# NASSAU COUNTY INTERIM FINANCE AUTHORITY

# 2000 ANNUAL REPORT


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**NASSAU COUNTY INTERIM FINANCE AUTHORITY**
**2000 ANNUAL REPORT**

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The Honorable George E. Pataki
Governor of the State of New York
State Capitol
Albany, NY 12224

Dear Governor Pataki:

In March 2000, you appointed me as a special advisor to evaluate the fiscal condition of Nassau County. On May 9th, you announced a five point plan that offered Nassau County a clear road map out of its fiscal difficulties. Under your leadership, legislation creating the Nassau County Interim Finance Authority was passed and signed into law, and the Authority Directors met for the first time on June 28th.

During NIFA's initial six months, the period ending December 31, 2000 that is covered by this Annual Report, we worked with the County Executive, Legislature, and Comptroller to stabilize conditions so that the County could make long-term structural reforms. The County made mid-year budget cuts that, together with State Transitional Assistance and NIFA restructuring of outstanding County debt, allowed the County to end the year without a deficit. The County also developed its first Four Year Financial Plan to help achieve structural balance, and the plan was conditionally accepted by NIFA. NIFA also launched a highly-rated debt issuance program to support the County's financial recovery.

Grave concerns remain. As you and other participants recognized in crafting the NIFA legislation, restoration of Nassau County's fiscal health is a multi-year task. The County faces large budget gaps in the out years of its financial plan and must take actions to ensure that proposed gap closing initiatives are implemented. It has pending labor contracts that could have significant negative impacts on the County's fiscal health if costs are not contained. Other major problems remain, including the County's physical infrastructure, the property tax system, the Nassau Health Care Corporation, and County debt practices, to name just the most pressing issues.

Hard choices for the County lie ahead, and all parties must work together to an unprecedented degree. The Authority is committed to working with State, County, and other local leaders to ensure decisive and meaningful action to achieve the long term financial stability County residents need and deserve.

Sincerely,

Frank G. Zarb
Chairman

# NASSAU COUNTY INTERIM FINANCE AUTHORITY

## AUTHORITY DIRECTORS AND STAFF AS OF DECEMBER 31, 2000

**Directors**

Frank G. Zarb, Chairperson

Richard M. Kessel
Martin D. Payson
David H. Peirez
Robert G. Smith, Ph.D.
Ronald A Stack
Robert Wallach

**Staff**

Richard Luke, Executive Director and Treasurer

Evan Cohen, Deputy Director
Carol Kostik, Chief Financial Officer
Laurel Leat, Chief Administrative Officer
Timothy Sullivan, Deputy Director
Jeremy Wise, General Counsel and Corporate Secretary

## INTRODUCTION

Governor George E. Pataki, in response to persistent fiscal distress in Nassau County, presented a five-point recovery plan for the County in May 2000. Governor Pataki's plan included:

1. Creation of the Nassau County Interim Finance Authority (NIFA) as an oversight agency and highly rated borrowing mechanism to reduce County borrowing costs.
2. Oversight of the required County four year financial plan to ensure that recurring actions are taken by the County each year to reach structural budget balance.
3. Special State Transitional Aid totaling $100 million over five years, plus debt restructuring through NIFA, if the County takes satisfactory action to close its structural deficit.
4. Assistance of $5 million to support reforms to reduce the County's estimated $400 million backlog of property tax claims.
5. Imposition of hard control mechanisms if the County fails to meet financial management standards.

The Governor's plan, developed with special advisor Frank G. Zarb, formed the basis of State legislation creating NIFA. The NIFA legislation was supported by a home rule message recommended by the Nassau County Executive and approved by a vote of the County Legislature. It was enacted with broad bipartisan support in the New York State Senate and Assembly.

The Authority is governed by seven Directors. Each Director is appointed by the Governor, including one each upon the recommendation of the Majority Leader of the State Senate, the Speaker of the Assembly and the State Comptroller. The Governor designates the chairperson of the Authority. The following individuals served as Directors of NIFA in 2000:

| | |
|---|---|
| Frank G. Zarb, Chairperson | Mr. Zarb is Chairman of the NASD and the Nasdaq Stock Market Inc. |
| Richard M. Kessel | Mr. Kessel is Chairman, President and Chief Executive Officer of the Long Island Power Authority. |
| Robert G. Smith, Ph.D. | Dr. Smith is the Chief Executive Officer and Founder of Smith Affiliated Capital Corp. |
| Ronald A Stack | Mr. Stack is a Managing Director and Head of the Public Finance Department of Lehman Brothers. |
| Robert Wallach | Mr. Wallach is Chairman and Chief Executive Officer of The Robert Plan Corporation. (Nominated by the Senate Majority Leader.) |

| | |
|---|---|
| Martin D. Payson | Mr. Payson is a Director of Panavision Inc. (NYSE); Delta Communications (NYSE); and Classic Communications, Inc. (Nominated by the State Comptroller.) |
| David H. Peirez | Mr. Peirez is a senior partner in the law firm of Reisman, Peirez & Reisman, L.L.P. (Nominated by the Speaker of the Assembly.) |

NIFA came into existence on June 23, 2000 and the first meeting of its Directors took place on June 28, 2000. This is NIFA's first Annual Report, made pursuant to Section 2800 of the Public Authorities Law and to the NIFA Act, and covers the period ended December 31, 2000. It also incorporates other reports required by New York State law, as identified in "Additional Information" below.

## SUMMARY OF ACCOMPLISHMENTS

NIFA was created to help restore Nassau County to fiscal health and integrity, so that the County could continue to provide essential services to its citizens while meeting obligations to holders of County debt. The Authority's powers and responsibilities fall into two principal categories: financial oversight and monitoring, and debt issuance on behalf of Nassau County. As a "start-up" State authority, NIFA responsibilities in 2000 also included establishing internal management and operating practices.

In its first six months of operation, NIFA helped bring fiscal stability to Nassau County and start the County on the road to long term budget balance and financial health. NIFA's and the County's major accomplishments in this period include:

- Relief of immediate fiscal distress through required $50 million County FY 2000 mid-year budget gap-closing measures, together with State Transitional Assistance of $25 million and NIFA restructuring of $42 million of outstanding County debt.
- Development of the County's first Four Year Financial Plan, for the period 2001 through 2004, to identify future budget shortfalls and map recurring gap closing measures to achieve structural balance.
- Ending FY 2000 with a County operating surplus of $49.4 million.
- Creation of monitoring mechanisms to improve financial tracking and facilitate dialogue between County elected leaders.
- Successful launch of NIFA's debt issuance program with "AA" category long-term debt ratings and the highest short-term debt ratings from all three major rating agencies, selling a total of $479.08 million of bonds and notes.
- Savings to the County of approximately $10.6 million in debt service expense through NIFA debt issuance, on behalf of the County, at NIFA's higher credit rating levels.
- Creation of a NIFA physical, human resource and administrative infrastructure to carry out mandated responsibilities.

## NIFA Mission and Activities

### Financial Oversight and Monitoring

NIFA is charged with monitoring the finances of Nassau County and, if necessary, establishing a "control period" to exercise additional oversight powers. In its first six months of operations, NIFA had a substantial positive impact on the County's budget and financial planning processes. Major budget and oversight actions in FY 2000 included:

Budgeting and Four-Year Plan

- At NIFA's direction, and as a condition to receiving State Transitional Assistance in FY 2000, the County identified and implemented $50 million of measures to help close its FY 2000 budget gap.
- The County Executive submitted his four-year financial plan, with the first year of the plan being the FY 2001 budget.
- NIFA reviewed the County Executive's proposed plan and issued a report on October 2, identifying major positive and negative aspects. Overall, NIFA found the initial plan to be inadequate.
- The County adopted a revised four-year plan, which NIFA again reviewed. While NIFA still found notable risks to budget balance in the later years of the plan, the revised plan was on the whole a stronger basis for going forward and it was accepted by NIFA on December 8, 2000.

Monitoring

- As a condition of NIFA accepting the four year plan, NIFA required monthly meetings of the key elected officials of the County, including the County Executive, Legislative Majority and Minority Leaders, and County Comptroller. These meetings will promote exchange of information and problem solving.
- Monthly monitoring meetings are to be held with representatives of the County Executive, County Legislature, County Comptroller and NIFA to oversee budget status.
- NIFA has established an internal County budget monitoring system, with links to the County's system, to facilitate ongoing oversight.
- NIFA has targeted specific areas for additional scrutiny, such as the Nassau Health Care Corporation.

A tremendous amount of work remains. The County faces large budget gaps in the out years of its financial plan, especially 2003 and 2004. It has pending labor contracts that could have significant negative impacts on County fiscal health if costs are not contained, the County's physical infrastructure is deteriorating, the Nassau Health Care Corporation, whose bonds are guaranteed by Nassau County, has experienced worsening financial difficulties, and the County has failed to reform the tax certiorari processing system and reduce the backlog. These and other major problems must be addressed in the coming year.

**Debt Issuance on Behalf of Nassau County**

The legislation creating NIFA set a framework for NIFA debt issuance on behalf of the County. The County's share of sales tax revenues, except for ¼ of 1%, now flows first to NIFA, backing NIFA bond and note issues and allowing for excellent credit ratings on NIFA debt. Funds not needed by NIFA are immediately returned to the County. Debt is issued by NIFA at the request of the County, as proposed by the County Executive and approved by the Legislature.

Major debt-related actions in FY 2000 included:

- Creation of a legal and financial framework for NIFA debt issuance, including legal documentation and financial procedures for bond and note sales and a County requisition process for drawing down funds raised by NIFA.
- Achievement of high credit ratings for NIFA debt, as follows:

| Rating Agency | NIFA Long Term Debt Rating | NIFA Short Term Debt Rating |
|---|---|---|
| Fitch | AA+ | F1+ |
| Moody's Investors Service | Aa3 | MIG 1 |
| Standard & Poor's | AA- | SP-1+ |

- Issuance of $254,720,000 Sales Tax Secured Bonds, Series 2000A, to fund County capital and working capital needs and provide debt service relief of $42 million in FY 2000. The working capital needs included tax certiorari refunds, a portion of the cost of County-wide reassessment, and the costs of settlements and judgments. See Tab 1 for details on County costs financed.
- An estimated $8.75 million in County debt service expense savings through the NIFA bond sale, relative to the costs of a comparable County issue. The savings are attributable to lower or no credit enhancement fees on the NIFA bonds and lower interest rates for the NIFA credit.
- Issuance of $224,360,000 Bond Anticipation Notes, Series 2000A-1. Proceeds of the BAN sales were used to purchase the County's annual Tax Anticipation Notes, thus funding that annual County borrowing at NIFA's lower cost of borrowing. See Tab 1 for additional details.
- An estimated $1.88 million in County debt service expense was saved by the NIFA note issuance, primarily because the NIFA debt could be sold without letter of credit support.

NIFA's immediate debt issuance concerns in FY 2000 were to establish a NIFA debt framework, meet the County's existing financing needs and provide mandated debt restructuring, all of which were accomplished. However, underlying problems with the County's debt practices, particularly long term capital planning and the bonding of working capital expenses, remain to be addressed by the County.

### Administrative Matters

The Authority hired six employees in 2000, and moved from County space to an independent office in December 2000. As a newly created Authority, NIFA set up financial management and reporting systems, developed an employee benefit program, adopted investment guidelines, began a program of investment bidding and management, and established administrative procedures.

## ADDITIONAL INFORMATION

Section 2800 of the New York State Public Authorities Law (PAL) specifies the required contents of State Authority Annual Reports. In addition to the information provided in the foregoing text, which sets forth the Authority's operations and accomplishments, this NIFA Annual Report incorporates the Authority's Audited Financial Statements for the year ended December 31, 2000 (Tab 2). The Audit sets forth NIFA's receipts and disbursements, its assets and liabilities, and a schedule of its bonds and notes outstanding at the end of the year. Provision of the Audit also meets the requirements of Section 2802 of the Public Authorities Law.

NIFA has also included with this Annual Report other reports required by various provisions of State law. These reports include:

- Authority Report on Debt Issuance, Tab 1 (NIFA Act, Section 3653)
- Authority Report on Investments, Tab 3 (PAL Section 2925)
- Independent Auditor's Compliance Report on Investment Policies and Procedures, Tab 4 (Required by NIFA Investment Guidelines)
- Authority Prompt Payment Report, Tab 5 (PAL Section 2880)
- Authority Procurement Guidelines Report, Tab 6 (PAL Section 2879)

The Authority Personnel Report required by PAL Section 2806 is being submitted under separate cover. The Authority Budget Report required by PAL Section 2801, which is to be submitted annually, not less than 60 days before the commencement of the Authority fiscal year, will be submitted no later than October 31, 2001. This will be the first Budget Report of the Authority due to the Authority's 2000 start-up status.

For additional information on the Authority, please contact:

Nassau County Interim Finance Authority
170 Old Country Road, Suite 205
Mineola, NY 11501
(516) 248-2828

# NASSAU COUNTY INTERIM FINANCE AUTHORITY
# REPORT ON DEBT ISSUANCE
# YEAR ENDED DECEMBER 31, 2000

Section 3653(7) of the NIFA statute requires that "At least annually, commencing no more than one year after the date on which authority bonds are issued, the authority shall report…on the costs financed by the authority and the amount of such financing for each such cost over the past year."

In the year ended December 31, 2000, NIFA issued one series of bonds and one series of bond anticipation notes. These debt issues financed costs as follows.

**$254,720,000 Sales Tax Secured Bonds, Series 2000A**

The Series 2000A Bonds were issued on October 25, 2000 and include serial and term bonds maturing from 2002 to 2020. See Note 6 of the Authority Audit for additional details. The Series 2000A Bonds financed the following County costs:

| County Cost Category | Amount |
|---|---|
| Restructuring of Outstanding County Debt | $42,496,558.75 |
| County Capital Projects: | |
| -- Identified projects | 45,345,000.00 |
| -- Projects to be determined | 40,000,000.00 |
| Tax Certiorari Settlements/Judgments | 70,000,000.00 |
| Other Settlements/Judgments: | |
| -- Identified | 31,494,891.00 |
| -- To be determined | 15,000,000.00 |
| Cash Flow Need of the County (Partial Cost of Reassessment Contract) | 10,500,000.00 |
| Nassau County Costs of Issuance | 200,000.00 |
| Total County Costs Financed | $255,036,449.75 |

In addition, NIFA issuance expenses (including Authority costs of issuance of $600,800.65, underwriters' discount of $1,614,828.25 and municipal bond insurance premium of $391,000.00) were financed from bond proceeds, which included original issue premium.

**$224,360,000 Bond Anticipation Notes, Series 2000A-1**

The Series 2000A-1 Bond Anticipation Notes (BANs) were issued on December 22, 2000. The BANs were issued to finance cash flow needs of the County, specifically to purchase County general obligation Tax Anticipation Notes, Series 2000A, 2000B and 2000C of Nassau County (TANs). It is expected that the BANs will be retired with funds received from the County's TAN repayments. The final maturity of the BANs is December 19, 2001. See Note 7 of the Authority's Audit for additional details.

| County Cost Category | Amount |
|---|---|
| Cash Flow Need of the County (Tax Anticipation Notes) | 225,000,000.00 |
| Nassau County Costs of Issuance | 200,000.00 |
| Total County Costs Financed | $225,200,000.00 |

In addition, NIFA issuance expenses (including Authority costs of issuance of $190,288.60 and underwriters' discount of $227,926.60) were financed from BAN proceeds, which included original issue premium.

# *Nassau County Interim Finance Authority*

**Independent Auditors' Report**

**Financial Statements**
Period June 23, 2000 to December 31, 2000

# NASSAU COUNTY INTERIM FINANCE AUTHORITY

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Deloitte & Touche

## INDEPENDENT AUDITORS' REPORT

To the Directors
Nassau County Interim Finance Authority

We have audited the accompanying general purpose financial statements of the Nassau County Interim Finance Authority ("NIFA"), as of December 31, 2000, and for the period June 23, 2000 (date of establishment) to December 31, 2000, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the management of NIFA. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, such general purpose financial statements present fairly, in all material respects, the financial position of NIFA, at December 31, 2000, and the results of its operations for the period June 23, 2000 (date of establishment) to December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 5, 2001

Deloitte
Touche
Tohmatsu

## NASSAU COUNTY INTERIM FINANCE AUTHORITY

## BALANCE SHEET
## DECEMBER 31, 2000
## (Dollars in Thousands)

| | Governmental Fund Types | | | | Account Group | |
|---|---|---|---|---|---|---|
| | General | Special Revenue | Debt Service | Capital Projects | General Long-Term Obligations | Total (Memorandum Only) |
| **ASSETS AND OTHER DEBITS** | | | | | | |
| Cash and cash equivalents | $187,089 | $5,000 | $ - | $144,812 | $ - | $336,901 |
| Investments | - | - | 2,696 | 31,254 | - | 33,950 |
| Investments - Nassau County Tax Anticipation Notes (TAN) | 224,360 | - | - | - | - | 224,360 |
| Sales tax receivable | 87,244 | - | - | - | - | 87,244 |
| Interest receivable | 259 | - | - | 421 | - | 680 |
| Due from general fund | - | - | 1,884 | - | - | 1,884 |
| Due from capital projects fund | - | - | 163 | - | - | 163 |
| Other assets | 15 | - | - | - | - | 15 |
| Amount available in debt service fund for principal retirement | - | - | - | - | 172 | 172 |
| Amount to be provided for general long-term obligations | - | - | - | - | 254,674 | 254,674 |
| TOTAL ASSETS AND OTHER DEBITS | $498,967 | $5,000 | $4,743 | $176,487 | $254,846 | $940,043 |
| **LIABILITIES AND FUND BALANCES** | | | | | | |
| Accrued liabilities | $ 287 | $ - | $4,571 | $ 13 | $ - | $ 4,871 |
| Bonds payable | - | - | - | - | 254,720 | 254,720 |
| Bond Anticipation Notes (BAN) payable | 224,360 | - | - | - | - | 224,360 |
| Revenue Anticipation Notes (RAN) withholding payable | 253,214 | - | - | - | - | 253,214 |
| Due to Nassau County - Sales tax | 18,738 | - | - | - | - | 18,738 |
| Due to Nassau County - Interest | - | - | - | 258 | - | 258 |
| Deferred revenue - Tax certiorari process reform | - | 5,000 | - | - | - | 5,000 |
| Due to debt service fund | 1,884 | - | - | 163 | - | 2,047 |
| Accrued vacation and sick pay | - | - | - | - | 126 | 126 |
| Total liabilities | 498,483 | 5,000 | 4,571 | 434 | 254,846 | 763,334 |
| FUND BALANCES - Unreserved | 484 | - | 172 | 176,053 | - | 176,709 |
| Total fund balances | 484 | - | 172 | 176,053 | - | 176,709 |
| TOTAL LIABILITIES AND FUND BALANCES | $498,967 | $5,000 | $4,743 | $176,487 | $254,846 | $940,043 |

See notes to financial statements.

# NASSAU COUNTY INTERIM FINANCE AUTHORITY

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
## PERIOD JUNE 23, 2000 TO DECEMBER 31, 2000
## (Dollars in Thousands)

| | Governmental Fund Types | | | | |
|---|---|---|---|---|---|
| | General | Special Revenue | Debt Service | Capital Projects | Total (Memorandum Only) |
| **REVENUES** | | | | | |
| Sales tax | $ 529,143 | $ - | $ - | $ - | $ 529,143 |
| State aid | - | 25,000 | - | - | 25,000 |
| Interest income, net | 1,704 | - | - | 2,119 | 3,823 |
| Unrealized gain on investments | - | - | 9 | 105 | 114 |
| Total revenues | 530,847 | 25,000 | 9 | 2,224 | 558,080 |
| **OTHER FINANCING SOURCES** | | | | | |
| Principal amount of bonds issued | - | - | - | 254,720 | 254,720 |
| Other sources | 190 | - | - | 917 | 1,107 |
| Operating transfers in | - | - | 4,734 | - | 4,734 |
| Total revenues and other financing sources | 531,037 | 25,000 | 4,743 | 257,861 | 818,641 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General and administrative | 322 | - | - | - | 322 |
| Cost of issuances - Notes/bonds | 191 | - | - | 601 | 792 |
| Distribution to Nassau County for financeable costs | - | - | - | 79,088 | 79,088 |
| Distribution to Nassau County for general operations | - | 25,000 | - | 1,714 | 26,714 |
| Total current expenditures | 513 | 25,000 | - | 81,403 | 106,916 |
| Debt service | - | - | 4,571 | - | 4,571 |
| Total expenditures | 513 | 25,000 | 4,571 | 81,403 | 111,487 |
| **OTHER FINANCING USES** | | | | | |
| Transfers to Nassau County - Sales tax | 272,497 | - | - | - | 272,497 |
| Transfers to RAN Withholding Account: | | | | | |
| Sales tax | 251,925 | - | - | - | 251,925 |
| Interest | 1,289 | | | | 1,289 |
| Operating transfers out | 4,329 | - | - | 405 | 4,734 |
| Total expenditures and other financing uses | 530,553 | 25,000 | 4,571 | 81,808 | 641,932 |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | 484 | - | 172 | 176,053 | 176,709 |
| FUND BALANCES, BEGINNING OF PERIOD | - | - | - | - | - |
| FUND BALANCES, END OF PERIOD | $ 484 | $ - | $ 172 | $ 176,053 | $ 176,709 |

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 (the "Act"). The Act became effective June 23, 2000. Although legally separate and independent of Nassau County (the "County"), the Authority is a component unit of the County for County financial reporting purposes and, accordingly, is included in the County's financial statements.

The Authority is governed by seven directors, each appointed by the Governor, including one each appointed upon the recommendation of the Majority Leader of the State Senate, the Speaker of the Assembly and the State Comptroller. The Governor also designates the chairperson and vice-chairperson from among the directors.

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

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Authority follows the modified accrual basis of accounting. It recognizes revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are accrued when the related liability is incurred, except for unmatured debt service on bonds payable, which is recognized when due (see Note 6).

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

The Authority receives Sales Tax Revenues several times each month, and receives interest earnings from time to time as investments mature. Funds for debt service are required to be set aside from revenues on a monthly basis, and the Authority also deducts, as necessary, amounts which in its judgment are required for Authority operations and operating reserves. Residual Sales Tax Revenues and investment earnings are then transferred to the County either as cash or through deposits by the Authority to its "County of Nassau Revenue Anticipation Note Withholding Fund," as established pursuant to the Act (see Note 9).

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

## 3. TRANSACTIONS WITH AND ON BEHALF OF NASSAU COUNTY

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

***Receipt and Use of Revenues (not including the Special Revenue Fund) consist of:***

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

- The withholding by the Authority of Sales Tax Revenues that would otherwise be remitted to the County, the deposit of those monies into the County of Nassau Revenue Anticipation Note ("RAN") Withholding Fund, and the retention in that fund of earnings thereon (see Note 9); and

- The remittance to the County of earnings on various other funds held by or on behalf of the Authority, to the extent that those earnings are not required for the payment of Authority debt service or expenses.

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

| | Dollars in Thousands | | |
|---|---|---|---|
| **Period Ended December 31, 2000** | **Sales Tax Revenues** | **Earnings on RAN Withholding Acct** | **Earnings on Other Funds** |
| **Inflows:** | | | |
| Income received prior to December 31, 2000 | $441,899 | $1,033 | $2,110 |
| Additional income accrued to FY 2000 | 87,244 | 256 | 424 |
| Total for year ended December 31, 2000 | $529,143 | $1,289 | $2,534 |
| **Outflows:** | | | |
| Deposited for Authority debt service | $ 2,445 | $ - | $ 242 |
| Accrued for Authority debt service | 1,884 | - | 163 |
| Total applied to Authority debt service | $ 4,329 | $ - | $ 405 |
| Total applied to Authority operating expense/reserve | $ 392 | $ - | $ 415 |
| Deposited to RAN Withholding Account | $185,303 | $1,033 | $ - |
| Accrued for RAN Withholding Account | 66,622 | 256 | - |
| Total applied to RAN Withholding | $251,925 | $1,289 | $ - |
| Transferred to County prior to December 31, 2000 | $253,759 | $ - | $1,456 |
| Accrued to County | 18,738 | - | 258 |
| Total transferred to County | $272,497 | $ - | $1,714 |

***Borrowings for Financeable Costs consist of:***

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

- The sale of Bond Anticipation Notes by the Authority to finance Financeable Costs of the County, and the transfer of Bond Anticipation Note proceeds to the County upon County requisition and pursuant to a purchase contract between the Authority and the County, whereby the Authority privately purchased Tax Anticipation Notes of the County with the Bond Anticipation Note proceeds (see Notes 1, 4 and 7).

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

| | Dollars in Thousands | |
|---|---|---|
| **Period Ended December 31, 2000** | **Sales Tax Secured Bonds, Series 2000A** | **Bond Anticipation Notes, Series 2000A-1** |
| Par amount of issue | $ 254,720 | $ 224,360 |
| Net proceeds to Authority | $ 255,637 | $ 225,390 |
| Reserved by Authority for costs of issuance | 601 | 190 |
| Net proceeds available to County upon requisition | 255,036 | 225,200 |
| Requisitioned in year ended December 31, 2000 | 79,088 | 225,200 |
| Balance available for County financeable costs | $ 175,948 | $ - |

## 4. CASH AND INVESTMENTS

The Authority invests in accordance with the Act, as well as other applicable rules and regulations, the Indenture, and Authority Investment Guidelines adopted by the Authority Directors in November 2000. As of December 31, 2000 the Authority held cash, collateralized Certificates of Deposit, Treasury Bills, Federal National Mortgage Association Discount Notes and Federal Home Loan Mortgage Corporation Discount Notes. All cash deposits of Authority funds (as distinct from Bond Proceeds, which are pledged to the bondholders until expended) are required to be fully collateralized or insured. Collateral for the Authority cash and certificates of deposit, which is required to be 102 percent of the amount of the cash or certificate of deposit amount and to be held by a third party custodian, may consist of the following: U.S. government and agency obligations, obligations of New York State or New York municipalities which under specific State statute may be accepted as security for deposit of public moneys, other state and local governmental obligations rated in one of the three highest categories by at least one nationally recognized rating organization, obligations of domestic corporations rated in one of the two highest categories by at least one nationally recognized rating organization, and any mortgage related securities which may be purchased by banks under the limitations established by bank regulatory authorities.

The Authority also holds Nassau County Tax Anticipation Notes, Series 2000A, 2000B and 2000C (together, the "TANs"), in the aggregate principal amount of $224,360,000 and maturing in April, August and November 2001, respectively. The TANs were sold to the Authority at private sale, in connection with the Authority's Bond Anticipation Note issuance in December 2000 (see Note 7). The TANs are not considered to be marketable securities for financial reporting purposes.

The following table summarizes the Authority's cash and investments as of December 31, 2000. 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, 2000.

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 |
| Cash | $ 19 | $ 185 |
| Certificates of Deposit (maturities less than 90 days) | 41,886 | - |
| U.S. government and agency discount notes (maturities less than 90 days) | 149,999 | 144,812 |
| Total cash and cash equivalents | 191,904 | 144,997 |
| Nassau County TANs | - | 224,360 |
| Total non-marketable securities | - | 224,360 |
| U.S. government and agency discount notes (maturities greater than 90 days) | - | 33,950 |
| Total marketable securities | - | 33,950 |
| Total cash and investments | $191,904 | $403,307 |

## 5. SALES TAX REVENUE RECEIVABLE

Sales Tax Revenues are reported on a modified accrual basis. As such, Sales Tax Revenues received after December 31, 2000 but attributable to Fiscal Year 2000 are shown on the Balance Sheet as Sales Tax Receivable. On the Statement of Revenues, Expenditures and Changes in Fund Balance, applicable portions of these funds have been included as Transfers to Nassau County, Transfers to the RAN Withholding Account, and Debt Service expense.

## 6. BONDS PAYABLE

The Authority issued $254,720,000 of Sales Tax Secured Bonds, Series 2000A (the “Bonds”), on October 25, 2000 and $224,360,000 of Bond Anticipation Notes on December 22, 2000 (see Note 7). The Bonds were issued pursuant to an Indenture (the “Indenture”) between the Authority and the United States Trust Company of New York (the “Trustee”), under which the Authority has pledged its right, title and interest in the Revenues of the Authority to secure repayment of Authority debt. The Act provides that the Authority’s pledge of its Revenues represents a perfected first security interest on behalf of holders of its bonds. The lien of the Indenture on the Revenues for the security of Authority bonds is prior to all other liens thereon. The Authority does not have any significant assets or sources of funds other than Sales Tax Revenues and amounts on deposit pursuant to the Indenture. The Authority has no independent taxing power.

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

| | Dollars in Thousands | | |
|---|---|---|---|
| | Issued | Retired | Balance at December 31, 2000 |
| Sales Tax Secured Bonds, Series 2000A 4.50% to 5.625% Serial and term bonds due 2002 to 2020 | $254,720 | $ - | $254,720 |

Debt service to maturity as of December 31, 2000 is as follows:

| | Dollars in Thousands | | |
|---|---|---|---|
| **Year Ended December 31,** | **Principal** | **Interest** | **Total** |
| 2001 | $ - | $ 14,316 | $ 14,316 |
| 2002 | 6,980 | 13,563 | 20,543 |
| 2003 | 7,290 | 13,249 | 20,539 |
| 2004 | 7,625 | 12,917 | 20,542 |
| 2005 | 9,750 | 12,566 | 22,316 |
| Thereafter | 223,075 | 111,698 | 334,773 |

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

As of December 31, 2000, the Authority maintained its required debt service account in the amount of $2,696,486 (fair value), all of which was for payment of interest on May 15, 2001.

## 7. BOND ANTICIPATION NOTES PAYABLE

On December 22, 2000, the Authority issued $224,360,000 Bond Anticipation Notes, Series 2000A-1 (the "Notes"). The Notes were issued to finance cash flow needs of Nassau County pursuant to the Act and the Indenture. Bond anticipation notes payable are recorded at the principal amount outstanding and consist of the following:

| | Dollars in Thousands | | |
|---|---|---|---|
| | Issued | Retired | Balance at December 31, 2000 |
| Bond Anticipation Notes, Series 2000A-1 | $224,360 | $ - | $224,360 |

The Notes bear interest at the rate of 5 percent per annum, pay interest only at maturity, and mature in the following amounts (in thousands) at the following dates:

| | |
|---|---|
| May 11, 2001 | $ 85,000 |
| September 28, 2001 | 120,000 |
| December 19, 2001 | 19,360 |

The Series 2000A-1 Notes are legally payable from the proceeds of future Authority bonds or renewal notes, and such future issuance has been authorized. However, the Authority is permitted to apply certain other funds to the repayment of the Notes, and plans to repay the Notes as follows. Proceeds of the Authority's Note sale were used to purchase general obligation tax anticipation notes of the County (the "TANs"), which are in principal amounts and bear interest rates sufficient to provide, when due, all amounts payable on the Authority Notes (see Note 4). The County will pay principal and interest on the TANs to the Trustee, which will use the funds to pay principal and interest on the Notes. The TANs are not pledged to the holders of the Notes, but the Authority has covenanted that to the extent it receives payments on the TANs, it will apply such payments to the payment of the Notes.

**8. PENSION LIABILITY**

Eligible Authority employees participate in the New York State and Local Employees' Retirement System and the Public Employees Group Life Insurance Plan (together, the "System"), a cost-sharing multiple-employer defined benefit retirement system. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law ("NYSRSSL"). As set forth in the NYSRSSL, the Comptroller of the State of New York ("Comptroller") serves as the sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may obtained by writing to the New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

The System is noncontributory for employees except for employees who joined after July 27, 1976 and have less than ten years of service, who contribute 3 percent of their salary. 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, 2000, the Authority has not been billed for its employer contribution to the System. The average employer contribution rate for the State fiscal year ended March 31, 2000 was approximately 0.9 percent of payroll. At that rate, the Authority's accrued pension liability for the year ended December 31, 2000 would be $1,523.

**9. COUNTY OF NASSAU REVENUE ANTICIPATION NOTE WITHHOLDING ACCOUNT**

In June 2000, the County issued $245,000,000 County of Nassau Revenue Anticipation Notes (the "RANs") as a general obligation of the County, issued in anticipation of the receipt of sales taxes with respect to the County's fiscal year ended December 31, 2000. The Act required the Authority to set aside Sales Tax Revenues attributable to that fiscal year, after making provision for debt and operating expenses of the Authority, in an amount sufficient to pay principal and interest on the RANs at maturity. The withheld funds were credited to an Authority "County of Nassau Revenue Anticipation Note

Withholding Fund" (the "RAN Withholding Fund") held separately from funds of the Authority. Interest earned on the RAN Withholding Fund is retained in the fund and will be applied to pay principal and interest on the RANs at maturity. As of December 31, 2000, $185,303,224 had been retained and $1,032,465 of interest earned, for a total RAN Withholding Fund balance of $186,335,689. From Sales Tax Revenues received after December 31, 2000 but accrued to the year ended December 31, 2000, an additional $66,621,872 was deposited to the RAN Withholding Fund, and from interest accrued to the year ended December 31, 2000, $255,817 was deposited. These monies, together with future interest earnings thereon, should be sufficient to pay in full, when due, the principal of and interest on the RANs.

## 10. COMMITMENTS AND CONTINGENCIES

The Authority is not a defendant in any litigation as of December 31, 2000.

Authority employees are entitled to accumulate unused vacation and holiday leave, and to be paid for that leave, up to amounts specified by the Authority, upon separation. At current salary levels, the Authority's liability for payment of this accumulation is $46,372, which includes the employers' share of taxes and other withholdings. Authority employees are permitted to accrue unused sick leave up to amounts specified by the Authority and, upon certain conditions, apply the salary value of the leave upon retirement to the cost of the retiree's share of his or her health insurance premium. At current salary levels, the Authority's liability for payment of this accumulation is $79,379, which includes only the salary value of the time accumulated. Authority employees who were previously employed by the State or a State agency or authority were permitted to transfer leave balances to the Authority. The value of these transferred balances is included in the foregoing amounts. The value of accrued unused leave is included in the General Long Term Obligations Account Group.

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# NASSAU COUNTY INTERIM FINANCE AUTHORITY
# REPORT ON INVESTMENTS
# YEAR ENDED DECEMBER 31, 2000

Section 2925 of the New York State Public Authorities Law requires State Authorities to "annually prepare and approve an investment report which shall include the investment guidelines, as specified in subdivision three of this section, amendments to the guidelines since the last investment report, an explanation of the investment guidelines and amendments, the results of the annual independent audit, the investment income record of the corporation and a list of the total fees, commissions or other charges paid to each investment banker, broker, agent, dealer and advisor rendering investment associated services to the corporation since the last investment report."

The Authority's annual Audited Financial Statement is included in Tab 2, and the Independent Auditor's Compliance Report on Investment Policies and Procedures, as required by the Authority's Investment Guidelines, is in Tab 4. The Authority's Investment Guidelines, initially adopted on November 27, 2000, are included at the end of this Tab 3. Other information required by Section 2925 follows.

**Explanation of the Investment Guidelines and Amendments**

The NIFA Investment Guidelines in effect as of December 31, 2000 are based on the principles and precepts of investment safety and control contained in the Office of the State Comptroller's "Investment Guidelines for Public Authorities" as revised on January 2, 1998. The NIFA Guidelines set forth the Authority's policy and objectives regarding the investment of Authority funds, in accordance with the NIFA statute and the bond indenture executed by NIFA and the United States Trust Company of New York, acting as Trustee for NIFA debt issuances. The Guidelines have not been amended as of December 31, 2000.

As indicated in the Investment Guidelines, the Authority's objectives for its investment program are:

1. Foremost, safeguarding the principal amount of the investment funds.
2. Developing a portfolio that considers the factors of liquidity, reasonable return on investments and diversification.

**Investment Activity**

As reported in the Authority Audit, NIFA received or accrued a total of $3.823 million in interest on investments during the fiscal year ended December 31, 2000. In addition, as of December 31, NIFA held marketable securities with maturity dates greater than 90 days for which accrued interest was not reported. Rather, in accordance with accounting principles used by NIFA, these securities were valued at fair market value and the amount of unrealized gain in value ($.105 million) was reported as revenue on a separate line from interest income. This unrealized gain is not included in the interest income detail below. The securities were scheduled to be held to maturity and the interest income will be reported as such in the 2001 Authority Investment Report.

In the year ended December 31, 2000, NIFA had three principal types of investment accounts: (1) accounts held by United States Trust Company of New York as Trustee under the Authority's bond Indenture, which contained bond and note sale proceeds and debt service deposits; (2) a County of Nassau Revenue Anticipation Note (RAN) Withholding Account, established pursuant to the NIFA statute and held by NIFA, as explained in detail in Note 9 of the NIFA Audited Financial Statement; and (3) NIFA operating fund and reserve accounts, which also included State aid to Nassau County being held by NIFA prior to disbursement to the County.

Interest earned in the year ended December 31, 2000 from these accounts were as follows:

| Type of Account | Total Interest Earnings |
|---|---|
| 1. Bond and Note Related, held by Trustee | $2,118,912.44 |
| 2. County of Nassau RAN Withholding Fund | 1,288,281.75 |
| 3. NIFA Operating Funds and Reserves | 415,260.27 |
| Total Earnings (cash and accrued) | $3,822,454.46 |

Interest earnings on bond and note related funds held by the Trustee were applied in accordance with the Indenture, first to meet any NIFA debt service requirements, then to NIFA to fund operating expenses, as needed, and then to the County. Interest earnings on the County of Nassau RAN Withholding Fund were retained in the fund and applied to payment of the County RANs when due. Interest earnings on the NIFA Operating Funds and Reserves were retained by NIFA for operating expenses. Note 3 of the NIFA Audited Financial Statement provides additional detail on the revenue flows resulting from the financial relationships between NIFA and Nassau County.

As of December 31, 2000, the various NIFA accounts held cash, collateralized certificates of deposit, U.S. Treasury Bills, Federal National Mortgage Association Discount Notes, and Federal Home Loan Mortgage Corporation Discount Notes. NIFA also held County of Nassau Tax Anticipation Notes (TANs) purchased in connection with the Authority's Bond Anticipation Notes, Series 2000A-1. See Notes 4 and 7 of the Authority Audit for additional details.

**Fees, Commissions, or Other Charges Paid**

The Authority has not paid any fees, commissions or other charges to any investment banker, broker, agent, dealer and advisor for investment associated services. Following a short startup phase, in which securities were purchased directly from the Authority's bank and Trustee, investments over dollar thresholds set forth in the NIFA Guidelines have been awarded through competitive bid based on the highest yield to the Authority.

# NASSAU COUNTY INTERIM FINANCE AUTHORITY
# AUTHORITY PROMPT PAYMENT REPORT
# YEAR ENDED DECEMBER 31, 2000

Section 2880 of the Public Authorities law requires the Authority to report on the scope and implementation of its Prompt Payment Policy, the parameters of which are set forth in the PAL. The report is to include: "(i) a listing of the types or categories of contracts which the corporation entered into during the twelve month period covered by the report…; (ii) the number and amount of interest payments made…; (iii) the number of interest chargeable days and the total number of days taken to process each late contract payment; and (iv) a summary of the principal reasons that such late payments occurred."

In the year ended December 31, 2000, NIFA entered into three principal categories of contracts:

1. Contracts related to establishment of NIFA's office, such as a lease and telecommunications service.
2. Contracts related to financial policy and bookkeeping.
3. Contracts related to debt financing by NIFA, such as with bond counsel and underwriters.

For each contract, payments were made pursuant to approved invoices within prescribed time limits, so that no charges for interest were incurred or paid.

# NASSAU COUNTY INTERIM FINANCE AUTHORITY
# AUTHORITY PROCUREMENT GUIDELINES REPORT
# YEAR ENDED DECEMBER 31, 2000

Section 2879 of the New York State Public Authorities Law requires State Authorities to "annually prepare and approve a report on procurement contracts which shall include the guidelines."

Attached are the Procurement Guidelines ("Guidelines") adopted by the Authority at its July 13, 2000 meeting, which Guidelines have remained in effect for the period through December 31, 2000. The Guidelines deal with the means by which the Authority acquires goods or services and have been fully utilized since their enactment.