the Resolution and issued pursuant to a Series Resolution;

Bond Counsel means an attorney or a law firm, appointed by the Authority with respect to a 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 a certificate of an Authorized Officer of the Authority fixing terms, conditions and other details of Bonds of a Series in accordance with the delegation of power to do so under a Series Resolution;

Bond Year means, unless otherwise provided in a Series Resolution authorizing a Series of Bonds or the Bond Series Certificate relating thereto, a period of twelve (12) consecutive months beginning July 1 in any calendar year and ending on June 30 of the succeeding calendar year;

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

Book Entry Bond means a Bond of a Series authorized to be issued, and issued to and registered in the name of, a Depository for the participants in such Depository or the beneficial owner of such Bond.

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;

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

Collection Agreement means a Collection Agreement or any other agreement, by and between the Institution, the Town of Smithtown, the Trustee and the Authority executed in connection with the issuance of a Series of Bonds, as the same shall have been amended, supplemented or otherwise modified.

Contract Documents means, as applicable, any general contract or agreement for the construction of the Project, notice to bidders, information for bidders, form of bid, general conditions, supplemental general conditions, general requirements, supplemental general requirements, bonds, plans and specifications, addenda, change orders, and any other documents entered into or prepared by or on behalf of the Institution relating to any construction of the Project, and any amendments to the foregoing;

Construction Fund means the fund so designated and established by a Series Resolution pursuant to the Resolution;

Cost or Costs of Issuance means the items of expense incurred in connection with the authorization, sale and issuance of Bonds of a Series, which items of expense shall 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, 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 such Bonds, commitment fees or similar charges relating to a Reserve Fund 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 costs and expenses or the refinancing of costs and expenses determined by the Authority to be necessary in connection with a 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 a 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 a 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 construction of a Project, (v) costs and expenses required for the acquisition and installation of equipment or machinery, (vi) all other costs which the Institution shall be required to pay or cause to be paid for the acquisition, construction, reconstruction, rehabilitation, repair, improvement and equipping of a Project, (vii) any sums required to reimburse the Institution 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 a Project (including interest on moneys borrowed from parties other than the Institution), (viii) interest on the Bonds of a Series prior to, during and for a reasonable period after completion of the acquisition, construction, reconstruction, rehabilitation, repair, improvement or equipping

of a Project, and (ix) fees, expenses and liabilities of the Authority incurred in connection with such Project or pursuant hereto or to the applicable Loan Agreement or Mortgage;

Debt Service Fund means the fund so designated and established by a Series Resolution pursuant the Resolution;

Debt Service Reserve Fund means a reserve fund for the payment of the principal and Sinking Fund Installments of and interest on a Series of Bonds so designated, created and established by the Authority by or pursuant to a Series Resolution;

Debt Service Reserve Fund Requirement means the amount of moneys required to be deposited in the Debt Service Reserve Fund, if any, as determined in accordance with the Series Resolution pursuant to which such Debt Service Reserve Fund has been established;

Defeasance Security means any of the following:

(a) a Government Obligation of the type described in clauses (i), (ii), (iii) or (iv) of the definition of Government Obligations;

(b) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations; and

(c) an Exempt Obligation, provided such Exempt Obligation (i) 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) is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations, 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) is rated by at least two nationally recognized statistical rating services in the highest rating category for such Exempt Obligation;

provided, however, that (1) such term shall not include any interest in a unit investment trust or mutual fund or (2) any obligation that is subject to redemption prior to maturity other than at the option of the holder thereof;

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;

Event of Default has the meaning given to such term the Loan Agreement;

Exempt Obligation means any of the following:

(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 Resolution, is rated, without regard to qualification of such rating by symbols

such as “+” or “-” and numerical notation, no lower than the second highest rating category for such obligation by at least two nationally recognized statistical rating services;

(ii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and

(iii) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations;

Facility Provider means the issuer of a Reserve Fund Facility;

Federal Agency Obligation means any of the following:

(i) an obligation issued by any federal agency or instrumentality approved by the Authority;

(ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency approved by the Authority;

(iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and

(iv) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations;

Government Obligation means any of the following:

(i) a direct obligation of the United States of America;

(ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment of principal and interest by the United States of America;

(iii) an obligation to which the full faith and credit of the United States of America are pledged;

(iv) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and

(v) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations;

Governmental Requirements means any present and future laws, rules, orders, ordinances, regulations, statutes, requirements and executive orders applicable to the Project or the Mortgaged Property, of the United States, the State and any political subdivision thereof, and any agency, department, commission, board, bureau or instrumentality of any of them, now existing or hereafter created, and having or asserting jurisdiction over the Project or the Mortgaged Property or any portion of either;

Institution means Smithtown Special Library District, a special district public library chartered by the Board of Regents of the State, or any successor thereto;

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

Library District means the Smithtown Special Library District, established by Chapter 193 of the Laws of 2001 of the State

Loan Agreement means a Loan Agreement or any other agreement, by and between the Authority and the Institution in connection with the issuance of a Series of Bonds, as the same shall have been amended, supplemented or otherwise modified as permitted by the Resolution and by such Loan Agreement;

Mortgage means a mortgage granted by the Institution to the Authority in connection with the issuance of a Series of Bonds, if any, in form and substance satisfactory to an Authorized Officer of the Authority, on the Mortgaged Property mortgaged in connection therewith as security for the performance of the Institution's obligations under the Loan Agreement with respect to such Series of Bonds, as such Mortgage may be amended or modified from time to time with the consent of the Authority;

Mortgaged Property means the land or interest therein described in each Mortgage, if any, together with the buildings and improvements thereon or hereafter erected thereon and the furnishings and equipment owned by the Institution located thereon or therein as may be specifically identified in a Mortgage;

Outstanding, when used in reference to Bonds of a Series, means, as of a particular date, all Bonds of such Series authenticated and delivered under the Resolution and under a Series Resolution except:

- (i) any Bond canceled by the Trustee at or before such date;
- (ii) any Bond deemed to have been paid in accordance with the Resolution; and
- (iii) any Bond in lieu of or in substitution for which another Bond shall have been authenticated and delivered pursuant to the Resolution;

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

Permitted Collateral means any of the following:

- (i) Government Obligations described in clauses (i), (ii) or (iii) of the definition of Government Obligations;
- (ii) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations;
- (iii) commercial paper that (a) matures within two hundred seventy (270) days after its date of issuance, (b) is rated in the highest short term rating category by at least one nationally recognized statistical rating service and (c) is issued by a domestic corporation whose unsecured senior debt is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category; and
- (iv) financial guaranty agreements, surety or other similar bonds or other instruments of an insurance company that has an equity capital of at least \$125,000,000 and is rated by Bests Insurance Guide or a nationally recognized statistical rating service in the highest rating category;

Permitted Encumbrances means, when used in connection with the Project or the Mortgaged Property, any of the following:

- (i) The lien of taxes and assessments which are not delinquent;

(ii) The lien of taxes and assessments which are delinquent but the validity of which is being contested in good faith unless thereby the property or the interest of the Authority therein may be in danger of being lost or forfeited;

(iii) Minor defects and irregularities in the title to such property which do not in the aggregate materially impair the use of such property for the purposes for which it is or may be reasonably be expected to be held;

(iv) 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 be reasonably be expected to be held;

(v) Security interests, liens and other encumbrances to secure the purchase price of any equipment or furnishings; and

(vi) Such other encumbrances, defects, and irregularities to which the prior written consent of the Authority has been obtained;

Permitted Indebtedness shall have the same meaning as set forth in Section 11 of the Loan Agreement.

Permitted Investments means any of the following:

- (i) Government Obligations;
- (ii) Federal Agency Obligations;
- (iii) Exempt Obligations;
- (iv) Uncollateralized certificates of deposit that are fully insured by the Federal Deposit Insurance Corporation and issued by a banking organization authorized to do business in the State;
- (v) Collateralized certificates of deposit that are (a) issued by a banking organization authorized to do business in the State that has an equity capital of not less than \$125,000,000, whose unsecured senior debt, or debt obligations fully secured by a letter or credit, contract, agreement or surety bond issued by it, are rated by at least one nationally recognized statistical rating service in at least the second highest rating category, and (b) are fully collateralized by Permitted Collateral; and
- (vi) Investment Agreements that are fully collateralized by Permitted Collateral;

Pledged Revenues means all Public Funds, all revenues received by the Institution from the operation of the Institution, all the proceeds, product, rents and profits of the Institution's facilities and all other income available to the Institution from any other source, all proceeds from the sale of general intangibles, documents, instruments and inventory and all proceeds thereof owned, leased or used by the Institution in the conduct of all or any part of its business, all investment income, gifts, bequests, contributions, grants and donations, excluding only grants, gifts, bequests, contributions and other donations and any income derived therefrom to the extent specifically restricted by the donor or grantor to a specific object or purpose inconsistent with the support of payments to be made by the Institution under the Loan Agreement, and all supporting evidence and documents relating to any of the above described property, including without limitation, payment records, correspondence, together with all books of account and ledgers in which the same are reflected or maintained, all whether now existing or hereafter arising, along with the right of the

Institution to exercise its rights under the Education Law and any and all proceeds resulting from the exercise of that right;

Prior Pledges means the liens, pledges, charges, encumbrances and security interests, if any, in the Pledged Revenues made and given pursuant to agreements entered into by the Institution which are senior to the pledge made under the Loan Agreement. With respect to the Series 2008 Bonds and the Pledged Revenues, there are no Prior Pledges.

Project means each “dormitory” as defined in the Act, which may include more than one part, financed in whole or in part from the proceeds of the sale of a Series of Bonds, as more particularly described in a Loan Agreement or a Series Resolution;

Project Levy means the Public Funds authorized to be paid to the Institution by referendum of the qualified voters of the Library District approved on such date or dates and in an aggregate annual amount not less than the aggregate Maximum Annual Debt Service on all Series of Bonds issued pursuant to the Resolution and then Outstanding, which in the case of the Series 2008 Bonds shall mean the referendum of the qualified voters of the Library District approved on March 4, 2008 in an annual amount not to exceed \$1,740,000.

Provider Payments means the amount, certified by a Facility Provider to the Trustee, payable to such Facility Provider on account of amounts advanced by it under a Reserve Fund Facility, including interest on amounts advanced and fees and charges with respect thereto;

Public Funds means all moneys apportioned, appropriated or otherwise payable to the Institution by the State or a Political Subdivision, as such term is defined in Section 100 of the General Municipal Law including the Project Levy;

Qualified Financial Institution means any of the following entities that has an equity capital of at least \$125,000,000 or whose obligations are unconditionally guaranteed by an affiliate or parent having an equity capital of at least \$125,000,000:

(i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, and (a) that is on the Federal Reserve Bank of New York list of primary government securities dealers and (b) whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized statistical rating service no lower than in the highest rating category for such short term debt; *provided, however*, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service;

(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 the United States of America, any state of the United States of America or any foreign nation, whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized statistical rating service no lower than in the highest rating category for such short term debt; *provided, however*, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service;

(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, whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized statistical rating service no lower than in the highest rating category for such short term debt; *provided, however*, that no short term rating may be utilized to determine whether an entity qualifies under this paragraph as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Service;

(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; or

(v) a corporation whose obligations, including any investments of any moneys held under the Resolution purchased from such corporation, are insured by an insurer that meet the applicable rating requirements set forth above;

Rating Service means Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Rating Services, as the case may be, that which have assigned a rating to Outstanding Bonds at the request of the Authority, or their respective successors and assigns;

Record Date means, unless a Series Resolution authorizing a Series of Bonds or a Bond Series Certificate relating thereto provides otherwise with respect to Bonds of such Series, the fifteenth (15th) day (whether or not a Business Day) of the calendar month next preceding an interest payment date;

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

Refunding Bonds means all Bonds, whether issued in one or more Series of Bonds, authenticated and delivered on original issuance pursuant to the Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution;

Reserve Fund Facility means a surety bond, insurance policy, letter of credit or other financial guaranty or instrument authorized by or pursuant to a Series Resolution establishing a Debt Service Reserve Fund to be delivered in lieu of or substitution of all or a portion of the moneys otherwise required to be held in such Debt Service Reserve Fund;

Resolution means the Smithtown Special Library District Revenue Bond, as from time to time amended or supplemented by Supplemental Resolutions or Series Resolutions in accordance with the terms and provisions of the Resolution;

Revenues means, with respect to a Series of Bonds, all payments received or receivable by the Authority which pursuant to the applicable Loan Agreement are required to be paid to the Trustee for such Series of Bonds (except payments to the Trustee for the administrative costs and expenses or fees of the Trustee and payments to the Trustee for deposit to the Arbitrage Rebate Fund), and all amounts received as a consequence of the enforcement of such Loan Agreement, including but not limited to amounts derived from the foreclosure or sale of or other realization upon the Pledged Revenues for such Series of Bonds;

Serial Bonds means the Bonds so designated in a Series Resolution or a Bond Series Certificate;

Series means all of the Bonds authenticated and delivered on original issuance and pursuant to the Resolution and the Series Resolution authorizing such Bonds as a separate Series of Bonds, and any Bonds of such Series thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to

the Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions;

Series 2008 Bonds means the Bonds authorized by the Series 2008 Resolution;

Series 2008 Project means the Project more particularly described in the Loan Agreement;

Series Resolution means a resolution of the Authority authorizing the issuance of a Series of Bonds adopted by the Authority pursuant to the Resolution;

Series 2008 Resolution means the Series Resolution Authorizing Up To \$21,000,000 Smithtown Special Library District Revenue Bonds, Series 2008;

Sinking Fund Installment means, with respect to a Series of Bonds, as of any date of calculation, when used with respect to any Bonds of such Series, so long as any 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 July 1 for the retirement of any Outstanding Bonds of said Series which mature after said future July 1, but does not include any amount payable by the Authority by reason only of the maturity of a Bond, and said future July 1 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;

State means the State of New York;

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

Term Bonds means, with respect to a Series of Bonds, the Bonds so designated in a Series Resolution or a Bond Series Certificate and payable from Sinking Fund Installments; and

Trustee means the bank or trust company appointed as Trustee for a Series of Bonds pursuant to a Series Resolution or Bond Series Certificate delivered under the Resolution and having the duties, responsibilities and rights provided for in the 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 Resolution.

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**AUDITED FINANCIAL STATEMENTS OF THE
SMITHTOWN SPECIAL LIBRARY DISTRICT**

Appendix B

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SMITHTOWN SPECIAL LIBRARY DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES WITH
INDEPENDENT AUDITORS' REPORT**

December 31, 2007

SMITHTOWN SPECIAL LIBRARY DISTRICT
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (MD&A)	2
Basic Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Balance Sheet – Governmental Funds	11
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	14
Notes to the Basic Financial Statements	15
Required Supplementary Information other than MD&A:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	23

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MEMBERS OF
THE AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
THE NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Smithtown Special Library District
Smithtown, New York

We have audited the accompanying financial statements of the governmental activities and each major fund of the Smithtown Special Library District as of and for the year ended December 31, 2007, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these basic 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.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the governmental activities and each major fund of the Smithtown Special Library District as of December 31, 2007, 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.

The management's discussion and analysis and budgetary comparison information on pages 2 through 8 and 23 through 24 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.


Certified Public Accountants

June 17, 2008

**SMITHTOWN SPECIAL LIBRARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Smithtown Special Library District (the "Library") annual financial report presents Management's Discussion and Analysis of the Library's financial performance during the fiscal year ended December 31, 2007. This information should be read in conjunction with the financial statements.

1. FINANCIAL HIGHLIGHTS

Key financial highlights of the Library's 2007 basic financial statements are as follows:

A. Government-wide Financial Statements

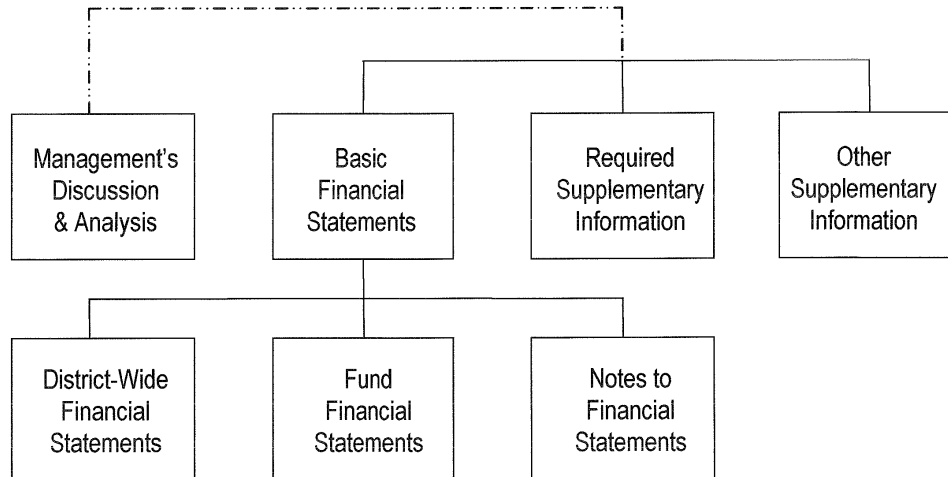
- The Library's net assets were \$3,694,358 at December 31, 2007. This balance represents a \$3,619,033 increase (4804.56%) over the prior year.
- Capital assets, net of related debt, which includes property and equipment, net of accumulated depreciation increased \$2,638,487 to \$3,339,218 as the Nesconset Armory, and the land it sits on which had an estimated fair market value of \$2,487,556 at the time of the donation, was donated to the Library by the town of Smithtown.
- Unrestricted net assets which represent the portion available to maintain the Library's continuing obligation to its taxpayers, customers, and creditors increased \$980,546 to \$355,140.

B. General Fund Financial Statements

- The Library's unreserved fund balance increased in 2007 by \$1,027,867.
- Revenues and other financing sources increased by \$469,805 (4.71%) while expenditures increased by \$794,644 (9.21%).

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report can consist of four parts – management's discussion and analysis (MD&A) (this section), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. A graphic display of the relationship of these statements follows:



SMITHTOWN SPECIAL LIBRARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

A. Government-Wide Financial Statements

The government-wide financial statements are organized to provide an understanding of the fiscal performance of the Library as a whole in a manner similar to a private sector business. There are two government-wide financial statements - the Statement of Net Assets and the Statement of Activities. These statements provide both an aggregate and long-term view of the Library's finances.

These statements utilize the accrual basis of accounting. This basis of accounting recognizes the financial effects of events when they occur, without regard to the timing of cash flows related to the events.

The Statement of Net Assets

The Statement of Net Assets presents information on all of the Library's assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The Statement of Activities

The Statement of Activities presents information showing the change in net assets during the fiscal year. All changes in net assets are recorded at the time the underlying financial event occurs. Therefore, revenues and expenses are reported in the statement for some items that will result in cash flow in future fiscal periods.

B. Fund Financial Statements

The fund financial statements provide more detailed information about the Library's funds, not the Library as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library also uses fund accounting to ensure compliance with finance-related legal requirements. The funds of the Library are reported in the governmental funds and the fiduciary funds.

These statements utilize the modified accrual basis of accounting. This basis of accounting recognizes revenues in the period that they become measurable and available. It recognizes expenditures in the period that they become measurable, funded through available resources and payable within a current period.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental fund financial statements focus on shorter term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year for spending in future years. Consequently, the governmental fund statements provide a detailed short-term view of the Library's operations and the services it provides.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, you may better understand the long-term impact of the Library's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Library maintains two governmental funds, the general fund and the miscellaneous revenue fund.

SMITHTOWN SPECIAL LIBRARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

3. FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE

A. Net Assets

A summary of the Library's net assets for the years ended December 31, 2007 and 2006 is presented below:

	2007	2006	Increase (Decrease)	Percentage Change
Current and Other Assets	\$ 2,003,326	\$ 1,008,028	\$ 995,298	98.74 %
Capital Assets	3,339,218	700,731	2,638,487	376.53 %
Total Assets	<u>5,342,544</u>	<u>1,708,759</u>	<u>3,633,785</u>	212.66 %
Long-Term Liabilities	1,497,020	1,439,900	57,120	3.97 %
Other Liabilities	151,166	193,534	(42,368)	(21.89)%
Total Liabilities	<u>1,648,186</u>	<u>1,633,434</u>	<u>14,752</u>	0.90 %
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,339,218	700,731	2,638,487	376.53 %
Unrestricted	<u>355,140</u>	<u>(625,406)</u>	<u>980,546</u>	156.79 %
Total Net Assets	<u>\$ 3,694,358</u>	<u>\$ 75,325</u>	<u>\$ 3,619,033</u>	4804.56 %

At December 31, 2007, the Library's net assets were \$3,694,358.

The investment in capital assets of \$3,339,218 equates to capital assets at cost – land, buildings, improvements other than buildings, and furniture and equipment, net of depreciation. This number increased over the prior year by \$2,638,487, as a result of capital additions of \$2,711,606 in excess of depreciation of \$73,119. In October, the town of Smithtown donated to the Library land and a building known as the Nesconset Armory. The land and building had a fair market value of \$2,487,556 at the time of the donation and is included in capital additions at December 31, 2007. The Library plans to renovate the armory which upon completion of the renovations will serve as the Library's Nesconset branch. The Library's current Nesconset branch is in a building that the Library rents from a third party.

The unrestricted net assets in the amount of \$355,140 relates to the balance of the District's net assets. This number increased over the prior year by \$980,546 and is evidenced by an increase in current assets, specifically cash. The Library's cash balance as reported on the Statement of Net Assets increased \$1,004,559 from \$889,792 at December 31, 2006 to \$1,894,351 at December 31, 2007.

SMITHTOWN SPECIAL LIBRARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

B. Changes in Net Assets

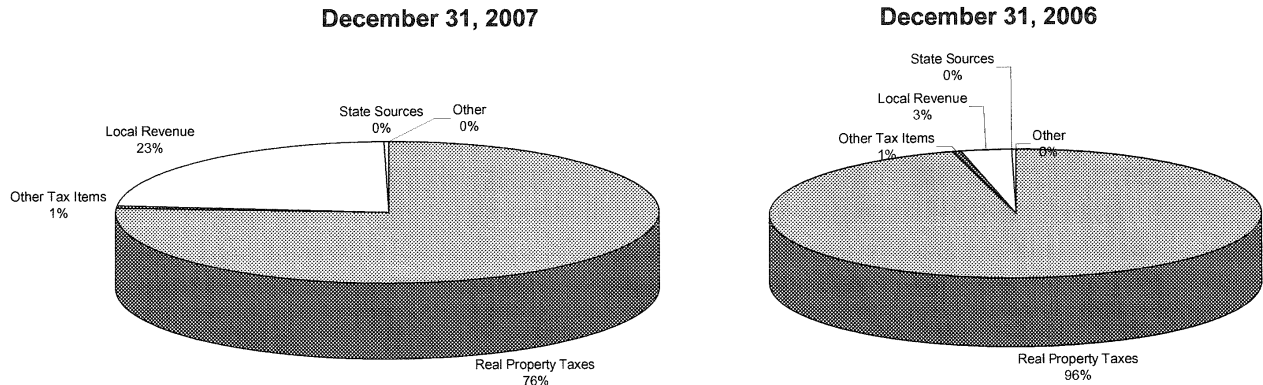
The results of this year's operations as a whole are reported in the Statement of Activities in the accompanying financial statements. A comparison for the years ended December 31, 2007 and 2006 is as follows:

	2007	2006	Increase (Decrease)	Percentage Change
Revenues				
Real Property Taxes	\$ 9,970,278	\$ 9,528,849	\$ 441,429	4.63 %
Other Tax Items	77,180	67,757	9,423	13.91 %
Local Revenue	3,005,068	311,298	2,693,770	865.33 %
State Sources	35,156	35,872	(716)	(2.00)%
Other	4,133	246	3,887	1580.08 %
Total Revenues	<u>13,091,815</u>	<u>9,944,022</u>	<u>3,147,793</u>	31.66 %
Expenses				
<u>Operating</u>				
Salaries	7,564,643	6,994,171	570,472	8.16 %
Equipment & Capital Outlay	6,013	1,695	4,318	254.75 %
Contractual	1,824,581	1,622,680	201,901	12.44 %
<u>Non-Operating</u>				
Depreciation	73,119	76,803	(3,684)	(4.80)%
Debt Service - Interest	4,426	32,775	(28,349)	(86.50)%
Total Expenses	<u>9,472,782</u>	<u>8,728,124</u>	<u>744,658</u>	8.53 %
Change in Net Assets	<u>\$ 3,619,033</u>	<u>\$ 1,215,898</u>	<u>\$ 2,403,135</u>	197.64 %

The Library's net assets increased by \$3,619,033 and \$1,215,898 for the years ended December 31, 2007 and 2006, respectively. These increases are the result of revenues in excess of expenses for both years.

The net increase in total revenues in 2007, as compared to 2006 was \$3,147,793 as shown above. The increase in real property taxes was part of the voter-approved budget. The increase in local revenues can be attributed to the receipt of the Nesconset Armory donated to the Library from the town of Smithtown, as previously mentioned. The net increase in expenses of \$744,658 is attributable to contractual increases in salaries and increases in contractual expenses, primarily books, office and library supplies and professional fees relating to the proposed library expansion.

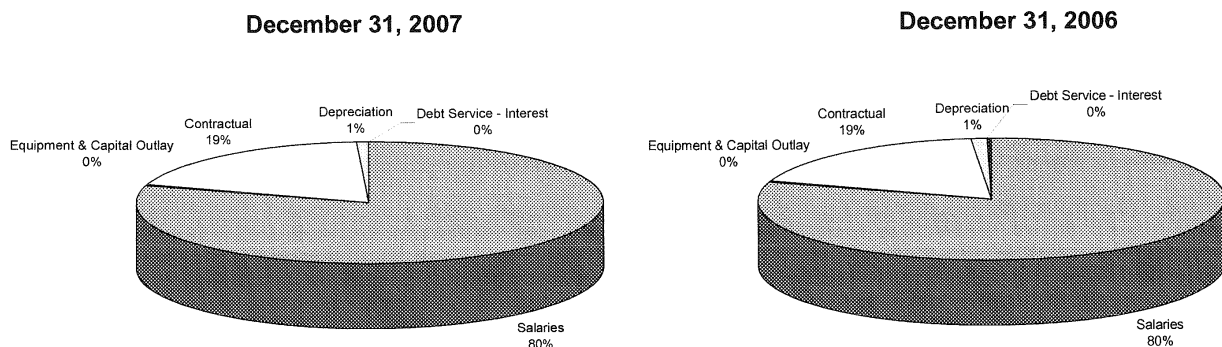
A graphic display of the distribution of revenues for the two years follows:



As graphically portrayed above, the donated land and building dramatically changed the Library's proportionate share of revenue between 2007 and 2006.

**SMITHTOWN SPECIAL LIBRARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

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



As graphically portrayed above, the Library's proportionate share of expense was substantially consistent between 2007 and 2006.

4. FINANCIAL ANALYSIS OF THE LIBRARY'S FUNDS

The focus of the Library's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Library's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Library's net resources available for spending at the end of the fiscal year. As previously mentioned, the Library maintains two governmental funds, the general fund and the miscellaneous revenue fund.

As of December 31, 2007, the Library reported a fund balance of \$1,860,029, an increase of \$1,032,535 or 124.78% over the prior year. A summary of the change in fund balance is as follows:

	2007	2006	Increase (Decrease)	Percentage Change
General Fund				
Reserved for encumbrances	\$ 12,226	\$ 11,691	\$ 535	4.58%
Unreserved - Undesignated	1,769,435	741,568	1,027,867	138.61%
	<u>1,781,661</u>	<u>753,259</u>	<u>1,028,402</u>	<u>136.53%</u>
Miscellaneous Revenue Fund				
Unreserved - Undesignated	78,368	74,235	4,133	5.57%
Total Fund Balance	<u>\$ 1,860,029</u>	<u>\$ 827,494</u>	<u>\$ 1,032,535</u>	<u>124.78%</u>

A. General Fund

The general fund is the operating fund for the Library. For the year ended, the fund balance increased in the amount of \$1,028,402 as total revenues and other sources of \$10,450,127 exceeded expenditures of \$9,421,725. In 2006, the fund balance increased \$1,346,994 and the deficit was eliminated as revenues and other sources of \$9,984,209 exceeded expenditures of \$8,627,081. The 2007 revenues and other sources were a 4.67% increase over the 2006 balances. The 2007 expenditures were a 9.21% increase over the 2006 balances.

**SMITHTOWN SPECIAL LIBRARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

B. Miscellaneous Revenue Fund

The miscellaneous revenue fund is a special revenue fund used to account for gifts and donations, the use of which is specified by the donors.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2007 Budget

The general fund voter-approved budget for 2007 was \$10,210,150. This was an increase of \$482,145 (4.96%) over the 2006 approved budget. The real property tax levy increased by \$441,429 (4.63%) while all other estimated revenues increased \$40,716 (20.44%).

The budget is the Library's anticipated spending plan for the year. Throughout the year, certain lines of the budget may become over expended even though the Library stays within its total budget. At the end of the year, the Library makes budget transfers to eliminate the over expended budget lines. These year end budget transfers are subsequently approved by the Board of Trustees. Significant budget transfers for 2007 include increases into the various salary lines in the amount of \$244,625 and debt service principal and interest lines in the amount of \$29,051. The transfers were funded principally by transfers from the professional fees and the repairs and rental of equipment lines in amounts of \$120,345 and \$148,005, respectively.

The budget was increased by encumbrances carried forward from the prior year in the amount of \$11,691 to equal a revised budget of \$10,221,841.

B. Change in General Fund's Unreserved – Undesignated Fund Balance (Budget to Actual)

The general fund's unreserved – undesignated fund balance is the component of total fund balance that is the residual of prior years' excess revenues over expenditures, net of transfers to reserves and designations to fund the subsequent year's budget. It is this balance that is commonly referred to as "the Fund Balance". The change in this balance demonstrated through a comparison of the actual revenues and expenditures for the year compared to budget follows:

Opening, Unreserved - Undesignated Fund Balance	\$ 741,568
Revenues Over Budget	239,977
Expenditures and Encumbrances Under Budget	<u>787,890</u>
Closing, Unreserved - Undesignated Fund Balance	<u>\$ 1,769,435</u>

Opening, Unreserved - Undesignated Fund Balance

The \$741,568 shown in the table is the portion of the Library's December 31, 2006, fund balance that was retained as undesignated. This was 7.26% of the Library's 2007, approved operating budget of \$10,210,150.

Revenues over Budget

The 2006-07 budget for revenues was \$10,210,150. Actual revenues received for the year were \$10,450,127. The excess of actual revenue over estimated or budgeted revenue was \$239,977. This change contributes directly to the change to the undesignated portion of the general fund fund balance from December 31, 2006 to December 31, 2007.

**SMITHTOWN SPECIAL LIBRARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

Expenditures and Encumbrances under Budget

Actual expenditures for the year ended December 31, 2007, were \$9,421,725 and open encumbrances at December 31, 2007, were \$12,226. The combined expenditures and open encumbrances total \$9,433,951 and were \$787,890 under the revised budget of \$10,221,841. This under-expenditure contributes to the change to the undesignated portion of the general fund fund balance from December 31, 2006 to December 31, 2007.

Closing, Unreserved - Undesignated Fund Balance

Based upon the summary changes shown in the above table, the District will begin the 2008 fiscal year with an undesignated fund balance of \$1,769,435. This is an increase of \$1,027,867 from the undesignated fund balance over the prior year. This undesignated portion equals 16.69% of the Library's 2008 approved operating budget.

6. CAPITAL ASSETS

As of December 31, 2007, the Library's investment in capital assets totaled \$3,339,218 which is an increase of \$2,638,487 over 2006. The increase is due to fixed asset additions of \$2,711,606, net of depreciation expense of \$73,119. A summary of capital assets net of depreciation at year end is as follows:

	2007	2006	Increase (Decrease)
Land	\$ 1,408,073	\$ 340,073	\$ 1,068,000
Art collection	150,000		150,000
Buildings	1,607,783	195,854	1,411,929
Improvements other than buildings	1,899	1,523	376
Furniture and equipment	171,463	163,281	8,182
Capital assets, net	<u>\$ 3,339,218</u>	<u>\$ 700,731</u>	<u>\$ 2,638,487</u>

The Library's additions to capital assets in 2007 totaled \$2,711,606. The majority of the additions relate to the addition of the Nesconset Armory and the land it sits on donated to the Library by the town of Smithtown in the amount of \$2,487,556.

Reductions to capital assets were due to depreciation (\$73,119).

7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The general fund 2008 budget, as approved by the voters on October 9, 2007, is \$10,603,600. This is an increase of \$393,450 (3.85%) over the 2007 budget. The real property tax levy will increase \$347,950 (3.49%) while other estimated revenues will increase \$45,500 (18.97%).

8. ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the Library's taxpayers, customers and other interested parties with an overview of the Library's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact:

Mr. Robert Lusak, Director
The Smithtown Special Library District
One North Country Road
Smithtown, New York 11787

SMITHTOWN SPECIAL LIBRARY DISTRICT
Statement of Net Assets
December 31, 2007

ASSETS	
Cash	\$ 1,894,351
Deferred expenditures	108,975
Capital assets, not being depreciated	1,558,073
Capital assets, net of accumulated depreciation	<u>1,781,145</u>
Total Assets	<u>\$ 5,342,544</u>
LIABILITIES	
Accounts payable	\$ 127,178
Accrued liabilities	23,988
Long-term liabilities	
Due within one year	
Due to employees' retirement system	20,469
Due after one year	
Due to employees' retirement system	151,180
Compensated absences payable	<u>1,325,371</u>
Total Liabilities	<u>1,648,186</u>
NET ASSETS	
Investment in capital assets, net of related debt	3,339,218
Unrestricted	<u>355,140</u>
Total Net Assets	<u>3,694,358</u>
Total Liabilities and Net Assets	<u>\$ 5,342,544</u>

SMITHTOWN SPECIAL LIBRARY DISTRICT
Statement of Activities
For The Year Ended December 31, 2007

REVENUES	
Real property taxes	\$ 9,970,278
Other revenues	<u>3,121,537</u>
Total Revenues	<u>13,091,815</u>
EXPENSES	
Library services	9,395,237
Depreciation	73,119
Debt service - interest	<u>4,426</u>
Total Expenses	<u>9,472,782</u>
Change in Net Assets	3,619,033
Total Net Assets - Beginning of year	<u>75,325</u>
Total Net Assets - End of year	<u><u>\$ 3,694,358</u></u>

SMITHTOWN SPECIAL LIBRARY DISTRICT
Balance Sheet - Governmental Funds
December 31, 2007

	General	Miscellaneous Revenue	Total
ASSETS			
Cash	\$ 1,815,983	\$ 78,368	\$ 1,894,351
Deferred expenditures	108,975		108,975
Total Assets	\$ 1,924,958	\$ 78,368	\$ 2,003,326
LIABILITIES			
Payables			
Accounts payable	\$ 127,178	\$	\$ 127,178
Accrued liabilities	16,119		16,119
Total Liabilities	143,297	-	143,297
FUND BALANCES			
Reserved for encumbrances	12,226		12,226
Reserved for library trust funds		78,368	78,368
Unreserved - undesignated	1,769,435		1,769,435
Total Fund Balances	1,781,661	78,368	1,860,029
Total Liabilities and Fund Balances	\$ 1,924,958	\$ 78,368	\$ 2,003,326

SMITHTOWN SPECIAL LIBRARY DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
December 31, 2007

Total Governmental Fund Balances	\$ <u>1,860,029</u>
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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 Library as a whole, and their original costs are expensed annually over their useful lives.

Original cost of capital assets	6,144,681
Accumulated depreciation	<u>(2,805,463)</u>
	<u>3,339,218</u>

Long-term liabilities 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:

Accrued liabilities	(7,869)
Due to employees' retirement system	
Due within one year	(20,469)
Due after one year	(151,180)
Compensated absences	
Due after one year	<u>(1,325,371)</u>
Long-term liabilities	<u>(1,504,889)</u>

Total Government-wide Net Assets	\$ <u><u>3,694,358</u></u>
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SMITHTOWN SPECIAL LIBRARY DISTRICT
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For The Year Ended December 31, 2007

	General	Miscellaneous Revenue	Total
REVENUES			
Real property taxes	\$ 9,970,278	\$	\$ 9,970,278
Other tax items	77,180		77,180
Library charges, fines & fees	131,863		131,863
Use of money and property	189,545		189,545
Miscellaneous	46,105	4,133	50,238
State sources	35,156		35,156
Total Revenues	10,450,127	4,133	10,454,260
EXPENDITURES			
Salaries	5,115,175		5,115,175
Equipment	57,043		57,043
Contractual and other expenditures	1,847,601		1,847,601
Employee benefits	2,372,855		2,372,855
Debt service			
Principal	19,494		19,494
Interest	9,557		9,557
Total Expenditures	9,421,725	-	9,421,725
Net Change in Fund Balance	1,028,402	4,133	1,032,535
Fund Balances - Beginning of year	753,259	74,235	827,494
Fund Balances - End of year	\$ 1,781,661	\$ 78,368	\$ 1,860,029

SMITHTOWN SPECIAL LIBRARY DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For The Year Ended December 31, 2007

Net Change in Fund Balance	\$ 1,032,535
Amounts reported for governmental activities in the Statement of Activities are different because:	
<u>Long-term revenue and expense differences</u>	
Donated capital assets are not recognized as revenues in the governmental funds. However, they are recognized at fair market value in the Statement of Activities.	2,487,556
In the Statement of Activities, certain operating expenses - compensated absences, retirement costs and workers' compensation claims are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	
Increase in compensated absences	(129,580)
	2,357,976
<u>Capital related differences</u>	
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 depreciation exceed capital outlays in the period.	
Purchase of capital items	224,050
Depreciation expense	(73,119)
	150,931
<u>Long-term debt transactions differences</u>	
Repayment of amortized ERS obligation principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	72,460
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest decreased from December 31, 2006 to December 31, 2007.	
	5,131
	77,591
Change in Net Assets of Governmental Activities	\$ 3,619,033

SMITHTOWN SPECIAL LIBRARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of Smithtown Special Library District (the Library) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), which is the standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

A. Reporting Entity

Prior to 2002, the Library was known as The Smithtown Library and was a Special Revenue Fund of the Town of Smithtown (the Town). Pursuant to the New York State Legislature and the voters of the Town of Smithtown, a special library district known as Smithtown Special Library District was established effective January 1, 2002.

The Library is governed by Education Law and other general laws of the State of New York. The governing body is the Board of Trustees of the Library. The scope of activities included within the accompanying financial statements are those transactions which comprise library operations, and are governed by, or significantly influenced by, the Board of Trustees. The Library is a system of four branches which provides books and other resources to the community.

The reporting entity is the primary government, the Library, as well as component units and other organizational entities determined to be includable in the Library's financial reporting entity, based on the nature and significance of their relationship with the Library. The financial reporting entity is based on criteria set forth by GASB Statement No. 14, *The Financial Reporting Entity* and No. 34, *Determining Whether Certain Organizations are Component Units*. These criteria include legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, there are no other entities which would be included in the Library's reporting entity.

B. Basis of Presentation

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities present information about the overall financial activities of the Library, except for fiduciary activities. Eliminations have been made to minimize the double counting of interfund transactions.

The Statement of Net Assets presents the financial position of the Library at fiscal year end. The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Library's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses are not allocated to programs. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants, contributions, and other revenues that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including real property taxes and state aid, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the Library's 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 as defined by GASB, each displayed in a separate column. The Library's Financial Statements reflect the following fund categories:

Governmental Funds:

General Fund - is the general operating fund and is used to account for all financial transactions except those required to be accounted for in another fund.

SMITHTOWN SPECIAL LIBRARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Special Revenue Fund - is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Miscellaneous Revenue Fund – This fund is used to account for gifts and donations in which principal and income benefits the Library. Criteria established by the donors governs the use of the funds.

C. Basis of Accounting and Measurement Focus

The government-wide and fiduciary fund financial statements are reported on the accrual basis of accounting using the economic resources measurement focus. 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 Library gives or receives value without directly receiving or giving equal value in exchange, include real property taxes, grants and donations. On an accrual basis, revenue from real property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the related expenditures are incurred.

The fund statements are reported on the modified accrual basis of accounting using the current financial resources measurement focus. Revenues are recognized when measurable and available. The Library considers all revenues reported in the governmental funds to be available if the revenues are collected within the current period or soon enough thereafter to be used to pay liabilities of the current period, except for property taxes, which are considered to be available if they are collected within 60 days after the end of the year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, unfunded claims and judgments, and unfunded compensated absences, which are recognized as expenditures to the extent they have been paid. 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.

D. Property Taxes

Calendar

Real property taxes are levied annually by the Board of Trustees of the Library no later than November 1st and become a lien on December 1st. The Library's tax levy is collected by the Town of Smithtown and subsequently remitted to the Library.

Enforcement

Uncollected real property taxes are subsequently enforced by the County of Suffolk.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Cash

The Library's cash and cash equivalents consist of cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from date of acquisition.

G. Capital Assets

Capital assets are reflected in the government-wide financial statements. Capital assets are reported at actual cost, when the information is available, or estimated historical cost based on professional third-party information. Donated assets are reported at estimated fair market value at the date of donation.

SMITHTOWN SPECIAL LIBRARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

All capital assets, except land, are depreciated on a straight line basis over their estimated useful lives. Capitalization thresholds, the dollar value above which asset acquisitions are added to the capital asset accounts, and estimated useful lives of capital assets as reported in the government-wide statements are as follows:

	Capitalization Threshold	Estimated Useful Life
Buildings	\$ 500	20-40 years
Improvements other than buildings	500	15-20 years
Furniture and equipment	500	5-15 years

H. Deferred Revenue

Deferred revenue arises when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Library before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the Library has legal claim to the resources, the liability for deferred revenues is removed and revenues are recognized.

I. Employee Benefits

Vacation eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Some earned benefits may be forfeited if not taken within varying time periods.

Sick leave eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Upon retirement, resignation or death, employees may be eligible to receive a portion of the value of unused accumulated sick leave.

This compensated absence liability is reported on the Statement of Net Assets as a long-term liability. A liability for these amounts is recorded in the Balance Sheet to the extent payments become due because of employee retirement or resignation.

Eligible Library employees participate in the New York State Employees' Retirement System (NYSERS).

The Library provides health insurance coverage and survivor benefits for retired employees and their survivors. Collective bargaining agreements determine if Library employees are eligible for these benefits if they reach normal retirement age while working for the Library. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the Library and the retired employee. The Library recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the general fund, in the year paid.

J. Accrued Liabilities and Long-Term Obligations

In the government-wide financial statements, all accrued liabilities and long-term liabilities are reported on the Statement of Net Assets. In the fund financial statements, liabilities are reported only to the extent that they are due for payment during the current year.

K. Equity Classifications

District-Wide Statements

In the district-wide statements there are two classes of net assets:

Invested in capital assets, net of related debt – consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, constructions or improvements of those assets.

SMITHTOWN SPECIAL LIBRARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Unrestricted net assets – reports all other net assets that do not meet the definition of the above classification and are deemed to be available for general use by the District.

Fund Statements

Unreserved fund balance consists of two classifications. A designation of unreserved fund balance indicates the planned use of these resources in the subsequent year's budget. The undesignated portion reports remaining fund balance that has not been designated or reserved.

Fund balance reserves are created to satisfy legal restrictions, plan for future expenditures or relate to resources not available for general use or appropriation. These reserve funds are established through Board action or voter approval and a separate identity must be maintained for each reserve. Earnings on the invested resources become part of the respective reserve funds; however, separate bank accounts are not necessary for each reserve fund. Fund balance reserves currently in use by the Library include the following:

Reserve for Encumbrances

Reserve for Encumbrances represents the amount of outstanding encumbrances at the end of the fiscal year. The reserve is accounted for in the general fund.

2. BUDGET SUMMARY

The 2007 operating budget is summarized as follows:

Original adopted budget	\$ 10,210,150
Prior year encumbrances	<u>11,691</u>
Revised budget	<u>\$ 10,221,841</u>

3. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENTS AND THE GOVERNMENT-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the government-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 measurement focus of the Statement of Activities, compared with the current financial resource measurement focus of the governmental funds.

A. Total Fund Balances of Governmental Funds vs. Net Assets of Governmental Activities

Total fund balances of the Library's governmental funds differ 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 Sheets.

B. Statement of Revenues, Expenditures and Changes in Fund Balance vs. Statement of Activities

Differences between the Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of three broad categories. The amounts shown below represent:

Long-Term Revenue and Expense 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 on the Statement of Activities.

SMITHTOWN SPECIAL LIBRARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Capital Related Differences

Capital related differences include the difference between proceeds for the sale of capital assets reported on 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 fund statements and depreciation expense on those items as recorded in the Statement of Activities.

Long-Term Debt Transaction Differences

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the 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.

4. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

The Library administration prepares a proposed budget for approval by the Board of Trustees for the general fund, the only fund with a legally adopted budget.

The voters of the Library approved the proposed appropriation budget for the general fund.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved by the Board of Trustees as a result of selected new revenue sources not included in the original budget (when permitted by law). These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. No supplemental appropriations occurred during the year.

Budgets are adopted annually on a basis consistent with GAAP. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year.

B. Encumbrances

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end are presented as reservations of fund balance and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

5. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

The Library's investment policies are governed by state statutes and Library 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 State 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 Library's 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:

SMITHTOWN SPECIAL LIBRARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

- 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 District's name.

None of the Library's aggregate bank balances, not covered by depository insurance, were exposed to custodial credit risk as described above at year-end.

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

6. CAPITAL ASSETS

Capital asset balances and activity for the year ended December 31, 2007 were as follows:

	Balance December 31, 2006	Additions	Reductions	Balance December 31, 2007
Governmental activities				
Capital assets not being depreciated				
Land	\$ 340,073	\$ 1,068,000	\$	\$ 1,408,073
Art collection		150,000		150,000
Total capital assets not being depreciated	<u>340,073</u>	<u>1,218,000</u>	<u>-</u>	<u>1,558,073</u>
Capital assets being depreciated				
Buildings	2,149,625	1,449,175		3,598,800
Improvements other than buildings	49,060	550		49,610
Furniture and equipment	910,860	43,881	(16,543)	938,198
Total capital assets being depreciated	<u>3,109,545</u>	<u>1,493,606</u>	<u>(16,543)</u>	<u>4,586,608</u>
Less accumulated depreciation for:				
Buildings	1,953,771	37,246		1,991,017
Improvements other than buildings	47,537	174		47,711
Furniture and equipment	747,579	35,699	(16,543)	766,735
Total accumulated depreciation	<u>2,748,887</u>	<u>73,119</u>	<u>(16,543)</u>	<u>2,805,463</u>
Capital assets, net	<u>\$ 700,731</u>	<u>\$ 2,638,487</u>	<u>\$ -</u>	<u>\$ 3,339,218</u>

7. LONG-TERM LIABILITIES

The following tables summarize the changes in governmental activities in long-term liabilities for the year ended December 31, 2007:

	Balance December 31, 2006	Additions	Reductions	Balance December 31, 2007	Amounts Due Within One Year
Due to Employees'					
Retirement System	\$ 244,109	\$	\$ (72,460)	\$ 171,649	\$ 20,469
Compensated absences	1,195,791	129,580		1,325,371	
	<u>\$ 1,439,900</u>	<u>\$ 129,580</u>	<u>\$ (72,460)</u>	<u>\$ 1,497,020</u>	<u>\$ 20,469</u>

The general fund has typically been used to liquidate long-term liabilities.

SMITHTOWN SPECIAL LIBRARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Due to employees' retirement system is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at December 31, 2007
2005 Ch. 260 Laws of 2004	3/31/05	3/31/15	5.0%	\$ 137,805
2006 Ch. 260 Laws of 2004	3/31/06	3/31/16	5.0%	33,844
				<u>\$ 171,649</u>

The following is a summary of maturing amounts due to the employees' retirement system:

Fiscal Year Ending December 31,	Principal	Interest	Total
2008	\$ 20,469	\$ 8,584	\$ 29,053
2009	21,492	7,561	29,053
2010	22,567	6,486	29,053
2011	23,696	5,357	29,053
2012 - 2014	83,425	8,971	92,396
	<u>\$ 171,649</u>	<u>\$ 36,959</u>	<u>\$ 208,608</u>

Interest on long-term debt for the year was composed of:

Interest paid	\$ 9,557
Less interest accrued in the prior year	(13,000)
Plus interest accrued in the current year	<u>7,869</u>
	<u>\$ 4,426</u>

8. PENSION PLANS

The Library participates in the New York State and Local Employees' Retirement System (ERS). This plan is a cost-sharing multiple employer, public employee retirement system. The System offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death, and disability.

Employees' Retirement System (ERS)

The New York State and Local Employees' Retirement System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

The System is noncontributory except for employees who joined the Systems after July 27, 1976 with less than ten years of credited service, who contribute 3% of their salary. For the New York State and Local Employees' Retirement System, the Comptroller shall certify annually the rates expressed as proportions of members' payroll, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

SMITHTOWN SPECIAL LIBRARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

The Library is required to contribute at an actuarially determined rate. The contributions for the current year and two preceding years were:

Year	ERS
2007	\$ 435,901
2006	409,523
2005	461,990

9. POST-EMPLOYMENT BENEFITS

Post-employment benefits, primarily health care, aggregated \$540,511 for approximately 62 retirees and their surviving spouses for the year.

10. COMMITMENT AND CONTINGENCIES

A. Risk Financing and Related Insurance

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; natural disasters, etc. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

B. Operating Leases

The Library leases facilities under an operating lease for its Nesconset Branch and Tech Service Center. The lease expires on May 31, 2009. Under the terms of the lease, the Library is obligated to pay a base rent plus an additional amount due to real estate tax escalation. Minimum future base rental payments are \$134,400 and \$56,000 for the years ending December 31, 2008 and 2009, respectively.

Rent expense for the above facilities, which included charges for real estate taxes was \$161,464 in 2007.

11. SUBSEQUENT EVENT

On March 4, 2008, the voters of the Library authorized the issuance of bonds not to exceed \$21,000,000 for the expansion and renovation of the existing Library facilities.

SMITHTOWN SPECIAL LIBRARY DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For The Year Ended December 31, 2007

	Original Budget	Revised Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Real property taxes	\$ 9,970,278	\$ 9,970,278	\$ 9,970,278	\$ -
Other tax items			77,180	77,180
Other Local Revenue				
Library charges, fines & fees	130,000	130,000	131,863	1,863
Interest	60,000	60,000	189,545	129,545
Commissions	2,500	2,500	3,772	1,272
Gifts, donations, & miscellaneous	11,500	11,500	42,333	30,833
Total Local Sources	204,000	204,000	367,513	163,513
State Sources	35,872	35,872	35,156	(716)
Total Revenues	10,210,150	10,210,150	10,450,127	\$ 239,977
EXPENDITURES				
Salaries				
Certified Librarians	\$ 1,757,750	\$ 1,903,095	\$ 1,903,092	\$ 3
Librarians part time	232,350	277,210	277,208	2
Clerical staff	1,898,200	1,898,200	1,897,361	839
Clerical part time	421,620	462,650	462,650	-
Pages	140,212	169,032	169,028	4
Custodial	253,194	213,974	213,972	2
Custodial part time	78,074	109,824	109,824	-
Sunday staffing	90,000	82,040	82,040	-
	4,871,400	5,116,025	5,115,175	850
Equipment	88,588	88,588	57,043	31,545
Contractual and Other Expenditures				
Books	387,500	377,500	346,563	30,937
Recordings	80,000	90,000	86,564	3,436
Periodicals	45,000	45,000	42,362	2,638
Other Serials	80,000	80,000	67,146	12,854
Other nonbook materials	1,000	1,000	-	1,000
On line materials and services	72,500	72,500	69,304	3,196
Binding	1,000	1,000	-	1,000
Library programs	23,000	40,980	40,979	1
Staff development	4,650	4,650	2,034	2,616
Office & library supplies	75,900	104,710	104,708	2
Telecommunications	133,500	133,500	96,509	36,991
Postage	40,440	15,940	12,025	3,915
Printing	42,000	71,000	61,432	9,568
Travel	5,000	5,000	3,427	1,573
SCLS member support	155,000	147,500	146,450	1,050
Professional fees	252,100	131,755	131,753	2
Membership dues	2,000	2,600	2,600	-
PALS maintenance	77,700	77,700	63,257	14,443
Fuel and utilities	210,000	210,000	178,815	31,185
Custodial supplies	15,000	16,795	16,792	3
Repair and rental of equipment	275,000	126,995	126,992	3
Rental of quarters	160,000	164,660	164,659	1
Insurance	80,000	80,000	75,235	4,765
Maintenance of vehicles	4,000	5,725	5,723	2
Donor specified programs	7,663	14,498	2,272	-
Total Contractual and Other Expenditures	2,229,953	2,021,008	1,847,601	161,181
			12,226	-

SMITHTOWN SPECIAL LIBRARY DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund (Continued)
For The Year Ended December 31, 2007

	Original Budget	Revised Budget	Actual	Year - end Encumbrances	Final Budget Variance with Actual & Encumbrances
EXPENDITURES					
Employee Benefits					
NYS employees' retirement system	\$ 633,800	\$ 633,800	\$ 542,745	\$ -	\$ 91,055
Social security expenditures	373,000	388,780	388,780	-	-
CSEA benefit fund	130,000	110,000	100,012	-	9,988
Workers compensation	53,300	53,300	46,064	-	7,236
Unemployment insurance	6,100	6,100	-	-	6,100
Hospitalization & medical	1,500,700	1,440,189	1,272,935	-	167,254
Other benefits	335,000	335,000	22,319	-	312,681
Total Employee Benefits	<u>3,031,900</u>	<u>2,967,169</u>	<u>2,372,855</u>	<u>-</u>	<u>594,314</u>
Debt Service					
Principal	-	19,494	19,494	-	-
Interest	-	9,557	9,557	-	-
Total Debt Service	<u>-</u>	<u>29,051</u>	<u>29,051</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>10,221,841</u>	<u>10,221,841</u>	<u>9,421,725</u>	<u>\$ 12,226</u>	<u>\$ 787,890</u>
Net Change in Fund Balance	(11,691)	(11,691)	1,028,402		
Fund Balance - Beginning of Year	11,691	11,691	753,259		
Fund Balance - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,781,661</u>		

**SUMMARY OF CERTAIN PROVISIONS
OF THE LOAN AGREEMENT**

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SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement pertaining to the Series 2008 Bonds and the Project. This summary does not purport to be complete and reference is made to the Loan Agreement for full and complete statements of its provisions. Defined terms used in this Appendix have the meanings ascribed to them in Appendix A.

Termination

The Loan Agreement shall remain in full force and effect until no Bonds are Outstanding and until all other payments, expenses and fees payable under the Loan Agreement by the Institution shall have been made or provision made for the payment thereof; *provided, however*, that the liabilities and the obligations of the Institution under the Loan Agreement to provide reimbursement for or indemnification against expenses, costs or liabilities made or incurred pursuant to the Loan Agreement shall nevertheless survive any such termination. Upon such termination, the Authority shall promptly deliver such documents as may be reasonably requested by the Institution to evidence such termination and the discharge of the Institution's duties under the Loan Agreement, including the satisfaction of the Mortgage and the release or surrender of any security interests granted by the Institution to the Authority pursuant to the Loan Agreement.

(Section 45)

Construction of the Project

To the extent applicable, the Institution agrees that, whether or not there are sufficient moneys available to it under the provisions of the Resolution and the Series Resolution and under the Loan Agreement, the Institution shall complete the acquisition, design, construction, reconstruction, rehabilitation and improving or otherwise providing and furnishing and equipping of the Project, substantially in accordance with the Contract Documents related to the Project. Subject to the conditions of the Loan Agreement, the Authority will, to the extent of moneys available in the Construction Fund, cause the Institution to be reimbursed for, or pay, any costs and expenses incurred by the Institution which constitute Costs of the Project, provided such costs and expenses are approved by the Authority, which approval shall not be unreasonably withheld.

(Section 5)

Amendment of the Project; Additional Bonds

The Institution, with the prior written consent of the Authority, may amend the Project to decrease, increase or otherwise modify the scope thereof. Any such increase may provide for the addition of any further acquisition, design, construction, reconstruction, rehabilitation, renovation, improving, or otherwise providing, furnishing and equipping of the Project which the Authority is authorized to undertake. The Institution shall provide such moneys as in the reasonable judgment of the Authority may be required for the cost of completing the Project in excess of the moneys in the Construction Fund established for such Project, whether such moneys are required as a result of an increase in the scope of the Project or otherwise. Such moneys shall be paid to the Trustee for deposit in the Construction Fund within fifteen (15) days after receipt by the Institution of written notice from the Authority that such moneys are required.

(Section 6)

The Authority, upon the request of the Institution, may, but shall not be required to, issue Bonds to provide moneys required for the cost of completing the Project in excess of the moneys in the Construction Fund. Nothing contained in the Loan Agreement or in the Resolution shall be construed as creating any obligation upon the Authority to issue Bonds for such purpose, it being the intent of the Loan Agreement to reserve to the Authority full and complete discretion to decline to issue such Bonds. The proceeds of any additional Bonds shall be deposited and applied as specified in the Series Resolution authorizing such Bonds or the Bond Series Certificate relating to such Series of Bonds.

Financial Obligations

(a) Except to the extent that moneys are available therefor under the Resolution or the Series Resolution or the Loan Agreement, including, without limitation, moneys in the Debt Service Fund, but excluding moneys in the Debt Service Reserve Fund, if any, and interest accrued but unpaid on investments held in the Debt Service Fund, if any, the Institution pursuant to the Loan Agreement unconditionally agrees to pay or cause to be paid, so long as the Bonds are Outstanding, to or upon the order of the Authority, from its general funds or any other moneys legally available to it:

(i) On or before the date of delivery of the Bonds, the Authority Fee as set forth in the Loan Agreement;

(ii) On or before the date of delivery of the Bonds, such amount, if any, as is required, in addition to the proceeds of such Bonds available therefor, to pay the Costs of Issuance of the Bonds, and other costs in connection with the issuance of the Bonds;

(iii) [Reserved];

(iv) On each February 1 commencing on February 1, 2009, an amount equal to the interest coming due on the Bonds on the immediately succeeding July 1 and January 1;

(v) On each February 1 commencing on February 1, 2009, an amount equal to the principal and Sinking Fund Installment on the Bonds coming due on the immediately succeeding July 1;

(vi) At least forty-five (45) days prior to any date on which the Redemption Price or purchase price of Bonds previously called for redemption or contracted to be purchased, other than Bonds being redeemed pursuant to Sinking Fund Installments in accordance with the provision described in clause (v) hereinabove, is to be paid, the amount required to pay the Redemption Price or purchase price of such Bonds;

(vii) On December 10 of each Bond Year, one-half (1/2) of the Annual Administrative Fee payable during such Bond Year in connection with the Bonds, and on June 10 of each Bond Year the balance of the Annual Administrative Fee payable during such Bond Year; provided, however, that the Annual Administrative Fee with respect to the Bonds payable during the Bond Year during which such Annual Administrative Fee became effective shall be equal to the Annual Administrative Fee with respect to the Bonds multiplied by a fraction the numerator of which is the number of calendar months or parts thereof remaining in such Bond Year and the denominator of which is twelve (12);

(viii) Promptly after notice from the Authority, but in any event not later than fifteen (15) days after such notice is given, the amount set forth in such notice as payable to the Authority (A) for the Authority Fee then unpaid, (B) to reimburse the Authority for payments made by it pursuant to the Loan Agreement and any expenses or liabilities incurred by the Authority pursuant to the Loan Agreement, (C) to reimburse the Authority for any external costs or expenses incurred by it attributable to the issuance of the Bonds or the financing or construction of the Project, (D) for the costs and expenses incurred by the Authority to compel full and punctual performance by the Institution of all the provisions of the Loan Agreement or of the Mortgage or the Resolution in accordance with the terms thereof, (E) for the fees and expenses of the Trustee and any Paying Agent in connection with performance of their duties under the Resolution, (F) to restore the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement, if any, and (G) to pay any Provider Payments then due and unpaid;

(ix) Promptly upon demand by the Authority (a copy of which shall be furnished to the Trustee), all amounts required to be paid by the Institution as a result of an acceleration pursuant to the Loan Agreement;

(x) Promptly upon demand by the Authority, the difference between the amount on deposit in the Arbitrage Rebate Fund available to be rebated in connection with the Bonds or otherwise available therefor under the Resolution and the amount required to be rebated to the Department of the Treasury of the United States of America in accordance with the Code in connection with the Bonds;

(xi) [Reserved]; and

(xii) To the extent not otherwise set forth in the Loan Agreement, including without limitation, in the event of any insufficiency, any amounts necessary to pay the principal, Sinking Fund Installment, or Redemption Price, if any, of, and interest on, the Bonds, on the dates, in the amounts, at the times and in the manner provided in or pursuant to the Resolution and the Series Resolution, whether at maturity, upon acceleration, redemption or otherwise.

Subject to the provisions of the Loan Agreement and of the Resolution or the Series Resolution, the Institution shall receive a credit against the amount required to be paid by the Institution during a Bond Year pursuant to paragraph (a)(v) hereinabove on account of any Sinking Fund Installments if, prior to the date notice of redemption is given pursuant to the Resolution with respect to Bonds to be redeemed through any Sinking Fund Installments during the next succeeding Bond Year, either (i) the Institution delivers to the Trustee for cancellation one or more Bonds of the Series and maturity to be so redeemed or (ii) the Trustee, at the direction of the Authority, has purchased one or more Bonds of the Series and maturity to be so redeemed from amounts on deposit in the Debt Service Fund in accordance with the Resolution during such Bond Year. The amount of the credit shall be equal to the principal amount of the Bonds so delivered. In addition, subject to the provisions of the Loan Agreement and of the Collection Agreement, the Institution shall receive a credit against the amounts required to be paid by the Institution during a Bond Year as described in paragraph (a)(iv) and (v) hereinabove on account of payments made to the Trustee pursuant to the Collection Agreement.

The Authority pursuant to the Loan Agreement directs the Institution, and the Institution, pursuant to the Loan Agreement agrees, to make the payments required by this section hereinabove as follows: (i) the payments required by paragraphs (a)(iv), (a)(v), (a)(vi), (a)(ix) and (a)(xii) hereinabove to the Trustee for deposit and application in accordance with the Resolution; (ii) the payments required by paragraph (a)(ii) hereinabove directly to the Trustee for deposit in the Construction Fund or other fund established under the Resolution, as directed by the Authority; (iii) the payments required by paragraphs (a)(x) hereinabove directly to the Trustee for deposit in the Arbitrage Rebate Fund; and (iv) the payments required by paragraphs (a)(i), (a)(vii), (a)(viii) and (a)(xi) hereinabove to or upon the written order of the Authority.

(b) Notwithstanding any provisions of the Loan Agreement or in the Resolution to the contrary (except as otherwise specifically provided for in the provisions described in this paragraph), all moneys paid by the Institution to the Trustee pursuant to the Loan Agreement or otherwise held by the Trustee shall be applied in reduction of the Institution's indebtedness to the Authority under the Loan Agreement, first, with respect to interest and, then, with respect to the principal amount of such indebtedness, but only to the extent that, with respect to interest on such indebtedness, such moneys are applied by the Trustee for the payment of interest on Outstanding Bonds, and, with respect to the principal of such indebtedness, such moneys have been applied to, or are held for, payments in reduction of the principal amount of Outstanding Bonds and as a result thereof Bonds have been paid or deemed to have been paid in accordance with the Resolution. Except as otherwise provided in the Resolution, the Trustee shall hold such moneys in trust in accordance with the applicable provisions of the Resolution for the sole and exclusive benefit of the Holders of Bonds, regardless of the actual due date or applicable payment date of any payment to the Holders of Bonds.

(c) The obligations of the Institution to make payments or cause the same to be made under the Loan Agreement shall be absolute and unconditional and the amount, manner and time of making such payments shall not be decreased, abated, postponed or delayed for any cause or by reason of the happening or non-happening of any event, irrespective of any defense or any right of set-off, recoupment or counterclaim which the Institution may otherwise have against the Authority, the Trustee or any Holder of Bonds for any cause whatsoever including, without limiting the generality of the foregoing, if applicable, failure of the Institution to complete the Project or, if applicable, the completion thereof with defects, failure of the Institution to occupy or use the Project, any declaration or finding that the Bonds are or the Resolution is invalid or unenforceable or any other failure or default by the Authority or the Trustee; provided, however, that nothing in the Loan Agreement shall be construed to release the Authority from the performance of any agreements on its part contained in the Loan Agreement or any of its other duties or obligations, and in the event the Authority shall fail to perform any such agreement, duty or obligation, the Institution may institute such action as it may deem necessary to compel performance or recover damages for non-performance. Notwithstanding the foregoing, the Authority shall have no obligation to perform its obligations under the Loan Agreement to cause advances to be made to reimburse the Institution for, or to pay, the Costs of the Project beyond the extent of moneys in the Construction Fund established for such Project available therefor.

The Loan Agreement and the obligations of the Institution to make payments under the Loan Agreement are general obligations of the Institution.

(d) The Authority, for the convenience of the Institution, shall furnish to the Institution statements of the due date, purpose and amount of payments to be made pursuant to the Loan Agreement. The failure to furnish such statements shall not excuse non-payment of the amounts payable under the Loan Agreement at the time and in the manner provided by the Loan Agreement. The Institution shall notify the Authority as to the amount and date of each payment made to the Trustee by the Institution.

(e) The Authority shall have the right in its sole discretion to make on behalf of the Institution any payment required pursuant to the Loan Agreement which has not been made by the Institution when due. No such payment by the Authority shall limit, impair or otherwise affect the rights of the Authority under the Loan Agreement arising out of the Institution's failure to make such payment and no payment by the Authority shall be construed to be a waiver of any such right or of the obligation of the Institution to make such payment.

(f) The Institution, if it is not then in default under the Loan Agreement, shall have the right to make voluntary payments in any amount to the Trustee. In the event of a voluntary payment, the amount so paid shall be deposited in the Debt Service Fund and applied in accordance with the Resolution or held by the Trustee for the payment of Bonds in accordance with the Resolution. Upon any voluntary payment by the Institution or any payment made pursuant to the Loan Agreement, the Authority agrees to direct the Trustee to purchase or redeem Bonds in accordance with the Resolution or to give the Trustee irrevocable instructions in accordance with the Resolution with respect to such Bonds; provided, however, that in the event such voluntary payment is in the sole judgment of the Authority sufficient to pay all amounts then due under the Loan Agreement and under the Resolution, including the purchase or redemption of all Bonds Outstanding, or to pay or provide for the payment of all Bonds Outstanding in accordance with the Resolution, the Authority agrees, in accordance with the instructions of the Institution, to direct the Trustee to purchase or redeem all Bonds Outstanding, or to cause all Bonds Outstanding to be paid or to be deemed paid in accordance with the Resolution.

(g) If the Institution elects to purchase Bonds, with the consent of the Authority, the Institution shall give written notice to the Authority, the Trustee and each Facility Provider whenever Bonds are to be purchased at the election of the Institution, which written notice shall include the maturity and principal amount of the Bonds to be so purchased. All such purchases shall be subject to the condition that money for the payment of the purchase price therefore is available on the date set for each such purchase.

(Section 9)

Security Interest in Pledged Revenues

As security for the payment of all liabilities and the performance of all obligations of the Institution pursuant to the Loan Agreement, the Institution does under the Loan Agreement continuously pledge, grant a security interest in, and assign to the Authority the Pledged Revenues, together with the Institution's right to receive and collect the Pledged Revenues and the proceeds of the Pledged Revenues. This pledge, grant of a security interest in and assignment of the Pledged Revenues shall be subordinate only to the Prior Pledges, if any.

The Institution represents and warrants that no part of the Pledged Revenues or any right to receive or collect the same or the proceeds thereof is subject to any lien, pledge, security interest or assignment, and that the Pledged Revenues assigned pursuant to the Loan Agreement are legally available to provide security for the Institution's performance under the Loan Agreement. The Institution agrees that it shall not after the date of the Loan Agreement, except as provided by the Resolution, create or permit the creation of any pledge, assignment, encumbrance, restriction, security interest in or other commitment of or with respect to the Pledged Revenues which is prior or equal to the pledge made by the Loan Agreement; *provided, however*, that the Institution may incur indebtedness secured by a parity lien on Pledged Revenues (excluding however the Authority's security interest in the Project Levy) with the prior written consent of the Authority ("Permitted Indebtedness"), which consent shall not be unreasonably withheld.

(Section 11)

Collection of Pledged Revenues and Public Funds

(a) Subject to the provisions of the following paragraph, commencing on the date on which the Bonds are first issued and delivered and continuing until no Bonds are Outstanding, the Institution, pursuant to the provisions of the Collection Agreement or otherwise, shall deliver to the Trustee for deposit in accordance with the Resolution all Pledged Revenues (other than the amounts subject to the Prior Pledges or Permitted Indebtedness) within ten (10) days following the Institution's receipt thereof unless and until there is on deposit in the Debt Service Fund an amount at least equal to the sum of (i) the interest coming due on or prior to the earlier of the next succeeding January 1 or July 1, (ii) the principal and Sinking Fund Installments of Outstanding Bonds payable on and prior to the next succeeding July 1, and (iii) the Redemption Price or purchase price of Outstanding Bonds theretofore called for redemption or contracted to be purchased, and accrued interest thereon to the date of redemption or purchase. In the event that, pursuant to the Loan Agreement, the Authority notifies the Institution that account debtors are to make payments directly to the Authority or to the Trustee, such payments shall be made directly to the Authority or the Trustee notwithstanding anything contained in the provisions described in this paragraph, but the Institution shall continue to deliver to the Trustee for deposit in accordance with the Resolution any payments received by the Institution with respect to the Pledged Revenues (other than such amounts as are subject to the Prior Pledges).

(b) Notwithstanding anything to the contrary in the preceding paragraph, in the event that, on or prior to the date on which a payment is to be made pursuant to the Loan Agreement on account of the principal, Sinking Fund Installments or Redemption Price of or interest on Outstanding Bonds, the Institution has made such payment pursuant to the Collection Agreement or from its general funds or from any other money legally available to it for such purpose, the Institution shall not be required solely by virtue of the preceding paragraph, to deliver Pledged Revenues to the Trustee.

(c) Any Pledged Revenues collected by the Institution that are not required to be paid to the Trustee pursuant to the Loan Agreement shall be free and clear of the security interest granted by the Loan Agreement and may be disposed of by the Institution for any of its corporate purposes provided that no Event of Default (as defined in the Loan Agreement) nor any event which but for the passage of time or the receipt of notice or both would be an Event of Default has occurred and is continuing.

(d) It is agreed under the Loan Agreement that all State officers or local officers, including without limitation, officers of the State Education Department, the Town of Smithtown, the Library District, and the

County of Suffolk, and officers of the Institution are authorized, required and directed to pay Public Funds to the Authority or the Trustee for deposit in the funds created under the Resolution upon the filing of a certificate by an Authorized Officer of the Authority with such officer stating the amount, if any, needed to satisfy the obligations of the Institution which have not been satisfied by the Institution when due under the Loan Agreement. Such certificate may be filed at any time. The direction may be rescinded by the Authority by the filing of a rescinding notice with the officer receiving the certificate. Copies of such certificate shall be delivered to the Trustee and the Institution.

(Section 12)

Mortgage(s); Lien on Fixtures, Furnishings and Equipment

At or before the delivery by the Authority of a Series of Bonds, the Institution shall execute and deliver to the Authority a Mortgage, in recordable form, mortgaging the Mortgaged Property acceptable to the Authority, which Mortgage shall constitute a first lien on such Mortgaged Property, subject only to the Permitted Encumbrances.

Prior to any assignment of the Mortgage to the Trustee, the Authority, however, without the consent of the Trustee or the Holders of Bonds, may consent to the amendment, modification, termination, subordination or satisfaction of such Mortgage and of any security interest in fixtures, furnishings or equipment located in or on or used in connection with such Mortgaged Property and the property subject to such Mortgage or security interest may be released from the lien thereof, all upon such terms and conditions as the Authority may reasonably require. As a condition to such approval, the Authority may require that the Institution pay to the Trustee for deposit in the Debt Service Fund an amount not to exceed the principal amount of the Bonds Outstanding at the date of such transfer, sale or conveyance, as such amount is determined by the Authority. Notwithstanding the foregoing, the Institution may remove equipment, furniture or fixtures in the Mortgaged Property provided that the Institution substitutes equipment, furniture or fixtures having a value and utility at least equal to the equipment, furniture or fixtures removed or replaced.

(Section 13)

Warranty of Title; Title Insurance; Utilities and Access

The Institution warrants and represents to the Authority that (i) it has good and marketable title to the Project and the Mortgaged Property, free and clear of liens and encumbrances, except Permitted Encumbrances, so as to permit it to have quiet enjoyment and use thereof for purposes of the Loan Agreement and the Institution's programs and (ii) the Institution has such rights of way, easements or other rights in land as may be reasonably necessary for ingress and egress to and from the Project and the Mortgaged Property for proper operation and utilization of the Project and the Mortgaged Property and for utilities required to serve the Project and the Mortgaged Property, together with, if applicable, such rights of way, easements or other rights in, to and over land as may be necessary for construction by the Institution of the Project.

The Institution covenants that title to the Project and the Mortgaged Property shall be kept free from any encumbrances, liens or commitments of any kind, other than Permitted Encumbrances.

Upon delivery of the Mortgage pursuant to the Loan Agreement, the Institution shall provide (i) a title insurance policy in form and substance, and by insurer(s), acceptable to the Authority, in the amount of the aggregate principal amount of the Bonds issued or such other amount as is acceptable to the Authority, insuring the Mortgage to be a valid first lien on applicable Mortgaged Property, free and clear of liens and encumbrances except Permitted Encumbrances, and (ii) a current survey or surveys, including a metes and bounds description, of such Mortgaged Property, certified to the Authority and the issuer of the title insurance policy and showing any easements to which such Mortgaged Property is subject.

The Institution warrants, represents and covenants that (i) the Project and the Mortgaged Property are or will be serviced by all necessary utilities (including, to the extent applicable, without limitation, electricity, gas, water, sewer, steam, heating, air-conditioning and ventilation) and (ii) to the extent applicable, have and will have their own separate and independent means of access, apart from any other property owned by the Institution or others; provided, however, that such access may be through common roads or walks owned by the Institution used also for other parcels owned by the Institution.

(Section 14)

Consent to Pledge and Assignment by the Authority

The Institution consents to and authorizes the assignment, transfer or pledge by the Authority to the Trustee of the Authority's rights to receive any or all of the payments required to be made pursuant to the Loan Agreement, any or all security interests granted by the Institution under the Loan Agreement, including without limitation the Mortgage, the security interest in the Pledged Revenues given by the Institution pursuant to the Loan Agreement and the security interest in the Government Obligations and Exempt Obligations given by the Institution pursuant to the Loan Agreement, and all funds and accounts established by the Resolution and pledged under the Resolution, in each case to secure any payment or the performance of any obligation of the Institution under the Loan Agreement or arising out of the transactions contemplated under the Loan Agreement whether or not the right to enforce such payment or performance shall be specifically assigned by the Authority to the Trustee. The Institution further agrees that the Authority may pledge and assign to the Trustee any and all of the Authority's rights and remedies under the Loan Agreement. Upon any pledge and assignment by the Authority to the Trustee authorized by the Loan Agreement, the Trustee shall be fully vested with all of the rights of the Authority so assigned and pledged and may thereafter exercise or enforce, by any remedy provided therefor by the Loan Agreement or by law, any of such rights directly in its own name. Any such pledge and assignment shall be limited to securing the Institution's obligation to make all payments required by the Loan Agreement and to performing all other obligations required to be performed by the Institution under the Loan Agreement. Any realization upon the Mortgage or any pledge made or security interest granted by the Loan Agreement shall not, by operation of law or otherwise, result in cancellation or termination of the Loan Agreement or the obligations of the Institution by the Loan Agreement.

(Section 15)

Additional Representation and Covenants

The Institution warrants and represents that (i) it has the requisite power and authority (A) to authorize, execute and deliver, and to perform its obligations under, the Loan Agreement, the Collection Agreement, the Mortgage and the Related Agreements, (B) to incur the indebtedness contemplated by the Loan Agreement, the Collection Agreement, the Mortgage and the Related Agreements, and (C) to make the pledge of and grant the security interest in the Pledged Revenues given by the Loan Agreement and the security interest in the Government Obligations and Exempt Obligations given by the Loan Agreement, (ii) the Loan Agreement, the Collection Agreement, the Mortgage and the Related Agreements constitute the valid and binding obligations of the Institution enforceable in accordance with their terms, and (iii) the execution and delivery of, consummation of the transactions contemplated by and performance of the Institution's obligations under the Loan Agreement, the Collection Agreement, the Mortgage and each of the Related Agreements, including, but not limited to, the pledge of and security interest in the Pledged Revenues made or granted pursuant to the Loan Agreement and the pledge of and security interest in the Government Obligations and Exempt Obligations made or granted pursuant to the Loan Agreement, do not violate, conflict with or constitute a default under the charter or by-laws of the Institution or any indenture, mortgage, trust, or other commitment or agreement to which the Institution is a party or by which it or any of its properties are bound, or any existing law, rule, regulation, judgment, order, writ, injunction or decree

of any governmental authority, body, agency or other instrumentality or court having jurisdiction over the Institution or any of its properties.

The Institution warrants, represents and covenants (i) that the Pledged Revenues are and will be free and clear of any pledge, lien, charge, security interest or encumbrance thereon or with respect thereto, other than the Prior Pledges or Permitted Indebtedness, prior to, or of equal rank with, the pledge thereof made pursuant to the Loan Agreement and (ii) that all corporate action on the part of the Institution to authorize the pledge thereof and the granting of a security interest therein has been duly and validly taken. The Institution further covenants that it shall at all times, to the extent permitted by law, defend, preserve and protect such pledge and security interest and all of the rights of the Authority and the Holders of Bonds thereunder against all claims and demands of all persons whomsoever.

(Section 16)

Tax-Exempt Status of the Institution

(a) The Institution represents that (i) it is a public library as described in section 253 of article 5, title 1, of Chapter 16 of the Consolidated Laws of the State of New York (Education Law), (ii) it was validly created and established in 2001 as a special district public library by a majority vote of the voting electorate in the Town of Smithtown pursuant to Chapter 193 of the Laws of 2001 of the State and received its charter from the Board of Regents, (iii) its board of trustees is elected by the electorate of the Library District, (iv) no part of its earnings inure to the benefit of any private non-governmental entity or individual, (v) it is not subject to federal, state or local taxation, (vi) upon dissolution, its assets must be returned to the Board of Regents to the extent of any state aid or gifts for public use received by it, with remaining assets, if any, to be used as directed in the vote abolishing the library, (vii) its full-time employees are subject to the state civil service laws and regulations, and (viii) substantially all of the employees are members of the New York State and Local Employees Retirement System.

(b) The Institution covenants that it shall take no action, enter into any agreement, or use or permit the Project to be used in any manner, nor shall it fail to take any action or consent to the failure to take any action, which could adversely affect the exclusion of interest on the Bonds from federal gross income pursuant to Section 103 of the Code.

(Section 17)

Arbitrage; Tax Exemption

Each of the Institution and the Authority covenants that it shall take no action, nor shall it approve the Trustee's taking any action or making any investment or use of the proceeds of the Bonds, which would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code, and any proposed or final regulations thereunder as are applicable to the Bonds at the time of such action, investment or use. The Institution (or any related person, as defined in Section 147(a)(2) of the Code) shall not, pursuant to an arrangement, formal or informal, purchase the Bonds in an amount related to the amount of any obligation to be acquired from the Institution by the Authority.

The Institution covenants that it will not take any action or fail to take any action which would cause any representation or warranty of the Institution contained in the Tax Certificate then to be untrue and shall comply with all covenants and agreements of the Institution contained in the Tax Certificate, in each case to the extent required by and otherwise in compliance with such Tax Certificate.

(Section 36)

Consultation with the Institution

(a) The Authority agrees that it will consult with the Institution prior to (i) giving any direction for the deposit or application of voluntary payments pursuant to the Loan Agreement, (ii) giving any notice to the

Trustee of its election to redeem Bonds or of the Bonds to be redeemed pursuant to the Resolution and (iii) rebating any moneys to the Department of the Treasury of the United States of America; *provided, however,* that such consultation shall not be a condition precedent to any action to be taken by the Trustee pursuant to a direction of, or upon receipt of a notice from, the Authority, and failure to so consult with the Institution shall not affect the validity of any proceedings for the redemption of the Bonds or of any other action taken by the Trustee pursuant to such direction or upon receipt of such notice.

(b) The Authority shall retain in its possession, so long as required by the Code, copies of all documents, reports and computations made by it in connection with the calculation of earnings on the gross proceeds of the Bonds, as determined in accordance with the Code, and the rebate of all or a portion thereof to the Department of the Treasury of the United States of America, which shall be subject at all reasonable times to the inspection of the Institution and its agents and representatives, any of whom may make copies thereof. Upon written request from the Institution the Authority shall as soon as practicable provide the Institution with a copy of such documents, reports and computations.

(Section 38)

Use and Possession of the Project and Restrictions on Religious Use

Subject to the rights, duties and remedies of the Authority under the Loan Agreement, the Institution shall have sole and exclusive control and possession of and responsibility for (i) the Project and the Mortgaged Property, (ii) the operation of the Project and the Mortgaged Property and supervision of the activities conducted therein or in connection with any part thereof and (iii) the maintenance, repair and replacement of the Project and the Mortgaged Property; provided, however, that, except as otherwise limited by the Loan Agreement, the foregoing shall not prohibit use of the Project or the Mortgaged Property by persons other than the Institution or its patrons, staff or employees in furtherance of the Institution's corporate purposes, if such use will not adversely affect the exclusion of interest on any Bonds from gross income for federal income tax purposes.

The Institution agrees that with respect to the 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 portion thereof shall 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 shall not prohibit the free exercise of any religion; provided, further, that if at any time after the date of the Loan Agreement, in the opinion of Bond Counsel, the then applicable law would permit the Project or portion thereof to be used without regard to the above stated restriction, said restriction shall 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 purpose proscribed by the Loan Agreement. The Institution under the Loan Agreement further agrees that prior to any disposition of any portion of the Project for less than fair market value, it shall 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 the Project, the real property on or in which such portion of such Project is situated) shall 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 shall 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 shall 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 shall also provide that if at any time thereafter, in the opinion of Bond Counsel, the then applicable law would permit such portion of the Project, or, if included in the 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 shall 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, shall be considered a sale for the fair market value thereof.

(Sections 21 and 22)

Covenant as to Insurance

(a) The Institution shall 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 institutions providing services similar to those provided by the Institution. All policies of insurance required by this heading shall be primary to any insurance maintained by the Authority.

(b) The Institution shall, with respect to the Project and the Mortgaged Property, at the times specified in the following paragraphs, procure and maintain, or cause to be procured and maintained, to the extent reasonably obtainable, from responsible insurers acceptable to the Authority, the following insurance:

(i) with respect to any building the construction of which shall not have been completed (and until insurance is procured pursuant to the provisions described in subparagraph (ii) of this paragraph), all risk builders' risk insurance against direct physical loss or damage, or with respect to the acquisition and installation of equipment or machinery, in lieu of all risk builders' risk, an installation floater on an all risk basis. The amount of such insurance shall be on a one hundred per centum (100%) completed value basis on the insurable portion;

(ii) at all times (except during a period when builders' risk insurance is in effect as required by the provisions described in subparagraph (i) of this paragraph), all risk property insurance against direct physical loss or damage to the Project and the Mortgaged Property in an amount not less than one hundred per centum (100%) of the replacement value thereof (such replacement value to be determined on the basis of replacement costs without allowance for depreciation), exclusive of excavations and foundations and similar property normally excluded under New York standard forms; provided, however, that the inclusion of the Project and the Mortgaged Property under a blanket insurance policy or policies of the Institution insuring against the aforesaid hazards in an amount aggregating at least one hundred per centum (100%) of the insurable value of the insured property, exclusive of excavations and foundations and similar property normally excluded under New York standard forms, shall constitute complete compliance with the provisions described in this subparagraph with respect to the Project and the Mortgaged Property; provided further, that in any event, each such policy shall be in an amount sufficient to prevent the Institution and the Authority from becoming co insurers under the applicable terms of such policy;

(iii) at all times, statutory workers' compensation insurance, covering loss resulting from injury, sickness, disability or death of employees and employer's liability insurance with limits of at least \$1,000,000 for each accident, each sickness, and aggregate occupational illness or sickness;

(iv) at all times, statutory disability benefits;

(v) at all times, commercial general liability insurance protecting the Authority and the Institution against loss or losses from liabilities arising from bodily injury of persons or damage to the property of others caused by accident or occurrence, with limits of not less than \$1,000,000 per accident or occurrence on account of injury to persons or property damage with \$2,000,000 policy aggregate, excluding liability imposed upon the Authority or the Institution by any applicable workers' compensation law;

(vi) if applicable, commencing with the date on which construction of the Project or any improvement on the Mortgaged Property or any part thereof is completed or first occupied, or any equipment, machinery, fixture or personal property covered by comprehensive boiler and machinery coverage is accepted, whichever occurs earlier, insurance providing comprehensive boiler and machinery coverage in an amount considered adequate by the Authority, which insurance may include deductible provisions approved by the Authority; and

(vii) each other form of insurance which the Institution is required by law to provide and such other kinds of insurance in such amounts as from time to time may be reasonably required by the Authority.

(c) Any insurance procured and maintained by the Authority or the Institution pursuant to the Loan Agreement, including any blanket insurance policy, may include deductible provisions reasonably satisfactory to the Authority and the Institution. In determining whether or not any insurance required by the Loan Agreement is reasonably obtainable or if the deductible on any such insurance is a reasonable deductible, the Authority may rely solely and exclusively upon the advice and judgment of any insurance consultant chosen by the Institution and approved by the Authority, and any such decision by the Authority, based upon such advice and judgment, shall be conclusive.

(d) No provision of the Loan Agreement shall be construed to prohibit the Institution from self insuring against any risk at the recommendation of any insurance consultant chosen by the Institution and approved by the Authority; provided, however, that self-insurance plans shall not cover property, plant and equipment. The Institution shall also cause an annual evaluation of such self insurance plans to be performed by an independent insurance consultant. The Institution shall provide adequate funding of such self insurance if and to the extent recommended by such insurance consultant and approved by the Authority.

(e) Each policy maintained pursuant to the provisions described in paragraph (b) of hereinabove shall provide that the insurer writing such policy shall give at least thirty (30) days notice in writing to the Authority of the cancellation or non-renewal or material change in the policy unless a lesser period of notice is expressly approved in writing by the Authority. The Institution, not later than July 15th of each year, shall provide the Authority (i) with respect to each policy of insurance maintained by the Institution as of the preceding June 30th, a certificate of insurance that sets forth the name of the insurer, the insured parties or loss payees, the level of coverage, the deductible and such other information as the Authority may reasonably request, and (ii) with respect to each self-insurance plan maintained by the Institution as of the preceding June 30th, a written statement describing such plan, the risks insured thereby and the then current level of funding.

(f) All policies of insurance shall be open to inspection by the Authority and the Trustee or their representatives at all reasonable times. If any change shall be made in any such insurance, a description and notice of such change shall be furnished to the Authority and the Trustee at the time of such change. The Institution covenants and agrees not to make any change in any policy of insurance which would reduce the coverages or increase the deductible thereunder without the prior written consent of the Authority.

(g) All policies of insurance maintained pursuant to the provisions described in paragraph (b) hereinabove, other than policies of workers' compensation insurance, shall include the Authority or, if the Loan Agreement and the Mortgage have been assigned to the Trustee, the Trustee as its assignee, as an additional insured or as loss payee.

(h) In the event the Institution fails to provide the insurance required by the provisions described in paragraph (b) hereinabove, the Authority may elect at any time thereafter to procure and maintain the insurance required by the Loan Agreement at the expense of the Institution. The policies procured and maintained by the Authority shall be open to inspection by the Institution at all reasonable times, and, upon request of the Institution, a complete list describing such policies as of the June 30th preceding the Authority's receipt of such request shall be furnished to the Institution by the Authority.

(Section 25)

Indemnity by Institution

(a) To the extent permitted by law, the Institution, under the Loan Agreement releases and agrees to hold harmless and indemnify the Authority and its members, officers, officials, counsel, consultants, agents and employees from and against all, and agrees that the Authority and its members, officers, officials, counsel, consultants, agents and employees shall not be liable for any, (i) liabilities, suits, actions, claims,

demands, damages, losses, expenses and costs of every kind and nature resulting from any action taken in accordance with, or permitted by, the Loan Agreement, the Collection Agreement, the Mortgage, any Related Agreement or the Resolution, or arising therefrom or incurred by reason thereof or arising from or incurred by reason of the financing of the Project, or (ii) loss or damage to property or any injury to or death of any or all persons that may be occasioned by any cause whatsoever pertaining to the Project or the Mortgaged Property or arising by reason of or in connection with the presence on, in or about the premises of such Project of any person; including in each case, without limiting the generality of the foregoing, causes of action and attorneys' fees and other expenses incurred in defending any suits or actions which may arise as a result of any of the foregoing and including any loss, damage or liability which may arise as a result of the negligence (but excluding any loss, damage or liability which may arise as a result of the gross negligence, willful misconduct or intentional misrepresentation) of any party so indemnified by the Institution, and to deliver at the request of the Authority any further instrument or instruments in form satisfactory to the Authority as in the reasonable judgment of the Authority may be necessary to effectuate more fully the provisions described in this paragraph (a); provided, however, that (i) the indemnity described in this sentence shall be effective only to the extent of any loss or liability that may be sustained by the Authority in excess of net proceeds received from any insurance carried with respect to such loss or liability and (ii) the Authority and the Institution shall each provide waiver of rights of subrogation against the other in any insurance coverage obtained relating to the Project. The indemnity provided for such parties by the provisions described in this paragraph (a) shall be in addition to and not limited by any of the provisions described in paragraph (b) of this heading or of Section 25 or Section 27 of the Loan Agreement; provided, however, that, to the extent the Authority receives indemnification pursuant to such Sections, the Authority shall not be entitled to additional indemnification pursuant to the provisions described in this paragraph (a).

(b) The Institution agrees, to the extent permitted by law, to indemnify and hold harmless the Authority, any member, officer, official, employee, counsel, consultant and agent of the Authority, each and any purchaser of Bonds whose name is set forth in a contract of purchase between any such purchaser or purchasers and the Authority providing for the sale of Bonds by the Authority or on a bid submitted at public sale for the purchase of Bonds and each person, if any, who controls any such purchaser within the meaning of Section 15 of the Securities Act of 1933, as amended (all such parties being collectively called the "Indemnified Parties" in the Loan Agreement) against any and all losses, claims, damages, liabilities or expenses whatsoever, joint or several, insofar as such losses, claims, damages, liabilities or expenses (or actions in respect thereof) are caused by, arise out of or are based upon any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of a material fact relating to the Institution, the Project or the use of proceeds of the Bonds made, provided or certified by the Institution or any agent thereof and contained in an official statement, or other offering document, or any amendment thereof or supplement thereto, relating to the Bonds offered for sale thereby, or caused by, arising out of or based upon any omission or alleged omission from such an official statement, or any amendment thereof or supplement thereto, of any material fact relating to the Institution or the Project or the use of proceeds of the Bonds necessary in order to make the statements made therein in the light of the circumstances under which they were made not misleading.

(c) In case any action shall be brought in respect of which indemnity may be sought against the Institution pursuant to the Loan Agreement, any person seeking indemnity under the Loan Agreement shall promptly notify the Institution in writing, and the Institution shall promptly assume the defense thereof, including the employment of counsel and the payment of all expenses; provided, however, that the Institution shall have the right to negotiate and consent to settlement and that it shall be the duty of such person to cooperate with the Institution in asserting such defense and in reaching such settlement. Any such person shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such person unless the employment of such counsel has been specifically authorized by the Institution. The Institution shall not be liable for any settlement of any such action effected without its consent, but if settled with the consent of the Institution or if there be a final judgment for the plaintiff in any such action with or without the

Institution's consent, the Institution agrees to indemnify and hold harmless such person from and against any loss or liability by reason of such settlement or judgment in accordance with the provisions described in this heading.

(Section 30)

Defaults and Remedies

(a) As used in the Loan Agreement the term “Event of Default” shall mean:

(i) the Institution shall (A) default in the timely payment of any amount payable pursuant to the Loan Agreement or the payment of any other amounts required to be delivered or paid by or on behalf of the Institution in accordance with the Loan Agreement, the Series Resolution or with the Resolution, and such default continues for a period in excess of seven (7) days or (B) default in the timely payment of any amount payable pursuant to the Loan Agreement; or

(ii) the Institution defaults in the due and punctual performance of any other covenant contained in the Loan Agreement and such default continues for thirty (30) days after written notice requiring the same to be remedied shall have been given to the Institution by the Authority or the Trustee or, if such default is not capable of being cured within thirty (30) days, the Institution fails to commence within said thirty (30) days to cure the same and to diligently prosecute the cure thereof; or

(iii) as a result of any default in payment or performance required of the Institution under the Loan Agreement or any other Event of Default under the Loan Agreement, whether or not declared, continuing or cured, the Authority shall be in default in the payment or performance of any of its obligations under the Resolution or an “event of default” (as defined in the Resolution) shall have been declared under the Resolution so long as such default or event of default shall remain uncured or the Trustee or Holders of the Bonds shall be seeking the enforcement of any remedy under the Resolution as a result thereof; or

(iv) the Institution shall (A) be generally not paying its debts as they become due, (B) file, or consent by answer or otherwise to the filing against it of, a petition under the United States Bankruptcy Code or under any other bankruptcy or insolvency law of any jurisdiction, (C) make a general assignment for the benefit of its general creditors, (D) consent to the appointment of a custodian, receiver, trustee or other officer with similar powers of itself or of any substantial part of its property, (E) be adjudicated insolvent or be liquidated or (F) take corporate action for the purpose of any of the foregoing; or

(v) a court or governmental authority of competent jurisdiction shall enter an order appointing, without consent by the Institution, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or an order for relief shall be entered in any case or proceeding for liquidation or reorganization or otherwise to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Institution, or any petition for any such relief shall be filed against the Institution and such petition shall not be dismissed or stayed within ninety (90) days; or

(vi) the charter of the Institution shall be suspended or revoked; or

(vii) a petition to dissolve the Institution shall be filed by the Institution with the Board of Regents, the legislature of the State or other governmental authority having jurisdiction over the Institution; or

(viii) an order of dissolution of the Institution shall be made by the Board of Regents, the legislature of the State or other governmental authority having jurisdiction over the Institution, which order shall remain undismissed or unstayed for an aggregate of thirty (30) days; or

(ix) a petition shall be filed with a court having jurisdiction for an order directing or providing for the sale, disposition or distribution of all or substantially all of the property belonging to the Institution which petition shall remain undismissed or unstayed for an aggregate of thirty (30) days; or

(x) an order of a court having jurisdiction shall be entered directing or providing for the sale, disposition or distribution of all or substantially all of the property belonging to the Institution, which order shall remain undismissed or unstayed for the earlier of (A) three (3) business days prior to the date provided for in such order for such sale, disposition or distribution or (B) an aggregate of thirty (30) days from the date such order shall have been entered; or

(xi) a final judgment for the payment of money, which is not covered by insurance or reserves set aside by the Institution, which in the judgment of the Authority will adversely affect the rights of the Holders of the Bonds shall be rendered against the Institution and at any time after thirty (30) days from the entry thereof, (A) such judgment shall not have been discharged or paid, or (B) the Institution shall not have taken and be diligently prosecuting an appeal therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, and shall not have caused, within thirty (30) days, the execution of or levy under such judgment, order, decree or process or the enforcement thereof to have been stayed pending determination of such appeal; or

(xii) the Institution defaults under the Mortgage and such default continues beyond any applicable grace period;

(b) Upon the occurrence of an Event of Default the Authority may take any one or more of the following actions:

(i) declare all sums payable by the Institution under the Loan Agreement immediately due and payable;

(ii) direct the Trustee to withhold any and all payments, advances and reimbursements from the proceeds of Bonds or the Construction Fund or otherwise to which the Institution may otherwise be entitled under the Loan Agreement and in the Authority's sole discretion apply any such proceeds or moneys for such purposes as are authorized by the Resolution;

(iii) withhold any or all further performance under the Loan Agreement;

(iv) maintain an action against the Institution under the Loan Agreement to recover any sums payable by the Institution or to require its compliance with the terms of the Loan Agreement or of the Mortgage;

(v) realize upon any pledge of or security interest in the Pledged Revenues and the rights to receive the same, all to the extent provided in the Loan Agreement, by any one or more of the following actions: (A) enter the Institution and examine and make copies of the financial books and records of the Institution relating to the Pledged Revenues and take possession of all checks or other orders for payment of money and moneys in the possession of the Institution representing Pledged Revenues or proceeds thereof; (B) notify any account debtors obligated on any Pledged Revenues to make payment directly to the Authority or to the Trustee, as the Authority may direct, and of the amount to be so paid; provided, however, that (1) the Authority may, in its discretion, immediately collect the entire amount of interest, principal, or Sinking Fund Installments, if any, coming due on Outstanding Bonds on the next interest payment date therefor, subject to the Prior Pledges, and may continue to do so commencing on each such interest payment date to the extent of amounts due on Outstanding Bonds on the next interest payment date therefor, with respect to the Pledged Revenues, until such amounts are fully collected, (2) written notice of such notification shall be mailed to the Institution five (5) days prior to mailing or otherwise making such notification to account debtors and (3) until the Institution shall receive such notice it shall have full authority and responsibility to enforce and collect Pledged Revenues owing from its account debtors; (C) following the above mentioned notification to account debtors, collect, compromise, settle, compound or extend amounts payable as Pledged Revenues which are in the form of accounts receivable or contract rights from the Institution's account debtors by suit or other means and give a full acquittance therefor and receipt therefor in the name of the Institution whether or not the full amount of any such account receivable or contract right owing shall be paid to the Authority; (D) require the Institution to deposit all moneys, checks or other orders for the payment of money which represent Pledged Revenues in an amount equal to the Pledged Revenues assigned under the Loan Agreement within five (5) business days after receipt of written notice of such requirement, and thereafter as received, into a fund or account to be established for such purpose by the

Authority; *provided, however*, that (1) the moneys in such fund or account shall be applied by the Authority to the payment of any of the obligations of the Institution under the Loan Agreement, including the fees and expenses of the Authority, (2) the Authority in its sole discretion may authorize the Institution to make withdrawals from such fund or account for its corporate purposes and (3) the requirement to make such deposits shall cease and the balance of such fund or account shall be paid to the Institution when all Events of Default under the Loan Agreement by the Institution have been cured; (E) forbid the Institution to extend, compromise, compound or settle any accounts receivable or contract rights which represent any unpaid assigned Pledged Revenues, or release, wholly or partly, any person liable for the payment thereof (except upon receipt of the full amount due) or allow any credit or discount thereon; or (F) endorse in the name of the Institution any checks or other orders for the payment of money representing any unpaid assigned Pledged Revenues or the proceeds thereof;

(vi) to the extent permitted by law and as applicable, (A) enter upon the Project and complete the construction thereof in accordance with the plans and specifications with such changes therein as the Authority may deem appropriate and employ watchmen to protect the Project, all at the risk, cost and expense of the Institution, consent to such entry being deemed given by the Institution under the Loan Agreement, (B) at any time discontinue any work commenced in respect of the construction of the Project or change any course of action undertaken by the Institution and not be bound by any limitations or requirements of time whether set forth in the Loan Agreement or otherwise, (C) assume any construction contract made by the Institution in any way relating to the construction of the Project and take over and use all or any part of the labor, materials, supplies and equipment contracted for by the Institution, whether or not previously incorporated into the construction of such Project, and (D) in connection with the construction of the Project undertaken by the Authority pursuant to the provisions described in this subparagraph (vi), (1) engage builders, contractors, architects, engineers and others for the purpose of furnishing labor, materials and equipment in connection with the construction of such Project, (2) pay, settle or compromise all bills or claims which may become liens against the Project or against any moneys of the Authority applicable to the construction of such Project, or which have been or may be incurred in any manner in connection with completing the construction of the Project or for the discharge of liens, encumbrances or defects in the title to the Project or against any moneys of the Authority applicable to the construction of such Project, and (3) take or refrain from taking such action under the Loan Agreement as the Authority may from time to time determine. The Institution shall be liable to the Authority for all sums paid or incurred for construction of the Project whether the same shall be paid or incurred pursuant to the provisions of this subparagraph (vi) or otherwise, and all payments made or liabilities incurred by the Authority under the Loan Agreement of any kind whatsoever shall be paid by the Institution to the Authority upon demand. The Institution under the Loan Agreement irrevocably constitutes and appoints the Authority its true and lawful attorney-in-fact to execute, acknowledge and deliver any instruments and to do and perform any acts in the name and on behalf of the Institution for the purpose of exercising the rights granted to the Authority by the provisions described in this subparagraph (vi) during the term of the Loan Agreement;

(vii) permit, direct or request the Trustee to liquidate all or any portion of the assets of the Debt Service Reserve Fund by selling the same at public or private sale in any commercially reasonable manner and apply the proceeds thereof and any dividends or interest received on investments thereof to the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of and interest on the Bonds, or any other obligation or liability of the Institution or the Authority arising from the Loan Agreement, from the Series Resolution or from the Resolution;

(viii) take any action necessary to enable the Authority to realize on its liens under the Loan Agreement or under the Mortgage or by law, including foreclosure of the Mortgage, and any other action or proceeding permitted by the terms of the Loan Agreement or of the Mortgage or by law; and

(ix) realize upon any security interest in the fixtures, furnishings and equipment, including any one or more of the following actions: (i) enter the Project or Mortgaged Property and take possession of any such fixtures, furnishings and equipment; or (ii) sell, lease or otherwise dispose of any such fixtures, furnishings

and equipment either together with a sale, lease or other disposition of the Mortgaged Property pursuant to the Loan Agreement or to the Mortgage, or separately, whether or not possession has been secured; provided, however, that if sold, leased or otherwise disposed of separately, such sale, lease or other disposition shall be in a commercially reasonable manner and upon five (5) days' prior written notice to the Institution of the time and place of such sale.

All rights and remedies in the Loan Agreement given or granted to the Authority are cumulative, non-exclusive and in addition to any and all rights and remedies that the Authority may have or may be given by reason of any law, statute, ordinance or otherwise, and no failure to exercise or delay in exercising any remedy shall effect a waiver of the Authority's right to exercise such remedy thereafter.

At any time before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of any Event of Default or before the completion of the enforcement of any other remedies under the Loan Agreement, the Authority may annul any declaration made pursuant to paragraph (b) of the remedies described hereinabove and its consequences if such Event of Default shall be cured. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereto.

(Section 31)

**SUMMARY OF CERTAIN PROVISIONS
OF THE RESOLUTION**

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SUMMARY OF CERTAIN PROVISIONS OF THE REVENUE BOND RESOLUTION

The following is a summary of certain provisions of the Resolution pertaining to the Bonds and the Project. Such summary does not purport to be complete and reference is made to the Resolution for full and complete statements of each of its provisions. Defined terms used in this Appendix shall have the meanings ascribed to them in Appendix A. Unless otherwise indicated, references to section numbers herein refer to sections in the Resolution.

Resolution and Bonds Constitute a Contract

The Resolution authorizes the issuance by the Authority, from time to time, of its Smithtown Special Library District Revenue Bonds in one or more Series, each such Series to be authorized by a separate Series Resolution and, inter alia, to be separately secured from each other Series of Bonds. Each such Series of Bonds shall be separate and apart from any other Series of Bonds authorized by a different Series Resolution and the Holders of Bonds of such Series shall not be entitled to the rights and benefits conferred upon the Holders of Bonds of any other Series of Bonds by the respective Series Resolution authorizing such Series of Bonds. With respect to each Series of Bonds, in consideration of the purchase and acceptance of any and all of the Bonds of a Series authorized to be issued under the Resolution and under a Series Resolution by those who shall hold or own the same from time to time, the Resolution and such Series Resolution shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Holders from time to time of the Bonds of a Series, and the pledge and assignment made in the Resolution and the covenants and agreements set forth to be performed by or on behalf of the Authority shall be for the equal and ratable benefit, protection and security of the Holders of any and all of the Bonds of such Series, all of which, regardless of the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any Bonds of such Series over any other Bonds of such Series except as expressly provided in or permitted by the Resolution or by a Series Resolution.

(Section 1.03)

Pledge of Revenues

The proceeds from the sale of a Series of Bonds, the applicable Revenues, the Authority's security interest in the applicable Pledged Revenues and, except as otherwise provided in the Resolution, all funds and accounts established under the Resolution, other than the Arbitrage Rebate Fund, are under the Resolution, subject to the adoption of a Series Resolution, pledged and assigned to the Trustee as security for the payment of the principal and Redemption Price of and interest on such Series of Bonds, all in accordance with the provisions of the Resolution and the Series Resolution. The pledge of the applicable Revenues and the assignment of the Authority's security interest in the applicable Pledged Revenues shall also be for the benefit of the applicable Facility Provider as security for the payment of any amounts payable to such Facility Provider under the Resolution; provided, however, that such pledge and assignment shall, in all respects, be subject and subordinate to the rights and interest therein of the Bondholders of such Series of Bonds. The pledge made under the Resolution shall relate only to the Bonds of a Series authorized by such Series Resolution and no other Series of Bonds and such pledge shall not secure any such other Series of Bonds. The pledge made under the Resolution is valid, binding and perfected from the time when the pledge attaches and the proceeds from the sale of a Series of Bonds, the applicable Revenues, the Authority's security interest in the applicable Pledged Revenues and all funds and accounts established under the Resolution and by a Series Resolution which are pledged under the Resolution shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall 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 of each Series shall be special obligations of the Authority payable solely from and secured by a pledge of the proceeds from the sale of such Series of Bonds, the applicable Revenues, the Authority's security interest in the applicable Pledged Revenues and the funds and accounts established under the Resolution and pursuant to a Series Resolution and which are pledged under the Resolution as provided therein, which pledge shall constitute a first lien thereon, subject only to the applicable Prior Pledges and any parity lien on Pledged Revenues (excluding the Project Levy) securing Permitted Indebtedness.

(Section 5.01)

Establishment of Funds and Accounts

Unless otherwise provided by a Series Resolution, the following funds are authorized to be established and shall be held and maintained for each Series of Bonds by the Trustee separate and apart from any other funds established and maintained pursuant to any other Series Resolution:

Construction Fund;
Debt Service Fund; and
Arbitrage Rebate Fund.

Accounts and subaccounts within each of the foregoing funds may from time to time be established in accordance with a Series Resolution, a Bond Series Certificate or upon the direction of the Authority. All moneys at any time deposited in any fund, account or subaccount created and pledged under the Resolution or by a Series Resolution or required thereby to be created shall be held in trust for the benefit of the Holders of Bonds of a Series, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes provided in the Resolution, unless otherwise provided in the applicable Series Resolution; *provided, however*, that any Debt Service Reserve Fund established by or pursuant to a Series Resolution, the amounts held therein and amounts derived from any Reserve Fund Facility related thereto, shall not be held in trust for the benefit of the Holders of Bonds other than the Bonds of the Series secured thereby as provided in such Series Resolution and are pledged solely thereto and no Holder of the Bonds of any other Series shall have any right or interest therein.

(Section 5.02)

Application of Bond Proceeds and Allocation Thereof

Upon the receipt of proceeds from the sale of a Series of Bonds, the Authority shall apply such proceeds as specified in the Resolution and in the Series Resolution authorizing such Series or in the Bond Series Certificate relating to such Series.

Accrued interest, if any, received upon the delivery of a Series of Bonds shall be deposited in the Debt Service Fund unless all or any portion of such amount is to be otherwise applied as specified in the Series Resolution authorizing such Series or the Bond Series Certificate relating to such Series.

(Section 5.03)

Application of Moneys in the Construction Fund

As soon as practicable after the delivery of a Series of Bonds, the Trustee shall deposit in the 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 shall pay over to the Trustee and the Trustee shall deposit in the Construction Fund any moneys paid to the Authority pursuant to the Resolution. The Trustee shall also deposit in the Construction Fund all amounts

paid to it by the Institution which by the terms of the applicable Loan Agreement are required to be deposited therein

(a) Except as otherwise provided in the Resolution and in any applicable Series Resolution or Bond Series Certificate, moneys deposited in the Construction Fund shall be used only to pay the Costs of Issuance and the Costs of the Project with respect to such Series of Bonds. For purposes of internal accounting, the Construction Fund may contain one or more further subaccounts, as the Authority or the Trustee may deem proper.

(b) Payments for Costs of Issuance shall be made by the Trustee upon receipt of, and in accordance with, a certificate or certificates signed by an Authorized Officer of the Authority stating the names of the payees, the purpose of each payment in terms sufficient for identification, and the respective amounts of each such payment. Payments for Costs of each Project shall be made by the Trustee upon receipt of, and in accordance with, a certificate or certificates signed by an Authorized Officer of the Authority, (which certificate shall, to the extent that the Institution has undertaken the primary responsibility for the construction of such Project or any portion thereof, be substantiated by a certificate filed with the Authority signed by an Authorized Officer of the Institution naming the Project in connection with which payment is to be made and describing in reasonable detail the purpose for which moneys were used and the amount thereof, and further stating that such purpose constitutes a necessary part of the Costs of such Project), except that payments to pay interest on Bonds of a Series shall be made by the Trustee upon receipt of, and in accordance with, the direction of an Authorized Officer of the Authority directing the Trustee to transfer such amount from the Construction Fund to the Debt Service Fund.

(c) Any proceeds of insurance, condemnation or eminent domain awards received by the Trustee, the Authority or the Institution with respect to a Project shall be deposited in the Construction Fund and, if necessary, such fund may be re-established for such purpose.

(d) A Project shall be deemed to be complete upon delivery to the Authority and the Trustee of a certificate signed by an Authorized Officer of the Institution, which certificate shall be delivered as soon as practicable after the date of completion of such Project, or upon delivery to the Institution and the Trustee of a certificate signed by an Authorized Officer of the Authority which certificate may be delivered at any time after completion of such Project. Each such certificate shall 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 or use, and, in the case of a certificate of an Authorized Officer of the Institution, shall specify the date of completion.

Upon receipt by the Trustee of a certificate relating to the completion of a Project, the moneys, if any, then remaining in the Construction Fund relating to such Project, after making provision in accordance with the direction of an Authorized Officer of the Authority for the payment of any Costs of Issuance and Costs of the Project in connection with such Project which are then unpaid, shall be paid or applied by the Trustee as follows and in the following order of priority:

First: Upon the direction of an Authorized Officer of the Authority, to the Arbitrage Rebate Fund, the amount set forth in such direction;

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

Third: To the Debt Service Fund, to be applied in accordance with the Resolution, any balance remaining.

(Section 5.04)

Deposit of Revenues and Allocation Thereof

The Revenues and any other moneys, which, by any of the provisions of a Loan Agreement or the Collection Agreement, are required to be paid to the Trustee, shall upon receipt thereof be deposited or paid by the Trustee in the following order of priority:

First: To the Debt Service Fund (i) in the case of Revenues received during the period from the beginning of each Bond Year until September 30 thereof, the amount, if any, necessary to make the amount in the Debt Service Fund equal to (a) the interest on Outstanding Bonds of a Series payable on or prior to the next succeeding January 1, and (b) the purchase price or Redemption Price of Outstanding Bonds theretofore contracted to be purchased or called for redemption pursuant to the Resolution, plus accrued interest thereon to the date of purchase or redemption; and (ii) in the case of Revenues received thereafter and until the end of such Bond Year, the amount, if any, necessary to make the amount in the Debt Service Fund equal to (a) the interest on and the principal and Sinking Fund Installments of Outstanding Bonds of a Series payable on and prior to the next succeeding July 1, and (b) the purchase price or Redemption Price of Outstanding Bonds of a Series theretofore contracted to be purchased or called for redemption pursuant to the Resolution, plus accrued interest thereon to the date of purchase or redemption;

Second: To reimburse each Facility Provider for Provider Payments which are then unpaid the respective Provider Payments and to replenish each Debt Service Reserve Fund, if any, to its respective Debt Service Reserve Fund Requirement, pro rata, in proportion to the amount the respective Provider Payments then unpaid to each Facility Provider and the amount of the deficiency in each Debt Service Reserve Fund bears to the aggregate amount of Provider Payments then unpaid and deficiencies in the respective Debt Service Reserve Funds;

Third: Upon the direction of an Authorized Officer of the Authority, to the Arbitrage Rebate Fund the amount set forth in such direction;

Fourth: 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 Trustee and Paying Agents, all as required under the Resolution, (ii) all other expenditures reasonably and necessarily incurred by the Authority in connection with the financing of a Project, including expenses incurred by the Authority to compel full and punctual performance of all the provisions of the applicable Loan Agreement or Mortgage in accordance with the terms thereof, and (iii) any fees of the Authority; but only upon receipt by the Trustee of a certificate signed by an Authorized Officer of the Authority, stating in reasonable detail the amounts payable to the Authority pursuant to the provisions described in this paragraph Fourth.

The Trustee shall, promptly after making the above required payments, notify the Authority and the Institution of any balance of Revenues remaining on the immediately succeeding July 1. After making the above required payments, the balance, if any, of the Revenues then remaining shall, upon the direction of an Authorized Officer of the Authority, be paid by the Trustee to the Construction Fund or the Debt Service Fund, or paid to the Institution, in the respective amounts set forth in such direction, free and clear of any pledge, lien, encumbrance or security interest created under the Resolution.

(Section 5.05)

Debt Service Fund

(a) (i) The Trustee shall 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:

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

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

(iv) the Sinking Fund Installments, if any, due and payable on all Outstanding Bonds of a Series on such interest payment date.

The amounts paid out pursuant to the provisions described in this paragraph shall be irrevocably pledged to and applied to such payments.

(b) Notwithstanding the provisions of the Resolution described in paragraph (a) hereinabove, the Authority may, at any time subsequent to the first day of July 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 Debt Service Fund, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Term Bonds of a Series to be redeemed from such Sinking Fund Installment. Any Term Bond so purchased and any Term Bond purchased by the Institution and delivered to the Trustee in accordance with the applicable Loan Agreement shall be canceled upon receipt thereof by the Trustee and evidence of such cancellation shall be given to the Authority. The principal amount of each Term Bond so canceled shall be credited against the Sinking Fund Installment due on such date; *provided, however*, that such Term Bond is canceled by the Trustee prior to the date on which notice of redemption is given.

Moneys in the Debt Service Fund in excess of the amount required to pay the principal and Sinking Fund Installments of Outstanding Bonds of a Series payable on and prior to the next succeeding July 1, the interest on Outstanding Bonds of a Series payable on and prior to the earlier of the next succeeding January 1 or July 1, and the purchase price or Redemption Price of Outstanding Bonds of a Series theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, shall be applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to the purchase of Outstanding Bonds of a 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 shall direct. If sixty (60) days prior to the end of a Bond Year an excess, calculated as aforesaid, exists in the Debt Service Fund, such moneys shall be applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority given pursuant to the Resolution to the redemption of Bonds of a Series as provided in the Resolution, at the Redemption Prices specified in the Series Resolution authorizing the issuance of the Bonds to be redeemed or the Bond Series Certificate relating to such Bonds.

(Section 5.06)

Arbitrage Rebate Fund

The Trustee shall deposit to the Arbitrage Rebate Fund any moneys delivered to it by the Institution for deposit therein and, notwithstanding any other provisions of the Resolution, shall 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 Resolution at such times and in such amounts as shall be set forth in such directions.

Moneys on deposit in the Arbitrage Rebate Fund shall 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 shall 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 shall be deposited to any fund or account established under the Resolution in accordance with the written direction of such Authorized Officer.

The Authority shall periodically determine the amount which may be required by the Code to be rebated to the Department of the Treasury of the United States of America with respect to a Series of Bonds and direct the Trustee to (i) transfer from any other of the funds and accounts held by the Trustee under the Resolution and deposit to the Arbitrage Rebate Fund such amount as the Authority shall 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 such Series of Bonds and (ii) if and to the extent required by the Code, pay out of the 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 5.07)

Application of Moneys in Certain Funds for Retirement of Bonds

Notwithstanding any other provisions of the Resolution, if at any time (i) the amounts held in the Debt Service Fund and the Debt Service Reserve Fund, if applicable, are sufficient to pay the principal or Redemption Price of all Outstanding Bonds of a Series and the interest accrued and unpaid and to accrue on such Bonds to the next date of redemption when all such Bonds are redeemable, (ii) the amounts held in the Debt Service Reserve Fund are sufficient to pay the principal or Redemption Price of all Outstanding Bonds of the Series secured thereby and the interest accrued and unpaid and to accrue on such Bonds to the next date on which such Bonds may be redeemed or (iii) in either case, to make provision pursuant to the Resolution for the payment of such Outstanding Bonds at the maturity or redemption dates thereof, the Trustee shall so notify the Authority and the Institution. Upon receipt of such notice, the Authority may (i) direct the Trustee to redeem all such Outstanding Bonds of a Series, whereupon the Trustee shall proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds under the Resolution and by a Series Resolution as provided in the Resolution, or (ii) give the Trustee irrevocable instructions in accordance with the Resolution and make provision for the payment of such Outstanding Bonds at the maturity or redemption dates thereof in accordance with such instruction.

(Section 5.08)

Investment of Funds and Accounts Held by the Trustee

(a) Moneys held under the Resolution by the Trustee, if permitted by law, shall, as nearly as may be practicable, be invested by the Trustee, upon direction of the Authority given or confirmed in writing, signed by an Authorized Officer of the Authority (which direction shall specify the amount thereof to be so invested), in Government Obligations, Federal Agency Obligations, Exempt Obligations, and, if not inconsistent with the investment guidelines of a Rating Service applicable to funds held under the Resolution, any other Permitted Investment; *provided, however*, that each such investment shall 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 Resolution; *provided, further*, that (x) any Permitted Collateral required to secure any Permitted Investment shall have a market value, determined by the Trustee or its agent periodically, but no less frequently than weekly, at least equal to the amount deposited or invested including interest accrued thereon, (y) the Permitted Collateral shall 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 Permitted Collateral shall be free and clear of claims of any other person.

(b) Permitted Investments purchased or other investments made as an investment of moneys in any fund or account held by the Trustee under the provisions of the Resolution shall 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 shall be retained in, credited or charged to, as the case may be, such fund or account.

(c) In computing the amount in any fund or account held by the Trustee under the provisions of the Resolution, each Permitted Investment shall be valued at par or the market value thereof, plus accrued interest, whichever is lower.

(d) Notwithstanding anything to the contrary in the Resolution, the Authority, in its discretion, may direct the Trustee to, and the Trustee shall, sell, present for redemption or exchange any investment held by the Trustee pursuant to the Resolution and the proceeds thereof may be reinvested as provided in this heading. Except as otherwise provided in the Resolution, the Trustee shall sell at the best price obtainable, or present for redemption or exchange, any investment held by it pursuant to the Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the fund or account in which such investment is held. The Trustee shall advise the Authority and the Institution in writing, on or before the fifteenth (15th) day of each calendar month, of the amounts required to be on deposit in each fund and account under the Resolution and of the details of all investments held for the credit of each fund and account in its custody under the provisions of the Resolution as of the end of the preceding month and as to whether such investments comply with the provisions described in paragraphs (a) and (b) of this heading. The details of such investments shall include the par value, if any, the cost and the current market value of such investments as of the end of the preceding month. The Trustee shall also describe all withdrawals, substitutions and other transactions occurring in each such fund and account in the previous month.

(e) No part of the proceeds of any Series of Bonds or any other funds of the Authority shall be used directly or indirectly to acquire any securities or investments the acquisition of which would cause any Bond to be an “arbitrage bond” within the meaning of Section 148(a) of the Code.

(Section 6.02)

Refunding Bonds and Additional Obligations

All or any portion of one or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund all Outstanding Bonds, one or more Series of Outstanding Bonds, a portion of a Series of Outstanding Bonds or a portion of a maturity of a Series of Outstanding Bonds. The Authority may issue Refunding Bonds of a Series in an aggregate principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make such deposits required by the provisions of the Resolution and of the Series Resolution authorizing such Series of Refunding Bonds.

The proceeds, including accrued interest, of Refunding Bonds shall be applied simultaneously with the delivery of such Refunding Bonds in the manner provided in or as determined in accordance with the Series Resolution authorizing such Refunding Bonds.

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 Resolution, entitled to a charge, lien or right prior or equal to the charge or lien created under the Resolution and pursuant to a Series Resolution, or prior or equal to the rights of the Authority and Holders of Bonds of a Series, *provided, however*, that the Institution may incur Permitted Indebtedness.

(Sections 2.04 and 2.05)

Creation of Liens

Except as permitted under the Resolution, or by a Series Resolution the Authority shall not create, cause to be created or suffer or permit the creation of any lien or charge prior or equal to that of the Bonds of a Series on the proceeds from the sale of such Bonds, the Revenues pledged for such Series of Bonds, the Pledged Revenues or the funds and accounts established under the Resolution or by a Series Resolution which are pledged under the Resolution; *provided, however*, that nothing contained in the Resolution shall

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 thereby and *provided further, however*, that nothing contained in the Resolution shall prevent the Institution from incurring Permitted Indebtedness.

(Section 7.06)

Events of Default

An event of default shall exist under the Resolution and under a Series Resolution (called “Event of Default” in the Resolution) if:

(c) With respect to a Series of Bonds, payment of the principal, Sinking Fund Installments or Redemption Price of any such Bond shall not be made by the Authority when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(d) With respect to a Series of Bonds, payment of an installment of interest on any such Bond shall not be made by the Authority when the same shall become due and payable; or

(e) With respect to a Series of Bonds, the Authority shall default in the due and punctual performance of any covenants contained in the Series Resolution authorizing the issuance thereof to the effect that the Authority shall comply with the provisions of the Code applicable to such Bonds necessary to maintain the exclusion of interest therein from gross income under Section 103 of the Code and shall not take any action which would adversely affect the exclusion of interest on such Bonds from gross income under Section 103 of the Code and, as a result thereof, the interest on the Bonds of such Series shall no longer be excludable from gross income under Section 103 of the Code; or

(f) With respect to a Series of Bonds, the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Resolution or in the Bonds of such Series or in a Series Resolution on the part of the Authority to be performed and such default shall continue for thirty (30) days after written notice specifying such default and requiring same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall 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 of such Series, or if such default is not capable of being cured within thirty (30) days, if the Authority fails to commence within said thirty (30) days and diligently prosecute the cure thereof; or

(g) With respect to a Series of Bonds, the Authority shall have notified the Trustee that an “Event of Default” as defined in the applicable Loan Agreement, arising out of or resulting from the failure of the Institution to comply with the requirements of such Loan Agreement shall have occurred and is continuing and all sums payable by the Institution under such Loan Agreement shall have been declared to be immediately due and payable, which declaration shall not have been annulled.

(Section 11.02)

Acceleration of Maturity

Upon the happening and continuance of any Event of Default specified in the Resolution, other than an Event of Default specified in paragraph (c) under the heading Events of Default above, then and in every such case the Trustee upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of a Series shall, by notice in writing to the Authority, declare the principal of and interest on all of the Outstanding Bonds of such Series to be due and payable. At the expiration of thirty (30) days after notice of such declaration has been given, such principal and interest shall become and be immediately due and payable, anything in the Resolution or in a Series Resolution or in the Bonds of a Series to the contrary notwithstanding. At any time after the principal of

the Bonds of a Series shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Resolution, the Trustee may, with the written consent of the Holders of not less than twenty-five per centum (25%) in principal amount of such Series of Bonds not then due by their terms and then Outstanding, by written notice to the Authority, annul such declaration and its consequences if: (i) moneys shall have accumulated in the Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Outstanding Bonds of such Series (except the interest accrued on such Bonds since the last interest payment date); (ii) moneys shall have accumulated and be available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agent; (iii) all other amounts then payable by the Authority under the Resolution and under a Series Resolution (other than principal amounts payable only because of a declaration and acceleration under this heading) shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Resolution or in such Series Resolution or in such Bonds (other than a default in the payment of the principal of such Bonds then due only because of a declaration under this heading) shall have been remedied to the reasonable satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

(Section 11.03)

Enforcement of Remedies

Upon the happening and continuance of any Event of Default specified in the Resolution, then and in every such case, the Trustee may proceed, and upon the written request of the applicable Facility Provider or of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of a Series, shall proceed (subject to the provisions of the Resolution) to protect and enforce its rights and the rights of the Bondholders under the Resolution or of such Facility Provider or under the applicable Series Resolution 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 Resolution or under any Series Resolution or in aid or execution of any power granted under the Resolution or granted under such Series Resolution, 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 shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Resolution and under a Series Resolution the Trustee shall be entitled to sue for, enforce payment of, and receive any and all amounts then, or during any default becoming, and at any time remaining, due from the Authority for principal or interest or otherwise under any of the provisions of the Resolution or of a Series Resolution or of a Series of Bonds, with interest on overdue payments of the principal of or interest on such 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 Resolution and under a Series Resolution and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders of such Bonds, and to recover and enforce judgment or decree against the Authority but solely as provided in the Resolution, in a Series Resolution and in such 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.

(Section 11.04)

Priority of Payments After Default

If at any time the moneys held by the Trustee under the Resolution and under a Series Resolution shall not be sufficient to pay the principal of and interest on the Bonds of a Series as the same become due and

payable (either by their terms or by acceleration of maturity under the provisions of the Resolution), such moneys together with any moneys then available or thereafter becoming available for such purpose, whether through exercise of the remedies provided for in the Resolution or otherwise, shall be applied (after payment of all amounts owing to the Trustee under the Resolution) as follows:

(h) Unless the principal of all the Bonds of a Series has become or been declared due and payable, all such moneys shall be applied:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal, Sinking Fund Installments or Redemption Price of any Bonds of such Series which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amount available shall not be sufficient to pay in full all such amounts due on any date, then to the payment thereof ratably, according to the amount of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(i) Unless otherwise provided in a Series Resolution, if the principal of all of the Bonds of a Series has become or been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon such Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond of such Series over any other such Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to the difference in the respective rates of interest specified in such Bonds.

The provisions of this heading are in all respects subject to the provisions of the Resolution describing extension of payment of Bonds.

Whenever moneys are to be applied by the Trustee pursuant to the provisions described in this heading, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The setting aside of such moneys in trust for application in accordance with the provisions described in this heading shall constitute proper application by the Trustee, and the Trustee shall incur no liability whatsoever to the Authority, to any Holder of Bonds of a Series or to any other person for any delay in applying any such moneys so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be on an interest payment date unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date. The Trustee shall not be required to make payment to the Holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement.

Amounts held by the Trustee after payments to be made pursuant to this heading have been made and no Bonds of such Series are Outstanding shall be paid and applied in accordance with the Resolution.

(Section 11.05)

Bondholders' Direction of Proceedings

Anything in the Resolution to the contrary notwithstanding, the Holders of not less than a majority in principal amount of the Outstanding Bonds of a Series shall have the right, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Resolution and under a Series Resolution, provided, such direction shall not be otherwise than in accordance with law and the provisions of the Resolution and of such Series Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

(Section 11.07)

Limitation of Rights of Individual Bondholders.

A Holder of any of the Bonds of a Series shall not have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Resolution, or for any other remedy under the Resolution unless such Holder previously shall have given to the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of such Series shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted under the Resolution or to institute such action, suit or proceeding in its or their name, and unless, also, there shall 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 shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are pursuant to the Resolution declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts under the Resolution or for any other remedy under the Resolution and in equity or at law. It is understood and intended that no one or more Holders of the Bonds of a Series secured by the Resolution and by a Series Resolution shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security under the Resolution or to enforce any right under the Resolution except in the manner provided in the Resolution, and that all proceedings at law or in equity shall be instituted and maintained for the benefit of all Holders of the Outstanding Bonds of such Series. Notwithstanding any other provision of the Resolution, the Holder of any Bond of a Series shall have the right which is absolute and unconditional to receive payment of the principal of (and premium, if any) and interest on such Bond on the stated maturity expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

(Section 11.08)

Modification and Amendment Without Consent

Notwithstanding any other provisions of the Resolution, the Authority may without the consent of the Holders of the Bonds Outstanding adopt at any time or from time to time Series Resolutions or Supplemental Resolutions for any one or more of the following purposes, and any such Series Resolution or Supplemental Resolution shall 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:

(j) To provide for the issuance of a Series of Bonds pursuant to the provisions of the Resolution and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;

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

(l) To prescribe further limitations and restrictions upon the issuance of Bonds of a 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;

(m) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the 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 Resolution;

(n) To confirm, as further assurance, any pledge under the Resolution or under a Series Resolution, and the subjection to any lien, claim or pledge created or to be created by the provisions of the Resolution, or any Series Resolution, of the Revenues, or any pledge of any other moneys, Securities or funds;

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

(p) With the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision in the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable, provided that any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect, or to modify any of the provisions of the Resolution or of any previously adopted Series Resolution or Supplemental Resolution in any other respect, provided that such modification shall not adversely affect the interests of the Bondholders of a Series in any material respect.

(Section 9.01)

Supplemental Resolutions Effective with Consent

The provisions of the Resolution or of a Series Resolution may also be modified or amended at any time or from time to time by a Supplemental Resolution, subject to the consent of the Holders of a Series of Bonds in accordance with and subject to the provisions of the Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority. The Trustee shall transmit a copy of such Supplemental Resolution to the Institution upon its becoming effective.

(Section 9.02)

Amendment of Loan Agreement

(q) A Loan Agreement may, without the consent of the Holders of Bonds of the applicable Series, be amended, changed, modified or supplemented for any one or more purposes:

(i) to add an additional covenant or agreement for the purpose of further securing the payment of the Institution's obligations under such Loan Agreement that is not contrary to or

inconsistent with the covenants and agreements of the Institution contained in such Loan Agreement;

(ii) to prescribe further limitations and restrictions upon the Institution's right to incur, issue, assume or guaranty indebtedness that are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(iii) to surrender any right, power or privilege reserved to or conferred upon the Institution, if surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of Institution contained in such Loan Agreement; *provided, however*, that if the same would adversely affect the rights of a Facility Provider, no amendment, change, modification, termination or waiver shall become effective until consented to in writing by the Facility Provider affected thereby;

(iv) to make changes necessary or appropriate in connection with the acquisition, construction, reconstruction, rehabilitation and improvement, or otherwise providing, furnishing and equipping of a Project, to amend the description of a Project or to add an additional Project to such Loan Agreement;

(v) to amend such Loan Agreement to establish, amend or modify the Authority Fee or the Annual Administrative Fee payable by the Institution in connection with the Bonds of a Series; or

(vi) with the prior written consent of the Trustee to cure any ambiguity, or to correct or supplement any provisions contained in such Loan Agreement which may be defective or inconsistent with any other provisions contained in the Resolution or in such Loan Agreement or to amend, modify or waive any other provision of such Loan Agreement provided that the same does not adversely affect the interests of the Bondholders of such Series of Bonds in any material respect.

(r) Notwithstanding the provisions described in paragraph (a) of this heading, a Loan Agreement may not be amended, changed, modified or terminated, nor may any provision thereof be waived, without the consent of the Holders of Outstanding Bonds of the applicable Series, as provided in the Resolution, if such amendment, change, modification, termination or waiver (i) reduces the amount payable by the Institution under such Loan Agreement on any date or delays the date on which payment is to be made, (ii) modifies the events which constitute "Events of Default" under such Loan Agreement, (iii) diminishes, limits or conditions the rights or remedies of the Authority under such Loan Agreement upon the occurrence of an "Event of Default" thereunder, or (iv) adversely affects the rights of the Bondholders of such Series of Bonds in any material respect.

No such amendment, change, modification, termination or waiver shall take effect without the prior written consent of the Holders of at least a majority in principal amount of the Bonds of such Series then Outstanding.

(s) No amendment, change, modification or termination of a Loan Agreement, or waiver or a provision thereof shall be made other than pursuant to a written instrument signed by the parties thereto. No such amendment, change, modification or waiver shall become effective unless there has been delivered to the Trustee an opinion of Bond Counsel to the effect that the same is not inconsistent with the Resolution and will not adversely affect the exclusion of interest on a Bond of a Series from gross income for purposes of federal income taxation. A copy of each such amendment, change, modification, termination or waiver shall be filed with the Trustee.

(t) For the purposes of the provisions described in this heading, the purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase, may consent to an amendment, change, modification, alteration or termination permitted by this heading in the manner

provided in the Resolution, except that no proof of ownership shall be required, and with the same effect as a consent given by the Holder of such Bonds of a Series; *provided, however*, that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the amendment, change, modification, alteration or termination and the provisions for the purchaser consenting thereto shall 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.

For the purposes of the provisions described above, a Series shall be deemed to be adversely affected by an amendment, change, modification or alteration of the applicable Loan 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 a Series would be adversely affected in any material respect by any amendment, change, modification or alteration, and any such determination shall be binding and conclusive on the Institution, the Authority and all Holders of Bonds of such Series.

For all purposes of the provisions described above, the Trustee shall be entitled to rely upon an opinion of counsel, which counsel shall be satisfactory to the Trustee, with respect to whether any amendment, change, modification or alteration adversely affects the interests of any Holders of Bonds of a Series then Outstanding in any material respect.

(Section 7.11)

Defeasance

(u) If the Authority shall pay or cause to be paid to the Holders of Bonds of a Series the principal or Redemption Price of and interest thereon, at the times and in the manner stipulated in the 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 Series of Bonds and all other rights granted under the Resolution to such Series of Bonds shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver such documents to evidence such discharge and satisfaction as may be reasonably required by the Authority, and all moneys or other securities held by it pursuant to the Resolution and to the applicable Series Resolution which are not required for the payment or redemption of Bonds of such Series shall be paid or delivered by the Trustee as follows: first, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; second, to each Facility Provider the Provider Payments which have not been repaid, pro rata, based upon the respective Provider Payments then unpaid to each such Facility Provider; third, to the Authority the amount certified by an Authorized Officer of the Authority to be then due or past due pursuant to the applicable Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the Institution. Such moneys or securities so paid or delivered shall be released from any trust, pledge, lien, encumbrance or security interest created under the Resolution or by the applicable Loan Agreement.

(v) Bonds for the payment or redemption of which moneys shall have been set aside and shall 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 shall be deemed to have been paid within the meaning and with the effect expressed in the provisions described in paragraph (a) of this heading. All Outstanding Bonds of a Series or any maturity within such Series or a portion of a maturity within such Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the provisions described in paragraph (a) of this heading if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to give as provided in the Resolution notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and interest on which when due will, as verified by the report of a firm of independent certified public accountants, provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay

when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on said Bonds of a Series on and prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have 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, if any, appearing on the registration books, and, if directed by an Authorized Officer of the Authority, by publication, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized Newspaper, a notice to the Holders of such Bonds that the deposit required by the provisions described in clause (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Resolution 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 shall give written notice to the Trustee of its selection of the Series and maturity the payment of which is to be made in accordance with the Resolution. The Trustee shall select which Bonds of such Series and maturity payment of which shall be made in accordance with, and in the manner provided in the Resolution. Neither the Defeasance Securities nor moneys deposited with the Trustee pursuant to the provisions described under this heading nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall 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, shall, 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 of the Resolution, as the case may be. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, shall, to the extent certified by the Trustee to be in excess of the amounts required hereinabove to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: first, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; second, to each Facility Provider the Provider Payments which have not been repaid, pro rata, based upon the respective Provider Payments then unpaid to each Facility Provider; third, to the Authority the amount certified by an Authorized Officer of the Authority to be then due or past due pursuant to the applicable Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the Institution, and any such moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created under the Resolution or by the applicable Loan Agreement.

(w) Anything in the Resolution to the contrary notwithstanding, any moneys held by the Trustee or a Paying Agent in trust for the payment and discharge of any of the Bonds of a Series or the interest thereon which remain unclaimed for one (1) year after the date when all of the Bonds of such Series have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee or Paying Agent at such date, or for one (1) year after the date of deposit of such moneys if deposited with the Trustee or Paying Agent after said date when all of the Bonds of such Series become due and payable, or one (1) year after the date when the principal or Redemption Price of or interest on the Bonds for which said moneys is held was due and payable, shall, at the written request of the Authority, be repaid by the Trustee or Paying Agent to the Authority as its absolute property and free from trust, and the Trustee or Paying Agent shall thereupon be released and discharged with respect thereto and the Holders of Bonds shall look only to the Authority for the payment of such Bonds; provided, however, that, before being required to make any such payment to the Authority, the Trustee or Paying Agent may, at the expense of the Authority, cause to be published in an Authorized Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date shall be not less than thirty (30) nor more than sixty (60) days after the date of publication of such notice, the balance of such moneys then unclaimed shall be returned to the Authority.

(Section 12.01)

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**FORM OF APPROVING OPINION
OF BOND COUNSEL**

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[Date of Closing]

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

Ladies and Gentlemen:

We have examined a record of proceedings relating to the sale and issuance of \$20,930,000 aggregate principal amount of Smithtown Public Library Insured Revenue Bonds, Series 2008 (the “Series 2008 Bonds”) by the Dormitory Authority of the State of New York (the “Authority”), a body corporate and politic constituting a public benefit corporation of the State of New York, created and existing under and pursuant to the Constitution and statutes of the State of New York, including the Dormitory Authority Act, being Chapter 524 of the Laws of 1944 of the State of New York, as amended (the “Act”). Capitalized terms used herein without other definition have the meanings set forth in the Resolutions (hereinafter defined).

The Series 2008 Bonds are issued under and pursuant to (i) the Act, (ii) the Authority’s Smithtown Special Library District Insured Revenue Bond Resolution duly adopted on September 24, 2008 (the “Resolution”), (iii) the Authority’s Series Resolution Authorizing Up To \$21,000,000 Smithtown Special Library District Insured Revenue Bonds, Series 2008, duly adopted on September 24, 2008 (the “Series 2008 Resolution”; and collectively with the Resolution, the “Resolutions”), and (iv) a Bond Series Certificate (the “Bond Series Certificate”) delivered by an Authorized Officer of the Authority pursuant to the Resolutions setting forth certain terms of the Series 2008 Bonds.

The Series 2008 Bonds are being issued for the purposes set forth in the Resolutions, including providing moneys to make a loan to Smithtown Special Library District (the “Library”) the proceeds of which will be used to finance the Project, as defined in the Series 2008 Resolution.

The Series 2008 Bonds are dated their date of delivery, shall mature on July 1 in each of the years and shall bear interest, payable July 1, 2009 and semi-annually thereafter on January 1 and July 1 in each year, at the respective rates per annum set forth below:

<u>Due</u> <u>July 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Due</u> <u>July 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
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The Series 2008 Bonds are issuable in the form of fully registered bonds in the denomination of \$5,000 or integral multiples thereof. The Series 2008 Bonds are numbered “R-” consecutively from one upward in order of issuance.

The Series 2008 Bonds are subject to redemption and purchase in lieu of redemption prior to maturity in the manner and upon the terms and conditions set forth in the Resolutions and in the Bond Series Certificate.

The Authority and the Library have entered into a Loan Agreement, dated as of September 24, 2008 (the “Loan Agreement”), pursuant to which (a) the Authority has agreed to make a loan to the Library and (b) the Library is required to make payments sufficient to pay, among other things, the principal of and interest on the Series 2008 Bonds. All amounts payable under the Loan Agreement which are required to be paid to the Trustee under the

Resolutions for payment of the principal or Redemption Price of, or interest on, the Series 2008 Bonds have been pledged by the Authority for the benefit of the Holders of the Series 2008 Bonds.

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements that must be met at and subsequent to the issuance and delivery of the Series 2008 Bonds in order that interest on the Series 2008 Bonds will be and remain excludable from gross income under Section 103 of the Code. Included among these continuing requirements are certain restrictions on the use of bond proceeds and the bond-financed facility, restrictions on the investment of proceeds and other amounts, and the rebate to the United States of certain earnings in respect of investments and required ownership of the bond-financed facility by a governmental unit. Failure to comply with the continuing requirements may cause interest on the Series 2008 Bonds to be includable in gross income for federal income tax purposes retroactively to the date of their issuance. In the Series 2008 Resolution and the Loan Agreement and accompanying documents, exhibits and certificates, the Authority and the Library have covenanted to comply with certain procedures, and have made certain representations and certifications, designed to assure compliance with the requirements of the Code. The opinions set forth herein as to federal and state income tax matters assume continuing compliance with such covenants and the accuracy, in all material respects, of such representations and certifications.

Certain requirements and procedures contained or referred to in the Resolution, the Series 2008 Resolution, the Loan Agreement and other relevant documents maybe changed and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally-recognized bond counsel. Winston & Strawn LLP expresses no opinion as to any Series 2008 Bond or the interest thereon if any such change occurs or action is taken upon the advice or approval of bond counsel other than Winston & Strawn LLP.

Based upon the foregoing and subject to the qualifications 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 Series 2008 Bonds thereunder.

2. The Series 2008 Resolution has been duly and lawfully adopted by the Authority in accordance with the provisions of the Resolution and is authorized and permitted by the Resolution. The Resolutions have been duly and lawfully adopted by the Authority. The Resolutions are in full force and effect, and are legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms.

3. The Series 2008 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 Series 2008 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 Loan Agreement and the Loan 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. Based on the above stated assumptions, under existing statutes, regulations, rulings and court decisions, interest on the Series 2008 Bonds is not includable in gross income for federal income tax purposes under Section 103 of the Code. Interest on the Series 2008 Bonds is not an “item of tax preference” for purposes of computing the federal alternative minimum tax on individuals and corporations. However, it should be noted that a portion of the interest on the Series 2008 Bonds owned by corporations (as defined under the Code with certain exceptions) is included in corporate “adjusted current earnings” which is used in the computation of the alternative minimum tax on corporations. Other than as set forth in paragraph 6 below, we express no opinion regarding other federal tax consequences arising with respect to the Series 2008 Bonds.

6. Certain maturities of the Series 2008 Bonds are initially offered to the public at prices less than the principal amount thereof payable to maturity. If the first price at which a substantial amount of the Series 2008 Bonds of the same maturity is sold in the initial offering to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) is less than the principal amount thereof payable at maturity, the difference between such price and principal amount constitutes

original issue discount in respect of each Series 2008 Bond of the same maturity (the “Discount Bonds”). We are of the opinion that original issue discount, as it accrues, is not includable in gross income for federal income tax purposes, and is subject to the alternative minimum tax, to the same extent as interest on the Series 2008 Bonds. The owner of such a Discount Bond who purchases it in the initial offering at the initial offering price is deemed to accrue in each taxable year original issue discount over the term of such bond under the “constant yield method” described in regulations interpreting Section 1272 of the Code with certain adjustments.

7. The interest on the Series 2008 Bonds under existing statutes is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York).

We have examined a fully executed Series 2008 Bond, and, in our opinion, the form of said Bond and its execution are regular and proper.

The opinions contained in paragraphs 2, 3 and 4 above are qualified to the extent that the enforceability of the Resolutions, the Loan Agreement and the Series 2008 Bonds 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 paragraphs 5, 6 and 7 above, we express no opinion as to the federal or state tax consequences of the ownership or disposition of or receipt of interest on the Series 2008 Bonds.

In connection with the delivery of this opinion letter, we are not passing upon the authorization execution and delivery of the Loan Agreement by the Library. We have assumed the due authorization, execution and delivery of the Loan Agreement by the Library. In addition, we express no opinion as to the severability of any provisions of the Resolutions or the Loan Agreement.

Our opinions set forth herein are based upon the facts in existence and the laws in effect on the date hereof and we disclaim any obligation to update our opinions herein, regardless of whether changes in such facts or laws come to our attention after the delivery hereof.

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