Nassau County Interim Finance Authority

NIFA

Financial Statements for the
Year Ended December 31, 2008 and
Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Nassau County Interim Finance Authority:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Nassau County Interim Finance Authority (the "Authority"), a component unit of the County of Nassau, as of December 31, 2008, and for the year then ended, which collectively comprise the Authority's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, 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 Authority, as of December 31, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages three through five is not a required part of the basic financial statements but is supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 2008 supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2009, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

April 22, 2009

The Nassau County Interim Finance Authority (the "Authority" or "NIFA") is a New York State authority empowered to monitor and oversee the finances of Nassau County, New York (the "County") and within certain statutory limits to issue bonds and notes for various County purposes. The Authority will continue to be in existence until its oversight, control or other responsibilities and its liabilities (including the payment in full of Authority bonds and notes) have been met or discharged, but no later than January 31, 2036. The Authority is a component unit of the County for financial reporting purposes. In its oversight capacity, the Authority is, or has previously been, empowered to, among other things, review County financial plans submitted to it; make recommendations or, if necessary, adverse findings thereon; make transitional State aid available as it determines; comment on proposed borrowings by the County; and impose a "control period" upon making one of several statutory findings concerning the County's financial position. To date, the Authority has not imposed a control period.

In its capacity to issue bonds and notes on behalf of the County, the Authority has funded cash flow, capital and working capital needs of the County since the Authority was created in 2000; however, NIFA did not have the statutory authority, except for refunding of bonds or notes previously issued by the Authority, to issue any additional bonds or notes in 2008. To that end, NIFA is actively pursuing the refunding of approximately $300 million of its bonds in 2009.

Revenues to fund Authority operations and pay Authority debt service are provided by a portion of the sales tax revenues of the County on which the Authority has a first lien and, to a much smaller extent, by investment earnings. The Authority has no operating income or taxing power.

Overview of the Financial Statements

The annual financial statements of the Authority consist of the following components: management's discussion and analysis (this section), financial statements, and notes to the financial statements.

Management's discussion and analysis of the Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31, 2008. The overview, which covers the most important financial events of the period, should be read in conjunction with the Authority's financial statements, including the notes to the financial statements.

Entity-wide financial statements of the Authority are presented in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." The entity-wide financial statements use the economic resource measurement focus and accrual basis of accounting. These statements are presented to display information about the reporting entity as a whole. The statement of restricted net assets presents information on all the Authority's restricted assets and liabilities, with the difference between the two reported as net assets. The statement of activities presents information showing how the Authority's net assets changed during the fiscal year. All changes in restricted net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

Governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. These statements are the *balance sheet* and the *statement of revenues, expenditures, and changes in fund balance*. They recognize revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period.

In addition to these two types of statements, the financial statements include reconciliation between the entity-wide and governmental fund statements. Accompanying notes to the financial statements are an integral part of the financial statements.

Presentation of Condensed Financial Information

Condensed Statement of Net Assets
As of December 31, 2008 and 2007
(Dollars in Thousands)

Governmental Activities:	**2008**	**2007**
Assets		
Current	$ 148,964	$ 153,953
Other	39,103	44,925
	188,067	198,878
Liabilities		
Current	128,759	134,064
Non-current	1,942,411	2,035,969
Total Liabilities	2,071,170	2,170,033
Net Deficit		
Restricted	$ (1,883,103)	$ (1,971,155)

Condensed Statement of Activities
For the Years Ended December 31, 2008 and 2007
(Dollars in thousands)

Governmental Activities	**2008**	**2007**
Revenues		
Sales tax	$ 944,934	$ 954,194
Interest income	6,801	9,239
Total Revenues	951,735	963,433
Expenses		
General and administrative	1,117	2,040
Bond Interest expense	96,866	93,661
Distribution to Nassau County	765,700	816,989
Total Expenses	863,683	912,690
Increase in Net Assets	88,052	50,743
Net Deficit, beginning of year	(1,971,155)	(2,021,898)
Net Deficit, end of year	$ (1,883,103)	$ (1,971,155)

Financial Highlights and Overall Analysis

The single most critical factor in the Authority's financial position is sales tax revenue, which provided over 99% of the Authority's 2008 revenue. The State legislation that created NIFA in June 2000 granted the Authority a first lien and perfected security interest in net collections from sales and compensating use taxes authorized by the State and imposed by the County, currently at the rate of 4.25%, on the sales and use of personal property and services in the County, but excluding the 0.25% component that is allocable to towns and cities within the County and up to 1/12% allocable to villages within the County. Sales taxes are collected by the State and remitted to the Authority's bond trustee, usually several times each month. After provision for Authority debt service deposits and operating expenses, the remaining funds are remitted immediately to the County.

The amount of sales tax revenues to be collected depends upon various factors including the economic conditions in the County, which has experienced numerous cycles of growth and recession. In addition, specific goods and services can be exempted from the imposition of sales tax, and the rate of taxation can be changed. Of the current 4.25% sales tax rate, 3.00% is a base rate and the remaining 1.25% is subject to periodic renewals. NIFA's sales tax receipts decreased by 0.97% in FY 2008. There can be no assurance that historical data is predictive of future trends. The Authority does not make projections of sales tax revenues.

Overall net assets increased by $88,052,000 as a result of sales tax revenue earned exceeding operating expenses and amounts required to fund debt service. The excess was remitted to Nassau County. The Authority has an overall net deficit of $1,883,103,000 resulting from the liabilities relating to bonds payable, that will be paid in future periods as sales tax is received. The deficit is expected to be reduced as the bonds are satisfied.

Sales tax revenue for the year ended December 31, 2008, was $944,934,000, a decrease of 0.97% from the prior year due to a decreased level of economic activity. Investment income, net of $85,000 of unrealized appreciation, and excluding bond premium amortization of $4,100,000, which accounts for the remaining Authority revenue, totaled $2,698,000 in 2008, a decrease of 41.28 % from 2007. This decrease is attributable to lower interest rates, and a lower level of fund balances to invest.

Sales tax revenue provided 5.2 times the coverage of the Authority's 2008 total monthly set-asides, as required by the indenture agreement, for debt service of $180,375,000. This coverage will change as the Authority refunds and/or amortizes its debt or as rates change. All together, the Authority used $181,512,000 of sales tax revenue for debt service and Authority operations, remitting the balance of $763,422,000 to Nassau County. A portion of the Authority's total operating expense of $1,117,000, which includes an incremental $104,000 OPEB liability accrual required by GASB 45, was also funded with interest earnings resulting from the investments held by the Authority. As with sales tax, interest earnings that are not required for Authority operations or reserves are remitted to the County. During the year ended December 31, 2008, the Authority remitted $2,278,000 to the County from interest earnings.

During the year ended December 31, 2008, NIFA issued $728,240,000 of adjustable rate bonds for the primary purpose of redeeming its outstanding auction rate securities. Overall, bonds payable decreased in fiscal year 2008 by $83,450,000 (4.26 %), due to retirement on prior bond issues. The statement of net assets shows a total net deficit of $1,883,103,000. The deficit results largely from Authority debt issuance that is backed by future sales tax revenue. The debt is reported as a long-term liability, but the future revenues are not reportable. As of December 31, 2008, the Authority had bonds payable of $1,875,075,000. Since NIFA has completed its new money borrowing program the amount of bonds outstanding and its net deficit are likely to decrease as bonds continue to be retired. The reconciliation on page eight of these financial statements provides additional detail on the determination of the net deficit amount.

Financial Highlights and Overall Analysis (continued)

Throughout the early part of 2008, and as a result of market dislocations created by overwhelming credit and liquidity concerns among investors and difficulties faced by certain bond insurers, the auction rates on the Authority's outstanding auction rate securities (Series 2004 B-G, Series 2004 I-K, and Series 2005 B-C) were resetting at levels significantly higher than anticipated. This resulted in higher debt service costs to the Authority and decreased residual sales tax revenue transfers to the County. At the County's request, the Authority agreed to refund its auction rate securities with the proceeds of variable rate demand obligations in order to reduce debt service costs. The refunding transactions (Series 2008 A-E and Series 2008 F) closed on May 16, 2008 and June 2, 2008, respectively.

Economic Factors and Currently Known Facts

As a result of market dislocations that began in the fourth quarter of 2008 created by credit difficulties faced by certain bond insurers and banks that provide liquidity for certain of the Authority's outstanding bonds, the variable rates on certain of the Authority's outstanding variable rate demand obligations have been resetting at levels higher than anticipated. This has resulted in higher debt service costs to the Authority and decreased residual sales tax revenue transfers to the County during 2009. At the County's request, the Authority has agreed to refund its unhedged variable rate bonds (Series 2002 A, Series 2002 B, Series 2008 F, and $5.055 million of Series 2008 E) in the amount of $310.56 million with the proceeds of fixed-rate bonds in order to stabilize debt service costs. The refunding transaction (Series 2009 A) closed on April 21, 2009.

Contacting the Authority's Financial Management

This financial report is designed to provide, taxpayers, investors, and creditors with a general overview of the Authority's finances and to demonstrate its accountability for the money it receives. If you have any questions about this report or need additional information, contact Nassau County Interim Finance Authority, 170 Old Country Road, Suite 205, Mineola, New York 11501 or email us at nifacomments@nifa.state.ny.us.

BASIC FINANCIAL STATEMENTS

NASSAU COUNTY INTERIM FINANCE AUTHORITY
STATEMENT OF NET ASSETS (DEFICIT)
December 31, 2008
(Dollars in Thousands)

Governmental Activities:		
Assets		
Cash and cash equivalents	$	276
Investments		57,227
Sales tax receivable		91,212
Interest receivable		249
Other assets		35
Other noncurrent assets - net of amortization		39,068
Total Assets		188,067
Liabilities		
Accrued liabilities		60,421
Due to Nassau County - sales tax		68,194
Due to Nassau County - interest		144
Bonds payable:		
Due within one year		104,265
Due in more than one year		1,770,810
Premiums, net		53,015
Other post-employment benefits payable		892
Other liabilities, net of amortization		13,161
Accrued vacation and sick pay		268
Total Liabilities		2,071,170
Net Assets (Deficit)		
Restricted for debt service		20,256
Unrestricted		(1,903,359)
Total Net Assets (Deficit)	$	(1,883,103)

See notes to the financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
Year Ended December 31, 2008
(Dollars in Thousands)

Governmental Activities:	
Expenses	
General and administrative	$ 1,117
Bond interest expense	96,866
Distribution to Nassau County for:	
General operations	2,278
Total Expenses	100,261
General Revenues	
Sales tax	944,934
Less: distributions to Nassau County	(763,422)
Total Sales Tax and State Aid Revenues Retained	181,512
Interest income, net	6,801
Total General Revenues	188,313
Changes in Net Assets	88,052
Net Assets (Deficit) - Beginning of Year	(1,971,155)
Net Assets (Deficit) - End of Year	$ (1,883,103)

See notes to the financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2008
(Dollars in Thousands)

	General	Debt Service	Total (Governmental Funds)
Assets			
Cash and cash equivalents	$ 264	$ 12	$ 276
Investments	510	56,717	57,227
Sales tax receivable	91,212		91,212
Interest receivable		249	249
Due from other funds		23,816	23,816
Other assets	35		35
Total Assets	$ 92,021	$ 80,794	$ 172,815
Liabilities and Fund Balances			
Liabilities			
Accrued liabilities	$ 27	$ 60,394	$ 60,421
Due to Nassau County - sales tax	68,194		68,194
Due to Nassau County - interest		144	144
Due to other funds	23,816		23,816
Total Liabilities	92,037	60,538	152,575
Fund Balances			
Reserved for:			
Prepaid expenditures and deposits	35		35
Debt Service		20,256	20,256
Unreserved	(51)		(51)
Total fund balance (deficit)	(16)	20,256	20,240
Total Liabilities and Fund Balances	$ 92,021	$ 80,794	$ 172,815

See notes to the financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
RECONCILATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS (DEFICIT)
December 31, 2008
(Dollars in Thousands)

Total Fund Balances - Governmental Funds	$ 20,240
Amounts reported for governmental activities in the Statement of Net Assets (Deficit) are different because:	
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:	
Unamortized deferred gain	(13,161)
Bonds payable	(1,875,075)
Unamortized bond premiums	(53,015)
Other post-employment benefits payable	(892)
Accrued vacation and sick pay	(268)
Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	39,068
Net Deficit of Governmental Activities	$ (1,883,103)

See notes to the financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2008
(Dollars in Thousands)

	General	Debt Service	Capital Projects	Total (Governmental Funds)
Revenues				
Sales tax	$ 944,934			$ 944,934
Interest income, net	10	$ 2,687		2,697
Total Revenues	944,944	2,687	$ -0-	947,631
Other Financing Sources				
Operating transfer in	2,146	184,597		186,743
Refunding bonds issued		728,240		728,240
Total Revenues and Other Financing Sources	947,090	915,524	-0-	1,862,614
Expenditures				
Current				
General and administrative	1,137			1,137
Distribution to Nassau County for				
General operations	2,148	130		2,278
Total Current Expenditures	3,285	130	-0-	3,415
Debt service		185,416		185,416
Total Expenditures	3,285	185,546	-0-	188,831
Other Financing Uses				
Transfer to Nassau County - sales tax	763,422			763,422
Operating transfers out	181,948	2,146	2,649	186,743
Debt Service- current refunding		723,294		723,294
Total Expenditures and Other Financing Uses	948,655	910,986	2,649	1,862,290
Excess of Revenue and Other Financing Sources Over Expenditures and Other Financing Uses	(1,565)	4,538	(2,649)	324
Fund Balances - Beginning of year	1,549	15,718	2,649	19,916
Fund Balances (Deficit) - End of Year	$ (16)	$ 20,256	$ -0-	$ 20,240

See notes to the financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2008

(Dollars in Thousands)

Net Change in Fund Balances - Total Governmental Funds	$	324
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
The issuance of long-term debt provides current financial resources to governmental fund, while the repayment of principal of bond debt consumes the current financial resources of governmental funds:		
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		88,915
Governmental funds report costs of debt issuance as expenditure. However, in the statement of activities, the cost of debt issuance is amortized over the lives of the debt.		1,558
Governmental funds report premium on debt issued as revenue. However, in the statement of activities, the premium on debt issued is amortized over the lives of the debt.		4,104
Governmental funds report the gain/losses on debt refunding as revenue and expenditures. However, in the statement of activities, the deferred gain is amortized over the lives of the debt.		(6,869)
Change in other post-employment obligation		(104)
Some expenses (accrued vacation and sick pay) reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds.		124
Change in Net Assets of Governmental Activities	$	88,052

See notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

A. ORGANIZATION

The Nassau County Interim Finance Authority (the "Authority" or "NIFA") is a corporate governmental agency and instrumentality of the State of New York (the "State") constituting a public benefit corporation created by the Nassau County Interim Finance Authority Act, Chapter 84 of the Laws of 2000, as supplemented by Chapter 179 of the Laws of 2000 and as may be amended from time to time, including, but not limited to, Chapter 528 of the Laws of 2002, and Chapters 314 and 685 of the Laws of 2003 (the "Act"). The Act became effective June 23, 2000. Although legally separate and independent of Nassau County (the "County"), the Authority is a component unit of the County and for County financial reporting purposes and, accordingly, is included in the County's financial statements. After December 31, 2008, the County is no longer required to submit for approval its multiyear financial plan.

The Authority is governed by seven directors, each appointed by the Governor, including one each appointed upon the recommendation of the Majority Leader of the State Senate, the Speaker of the Assembly, and the State Comptroller. The Governor also designates the chairperson and vice-chairperson from among the directors. At present one Director's position is vacant.

The Authority has power under the Act to monitor and oversee the finances of Nassau County, and upon declaration of a "Control Period" as defined in the Act, additional oversight authority. Although the Act currently provides that the Authority may no longer issue new bonds or notes, other than to retire or otherwise refund Authority debt, the Authority was previously empowered to and did issue its bonds and notes for various County purposes, defined in the Act as "Financeable Costs." No bond of the Authority may mature later than January 31, 2036, or more than 30 years from its date of issuance.

Revenues of the Authority ("Revenues") consist of sales tax revenues, defined as net collections from sales and compensating use taxes, penalties and interest authorized by the State and imposed by the County on the sale and use of tangible personal property and services in the County ("Sales Tax Revenues"), and investment earnings on money and investments on deposit in various Authority accounts. Sales tax revenues collected by the State Comptroller for transfer to the Authority are not subject to appropriation by the State or County. Revenues of the Authority that are not required to pay debt service, operating expenses, and other costs of the Authority are payable to the County.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. BASIS OF PRESENTATION

The Authority's financial statements include both entity-wide (reporting the Authority as a whole) and the fund financial statements (reporting the Authority's major funds).

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

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. BASIS OF PRESENTATION (continued)

Entity-wide Financial Statements

The entity-wide financial statements of the Authority, which include the statement of net assets and the statement of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB No. 34. The entity-wide Statement of Activities reports both the gross and net cost of each of the Authority's functional categories (general and administrative, bond interest and distributions to Nassau County), which are otherwise supported by general government revenues (sales tax and interest). The net cost of each of the functional categories is direct expenses, which are those expenses clearly identifiable with a specific purpose. The Statement of Activities reduces gross expenses by related revenues to produce the net cost of each program. The net costs (by function) are normally covered by general revenues (sales tax and interest income).

The entity-wide focus is more on the sustainability of the Authority as an entity and the change in the Authority's net assets resulting from the current year's activity.

Fund Financial Statements

The Authority segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements.

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The various funds are presented by type in the fund financial statements.

The Authority uses the following governmental funds to report its financial position and the results of operations.

The General Fund which accounts for sales tax revenues received by the Authority and for general operating expenses as well as distributions to Nassau County.

The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on the Authority's bonds. Only that portion of bonds payable expected to be financed from expendable available resources is reported as a liability of the Debt Service Fund.

The Capital Projects Fund accounts for the financial resources to be transferred to the County for its Financeable Costs.

B. SUMMARY OF SIGNIFCANT ACCOUNTING POLICIES (continued)

2. BASIS OF ACCOUNTING/MEASUREMENT FOCUS

Measurement Focus

Measurement focus refers to what is being measured whereas the basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The statement of net assets and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting, which recognized all long-term assets and receivables well as long-term debt and obligations. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Eliminations of internal activity have been made in these statements. The Authority's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets, as applicable.

The Authority's governmental fund financial statements, the balance sheet and the statement of revenues, expenditures, and changes in fund balance are presented using the current financial resources measurement focus and the modified accrual basis of accounting. They recognize revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized when the related liability is incurred, except for unmatured debt service on bonds payable, which is recognized when due.

3. ASSETS, LIABILITIES AND FUND EQUITY/EQUITY

Cash and Cash Equivalents and Investments

The Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Investments include government agency bonds, notes and certificates of deposits with a maturity of longer three months.

Receivables

Receivables include amounts due from New York State for sales tax remittances as well as interest earned from financial institutions but not yet received. Sales tax revenues received after December 31 but attributable to the prior year are shown in the balance sheet as sales tax receivable and due to Nassau County and due to debt service fund. In the statement of revenues, expenditures, and changes in fund balance, the full amount of the receivable has been recognized as sales tax revenue and applicable portions of these funds have been included as transfers to Nassau County and debt service expense.

Other Assets

Included in other assets are prepaid expenses and advances. Prepaid balances are for payments made by the Authority in the current year to provide services occurring in the subsequent year, and the reserve for prepaid expenses and advances in the governmental funds has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

B. SUMMARY OF SIGNIFCANT ACCOUNTING POLICIES (continued)

3. ASSETS, LIABILITIES AND FUND EQUITY (continued)

Capital Assets

Capital assets are capitalized only if their value is greater than $15,000. The Authority has no such assets.

Long-Term Obligations

The liabilities for long-term obligations consisting of general obligation bonds, compensated absences, and other post-employment benefits ("OPEB") are reported in the entity-wide financial Statements of Net Assets.

In the fund statements, only that portion of long-term obligations expected to be financed from expendable available financial resources is reported as a fund liability. Debt proceeds are reported as other financing sources and payments of principal and interest reported as expenditures.

The County has assumed responsibility for calculating and paying arbitrage rebate liability on bonds or notes issued by the Authority.

Bond Premiums, Discounts and Costs of Issuance

Bond premiums, discounts, issuance costs and gains and losses on early retirement of refunded bonds are capitalized and amortized over the lives of the related debt issues using the straight-line method in the entity-wide financial statements and are included in other noncurrent assets and other liabilities in the entity-wide financial statements.

The governmental fund financial statements recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued, together with bond premiums, is reported as other financing sources, while discounts on debt issuances, credit enhancement costs, and costs of issuance are reported as other financing uses.

Interfund Transactions

Interfund transactions have been eliminated from the entity-wide financial statements. In the funds statements, interfund transactions consist of operating transfers. Operating transfers are nonexchange transactions where by the fund gives or receives value without directly receiving or giving equal value in return. Operating transfers primarily represent payments to the debt service fund from the general fund to finance the debt service.

Other Post-Employment Benefits

In addition to providing pension benefits, the Authority provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the Authority's employees may become eligible for these benefits if they reach normal retirement age while working for the Authority.

Health care benefits in accordance with New York State Health Insurance Rules and Regulations (administered by the New York State Department of Civil Service), are provided through the New York State Empire Plan (the "Empire Plan") whose premiums are based on the benefits paid throughout the State during the year or from a choice of HMO.

B. SUMMARY OF SIGNIFCANT ACCOUNTING POLICIES (continued)

3. ASSETS LIABILITIES AND FUND EQUITY (continued)

Other Post-Employment Benefits (continued)

In the funds statement, the Authority recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid. In the entity-wide statements, the Authority recognizes the cost of providing benefits in accordance with the requirements of GASB Statement No. 45.

Compensated Absences

The liability for accumulated vacation or sick leave (compensated absences) is recorded as a liability in the entity-wide statements. In the fund financial statements only the compensated absences liability expected to be payable from expendable current financial resources is reported.

Equity Classifications

In general, the Entity-wide statements equity is classified as net assets and displayed in three components:

a) Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b) Restricted net assets—Consists of net assets with constraints placed on its use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c) Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

In the fund statements governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Amounts reserved for prepaid expenses and debt service represent portions of fund equity which are required to be segregated in accordance with state law or accounting principles generally accepted in the United States.

4. REVENUES AND EXPENTURES

Interest expense is recognized on the accrual basis in the entity-wide financial statements. In the governmental fund statements, interest expenditures are recognized in accordance with indenture requirements.

The Authority receives sales tax revenues several times each month, and receives interest earnings from time to time as investments mature. Funds for debt service are required to be set aside from revenues on a monthly basis, and the Authority also deducts, as necessary, amounts which in its judgment are required for Authority operations and operating reserves. Residual Sales Tax Revenues and investment earnings are then wire transferred to the County.

B. SUMMARY OF SIGNIFCANT ACCOUNTING POLICIES (continued)

5. USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, requires the Authority's management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

6. NEW ACCOUNTING PRINCIPLES

Effective with this financial report for the year ended December 31, 2008 the Authority has adopted the following Governmental Accounting Standards Board Statements (GASB):

- In July 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. Under the NIFA Legislation, certain oversight responsibilities for Nassau County are scheduled to conclude effective December 31, 2008. Should a decision to downsize staff be implemented, the Authority will have a liability for involuntary termination costs related to this action.

- In May 2007, GASB issued Statement No. 50, *Pension Disclosure — an amendment of GASB Statements No. 25 and No. 27*, which should be implemented beginning with fiscal years ending December 31, 2008. The Authority has determined that there is no impact from Statement No. 50 on its financial position or results of operations resulting from the adoption.

C. TRANSACTIONS WITH AND ON BEHALF OF NASSAU COUNTY

The Act and other legal documents of the Authority establish various financial relationships between the Authority and the County. The resulting financial transactions between the Authority and the County include the receipt and use of revenues, as well as Authority debt issuances to fund financeable costs of the County.

The receipt and remittance of revenues in 2008 included:

- Sales tax revenues of $944,934,091, of which $763,422,051 was remitted to Nassau County. The balance was retained for Authority debt service and operations.

- The remittance to the County for general County operations, of earnings on various funds held by or on behalf of the Authority, to the extent that those earnings are not required for the payment of Authority debt service or operating expenses. In 2008, the Authority remitted $2,277,863 of interest earnings.

D. CASH AND INVESTMENTS

The Authority invests in accordance with the Act, as well as other applicable rules and regulations, the Indenture, and Authority Investment Guidelines originally adopted by the Authority Directors in November 2000. As of December 31, 2008, the Authority held cash, Treasury Bills, Federal Home Loan Mortgage Corporation Discount Notes, Federal Home Loan Bank Discount Notes and Federal National Mortgage Association Discount Notes. All bank deposits of Authority funds are required to be fully collateralized or insured. In the event the Authority requires collateral for the Authority cash and certificates of deposit (in amounts in excess of Federal deposit insurance) is 102% of the amount of the cash or certificate of deposit amount, is held by a third-party custodian in the Authority's account, and consists of U.S. government or agency obligations. Short-term investments with maturities of 90 days or less, and nonmarketable securities, are recorded at cost. Marketable securities with maturities longer than 90 days are recorded at fair value and all investment income, including changes in fair value, is reported as revenue in the Statement of Revenue, Expenditures, and Changes in Fund Balance. Fair value is determined using quoted market values at December 31, 2008. In the Balance Sheet, the accrual of interest on investments is reported as interest receivable, and the unrealized change in fair value of marketable securities with maturities longer than 90 days is reflected in the amount of the investment asset.

Cash and investments held by the Trustee in the amount of $56,729,341 are restricted for debt service.

The following table summarizes the Authority's cash and investments as of December 31, 2008.

Summary of Cash and Investments
(in thousands)

	Dollars in thousands		
	Held by Authority	**Held by Trustee**	**Total**
Cash	$ 164	$ 12	$ 176
Certificates of Deposit (maturities less than 90 days)	100		100
Total cash and cash equivalents	264	12	276
Certificates of Deposit (maturities greater than 90 days)	510		510
U.S. government and agency discount notes (maturities greater than 90 days)		56,717	56,717
Total marketable securities	510	56,717	57,227
Total cash investments	$ 774	$ 56,729	$ 57,503

D. CASH AND INVESTMENTS (continued)

Custodial Credit Risk

	Investment Maturities (In thousands)		
	Held by Authority	**Held by Trustee**	
	General Fund	**Debt Service Fund**	**Total**
Investment type:			
Cash	$ 164	$ 12	$ 176
Certificates of Deposit	610		610
U.S. government securities		2,193	2,193
U.S. discount notes		54,524	54,524
Total	$ 774	$ 56,729	$ 57,503

Governmental Accounting Standards Board Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are either:

- Uncollateralized, or
- Collateralized with securities held by the pledging financial institution, or
- Collateralized with securities held by the pledging financial institution's trust department or agent but not in the Town's name

At December 31, 2008, the carrying amount of the Authority's cash and investments were covered by FDIC and collateral held by the Authority's agent, a third party financial institution, in the Authority's name. Investments in U.S. government securities and discount rates do not require collateral.

Credit Risk – State law and the Authority's policies limit investments to those authorized by the State statutes. The Authority has a written investment policy.

Interest-Rate Risk – Interest-rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates substantially increase, thereby affording potential purchasers more favorable rates on essentially equivalent securities. Accordingly, such investments would have to be held to maturity to avoid potential loss.

Concentration of Credit Risk – Credit risk can arise as a result of failure to adequately diversify investments. Concentration risk disclosure is required for positions of 5 percent or more in securities of a single issuer. The Authority has 100% of its investments in US government securities and notes.

D. CASH AND INVESTMENTS (continued)

As of December 31, 2008, the Authority did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

All investments are held by NIFA's trustee bank solely as agent of the Nassau County Interim Finance Authority. All investments mature in less than one year.

E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

As of December 31, 2008, the General Fund owes the Debt Service fund $23,815,703 resulting from withholding of sales tax revenue to cover debt service payments.

A summary of operating transfers is as follows:

	Transfer In	Transfer Out
Debt Service Fund		
General Fund	$ 181,947,867	$ 2,146,475
Capital Projects Fund	2,649,175	
General Fund		
Debt Service Fund	2,146,475	181,947,867
Capital Projects Fund		
Debt Service Fund		2,649,175

F. LONG-TERM DEBT

A summary of changes in long-term debt for governmental activities is as follows:

(Dollars in Thousands)

	Balance 01/01/2008	Additions	Reductions	Balance 12/31/08	Due within One Year	Non-current
Bonds payable:						
Sales tax secured bonds payable	$ 1,958,525	$ 728,240	$ (811,690)	$ 1,875,075	$ 104,265	$ 1,770,810
Premiums	76,261		(23,246)	53,015	4,100	48,915
Total bonds payable	2,034,786	728,240	(834,936)	1,928,090	108,365	1,819,725
OPEB Liability	788	120	(16)	892	16	876
Compensated absences	392		(124)	268		268
	$ 2,035,966	$ 728,360	$ (835,076)	$ 1,929,250	$ 108,381	$ 1,820,869

Bonds of the Authority are issued pursuant to an Indenture, as supplemented and amended (the "Indenture") between the Authority and the United States Trust Company of New York and its successor The Bank of New York Mellon (the "Trustee"), under which the Authority has pledged its right, title and interest in the revenues of the Authority to secure repayment of Authority debt. The Act provides that the Authority's pledge of its revenues represents a perfected first security interest on behalf of holders of its bonds. The lien of the indenture on the revenues for the security of Authority bonds is prior to all other liens thereon. The Authority does not have any significant assets or sources of funds other than sales tax revenues and amounts on deposit pursuant to the indenture. The Authority does not have independent taxing power.

F. LONG-TERM DEBT (continued)

As of December 31, 2008, the Authority had outstanding sales tax secured bonds in the amount of $1,875,075, 000, maturing through the year 2025 which are comprised of fixed and variable rate bonds issued at variable rates, which are discussed below. Other than a possible refunding of its debt if market conditions permit, the Authority has no plans or authority to issue additional bonds, expect to cover the costs of issuance incurred in connection with the refunding of its bonds.

Fixed Rate Bonds — The Authority has outstanding fixed rate bonds at rates ranging between 2% and 6%. Interest on the Authority's fixed rate bonds is payable on May 15 and November 15 of each year, and interest on the variable rate bonds is payable on the first business day of each month. Principal on all bonds is payable on November 15. A debt service account has been established under the indenture to provide for the payment of interest and principal of bonds outstanding under the indenture. The trustee makes monthly deposits to the debt service account in the amount of debt service accrued through the end of that month. For the fixed rate bonds, this is essentially one-sixth of the next interest payment and one-twelfth of the next principal payment. For the variable rate bonds, this is one-twelfth of the next principal payment and the amount needed to maintain a prudent level of funding in excess of the anticipated interest expense to be accrued that month. Because of this monthly deposit requirement, the amount accrued for debt service in the Authority's financial statements in any year will not be the same as the debt service on the bonds paid to bondholders in that year.

Variable Rate Bonds — Interest rates on the variable rate bonds are currently reset weekly by a remarketing agent at the minimum rate necessary for the bonds to have a market value equal to the principal amount. Interest rates are set separately for each series of variable rate bonds. The variable rate bonds are in most circumstances subject to tender at the option of the bondholder. Payment of the purchase price of eligible Series 2008 A-F and Series 2002 A-B bonds are subject to optional or mandatory tender for purchase and if not remarketed by the remarketing agent, payment will be made under and pursuant to, and subject to the terms, conditions and provisions of liquidity facility agreements. The liquidity facility agreements are slated to expire as follows: 2008 Series between May and June 2011, and the 2002 Series on November 15, 2022 and are subject to extension or early termination. Bonds that are purchased by financial institutions under the liquidity facility and not remarketed, if any, must be paid over a five year period. If this was to occur, annual Authority debt service expense would increase substantially.

The County has assumed responsibility for calculating and paying arbitrage rebate liability on bonds or notes issued by the Authority.

F. LONG-TERM DEBT (continued)

Bonds are recorded at the principal amount outstanding and consist of the following at December 31, 2008:

	Dollars in Thousands				
	Bond Par Issued	Balance at 1/1/08	Additions	Retired	Balance at 12/31/2008
Sales Tax Secured Bonds, Series 2000A 4.50% to 5.625% serial and term bonds due through 2020	$ 254,720	$ 12,845			$ 12,845
Sales Tax Secured Bonds, Series 2001A 4% to 5.375% serial and term bonds due through 2021	181,480	48,400		$ 7,840	40,560
Sales Tax Secured Bonds, Series 2002A (variable rate) term bond due 2022 with mandatory sinking fund redemptions due through 2021	112,825	97,210		4,505	92,705
Sales Tax Secured Bonds, Series 2002B (variable rate) term bond due 2022 with mandatory sinking fund redemptions due through 2021	112,825	93,970		4,355	89,615
Sales Tax Secured Bonds, Series 2003A 2% to 6% serial bonds due through 2023	275,990	234,050		10,620	223,430
Sales Tax Secured Refunding Bonds, Series 2003B 2% to 5% serial bonds due through 2018	238,485	188,575		18,260	170,315
Sales Tax Secured Bonds, Series 2004A 2% to 5% serial bonds due through 2013	153,360	121,435		21,905	99,530
Sales Tax Secured Variable Rate Bonds, Series 2004 B-G auction rate securities due 2016 to 2024	450,000	450,000		450,000	-0-
Sales Tax Secured Bonds, Series 2004H 2.15% to 5% serial bonds due through 2017	187,275	176,165		14,140	162,025
Sales Tax Secured Bonds, Series 2004 I-K auction rate securities due through 2025	150,000	150,000		150,000	-0-
Sales Tax Secured Bonds Series 2005A 3.26% to 4.8% serial due through 2024	124,200	124,200			124,200
Sales Tax Secured Variable Rate Bonds Series 2005 B-C auction rate securities due through 2025	122,300	118,650		118,650	-0-
Sales Tax Secured Bonds Series 2005 D 3.23% to 4.32% serial and term bonds due through 2022	143,795	143,025		11,415	131,610
Sales Tax Secured Bonds Variable Rate Bonds Series 2008 A-E auction rate securities due 2014 through 2025	605,055		$ 605,055		605,055
Sales Tax Secured Bonds Variable Rate Bonds Series 2008 F auction rate securities due through 2025	123,185		123,185		123,185
	$ 3,235,495	$ 1,958,525	$ 728,240	$ 811,690	$ 1,875,075

F. LONG-TERM DEBT (continued)

Aggregate debt service to maturity as of December 31, 2008, is as follows (dollars in thousands):

Years Ending December 31,	Principal	Interest*	Total
2009	$ 104,265	$ 81,218	$ 185,483
2010	104,930	76,296	181,226
2011	119,690	71,446	191,136
2012	144,725	65,844	210,569
2013–2017	717,825	226,541	944,366
2018–2022	542,380	90,510	632,890
2023–2025	141,260	10,022	151,282
	$ 1,875,075	$ 621,877	$ 2,496,952

*Interest on the Variable Rate Bonds is calculated at 5%. During 2008, the interest rate on the Variable Rate Bonds ranged from 0.50% to 8.80%.

Refunding Bond

During 2008, the Authority issued $728,240,000 of Sales Tax Secured Bonds, 2008 Series A-F with a variable interest rate to refund $722,775,000 of Sales Tax Secured Series 2004 B-G, Series 2004 I-K, Series 2002 A-B, and Series 2005 B-C auction rate bonds with a variable interest rate. This refunding is expected to result in a present value savings of approximately $63.9 million.

G. SWAP AGREEMENTS

Board-Adopted Guidelines — On March 25, 2004, NIFA adopted guidelines (“Interest Rate Swap Policy”) with respect to the use of swap contracts to manage the interest rate exposure of its debt. The Interest Rate Swap Policy establishes specific requirements that must be satisfied for NIFA to enter into a swap contract.

Objectives of Swaps — To protect against the potential of rising interest rates, to achieve a lower net cost of borrowing, to reduce exposure to changing interest rates on a related bond issue or in some cases where Federal tax law prohibits an advance refunding, and to achieve debt service savings through a synthetic fixed rate. In an effort to hedge against rising interest rates, NIFA entered into nine separate pay-fixed, receive-variable interest rate Swap Agreements during FY 2004 (the “Swaps”).

Background — NIFA entered into the following six swap contracts with an effective date of April 8, 2004, in connection with the issuance of $450 million in auction rate securities to provide for the refunding or restructuring of a portion of the County’s outstanding bonds, refunding of certain outstanding NIFA bonds, tax certiorari judgments and settlements to which the County is a party, other legal judgments and settlements, County capital projects and to pay costs of issuance. These auction rate securities were subsequently refunded on May 16, 2008 with variable rate demand bonds and the swap agreements transferred to the 2008 Bond Series A-E.

G. SWAP AGREEMENTS (continued)

- $72.5 million notional amount (2004 Series B – swap agreement) with Goldman Sachs Mitsui Marine Derivative Products, L.P. ("GSMMDP")
- $72.5 million notional amount (2004 Series C – swap agreement) with Goldman Sachs Mitsui Marine Derivative Products, L.P.
- $80 million notional amount (2004 Series D – swap agreement) with Goldman Sachs Mitsui Marine Derivative Products, L.P.
- $72.5 million notional amount (2004 Series E – swap agreement) with UBS AG
- $72.5 million notional amount (2004 Series F – swap agreement) with UBS AG
- $80 million notional amount (2004 Series G – swap agreement) with UBS AG

NIFA entered into the following three swap contracts with an effective date of December 9, 2004, in connection with the issuance of $150 million in Auction Rate Securities to provide for the refunding of a portion of the County's outstanding bonds, tax certiorari judgments and settlements to which the County is a party, other legal judgments, and settlements and to pay costs of issuance. These auction rate securities were subsequently refunded on May 16, 2008 with variable rate demand bonds and the swap agreements transferred to the 2008 Bond Series A-E.

- $50 million notional amount (2004 Series I – swap agreement) with Goldman Sachs Mitsui Marine Derivative Products, L.P.
- $50 million notional amount (2004 Series J - swap agreement) with UBS AG
- $50 million notional amount (2004 Series K – swap agreement) with Morgan Stanley Capital Services ("MSCS")

Fair Value — Replacement interest rates on the swaps, as of December 31, 2008, are reflected in the chart entitled "Interest Rate Swap Valuation" (the "Chart"). As noted in the chart, replacement rates were lower than market interest rates on the effective date of the swaps. Consequently, as of December 31, 2008, the swaps had negative fair values. In the event there is a positive fair value, NIFA would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value should the Swap be terminated.

The total value of each swap, including accrued interest, is provided in the chart. The total value of each swap listed represents the theoretical value/(cost) to NIFA if it terminated the swap as of the date indicated, assuming that a termination event occurred on that date. Negative fair values may be offset by reductions in total interest payments required under the related variable interest rate bonds. The market value is calculated at the mid-market for each of the swaps. Fair values were estimated using the zero coupon methodology. This methodology calculates the future net settlement payments under the swap agreement, assuming the current forward rates implied by the yield curve correctly anticipate future spot rates. These payments are then discounted using rates derived from the same yield curve. As of December 31, 2008, the total market-to-market valuation, net of accruals, of NIFA's swaps was negative $80,328,731. In the event that both parties continue to perform their obligations under the swap, there is not a risk of termination and neither party is required to make a termination payment to the other. NIFA is not aware of any event that would lead to a termination event with respect to any of its swaps.

G. SWAP AGREEMENTS (continued)

Risks Associated with the Swap Agreements — From NIFA's perspective, the following risks are generally associated with swap agreements:

- *Credit/Counterparty Risk* — The counterparty becomes insolvent or is otherwise not able to perform its financial obligations. In the event of deterioration in the credit ratings of the counterparty or NIFA, the swap agreement may require that collateral be posted to secure the party's obligations under the swap agreement.

Under the swap agreements, neither party has to collateralize its termination exposure unless its ratings, or that of the insurer, fall below certain triggers. For the Authority, there is no requirement to collateralize until the Authority is at an A3/A- level, and then only for the amount over $50 million (threshold amount) of exposure. The threshold amount declines if the Authority falls into the BBB ratings category.

NIFA's swap policy requires that counterparties have credit ratings from at least one nationally recognized statistical rating agency that is within the two highest investment grade categories, without distinction as to grade within the category. If after entering into an agreement the ratings of the counterparty or its guarantor or credit support party are downgraded below the described ratings by any one of the rating agencies, then the agreement is subject to termination unless the counterparty provides either a substitute guarantor or assigns the agreement, in either case, to a party meeting the rating criteria reasonably acceptable to NIFA or collateralizes its obligations in accordance with the criteria set forth in the transaction documents. The counterparties have the ratings set forth below. The table shows the diversification, by percentage of notional amount, among the various counterparties that have entered into agreements with NIFA.

Counterparty	(Dollars in Millions)	Notional Percentage
GSMMDP	$ 275	45.80 %
UBS AG	275	45.80
MSCS	50	8.40
Total	$ 600	100.00 %

NIFA insured its performance in connection with the swaps associated with the Series 2004 B-G bonds with Ambac Assurance Corporation ("Ambac"), which is rated Baa1/A/NR (Moody's/S&P/Fitch), including NIFA termination payments. NIFA's payments to the counterparties on the swaps associated with the Series 2004 I-K bonds are insured with CDC IXIS Financial Guaranty North America, Inc. ("CIFG NA"), which is rated B3/B/NR (Moody's/S&P/Fitch). However, termination payments from NIFA are not guaranteed except on NIFA's swap with UBS AG, where it is guaranteed up to a maximum of $2.0 million.

G. SWAP AGREEMENTS (continued)

- *Basis Risk* — The variable interest rate paid by the counterparty under the swap and the variable interest rate paid by NIFA on the associated variable interest rate bonds are not the same. If the counterparty's rate under the swap is lower than the bond interest rate, then the counterparty's payment under the swap agreement does not fully reimburse NIFA for its interest payment on the associated bonds. Conversely, if the bond interest rate is lower than the counterparty's rate on the swap, there is a net benefit to NIFA.

NIFA is exposed to basis risk on the swaps. NIFA is paying a fixed rate of interest to the counterparties and the counterparties are paying a variable rate to NIFA represented by a percentage of the One-Month LIBOR ("London Inter-bank Offered Rate"), rate plus a fixed spread. The amount of the variable rate swap payments received from the counterparties does not normally equal the actual variable rate payable to the bondholders. Should the historical relationship between LIBOR and NIFA's variable rate on its bonds move to converge, the expected cost savings may not be realized. Conversely, should the relationship between LIBOR and NIFA's variable rate on its bonds move to diverge, there is a benefit to NIFA.

- *Termination Risk* — The swap agreement will be terminated and NIFA will be required to make a large termination payment to the counterparty.

The swaps use International Swaps and Derivative Association ("ISDA") documentation and use standard provisions regarding termination events with one exception: if the termination amount is over $5 million for the Authority, the Authority can pay such excess amount over six months, financing the delay at LIBOR, plus 1%. However, adverse termination for credit deterioration is unlikely due to the NIFA's current credit rating. NIFA or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. In addition, NIFA may terminate the swaps at their fair market value at any time. NIFA would be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. A termination of the swap agreement may also result in NIFA making or receiving a termination payment. NIFA is not aware of any event that would lead to a termination event with respect to any of its swaps.

- *Rollover Risk* — The notional amount under the swap agreement terminates prior to the final maturity of the associated bonds, and NIFA may be exposed to then market rates and cease to get the benefit of the synthetic fixed rate for the duration of the bond issue.

NIFA is not exposed to rollover risk, because the notional amounts under the swaps do not terminate prior to the final maturity of the associated variable interest rate bonds.

G. SWAP AGREEMENTS (continued)

As of December 31, 2008, NIFA's Interest Rate Swap Valuation is as follows:

Nassau County Interim Finance Authority
Interest Rate Swap Valuation
(as of December 31, 2008)

Swap Agreements	2004 Series B	2004 Series C	2004 Series D	2004 Series E	2004 Series F	2004 Series G	2004 Series I	2004 Series J	2004 Series K	Total
Notional Amount	$ 72,500,000	$ 72,500,000	$ 80,000,000	$ 72,500,000	$ 72,500,000	$ 80,000,000	$ 50,000,000	$ 50,000,000	$ 50,000,000	$ 600,000,000
Counterparty	GSMMDP	GSMMDP	GSMMDP	UBS	UBS	UBS	GSMMDP	UBS	MSCS	
Counterparty Rating (1)	Aaa/AAA/NR	Aaa/AAA/NR	Aaa/AAA/NR	Aa2/A+/A+	Aa2/A+/A+	Aa2/A+/A+	Aaa/AAA/NR	Aa2/A+/A+	A2/A/A	
Effective Date	April 8, 2004	April 8, 2004	April 8, 2004	April 8, 2004	April 8, 2004	April 8, 2004	December 9, 2004	December 9, 2004	December 9, 2004	
Maturity Date	November 15, 2024	November 15, 2024	November 15, 2016	November 15, 2024	November 15, 2024	November 15, 2016	November 15, 2025	November 15, 2025	November 15, 2025	
NIFA Pays	3.146 %	3.146 %	3.002 %	3.146 %	3.146 %	3.003 %	3.432 %	3.432 %	3.432 %	
Replacement Rate	1.747 %	1.747 %	1.643 %	1.747 %	1.747 %	1.624 %	1.898 %	1.898 %	1.898 %	
NIFA Receives	60% of LIBOR plus 16 basis points weekly (Tuesday)	60% of LIBOR plus 16 basis points weekly (Friday)	60% of LIBOR plus 26 basis points monthly (4th Monday)	60% of LIBOR plus 16 basis points weekly (Tuesday)	60% of LIBOR plus 16 basis points weekly (Friday)	60% of LIBOR plus 26 basis points monthly (5th Thursday)	61.5% of LIBOR plus 20 basis points	61.5% of LIBOR plus 20 basis points	61.5% of LIBOR plus 20 basis points	
Net Accrued	$ (290,562)	$ (286,984)	$ (251,867)	$ (290,562)	$ (286,984)	$ (263,067)	$ (203,927)	$ (203,927)	$ (203,927)	$ (2,281,807)
Net Present Value	(9,743,173)	(9,739,950)	(6,691,099)	(9,742,505)	(9,739,950)	(6,692,577)	(8,565,890)	(8,565,890)	(8,565,890)	(78,046,924)
Total Fair Value of Swap	$ (10,033,735)	$ (10,026,934)	$ (6,942,966)	$ (10,033,067)	$ (10,026,934)	$ (6,955,644)	$ (8,769,817)	$ (8,769,817)	$ (8,769,817)	$ (80,328,731)

(1) Moodys/S&P/Fitch.

G. SWAP AGREEMENTS (continued)

Swap Payments and Associated Debt — Using rates as of December 31, 2008, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, is shown below. *As rates vary, variable-rate bond interest payments and net swap payments will vary.

Years Ending	Variable-Rate Bonds		Interest Rate	
December 31,	Principal	Interest	Swaps, Net	Total
2009		$ 11,293	$ 16,277	$ 27,570
2010		11,293	16,277	27,570
2011		11,293	16,277	27,570
2012		11,324	16,269	27,593
2013	$ 31,100	11,215	16,181	58,496
2014-2018	259,130	35,039	65,221	359,390
2019-2023	275,375	5,507	23,360	304,242
2024-2025	39,450	251	1,263	40,964
Total	$ 605,055	$ 97,215	$ 171,125	$ 873,395

*Note: As a result of credit and liquidity concerns among short-term investors, the variable rate demand bond market witnessed unusual volatility between the middle of September and the end of the year. Although there can be no assurance that market volatility will not return, it appears that NIFA's variable rate problem peaked in September when the weighted average of weekly interest rates exceeded 8 percent. In addition, a portion of NIFA's variable rate demand bonds were temporarily put back to NIFA's liquidity facilities and accrued interest at the Bank Bond rates defined in the respective Standby Bond Purchase Agreement ("SBPA").

H. RETIREMENT SYSTEM

<u>Plan Description</u>

The Authority participates in the New York State and Local Employees' Retirement System (ERS). This is a cost-sharing multiple-employer defined benefit pension plan. The System provides retirement benefits as well as death and disability benefits.

Obligation of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of their funds.

A publicly available annual report containing financial statements and required supplemental information for the Employees' Retirement System may be obtained by writing to the New York State Retirement System, Governor Smith State Building, Albany, NY 12244.

H. RETIREMENT SYSTEM (continued)

Funding Policy

The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 and who have less than ten years of membership and less than ten years of credited service with a retirement system under the provisions of article fourteen or fifteen of the NYSRSSL, who contribute 3% of their salary. Prior to October 1, 2000, all employees who joined the System after July 27, 1976 were required to contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Authority is required to contribute at an actuarially determined rate. The actual contributions were equal to the actuarially required amounts

The required contributions, for the Authority, for the current year and two preceding years were:

	Annual Required Contribution	Total Payment	Percentage of Payroll Covered
2008	$ 44,994	$ 44,994	6.22%
2007	68,751	68,751	8.27%
2006	74,829	74,829	9.86%

As shown in the table above, the Authority's contribution to the system was 100% of the contributions required each year.

I. OTHER POST-EMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE)

Plan Description

The Authority, in accordance with New York State Health Insurance Rules and Regulations, provides group health care benefits for retirees (and for eligible dependents and survivors of retirees). Contributions of 10% toward the costs of these benefits are required of the retirees. Retiree contributions towards the cost of the benefit are a percentage of the premium adjusted for accumulated sick leave credits. An actuarially determined valuation of these benefits was performed by a consultant to estimate the impact of changes in GASB accounting rules applicable to the retiree medical benefits for retired employees and their eligible dependents. There is currently one plan participant receiving benefits.

The number of participants as of January 1, 2008, the date of the most recent actuarial valuation is as follows:

Active employees	6
Retired employees	1
Total	7

There have been no significant changes in the number of employees or the type of coverage since that date.

I. OTHER POST-EMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE)

Annual Other Post-Employment Benefit Cost

The Authority's annual other post-employment benefit cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined by using the Projected Unit Credit Method in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

For the year ended December 31, 2008, the Authority's annual other post-employment benefits cost (expenses) were $120,000. The annual other post employment benefit cost include the payment of current health insurance premiums, for retirees and their beneficiaries.

Normal Cost and Benefit Obligation

Amortization of UAAL	$ 822,000
Normal cost	82,000
Interest on normal cost	4,000
Annual Required Contribution	908,000
Interest on Net OPEB obligation	35,000
Adjustment to annual required contribution	(823,000)
Annual OPEB expense	120,000
Contributions made	(16,000)
Increase in net OPEB obligation	104,000
Net OPEB obligation - beginning of year	788,000
Net OPEB obligation - end of year	$ 892,000

The Authority's annual OPEB cost, the estimated annual OPEB amount contributed to the plan, and the net OPEB obligation for the fiscal year ended December 31, 2008, were as follows:

Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	$ 120,000	13.33%	$ 892,000
2007	803,000	1.87%	788,000

I. OTHER POST-EMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE) (continued)

Funded Status and Funding Progress

The Authority elected to record the entire amount of the Unfunded Actuarial Accrued Liability ("UAAL"), totaling $822,000 in the fiscal year ended December 31 2007, and not to fund the UAAL. The UAAL, including accrued interest relating to postemployment benefits, is approximately $892,000 as of December 31, 2008. The Authority is not required by law or contractual agreement to provide funding for postemployment retirement benefits other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. The Authority currently pays for other post-employment benefits on a pay-as-you-go basis. During the fiscal year ended December 31, 2008, the Authority paid $14,746 on behalf of the Plan.

The funded status of the plan as of January 1, 2008, the most recent actuarial valuation date is as follows:

Actuarial Accrued Liability (AAL)	$	892,000
Actuarial value of plan assets		-0-
Unfunded actuarial accrued liability		892,000
Funded ratio		0%
Covered payroll		N/A
UAAL as a percentage of covered payroll		N/A

Actuarial Methods and Assumptions

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

As of January 1, 2008, the date of the latest actuarial valuation, the liabilities were calculated using the Projected Unit Credit Method. The actuarial assumptions utilized a 4.5% per annum discount rate. The valuation assumes an 8.75% health care cost trend for 2008 and decrements to a rate of 5% in 2014. Retiree contributions are assumed to increase at the same rate as incurred claims.

J. COMPENSATED ABSENCES

The Authority's employees are granted vacation and sick leave and earn compensatory absences in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation and unused compensatory absences at various rates subject to certain maximum limitations. Employees are permitted to accrue unused sick leave without limitation, and upon certain conditions, apply the salary value of the leave upon retirement to the cost of the retiree's share of his or her health insurance premium. Authority employees who were previously employed by New York State or New York State agency or authority were permitted to transfer leave balances to the Authority. The value of these transferred balances is included in the amount accrued in the entity-wide Statement of Net Assets.

Estimated vacation and compensatory absences accumulated employees have been recorded in the statements of net assets. However, management believes that sufficient resources will be made available for the payments of vacation, sick leave and compensatory absences when such payments become due. As of December 31, 2008, the value of the accumulated vacation time, sick leave and compensatory absences was approximately $268,000.

K. RISK MANAGEMENT

The Authority carries coverage for workers' compensation and general liability claims and excess liability insurance coverage of $1,000,000 per occurrence with a $2,000,000 annual aggregate.

The Authority is self-insured for property protection on the first $10,000 per loss with insurance protection coverage of up to $150,000 for any loss.

The Authority Directors and employees are indemnified under the NIFA ACT Section 3662 (7)(a) by New York State. The Authority is prohibited by the NIFA Act Section 3654 (14) from owning real property.

There have been no significant reductions in insurance coverage as compared to the prior year.

L. COMMITMENTS AND CONTINGENCIES

The Authority was not a defendant in any litigation as of December 31, 2008. Authority employees are entitled to accumulate unused vacation, holiday and sick leave, and to be paid for that leave, up to amounts specified by the Authority. The amount is limited for vacation and sick pay and unlimited for holiday pay. At current salary levels, the Authority's liability for payment of vacation and holiday pay is $141,777 which includes the Authority's share of taxes and other withholdings. Authority employees are also permitted: to either accrue unused sick leave without limitation and, upon certain conditions, apply the salary value of the leave upon retirement to the cost of the retiree's share of his or her health insurance premium or to be paid for up to 13 days of sick leave each year as long as certain sick leave balances are maintained. At current salary levels, the Authority's liability for payment of this sick leave accumulation is $126,824, which includes only the salary value of the time accumulated. Authority employees who were previously employed by the State or a State agency or authority were permitted to transfer leave balances to the Authority. The value of these transferred balances is included in the foregoing amounts. The value of accrued unused leave is included as a noncurrent liability in the entity-wide Statement of Net Assets.

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

To the Board of Directors of
Nassau County Interim Finance Authority:

We have audited the financial statements of Nassau County Interim Finance Authority (the "Authority"), as of December 31, 2008, and for the year then ended, and have issued our report thereon dated April 22, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management, and the Office of the State Comptroller, State of New York and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

April 22, 2009