Nassau County Interim Finance Authority

NIFA

Financial Statements for the
Year Ended December 31, 2016 and
Independent Auditors' Report

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Independent Auditor's Report

To the Board of Directors
Nassau County Interim Finance Authority

Report on the Financial Statements
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, New York, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of December 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-10 and the schedule of funding progress – other postemployment benefits, the schedule of proportionate share of the net pension liability and schedule of pension contributions on pages 52-54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

RSM US LLP

New York, New York
April 18, 2017

NASSAU COUNTY INTERIM FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year Ended December 31, 2016

As management of the Nassau County Interim Finance Authority, we offer readers of the financial statements this narrative overview and analysis of our financial activities for the year ended December 31, 2016. We encourage readers to consider the information presented within this section in conjunction with the financial statements.

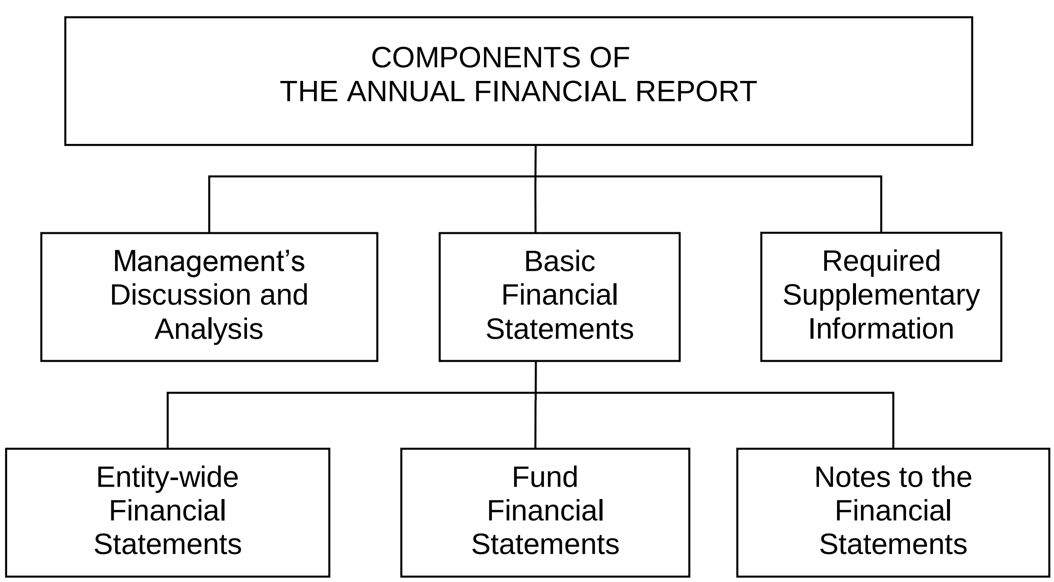
The Nassau County Interim Finance Authority (the "Authority" or "NIFA") is a New York State Authority empowered to monitor and oversee the finances of Nassau County, New York (the "County") and is, or has previously been, empowered within certain statutory limits to issue bonds and notes for various 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 assistance available as it determined; comment on proposed borrowings by the County; and impose a "control period" upon making one or more statutory findings concerning the County's financial position.

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 has not had the statutory authority, except for refunding of bonds or notes previously issued by the Authority, to issue any additional bonds or notes in 2016. NIFA is currently rated in the highest rating category by Standard & Poor's (AAA), and Fitch (AAA), and the second highest rating category by Moody's (Aa1).

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

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of the following components: 1) entity-wide financial statements, 2) fund financial statements and 3) notes to basic financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.



OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Entity-Wide Financial Statements

The entity-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net position presents financial information on all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference between them reported as "net position". This combines and consolidates the Authority's current financial resources with capital assets (if any) and long-term obligations. The purpose of this statement is to give the reader an understanding of the Authority's total net worth or deficiency. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as maintaining bond ratings, effectively managing the debt and the amount of cash flow provided to the County.

The statement of activities and changes in net position presents information showing how the Authority's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. This method is known as the accrual basis of accounting and is different from the modified accrual basis of accounting used in the Authority's fund financial statements.

The intent of the entity-wide financial statements is to give the reader a long-term view of the Authority's financial condition.

Fund Financial Statements

The fund financial statements focus on current available resources and are organized and operated on the basis of funds, each of which is defined as an accounting entity with a self-balancing set of accounts established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The Authority, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Because the focus of governmental funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the entity-wide financial statements. By doing so, readers may better understand the long-term effect of the Authority's near-term financial decisions. In addition to these two statements, the financial statements include reconciliations between the entity-wide and governmental fund statements.

The Authority maintains two individual governmental funds, the general fund and the debt service fund, both of which are reported as major funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for each fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the entity-wide and fund financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Other Information

In addition to the basic financial statements, this report contains supplementary information immediately following the notes to the financial statements.

ENTITY-WIDE FINANCIAL ANALYSIS

The statement of net position details the assets, deferred outflows of resources, liabilities and deferred inflows of resources of the Authority based on their liquidity, utilizing current and noncurrent categories, while the deferred outflows of resources and deferred inflows of resources are reported separately. The resulting net position, in this statement, is displayed as either restricted or unrestricted. The Authority's liabilities and deferred inflows exceeded its assets and deferred outflows by $792,030,000 at the close of the most recent year. Of this amount, $783,650,000 was due to the long-term bonds of the Authority, which are being paid over time as described below.

Our analysis below focuses on the net position and changes in net position of NIFA's governmental activities.

Condensed Statements of Net Position
As of December 31, 2016 and 2015
(Dollars in Thousands)

Governmental Activities:	**2016**	**2015**
Assets		
Current	$ 160,002	$ 168,390
Total Assets	160,002	168,390
Deferred Outflows of Resources	51,334	65,530
Liabilities		
Current	237,136	294,605
Non-current	741,453	843,871
Total Liabilities	978,589	1,138,476
Deferred Inflows of Resources	24,777	27,590
Net Position		
Unrestricted (deficit)	(792,030)	(932,146)
Total Net Position	$ (792,030)	$ (932,146)

Overall, net position improved during 2016 by $140,116,000 primarily as a result of the repayment of $137,956,000 in debt principal from the sales tax receipts. The Authority has an overall net accumulated deficit of $792,030,000, resulting primarily from the liabilities relating to bonds payable of $783,650,000, which will be paid in future periods as sales tax is received. The deficit results primarily from the Authority debt issuance that is backed by future sales tax revenue. The deficit is expected to be further reduced, and has been reduced historically, as the bonds have been repaid. The Authority is scheduled to repay $129,666,000 of principal in 2017 pursuant to the bond indenture agreements.

ENTITY-WIDE FINANCIAL ANALYSIS (continued)

Overall, bonds payable decreased in fiscal year 2016 by $137,956,000 (15.0%), due to the repayment as described above. The debt is reported as a long-term liability, but the future revenues are not yet reportable. As of December 31, 2016, of the bonds payable of $783,650,000, $353,050,000 are fixed rate and $430,600,000 are hedged variable rate (with, effectively, a fixed rate resulting from the hedge). The reconciliation on page sixteen of these financial statements provides additional detail on the determination of the net deficit amount.

Additional information on the Authority's debt activity can be found in the notes to the financial statements.

Condensed Statements of Activities and Changes in Net Position
For the Years Ended December 31, 2016 and 2015
(Dollars in Thousands)

Governmental Activities:	**2016**	**2015**
Revenues		
General Revenues		
Sales tax	$ 1,063,123	$ 1,038,788
Investment income	338	162
Program revenue	1,092	-
Total Revenues	1,064,553	1,038,950
Expenses		
General and administrative	1,532	1,735
Control period expenses	95	3
Bond interest and other debt service expenses	27,708	33,395
Distribution to Nassau County	895,102	858,845
Total Expenses	924,437	893,978
Change in Net Position	140,116	144,972
Net Position, beginning of year, as originally reported	(932,146)	(1,077,111)
***Cumulative Effect of Change in Accounting Principle**	-	(7)
Net Position, end of year	$ (792,030)	$ (932,146)

* The Authority's condensed financial statements presented herein are for the year ended December 31, 2015 and the cumulative effect of applying Governmental Accounting Standards Board (GASB) Statement No. 68, *"Accounting and Financial Reporting for Pensions"* and GASB Statement No. 71, "*Pension Transition Guidance for Contributions Made Subsequent to the Measurement Date*", is reported as an adjustment to the beginning net position of fiscal year 2015. Accordingly, the condensed financial information presented above also reflects this cumulative effect of the accounting change to the beginning net position of fiscal year 2015.

ENTITY-WIDE FINANCIAL ANALYSIS (continued)

The single most critical factor in the Authority's financial operations is sales tax revenue, which provided over 99% of the Authority's 2016 revenues. 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% County sales tax rate, 3.00% is a base rate and the remaining 1.25% is subject to periodic renewals. There can be no assurance that historical data is predictive of future trends. The Authority does not make projections of sales tax revenues.

Sales tax revenue for the year ended December 31, 2016 was $1,063,123,000, an increase of 2.34% from the prior year. Investment income totaled $338,000 in 2016, an increase from $162,000 in 2015.

Sales tax revenue of $1,063,123,000 provided 6.2 times the coverage of the Authority's 2016 debt service of approximately $172,684,000. This coverage will change as sales tax fluctuates, as the Authority refunds and/or amortizes its debt, or as borrowing rates change. Altogether, the Authority used $169,266,000 of 2016 sales tax revenue for debt service and Authority operations, remitting the balance of $893,857,000 to Nassau County.

Additionally, during the 2016, the Authority recognized $1,089,000 of revenue in conjunction with legal claims. After deducting professional fees and other expenses of $204,000, the Authority received $885,000. The amount funded current year expenses, allowing the Authority to remit more sales tax and investment income to the County.

The Authority's baseline operating expenses were $1,532,000 and $1,735,000 for the years ended December 31, 2016 and 2015, respectively. The decrease in baseline operating expenses of $203,000 from 2015 to 2016 is primarily due to decreases in the following expenses: pension and OPEB cost of $206,000 and rent of $71,000, offset by an increase in professional fees of $95,000. On January 26, 2011, NIFA adopted a resolution declaring a control period in Nassau County in accordance with its enabling legislation. NIFA had control period-related operating expenses of $95,000 in 2016 and $3,000 in 2015 for legal, accounting and consulting services and other costs outside the normal course of business that were needed to assist NIFA in carrying out its statutory mission. During 2016, the Authority received assistance of $3,000 from New York State to fund control period legal expenses, an increase from no assistance in 2015.

A portion of the Authority's total operating expense 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, 2016, the Authority remitted $501,000 to the County from interest earnings.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, spendable fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

At December 31, 2016, the Authority's governmental funds reported total ending fund balances of $55,034,000, a decrease of $4,851,000 in comparison with the prior year. This change in total governmental fund balances resulted from expenditures exceeding revenues in the general fund by $13,946,000 and from revenues exceeding expenditures by $9,095,000 in the debt service fund. The total ending fund balances are categorized as follows:

- **Nonspendable fund balance** - $61,000 (inherently nonspendable) includes the portion of net resources that cannot be spent because they must be maintained intact.

- **Restricted fund balance** - $53,851,000 (externally enforceable limitations on use) includes amounts subject to limitations imposed by bond indentures, grantors, contributors, or laws and regulations of other governments.

- **Unassigned fund balance** - $1,122,000 (residual net resources) is the total fund balance in the general fund in excess of nonspendable, restricted and assigned fund balance.

The Authority has no committed or assigned fund balance.

General Fund

At the end of the current year, the total fund balance of the general fund was $1,183,000, decreasing $13,946,000 from the prior year. Of the total decrease, fund balance restricted for debt service decreased by $14,292,000 as all amounts required to be transferred to the debt service fund were remitted by year end. Sales tax revenue of $1,063,123,000 increased $24,335,000 from 2015 level of $1,038,788,000, primarily due to more spending within Nassau County. Of the $1,063,123,000 of sales tax revenue, 84.08%, or $893,857,000, was distributed to the County. The amount distributed to the County increased by $35,813,000 from the 2015 transfer of $858,044,000. Transfers to the debt service fund were $181,917,000 (including the residual balance from 2015 of $14,292,000) and $180,327,000 for the years ended December 31, 2016 and 2015, respectively. Additionally, sales tax revenue was retained in the general fund to pay for the recurring operations of the Authority, as well as to fund the additional costs incurred in fulfilling its responsibilities under the control period, which collectively totaled $1,618,000.

Debt Service Fund

At the end of the current year, the total fund balance of the debt service fund was $53,851,000, all of which is restricted for debt service. During the year, the debt service fund received $181,917,000 from the general fund, which was used to fund debt service requirements of $172,684,000. During 2015, the debt service fund received $180,327,000 from the general fund and together with existing monies set-aside, financed debt service costs of $196,620,000. In 2015, the Authority refunded (current and advance) $138,635,000 of bonds from monies received from bond issuance proceeds of $116,310,000, reoffering premium $23,165,000 and NIFA monies of $16,676,000.The accumulation of fund balance is a function of when the required debt service set asides are due versus the timing of the actual principal and interest paid to the bond holders.

DEBT ADMINISTRATION

At the end of the current year, NIFA has total sales tax secured bonded debt outstanding of $783,650,000. Of the total debt, $353,050,000 is subject to a fixed interest rate and $430,600,000 is subject to a variable interest rate which is hedged by associated interest rate swaps, effectively creating a fixed interest rate.

Outstanding Debt (in thousands)

A summary of changes in sales tax secured bonds for governmental activities is as follows:

	Outstanding Principal Balance at January 1, 2016	Bond Issuance	Principal Retired	Outstanding Principal Balance at December 31, 2016	Total Interest Payments FY 2016
Sales tax secured bonds:					
Fixed Rate	$ 429,731		$ 76,681	$ 353,050	$ 17,358
Variable Rate Hedged	491,875		61,275	430,600	19,179
	$ 921,606	$ -	$ 137,956	$ 783,650	$ 36,537

As stated earlier, NIFA is currently rated in the highest rating category by Standard & Poor's (AAA), and Fitch (AAA), and the second highest rating category by Moody's (Aa1).

In accordance with New York State statutes, NIFA does not currently have the authority to issue additional bonds or notes, except for refunding bonds or notes previously issued. Additional information on NIFA's indebtedness is shown in the notes to the financial statements (see Note 5).

CURRENTLY KNOWN FACTS

<u>Litigation</u>

On March 24, 2011, after determining that the requirements of its governing legislation were met, the Authority exercised its authority to impose a one-year wage freeze on County personnel. Unions representing County personnel have filed lawsuits in the United States District Court for the Eastern District of New York against the Authority and its Directors. The lawsuits allege that the wage freeze is unauthorized by the Authority's governing legislation and unconstitutionally impairs the unions' collective bargaining agreements with the County in violation of the Contracts Clause of the United States Constitution. The unions also filed lawsuits in the same court challenging NIFA's renewals of the one-year wage freeze in March 2012 and March 2013.

On February 14, 2013, United States District Judge Leonard D. Wexler granted summary judgment to the plaintiff unions in one of these wage freeze litigations, ruling that as a matter of statutory interpretation of NIFA's enabling legislation NIFA's wage freeze power expired in 2008. The District Court stayed its ruling pending appeal, so the wage freeze remained in effect. NIFA filed a notice of appeal with the United States Court of Appeals for the Second Circuit, which granted NIFA's motion for an expedited appeal.

On September 20, 2013, the Second Circuit vacated the District Court's judgment, ruling that it should have declined to exercise jurisdiction over the pendent state claim, and remanded the case with instructions to dismiss the claim. In accordance with the decision of the Second Circuit, in October 2013, the District Court closed all the pending federal actions without prejudice to re-opening at the conclusion of state litigation.

CURRENTLY KNOWN FACTS (continued)

Litigation (continued)

In October 2013, following the closure of the federal actions, the unions filed petitions in Nassau County Supreme Court pursuant to Article 78 of the N.Y. Civil Practice Law and Rules. Their petitions alleged that the wage freezes were unauthorized as NIFA's wage freeze power under its enabling legislation expired in 2008. One of the unions also alleged that one of its members' interest arbitration awards were not within the ambit of NIFA's wage freeze powers.

NIFA moved to dismiss the petitions. On March 11, 2014, Justice Arthur M. Diamond granted NIFA's motion to dismiss, ruling that, as a matter of statutory interpretation, NIFA's wage freeze power had not expired and that the interest arbitration award was within the ambit of that power. The Appellate Division, Second Judicial Department, affirmed the dismissal, and the New York Court of Appeals denied the unions' applications for leave to appeal further. In late 2016 and early 2017 the unions asked Judge Wexler to re-open their federal case in the Eastern District of New York and rule on the parties cross-motions for summary judgment on the unions' Contracts Clause claims. That request is pending.

Attorneys representing various Nassau County property owners have filed three related petitions in Nassau County Supreme Court against the County and NIFA pursuant to Article 78. In these proceedings, the petitioners have asked the court to order the County to issue bonds to finance payment by the County of more than $50 million in judgments against the County arising from tax certiorari proceedings. The petitioners name NIFA as a respondent in two of the cases and ask the Court to order NIFA to vote on and approve the County's issuance of such bonds. In the third action, NIFA has been granted leave to intervene since it believes that the issues in all three cases are substantially the same. NIFA moved to dismiss the three actions on February 14, 2013. On November 6, 2013, the Court stayed the actions pending resolution of the County's appeal to the Appellate Division in a related proceeding. A motion to vacate the stay was granted in one of the litigations, but the petitioners' motion for rehearing was denied as improperly filed

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, 1305 Franklin Avenue, Suite 302, Garden City, New York 11530 or email us at nifacomments@nifa.state.ny.us.

BASIC FINANCIAL STATEMENTS

NASSAU COUNTY INTERIM FINANCE AUTHORITY
STATEMENT OF NET POSITION
December 31, 2016
(Dollars in Thousands)

Governmental Activities:		
Assets		
Unrestricted cash	$	519
Restricted cash		18
Restricted investments		40,753
Sales tax revenue receivable		117,816
Other receivables		771
Interest income receivable		64
Other assets		61
Total Assets		160,002
Deferred Outflows of Resources		
Deferred charges on refundings		17,836
Accumulated decrease in fair value of hedging derivatives		33,144
Deferred charges on pension cost		354
Total Deferred Outflows of Resources		51,334
Liabilities		
Accounts payable and accrued liabilities		2,671
Payable to broker- investment purchase		13,138
Due to Nassau County		91,661
Derivative instruments - interest rate swaps		33,144
Bonds payable:		
Due within one year		129,666
Due in more than one year		653,984
Unamortized bond premium		51,600
Other postemployment benefits payable		2,245
Net pension liability		279
Compensated absences payable		201
Total Liabilities		978,589
Deferred Inflows of Resources		
Deferred amounts on refundings		24,744
Deferred charges on pension cost		33
Total Deferred Inflows of Resources		24,777
Net Position		
Unrestricted		(792,030)
Total Net Position	$	(792,030)

See notes to the financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
December 31, 2016
(Dollars in Thousands)

Governmental Activities:	
Expenses	
General and administrative	$ 1,532
Control period legal expenses	95
Bond interest and other debt service expenses	27,708
Distribution to Nassau County - general operations	1,245
Total Expenses	30,580
Program Revenue	
Other revenue	1,089
State assistance - control period legal expenses	3
Total Program Revenue	1,092
Net Cost	29,488
General Revenues	
Sales tax	1,063,123
Less: distributions to Nassau County	(893,857)
Investment income	338
Total Sales Tax and Other General Revenues Retained	169,604
Change in Net Position	140,116
Net Position - Beginning of Year	(932,146)
Net Position- End of Year	$ (792,030)

See notes to the financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016
(Dollars in Thousands)

	Major Funds		Total
	General	Debt Service	(Governmental Funds)
Assets			
Unrestricted cash	$ 519	$ -	$ 519
Restricted cash	-	18	18
Restricted investments	-	40,753	40,753
Sales tax revenue receivable	117,816	-	117,816
Other receivables	771	-	771
Interest income receivable	-	64	64
Due from other funds	3	26,275	26,278
Other assets	61	-	61
Total Assets	$ 119,170	$ 67,110	$ 186,280
Liabilities and Fund Balances			
Liabilities			
Accounts payable and accrued liabilities	$ 51	$ 118	$ 169
Payable to broker - investment purchase	-	13,138	13,138
Due to Nassau County	91,661	-	91,661
Due to other funds	26,275	3	26,278
Total Liabilities	117,987	13,259	131,246
Fund Balances			
Nonspendable:			
Prepaid items and other assets	61	-	61
Restricted for:			
Debt service	-	53,851	53,851
Unassigned, reported in:			
General fund	1,122	-	1,122
Total Fund Balances	1,183	53,851	55,034
Total Liabilities and Fund Balances	$ 119,170	$ 67,110	$ 186,280

See notes to the financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
December 31, 2016
(Dollars in Thousands)

Total Fund Balances - Governmental Funds	$	55,034
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Deferred outflows of resources not recorded in governmental funds		18,190
Liabilities that are not due and payable in the current period and accordingly are not reported in the governmental funds:		
Bonds payable		(783,650)
Unamortized bond premiums		(51,600)
Other postemployment benefits payable		(2,245)
Net pension liability		(279)
Accrued vacation and sick pay		(201)
Accrued interest payable		(2,502)
Deferred inflows of resources not recorded in governmental funds		(24,777)
Net Position of Governmental Activities	$	(792,030)

See notes to the financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
December 31, 2016
(Dollars in Thousands)

	Major Funds		Total
	General	Debt Service	(Governmental Funds)
Revenues			
Sales tax	$ 1,063,123	$ -	$ 1,063,123
State assistance	3	-	3
Other revenue	1,089	-	1,089
Investment income	-	338	338
Total Revenues	1,064,215	338	1,064,553
Expenditures			
General and administrative	1,523	-	1,523
Control period expenditures	95	-	95
Distribution to Nassau County for:			
Sales tax remittance	893,857	-	893,857
General operations	1,245	-	1,245
Debt service	-	172,684	172,684
Total Expenditures	896,720	172,684	1,069,404
Excess (Deficiency) of Revenues Over (Under) Expenditures	167,495	(172,346)	(4,851)
Other Financing Sources and (Uses)			
Transfers In	476	181,917	182,393
Transfers out	(181,917)	(476)	(182,393)
Total Other Financing Sources and (Uses)	(181,441)	181,441	-
Net Change in Fund Balances	(13,946)	9,095	(4,851)
Fund Balances			
Beginning of year	15,129	44,756	59,885
End of Year	$ 1,183	$ 53,851	$ 55,034

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 AND CHANGES IN NET POSITION
December 31, 2016
(Dollars in Thousands)

Net Change in Fund Balances - Total Governmental Funds	$ (4,851)
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Net change in deferred outflows of resources not reported in the funds	(2,167)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Also the governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. Furthermore, changes in certain liabilities do not provide or use current financial resources. This amount is the net effect of these differences in the treatment of long-term debt and related items:	
Principal payments of bonds	137,956
Amortization of premiums on bonds issued	6,115
Change in other postemployment benefits obligation	(129)
Change in net pension liability	(222)
Change in accrued vacation and sick payable	132
Accrued interest	469
Net change in deferred inflows of resources not reported in the funds	2,813
Change in Net Position of Governmental Activities	$ 140,116

See notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 is included in the County’s financial statements.

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 State Assembly, and the State Comptroller. The Governor also designates the chairperson and vice chairperson from among the directors. At present, 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”), investment earnings on money and investments on deposit in various Authority accounts and state assistance received to partially fund the control period expenditures. 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.

The basic 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.

A. ENTITY-WIDE AND FUND FINANCIAL STATEMENTS

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

Entity-Wide Financial Statements

The entity-wide financial statements of the Authority, which include the statement of net position and the statement of activities, are presented to display information about the reporting entity as a whole. The statement of net position and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. ENTITY-WIDE AND FUND FINANCIAL STATEMENTS (continued)

Entity-Wide Financial Statements (continued)

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. The effects of interfund activity have been eliminated in the entity-wide financial statements.

Fund Financial Statements

The Authority's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures incurred in the current year. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, NIFA considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue susceptible to accrual generally includes New York State sales tax and investment income. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pension contributions, and other postemployment benefits are recorded when payment is due.

The Authority uses the following governmental funds, which are major funds, to report its balances and transactions:

- The general fund accounts for sales tax and other revenues received by the Authority and for its general operating expenses, as well as distributions to Nassau County.

- The debt service fund is used to account for and report resources that are restricted or assigned to expenditures for principal and interest, and for financial resources that are being accumulated for principal and interest in future years.

The Authority does not have legally adopted budgets for its governmental funds as they are not required; however, the Directors approve a multi-year financial plan annually, with the current year of any given multi-year plan functioning as a budget framework for that year.

B. ASSETS, LIABILITIES AND NET POSITION/FUND BALANCE

1. Cash and Investments

Cash consists of all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents. Cash equivalents are carried at amortized costs which approximates fair value.

Investments, except for highly liquid market investments with maturities of three months or less at the time of purchase, are reported at fair value. Investment income, including changes in fair value of investments, is reported in operations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. ASSETS, LIABILITIES AND NET POSITION/FUND BALANCE (continued)

1. Cash and Investments (continued)

Restricted cash and investments represent amounts held by the Authority's Bond Trustee for payment of future debt service payments.

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 Directors in November 2000. As of December 31, 2016, the Authority held cash, Treasury Bills, 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. Collateral required 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.

2. Receivables/Liabilities/Revenues

Receivables include amounts due from New York State for sales tax remittances, miscellaneous settlement receivable, as well as interest earned but not yet received. Sales tax revenues received after December 31st but attributable to the prior year are reported in the statement of net position and balance sheet as sales tax revenue receivable. Liabilities associated with the sales tax receivable, such as amounts due to Nassau County and due to debt service fund to fund debt service requirements, have been reflected in the Authority's financial statements. 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 distributions to Nassau County and transfers to fund debt service expenditures.

3. Other Assets

Included in other assets are prepaid expenses and security deposits. Prepaid balances are for payments made by the Authority in the current year to provide services occurring in the subsequent year. Fund balance has been adjusted to reflect an equal amount as nonspendable fund balance, indicating a portion of fund balance is not comprised of spending resources.

4. Capital Assets

Capital assets purchased or acquired with an original cost of greater than $15,000 are capitalized. The Authority has no such assets.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) of time and so will not be recognized as an outflow of resources (expense/expenditure) until then.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5. Deferred Outflows/Inflows of Resources (continued)

The Authority has several items that qualify for reporting in this category, which are the interest rate swap derivative instruments, deferred charges on debt refunding, and pension related items.

The Authority's derivative instruments, which consist of interest rate swap agreements, have been determined to be an effective hedge, and are reported at fair value as of December 31, 2016. The recording of the derivative instrument is not expected to be recognized in debt service expense and therefore a corresponding deferred outflow of resources has been reported. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its acquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has two items that qualify for reporting in this category. The deferred outflows of resources reported in the entity-wide statement of net position include the deferred gain on refunding reported and pension related amounts. A deferred gain on refunding results from the difference in the carrying value of refunded debt and its acquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

The pension related deferred outflows and inflows of resources stems from changes in the components of the Authority's net proportional share of the pension plan's net pension liability, that is, the Authority's proportionate share of the changes in the pension plan's total pension liability and in the pension plan's fiduciary net position. The pension related deferred outflows of resources also include contributions paid subsequent to the pension plan's measurement date.

6. Payable to Broker – Investment Purchase

Investments are recorded as an asset based on the trade date (order date) of the purchase and results in a payable to investment broker until such time as funds for the purchase have been transferred to the broker on the settlement date and delivery of the investments have been received. As of December 31, 2016, there is an outstanding liability of $13,138,000 for the purchase of U.S. government and agency investments which settled early in January 2017.

7. Long-Term Obligations and Related Amounts

In the entity-wide financial statements, liabilities for long-term obligations consisting of general obligation bonds, compensated absences, net pension liability, and other postemployment benefits ("OPEB") are reported in the entity-wide financial statement of net position.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

7. Long-Term Obligations and Related Amounts (continued)

Bond premiums are capitalized and amortized over the lives of the related debt issues using the straight-line method, which approximates the effective interest method, and are reported with the bonds payable. Bond issuance costs are recognized as expenditures/expenses as incurred.

In the fund financial statements governmental funds recognize bond premiums and discounts during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as debt service expenditures.

The County has assumed responsibility for calculating arbitrage rebate liability on bonds or notes issued by the Authority; however, any resulting payments would be made by the Authority and reduce sales tax remittances to the County in a like amount. As of December 31, 2016, there is no outstanding arbitrage rebate liability.

8. Interfund Transactions

Interfund transactions and balances have been eliminated from the entity-wide financial statements. In the funds statements, inter-fund transactions consist of transfers to the debt service fund from the general fund to finance debt service expenditures.

9. Other Postemployment 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 HMOs.

The Authority recognizes the cost of providing benefits by recording its share of insurance premiums as expenditures in the year paid. The Authority's employee handbook requires that it provide its eligible enrollees with the Empire Plan benefit coverage or, if another provider is utilized, the equivalent coverage. Under the provisions of the Empire Plan, premiums are adjusted on a prospective basis for any losses experienced by the Empire Plan. The Authority has the option to terminate its participation in the Empire Plan at any time without liability for its respective share of any previously incurred loss. The liability for postemployment benefits payable is recorded as a non-current liability in the government-wide statements. The current year increase in the liability is based on the most recent actuarial valuation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New York State and Local Retirement System ('the System') have been determined on the same basis as they are reported by the System. For this purpose, the System recognizes benefit payments when due and payable in accordance with the benefit terms; and investments are reported at fair value.

11. Compensated Absences

The obligation for earned but not paid vacation, holiday and sick leave and related expenses (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.

12. Net Position and Fund Equity Classifications

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources.

In the entity-wide financial statements, net position is displayed in two components:

a) Restricted net position — Consists of net position 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. At December 31, 2016, the Authority had no restricted net position.

b) Unrestricted net position — All other net position that do not meet the definition of "restricted" or "net investment in capital assets." The Authority's unrestricted net position is a deficit balance.

It is the Authority's policy to consider using restricted before unrestricted resources.

In the fund financial statements, governmental funds report aggregate amounts for four classifications of fund balances based on the constraints imposed on the use of these resources; they are: 1) nonspendable, 2) restricted , 3) assigned, or 4) unassigned.

1) Nonspendable fund balance includes amounts that cannot be spent because they are either: (a) not in spendable form (i.e. prepaid items or inventories), (b) will not convert to cash within the current period (i.e. long term receivables and financial assets held for resale), or (c) legally or contractually required to be maintained intact (i.e. the principal of a permanent fund).

The spendable portion of the fund balance comprises the remaining three classifications: restricted, assigned, and unassigned.

2) Restricted fund balance reflects the constraints imposed on resources either: (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

12. Net Position and Fund Equity Classifications (continued)

3) Assigned fund balance reflects the amounts constrained by the Authority's "intent" to be used for specific purposes, but are neither restricted nor committed. The Directors of the Authority have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed. At December 31, 2016, the Authority had no assigned fund balance.

4) Unassigned fund balance. This fund balance is the residual classification for the general fund. It is also used to report negative residual fund balances in other governmental funds.

Resources constrained for debt service or redemption in accordance with the Authority's Indenture is classified as restricted on the statements of net position and the governmental funds balance sheets, as applicable.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources – assigned and unassigned - in order, as needed.

C. 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 as due.

Normally, the Authority receives sales tax remittances 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 that in its judgment, are required to maintain sufficient cash balances to fund other debt service expenditures such as professional and administrative fees as well as potential amounts due pursuant to the interest rate swap agreements. Additionally, the Authority withholds sufficient funds for its operations and operating reserves from the sales tax. Residual sales tax revenues and investment earnings are then distributed to the County.

From time to time, the Authority may receive settlements from litigation. These amounts are reported as other revenue in the statement of activities based in the period the judgment is awarded.

D. 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, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities as of the dates of the financial statements. Estimates also affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. NEW ACCOUNTING PRINCIPLES

NIFA has adopted all of the current Statements of the GASB that are applicable. During the year ended December 31, 2016, NIFA adopted:

Statement No. 72 *"Fair Value Measurement and Application*" includes requirements that will enhance the comparability of financial statements among governments by requiring the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The implementation of this Statement resulted in additional footnote disclosure in the Authority's financial statements.

Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets that Are Not Within the Scope of GASB 68- an amendment to Certain Provisions of GASB 67 and 68" the objective is to clarify the existing guidance as well as new requirements for pensions not covered by Statement No. 67 and No. 68. The requirements of this Statement are to be implemented over two years. The provisions of this Statement required to be implemented during 2016 had no impact on the Authority's financial statements.

Statement No. 76*, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,"* the objective of which is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles. The implementation this Statement had no impact on the Authority's financial statements.

Statement No. 77*, "Tax Abatement Disclosures,"* the objective of which is to improve financial reporting by providing the users of financial statements with information about the nature and magnitude of tax abatements, and helping the users understand how tax abatements affect a government's future ability to raise resources and meet its financial obligations, as well as the impact on the government's financial position and economic condition. The implementation this Statement had no impact on the Authority's financial statements.

Statement No. 78, *"Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans"*, amends the scope and applicability of Statement No. 68. This Statement establishes accounting and financial reporting standards for defined benefit pensions provided to employees of a state or local governmental employers through a cost-sharing multiple employer defined benefit pension plan that meets certain criteria of Statement No. 68 and that (a) is not a state or local governmental pension plan, (b) is used to provided defined benefit pensions both to employees of state/local governmental employers as well as to employees of non-state/local governmental employers and (c) has no predominant state or local governmental employer, either individually or collectively with other state or local governmental employers that provide pensions through the pension plan. The implementation of this Statement had no impact on the Authority's financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the report, which is the date the financial statements were available to be issued. There are no significant subsequent events to report.

2. 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 and are summarized below for the year ended December 31, 2016:

- Of the $1,063,123,000 sales tax revenues recognized, the Authority distributed $893,857,000 to Nassau County. The remainder was retained for Authority debt service and operations.

- The distribution to the County for general County operations, includes the following:
    1) 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 2016, the Authority distributed $474,000 of interest income and other income to the County.
    2) During 2016, the Authority recognized revenue in connection with legal claims totaling approximately $1,089,000 and after deducting professional fees and other costs of $204,000 received $885,000. During 2016, the Authority distributed $771,000 of this revenue to the County and retained $114,000 in lieu of withholding sales taxes for the Authority's operations.

At December 31, 2016, the Authority owes the County $91,661,000 for sales taxes and settlement revenue not remitted by year end.

3. DEPOSITS AND INVESTMENTS

Permitted Deposits and Investments

The Authority invests in accordance with the Act, as well as other applicable rules and regulations, the Indenture, and Authority Investment Guidelines adopted by the Directors annually. Permitted investments includes obligations of the State or United States governments, obligations guaranteed by the State or United States government, certificates of deposits issued by banks with the highest credit ratings, commercial paper of any bank or U.S. and state created authorities with the highest credit rating, bonds of any state of United States and repurchase and reserve repurchase agreements.

All bank deposits, certificates of deposits and repurchase agreements, of Authority funds are required to be fully collateralized or insured. Collateral required for the Authority's cash, certificates of deposit and repurchase agreements 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.

As of December 31, 2016, the Authority held cash, Treasury Bills, Federal Home Loan Bank Discount Notes and Federal National Mortgage Association Discount Notes.

3. DEPOSITS AND INVESTMENTS (continued)

Cash

The following is a summary of cash and cash equivalents as of December 31, 2016:

	(Dollars in thousands)
Restricted cash and cash equivalents:	
Cash	$ 18
Total restricted cash and cash equivalents	18
Unrestricted cash and cash equivalents:	
Cash	519
Total unrestricted cash and cash equivalents	519
Total cash and cash equivalents	$ 537

At December 31, 2016, all restricted cash is held by the Authority's Bond Trustee for future debt service requirements and all unrestricted cash is held by the Authority.

Investments

The following is a summary of the fair value of investments of the Authority as of December 31, 2016:

Investment Type:	(Dollars in thousands) Investment Maturities Less than1 year
Restricted:	
U.S. Government securities	$ 16,640
U.S. Government mortgage backed securities	24,113
Total restricted investments	$ 40,753

At December 31, 2016, all restricted investments are held by the Authority's Bond Trustee for future debt service requirements.

Fair Value Hierarchy

The Authority categories its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation of inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique provided by third party custodians. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. See Note 6 for description of fair value hierarchy related to the hedging derivative instruments (interest rate swap agreements).

3. DEPOSITS AND INVESTMENTS (continued)

Fair Value Hierarchy (continued)

The following is a summary of the fair value hierarchy of the fair value of the Authority's investments as of December 31, 2016:

			(Dollars in thousands)			
				Fair Value Measurements Using:		
Investment by Fair Value Level	Credit Quality Rating	Total	Quoted Prices in Active Market for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Debt Securities					
U.S. Government securities	N/A	$ 16,640	$ -	$ 16,640	$ -
U.S. Government mortgage backed securities	AA+ (1)	24,113		24,113	
Total investment by fair value level		$ 40,753	$ -	$ 40,753	$ -
Hedging Derivative Instruments (See Note 6)					
Interest-rate exchange swap agreements	N/A	$ (33,144)		$ (33,144)	
Total derivative instruments by fair value	N/A	$ (33,144)	$ -	$ (33,144)	$ -

(1) Standard and Poor

Custodial Credit Risk – Deposits / Investments – Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, a government may be unable to recover deposits, or recover collateral securities that are in possession of an outside agency. Custodial credit risk for investments exists when, in the event of the failure of the counterparty, a government will be unable to recover the value of its investments or collateral securities that are in possession of an outside party.

Deposits are required to 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, 2016, 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. All investments are in the name of the Authority and consist of obligations issued by the United States government or an agency of the United States and therefore 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 which is designed to protect deposits and investment principal by limiting permitted investments.

Interest Rate Risk – The risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's investments are relatively short-term investments (no longer than six months) based on the cash flow needs of the Authority. All investments held at December 31, 2016 mature at various times through May 15, 2017.

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 guaranteed securities and U.S. Government mortgaged backed securities.

All investments are held by NIFA's trustee bank solely as agent of Authority. All investments mature in less than six months.

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

As of December 31, 2016, the general fund owes the debt service fund $13,138,000 of sales tax revenue to cover debt service set aside requirements.

A summary of transfers for primarily debt service set aside requirements is as follows:

	(Dollars in thousands)	
	Transfer In	Transfer Out
Debt Service Fund		
General Fund	$ 181,917	$ (476)
General Fund		
Debt Service Fund	476	(181,917)
	$ 182,393	$ (182,393)

5. LONG-TERM DEBT

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

(Dollars in thousands)

	Balance 1/1/2016	Additions	Reductions	Balance 12/31/16	Due within One Year	Noncurrent
Bonds payable:						
Sales tax secured bonds payable	$ 921,606	$ -	$ (137,956)	$ 783,650	$ 129,666	$ 653,984
Premiums	57,715		(6,115)	51,600	-	51,600
Total bonds payable	979,321	-	(144,071)	835,250	129,666	705,584
OPEB liability	2,116	129		2,245	-	2,245
Net pension liability	57	341	(119)	279	-	279
Compensated absences payable	333		(132)	201	-	201
	$ 981,827	$ 470	$ (144,322)	$ 837,975	$ 129,666	$ 708,309

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, 2016, the Authority had outstanding sales tax secured bonds in the amount of $783,650,000, maturing through the year 2025, of which $353,050,000 are fixed rate and $430,600,000 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, except to cover the costs of issuance incurred in connection with the refunding of its bonds.

5. LONG-TERM DEBT (continued)

Liabilities for compensated absences and net pension liability will be liquidated through the general fund.

Fixed Rate Bonds — The Authority has outstanding fixed rate bonds at rates ranging between 1.454% and 5.0%. Interest on the Authority's fixed rate bonds is payable on May 15th 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 15th. 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 ("debt service set aside") 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 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 currently in effect are slated to expire at various dates between May 7, 2019 and November 15, 2021 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 periods varying between three and five years. 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 for principal and interest debt service requirements. Additionally, the Trustee makes monthly interest payments.

The County has assumed responsibility for calculating arbitrage rebate liability on bonds or notes issued by the Authority; however, any resulting payments would be made by the Authority. At December 31, 2016, there is no arbitrage rebate liability.

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5. LONG-TERM DEBT (continued)

Bonds are recorded at the principal amount outstanding and consist of the following at December 31, 2016:

	(Dollars in thousands)				
	Bond Par Issued	Balance at 1/1/2016	Additions	Retired	Balance at 12/31/2016
Hedged Variable Rate Bonds:					
Sales Tax Secured Variable Rate Bonds Series 2008A-B * due 2018 through 2025	$ 250,000	$ 250,000	$ -	$ -	$ 250,000
Sales Tax Secured Variable Rate Bonds Series 2008 C-E * due 2012 through 2019	355,055	241,875	-	61,275	180,600
Total Hedged Variable Rate Bonds	605,055	491,875	-	61,275	430,600
Fixed Rate Bonds:					
Sales Tax Secured Bonds Series 2009A 1% to 5% serial bonds due through 2025	303,100	68,405	-	18,850	49,555
Sales Tax Secured Bonds Series 2012A 3% to 5% serial bonds due 2015 through 2025	141,580	127,205	-	32,425	94,780
Sales Tax Secured Bonds 2012B 0.688% to 2.822% serial bonds due 2014 through 2023	176,133	117,811	-	16,481	101,330
Sales Tax Secured Bonds 2015A 4% to 5% serial bonds due through 2025	116,310	116,310	-	8,925	107,385
Total Fixed Rate Bonds	737,123	429,731	-	76,681	353,050
Total Bonds	$1,342,178	$ 921,606	$ -	$ 137,956	$ 783,650

*During 2016, the interest rate on the Variable Rate Bonds ranged from .01% to .85%.

The aggregate debt service to retire bonds outstanding at December 31, 2016, in the following table, reflects stated maturities of principal and interest for all bonds. As noted above, the Authority is party to liquidity facility agreements/stand by purchase agreements in connection with the variable rate bonds.

With the exception of the liquidity facility agreement that expires in May 2019, the other three agreements expire concurrently with the maturity of the underlying bond series. If the remaining liquidity facility agreement set to expire in 2019 expired, and the related bonds were unable to be remarketed, and these agreements are not renewed or replaced, principal due would increase by $125,000,000 in 2019.

5. LONG-TERM DEBT (continued)

Aggregate debt service to maturity, pursuant to the stated terms of the bond indenture agreements and assuming the variable rate bonds are remarketed and liquidity facility agreements are maintained over the term of the variable rate bond indentures, as of December 31, 2016, is as follows:

Years Ending December 31,	(Dollars in Thousands) Principal	Interest*	Total
2017	$ 129,666	$ 27,995	$ 157,661
2018	118,505	23,931	142,436
2019	123,500	19,891	143,391
2020	117,556	15,640	133,196
2021	90,085	11,415	101,500
2022-2025	204,338	16,401	220,739
	$ 783,650	$ 115,273	$ 898,923

*Interest on the variable rate bonds is calculated at the fixed payer rates on the associated interest rate swaps, actual results may vary.

Prior-Year Defeasance of Debt

In prior years, the Authority defeased certain bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payment on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements.

At December 31, 2016, $103,250,000 of defeased bonds remains outstanding.

6. DERIVATIVE INSTRUMENTS – INTEREST RATE EXCHANGE SWAP AGREEMENTS

Derivative instruments, which consist of interest rate swap agreements ("Swaps"), have been reported at fair value as of December 31, 2016. As the interest rate swap agreements qualify as hedging derivative instruments, the fair value has been recorded as a deferred outflow of resources.

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 — The objectives of the Swaps are 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 in 2004.

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.

6. DERIVATIVE INSTRUMENTS – INTEREST RATE EXCHANGE SWAP AGREEMENTS

Background (continued)

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. The original notional amounts are as follows:

- $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 GSMMDP
- $80 million notional amount (2004 Series D - swap agreement) with GSMMDP
- $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

The 2004 Series D and G bonds (the Series referred to above as originally issued), were paid off during the year ended December 31, 2016 and therefore, the related swap contracts expired concurrently.

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 GSMMDP
- $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")

Terms —The initial notional amount totaled $600,000,000, the principal associated with the 2004 Series B-K revenue bonds. The outstanding notional amount as of December 31, 2016 is $430,600,000.

Under the terms of the swaps, the Authority will pay fixed rates and receive a floating rate as follows:

2004 Revenue Bonds	Pay Fixed Rate	Receives Floating Rate
Series B, C, E, F	3.1460%	60% of USD-LIBOR +0.16%
Series I, K, J	3.4320%	61.5% of USD-LIBOR +0.2%

See page 37 for additional information.

6. DERIVATIVE INSTRUMENTS – INTEREST RATE EXCHANGE SWAP AGREEMENTS (continued)

Fair Value — Fair value is described as an exit price that assumes a transaction takes place in an orderly transaction between market participants (buyers and seller that are in the most advantageous market) at the measurement date. The fair values of the interest rate derivative transactions were estimated based on an independent pricing service. The valuations provided were derived from proprietary models based upon well-recognized principles and estimates about relevant future market conditions. The expected transaction cash flows are calculated using the zero-coupon discounting method which takes into consideration the prevailing benchmark interest rate environment, the specific terms and conditions of a given transaction, and assumes that the current forward rates implied by the benchmark yield curve are the market's best estimate of future spot interest rates. The income approach is then used to obtain the fair value of the transactions, where future amounts (the expected transaction cash flows) are converted to a single current (discounted) amount, using a rate of return that takes into account the relative risk of nonperformance associated with the cash flows and time value of money. Where applicable under the income approach (which takes into consideration the risk of nonperformance) an option pricing model technique is applied such as the Black-Scholes-Merton model, the Black-Derman-Toy model, one of the short-rate models, or other market standard models consistent with accepted practices in the market for interest rate option products. The option models would consider probabilities, volatilities, time, settlement prices, and other variables pertinent to the transactions. As the prevailing market replacement rates were lower than the contractual fixed interest rates from the effective date of the swaps, the swaps had negative fair values and have been reported on the statement of net position as derivative instruments – interest rate swaps liability.

Replacement interest rates on the swaps, as of December 31, 2016 are reflected in the chart entitled "Derivative Instruments - 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, 2016, the remaining 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 fair value of each swap, including accrued interest, is provided in the chart. The fair 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 Authority has determined the interest rate swaps (derivative instrument) to be a Level 2 measurement under the fair value hierarchy disclosure standards. As of December 31, 2016, the fair value of NIFA's swaps, including accrued interest, was ($33,144,000).

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.

6. DERIVATIVE INSTRUMENTS – INTEREST RATE EXCHANGE SWAP AGREEMENTS (continued)

Risks Associated with the Swap Agreements (continued)

- *Credit/Counterparty Risk* (continued)

  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 differs by counterparty and declines if the Authority falls into the BBB ratings category.

  To minimize the credit and counterparty credit risk exposure, 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 on page 37.

The table shows the diversification, by percentage of notional amount outstanding at December 31, 2016, among the various counterparties that have entered into agreements with NIFA.

Counterparty:	Dollars in Millions	Notional Percentage
GSMMDP	$ 190	44.19%
UBS AG	190	44.19%
MSCS	50	11.63%
	$ 430	100.00%

NIFA insured its performance in connection with the swaps originally associated with the remaining outstanding Series 2004 B,C,E and F bonds with Ambac Assurance Corporation ("Ambac"), which is rated WR/NR/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 WR/NR/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 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.

6. DERIVATIVE INSTRUMENTS – INTEREST RATE EXCHANGE SWAP AGREEMENTS (continued)

Risks Associated with the Swap Agreements (continued)

- *Basic Risk (continued)*

  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 London Inter-Bank Offered Rate ("LIBOR"), 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.

- *Interest Rate Risk* — The risk that changes in interest rates will adversely affect the fair value of the financial instrument or its cash flows.

  NIFA is exposed to interest rate risk on its pay-fixed, receive-variable interest rate swap. As LIBOR decreases, NIFA's net payment on the swaps increases.

- *Termination Risk* — The swap agreement will be terminated and if at the time of termination the fair value of the swap is negative, NIFA will be liable to the counterparty for an amount equal to the fair value.

  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.

- *Market-access risk* — The Authority is not exposed to market-access risk on its hedging derivative instruments.

- *Foreign currency risk* — The Authority is not exposed to foreign currency risk on its hedging derivative instruments.

6. DERIVATIVE INSTRUMENTS – INTEREST RATE EXCHANGE SWAP AGREEMENTS (continued)

Risks Associated with the Swap Agreements (continued)

- *Contingency* — Generally, the derivative instruments require the Authority to post collateral at varying thresholds by counterparty based on the Authority's credit rating in the form of cash, U.S. Treasury securities, or specified Agency securities. If the Authority were not to post collateral when required, the counterparty may terminate the hedging derivative instrument.

At December 31, 2016, the aggregate fair value of all hedging derivative instrument agreements whose terms contain such collateral provisions is a negative $33,144,000. Because the Authority's credit rating is Aa1/AAA, no collateral has been required or posted.

Upon the Authority's credit ratings declining to a certain threshold (as noted below), collateral posting requirements would be triggered as follows:

- A3/A- : $9,346,000 in collateral to UBS AG.
- Baa1/BBB+: $14,145,000 in collateral to UBS AG and $5,217,000 in collateral to MSCS.
- Baa2/BBB: $4,145,000 in collateral to GSMMDP, $14,145,000 in collateral to UBS AG, and $5,217,000 in collateral to MSCS.
- Baa3/BBB- : $14,145,000 in collateral to GSMMDP, $14,145,000 in collateral to UBS AG, and $5,217,000 in collateral to MSCS.

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6. DERIVATIVE INSTRUMENTS – INTEREST RATE EXCHANGE SWAP AGREEMENTS (continued)

As of December 31, 2016, NIFA's Derivative Instrument - 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:										
Original 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
At December 31, 2016	$ 70,150,000	$ 70,150,000	$ -	$ 70,150,000	$ 70,150,000	$ -	$50,000,000	$ 50,000,000	$50,000,000	$430,600,000
Counterparty	GSMMDP	GSMMDP	GSMMDP	UBS	UBS	UBS	GSMMDP	UBS	MSCS	
Counterparty Rating (1)	Aa2/AA+/NA	Aa2/AAA/NA	Aa2/AAA/NA	A2/A/A	A2/A/A	A2/A/A	Aa2/AAA/NA	Baa2/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	1.551 %	1.154 %	0.605 %	1.155 %	1.154 %	0.618 %	1.396 %	1.396 %	1.396 %	
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 (Wednesday)	61.5% of LIBOR plus 20 basis points (Wednesday)	61.5% of LIBOR plus 20 basis points (Wednesday)	
Change in Fair Value	$ 1,678,797	$ 1,681,823	$ 649,645	$ 1,678,797	$ 1,681,823	$ 651,075	$ 1,335,467	$ 1,335,467	$ 1,335,467	$ 12,028,361
As of December 31, 2016:										
Net Accrued	$ (272,259)	$ (275,865)	$ -	$ (272,260)	$ (275,865)	$ -	$ (200,932)	$ (200,932)	$ (200,932)	$ (1,699,045)
Net Present Value	(4,150,827)	(4,154,229)	-	(4,150,826)	(4,154,229)	-	(4,944,948)	(4,944,948)	(4,944,948)	(31,444,955)
Total Fair Value of Swap	$ (4,423,086)	$ (4,430,094)	$ -	$ (4,423,086)	$ (4,430,094)	$ -	$ (5,145,880)	$ (5,145,880)	$ (5,145,880)	$(33,144,000)

(1) Moodys/S&P/Fitch.

6. DERIVATIVE INSTRUMENTS – INTEREST RATE EXCHANGE SWAP AGREEMENTS (continued)

Swap Payments and Associated Debt - Using rates as of December 31, 2016, 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 change over time, variable-rate bond interest payments and net swap payments will change.

Variable Rate Debt and Swap Payments (in thousands):

Year Ending December 31,	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net Payments	Total Payments
2017	$ 57,675	$ 101	$ 11,011	$ 68,787
2018	58,100	84	9,550	67,734
2019	90,875	65	7,946	98,886
2020	75,325	42	5,657	81,024
2021	51,050	28	3,806	54,884
2022-2025	97,575	40	5,457	103,072
Total	$ 430,600	$ 360	$ 43,427	$ 474,387

7. RETIREMENT SYSTEM

Plan Description

The Authority participates in the New York State and Local Employees' Retirement System ("NYERS"/the "System"), a cost-sharing multiple-employer employee retirement system. The System provides retirement benefits as well as death and disability benefits. The Authority also participates in the New York State Voluntary Defined Contribution Plan ("VDC").

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 (the "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. The System issues a publicly available financial report that includes financial statements and required supplemental information. That report may be found at http://www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244-0001.

NYSERS

Benefits Provided

The System provides retirement benefits as well as death and disability benefits.

Tiers 1 and 2

Eligibility: Tier 1 members, with the exception of those retiring under special retirement plans, must be at least age 55 to be eligible to collect a retirement benefit, there is no minimum service requirement.

7. RETIREMENT SYSTEM (continued)

NYSERS (continued)

Benefits Provided (continued)

Tiers 1 and 2 (continued)

Tier 2 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. The age at which full benefits may be collected for Tier 1 and Tier 2, is 55 and 62 respectively.

Benefit calculation: Generally, the benefit is 1.67% of final average salary for each year of service if the member retires with less than 20 years. If the member retires with 20 or more years of service, the benefit is 2% of final average salary for each year of service. Tier 2 members with five or more years of service can retire as early as age 55 with reduced benefits. Tier 2 members age 55 or older with 30 or more years of service can retire with no reduction in benefits. As a result of Article 19 of the RSSL, Tier 1 and 2 members who worked continuously from April 1, 1999 through October 1, 2000 received an additional month of service credit for each year of credited service they have at retirement, up to a maximum of 24 additional months.

Final average salary is the average of the wages earned in the three highest consecutive years. For Tier 1 members who joined on or after June 17, 1971, each year of final average salary is limited to no more than 20% of the previous year. For Tier 2 members, each year of final average salary is limited to no more than 20% of the average of the previous two years.

Tiers 3, 4, and 5

Eligibility: Tier 3 and 4 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. Tier 5 members, with the exception of those retiring under special retirement plans, must have ten years of service and be at least 55 to be eligible to collect a retirement benefit. The full benefit age for Tiers 3, 4 and 5 is 62.

Benefit calculation: Generally the benefit is 1.67% of final average salary for each year of service if the member retires with less than 20 years. If a member retires with between 20 and 30 years of service, the benefit is 2% of final average salary for each year of service. If a member retires with more than 30 years of service, an additional benefit of 1.5% of final average salary is applied for each year of service over 30 years. Tier 3 and 4 members with five or more years of service and Tier 5 members with ten or more years of service can retire as early as age 55 with reduced benefits. Tier 3 and 4 members age 55 or older with 30 or more years of service can retire with no reduction in benefits.

Final average salary is the average of the wages earned in the three highest consecutive years. For Tier 3, 4, and 5 members, each year of final average salary is limited to no more than 10% of the average of the previous two years.

Tier 6

Eligibility: Tier 6 members, with the exception of those retiring under special retirement plans, must have ten years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tier 6 members is age 63.

7. RETIREMENT SYSTEM (continued)

NYSERS (continued)

Benefits Provided (continued)

Tier 6 (continued)

Benefit calculation: Generally, the benefit is 1.67% of final average salary for each year of service if the member retires with less than 20 years. If a member retires with 20 years of service, the benefit is 1.75% of final average salary for each year of service. If a member retires with more than 20 years of service, an additional benefit of 2 % of final average salary is applied for each year of service over 20 years. Tier 6 members with ten or more years of service can retire as early as age 55 with reduced benefits.

Final average salary is the average of the wages earned in the five highest consecutive years. For Tier 6 members, each year of final average salary is limited to no more than 10% of the average of the previous four years.

Ordinary Disability Benefits

Generally, ordinary disability benefits, usually one-third of salary, are provided to eligible members after ten years of service; in some cases, they are provided after five years of service.

Accidental Disability Benefits

For all eligible Tier 1 and Tier 2 members, the accidental disability benefit is a pension of 75% of final average salary, with an offset for any workers' compensation benefits received. The benefit for eligible Tier 3, 4 and 5 members is the ordinary disability benefit with the years-of-service eligibility requirement dropped.

Post-Retirement Benefit Increases

A cost-of-living adjustment is provided annually to: 1) all pensioners who have attained age 62 and have been retired for five years; 2) all pensioners who have attained age 55 and have been retired for ten years; 3) all disability pensioners, regardless of age, who have been retired for five years; 4) recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years; and 5) the spouse of a deceased retiree receiving a lifetime benefit under an option elected by the retiree at retirement. An eligible spouse is entitled to one-half the cost-of-living adjustment amount that would have been paid to the retiree when the retiree would have met the eligibility criteria. This cost-of-living adjustment is a percentage of the annual retirement benefit of the eligible member as computed on a base benefit amount not to exceed $18,000 of the annual retirement benefit. The cost-of-living percentage shall be 50% of the annual consumer price index as published by the U.S. Bureau of Labor, but cannot be less than 1% or exceed 3%.

7. RETIREMENT SYSTEM (continued)

NYSERS (continued)

Contributions

Plan members who joined the system before July 27, 1976 are not required to make contributions. Those joining after July 27, 1976 and before January 1, 2010 with less than ten years of membership are required to contribute 3% of their annual salary. Those joining on or after January 1, 2010 and before April 1, 2012 are required to contribute 3% of their salary for NYSERS members throughout active membership. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, depending upon their salary, throughout active membership. 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 Authority's actual contributions were equal to the amounts billed by the pension plan.

The contribution paid by the Authority during the current year is as follows:

	Contractually Required Contribution	Total Payment	Percentage of Covered Payroll
2016	$ 93,000	$ 93,000	18.80%

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

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

At December 31, 2016, the Authority reported a liability of $279,488 for its proportionate share of the net pension liability of the System. The net pension liability was measured as of March 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2015, with updated procedures to roll forward the total pension liability to March 31, 2016. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

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7. RETIREMENT SYSTEM (continued)

NYSERS (continued)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (continued)

Below is the Authority's proportionate share of the net pension liability of the System and its related employer allocation percentage.

Measurement Date	Net Pension Liability	Authority's Allocation of the System's Total Net Liability
March 31, 2016	$279,488	0.00174130%

There was no significant change in the Authority's proportionate share from March 31, 2015 to March 31, 2016.

For the year ended December 31, 2016, the Authority recognized pension expense of $110,848. At December 31, 2016 the Authority reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,412	$ 33,129
Changes of assumptions	74,531	-
Net difference between projected and actual earnings on pension plan investments	165,807	-
Changes in proportion and differences between the Authority's contribution and proportionate share of contributions	41,938	-
Authority's contributions subsequent to the measurement date, net of prepaid amounts	70,271	-
Total	$ 353,959	$ 33,129

The Authority's contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

7. RETIREMENT SYSTEM (continued)

NYSERS (continued)

Actuarial Assumptions

The total pension liability as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

Actuarial Valuation Date	April 1, 2015
Interest Rate	7.00%
Salary increases	3.80%
Cost of living adjustment	1.30%
Inflation Rate	2.50%
Decrement tables	April 1, 2010 - March 2015 System's Experience

Annuitant mortality rates are based on the April 1, 2010 – March 31, 2015 System's experience with adjustments for mortality improvements based on the Society of Actuaries' MP-2014.

The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

The long term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2016 are summarized below:

Asset Type:	Target Allocation	Long-term Expected Real Rate of Return
Equity:		
Domestic equity	38.00%	7.30%
International equity	13.00%	8.55%
Alternatives:		
Private equity	10.00%	11.00%
Real estate	8.00%	8.25%
Other	9.00%	6.75-8.65%
Bonds and mortgages	18.00%	4.00%
Cash	2.00%	2.25%
Inflation indexed bonds	2.00%	4.00%
	100.00%	

7. RETIREMENT SYSTEM (continued)

NYSERS (continued)

Actuarial Assumptions (continued)

The discount rate used to calculate the total pension liability was 7.0% for the System, in the prior year 7.5% was utilized. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at actuarially determined statutorily required rates. Based upon the assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	1% Decrease 6.00%	Current Assumption 7.00%	1% Increase 8.00%
Authority's proportionate share of the collective net pension liability/(asset)	$630,224	$279,488	$ (16,870)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NYS ERS financial report. That report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244-0001, or it may be found at http://www.osc.state.ny.us/retire/publications/index.php.

VDC

The Authority also participates in the New York State Voluntary Defined Contribution Program, pursuant to Chapter 18 of the Laws of 2012 of the NYSESSL and Article 8B of the New York State Education Law. Beginning July 1, 2013, the VDC option was made available to all unrepresented employees of New York State public to certain employees.

7. RETIREMENT SYSTEM (continued)

VDC (continued)

Benefits

Eligibility: employees hired on or after July 1, 2013, and earning $75,000 or more annually on a full-time rate. All employees employed on a permanent full-time basis must join a retirement plan within 30 days of their date of appointment. If an employee fails to make a timely election, state law requires placement in the NYSERS system. Once an election is made, it cannot be changed.

Benefits: Benefits are determined by the amounts contributed each year and the success of the investments.

Contributions

The VDC is contributory and employee contributions are required for the duration of employment based on estimated annual gross wages as follows: employees with gross wages between $75,000 and $100,000 contribute 5.75% of gross wages and employees with gross wages of more than $100,000 contribute 6.00% of gross wages. VDC employee contributions are made through payroll deductions. All contributions are made based upon IRS compensation and contribution limits, which are determined annually.

Employers are required to contribute 8% of gross wages for the duration of employment. During the year ended December 31, 2016, the Authority recognized pension expense related to the VDC of approximately $11,000. There is no outstanding liability owed to the VDC at December 31, 2016.

Vesting

Employees participating in the VDC are fully vested in all retirement and death benefits provided upon completing 366 days of service (waived for employees who enter service with employer-funded retirement contracts from any of the DDV investment providers). The VDC vesting period is on a calendar basis.

Contributions begin upon Plan entry, but are held by the employer until completion of the vesting period. Once vested, the employer will make a single lump sum contribution of applicable employer and employee contributions plus interest to the investment provider selected by the participant. A participant who does not complete the vesting period is entitled to a refund of his or her own contributions plus interest.

Funding

This is a defined contribution program under which individual contracts, providing retirement and death benefits for or on behalf of electing employees/participants, are purchased from one of the following authorized investment providers: Fidelity, MetLife, TIAA-CREF, VALIC and Voya. Each investment provider has a variety of approved investment options. Contracts are issued to and become the property of the electing employee. Payments are made in accordance with the contracts and the employer is not liable for the benefit payments provided by such contracts.

8. OTHER POSTEMPLOYMENT 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 toward 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 Milliman Inc., a consultant hired by the County, to estimate the benefit obligation for the fiscal year ended December 31, 2016 and the impact of changes in GASB accounting rules applicable to the retiree medical benefits for retired employees and their eligible dependents. There are currently two plan participants receiving benefits.

The number of participants as of January 1, 2015, the date of the most recent actuarial valuation is as follows:

Active employees	5
Retired employees	2
Total	7

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

Annual Other Postemployment Benefit Cost

For the year ended December 31, 2016, the Authority's annual other postemployment benefits costs were $187,000 Considering the annual expense as well as the payment of current health insurance premiums, which totaled $58,000 for retirees, the result was an increase in other postemployment benefits liability of $129,000.

Benefit Obligations

The benefit obligations and normal cost are as follows:

Actuarial Accrued Liability ("AAL")	$ 2,008,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	2,008,000
Funded ratio	0%
Normal cost	115,000
Covered payroll	830,000
UAAL as a percentage of covered payroll	242%

The actuarial accrued liability, actuarial value of plan assets and unfunded actuarial accrued liability are as of January 1, 2015, the date of the most recent actuarial valuation.

8. OTHER POSTEMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE) (continued)

Benefit Obligations (continued)

The Authority's annual other postemployment benefit cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined. 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. The unfunded actuarial liability for the Authority as of December 31, 2016 amounted to $2,008,000.

The following table shows the components of the other postemployment benefits liability:

Level Dollar Amortization
Calculation of ARC under the Projected Unit Credit Cost Method

Amortization of UAAL	$ 2,151,000
Normal cost	115,000
Interest on normal cost	37,000
Annual Required Contribution	2,303,000
Interest on Net OPEB obligation	69,000
Adjustment to annual required contribution	(2,185,000)
Annual OPEB expense	187,000
Contributions made	(58,000)
Increase in net OPEB obligation	129,000
Net OPEB obligation - beginning of year	2,116,000
Net OPEB obligation - end of year	$ 2,245,000

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 postemployment benefits, is approximately $2,245,000 as of December 31, 2016. 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 funds other postemployment benefits on a pay-as-you-go basis.

8. OTHER POSTEMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE) (continued)

Funded Status and Funding Progress (continued)

The Authority's annual OPEB cost, the estimated annual OPEB amount contributed to the plan, and the net OPEB obligation for the current year and proceeding two years, were as follows:

Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	$ 187,000	31.02%	$ 2,245,000
2015	337,000	10.68%	2,116,000
2014	185,000	18.92%	1,815,000

The funded status of the plan as of December 31, 2016 is as follows:

Actuarial Accrued Liability ("AAL")	$ 2,008,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	2,008,000
Funded ratio	0%
Normal cost	115,000
Covered payroll	830,000
UAAL as a percentage of covered payroll	242%

The actuarial accrued liability, actuarial value of plan assets and unfunded actuarial accrued liability are as of January 1, 2015, the date of the most recent actuarial valuation.

The required schedule of funding progress can be found immediately following the notes, in required supplementary information, and presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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, 2015, the date of the latest actuarial valuation, the liabilities were calculated using the Projected Unit Credit Method, level dollar amortization method, and an open 1 year amortization period to amortize the initial unfunded liability. The actuarial assumptions utilized a 3.25% per annum discount rate. The healthcare trend assumption used is based on the Society of Actuaries-Getzen Model, reflecting a trend of 6% in 2016 and decreasing to 5.4% in 2019; actual premium rates were used for 2016. Retiree contributions as a percentage of premiums are assumed to remain constant over the valuation.

9. COMPENSATED ABSENCES

Authority employees are entitled to accumulate unused vacation, holiday and sick leave. In the event of termination or upon retirement an employee is entitled to be paid for that leave, up to amounts specified by the Authority. At current salary levels, the Authority's liability for payment of vacation and holiday pay is $136,000 which includes the Authority's share of taxes and other withholdings. Authority employees are also 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. At current salary levels, the Authority's liability for payment of this sick leave accumulation is $65,000, 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 has been recorded in the statement of net position (deficit). Management believes that sufficient resources will be made available for the payments of the accrued unused leave. As of December 31, 2016, the value of the accumulated vacation time, holiday time and sick leave was approximately $201,000.

10. 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.

11. CONTROL PERIOD EXPENSES

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. On January 26, 2011, NIFA adopted a resolution declaring a Control Period upon its determination that there existed a substantial likelihood and imminence of the County incurring a major operating funds deficit of one percent or more in the aggregate results of operations assuming all revenues and expenditures were reported in accordance with GAAP. The County has since incurred major operating funds deficits, measured on a GAAP basis, well in excess of that threshold, in each succeeding year.

During a control period, NIFA is empowered, among other things, to approve or disapprove proposed contracts and borrowings by the County and Covered Organizations; approve, disapprove or modify the County's multi-year financial plan; and issue binding orders to the appropriate local officials. It can and did impose a wage freeze on March 24, 2011 for County employees. The wage freeze was lifted on May 3, 2014 for four of Nassau County's five labor unions and on September 9, 2014 for the fifth labor union and for Nassau County's non-union employees. The five unions ratified new labor agreements at the time their respective wage freezes were lifted. NIFA will terminate the Control Period upon finding that no condition exists which would permit imposition of a Control Period. During 2016, NIFA incurred $94,700 of expenses directly related to fulfilling its expanded oversight responsibilities of the County during the control period.

12. COMMITMENTS AND CONTINGENCIES

The Authority has been named as a defendant in actions resulting from its imposition of a Control Period in January of 2011. Based upon the opinion of counsel, management believes that the resolution of these matters will not have a material adverse effect on its statement of net position or its statement of activities.

13. PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

The following statements have been issued by the GASB and are to be implemented future years:

Statement No. 73 *"Accounting and Financial Reporting for Pensions and Related Assets that Are Not Within the Scope of GASB 68- an amendment to Certain Provisions of GASB 67 and 68"* the objective is to clarify the existing guidance as well as new requirements for pensions not covered by Statement No. 67 and No. 68. The requirements of this Statement are to be implemented over two years. The provisions of this Statement addressing employers and governmental nonemployer contributing entities for pension that are not with the scope of Statement No. 68 are effective for reporting periods beginning on or after June 15, 2016.

Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions",* which outlines reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Statement No. 80, "Blending Requirements for Certain Component Units – an Amendment of Statement No.14," the objective of which is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016.

Statement No. 81, *Irrevocable Split-Interest Agreements*, provides guidance over financing reporting for irrevocable split-interest agreements where the government is a beneficiary of the agreement. The provisions of this Statement are effective for periods beginning after December 31, 2016.

13. PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE (continued)

Statement No. 82, *"Pension Issues- An Amendment of GASB Statements No. 67, 68 and 73*", the objective of which is to address issues regarding (a) the presentation of payroll-related measures in required supplementary information, (b) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (c) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of the Statement are effective for reporting beginning after June 15, 2015 except for the requirements for selection of assumptions in certain circumstances. In those certain circumstances, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

Statement No. 83 *"Certain Assets Retirement Obligations"* establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for asset retirement obligations. It also addresses that measurement of both the asset retirement obligation and deferred outflows of resources should be based on the estimated of the current value of expected outlays. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 84, *Fiduciary Activities,* establishes criteria for identifying fiduciary activities of all state and local governments. The criteria focus is generally on 1) whether a government is controlling the assets of the fiduciary activity and 2) the beneficiaries with whom a fiduciary relationship exists. The Statement establishes the four fiduciary funds that should be reported (as applicable): 1) pension and other employee benefit trust funds, 2) investment trust funds, 3) private purpose trust funds, and 4) custodial funds. This Statement also provides guidance for the recognition of a liability when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 85, *Omnibus 2017,* was issued to address practice issues identified in the implementation and application of certain GASB Statements. It addresses a number of topics including, but not limited to: blending component units, goodwill, fair value measurement and applications, and postemployment benefits such as pension and other postemployment benefits. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

The Authority is currently evaluating the impact of the aforementioned GASB Statements on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

NASSAU COUNTY INTERIM FINANCE AUTHORITY
SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS
(UNAUDITED)
December 31, 2016

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	UAAL as Percentage Covered Payroll
1/01/15	$ -	$ 2,008,000	$ 2,008,000	0%	270.00%
1/01/13	-	1,665,000	1,665,000	0%	233.00%
1/01/11	-	1,134,000	1,134,000	0%	159.00%

Summary of Changes in Actuarial Assumptions

Several changes to the actuarial assumptions were made to the January 1, 2015 and 2013 actuarial valuations that resulted in changes to the liability. The following changes made are as follows:

January 1, 2015 Actuarial Valuation:

- The discount rate was lowered from 3.75% to 3.25%.
- The actuarial assumptions on withdrawal and retirement were changed from the previous valuation to conform to the changes adopted by the NYSLRS for Tiers 5 and 6.
- The per capita claims cost have been updated to reflect the actual NYSHIP premiums for 2015.

January 1, 2013 Actuarial Valuation:

- Healthcare trend rates used in the actuarial valuation are based on the Long-Run Medical Cost Trend Model, commonly referred to as the Getzen Model. The Getzen Model assumes a much slower decline to an ultimate rate than the previous actuarial valuation. Additionally, the estimated impact of the excise tax due to Healthcare Reform (“Cadillac Tax”) has been incorporated in the valuation through an adjustment to the trend assumption.
- The discount rate was lowered from 4.25% to 3.75%.
- Actuarial assumptions regarding withdrawal and retirement were changed to conform to the changes adopted by the New York State and Local Retirement Systems (“NYSLRS”). Additionally, retiree health benefits paid upon disability were not previously valued and are now included based on assumptions adopted by NYSLRS.
- Per capita claims costs have been updated to reflect the actual NYSHIP premiums for 2013 and 2014.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(UNAUDITED)
December 31, 2016

	March 31,		
	2016	2015	2014
Authority's proportion of the net pension liability (asset)	0.0017413%	0.0016961%	0.0016961%
Authority's proportionate share of the net pension liability (asset)	$ 279,488	$ 57,300	$ 76,647
Covered payroll	$ 585,776	$ 639,220	$ 624,893
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	47.71%	8.96%	12.27%
Plan fiduciary net position as a percentage of total pension liability	90.70%	97.95%	97.20%

Note - amounts presented were determined as of the System's measurement date of March 31st

Notes:

There were no significant legislative changes in benefits for the April 1, 2015 actuarial valuation.

Changes in assumptions from the March 31, 2015 to March 31, 2016 Plan year:

- The interest (discount) rate was lowered from 7.5% to 7.0% in the actuarial valuation used in the Plan’s March 31, 2016 financial statement.
- The inflation rate was decreased from 2.7% to 2.5%.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(UNAUDITED)
December 31, 2016

Years Ended December 31,	Contractually required contributions	Contributions recognized by the plan in relation to the contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2016	$ 98,247	$ 98,247	$ -	$ 452,173	21.73%
2015	114,514	114,514	-	639,562	17.91%
2014	103,429	103,429	-	463,974	22.29%
2013	135,104	135,104	-	647,623	20.86%
2012	124,627	124,627	-	720,944	17.29%
2011	93,710	93,710	-	637,647	14.70%
2010	68,424	68,424	-	672,865	10.17%
2009	47,081	47,081	-	689,132	6.83%
2008	51,002	51,002	-	567,873	8.98%
2007	70,271	70,271	-	779,964	9.01%

Note - amounts presented for each year were determined as of December 31st and the contractually required contributions are based on the amounts invoiced by the New York State Local Retirement System

Notes:

The Plan used the April 1, 2014 actuarial valuation to determine the employer rates for contributions payable to the Plan for the Plan's year end March 31, 2016.

There was a change in assumption for the pensioner mortality improvement in the April 1, 2014 actuarial valuation form the Society of Actuaries' Scale AA to Scale MP-2014.

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
Nassau County Interim Finance Authority

We have audited, in accordance with the 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, the 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, New York, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 18, 2017.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

New York, New York
April 18, 2017