

*Nassau County Interim
Finance Authority*

Independent Auditors' Report

Financial Statements

Year Ended December 31, 2002

NASSAU COUNTY INTERIM FINANCE AUTHORITY

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2
BASIC FINANCIAL STATEMENTS	
ENTITY-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS – DECEMBER 31, 2002	5
STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2002	6
GOVERNMENTAL FUNDS FINANCIAL STATEMENTS	
BALANCE SHEET - DECEMBER 31, 2002	7
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS – DECEMBER 31, 2002	8
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2002	9
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2002	10
NOTES TO FINANCIAL STATEMENTS	11

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Nassau County Interim Finance Authority

We have audited the accompanying financial statements of the governmental activities and each major fund of the Nassau County Interim Finance Authority (the "Authority"), as of December 31, 2002, and for the year then ended, which collectively comprise the Authority's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Authority, as of December 31, 2002, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, effective January 1, 2002 the Authority adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended by GASB Statement No. 37.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 2002 supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte + Touche LLP

April 11, 2003

**Deloitte
Touche
Tohmatsu**

NASSAU COUNTY INTERIM FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2002

Introduction

The Nassau Interim Finance Authority (the "Authority") is a New York State authority empowered to monitor and oversee the finances of Nassau County, New York (the "County") and to issue bonds and notes for various County purposes. In its oversight capacity, the Authority is empowered to, among other things, review County financial plans submitted to it; make recommendations or, if necessary, adverse findings thereon; make transitional State aid available as it determines; comment on proposed borrowings by the County and certain affiliated organizations; and impose a "control period" upon making one of several statutory finds concerning the County's financial position. To date, the Authority has not imposed a control period.

In its capacity to issue bonds and notes on behalf of the County, the Authority has funded cash flow, capital and working capital needs of the County since the Authority was created in 2000. Revenues to fund Authority operations and pay Authority debt service are provided by a portion of the sales tax revenues of the County on which the Authority has a first lien and, to a much smaller extent, by investment earnings. The Authority has no operating income or taxing power.

Overview of the Financial Statements

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

Management's discussion and analysis of the Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31, 2002. The overview, which covers the most important financial events of the period, should be read in conjunction with the Authority's financial statements, including the notes to the financial statements.

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

Governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. These statements are the *balance sheet* and the *statement of revenues, expenditures and changes in fund balance*. They recognize revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. These are the type of financial statements prepared by the Authority prior to GASB No. 34, though they have been modified to conform to GASB No. 34.

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

Financial Highlights and Overall Analysis

The single most critical factor in the Authority's financial position is sales tax revenue, which provided over 99% of the Authority's 2002 revenue. The State legislation that created NIFA in June 2000 granted the Authority a first lien and perfected security interest in net collections from sales and compensating use taxes authorized by the State and imposed by the County, currently at the rate of 4 ¼%, on the sales and use of personal property and services in the County, excluding the up to 1/3% component that is allocable to towns, cities and villages within the County. Sales taxes are collected by the State and remitted to the Authority's bond trustee, usually several times each month. After provision for Authority debt service deposits and operating expenses, the remaining funds are remitted immediately to the County.

The amount of sales tax revenues to be collected depends upon various factors including the economic conditions in the County, which has experienced numerous cycles of growth and recession. In addition, specific goods and services can be exempted from the imposition of sales tax, and the rate of taxation can be changed. Of the current 4 ¼% sales tax rate, 3% is a base rate and the remaining 1 ¼% is subject to periodic renewals. From County fiscal year 1981 to County fiscal year 2001, the average annual compound growth for rate for sales tax collections was approximately 6.39%. (County collections are described because the Authority was only created in 2000.) 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, 2002 was \$814,872,291, an increase of 4% over the prior year. Investment income, which accounts for the remaining Authority revenue (apart from State Transitional Assistance to Nassau County, which is received and disbursed by the Authority), totaled \$2,046,854 in 2002, a decrease of 78% from 2001. This decrease is attributable to lower interest rates and lower fund balances to invest.

Sales tax revenue provided 20.6 times coverage of the Authority's 2002 total monthly set-asides for debt service of \$39,502,088. This coverage will decrease as the Authority issues more debt. The Authority has covenanted to not issue senior debt unless sales tax revenue for 12 consecutive months of the prior 15 months is at least three times the amount of annual senior bond debt service in any future year (3 times coverage). All together, the Authority used \$39,789,897 of sales tax revenue for debt service set-asides and Authority operations, remitting the balance of \$775,082,395 to Nassau County. A portion of the Authority's total operating expense of \$1,221,515 was also provided by interest earnings. As with sales tax, interest earnings that are not required for Authority operations or reserves are remitted to the County.

Other significant elements in the Authority's financial position include long-term and short-term debt of the Authority, reported as long- and short-term liabilities, and proceeds from Authority debt issuance that are retained by the Authority until requisitioned by the County, which are reported as cash and investments. Many of the financial elements typical of other governmental entities, such as operating revenues, program revenues and expenses, capital assets, and inventories, are not present at the Authority.

During 2002, the Authority issued \$202,155,000 short-term Bond Anticipation Notes ("BANs") and \$225,650,000 long-term bonds. The Series 2002A-1 BANs in the amount of \$109,145,000 financed cash flow needs of the County and were retired at maturity in March 2003. The Series 2002B-1 BANs of \$24,090,000 financed extraordinary working capital needs of the County and are scheduled to mature in May 2003. The Series 2002B-2 BANs totaling \$68,920,000 financed cash flow needs of the County and are scheduled to mature in May and September 2003. The Authority's Sales Tax Secured Bonds, Series 2002A

and Series 2002B, each in the amount of \$112,825,000 for a total of \$225,650,000, were issued to fund various capital, working capital and extraordinary working capital needs of the County. The bonds, which were issued as variable rate demand obligations, have a final maturity of November 15, 2022.

Bonds payable increased in fiscal year 2002 by \$213,980,000 (49%), to \$650,180,000, principally due to the issuance of the Series 2002A and Series 2002B Bonds, as offset by principal retirements on prior bond issues. Notes payable decreased by \$263,810,000 (57%), to \$202,155,000. This change resulted principally from a reduction in short term Authority debt outstanding due to reduced County cash flow needs (\$162,000,000 of the reduction) and reduced borrowing in the Capital Projects Fund (\$101,805,000 of the reduction). GASB Interpretation No. 6 redefined the term "early in the following year" as it relates to provisions for debt service payments in the subsequent year. Accordingly, the Authority has reduced the amount set aside for subsequent year's debt service, resulting in the remaining decrease in the other short-term liabilities.

The statement of net assets shows a total net deficit of \$603,311,000. The deficit results largely from Authority debt issuance that is backed by securitization of future sales tax revenue. The debt is reported as a long-term liability, but the future revenues are not reportable. As of December 31, 2002, the Authority had bonds payable of \$650,180,000. In any year where the Authority issues more long-term debt than it retires, the deficit is likely to increase. The reconciliation on page 9 of these financial statements provides additional detail on the determination of the net deficit amount.

Cash and investments decreased by 48% or \$235,166,879. The decrease resulted from reduced County cash flow borrowing, which reduced the amount of County notes held by NIFA, and from debt proceeds requisitions by the County in excess of the new debt issued by the Authority.

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NASSAU COUNTY INTERIM FINANCE AUTHORITY

STATEMENT OF NET ASSETS

DECEMBER 31, 2002

(Dollars in Thousands)

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 72,842
Investments	6,547
Investments - Nassau County RAN's/TAN's	178,065
Sales tax receivable	86,292
Interest receivable	55
Other assets	17
Bond issue cost, net of amortization	<u>1,715</u>
Total assets	<u>\$ 345,533</u>
LIABILITIES	
Accrued liabilities	\$ 15,110
Due to Nassau County - sales tax	79,369
Due to Nassau County - interest	48
Accrued interest	1,705
Bonds and notes (BAN) payable:	
Due within one year	219,600
Due in more than one year	632,735
Accrued vacation and sick pay	<u>277</u>
Total liabilities	<u>948,844</u>
NET ASSETS	
Unrestricted (deficit)	<u>(603,311)</u>
Total net assets	<u>\$ 345,533</u>

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2002 (Dollars in Thousands)

	Governmental Activities
EXPENSES	
General and administrative	\$ 1,280
Cost of issuances - notes	530
Bond interest expense	24,170
Distribution to Nassau County for financeable costs	199,575
Distribution to Nassau County for general operations	<u>1,034</u>
Total expenses	<u>226,589</u>
GENERAL REVENUES	
Sales tax	\$ 814,872
Less distributions to Nassau County	(775,082)
State aid	20,000
Less distributions to Nassau County	<u>(20,000)</u>
Sales tax and state aid revenues retained	<u>39,790</u>
Interest income, net	3,861
Unrealized gain on investments	<u>12</u>
Total general revenues	<u>43,663</u>
Change in net assets	(226,589)
NET ASSETS - BEGINNING OF YEAR	<u>(376,722)</u>
NET ASSETS - END OF YEAR	<u><u>\$ (603,311)</u></u>

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

BALANCE SHEET
DECEMBER 31, 2002
(Dollars in Thousands)

	<u>Governmental Funds</u>				Total (Governmental Funds)
	General	Special Revenue	Debt Service	Capital Projects	
ASSETS					
Cash and cash equivalents	\$ 681	\$ 4,833	\$ 2,041	\$ 65,287	\$ 72,842
Investments	-	-	6,547	-	6,547
Investments - Nassau County RAN's/TAN's	178,065	-	-	-	178,065
Sales tax receivable	86,292	-	-	-	86,292
Interest receivable	5	-	2	48	55
Due from other funds	2	-	6,923	-	6,925
Other assets	17	-	-	-	17
TOTAL ASSETS	<u>\$ 265,062</u>	<u>\$ 4,833</u>	<u>\$ 15,513</u>	<u>\$ 65,335</u>	<u>\$ 350,743</u>
LIABILITIES AND FUND BALANCES					
Accrued liabilities	\$ 80	\$ 4,833	\$ 10,133	\$ 64	\$ 15,110
Bond anticipation notes (BAN) payable	178,065	-	-	24,090	202,155
Due to Nassau County - sales tax	79,369	-	-	-	79,369
Due to Nassau County - interest	-	-	-	48	48
Due to other funds	6,923	-	2	-	6,925
Total liabilities	<u>264,437</u>	<u>4,833</u>	<u>10,135</u>	<u>24,202</u>	<u>303,607</u>
FUND BALANCES - Unreserved	<u>625</u>	<u>-</u>	<u>5,378</u>	<u>4,133</u>	<u>47,136</u>
Total liabilities	<u>625</u>	<u>-</u>	<u>5,378</u>	<u>41,133</u>	<u>47,136</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 265,062</u>	<u>\$ 4,833</u>	<u>\$ 15,513</u>	<u>\$ 65,335</u>	<u>\$ 350,743</u>

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

DECEMBER 31, 2002
(Dollars in Thousands)

TOTAL FUND BALANCES - Governmental funds	\$ 47,136
Amounts reported for governmental activities in the statement of net assets are different because:	
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds	
Bonds payable	(650,180)
Accrued vacation and sick pay	(277)
Accrued interest	(1,705)
Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	<u>1,715</u>
NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES	<u>\$ (603,311)</u>

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES YEAR ENDED DECEMBER 31, 2002

(Dollars in Thousands)

	Governmental Funds				Total (Governmental funds)
	General	Special Revenue	Debt Service	Capital Projects	
REVENUES					
Sales tax	\$ 814,872	\$ -	\$ -	\$ -	\$ 814,872
State aid	-	20,000	-	-	20,000
Interest income, net	344	-	221	1,483	2,048
Unrealized gain on investments	-	-	12	-	12
Total revenues	815,216	20,000	233	1,483	836,932
OTHER FINANCING SOURCES					
Principal amount of bonds issued		-	-	225,650	225,650
Other sources	1,693	-	-	120	1,813
Operating transfers in	804	-	39,502	-	40,306
Total revenues and other financing sources	817,713	20,000	39,735	227,253	1,104,701
EXPENDITURES					
Current:					
General and administrative	1,221	-	-	-	1,221
Cost of issuances - notes/bonds	196	-	-	308	504
Distribution to Nassau County for financeable costs	1,277	-	-	198,298	199,575
Distribution to Nassau County for general operation	226	20,000	10	798	21,034
Total current expenditures	2,920	20,000	10	199,404	222,334
Debt service	-	-	34,135	-	34,135
Total expenditures	2,920	20,000	34,145	199,404	256,469
OTHER FINANCING USES					
Transfers to Nassau County - sales tax	775,082	-	-	-	775,082
Cost of debt issuance	220	-	-	1,520	1,740
Operating transfers out	39,392	-	230	684	40,306
Total expenditures and other financing uses	817,614	20,000	34,375	201,608	1,073,597
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES					
	99	-	5,360	25,645	31,104
FUND BALANCES, BEGINNING OF PERIOD	526	-	18	15,488	16,032
FUND BALANCES, END OF PERIOD	\$ 625	\$ -	\$ 5,378	\$ 41,133	\$ 47,136

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

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

DECEMBER 31, 2002

(Dollars in Thousands)

NET CHANGE IN FUND BALANCES - Total governmental funds \$ 31,104

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

Bond proceeds provide current financial resources to governmental funds,
but debt issued increases long-term liabilities in the statement of net assets (225,650)

Repayment of bond principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the statement of net assets 11,670

Governmental funds report costs of debt issuance as expenditures. However, in
the statement of activities, the cost of debt issuance is amortized over the
lives of the debt 1,715

Interest expense is reported in the statement of activities on the accrual basis,
but interest is reported as an expenditure in governmental funds when outlay of
financial resources is required (1,705)

Some expense (accrued vacation and sick pay) reported in the statement of
activities do not require the use of current financial resource and therefore,
are not reported as expenditures in the governmental funds
financial (60)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$(182,926)

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2002

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, including but not limited to Chapter 528 of the laws of 2002 (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 any County's indebtedness (up to \$415,000,000); to refinance only tax certiorari settlements or assignments of any kind to which the County is a party (up to \$790,000,000); and to finance tax certiorari judgments and settlements of the County (up to \$400,000,000 if the proceeding commenced before June 1, 2000 and up to \$400,000,000, in aggregate, for proceedings commenced between June 1, 2000 and December 31, 2004). Bonds issued to refund bonds theretofore issued for purposes subject to the debt limits described above are not counted against such limits. The Act currently provides that the Authority may not issue bonds or notes after 2005, other than to retire or otherwise refund Authority debt. 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 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.

In accordance with the Act, the Authority's fiscal year is the calendar year.

During the year ended December 31, 2002, the Authority adopted the provisions of Statement No. 34 of the Governmental Accounting Standards Board ("GASB"), "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and GASB Statement No. 38, "*Certain Financial Statement Disclosures.*" Statement No.34 (as amended by Statement No.37) represents a very significant change in the financial reporting model used by state and local governments. GASB Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of GASB Statement No. 34.

The entity-wide financial statements of the Authority, which include the statement of net assets and the statement of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB No. 34. The statement of net assets and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

The Authority's governmental fund financial statements, the balance sheet and the statement of revenues, expenditures and changes in fund balance are presented using the current financial resources measurement focus and the modified accrual basis of accounting. They recognize revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized when the related liability is incurred, except for unmatured debt service on bonds payable, which is recognized when due (see Note 5).

The Authority uses four governmental funds to report its financial position and the results of operations. The General Fund accounts for sales tax revenues received by the Authority and for general operating expenses of the Authority. Short-term borrowings of the Authority are also accounted for in the General Fund except for those bond anticipation notes intended to be refinanced with long term obligations of the Authority, which are accounted for in 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.

Bond premiums, discounts and issuance costs for bonds issued in 2002 are capitalized and amortized over the lives of the related debt issues using the straight-line method in the entity-wide financial statements. The governmental fund financial statements recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued, together with bond premiums, is reported as other financing sources, while discounts on debt issuances, credit enhancement costs, and costs of issuance are reported as other financing uses.

Interest expense is recognized on the accrual basis in the entity-wide financial statements. In the governmental fund statements, interest expenditures are recognized when funds are deposited in the debt service fund.

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.

No Revenues are generated from operating activities of the Authority, therefore, all Revenues are defined by the Authority as non-operating revenues. Revenues are received in the General Fund, Special Revenue Fund, Debt Service Fund or Capital Projects Fund, depending on their source. Overhead expenses of the Authority that arise in the course of providing Authority's oversight and debt issuance services, such as payroll and office expenses, are considered operating expenses and are accounted for in the General Fund. Expenditures related to debt issuance, and transfers of funds to the County, are considered non-operating expenses and are accounted for in the appropriate fund. See Note 3, "Transactions with and On Behalf of Nassau County."

Assets are capitalized only if their value is greater than \$15,000. The Authority has no such assets. The Authority holds no inventory beyond small amounts of office supplies. Prepaid expense accruals are minor and are adjusted at the close of each fiscal year. The Authority does not presently accrue for rebatable arbitrage, if any. The first date on which it may owe rebate on its bonds is in 2006. Rebate liability on the Authority's notes is being calculated and, if necessary will be paid by Nassau County. See Note 7, "Bond Anticipation Notes Payable."

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.

The receipt and remittance of Revenues in 2002 included:

- The receipt and remittance to the County of Sales Tax Revenues (see Notes 1, 2 and 5). Revenues of \$814,872,291 were received, of which \$775,082,395 was remitted to Nassau County. The balance was retained for Authority debt service and operations.
- The remittance to the County for general County operations, of earnings on various funds held by or on behalf of the Authority, to the extent that those earnings are not required for

the payment of Authority debt service or expenses. In 2002, the Authority remitted \$1,033,567 of interest earnings.

- The receipt from New York State of Transitional State Aid for Nassau County, and transfer of that aid to the County. Transitional State Aid for general County needs in 2002 was \$20,000,000, which was fully disbursed to the County. In addition, of the \$5,000,000 of aid appropriated by New York State in 2000 to assist the County in streamlining its tax certiorari process, \$4,832,938 continues to be held by the Authority pending appropriate County action.

Authority debt issuance to fund Financeable Costs of the County encompassed the following types of activity and transfers to Nassau County in 2002:

- The sale of \$225,650,000 of Bonds by the Authority to finance Financeable Costs of the County (see Notes 1 and 6).
- The sale of \$202,155,000 Bond Anticipation Notes by the Authority to finance Financeable Costs of the County (see Notes 1 and 7).
- Transfer to the County, upon County requisition, of bond and note proceeds from debt issuance in 2002 and prior years. For the year ended December 31, 2002, \$198,298,292 of proceeds was distributed to Nassau County from the Capital Projects Fund. In the General Fund, \$1,277,109 was distributed to the County, which represents the Original Issue Premium on Authority notes issued for County cash flow purposes, less Authority expenses of financing. The principal amount of the notes is provided to the County, but not reported as a revenue or expenditure because the notes are retired within one year of issuance (see Note 7).

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 originally adopted by the Authority Directors in November, 2000. As of December 31, 2002 the Authority held cash, collateralized Certificates of Deposit, Treasury Note Strips, Treasury Bills, Federal National Mortgage Association Discount Notes, Federal Home Loan Mortgage Corporation Discount Notes and commercial paper of the General Electric Capital Corporation. All bank deposits of Authority funds are required to be fully collateralized or insured. Collateral for the Authority cash and certificates of deposit (in amounts in excess of Federal deposit insurance) is 102% of the amount of the cash or certificate of deposit amount, is held by a third party custodian in the Authority's account, and consists of U.S. government or agency obligations.

Investments of the Authority are categorized by level of credit risk (the risk that a counterparty to an investment transaction will not fulfill its obligations). Category 1, the lowest risk, includes investments that are insured or registered or for which securities are held by the entity or its agent in the entity's name, including collateralized bank deposits for which collateral is held by a third party, segregated in the entity's name. Category 2, includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or agent in the entity's name. Category 3, the highest risk, includes investments that are uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the entity's name. The Authority's investments were Category 1.

As of December 31, 2002, the Authority also held Nassau County Revenue Anticipation Notes, Series 2002A (the "RANs") in the principal amount of \$109,145,000, which matured on February 28, 2003; and Nassau County Tax Anticipation Notes, Series 2002A and 2002B (together, the "TANs"), in the aggregate principal amount of \$68,920,000 and maturing in May and August 2003, respectively. The RANs were sold to the Authority at private sale, in connection with the Authority's Series 2002A-1 Bond Anticipation Note issuance in July 2002. The TANs were sold to the Authority at private sale, in connection with the Authority's 2002B-2 Bond Anticipation Note issuance in December 2002 (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, 2002. 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, 2002. 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.

	Dollars in Thousands		
	Held by Authority	Held by Trustee	Total
Cash	\$ 6	\$ 10	\$ 16
Certificates of Deposit (maturities less than 90 days)	5,450	-	5,450
Commercial Paper		2,041	2,041
U.S. government and agency discount notes (maturities less than 90 days)	<u>-</u>	<u>65,335</u>	<u>65,335</u>
Total cash and cash equivalents	<u>5,456</u>	<u>67,386</u>	<u>72,842</u>
Nassau County RANs/TANs*	<u>-</u>	<u>178,065</u>	<u>178,065</u>
Total non-marketable securities	<u>-</u>	<u>178,065</u>	<u>178,065</u>
U.S. government and agency discount notes (maturities greater than 90 days)	<u>-</u>	<u>6,547</u>	<u>6,547</u>
Total marketable securities	<u>-</u>	<u>6,547</u>	<u>6,547</u>
Total cash and investments	<u>\$ 5,456</u>	<u>\$ 251,998</u>	<u>\$ 257,454</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 received after December 31 but attributable to the prior year are shown on the Balance Sheet as Sales Tax Receivable and as Due to Nassau County and Due to Debt Service Fund. On the Statement of Revenues, Expenditures and Changes in Fund Balance, the full amount of the receivable has been recognized as Sales Tax Revenue and applicable portions of these funds have been included as Transfers to Nassau County and Debt Service expense.

6. BONDS PAYABLE

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 (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.

The Authority issued \$254,720,000 of Sales Tax Secured Bonds, Series 2000A (the “2000A Bonds”), on October 25, 2000; \$181,480,000 of Sales Tax Secured Bonds, Series 2001A (the “2001A Bonds”) on June 27, 2001; and \$112,825,000 of Sales Tax Secured Bonds, Series 2002A (the “2002A Bonds”) and \$112,825,000 Sales Tax Secured Bonds, Series 2002B (the “2002B Bonds”) and together with the 2002A Bonds, the “2002A/B Bonds”) on July 10, 2002. The 2000A Bonds, the 2001A Bonds, and the 2002A/B Bonds are collectively referred to as the “Bonds.”

The 2000A Bonds and the 2001A Bonds were sold at fixed rates of interest as serial and term bonds and are collectively referred to as the “Fixed Rate Bonds”. The 2002A/B Bonds were sold as variable rate demand obligations and are collectively referred to as the “Variable Rate Bonds.” The 2002A Bonds and the 2002B Bonds are each term bonds maturing in 2022 with scheduled sinking fund redemptions in each year starting in 2003.

Interest rates on the Variable Rate Bonds are currently reset weekly by a remarketing agent at the minimum rate necessary for the bonds to have a market value equal to the principal amount. Interest rates are determined and set separately for the 2002A Bonds and the 2002B 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 2002A Bonds and 2002B Bonds subject to optional or mandatory tender for purchase and not remarketed by the remarketing agent, will be made under and pursuant to, and subject to the terms, conditions and provisions of, a liquidity facility issued by Dexia Credit Local, acting through its New York Agency, with respect to the Series 2002A Bonds; or a liquidity facility issued by BNP Paribas, acting through its Los Angeles branch, with respect to the Series 2002B Bonds. Each liquidity facility is stated to expire July 9, 2007, subject to extension or early termination. Bonds that are purchased by Dexia Credit Local or BNP Paribas and not remarketed, if any, must be repaid over a five year period. If this was to occur, annual Authority debt service expense would increase substantially.

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

	Dollars in Thousands			
	Balance at			Balance at
	December 31, 2001	Issued	Retired	December 31, 2002
Sales Tax Secured Bonds, Series 2000A 4.50% to 5.625% Serial and term bonds due 2002 to 2020	\$ 254,720	\$ -	\$ 6,980	\$ 247,740
Sales Tax Secured Bonds, Series 2001A 4% to 5.375% Serial and term bonds due 2002 to 2021	181,480	-	4,690	176,790
Sales Tax Secured Bonds, Series 2002A (variable rate) Term Bond due 2022 with mandatory sinking fund redemptions 2003-2021	-	112,825	-	112,825
Sales Tax Secured Bonds, Series 2002B (variable rate) Term Bond due 2022 with mandatory sinking fund redemptions 2003-2021	-	112,825	-	112,825
	<u>\$ 436,200</u>	<u>\$ 225,650</u>	<u>\$ 11,670</u>	<u>\$ 650,180</u>

Aggregate debt service to maturity as of December 31, 2002 is as follows:

Year Ended December 31,	Dollars in Thousands		
	Principal	Interest*	Total
2003	\$ 17,445	\$ 25,158	\$ 42,603
2004	18,220	24,547	42,767
2005	24,435	23,905	48,340
2006	24,980	23,055	48,035
2007	26,675	22,190	48,865
2008-2012	151,860	95,952	247,812
2013-2017	194,580	61,745	256,325
2018-2022	<u>191,985</u>	<u>17,382</u>	<u>209,367</u>
	<u>\$ 650,180</u>	<u>\$ 293,934</u>	<u>\$ 944,114</u>

* Interest on the Variable Rate Bonds is calculated at 1.5%, the interest rate in effect as of December 31, 2002. During 2002, the interest rate on the Variable Rate Bonds ranged from 0.90% to 1.80%.

Interest on the Authority's Fixed Rate Bonds is payable on May 15 and November 15 of each year, and interest on the Variable Rate Bonds is payable on the first business day of each month. Principal on all Bonds is payable on November 15. A debt service account has been established

under the Indenture to provide for the payment of interest on and principal of Bonds Outstanding under the Indenture. The Trustee makes monthly deposits to the debt service account in the amount of debt service accrued through the end of that month. For the Fixed Rate Bonds, this is essentially one-sixth of the next interest payment and one-twelfth of the next principal payment. For the Variable Rate Bonds, this is one-twelfth of the next principal payment and the amount needed to maintain a prudent level of funding in excess of the anticipated interest expense to be accrued that month. Because of this monthly deposit requirement, the amount accrued for debt service in the Authority's financial statements in any year will not be the same as the debt service on the Bonds paid to Bondholders in that year.

7. BOND ANTICIPATION NOTES PAYABLE

On July 2, 2002 the Authority issued \$109,145,000 Bond Anticipation Notes, Series 2002A-1 (the "2002A-1 Notes"). The Notes were issued to finance cash flow needs of Nassau County. On December 19, 2002 the Authority issued \$24,090,000 Bond Anticipation Notes, Series 2002B-1 (the "2002B-1 Notes") and \$68,920,000 Bond Anticipation Notes, Series 2002B-2 (the "2002B-2 Notes" and, together with the 2002B-1 Notes, the "2002B Notes"). The 2002B-1 Notes were issued to finance extraordinary working capital needs of the County. The 2002B-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>	
	<u>Issued</u>	<u>Balance at December 31, 2002</u>
Bond Anticipation Notes, Series 2002A-1	\$ 109,145	\$ 109,145

The 2002A-1 Notes bear interest at the rate of 3% per annum, pay interest only at maturity, and matured on March 13, 2003.

	<u>Dollars in Thousands</u>	
	<u>Issued</u>	<u>Balance at December 31, 2002</u>
Bond Anticipation Notes, Series 2002B-1	\$ 24,090	\$ 24,090
Bond Anticipation Notes, Series 2002B-2	68,920	68,920

The 2002B Notes bear interest at the rate of 2.25% per annum, pay interest only at maturity, and mature in the following amounts (in thousands) at the following dates:

May 22, 2003 (2002B-1)	\$ 24,090
May 22, 2003 (2002 B-2)	20,000
September 11, 2003 (2002B-2)	48,920

The 2002A-1 Notes and the 2002B 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 has repaid or plans to repay, respectively, the 2002A-1 Notes and the 2002B-2 Notes as follows. Proceeds of the Authority's 2002A-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 2002A-1 Notes. Proceeds of the Authority's 2002B-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 2002B-2 Notes. See Note 4 for additional description of the RANs and TANs. The County will pay principal and interest on the RANs and TANs to the Trustee, which has used and will use the funds to pay principal and interest on the 2002A-1 Notes and 2002B-2 Notes, respectively. The RANs and TANs are not pledged to the holders of the 2002A-1 Notes or the 2002B-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 notes.

It is anticipated the Series 2002B-1 Notes will be retired from proceeds of an Authority Bond issue or Authority renewal note issue in 2003.

The County is responsible for calculating arbitrage rebate liability on notes issued by the Authority, and for paying any rebate liability determined to exist. The County currently estimates that it has a rebate liability of approximately \$1,000,000 pertaining to retired Authority notes.

The following chart shows the change in the Authority's short-term debt in 2002.

	Dollars in Thousands			
	Balance at December 31, 2001	Issued	Retired	Balance at December 31, 2002
Bond Anticipation Notes, Series 2001B-1	\$ 285,045	\$ -	\$ 285,045	\$ -
Bond Anticipation Notes, Series 2002A	-	109,145	-	109,145
Bond Anticipation Notes, Series 2002B	-	93,010	-	93,010
	<u>\$ 285,045</u>	<u>\$ 202,155</u>	<u>\$ 285,045</u>	<u>\$ 202,155</u>

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, 2002, the Authority has paid its pension bill from the State in the amount of \$10,301, covering the period April 1, 2002 to March 31, 2003. The portion of this payment attributable to the year ended December 31, 2002 is presented as an expense in the financial statements, together with the prepaid amount from the prior year. The balance is treated as a prepaid expense and reported on the Balance Sheet in "Other Assets" in the General Fund.

9. COMMITMENTS AND CONTINGENCIES

The Authority was not a defendant in any litigation as of December 31, 2002. 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. The amount is limited for vacation pay and unlimited for holiday pay. At current salary levels, the Authority's liability for payment of this accumulation is \$146,626, which includes the employers' share of taxes and other withholdings. Authority employees are permitted to accrue unused sick leave without limitation and, upon certain conditions, apply the salary value of the leave upon retirement to the cost of the retiree's share of his or her health insurance premium. At current salary levels, the Authority's liability for payment of this accumulation is \$130,276, which includes only the salary value of the time accumulated. Authority employees who were previously employed by the State or a State agency or authority were permitted to transfer leave balances to the Authority. The value of these transferred balances is included in the foregoing amounts. The value of accrued unused leave is included as a non-current liability in the Entity-wide Statement of Net assets.

10. RESTATEMENT

The following table shows the beginning fund balances and net assets as of December 31, 2001 restated for the effect of implementation of GASB 34.

Governmental fund balances at December 31, 2001	
General Fund	\$ 526
Special Revenue Fund	-
Debt Service Fund	18
Capital Projects Fund	<u>15,488</u>
Governmental fund balances at December 31, 2001	16,032
GASB 34 adjustments to reconcile governmental fund balances to governmental activities net assets:	
Long-term Liabilities	(436,200)
Accrued vacation and sick pay	<u>(217)</u>
Governmental activities net assets as of December 31, 2001 (as restated)	<u><u>\$(420,385)</u></u>

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