Nassau County Interim Finance Authority

NIFA

Financial Statements for the
Year Ended December 31, 2009 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, 2009, 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, 2009, 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 and the schedule of funding progress on pages 3 through 6, and page 35, are not a required part of the basic financial statements but are 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 2009 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 5, 2010, 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 5, 2010

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 is, or has previously been, empowered 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 2009. NIFA is currently rated in the highest rating category by Standard & Poor's (AAA), the second highest rating category by Fitch (AA+), and Moody's (Aa2).

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, 2009. 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 net assets (deficit) presents information on all the Authority's assets and liabilities, with the difference between the two reported as net assets (deficit). The statement of activities presents information showing how the Authority's net assets (deficit) changed during the fiscal year. All changes in net assets (deficit) 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. Legally adopted budgets are not required for the Authority's governmental funds.

In addition to these two types of statements, the financial statements include reconciliations 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 Statements of Net Assets (Deficit)
As of December 31, 2009 and 2008
(Dollars in Thousands)

Governmental Activities:	**2009**	**2008**
Assets		
Current	$ 151,351	$ 148,964
Other	40,700	39,103
	192,051	188,067
Liabilities		
Current	132,865	128,759
Non-current	1,838,932	1,942,411
Total Liabilities	1,971,797	2,071,170
Net Deficit		
Restricted	17,820	20,256
Unrestricted	(1,797,566)	(1,903,359)
Total Net Deficit	$ (1,779,746)	$ (1,883,103)

Condensed Statements of Activities
For the Years Ended December 31, 2009 and 2008
(Dollars in thousands)

Governmental Activities	**2009**	**2008**
Revenues		
Sales tax	$ 896,716	$ 944,934
Interest income, net	4,639	6,801
Total Revenues	901,355	951,735
Expenses		
General and administrative	1,181	1,117
Bond Interest expense	81,943	96,866
Distribution to Nassau County	714,874	765,700
Total Expenses	797,998	863,683
Increase in Net Assets	103,357	88,052
Net Deficit, beginning of year	(1,883,103)	(1,971,155)
Net Deficit, end of year	$ (1,779,746)	$ (1,883,103)

Financial Highlights and Overall Analysis

The single most critical factor in the Authority's financial operations is sales tax revenue, which provided over 99% of the Authority's 2009 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 twice each month. After provision for Authority debt service 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 5.1% in FY 2009. 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 $103,357,000 primarily as a result of repayment of debt principal. The excess of sales tax revenue earned exceeding operating expenses and amounts required to fund debt service was remitted to Nassau County. The Authority has an overall net deficit of $1,779,746,000 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, 2009, was $896,716,000, a decrease of 5.1% from the prior year due to a decreased level of economic activity. Investment income, net of $433,000 of unrealized depreciation, and excluding bond premium amortization of $4,566,000, which accounts for the remaining Authority revenue, totaled $71,000 in 2009, a substantial decrease from 2008. This decrease is attributable to lower interest rates, and a lower level of fund balances to invest.

Sales tax revenue provided 4.9 times the coverage of the Authority's 2009 debt service of approximately $185,000,000. This coverage will change as the Authority refunds and/or amortizes its debt or as rates change. All together, the Authority used $182,711,000 of current year sales tax revenue for debt service and Authority operations, remitting the balance of $714,005,000 to Nassau County. A portion of the Authority's total operating expense of $1,181,000 which includes an incremental $26,000 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, 2009, the Authority remitted $615,000 to the County from interest earnings.

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 provided liquidity for certain of the Authority's outstanding bonds, the variable rates on certain of the Authority's outstanding variable rate demand obligations were resetting at levels 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 all of its outstanding unhedged variable rate bonds ($92,705 million of Series 2002A, $89,615 million of Series 2002B, $123,185 million of Series 2008F, and $5.055 million of Series 2008E) with the proceeds of fixed rate bonds in order to reduce debt service costs and give the County greater certainty with respect to its debt service costs. At the same time, and also at the County's request, the Authority refunded certain outstanding fixed rate bonds ($12,845 million of Series 2000A and $14,645 million of Series 2001A) to generate debt service savings. The $303,100,000 refunding transaction (Series 2009A) closed on April 21, 2009.

Financial Highlights and Overall Analysis (continued)

Overall, bonds payable decreased in fiscal year 2009 by $122,475,000 (1.28%), due to retirement on prior bond issues. The statement of net assets (deficit) shows a total net deficit of $1,779,746,000. 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, 2009, the Authority had bonds payable of $1,752,600,000, of which $1,152,600,000 are fixed rate and $600,000,000 are hedged variable rate. 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 nine of these financial statements provides additional detail on the determination of the net deficit amount.

Currently Known Facts

NIFA has entered into negotiations with its current liquidity provider for the 2008C Bonds and anticipates that a new agreement will be executed and take effect on May 1, 2010, after the current liquidity facility expires.

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, 2009
(Dollars in Thousands)

Governmental Activities:	
Assets	
Cash and cash equivalents	$ 706
Investments	48,644
Sales tax receivable	101,854
Interest receivable	112
Other assets	35
Other noncurrent assets - net of amortization	40,700
Total Assets	192,051
Liabilities	
Accrued liabilities	60,682
Due to Nassau County - sales tax	72,174
Due to Nassau County - interest	9
Bonds payable:	
Due within one year	104,415
Due in more than one year	1,648,185
Premiums, net	72,789
Other post-employment benefits payable	918
Other liabilities, net of amortization	12,364
Accrued vacation and sick pay	261
Total Liabilities	1,971,797
Net Assets (Deficit)	
Restricted for debt service	17,820
Unrestricted	(1,797,566)
Total Net Assets (Deficit)	$ (1,779,746)

See notes to the financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
Year Ended December 31, 2009
(Dollars in Thousands)

Governmental Activities:	
Expenses	
General and administrative	$ 1,181
Bond interest expense	81,943
Distribution to Nassau County for:	
General operations	624
Cost of insurance	245
Total Expenses	83,993
General Revenues	
Sales tax	896,716
Less: distributions to Nassau County	(714,005)
Total Sales Tax and State Aid Revenues Retained	182,711
Interest income, net	4,639
Total General Revenues	187,350
Changes in Net Assets	103,357
Net Assets (Deficit) - Beginning of Year	(1,883,103)
Net Assets (Deficit) - End of Year	$ (1,779,746)

See notes to the financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2009
(Dollars in Thousands)

	General	Debt Service	Total (Governmental Funds)
Assets			
Cash and cash equivalents	$ 701	$ 5	$ 706
Investments	-	48,644	48,644
Sales tax receivable	101,854	-	101,854
Interest receivable	-	112	112
Due from other funds	144	29,881	30,025
Other assets	35	-	35
Total Assets	$ 102,734	$ 78,642	$ 181,376
Liabilities and Fund Balances			
Liabilities			
Accrued liabilities	$ 13	$ 60,669	$ 60,682
Due to Nassau County - sales tax	72,174	-	72,174
Due to Nassau County - interest	-	9	9
Due to other funds	29,881	144	30,025
Total Liabilities	102,068	60,822	162,890
Fund Balances			
Reserved for:			
Prepaid expenditures and deposits	35	-	35
Debt Service	-	17,820	17,820
Unreserved	631	-	631
Total fund balance	666	17,820	18,486
Total Liabilities and Fund Balances	$ 102,734	$ 78,642	$ 181,376

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, 2009
(Dollars in Thousands)

Total Fund Balances - Governmental Funds	$	18,486
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		(12,364)
Bonds payable		(1,752,600)
Unamortized bond premiums		(72,789)
Other post-employment benefits payable		(918)
Accrued vacation and sick pay		(261)
Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		40,700
Net Deficit of Governmental Activities	$	(1,779,746)

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, 2009
(Dollars in Thousands)

	General	Debt Service	Total (Governmental Funds)
Revenues			
Sales tax	$ 896,716	$ -	$ 896,716
Interest income, net	2	71	73
Total Revenues	896,718	71	896,789
Other Financing Sources			
Operating transfer in	1,463	181,718	183,181
Refunding bonds issued	-	303,100	303,100
Premium on bonds issued	-	24,343	24,343
Total Revenues and Other Financing Sources	898,181	509,232	1,407,413
Expenditures			
Current			
General and administrative	1,161	-	1,161
Distribution to Nassau County for:			
General operations	615	9	624
Cost of issuance	-	245	245
Total Current Expenditures	1,776	254	2,030
Debt service	-	184,856	184,856
Total Expenditures	1,776	185,110	186,886
Other Financing Uses			
Payment of refunded bond escrow agent	-	21,962	21,962
Transfer to Nassau County - sales tax	714,005	-	714,005
Operating transfers out	181,718	1,463	183,181
Debt Service - current refunding	-	303,133	303,133
Total Expenditures and Other Financing Uses	897,499	511,668	1,409,167
Net Change in Fund Balance	682	(2,436)	(1,754)
Fund Balances (Deficit) - Beginning of year	(16)	20,256	20,240
Fund Balances - End of Year	$ 666	$ 17,820	$ 18,486

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, 2009

(Dollars in Thousands)

Net Change in Fund Balances - Total Governmental Funds	$	(1,754)
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 funds, 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 (deficit).		122,475
Governmental funds report costs of debt issuance as an expenditure. However, in the statement of activities, the cost of debt issuance is amortized over the lives of the debt.		1,542
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.		(19,777)
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 debt.		890
Change in other post-employment obligation		(26)
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.		7
Change in Net Assets of Governmental Activities	$	103,357

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. Since December 31, 2008, the County has not been required to submit to NIFA for approval its multi-year 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 and the vice chairperson has not been designated.

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 (deficit) 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 (deficit) 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 does not have legally adopted budgets for its operating funds as it is not required.

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

> The general fund 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.

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.

B. SUMMARY OF SIGNIFCANT ACCOUNTING POLICIES (continued)

2. BASIS OF ACCOUNTING/MEASUREMENT FOCUS (continued)

Measurement Focus (continued)

The statement of net assets (deficit) and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting, which recognizes all long-term assets and receivables as 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 (deficit) 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 balances 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, (generally within 60 days after year end). 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 deposit with a maturity of longer than 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, due to Nassau County and due to debt service fund. In the statement of revenues, expenditures, and changes in fund balances, 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. The Authority has no advances.

Capital Assets

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

B. SUMMARY OF SIGNIFCANT ACCOUNTING POLICIES (continued)

3. ASSETS, LIABILITIES AND FUND EQUITY/EQUITY (continued)

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 Statement of Net Assets (Deficit).

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 arbitrage rebate liability on bonds or notes issued by the Authority; however, any payments would be made by the Authority. In 2009, shortly after receiving a rebate report from the County, NIFA paid to the Federal government arbitrage rebate payments totaling $415,457, which included late payment interest totaling $22,343.

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 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/EQUITY (continued)

Other Post-Employment Benefits (continued)

In the funds statements, 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, holiday and 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 (deficit) 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 (deficit) —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 EXPENDITURES

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.

Normally the Authority receives sales tax revenues twice 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 non-mandatory debt service reserves, 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. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 5, 2010 which is the date the financial statements were available to be issued.

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 2009 included:

- Sales tax revenues of $896,715,969, of which $714,005,012 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 2009, the Authority remitted $624,097 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, 2009, the Authority held cash, Treasury Bills, Treasury Notes, Federal Home Loan Mortgage Corporation Discount Notes, and Federal National Mortgage Association Discount Notes. All bank deposits of Authority funds are required to be fully collateralized or insured. Collateral for the Authority's cash and certificates of deposit is 102% of the amount in excess of Federal Deposit Insurance and is held by a third-party custodian in the Authority's name 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 Balances. Fair value is determined using quoted market values at December 31, 2009. 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.

D. CASH AND INVESTMENTS (continued)

Cash and investments held by the Trustee in the amount of $48,648,685 are restricted for debt service.

The following table summarizes the Authority's cash and investments as of December 31, 2009.

Summary of Cash and Investments

	(Dollars in thousands)		
	Held by Authority	Held by Trustee	Total
Cash	$ 412	$ 5	$ 417
Certificates of Deposit (maturities less than 90 days)	289	-	289
Total cash and cash equivalents	701	5	706
U.S. government and agency discount notes (maturities greater than 90 days)	-	48,644	48,644
Total marketable securities	-	48,644	48,644
Total cash investments	$ 701	$ 48,649	$ 49,350

Custodial Credit Risk

	Investment Maturities (Dollars in thousands)		
	Held by Authority	Held by Trustee	
	General Fund	Debt Service Fund	Total
Investment type:			
Cash	$ 412	$ 5	$ 417
Certificates of Deposit	289	-	289
U.S. government securities	-	5,563	5,563
U.S. discount notes	-	43,081	43,081
Total	$ 701	$ 48,649	$ 49,350

D. CASH AND INVESTMENTS (continued)

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 Authority's name

At December 31, 2009, 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 substantially all of its investments in U.S. government securities and notes.

As of December 31, 2009, 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, 2009, the general fund owes the debt service fund $29,880,745 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	$ 181,717,395	$ 1,463,096
General Fund		
Debt Service Fund	1,463,096	181,717,395

F. LONG-TERM DEBT

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

(Dollars in Thousands)

	Balance 01/01/2009	Additions	Reductions	Balance 12/31/2009	Due within One Year	Non-current
Bonds payable:						
Sales tax secured bonds payable	$ 1,875,075	$ 303,100	$ (425,575)	$ 1,752,600	$ 104,415	$ 1,648,185
Premiums	53,015	24,343	(4,569)	72,789	4,566	68,223
Total bonds payable	1,928,090	327,443	(430,144)	1,825,389	108,981	1,716,408
OPEB Liability	892	41	(15)	918		918
Compensated absences	268		(7)	261		261
	$ 1,929,250	$ 327,484	$ (430,166)	$ 1,826,568	$ 108,981	$ 1,717,587

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.

As of December 31, 2009, the Authority had outstanding sales tax secured bonds in the amount of $1,752,600,000, maturing through the year 2025, of which $1,152,600,000 are fixed rate and $600,000,000 are hedged variable rate. 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 1% 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. 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.

F. LONG-TERM DEBT (continued)

Variable Rate Bonds — Interest rates on the variable rate bonds are currently reset weekly by remarketing agents 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-E 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 between April 30, 2010 and April 30, 2012 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. A debt service account has been established under the indenture to provide for the payment of principal of bonds outstanding under the indenture. The trustee makes monthly deposits to the debt service account in the amount of principal debt service this is one-twelfth of the next principal payment and makes payments of accrued interest monthly.

The County has assumed responsibility for calculating arbitrage rebate liability on bonds or notes issued by the Authority; however, any payments would be made by the Authority. In 2009, shortly after receiving a rebate report from the County, NIFA paid to the Federal government arbitrage rebate payments totaling $415,457, which included late payment interest totaling $22,343.

F. LONG-TERM DEBT (continued)

Bonds are recorded at the principal amount outstanding and consist of the following at December 31, 2009:

	Dollars in Thousands				
	Bond Par Issued	**Balance at 1/1/2009**	**Additions**	**Retired**	**Balance at 12/31/2009**
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	40,560	-	16,290	24,270
Sales Tax Secured Bonds, Series 2002A (variable rate) term bond due 2022 with mandatory sinking fund redemptions due through 2021	112,825	92,705	-	92,705	-
Sales Tax Secured Bonds, Series 2002B (variable rate) term bond due 2022 with mandatory sinking fund redemptions due through 2021	112,825	89,615	-	89,615	-
Sales Tax Secured Bonds, Series 2003A 2% to 6% serial bonds due through 2023	275,990	223,430	-	10,935	212,495
Sales Tax Secured Refunding Bonds, Series 2003B 2% to 5% serial bonds due through 2018	238,485	170,315	-	28,360	141,955
Sales Tax Secured Bonds, Series 2004A 2% to 5% serial bonds due through 2013	153,360	99,530	-	23,795	75,735
Sales Tax Secured Bonds, Series 2004H 2.15% to 5% serial bonds due through 2017	187,275	162,025	-	6,570	155,455
Sales Tax Secured Bonds Series 2005A 3.26% to 4.8% serial due through 2024	124,200	124,200	-	-	124,200
Sales Tax Secured Bonds Series 2005 D 3.23% to 4.32% serial and term bonds due through 2022	143,795	131,610	-	11,970	119,640
Sales Tax Secured Bonds Variable Rate Bonds Series 2008 A-E auction rate securities due 2014 through 2025	605,055	250,000	-	-	250,000
Sales Tax Secured Bonds Variable Rate Bonds Series 2008 F auction rate securities due through 2025	123,185	123,185	-	123,185	-
Sales Tax Secured Bonds Series 2009 A 1% to 5% serial bonds due through 2025	303,100	-	303,100	4,250	298,850
Sales Tax Secured Bonds Variable Rate Bonds Series 2008 C-E auction rate securities due 2012 through 2019	355,055	355,055	-	5,055	350,000
	$ 3,171,350	$ 1,875,075	$ 303,100	$ 425,575	$ 1,752,600

F. LONG-TERM DEBT (continued)

Aggregate debt service to maturity as of December 31, 2009, is as follows (dollars in thousands):

Years Ending December 31,	Principal	Interest*	Total
2010	$ 104,415	$ 73,662	$ 178,077
2011	119,745	69,178	188,923
2012	144,580	63,844	208,424
2013	150,965	57,064	208,029
2014–2018	679,290	189,516	868,806
2019–2023	481,295	66,278	547,573
2024–2025	72,310	3,778	76,088
	$ 1,752,600	$ 523,320	$ 2,275,920

*Interest on the Variable Rate Bonds is calculated at 5%. During 2009, the interest rate on the Variable Rate Bonds ranged from 0.11% to 4.5%.

Refunding Bond

In 2009, NIFA had two major transactions that affected its bonds:

At the beginning of 2009, NIFA had $910.56 million of Variable Rate Demand Bonds ("VRDBs") outstanding (accounting for 48.5% of NIFA's debt portfolio), of which $600 million were hedged and $310.56 million were unhedged. During 2009 two major transactions occurred that changed the composition of NIFA debt as well as its liquidity providers.

Transaction Number One - NIFA Refunding:

In the first transaction NIFA issued $303.10 million of NIFA 2009A fixed rate bonds to refund a par amount of $338.05 million of NIFA's bonds, as follows:

- $310.56 million of NIFA's variable rate portfolio consisting of: Series 2002A, Series 2002B, Series 2008F, and $5.055 million of its Series 2008E (current refunding).
- $27.49 million of NIFA's 2000A and 2001A fixed rate bonds (advance refunding).

In addition to the bond proceeds, sources of funds that were used to finance the defeasance of the above mentioned bonds, includes a premium on the refunding bonds of approximately $24.3 million and a debt service payment from the Authority of approximately $15.8 million.

In conjunction with the advance refunding (related to the 2000A and 2001A Series noted above), proceeds were used to purchase US Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service of $27,490,000 of sales tax secured bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. At December 31, 2009, there is approximately $12.8 million of defeased debt remaining relating to this issuance.

The total refunding (current and advance) is expected to result in a present value savings of approximately $32.1 million.

F. LONG-TERM DEBT (continued)

Refunding Bond (continued)

Transaction Number Two – Changing Liquidity Providers:

As part of a separate transaction, NIFA also removed Dexia as the liquidity provider for the Series 2008C, the Series 2008D, and the remaining $50 million of the Series 2008E VRDBs. JP Morgan replaced Dexia on the Series 2008C and BNP Paribas replaced Dexia on the Series 2008E bonds. The Series 2008D bonds were tranched into Series 2008D-1 and Series 2008D-2, with Bank of America providing liquidity for Series 2008D-1 and BNP Paribas providing liquidity for Series 2008D-2.

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.

- $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

G. SWAP AGREEMENTS (continued)

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, 2009, 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, 2009, 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, 2009, the total market-to-market valuation, net of accruals, of NIFA's swaps was negative $32,884,301. 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.

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.

G. SWAP AGREEMENTS (continued)

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 originally associated with the Series 2004 B-G bonds with Ambac Assurance Corporation ("Ambac"), which is rated Ca/CC/NR (Moody's/S&P/Fitch), including NIFA termination payments. NIFA's payments to the counterparties on the swaps originally associated with the Series 2004 I-K bonds are insured with CDC IXIS Financial Guaranty North America, Inc. ("CIFG NA"), which is rated Ca/CC/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.

- *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, there is a cost to NIFA. 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.

G. SWAP AGREEMENTS (continued)

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, 2009, NIFA's Interest Rate Swap Valuation is as follows:

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)	Aa1/AAA/NR	Aa1/AAA/NR	Aa1/AAA/NR	Aa3/AA/AA	Aa3/AA/AA	Aa3/AA/AA	Aa1/AAA/NR	Aa3/AA/AA	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	2.519 %	2.519 %	2.122 %	2.519 %	2.519 %	2.126 %	2.756 %	2.756 %	2.756 %	
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	$ (290,239)	$ (290,239)	$ (291,779)	$ (290,239)	$ (290,239)	$ (282,034)	$ (199,263)	$ (199,263)	$ (199,263)	$ (2,332,558)
Net Present Value	(3,582,787)	(3,585,369)	(3,404,145)	(3,582,787)	(3,585,369)	(3,397,790)	(3,137,832)	(3,137,832)	(3,137,832)	(30,551,743)
Total Fair Value of Swap	$ (3,873,026)	$ (3,875,608)	$ (3,695,924)	$ (3,873,026)	$ (3,875,608)	$ (3,679,824)	$ (3,337,095)	$ (3,337,095)	$ (3,337,095)	$ (32,884,301)

(1) Moody's/S&P/Fitch.

G. SWAP AGREEMENTS (continued)

Swap Payments and Associated Debt - Using rates as of December 31, 2009, 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.

Swap Payments and Associated Variable-Rate Debt (In thousands)

Years Ending December 31,	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2010		$ 1,397	$ 17,030	$ 18,427
2011		1,397	17,030	18,427
2012		1,400	17,024	18,424
2013	$ 31,100	1,386	16,929	49,415
2014	45,300	1,315	16,075	62,690
2015-2019	299,650	4,681	61,051	365,382
2020-2024	215,100	1,139	16,531	232,770
2025	8,850	15	239	9,104
Total	$ 600,000	$ 12,730	$ 161,909	$ 774,639

H. RETIREMENT SYSTEM

Plan Description

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.

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.

H. RETIREMENT SYSTEM (continued)

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
2009	$ 47,777	$ 47,777	6.52%
2008	44,994	44,994	6.22%
2007	68,751	68,751	8.27%

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 Mercer, a consultant hired by the County, to estimate the benefit obligation for the fiscal year ended December 31, 2009 and 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, 2009, the date of the most recent actuarial valuation is as follows:

Active employees	5
Retired employees	1
Total	6

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

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.

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

For the year ended December 31, 2009, the Authority's annual other post-employment benefits costs were $41,000. The annual other post-employment benefit cost includes the payment of current health insurance premiums, for retirees and their beneficiaries.

Normal Cost and Benefit Obligation

Amortization of UAAL	$ 854,000
Normal cost	76,000
Interest on normal cost	3,000
Annual Required Contribution	933,000
Interest on Net OPEB obligation	38,000
Adjustment to annual required contribution	(930,000)
Annual OPEB expense	41,000
Contributions made	(15,000)
Increase in net OPEB obligation	26,000
Net OPEB obligation - beginning of year	892,000
Net OPEB obligation - end of year	$ 918,000

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, 2009, were as follows:

Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	$ 41,000	4.47%	$ 918,000
2008	120,000	13.33%	892,000
2007	803,000	1.87%	788,000

Funded Status and Funding Progress

The Authority elected to record the entire amount of the Unfunded Actuarial Accrued Liability ("UAAL"), totaling $803,000 in the fiscal year ended December 31 2007, and not to fund the UAAL. The UAAL, including accrued interest relating to post-employment benefits, is approximately $918,000 as of December 31, 2009. The Authority is not required by law or contractual agreement to provide funding for post-employment 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, 2009, the Authority paid $14,746 on behalf of the Plan.

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

The funded status of the plan as of January 1, 2009, the most recent actuarial valuation date is as follows:

Actuarial Accrued Liability (AAL)	$	918,000
Actuarial value of plan assets		-0-
Unfunded actuarial accrued liability		918,000
Funded ratio		0%
Covered payroll		N/A
UAAL as a percentage of covered payroll		N/A

<u>Actuarial Methods and Assumptions</u>

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 December 18, 2009, the date of the latest actuarial valuation, the liabilities were calculated using the Projected Unit Credit Method. The actuarial assumptions utilized a 4.25% per annum discount rate. The valuation assumes an 8% health care cost trend for 2009 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 earn vacation, holiday, sick leave and compensatory absences in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation subject to certain maximum limitations, and unlimited holiday leave. 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 certain 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 (Deficit).

Estimated vacation and compensatory absences accumulated for employees has been recorded in the statements of net assets (deficit). 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, 2009, the value of the accumulated vacation time, sick leave and compensatory absences was approximately $261,000.

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, 2009. 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 of payment 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 $138,386 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 $122,904, 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 certain 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 (Deficit).

M. PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

The GASB has issued Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments". This Statement addressed the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. A key provision of this Statement is that certain derivative instruments are reported at fair value in the entity-wide financial statements. The requirements of this Statement become effective for the Authority for the year ending December 31, 2010.

The GASB has issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement establishes criteria for classifying fund balances into specifically defined classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance will be classified as restricted, committed, assigned and unassigned. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. The requirements of this Statement become effective for the Authority for the year ending December 31, 2011.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
SCHEDULE OF FUNDING PROGRESS – OTHER POST-EMPLOYMENT BENEFITS
December 31, 2009
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	UAAL as Percentage Covered Payroll
1/01/09	$ -0-	$ 918,000	$ 918,000	0%	125.34%
1/01/08	-0-	892,000	892,000	0%	123.36%
1/01/07	-0-	788,000	788,000	0%	94.75%

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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, 2009, and for the year then ended, and have issued our report thereon dated April 5, 2010. 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 New York State Comptroller and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

April 5, 2010