

*Nassau County Interim
Finance Authority*

Independent Auditors' Report

Financial Statements

Year Ended December 31, 2001

NASSAU COUNTY INTERIM FINANCE AUTHORITY

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
BALANCE SHEET - DECEMBER 31, 2001	2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2001	3
NOTES TO FINANCIAL STATEMENTS	4-12
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO INVESTMENT POLICIES AND PROCEDURES	14

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Nassau County Interim Finance Authority

We have audited the accompanying general-purpose financial statements of the Nassau County Interim Finance Authority (the "Authority"), as of December 31, 2001, and for the year then ended, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on this general purpose 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 general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such general-purpose financial statements present fairly, in all material respects, the financial position of the Authority, at December 31, 2001 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2002, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte + Touche LLP

March 26, 2002

**Deloitte
Touche
Tohmatsu**

NASSAU COUNTY INTERIM FINANCE AUTHORITY

BALANCE SHEET
DECEMBER 31, 2001
(Dollars in Thousands)

	Governmental Fund Types				Account Group	Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	General Long-Term Obligations	
ASSETS AND OTHER DEBITS						
Cash and cash equivalents	\$ 533	\$ 4,897	\$ 2	\$141,434	\$ -	\$ 146,866
Investments	-	-	5,675	-	-	5,675
Investments - Nassau County RAN's/TAN's	340,070	-	-	-	-	340,070
Sales tax receivable	90,281	-	-	-	-	90,281
Interest receivable	4	-	-	77	-	81
Due from general fund	-	-	5,658	-	-	5,658
Other assets	16	-	-	-	-	16
Amount available in debt service fund for principal retirement	-	-	-	-	18	18
Amount to be provided for general long-term obligations	-	-	-	-	436,399	436,399
TOTAL ASSETS AND OTHER DEBITS	<u>\$430,904</u>	<u>\$ 4,897</u>	<u>\$ 11,335</u>	<u>\$141,511</u>	<u>\$436,417</u>	<u>\$ 1,025,064</u>
LIABILITIES AND FUND BALANCES						
Accrued liabilities	\$ 27	\$ 64	\$ 11,317	\$ 51	\$ -	\$ 11,459
Bonds payable	-	-	-	-	436,200	436,200
Bond anticipation notes (BAN) payable	340,070	-	-	125,895	-	465,965
Due to Nassau County - sales tax	84,623	-	-	-	-	84,623
Due to Nassau County - interest	-	-	-	77	-	77
Deferred revenue-tax cert process	-	4,833	-	-	-	4,833
Due to debt service fund	5,658	-	-	-	-	5,658
Accrued vacation and sick pay	-	-	-	-	217	217
Total liabilities	<u>430,378</u>	<u>4,897</u>	<u>11,317</u>	<u>126,023</u>	<u>436,417</u>	<u>1,009,032</u>
FUND BALANCES - Unreserved	<u>526</u>	<u>-</u>	<u>18</u>	<u>15,488</u>	<u>-</u>	<u>16,032</u>
Total fund balances	<u>526</u>	<u>-</u>	<u>18</u>	<u>15,488</u>	<u>-</u>	<u>16,032</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$430,904</u>	<u>\$ 4,897</u>	<u>\$ 11,335</u>	<u>\$141,511</u>	<u>\$436,417</u>	<u>\$ 1,025,064</u>

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES YEAR ENDED DECEMBER 31, 2001 (Dollars in Thousands)

	Governmental Fund Types				Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	
REVENUES					
Sales tax	\$ 783,897	\$ -	\$ -	\$ -	\$ 783,897
State aid	-	25,167	-	-	25,167
Interest income, net	3,772	-	207	5,210	9,189
Unrealized gain on investments	-	-	18	-	18
Total revenues	787,669	25,167	225	5,210	818,271
OTHER FINANCING SOURCES					
Principal amount of bonds issued	-	-	-	181,480	181,480
Other sources	2,216	-	-	340	2,556
Operating transfers in	392	-	24,151	-	24,543
Total revenues and other financing sources	790,277	25,167	24,376	187,030	1,026,850
EXPENDITURES					
Current:					
General and administrative	1,054	-	-	-	1,054
Cost of issuances - notes/bonds	86	-	-	448	534
Distribution to Nassau County for financeable costs	2,130	-	-	342,491	344,621
Distribution to Nassau County for general operations	628	25,167	35	2,036	27,866
Total current expenditures	3,898	25,167	35	344,975	374,075
Debt service	-	-	24,400	-	24,400
Total expenditures	3,898	25,167	24,435	344,975	398,475
OTHER FINANCING USES					
Transfers to Nassau County - sales tax	761,697	-	-	-	761,697
Transfers to RAN Withholding Account:					
Interest	2,812	-	-	-	2,812
Operating transfers out	21,828	-	95	2,620	24,543
Total expenditures and other financing uses	790,235	25,167	24,530	347,595	1,187,527
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES					
	42	-	(154)	(160,565)	(160,677)
FUND BALANCES, BEGINNING OF PERIOD					
	484	-	172	176,053	176,709
FUND BALANCES, END OF PERIOD					
	\$ 526	\$ -	\$ 18	\$ 15,488	\$ 16,032

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2001

1. ORGANIZATION

The Nassau County Interim Finance Authority (the "Authority") 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 (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 for County financial reporting purposes and, accordingly, 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 Assembly and the State Comptroller. The Governor also designates the chairperson and vice-chairperson from among the directors.

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. The Authority is also empowered to issue its bonds and notes for various County purposes, defined in the Act as "Financeable Costs". The Act authorizes the issuance of bonds and notes, without limit, to finance capital projects and cash flow needs of the County, as well as, to the extent authorized by State law, any County deficit. In addition, the Authority may issue bonds up to the limits as currently set forth in the Act, exclusive of any bonds issued to finance reserves, capitalized interest or costs of issuing such obligations, to refinance the County's indebtedness (up to \$415,000,000) and tax certiorari judgments and settlements of the County (up to \$400,000,000 if the proceeding commenced before June 1, 2000 and up to \$100,000,000 in each ensuing County fiscal year 2001 to 2004, with respect to proceedings commenced on or after such date). The Act currently provides that the Authority may not issue bonds after 2004, other than refunding bonds. No bond of the Authority may mature later than January 31, 2036 or more than 30 years from its date of issuance.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Authority follows the modified accrual basis of accounting. It recognizes revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are accrued when the related liability is incurred, except for unmatured debt service on bonds payable, which is recognized when due (see Note 5).

The Authority uses four governmental fund groups and an account group to report its financial position and the results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions and activities. The General Fund accounts for sales tax and interest revenues received by the Authority and for general operating expenses of the Authority. Short-term borrowings of the Authority are also accounted for, as applicable, in the General Fund or the Capital Fund. The Special Revenue Fund accounts for Transitional State Aid, as defined in the Act, which includes assistance for general County needs and aid targeted to assist the County in streamlining its tax certiorari processing. Both types of aid are provided to the County through the Authority. The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on the Authority's bonds. Only that portion of bonds payable expected to be financed from expendable available resources is reported as a liability of the Debt Service Fund. The Capital Projects Fund accounts for resources to be transferred to the County for its Financeable Costs. The General Long Term Obligations Account Group accounts for long term bonds payable which at maturity will be paid by the Debt Service Fund and for other estimated liabilities arising from accumulated unpaid vacation, holiday and sick leave of the Authority's employees.

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

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

3. TRANSACTIONS WITH AND ON BEHALF OF NASSAU COUNTY

The Act and other legal documents of the Authority establish various financial relationships between the Authority and the County. The resulting financial transactions between the Authority and the County include the receipt and use of Revenues as well as Authority debt issuance to fund Financeable Costs of the County. Each of these are more fully described and illustrated in charts below.

Receipt and Use of Revenues in 2001 (not including the Special Revenue Fund) consists of:

- The receipt and remittance to the County of Sales Tax Revenues (see Notes 1, 2 and 5);

- The withholding by the Authority of Sales Tax Revenues for the year ended December 31, 2000 that would otherwise have been remitted to the County, the deposit of those monies into the County of Nassau Revenue Anticipation Note (“RAN”) Withholding Fund, and the retention in that fund of earnings thereon, including interest earned in the year ended December 31, 2001, prior to retirement of the Notes on March 20, 2001 and April 12, 2001 (See Note 9); and
- The remittance to the County, for Financeable Costs or for general County operations, of earnings on various other 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 expenses.

The following chart summarizes the revenue flows resulting from the financial relationships discussed above.

Receipt and Use of Revenues in the year ended December 31, 2001

	Dollars in Thousands			
	Sales Tax Revenues	Earnings on RAN Withholding Acct	Other Earnings in General Fund	Debt Service and Capital Projects Fund Earnings
Inflows:				
Income received in 2001	\$ 693,616	\$ 2,832	\$ 936	\$ 5,340
Additional income accrued to FY 2001	<u>90,281</u>	<u>-</u>	<u>4</u>	<u>77</u>
Total for year ended December 31, 2001	<u>\$ 783,897</u>	<u>\$ 2,832</u>	<u>\$ 940</u>	<u>\$ 5,417</u>
Outflows:				
Deposited for Authority debt service	\$ 16,170	\$ -	\$ -	\$ 2,295
Accrued for Authority debt service	<u>5,658</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total applied to Authority debt service	<u>\$ 21,828</u>	<u>\$ -</u>	<u>\$ -</u>	<u>2,295</u>
Total applied to Authority operating expense/reserve	<u>\$ 372</u>	<u>\$ -</u>	<u>\$ 332</u>	<u>\$ 392</u>
Distributed to County for Financeable Costs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 659</u>
Total applied to RAN Withholding	<u>\$ -</u>	<u>\$ 2,812</u>	<u>\$ -</u>	<u>\$ -</u>
Transferred to County prior to December 31, 2001	\$ 677,074	\$ 20	\$ 608	\$ 1,994
Accrued to County	<u>84,623</u>	<u>-</u>	<u>-</u>	<u>77</u>
Total transferred to County	<u>\$ 761,697</u>	<u>\$ 20</u>	<u>\$ 608</u>	<u>\$ 2,071</u>

Borrowings for Financeable Costs in 2001:

- The sale of Bonds by the Authority to finance Financeable Costs of the County, and the transfer of Bond proceeds to the County upon County requisition (see Notes 1 and 6); and

- The sale of Bond Anticipation Notes by the Authority to finance Financeable Costs of the County, and the transfer of Bond Anticipation Note proceeds to the County upon County requisition (see Notes 1 and 7).

In addition, the Authority holds Nassau County Revenue Anticipation Notes and Nassau County Tax Anticipation Notes (see Note 4).

The following chart summarizes these debt-related financial flows from the Authority to the County from Authority debt issued in 2001:

Year Ended December 31, 2001	Dollars in Thousands			
	Sales Tax	Bond Anticipation	Bond Anticipation	Bond Anticipation
	Secured Bonds,	Notes	Notes	Notes
	Series 2001A	Series 2001A-1	Series 2001B-1	Series 2001B-2
Par amount of issue	\$ 181,480	\$ 180,920	\$ 125,895	\$ 159,150
Net proceeds to Authority	\$ 181,214	\$ 182,285	\$ 126,501	\$ 160,001
Reserved by Authority for costs of issuance	<u>247</u>	<u>85</u>	<u>201</u>	<u>1</u>
Net proceeds	180,967	182,200	126,300	160,000
Earnings applied for County Financeable Costs	<u>659</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total available to County upon requisition	181,626	182,200	126,300	160,000
Requisitioned in year ended December 31, 2001	<u>178,159</u>	<u>182,200</u>	<u>18,571</u>	<u>160,000</u>
Balance available for County financeable costs	<u>\$ 3,467</u>	<u>\$ -</u>	<u>\$ 107,729</u>	<u>\$ -</u>

4. CASH AND INVESTMENTS

The Authority invests in accordance with the Act, as well as other applicable rules and regulations, the Indenture, and Authority Investment Guidelines adopted by the Authority Directors in November 2000. As of December 31, 2001 the Authority held cash, collateralized Certificates of Deposit, Treasury Note Principal Strips, Treasury Bills, Federal National Mortgage Association Discount Notes and Federal Home Loan Mortgage Corporation Discount Notes. All cash deposits of Authority funds (as distinct from Bond Proceeds) are required to be fully collateralized or insured. Collateral for the Authority cash and certificates of deposit, which is required to be 102% of the amount of the cash or certificate of deposit amount and to be held by a third party custodian, consisted of U.S. government and agency obligations.

The Authority also holds Nassau County Revenue Anticipation Notes, Series 2001A and 2001B (together, the "RANs") in the aggregate principal amount of \$180,920,000 and maturing in February and March 2002, respectively; and Nassau County Tax Anticipation Notes, Series 2001A, 2001B and 2001C (together, the "TANs"), in the aggregate principal amount of \$159,150,000 and maturing in April, August and November 2002, respectively. The RANs were sold to the Authority at private sale, in connection with the Authority's Series 2001A-1 Bond Anticipation Note issuance in July 2001. The TANs were sold to the Authority at private sale, in connection with the Authority's 2001B-2 Bond Anticipation Note issuance in December 2001 (see Note 7). The RANs and TANs are not considered to be marketable securities for financial reporting purposes.

The following table summarizes the Authority's cash and investments as of December 31, 2001. Short-term investments with maturities of 90 days or less, and non-marketable securities, are recorded at cost. Marketable securities with maturities longer than 90 days are recorded at fair value and all investment income, including changes in fair value, is reported as revenue on the Statement of Revenue, Expenditures and Changes in Fund Balance. Fair value is determined using market values at December 31, 2001.

On the Balance Sheet, the accrual of interest on short-term investments is reported as interest receivable, and the unrealized change in fair value of marketable securities with maturities longer than 90 days is reflected in the amount of the investment asset.

	<u>Dollars in Thousands</u>	
	<u>Held by Authority</u>	<u>Held by Trustee</u>
Cash	\$ 24	\$ 3
Certificates of Deposit (maturities less than 90 days)	5,401	-
U.S. government and agency discount notes (maturities less than 90 days)	<u>-</u>	<u>141,438</u>
Total cash and cash equivalents	<u>5,425</u>	<u>141,441</u>
Nassau County RANs/TANs*	<u>-</u>	<u>340,070</u>
Total non-marketable securities	<u>-</u>	<u>340,070</u>
U.S. government and agency discount notes (maturities greater than 90 days)	<u>-</u>	<u>5,675</u>
Total marketable securities	<u>-</u>	<u>5,675</u>
Total cash and investments	<u>\$ 5,425</u>	<u>\$ 487,186</u>

**County RANs and TANs are held by Trustee as Custodian and are not pledged to Authority debt holders*

5. SALES TAX REVENUE RECEIVABLE

Sales Tax Revenues are reported on a modified accrual basis. As such, Sales Tax Revenues received after December 31, 2001 through February 28, 2002, but attributable to Fiscal Year 2001 are shown on the Balance Sheet as Sales Tax Receivable. On the Statement of Revenues, Expenditures and Changes in Fund Balance, applicable portions of these funds have been included as Transfers to Nassau County and Debt Service expense.

6. BONDS PAYABLE

The Authority issued \$254,720,000 of Sales Tax Secured Bonds, Series 2000A (the “2000A Bonds”), on October 25, 2000 and \$181,480,000 of Sales Tax Secured Bonds, Series 2001A (the “2001A Bonds” and, together with the 2000A Bonds, the “Bonds”), on June 27, 2001. The Bonds were issued pursuant to an Indenture (the “Indenture”) between the Authority and the United States Trust Company of New York and its successor The Bank of New York (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 has no independent taxing power.

Bonds are recorded at the principal amount outstanding and consist of the following:

	Dollars in Thousands	
	Issued	Balance at December 31, 2001
Sales Tax Secured Bonds, Series 2000A 4.50% to 5.625% Serial and term bonds due 2002 to 2020	\$ 254,720	\$ 254,720
Sales Tax Secured Bonds, Series 2001A 4% to 5.375% Serial and term bonds due 2002 to 2021	181,480	181,480
	<u>\$ 436,200</u>	<u>\$ 436,200</u>

Aggregate debt service to maturity as of December 31, 2001 is as follows:

Year Ended December 31,	Dollars in Thousands		
	Principal	Interest	Total
2002	\$ 11,670	\$ 22,275	\$ 33,945
2003	12,400	21,774	34,174
2004	12,920	21,238	34,158
2005	16,785	20,675	37,460
2006	16,945	19,940	36,885
Thereafter	365,480	168,744	534,224

Interest on the Authority’s Bonds is payable on May 15 and November 15 of each year, and principal is payable on November 15. The first principal payment for both the Series 2000A Bonds and the Series 2001A Bonds is due on November 15, 2002. A debt service account has been established under the Indenture to provide for the payment of interest on and principal of Bonds outstanding. The Trustee makes monthly deposits to the debt service account in the amount of debt service accrued through the end of that month, essentially one-sixth of the next interest payment and one-twelfth of the next principal payment. Because of this monthly deposit requirement, the amount accrued for debt service in the Authority’s financial statements in any year will not be the same as the debt service on the bonds paid to bondholders in that year.

As of December 31, 2001 the Authority had made all required monthly deposits, in a total amount of \$5,657,566. Of the total deposited, \$3,712,566 was for interest payable on May 15, 2002 and \$1,945,000 for principal payable on November 15, 2002.

7. BOND ANTICIPATION NOTES PAYABLE

On July 11, 2001 the Authority issued \$180,920,000 Bond Anticipation Notes, Series 2001A-1 (the "2001A-1 Notes"). The Notes were issued to finance cash flow needs of Nassau County. On December 20, 2001 the Authority issued \$125,895,000 Bond Anticipation Notes, Series 2001B-1 (the "2001B-1 Notes") and \$159,150,000 Bond Anticipation Notes, Series 2001B-2 (the "2001B-2 Notes" and, together with the 2001B-1 Notes, the "2001B Notes"). The 2001B-1 Notes were issued to finance working capital needs of the County. The 2001B-2 Notes were issued to finance cash flow needs of Nassau County. Bond anticipation notes payable are recorded at the principal amount outstanding and consist of the following:

	<u>Dollars in Thousands</u>	
	Issued	Balance at December 31, 2001
Bond Anticipation Notes, Series 2001A-1	\$ 180,920	\$ 180,920

The 2001A-1 Notes bear interest at the rate of 3.75% per annum, pay interest only at maturity, and mature in the following amounts (in thousands) at the following dates:

March 14, 2002	\$ 104,415
April 11, 2002	76,505

	<u>Dollars in Thousands</u>	
	Issued	Balance at December 31, 2001
Bond Anticipation Notes, Series 2001A-1	\$ 125,895	\$ 125,895
	159,150	159,150

The 2001B Notes bear interest at the rate of 2.5% per annum, pay interest only at maturity, and mature in the following amounts (in thousands) at the following dates:

May 2, 2002 (2001B-2)	\$ 40,000
July 18, 2002 (2001 B-1)	125,895
September 12, 2002 (2001B-2)	100,000
December 5, 2002 (2001B-2)	19,150

The 2001A-1 Notes and the 2001B Notes are legally payable from the proceeds of future Authority bonds or renewal notes, and such future issuance has been authorized. However, the Authority is permitted to apply certain other funds to the repayment of the Notes, and plans to repay the 2001A-1 Notes and the 2001B-2 Notes as follows. Proceeds of the Authority's 2001A-1 Note sale were used to purchase the County RANs, which are in principal amounts and bear interest rates sufficient to provide, when due, all amounts payable on the Authority 2001A-1 Notes. Proceeds of the Authority's 2001B-2 Note sale were used to purchase the County TANs, which are in principal amounts and bear interest rates sufficient to provide, when due, all amounts payable on the Authority Series 2001B-2 Notes. See Note D for additional description of the RANs and TANs. The County will pay principal and interest on the RANs and TANs to the Trustee, which will use the funds to pay principal and interest on the 2001A-1 Notes and 2001B-2 Notes, respectively. The RANs and TANs are not pledged to the holders of the 2001A-1 Notes or the 2001B-2 Notes, but the Authority has covenanted that to the extent it receives payments on the RANs and TANs, respectively, it will apply such payments to the payment of the respective Authority bond anticipation notes.

It is anticipated the Series 2001B-1 Notes will be retired from proceeds of an Authority Bond issue or Authority renewal notes in 2002.

8. PENSION LIABILITY

Eligible Authority employees participate in the New York State and Local Employees' Retirement System and the Public Employees Group Life Insurance Plan (together, the "System"), a cost-sharing multiple-employer defined benefit retirement system. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law ("NYSRSSL"). As set forth in the NYSRSSL, the Comptroller of the State of New York ("Comptroller") serves as the 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 its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12236.

Employer contribution rates are determined by the Comptroller. Under the Authority of the NYSRSSL, the Comptroller certifies annually the rates, expressed as proportions of the payroll of members, which shall be used in computing the contributions required to be made by the employer to the pension accumulation fund.

As of December 31, 2001, the Authority has paid its pension bill from the State in the amount of \$5,697, covering the period April 1, 2001 to March 31, 2002. Only the portion of this payment attributable to the year ended December 31, 2001 is presented as an expense in the financial statements.

9. COUNTY OF NASSAU REVENUE ANTICIPATION NOTE WITHHOLDING ACCOUNT

In June 2000, the County issued \$245,000,000 County of Nassau Revenue Anticipation Notes (the “RANs”) as a general obligation of the County, issued in anticipation of the receipt of sales taxes with respect to the County’s fiscal year ended December 31, 2000. The Act required the Authority to set aside Sales Tax Revenues attributable to that fiscal year, after making provision for debt and operating expenses of the Authority, in an amount sufficient to pay principal and interest on the RANs at maturity. The withheld funds were credited to an Authority “County of Nassau Revenue Anticipation Note Withholding Fund” (the “RAN Withholding Fund”) held separately from funds of the Authority. Interest earned on the RAN Withholding Fund was retained in the fund and applied to pay principal and interest on the RANs at maturity. All of the sales tax required to be withheld was withheld in (or accrued to) the year ended December 31, 2000. The funds withheld generated interest earnings in the year ended December 31, 2001 in the amount of \$2,831,674, substantially all of which was applied to payment of RAN debt service. The RANs were retired at maturity and no additional withholding of sales tax or interest was made in the year ended December 31, 2001.

10. COMMITMENTS AND CONTINGENCIES

The Authority is not a defendant in any litigation as of December 31, 2001.

Authority employees are entitled to accumulate unused vacation and holiday leave, and to be paid for that leave, up to amounts specified by the Authority, upon separation. At current salary levels, the Authority’s liability for payment of this accumulation is \$108,187, which includes the Authority’s share of taxes and other withholdings. Authority employees are permitted to accrue unused sick leave up to amounts specified by the Authority 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 accumulation is \$109,651, which includes only the salary value of the time accumulated. Authority employees who were previously employed by the State or a State agency or authority were permitted to transfer leave balances to the Authority. The value of these transferred balances is included in the foregoing amounts. The value of accrued unused leave is included in the General Long Term Obligations Account Group.

11. NEW ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board has adopted the following: Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments”, which establishes specific standards for the basic financial statements, management’s discussion and analysis (MD&A), and certain required supplementary information (RSI) other than MD&A; Statement No. 37 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus”, which makes modifications to statement No. 34; and, Statement No. 38 “Certain Financial Statement Note Disclosures”, which modifies, establishes and rescinds certain financial statement disclosure requirements. These statements will be effective for the Authority for periods beginning after June 15, 2001. The Authority is in the process of evaluating the effect these pronouncements will have on the general-purpose financial statements.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED UPON THE AUDITS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Nassau County Interim Finance Authority

We have audited the financial statements of Nassau County Interim Finance Authority (the "Authority"), as of December 31, 2001 and for the year then ended, and have issued our report thereon dated March 26, 2002. 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.

COMPLIANCE

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Deloitte + Touche LPA

March 26, 2002

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**Deloitte
& Touche**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO INVESTMENT POLICIES AND PROCEDURES**

To the Directors of
Nassau County Interim Finance Authority

We have audited the financial statements of Nassau County Interim Finance Authority (the "Authority"), as of December 31, 2001 and for the year then ended, and have issued our report thereon dated March 26, 2002. 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.

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

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

Deloitte + Touche LLP

March 26, 2002