Nassau County Interim Finance Authority

Financial Statements for the
Year Ended December 31, 2007,
Independent Auditors' Report

NASSAU COUNTY INTERIM FINANCE AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
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, 2007, 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, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, to the financial statements, in 2007, the Authority adopted Governmental Accounting Standards Board Statement (GASB) No. 45, *Accounting and Financial Reporting by Employers for the Post Employment Benefits Other Than Pensions.*

The Management's Discussion and Analysis on pages three through five 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 2007 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 28, 2008, 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 28, 2008

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 within certain statutory limits to issue bonds and notes for various County purposes. The Authority is a component unit of the County for financial reporting 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 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 but NIFA did not issue any bonds or notes in 2007. Although NIFA's authority to issue bonds or notes on behalf of the County expired in 2007, the Authority retained its authority to refund its own bonds. To that end, NIFA is actively pursuing the refunding of approximately $718 million of its bonds in 2008. 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, 2007. 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 restricted net assets presents information on all the Authority's restricted 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 restricted 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.

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 99% of the Authority's 2007 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 4.25%, on the sales and use of personal property and services in the County, excluding the up to .25% 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 4.25% sales tax rate, 3% is a base rate and the remaining 1.25% is subject to periodic renewals. NIFA's sales tax receipts grew by 2.14% in FY 2007. 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, 2007, was $954,194,000, an increase of 2.14% over the prior year due to an increased level of economic activity. Investment income, net of $85,108 of unrealized appreciation, which accounts for the remaining Authority revenue, totaled $4,595,000 in 2007, a decrease of 33% from 2006. This decrease is attributable to higher interest rates, but lower level of fund balances to invest.

Sales tax revenue provided 5.6 times coverage of the Authority's 2007 total monthly set-asides for debt service of $168,213,000. This coverage may change as the Authority issues more debt or as rates change. The Authority has covenanted not to issue senior debt unless sales tax revenue for twelve consecutive months of the prior fifteen months is at least three times the amount of annual senior bond debt service in any future year (three times coverage). All together, the Authority used $170,454,000 of sales tax revenue for debt service set-asides and Authority operations, remitting the balance of $783,740,000 to Nassau County. A portion of the Authority's total operating expense of $2,040,000, which includes a $788,000 OPEB liability accrual required by GASB 45 (see page 14), was also funded with interest earnings resulting from the investments held by the Authority. As with sales tax, interest earnings that are not required for Authority operations or reserves are remitted to the County.

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 2007, the Authority did not issue any new short or long term debt, and as a result, bonds payable decreased in fiscal year 2007 by $79,975,000 (3.9%), due to retirement on prior bond issues. The Authority did not have any notes payable outstanding during 2007 because the County has chosen to undertake its own cash flow borrowings. The statement of net assets shows a total net deficit of $1,971,155,000. 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, 2007, the Authority had bonds payable of $1,958,525,000. Since NIFA has completed its new money borrowing program the amount of bonds outstanding and its net deficit are likely to decrease as bonds continue to be retired. 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 38.63% or $28,534,000 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, 2007
(Dollars in thousands)

	Governmental Activities
ASSETS	
CASH AND CASH EQUIVALENTS	$ 897
INVESTMENTS	44,425
SALES TAX RECEIVABLE	108,211
INTEREST RECEIVABLE	420
OTHER ASSETS	27
OTHER NONCURRENT ASSETS — Net of amortization	44,898
TOTAL	$ 198,878
LIABILITIES AND RESTRICTED NET ASSETS (DEFICIT)	
LIABILITIES:	
Accrued liabilities	$ 55,517
Due to Nassau County — sales tax	78,346
Due to Nassau County — interest	201
Bonds payable:	
Due within one year	95,315
Due in more than one year	1,863,210
Other liabilities	77,052
Accrued vacation and sick pay	392
Total liabilities	2,170,033
NET ASSETS (DEFICIT) — Deficit	(1,971,155)
TOTAL	$ 198,878

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2007
(Dollars in thousands)

	Governmental Activities
EXPENSES:	
General and administrative	$ 2,040
Bond interest expense	93,661
Distribution to Nassau County for financeable costs	28,778
Distribution to Nassau County for general operations	4,471
Total expenses	128,950
GENERAL REVENUES:	
Sales tax	954,194
Less distributions to Nassau County	(783,740)
Sales tax and state aid revenues retained	170,454
Interest income — net	9,239
Total general revenues	179,693
CHANGE IN NET ASSETS	50,743
NET ASSETS (DEFICIT) — Beginning of year	(2,021,898)
NET ASSETS (DEFICIT) — End of year	$ (1,971,155)

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

BALANCE SHEET
DECEMBER 31, 2007
(Dollars in thousands)

	Governmental Funds			Total
	General	Debt Service	Capital Projects	(Governmental Funds)
ASSETS				
CASH AND CASH EQUIVALENTS	$ 663	$ 232	$ 2	$ 897
INVESTMENTS		41,778	2,647	44,425
SALES TAX RECEIVABLE	108,211			108,211
INTEREST RECEIVABLE	1	405	14	420
DUE FROM OTHER FUNDS		28,892		28,892
OTHER ASSETS	27			27
TOTAL	$ 108,902	$ 71,307	$ 2,663	$ 182,872
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accrued liabilities	$ 115	$ 55,402	$ -	$ 55,517
Due to Nassau County — sales tax	78,346			78,346
Due to Nassau County — interest		187	14	201
Due to other funds	28,892			28,892
Total liabilities	107,353	55,589	14	162,956
FUND BALANCES — Unreserved	1,549	15,718	2,649	19,916
TOTAL	$ 108,902	$ 71,307	$ 2,663	$ 182,872

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, 2007
(Dollars in thousands)

TOTAL FUND BALANCES — Governmental funds	$ 19,916
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS (DEFICIT) 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	(77,052)
Bonds payable	(1,958,525)
Accrued vacation and sick pay	(392)
LONG-TERM ASSETS ARE NOT AVAILABLE TO PAY FOR CURRENT-PERIOD EXPENDITURES AND, THEREFORE, ARE DEFERRED IN THE FUNDS	44,898
NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES	$ (1,971,155)

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2007
(Dollars in thousands)

	Governmental Funds			Total
	General	Debt Service	Capital Projects	(Governmental Funds)
REVENUES:				
Sales tax	$ 954,194	$ -	$ -	$ 954,194
Interest income — net	24	4,077	494	4,595
Total revenues	954,218	4,077	494	958,789
OTHER FINANCING SOURCES — Operating transfers in	4,982	168,435		173,417
Total revenues and other financing sources	959,200	172,512	494	1,132,206
EXPENDITURES:				
Current:				
General and administrative	1,243			1,243
Distribution to Nassau County for financeable costs			28,778	28,778
Distribution to Nassau County for general operations	4,269	187	15	4,471
Total current expenditures	5,512	187	28,793	34,492
Debt service		170,925		170,925
Total expenditures	5,512	171,112	28,793	205,417
OTHER FINANCING USES:				
Transfers to Nassau County — sales tax	783,740			783,740
Operating transfers out	168,987	3,881	549	173,417
Total expenditures and other financing uses	958,239	174,993	29,342	1,162,574
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	961	(2,481)	(28,848)	(30,368)
FUND BALANCES — Beginning of year	588	18,199	31,497	50,284
FUND BALANCES — End of year	$ 1,549	$ 15,718	$ 2,649	$ 19,916

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2007
(Dollars in thousands)

NET CHANGE IN FUND BALANCES — Total governmental funds	$ (30,368)
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:	
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of restricted net assets	79,975
Governmental funds report costs of debt issuance as expenditures. However, in the statement of activities, the cost of debt issuance is amortized over the lives of the debt	(1,034)
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	4,643
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 restricted net assets	(1,676)
Establish GASB 45 OPEB liability	(788)
Some 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 financial statements	(9)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 50,743

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. After December 31, 2008, the County will no longer be required to submit for approval it's multiyear financial plan.

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 approximately $1.7 million of such capacity remains that could be borrowed 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 as described above and to retire or otherwise refund Authority debt or certain County debt and as discussed above to finance up to $1.7 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 those 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. As of December 31, 2007, NIFA has provided all State Aid to the County that was granted pursuant to the NIFA Act. 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 nonoperating 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 nonoperating expenses and are accounted for in the appropriate fund (see Note 3).

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 adjusted at the close of each fiscal year. A provision for an arbitrage liability is not required since investment earnings on applicable bond issues are significantly less than the interest debt service paid on such bond issues.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (e.g., life insurance) when provided separately from a pension plan. The approach followed in the Statement generally is consistent with the approach adopted in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with modifications to reflect differences between pension benefits and OPEB. Statement No. 45 improves the relevance and usefulness of financial reporting by (i) recognizing the cost of benefits in periods when the related services are received by the employer; (ii) providing information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and (iii) providing information useful in assessing potential demands on the employer's future cash flows. The requirement applies to any state or local government employer that provides OPEB. As a result, NIFA has implemented GASB Statement No. 45 for the fiscal year ended December 31, 2007. Prior to the implementation of GASB Statement No. 45, the Authority's postretirement benefits were accounted for on a pay-as-you-go basis.

The Authority provides group health care benefits for retirees (and for eligible dependents and survivors of retirees). Contributions towards 10% of the costs of these benefits are required of the retirees. Retiree contributions towards the cost of the benefit are a percentage of the premium adjusted for accumulated sick leave credits. An actuarially determined valuation of these benefits was performed by a consultant to estimate the impact of changes in GASB accounting rules applicable to the retiree medical benefits for retired employees and their eligible dependents. There is currently one plan participant receiving benefits.

The Authority has elected to record the entire amount of the Unfunded Actuarial Accrued Liability ("UAAL") in the fiscal year ended December 31 2007, and not to fund the UAAL. The UAAL, including accrued interest relating to postemployment benefits is approximately $788,000 as of December 31, 2007. The Authority is not required by law or contractual agreement to provide funding for postemployment retirement benefits other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. During the fiscal year ended December 31, 2007, the Authority paid $5,930 on behalf of the Plan.

The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount that was actuarially determined by using the Projected Unit Credit Method (one of the actuarial cost methods in accordance with the parameters of GASB Statement No. 45). The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost.

Under this method, actuarial gains/losses, as they occur, reduce/increase future Normal Costs.

The following table shows the elements of the Authority's annual OPEB cost for the year, the amount actually paid, and changes in the Authority's net OPEB obligation to the plan for the year ended December 31, 2007.

Amortization of the UAAL over one year	$721,000
Normal cost — beginning of year	78,000
Interest on normal cost	4,000
Normal cost with interest to end of year	82,000
Annual required contribution	803,000
Interest on net OPEB obligation	
Adjustment to ARC	
Total annual OPEB Cost	$803,000
Net OPEB Obligation:	
Net OPEB obligation — January 1, 2007	$ -
Total annual OPEB cost	803,000
Contributions	15,000
Estimated net OPEB obligation — December 31, 2007	$788,000

As of December 31, 2008, the OPEB liability of $788,000 is unfunded. NIFA's 2007 payroll cost was $832,000 or 105.58% of the unfunded liability amount.

The Authority's annual OPEB cost, the estimated annual OPEB amount contributed to the plan, and the net OPEB obligation for the fiscal year ended December 31, 2007, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Paid	Net OPEB Obligation
December 31, 2007	$803,000	$15,000	$788,000

Actuarial Methods and Assumptions — The OPEB-specific actuarial assumptions used in the January 1, 2007, OPEB actuarial valuations are as follows:

Valuation date	January 1, 2007
Actuarial cost method	Projected Unit Credit Method
Discount rate	4.50% per annum
Per-capita retiree contributions	Retiree contributions are assumed to increase at the same rates as incurred claims.

Health insurance benefits are provided by the New York State Health Insurance Plan. This also includes a reimbursement of Medicare Part B premium. Sick leave credits offset contributions and are frozen at retirement. Benefits vest at five years of service and are subject to continuous participation in NYSHIP.

The premium rate is used for all non-Medicare eligible retirees and dependents with basic medical coverage.

Initial monthly premium rates are shown in the following table:

Monthly Rate for Fiscal Year 2007

Pre-65 Non-Medicare:	
Single	$ 564.84
Family	1,198.07
Post- 65 Medicare:	
Single	333.18
Family	734.81
Medicare (Part B)	93.50 per person

Medicare Part B Premiums:

Calendar Year	Monthly Premium
2006	$88.50 per person
2007	93.50 per person

Medicare Part B premiums are assumed to increase by the following trend rates.

2007	7.00 %
2008	6.67
2009	6.33
2010	6.00
2011	5.75
2012	5.50
2013	5.25
2014 plus	5.00

No retiree assumed to have income in excess of the threshold, which would result in increasing Part B premium above 25% of Medicare Part B Costs.

Heath Care Cost Trend Rate (HCCTR) — Covered medical expenses are assumed to increase by the following percentages:

HCCTR Assumptions

Years Ending	Annual Rates of Increase
2007	9.5 %
2008	8.75
2009	8.00
2010	7.25
2011	6.50
2012	6.00
2013	5.50
2014 and later	5.00

Mortality — Mortality rates are those recommended by the actuary:

Preretirement

	TRS			
Age	Male	Female	ERS	PFRS
20	0.0075 %	0.0043 %	0.0510 %	0.0600 %
30	0.0428	0.0262	0.0550	0.0600
40	0.0518	0.0349	0.0980	0.0640
50	0.1326	0.0818	0.2070	0.1430
60	0.1771	0.1331	0.4210	0.7430

Postretirement

	ERS		PFRS	TRS	
Age	Male	Female	Unisex	Male	Female
50	0.2441 %	0.2177 %	0.2594 %	0.2579 %	0.2294 %
60	0.7365	0.5332	0.6976	0.6624	0.5525
70	1.8246	1.2686	1.8828	1.8241	1.2021
80	4.6846	3.4091	5.4210	5.3926	3.5874
90	14.5417	11.0872	14.7447	15.7604	12.2460

The cost of providing health care to retirees not including the accrual for prior-service costs, totaled $5,930 during fiscal year 2007 ($0 during fiscal years 2006 and 2005).

It should be noted that actuarial valuations have inherent limitations, reflect a long-term perspective, and involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial methods and assumptions used also include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The Authority follows the pronouncements of all applicable Financial Accounting Standards Board (FASB) statements and interpretations, accounting principles board (APB) opinions, and accounting research bulletins (ARBs) of the committee on accounting procedure issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

In July 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. Under the NIFA Legislation, certain oversight responsibilities for Nassau County are scheduled to conclude effective December 31, 2008. Should this occur and a downsizing in staff is implemented, the Authority does not have any liability for involuntary termination costs related to this action.

In September 2005, GASB issued the GASB Proposed Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which should be implemented beginning with fiscal years ended December 31, 2007. The Authority has determined that there is no impact from Statement No. 48 on its financial position and results of operations resulting from this adoption.

In January 2006, GASB issued the GASB Proposed Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which is effective for periods beginning after December 15, 2007. The Authority has determined that there is no impact from Statement No. 49 on its financial position and results of operations resulting from this adoption.

In May 2007, GASB issued Statement 50, *Pension Disclosure — an amendment of GASB Statements No. 25 and No. 27*, which should be implemented beginning with fiscal years ending December 31, 2008. The Authority has determined that there is no impact from Statement No. 50 on its financial position or results of operations resulting from the adoption.

In June 2007, GASB issued Statement 51, *Accounting and Financial Reporting for Intangible Assets*, which should be implemented beginning with fiscal years ending December 31, 2010. The Authority has determined that there is no impact from Statement No. 51 on its financial position or results of operations resulting from the adoption.

In November 2007, GASB issued Statement 52, *Land and Other Real Estate Held as Investments by Endowments*, which should be implemented beginning with fiscal years ending December 31, 2009. The Authority has determined that there is no impact from Statement No. 52 on its financial position or results of operations resulting from the adoption.

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 2007 included:

- Sales tax revenues (see Notes 1, 2, and 5) of $954,194,341, of which $783,740,450 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 2007, the Authority remitted $4,470,215.32 of interest earnings.

- Transfer to the County, upon County requisition, of bond proceeds from debt issuance in 2005 and prior years. For the year ended December 31, 2007, $28,777,839 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, 2007, the Authority held cash, Treasury Notes and Treasury Bills, Federal Home Loan Mortgage Corporation Discount Notes, and 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, 2007. Short-term investments with maturities of 90 days or less, and nonmarketable 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 in the Statement of Revenue, Expenditures, and Changes in Fund Balance. Fair value is determined using market values at December 31, 2007. In the Balance Sheet, the accrual of interest on 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.

Summary of Cash and Investments
(in thousands)

	Dollars in thousands		
	Held by Authority	Held by Trustee	Total
Cash	$ 3	$ 236	$ 239
U.S. government and agency discount notes (maturities less than 90 days)	658		658
Total cash and cash equivalents	661	236	897
U.S. government and agency discount notes (maturities greater than 90 days)		44,425	44,425
Total marketable securities	-	44,425	44,425
Total cash and investments	$ 661	$ 44,661	$ 45,322

Custodial Credit Risk

	Investment Maturities (In thousands)			
	Held by Authority	Held by Trustee		
	General Fund	Debt Service Fund	Capital Projects Fund	Total
Investment type:				
Cash	$ 5	$ 232	$ 2	$ 239
U.S. government securities	658	18,892	78	19,628
U.S. discount notes		13,669	11,786	25,455
Total	$ 663	$ 32,793	$ 11,866	$ 45,322

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 in the balance sheet as sales tax receivable and due to Nassau County and due to debt service fund. In 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, 2007, the Authority had outstanding bonds in the amount of $1,958,525,000. The Authority did not issue any new short- or long-term debt in 2007. However, NIFA does retain the authority to fund certain financeable costs described under the Act including approximately $20.6 million in statutory capacity to restructure or refund County indebtedness and approximately $318 million in statutory capacity to refund or restructure County tax certiorari related debt; however, it is unclear whether this debt will ever be economic to refund. In addition, the County or NIFA has the authority through the end of 2007 to issue approximately $1.7 million of debt to fund certiorari proceedings commended after June 1, 2000.

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, 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. Since investment earnings on NIFA bond issues, that are subject to arbitrage, have been significantly lower than the average interest debt service payments on those issues, no provision for an arbitrage liability is required. Variable Rate Bonds — Interest rates on the nonauction 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 November 15, 2022, 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:

	Bond Par Issued	Dollars in Thousands Balance at December 31, 2006	Retired	Balance at December 31, 2007
Sales Tax Secured Bonds, Series 2000A 4.50% to 5.625% Serial and term bonds due through 2020	$ 254,720	$ 12,845	$ -	$ 12,845
Sales Tax Secured Bonds, Series 2001A 4% to 5.375% Serial and term bonds due through 2021	181,480	55,955	7,555	48,400
Sales Tax Secured Bonds, Series 2002A (variable rate) Term bond due 2022 with mandatory sinking fund redemptions due through 2021	112,825	101,500	4,290	97,210
Sales Tax Secured Bonds, Series 2002B (variable rate) Term Bond due 2022 with mandatory sinking fund redemptions due through 2021	112,825	98,120	4,150	93,970
Sales Tax Secured Bonds, Series 2003A 2% to 6% Serial bonds due through 2023	275,990	244,460	10,410	234,050
Sales Tax Secured Refunding Bonds, Series 2003B 2% to 5% Serial bonds due through 2018	238,485	212,840	24,265	188,575
Sales Tax Secured Bonds, Series 2004A 2% to 5% Serial bonds due through 2013	153,360	143,130	21,695	121,435
Sales Tax Secured Variable Rate Bonds, Series 2004 B-G Auction Rate Securities due 2016 to 2024	450,000	450,000		450,000
Sales Tax Secured Bonds, Series 2004H 2.15% to 5% Serial bonds due through 2017	187,275	179,355	3,190	176,165
Sales Tax Secured Bonds, Series 2004 I-K Auction Rate Securities due through 2025	150,000	150,000		150,000
Sales Tax Secured Bonds Series 2005A 3.26% to 4.8% Serial due through 2024	124,200	124,200		124,200
Sales Tax Secured Variable Rate Bonds Series 2005 B-C Auction Rate Securities due through 2025	122,300	122,300	3,650	118,650
Sales Tax Secured Bonds Series 2005 D 3.23% to 4.32% Serial and term bonds due through 2022	143,795	143,795	770	143,025
	$ 2,507,255	$ 2,038,500	$ 79,975	$ 1,958,525

Aggregate debt service to maturity as of December 31, 2007, is as follows (dollars in thousands):

Years Ending December 31	Principal	Interest*	Total
2008	$ 95,315	$ 84,266	$ 179,581
2009	104,265	80,549	184,814
2010	104,930	75,627	180,557
2011	119,690	70,777	190,467
2012	144,725	65,174	209,899
2013–2017	705,960	225,203	931,163
2018–2022	542,380	90,510	632,890
2023–2025	141,260	10,022	151,282
	$ 1,958,525	$ 702,128	$ 2,660,653

*Interest on the Variable Rate Bonds is calculated at 5%. During 2007, the interest rate on the Variable Rate Bonds ranged from 2.93% to 3.90%.

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, and to achieve debt service savings through a synthetic fixed rate. In an effort to hedge against rising interest rates, NIFA entered into nine separate pay-fixed, receive-variable interest rate Swaps during FY 2004 (the “Swaps”).

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

- $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 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 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 million notional amount (2004 Series I) with Goldman Sachs Mitsui Marine Derivative Products, L.P.

- $50 million notional amount (2004 Series J) with UBS AG

- $50 million notional amount (2004 Series K) with Morgan Stanley Capital Services ("MSCS")

Fair Value — Replacement interest rates on the Swaps, as of December 31, 2007, are reflected in the chart entitled "Interest Rate Swap Valuation" (the "Chart"). As noted in the Chart, replacement rates were lower than market interest rates on the effective date of the Swaps. Consequently, as of December 31, 2007, the Swaps had negative fair values. In the event there is a positive fair value, NIFA would be exposed to the credit risk of the counterparties in the amount of the Swaps' fair value should the Swap be terminated.

The total value of each swap, including accrued interest, is provided in the Chart. The total value of each Swap listed represents the theoretical value to NIFA if it terminated the swap as of the date indicated, assuming that a termination event occurred on that date. Negative fair values may be offset by reductions in total interest payments required under the related variable interest 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, 2007, the total marked-to-market valuation, net of accruals, of NIFA's Swaps was negative $9,617,218. 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	Notional Amount (Dollars in Millions)	% of Total Notional Percentage
GSMMDP	275	45.80 %
UBS AG	275	45.80
MSCS	50	8.40
Total	600	100.00 %

NIFA insured its performance in connection with the Swaps associated with the Series 2004 B-G bonds with Ambac Assurance (Aaa/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.

As of December 31, 2007, NIFA's Interest Rate Swap Valuation is as follows:

Nassau County Interim Finance Authority

Interest Rate Swap Valuation
(as of December 31, 2007)

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/AAA/NR	Aaa/AAA/NR	Aaa/AAA/NR	Aaa/AA/AA	Aaa/AA/AA	Aaa/AA/AA	Aaa/AAA/NR	Aaa/AA/AA	Aa3/AA-/AA-	
Effective Date	April 8, 2004	April 8, 2004	April 8, 2004	April 8, 2004	April 8, 2004	April 8, 2004	December 9, 2004	December 9, 2004	December 9, 2004	
Maturity Date	November 15, 2024	November 15, 2024	November 15, 2016	November 15, 2024	November 15, 2024	November 15, 2016	November 15, 2025	November 15, 2025	November 15, 2025	
NIFA Pays	3.146 %	3.146 %	3.002 %	3.146 %	3.146 %	3.003 %	3.432 %	3.432 %	3.432 %	
Replacement Rate	3.023 %	3.023 %	2.934 %	3.023 %	3.023 %	2.933 %	3.182 %	3.182 %	3.182 %	
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	$ (260,499)	$ (272,912)	$ (191,040)	$ (260,499)	$ (272,912)	$ (82,649)	$ (146,913)	$ (146,913)	$ (146,913)	$ (1,781,250)
Net Present Value	(817,817)	(817,290)	(347,531)	(817,563)	(817,290)	(353,912)	(1,288,189)	(1,288,189)	(1,288,189)	(7,835,970)
Total Fair Value of Swap	$ (1,078,316)	$ (1,090,202)	$ (538,571)	$ (1,078,062)	$ (1,090,202)	$ (436,561)	$ (1,435,102)	$ (1,435,102)	$ (1,435,102)	$ (9,617,220)

(a) Moodys/S&P/Fitch.

Swap Payments and Associated Debt — Using rates as of December 31, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, is shown below. *As rates vary, variable-rate bond interest payments and net swap payments will vary.

Nassau County Interim Finance Authority
Swap Payments and Associated Variable-Rate Debt (In thousands)

Years Ending December 31	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2008	$ -	$ 22,946	$ 935	$ 23,881
2009		22,883	984	23,867
2010		22,883	984	23,867
2011		22,883	984	23,867
2012		22,946	935	23,881
2013–2017	227,075	97,830	5,108	330,013
2018–2022	303,825	41,982	3,057	348,864
2023–2025	69,100	4,103	351	73,554
Total	$ 600,000	$ 258,456	$ 13,338	$ 871,794

*Note: As a result of credit and liquidity concerns among short-term investors, the auction rate securities market has witnessed unusual volatility since early November. Although there can be no assurance that market volatility will subside, it appears that NIFA's auction rate problem peaked in early February when several of its auctions failed and NIFA defaulted to its maximum interest rates on failed auctions of 15%. ARS interest rates in FY 2008 on NIFA 2004 series B-G have varied between 2.85% and 14% (no failed auctions). ARS interest rates in FY 2008 on NIFA 2004 series I-K have varied between 3.00% and 15% (one failed auction). Although not associated with any swaps, ARS interest rates in FY 2008 on NIFA 2005 series B-C have varied between 2.60% and 15% (six failed auctions).

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, 2007, the Authority has paid its pension bill from the State in the amount of $68,751, covering the period April 1, 2007 to March 31, 2008. The portion of this payment attributable to the year ended December 31, 2007, 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, 2007. 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 $160,715, 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 $232,108, 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 noncurrent 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 of
Nassau County Interim Finance Authority:

We have audited the financial statements of Nassau County Interim Finance Authority (the "Authority"), as of December 31, 2007, and for the year then ended, and have issued our report thereon dated March 28, 2008, on which we have included an explanatory paragraph related to the implementation of GASB No. 45, *Accounting and Financial Reporting by Employers for the Post Employment Benefits Other Than Pensions*. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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, and contracts, 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 Board of 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 28, 2008