Nassau County Interim Finance Authority

Independent Auditors' Report

Financial Statements
Year Ended December 31, 2005

NASSAU COUNTY INTERIM FINANCE AUTHORITY

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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 the County of Nassau, as of December 31, 2005, and for the year then ended, which collectively comprise the Authority's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the *Comptroller General of the United States*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Authority, as of December 31, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis 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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 2005 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 March 31, 2006, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

March 31, 2006

NASSAU COUNTY INTERIM FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2005

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. The Authority is a component unit of the County. 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 findings concerning the County's financial position. To date, the Authority has not imposed a control period.

In its capacity to issue bonds and notes on behalf of the County, the Authority has funded cash flow, capital and working capital needs of the County since the Authority was created in 2000. NIFA did not fund any County cash flow needs during 2005 because the County has chosen to undertake its own cash flow borrowings. In December 2005, the County issued a $120,000,000 Tax Anticipation Note. 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, 2005. 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 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 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 98% of the Authority's 2005 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 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 2005, the average annual compound growth rate for sales tax collections was approximately 5.91 %. (County collections are described because the Authority was only created in 2000.) NIFA's sales tax receipts grew by 1.5% in FY 2005. 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, 2005 was $898,408,000, an increase of 1.5% over the prior year. However, compared to the prior year, the growth rate fell due to a decreased level of economic activity. Investment income, net of $2,208,000 of unrealized depreciation, which accounts for the remaining Authority revenue (apart from State Transitional Assistance to Nassau County, which is received and disbursed by the Authority), totaled $4,525,000 in 2005, an increase of 125.1% from 2004. This increase is attributable to higher interest rates and a higher level of fund balances to invest.

Sales tax revenue provided 7.1 times coverage of the Authority's 2005 total monthly set-asides for debt service of $130,803,000. This coverage may change as the Authority issues more debt or as rates change. 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 $134,272,000 of sales tax revenue for debt service set-asides and Authority operations, remitting the balance of $768,786,000 to Nassau County. A portion of the Authority's total operating expense of $1,136,000 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 2005, the Authority issued $390,295,000 of long term bonds, including $124,200,000 of fixed rate bonds, Series 2005A, and $122,300,000 of variable rate bonds Series 2005 B-C and $143,795,000 of fixed rate bonds, Series 2005D.

A portion of the 2005 proceeds were used to refund County debt, resulting in net present value savings of approximately $5.6 million.

Bonds payable increased in fiscal year 2005 by $338,535,000 (16.2%), principally due to the issuance of the Series 2005 A-D bonds, as offset by the refunding of indebtedness and retirement on prior bond issues. The Authority did not have any notes payable outstanding during 2005 because the County has chosen to undertake its own cash flow borrowings. In December 2005, the County issued a $120,000,000 Tax Anticipation Note. The statement of net assets shows a total net deficit of $2,005,236,000. The deficit results largely from Authority debt issuance that is backed by future sales tax revenue. The debt is reported as a long-term liability, but the future revenues are not reportable. As of December 31, 2005, the Authority had bonds payable of $2,086,960,000. 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. The County has indicated that it does not intend to borrow through NIFA any longer, other than possibly $15,000,000 in 2006 and $10,000,000 in 2007 for tax certiorari settlements, as allowed under our Act. As such NIFA's deficit is likely to decrease as bonds continue to be retired.

Cash and investments decreased by 24.82% or $46,247,000 in part because the County has drawn down bond proceeds as expected.

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NASSAU COUNTY INTERIM FINANCE AUTHORITY

STATEMENT OF NET ASSETS (DEFICIT)
DECEMBER 31, 2005
(Dollars in thousands)

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	$ 109,273
Investments	30,817
Sales Tax Receivable	97,031
Interest Receivable	281
Other Assets	7,531
Other Noncurrent Assets, Net of Amortization	50,528
Total Assets	$ 295,461
LIABILITIES	
Accrued liabilities	$ 53,172
Due to Nassau County - sales tax	74,035
Due to Nassau County - interest	238
Bonds payable:	
Due within one year	48,460
Due in more than one year	2,038,500
Other liabilities	85,951
Accrued vacation and sick pay	341
Total liabilities	2,300,697
NET ASSETS (DEFICIT)	
Unrestricted (deficit)	(2,005,236)
Total liabilities and net assets (deficit)	$ 295,461

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2005
(Dollars In thousands)

	Governmental Activities
EXPENSES	
General and administrative	$ 1,177
Bond interest expense	76,972
Deposited with the Escrow agent to refund Nassau County debt	130,798
Distribution to Nassau County for financeable costs	320,085
Distribution to Nassau County for general operations	4,780
Total expenses	533,812
GENERAL REVENUES	
Sales tax	898,408
Less distributions to Nassau County	(768,787)
State aid	7,500
Less distributions to Nassau County	(7,500)
Sales tax and state aid revenues retained	129,621
Interest income, net	8,223
Total general revenues	137,844
Change in net assets	(395,968)
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	(1,609,268)
NET ASSETS (DEFICIT) - END OF YEAR	$ (2,005,236)

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

BALANCE SHEET
DECEMBER 31, 2005
(Dollars in thousands)

	Governmental Funds				
	General	Special Revenue	Debt Service	Capital Projects	Total (Governmental Funds)
ASSETS					
Cash and cash equivalents	$ 5,301	$ -	$ 3,959	$ 100,013	$ 109,273
Investments	-	-	28,245	2,572	30,817
Sales tax receivable	97,031	-	-	-	97,031
Interest receivable	9	-	129	143	281
Due from other funds	-	4,833	22,721	-	27,554
Other assets	31	7,500	-	-	7,531
TOTAL ASSETS	$ 102,372	$ 12,333	$ 55,054	$ 102,728	$ 272,487
LIABILITIES AND FUND BALANCES					
Accrued liabilities	$ 136	$ 12,333	$ 40,502	$ 201	$ 53,172
Due to Nassau County - sales tax	74,035	-	-	-	74,035
Due to Nassau County - interest	-	-	95	143	238
Due to other funds	27,554	-	-	-	27,554
Total liabilities	101,725	12,333	40,597	344	154,999
FUND BALANCES - Unreserved	647	-	14,457	102,384	117,488
TOTAL LIABILITIES AND FUND BALANCES	$ 102,372	$ 12,333	$ 55,054	$ 102,728	$ 272,487

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS (DEFICIT)
DECEMBER 31, 2005
(Dollars in thousands)

TOTAL FUND BALANCES - Governmental funds	$	117,488
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		
Unamortized Bonds Premium		(85,951)
Bonds payable		(2,086,960)
Accrued vacation and sick pay		(341)
Long-term Assets are not available to pay for current period expenditures and, therefore, are deferred in the funds		50,528
NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES	$	(2,005,236)

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2005
(Dollars in thousands)

	Governmental Funds				
	General	Special Revenue	Debt Service	Capital Projects	Total Governmental funds)
REVENUES					
Sales tax	$ 898,408	$ -	$ -	$ -	$ 898,408
State aid	-	7,500	-	-	7,500
Interest income, net	139	-	1,207	3,179	4,525
Total revenues	898,547	7,500	1,207	3,179	910,433
OTHER FINANCING SOURCES					
Principal amount of bonds issued	-	-	-	390,295	390,295
Other sources	-		-	15,965	15,965
Operating transfers in	13,179	-	130,803	-	143,982
Total revenues and other financing sources	911,726	7,500	132,010	409,439	1,460,675
EXPENDITURES					
Current:					
General and administrative	1,136	-	-	-	1,136
Cost of issuance - notes/bonds	-	-	-	3,799	3,799
Distribution to Nassau County for financeable costs	-	7,500	-	320,085	327,585
Distribution to Nassau County for general operations	4,542	-	95	143	4,780
Total current expenditures	5,678	7,500	95	324,027	337,300
Debt service	-	-	126,337	-	126,337
Total expenditures	5,678	7,500	126,432	324,027	463,637
OTHER FINANCING USES					
Transfers to Nassau County - sales tax	768,787	-	-	-	768,787
Deposited with Escrow Agent:					
Nassau County Defeasance	-		-	130,798	130,798
Operating transfers out	137,069	-	3,246	3,667	143,982
Total expenditures and other financing uses	911,534	7,500	129,678	458,492	1,507,204
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	192	-	2,332	(49,053)	(46,529)
FUND BALANCES, BEGINNING OF PERIOD	455	-	12,125	151,437	164,017
FUND BALANCES, END OF PERIOD	$ 647	$ -	$ 14,457	$ 102,384	$ 117,488

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

RECONCILIATION OF STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2005
(DOLLARS IN THOUSANDS)

NET CHANGE IN FUND BALANCES - Total governmental funds	$	(46,529)
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		(390,295)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		51,760
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		3,080
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		(12,267)
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		(1,676)
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		(41)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$	(395,968)

See notes to financial statements.

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 two Director's positions are 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 purposes. 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 6).

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 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 debt is being calculated and, if necessary will be paid by Nassau County.

The Authority has implemented Governmental Accounting Standards Board ("GASB") Statement No. 40, *Deposit and Investment Risk Disclosure,* an amendment of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. The Authority has determined that there is no impact from Statement No. 40 on its financial position and results of operations resulting from this adoption.

The Authority has not completed the process of implementing GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, an amendment of GASB Statement No. 34. The Authority is therefore unable to disclose the impact that adopting this statement will have on its financial position and results of operations when such statement is adopted. The statement is effective for fiscal periods beginning after June 15, 2005.

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 2005 included:

- Sales tax revenues (see Notes 1, 2 and 5) of $898,408,418, of which $768,786,258 was remitted to Nassau County. The balance was retained for Authority debt service and operations.

- The remittance to the County for general County operations, of earnings on various funds held by or on behalf of the Authority, to the extent that those earnings are not required for the payment of Authority debt service or operating expenses. In 2005, the Authority remitted $4,541,916 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 2005 was $7,500,000, which was fully disbursed to the County on January 4, 2006. 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 encompassed the following types of activity and transfers to Nassau County in 2005:

- The sale of $246,500,000 of Bonds by the Authority for the refunding of County debt service and to finance Financeable Costs of the County (see Notes 1 and 6).

- The sale of $143,795,000 of Bonds by the Authority to finance Financeable Costs of the County (see Notes 1 and 6).

- Transfer to the County, upon County requisition, of bond proceeds from debt issuance in 2005 and prior years. For the year ended December 31, 2005, $320,085,127 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, 2005 the Authority held cash, Treasury Notes and Treasury Bills, Federal National Mortgage Association Discount Notes. All bank deposits of Authority funds are required to be fully collateralized or insured. In the event the Authority requires 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.

The following table summarizes the Authority's cash and investments as of December 31, 2005. 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, 2005. 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	$ 56	$ 19	$ 75
U.S. government and agency discount notes (maturities less than 90 days)	5,245	103,953	109,198
Total cash and cash equivalents	5,301	103,972	109,273
U.S. government and agency discount notes (maturities greater than 90 days)	-	30,817	30,817
Total marketable securities	-	30,817	30,817
Total cash and investments	$ 5,301	$ 134,789	$ 140,090

Investment Maturities

	Held by Authority	Held by Trustee		
	General Fund	Debt Service	Capital Projects Fund	TOTAL
Investment Type				
Cash	$ 56	$ 14	$ 5	$ 75
U.S. Government securities	5,245	3,947	296	9,488
U.S. Discount Notes	-	19,013	-	19,013
Agency Fixed Coupon	-	9,230	102,284	111,514
Total	$5,301	$ 32,204	$ 102,585	$140,090

All investments are held by NIFA's trustee bank solely as agent of the Nassau County Interim Finance Authority. All investments mature in less than one year.

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 does not have independent taxing power.

As of December 31, 2005 the Authority had outstanding bonds in the amount of $2,086,960,000 including $390,295,000 of debt issued during 2005. These 2005 borrowings were comprised of the following:

On July 14, 2005 the Authority issued $124,200,000 of fixed rate Sales Tax Secured Bonds, Series 2005A, and the $122,300,000 of Sales Tax Secured Variable Rate Bonds Series 2005 B-C (collectively, the "Bond Proceeds")

The fixed rate bonds were issued at rates ranging between 3.25% and 5%, and the auction rate bonds were auctioned in daily and seven day modes. Of the Bond Proceeds, $130,797,593.67 was used to fund an escrow account to pay County debt service, with the remainder used to fund various County needs, and pay costs associated with the financings.

On December 8, 2005 the Authority issued $143,795,000 of fixed rate Sales Tax Secured Bonds, Series 2005D at rates ranging from 3.25% to 5%. The proceeds were used to fund various County needs and pay costs associated with the financing.

NIFA's debt matures through the year 2025, and is comprised of fixed, variable and auction rate bonds issued at variable rates, which are discussed below. Other than a possible refunding of its debt if market conditions permit, and the possible issuance $15 million in 2006 and $10 million in 2007 for certiorari refund purposes, the Authority has no plans to issue additional debt.

Fixed Rate Bonds - The Authority has issued fixed rate bonds at rates ranging between 2% and 6%. Interest on the Authority's Fixed Rate Bonds is payable on May 15 and November 15 of each year, and interest on the Variable Rate Bonds is payable on the first business day of each month. Principal on all bonds is payable on November 15. A debt service account has been established under the Indenture to provide for the payment of interest 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.

The County has assumed responsibility for calculating arbitrage rebate liability on bonds or notes issued by the Authority. The County does not believe that there is any arbitrage liability on bonds or notes issued by the Authority. Variable Rate Bonds - Interest rates on the non-auction 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 set separately for each series of variable rate bonds. The Variable Rate Bonds are in most circumstances subject to tender at the option of the bondholder. Payment of the purchase price of eligible 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 New York 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 paid over a five year period. If this was to occur, annual Authority debt service expense would increase substantially.

Auction Rate Bonds - Auction rate bonds, which are variable rate bonds issued in an auction rate mode, are auctioned at intervals between 7 days, 28 days and 35 days. As rates vary, variable rate and auction rate interest payments and net swap payments will vary. Also see note 7 regarding interest rate exchange agreements.

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

	Balance at December 31, 2004	Issued	Retired	Balance at December 31, 2005
	Dollars in Thousands			
Sales Tax Secured Bonds, Series 2000A 4.50% to 5.625% Serial and term bonds due through 2020	$ 22,595	$ -	$ 9,750	$ 12,845
Sales Tax Secured Bonds, Series 2001A 4% to 5.375% Serial and term bonds due through 2021	69,730	-	7,035	62,695
Sales Tax Secured Bonds,Series 2002A (variable rate) Term Bond due 2022 with mandatory sinking fund redemptions due through 2021	109,475	-	3,890	105,585
Sales Tax Secured Bonds,Series 2002B (variable rate) Term Bond due 2022 with mandatory sinking fund redemptions due through 2021	105,830	-	3,760	102,070
Sales Tax Secured Bonds, Series 2003A 2% to 6% Serial bonds due through 2023	261,675	-	8,520	253,155
Sales Tax Secured Refunding Bonds, Series 2003B 2% to 5% Serial bonds due through 2018	238,485	-	11,715	226,770
Sales Tax Secured Bonds, Series 2004A 2% to 5% Serial bonds due through 2013	153,360	-	3,835	149,525
Sales Tax Secured Variable Rate Bonds, Series 2004 B-G Auction Rate Securities due 2016 - 2024	450,000	-	-	450,000
Sales Tax Secured Bonds, Series 2004H 2.15% to 5% Serial bonds due through 2017	187,275	-	3,255	184,020
Sales Tax Secured Bonds, Series 2004 I-K Auction Rate Securities due through 2025	150,000	-	-	150,000
Sales Tax Secured Bonds Series 2005A 3.26% to 4.8% Serial due through 2024	-	124,200	-	124,200
Sales Tax Secured Variable Rate Bonds Series 2005 B-C Auction Rate Securities due through 2025	-	122,300	-	122,300
Sales Tax Secured Bonds Series 2005 D 3.23% to 4.32% serial and term bonds due through 2022	-	143,795	-	143,795
	$ 1,748,425	$ 390,295	$ 51,760	$2,086,960

Aggregate debt service to maturity as of December 31, 2005 is as follows (Dollars in thousands):

Year Ending December 31	Dollars in Thousands Principal	Interest*	Total
2006	$ 48,460	$ 88,382	$ 136,842
2007	79,975	87,536	167,511
2008	95,315	84,266	179,581
2009	104,265	80,549	184,814
2010	104,930	75,627	180,557
2011 - 2015	705,110	290,096	995,206
2016 - 2020	630,900	138,843	769,743
2021 - 2025	318,005	32,748	350,753
	$ 2,086,960	$ 878,047	$ 2,965,007

* Interest on the Variable Rate Bonds is calculated at 5%. During 2005, the interest rate on the Variable Rate Bonds ranged from 1.39% to 3.50%.

7. SWAP AGREEMENTS

Board-adopted Guidelines. On March 25, 2004, NIFA adopted guidelines ("Interest Rate Swap Policy") with respect to the use of swap contracts to manage the interest rate exposure of its debt. The Interest Rate Swap Policy establishes specific requirements that must be satisfied for NIFA to enter into a swap contract.

Objectives of Swaps. To protect against the potential of rising interest rates, to achieve a lower net cost of borrowing, to reduce exposure to changing interest rates on a related bond issue, or, in some cases where Federal tax law prohibits an advance refunding, to achieve debt service savings through a synthetic fixed rate. In an effort to hedge against rising interest rates, NIFA entered into nine separate pay-fixed, receive-variable interest rate Swaps during FY 2004 (the "Swaps").

Activity during the Period.

- NIFA entered into the following six swap contracts with an effective date of April 8, 2004, in connection with the issuance of $450 million in auction rate securities to provide for the refunding or restructuring of a portion of the County's outstanding bonds, refunding of certain outstanding NIFA bonds, tax certiorari judgments and settlements to which the County is a party, other legal judgments and settlements, County capital projects and to pay costs of issuance.

  - $72.5 million notional amount (2004 Series B) with Goldman Sachs Mitsui Marine Derivative Products, L.P. ("GSMMDP")
  - $72.5 million notional amount (2004 Series C) with Goldman Sachs Mitsui Marine Derivative Products, L.P.
  - $80.0 million notional amount (2004 Series D) with Goldman Sachs Mitsui Marine Derivative Products, L.P.
  - $72.5 million notional amount (2004 Series E) with UBS AG
  - $72.5 million notional amount (2004 Series F) with UBS AG
  - $80.0 million notional amount (2004 Series G) with UBS AG

- NIFA entered into the following three swap contracts with an effective date of December 9, 2004, in connection with the issuance of $150 million in Auction Rate Securities to provide for the refunding of a portion of the County's outstanding bonds, tax certiorari judgments and settlements to which the County is a party, other legal judgments and settlements and to pay costs of issuance.

    - $50.0 million notional amount (2004 Series I) with Goldman Sachs Mitsui Marine Derivative Products, L.P.
    - $50.0 million notional amount (2004 Series J) with UBS AG
    - $50.0 million notional amount (2004 Series K) with Morgan Stanley Capital Services ("MSCS")

Fair Value. Replacement interest rates on the Swaps, as of December 31, 2005, are reflected in the chart entitled "Interest Rate Swap Valuation" (the "Chart"). As noted in the Chart, replacement rates in some cases were higher than, and in some cases lower than, market interest rates on the effective date of the Swaps. Consequently, as of December 31, 2005, some of the Swaps had negative fair values and some had positive fair values. In the event there is a positive fair value, NIFA would be exposed to the credit risk of the counterparties in the amount of the Swaps' fair value should the Swap be terminated.

The total value of each swap, including accrued interest, is provided in the Chart. The total value of each Swap listed represents the theoretical cost to NIFA to terminate the swap as of the date indicated, assuming that a termination event occurred on that date. Negative fair values may be offset by reductions in total interest payments required under the related variable interest auction rate bonds. The market value is calculated at the mid-market for each of the Swaps. Fair values were estimated using the zero coupon methodology. This methodology calculates the future net settlement payments under the swap agreement, assuming the current forward rates implied by the yield curve correctly anticipate future spot rates. These payments are then discounted using rates derived from the same yield curve. As of December 31, 2005, the total marked-to-market valuation, net of accruals, of NIFA's Swaps was negative $280,017. In the event that both parties continue to perform their obligations under the swap, there is not a risk of termination and neither party is required to make a termination payment to the other. NIFA is not aware of any event that would lead to a termination event with respect to any of its Swaps.

Risks Associated with the Swap Agreements.

From NIFA's perspective, the following risks are generally associated with swap agreements:

- *Credit Risk* – The counterparty becomes insolvent or is otherwise not able to perform its financial obligations. In the event of deterioration in the credit ratings of the counterparty or NIFA, the swap agreement may require that collateral be posted to secure the party's obligations under the swap agreement.

Under the swap agreements, neither party has to collateralize its termination exposure unless its ratings, or that of the insurer, fall below certain triggers. For the Authority, there is no requirement to collateralize until the Authority is at an A3/A- level, and then only for the amount over $50 million (threshold amount) of exposure. The threshold amount declines if the Authority falls into the BBB ratings category.

NIFA's Swap Policy requires that counterparties have credit ratings from at least one nationally recognized statistical rating agency that is within the two highest investment grade categories, without distinction as to grade within the category. If after entering into an agreement the ratings of the counterparty or its guarantor or credit support party are downgraded below the described ratings by any one of the rating agencies, then the agreement is subject to termination unless the counterparty provides either a substitute guarantor or assigns the agreement, in either case, to a party meeting the rating criteria reasonably acceptable to NIFA or collateralizes its obligations in accordance with the criteria set forth in the transaction documents. The counterparties have the ratings set forth below. The table shows the diversification, by percentage of notional amount, among the various counterparties that have entered into agreements with NIFA.

Counterparty	($ in millions)	Percentage
GSMMDP	275	45.80 %
UBS AG	275	45.80
MSCS	50	8.40
Total	600	100

NIFA insured its performance in connection with the Swaps associated with the Series 2004 B-G bonds with Ambac Assurance (Aaa/AAA), including NIFA termination payments. NIFA's payments to the counterparties on the Swaps associated with the Series 2004 I-K bonds are insured with CDC IXIS Financial Guaranty North America, Inc. ("CIFG NA"), which is rated Aaa/AAA/AAA. However, termination payments from NIFA are not guaranteed except on NIFA's Swap with UBS AG, where it is guaranteed up to a maximum of $2.0 million.

- *Basis Risk* – The variable interest rate paid by the counterparty under the swap and the variable interest rate paid by NIFA on the associated variable interest auction rate bonds are not the same. If the counterparty's rate under the swap is lower than the bond interest rate, then the counterparty's payment under the swap agreement does not fully reimburse NIFA for its interest payment on the associated bonds. Conversely, if the bond interest rate is lower than the counterparty's rate on the swap, there is a net benefit to NIFA.

NIFA is exposed to basis risk on the Swaps. NIFA is paying a fixed rate of interest to the counterparties and the counterparties are paying a variable rate to NIFA represented by a percentage of the One-Month LIBOR ("London Inter-bank Offered rate"), rate plus a fixed spread. The amount of the variable rate swap payments received from the counterparties does not normally equal the actual variable rate payable to the bondholders. Should the historical relationship between LIBOR and NIFA's variable rate on its bonds move to converge, the expected cost savings may not be realized. Conversely, should the relationship between LIBOR and NIFA's variable rate on its bonds move to diverge, there is a benefit to NIFA.

- *Termination Risk* – The swap agreement will be terminated and NIFA will be required to make a large termination payment to the counterparty.

The Swaps use International Swaps and Derivative Association ("ISDA") documentation and use standard provisions regarding termination events with one exception: if the termination amount is over $5 million for the Authority, the Authority can pay such excess amount over six months, financing the delay at LIBOR plus 1%. However, adverse termination for credit deterioration is remote since the Swaps are insured and the insurers will control termination. NIFA or the counterparty may terminate any of the Swaps if the other party fails to perform under the terms of the contract. In addition, NIFA may terminate the Swaps at their fair market value at any time. NIFA would be exposed to variable rates if the counterparty to the Swap defaults or if the swap is terminated. A termination of the Swap agreement may also result in NIFA making or receiving a termination payment. NIFA is not aware of any event that would lead to a termination event with respect to any of its Swaps.

- *Rollover Risk* – The notional amount under the swap agreement terminates prior to the final maturity of the associated bonds, and NIFA may be exposed to then market rates and cease to get the benefit of the synthetic fixed rate for the duration of the bond issue.

NIFA is not exposed to rollover risk, because the notional amounts under the Swaps do not terminate prior to the final maturity of the associated variable interest auction rate bonds.

The following chart represents NIFA's Interest Rate Swap Valuation as of December 31, 2005:

Nassau County Interim Finance Authority

Interest Rate Swap Valuation (as of December 31, 2004)

Series	2004 Series B	2004 Series C	2004 Series D	2004 Series E	2004 Series F	2004 Series G	2004 Series I	2004 Series J	2004 Series K	Total
Notional Amount	72,500,000	72,500,000	80,000,000	72,500,000	72,500,000	80,000,000	50,000,000	50,000,000	50,000,000	600,000,000
Counterparty	GSMMDP	GSMMDP	GSMMDP	UBS	UBS	UBS	GSMMDP	UBS	MSCS	
Counterparty Rating (1)	Aaa/AA+/NR	Aaa/AA+/NR	Aaa/AA+/NR	Aa2/AA+/AA+	Aa2/AA+/AA+	Aa2/AA+/AA+	Aaa/AA+/NR	Aa2/AA+/AA+	Aa3/A+/AA-	
Effective Date	4/8/2004	4/8/2004	4/8/2004	4/8/2004	4/8/2004	4/8/2004	12/9/2004	12/9/2004	12/9/2004	
Maturity Date	11/15/2024	11/15/2024	11/15/2016	11/15/2024	11/15/2024	11/15/2016	11/15/2025	11/15/2025	11/15/2025	
NIFA Pays	3.146%	3.146%	3.002%	3.146%	3.146%	3.003%	3.432%	3.432%	3.432%	
Replacement Rate	3.186%	3.188%	3.231%	3.186%	3.188%	3.230%	3.305%	3.305%	3.305%	
NIFA Receives	60% of LIBOR plus 16 basis points weekly (Tuesday).	60% of LIBOR plus 16 basis points weekly (Friday).	60% of LIBOR plus 26 basis points monthly (4th Monday).	60% of LIBOR plus 16 basis points weekly (Tuesday).	60% of LIBOR plus 16 basis points weekly (Friday).	60% of LIBOR plus 26 basis points monthly (5th Thursday).	61.5% of LIBOR plus 20 basis points.	61.5% of LIBOR plus 20 basis points.	61.5% of LIBOR plus 20 basis points.	
Net Accrued	(280,237)	(285,821)	(233,288)	(269,031)	(285,821)	(294,618)	(155,107)	(155,107)	(155,107)	(2,114,137)
Principal	288,386	301,724	1,375,668	288,386	301,724	1,368,734	(696,834)	(696,834)	(696,834)	1,834,120
Total Value of Swap	8,149	15,903	1,142,380	19,355	15,903	1,074,116	(851,941)	(851,941)	(851,941)	(280,017)

(a) Moodys/S&P/Fitch

The following table contains the aggregate amount of estimated variable-rate bond debt service and net swap payments during certain years that such swaps were entered into in order to: protect against the potential of rising interest rates; achieve a lower net cost of borrowing; reduce exposure to changing interest rates on a related bond issue; or, in some cases where Federal tax law prohibits an advance refunding, achieve debt service savings through a synthetic fixed rate.

- Beginning in 2006, it is assumed that the variable rate bonds would bear interest at a rate of 3.19% per annum.
- The net swap payments were calculated using the actual fixed rate on swap agreements. An assumption of 10 – 25 basis points spread was factored in for basis risk to be conservative.

Variable-Rate Bonds (in Thousands)

Year(s) Ending December 31	Principal	Interest	Net Swap Payments	Total
2006	$ -	$ 17,662	$ 4	$ 17,666
2007	-	18,656	1,534	20,190
2008	-	18,493	1,697	20,190
2009	-	18,749	1,441	20,190
2010	-	18,898	1,293	20,191
2011 - 2015	108,125	92,569	4,994	205,688
2016 - 2020	343,250	60,286	2,818	406,354
2021 - 2025	148,625	12,097	601	161,323

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, 2005, the Authority has paid its pension bill from the State in the amount of $58,273, covering the period April 1, 2005 to March 31, 2006. The portion of this payment attributable to the year ended December 31, 2005 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, 2005. 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 $161,248, which includes the Authority's 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 $179,621, 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.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Nassau County Interim Finance Authority

We have audited the financial statements of Nassau County Interim Finance Authority (the "Authority"), as of December 31, 2005 and for the year then ended, and have issued our report thereon dated March 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Authority's internal control over financial reporting 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 reportable 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 caused by error or fraud 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.

COMPLIANCE AND OTHER MATTERS

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

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

Deloitte + Touche LLP

March 31, 2006

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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, 2005 and for the year then ended, and have issued our report thereon dated March 31, 2006. 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, grant agreements, and Investment Guidelines for Public Authorities issued by the Office of the State Comptroller, State of New York, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

Deloitte & Touche LLP

March 31, 2006