Nassau County Interim Finance Authority

Independent Auditors' Report
Financial Statements
Year Ended December 31, 2003

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, 2003	5
STATEMENT OF ACTIVITIES—YEAR ENDED DECEMBER 31, 2003	6
GOVERNMENTAL FUNDS FINANCIAL STATEMENTS	
BALANCE SHEET—DECEMBER 31, 2003	7
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS—DECEMBER 31, 2003	8
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES—YEAR ENDED DECEMBER 31, 2003	9
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES—YEAR ENDED DECEMBER 31, 2003	10
NOTES TO FINANCIAL STATEMENTS	11
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	20
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO INVESTMENT POLICIES AND PROCEDURES	21

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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"), a component unit of Nassau County, as of December 31, 2003, 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 Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective 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 respective financial position of the governmental activities and each major fund of the Authority, as of December 31, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2004, 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

April 30, 2004

NASSAU COUNTY INTERIM FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2003

Introduction

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 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. NIFA did not fund any County cash flow needs during 2003 because the County's improved financial condition allowed them to borrow for these needs on their own behalf. 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.

<u>Management's discussion and analysis</u> of the Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31, 2003. 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.

<u>Entity-wide financial statements</u> of the Authority are 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.

<u>Governmental fund financial statements</u> 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 2003 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 up to ¼ % 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 2003, the average annual compound growth rate for sales tax collections was approximately 6.14%. (County collections are described because the Authority was only created in 2000.) NIFA's sales tax receipts grew by 3.3% in FY 2003. 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, 2003 was $843,211,068 an increase of 3.3% over the prior year, resulting primarily from a higher level of retail sales. 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 $1,591,363 in 2003, a decrease of 22% from 2002. This decrease is attributable to lower interest rates and lower fund balances to invest.

Sales tax revenue provided 11.8 times coverage of the Authority's 2003 total monthly set-asides for debt service of $71,540,359. 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 $67,633,722 of sales tax revenue for debt service set-asides and Authority operations, remitting the balance of $780,305,553 to Nassau County. A portion of the Authority's total operating expense of $1,136,020 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 2003, the Authority issued $275,990,000 long-term bonds (Series 2003A), and $238,485,000 of refunding bonds (Series 2003B). 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, and the Series 2002B-1 BANs of $24,090,000 to finance extraordinary working capital needs of the County matured in May 2003, and were redeemed with the proceeds of Series 2003A Bonds. The Series 2002B-2 BANs totaling $68,920,000 financed cash flow needs of the County and were retired in May and September 2003.

Bonds payable increased in fiscal year 2003 by $473,140,000 (42%), to $1,123,320,000, principally due to the issuance of the Series 2003A and Series 2003B Bonds, as offset by principal retirements on prior bond issues. Notes payable decreased by $202,155,000 due to the County's improved financial condition allowing them to borrow for these needs on their own behalf.

The statement of net assets shows a total net deficit of $1,060,042,415. 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, 2003, the Authority had bonds payable of $1,123,320,000. In any year where the Authority issues more long-term debt than it retires, the deficit is likely to increase. The reconciliation on page eight of these financial statements provides additional detail on the determination of the net deficit amount.

Cash and investments decreased by 47% or $120,615,000. 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, 2003
(Dollars in Thousands)

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 125,239
Investments	11,600
Sales tax receivable	94,158
Interest receivable	54
Other assets	36
Other noncurrent assets, net of amortization	9,089
Total assets	$ 240,176
LIABILITIES	
Accrued liabilities	$ 43,377
Due to Nassau County - sales tax	88,156
Due to Nassau County - interest	40
Bonds payable:	
Due within one year	46,015
Due in more than one year	1,077,305
Other liabilities	45,012
Accrued vacation and sick pay	315
Total liabilities	1,300,220
NET ASSETS	
Unrestricted (deficit)	(1,060,044)
Total liabilities and net assets (deficit)	$ 240,176

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2003
(Dollars in Thousands)

	Governmental Activities
EXPENSES	
General and administrative	$ 1,172
Bond interest expense	47,132
Deposited with the Escrow agent to refund Nassau County debt	279,085
Distribution to Nassau County for financeable costs	194,764
Distribution to Nassau County for general operations	1,459
Total expenses	523,612
GENERAL REVENUES	
Sales tax	843,211
Less distributions to Nassau County	(780,306)
State aid	15,000
Less distributions to Nassau County	(15,000)
Sales tax and state aid revenues retained	62,905
Interest income, net	3,960
Unrealized gain on investments	14
Total general revenues	66,879
Change in net assets	(456,733)
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	(603,311)
NET ASSETS (DEFICIT) - END OF YEAR	$ (1,060,044)

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

BALANCE SHEET
DECEMBER 31, 2003
(Dollars in Thousands)

	Governmental Funds				
	General	**Special Revenue**	**Debt Service**	**Capital Projects**	**Total (Governmental Funds)**
ASSETS					
Cash and cash equivalents	$ 26,204	$ -	$ 10,729	$ 88,306	$ 125,239
Investments		-	11,600	-	11,600
Sales tax receivable	94,158	-	-	-	94,158
Interest receivable	9	-	5	40	54
Due from other funds	-	19,833	11,795	-	31,628
Other assets	36	-	-	-	36
TOTAL ASSETS	$ 120,407	$ 19,833	$ 34,129	$ 88,346	$ 262,715
LIABILITIES AND FUND BALANCES					
Accrued liabilities	$ 25	$ 19,833	$ 23,493	$ 27	$ 43,378
Due to Nassau County - sales tax	88,156	-	-	-	88,156
Due to Nassau County - interest	-	-	-	40	40
Due to other funds	31,628	-	-	-	31,628
Total liabilities	119,809	19,833	23,493	67	163,202
FUND BALANCES - Unreserved	598	-	10,636	88,279	99,513
TOTAL LIABILITIES AND FUND BALANCES	$ 120,407	$ 19,833	$ 34,129	$ 88,346	$ 262,715

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, 2003
(Dollars in Thousands)

TOTAL FUND BALANCES - Governmental funds	$ 99,513
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:	
Other Liability - Unamortized Bond Premium	(45,012)
Bonds payable	(1,123,320)
Accrued vacation and sick pay	(314)
LONG-TERM ASSETS ARE NOT AVAILABLE TO PAY FOR CURRENT PERIOD EXPENDITURES AND, THEREFORE, ARE DEFERRED IN THE FUNDS	9,089
NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES	$ (1,060,044)

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2003
(Dollars in Thousands)

	Governmental Funds				
	General	Special Revenue	Debt Service	Capital Projects	Total (Governmental Funds)
REVENUES					
Sales tax	$ 843,211	$ -	$ -	$ -	$ 843,211
State aid	-	15,000	-	-	15,000
Interest income, net	149	-	309	1,133	1,591
Unrealized gain on investments	-	-	14	-	14
Total revenues	843,360	15,000	323	1,133	859,816
OTHER FINANCING SOURCES					
Principal amount of bonds issued	-	-	-	514,475	514,475
Other sources	-	-	672	47,381	48,053
Operating transfers in	1,817	-	71,540	100	73,457
Total revenues and other financing sources	845,177	15,000	72,535	563,089	1,495,801
EXPENDITURES					
Current:					
General and administrative	1,136	-	-	-	1,136
Cost of issuances - notes/bonds	-	-	-	5,195	-
Distribution to Nassau County for financeable costs	-	-	-	194,764	194,764
Distribution to Nassau County for general operations	1,418	15,000	-	41	16,459
Total current expenditures	2,554	15,000	-	200,000	212,359
Debt service	112	-	66,606	-	66,606
Total expenditures	2,666	15,000	66,606	200,000	284,272
OTHER FINANCING USES					
Transfers to Nassau County - sales tax	780,306	-	-	-	780,306
Deposited with Escrow Agent - NIFA Defeasance	-	-	-	26,305	26,305
Deposited with Escrow Agent - Nassau County Defeasance	-		-	279,085	279,085
Operating transfers out	62,231	-	672	10,553	73,456
Total expenditures and other financing uses	845,203	15,000	67,278	515,943	1,443,424
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(26)	-	5,257	47,146	52,377
FUND BALANCES, BEGINNING OF YEAR	625	-	5,378	41,133	47,136
FUND BALANCES, END OF YEAR	$ 599	$ -	$ 10,635	$ 88,279	$ 99,513

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2003
(Dollars in Thousands)

NET CHANGE IN FUND BALANCES - Total governmental funds	$	52,377
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		(514,475)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		17,445
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		4,973
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
Governmental funds report premium on debt issued as revenue. However, in the statement of activities, the premium on debt issued is amortized over the lives of the debt		(45,012)
Payments to escrow agents for bond refundings is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		26,291
Expenses (accrued vacation and sick pay) reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds' statement of revenues, expenditures and changes in fund balances		(37)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$	(456,733)

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2003

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, 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 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. At present one Director’s position is vacant

The Authority has power under the Act to monitor and oversee the finances of Nassau County, and upon declaration of a “Control Period” as defined in the Act, additional oversight authority. 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 of the 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, 2007, however of said amount up to $15 million can be issued in 2006, and up to $10 million can be issued in 2007. 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 and as discussed above to finance up to $25 million for tax certiorari judgments. 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.

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.

Beginning in 2002, bond premiums, discounts and issuance costs for bonds 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 the 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 a 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."

The Authority has not completed the process of evaluating the impact that will result from adopting Statement of Governmental Accounting Standards No. 40, *Deposit and Investment Risk Disclosures* ("GASB 40") an amendment of Statement No. 3 of the Governmental Accounting Standards Board, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.* The Authority is therefore unable to disclose the impact that adopting Statement of Governmental Accounting Standards No. 40 will have on its financial position and results of operations when such statement is adopted.

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 issuances to fund financeable costs of the County.

The receipt and remittance of revenues in 2003 included:

- The receipt and remittance to the County of sales tax revenues (see Notes 1, 2 and 5). Revenues of $843,211,068, of which $780,305,553 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 2003, the Authority remitted $1,417,591 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 2003 was $15,000,000, which was fully disbursed to the County on January 29, 2004. 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 2003:

- The sale of $275,990,000 of Bonds by the Authority to finance Financeable Costs of the County (see Notes 1 and 6).

- The sale of $238,485,000 of Bonds by the Authority to refund outstanding indebtedness of the County (see Notes 1 and 6).

- Transfer to the County, upon County requisition, of bond and note proceeds from debt issuance in 2003 and prior years. For the year ended December 31, 2003, $194,764,075 of proceeds was distributed to Nassau County from the Capital Projects Fund.

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, 2003 the Authority held cash, collateralized Certificates of Deposit, Treasury Note Strips, Treasury Bills, Federal National Mortgage Association Discount Notes, and commercial paper of the Citigroup 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.

At the start of the fiscal year, the Authority also held Nassau County Revenue Anticipation Notes, Series 2002A (the "RANs") in the principal amount of $109,145,000, that 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 that matured 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. The Authority did not hold any RANs or TANs as of December 31, 2003.

The following table summarizes the Authority's cash and investments as of December 31, 2003. 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, 2003. 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	$ 86	$ 5,796	$ 5,882
Certificates of Deposit (maturities less than 90 days)	20,326	-	20,326
Commercial Paper		10,725	10,725
U.S. government and agency discount notes (maturities less than 90 days)	-	88,306	88,306
Total cash and cash equivalents	20,412	104,827	125,239
U.S. government and agency discount notes (maturities greater than 90 days)	-	11,600	11,600
Total marketable securities	-	11,600	11,600
Total cash and investments	$ 20,412	$ 116,427	$ 136,839

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 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; $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; and $275,990,000 of Sales Tax Secured Bonds, Series 2003A (the "2003A Bonds), and $238,485,000 Sales Tax Secured Refunding Bonds, Series 2003B (the "2003B Bonds) and together with the 2003A Bonds, the "2003A/B Bonds"), on May 21, 2003. The 2000A Bonds, the 2001A Bonds; the 2002A/B Bonds; and the 2003 A/B Bonds are collectively referred to as the "Bonds."

Of the $238,485,000 Sales Tax Secured Refunding Bonds, $26,305,158 was used to advance refund $23,890,000 of outstanding 2000A Bonds. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, a portion of the 2000A bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide financial statement of net assets. In 2003, the refunding transaction decreased NIFA's aggregate debt service payments by $1,972,591 and provided an economic gain of approximately $1,400,000.

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. The 2003A Bonds and the 2003B Bonds were sold at fixed rates of interest as serial bonds and are collectively referred to as "Fixed Rate Bonds"

Interest rates on the Variable Rate Bonds are currently reset weekly by a remarketing agent at the minimum rate necessary for the bonds to have a market value equal to the principal amount. Interest rates are 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 slated 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 December 31, 2002	Issued	Retired	Balance at December 31, 2003
Sales Tax Secured Bonds, Series 2000A 4.50% to 5.625% Serial and term bonds due 2002 to 2020	$ 247,740	$ -	$ 31,180	$ 216,560
Sales Tax Secured Bonds, Series 2001A 4% to 5.375% Serial and term bonds due 2002 to 2021	176,790	-	5,110	171,680
Sales Tax Secured Bonds,Series 2002A (variable rate) Term Bond due 2022 with mandatory sinking fund redemptions 2003-2021	112,825	-	1,635	111,190
Sales Tax Secured Bonds,Series 2002B (variable rate) Term Bond due 2022 with mandatory sinking fund redemptions 2003-2021	112,825	-	3,410	109,415
Sales Tax Secured Bonds, Series 2003A 2% to 6% Serial bonds due 2004 to 2023	-	275,990	-	275,990
Sales Tax Secured Refunding Bonds, Series 2003B 2% to 5% Serial bonds due 2005 to 2018	-	238,485	-	238,485
	$ 650,180	$ 514,475	$ 41,335	$1,123,320

Aggregate debt service to maturity as of December 31, 2003 is as follows:

Year Ending December 31	Principal	Interest*	Total
2004	$ 26,260	$ 54,276	$ 80,536
2005	44,670	52,966	97,636
2006	47,605	51,210	98,815
2007	61,350	49,612	110,962
2008	56,750	47,027	103,777
2009-2013	340,640	190,494	531,134
2014-2018	304,735	107,173	411,908
2019-2023	241,310	29,861	271,171
	$ 1,123,320	$ 582,619	$ 1,705,939

* Interest on the Variable Rate Bonds is calculated at 1.5%, the interest rate in effect as of December 31, 2003. During 2003, the interest rate on the Variable Rate Bonds ranged from 0.55% to 1.35%.

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

As of January 1, 2003 the Authority had outstanding bond anticipation notes of $202,155,000. These notes were paid off during 2003. The Series 2002B-1 Notes in the amount of $24,090,000 were paid off from the proceeds of the Series 2003A Bonds and the other notes outstanding at the beginning of the year were paid by Nassau County. NIFA did not issue any notes during 2003 because the County's improved financial condition allowed the County to issue notes on its own behalf for these purposes.

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 2003.

	Dollars in Thousands			
	Balance at December 31, 2002	Issued	Retired	Balance at December 31, 2003
Bond Anticipation Notes, Series 2002A	$ 109,145	$ -	$ 109,145	$ -
Bond Anticipation Notes, Series 2002B	93,010	-	93,010	-
	$ 202,155	$ -	$ 202,155	$ -

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 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, 2003, the Authority has paid its pension bill from the State in the amount of $84,743, covering the period April 1, 2003 to March 31, 2004. The portion of this payment attributable to the year ended December 31, 2003 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, 2003. 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 $164,532, 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 $148,353, 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. SUBSEQUENT EVENT

On April 8, 2004 the Authority sold $603,360,000 of fixed and variable rate (auction rate securities) bonds. The proceeds were used to finance new County capital needs, refund for savings County debt, and refund for savings NIFA debt. The borrowing was structured as two transactions. The first is a $153,360,000 fixed rate bond. The second is a $450,000,000 Variable Rate Bond (Auction Rate Securities) that NIFA hedged by entering into a swap with Goldman Sachs' Mitsui Marine Derivative Products (Aaa counterparty rating) and UBS AG (Aa2), for the life of the bond, requiring that NIFA pay to the swap providers a fixed rate and NIFA will receive a variable rate based on London Interbank Offered Rate (LIBOR) which is expected to closely approximate the variable rate paid on the auction rate bonds based on historical levels.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT 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, 2003 and for the year then ended, and have issued our report thereon dated April 30, 2004. 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 LLP

April 30, 2004

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

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, 2003 and for the year then ended, and have issued our report thereon dated April 30, 2004. 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

April 30, 2004