

**NASSAU COUNTY INTERIM
FINANCE AUTHORITY**

2001 ANNUAL REPORT

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**NASSAU COUNTY INTERIM FINANCE AUTHORITY
2001 ANNUAL REPORT**

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September 20, 2002

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

Dear Governor Pataki:

In June 2000 the Nassau County Interim Finance Authority (NIFA) was created as part of your five-point plan that offered Nassau County a clear road map out of its fiscal difficulties. The plan included \$105 million of State assistance, and short term budgetary relief necessary to allow the County time to take needed structural reforms.

During 2001 NIFA worked with the County Executive, Legislature, and Comptroller to develop plans and identify actions that will move the County closer toward achieving long-term structural reforms. The County was able to end FY 2001 with an operating surplus of \$7.1 million. However, the County would have ended the year with a \$108 million operating deficit without the benefit of \$25 million of State transitional aid, and NIFA restructuring of \$88 million. In December of 2001, NIFA approved the FY 02 operating budget, and requested that the newly elected County Executive submit a financial plan for FY 02 – FY 05, so that he could reflect his vision for the future of Nassau County.

Restoring fiscal health is a multi-year task, and this fact was recognized in crafting the NIFA legislation. The County faces numerous fiscal challenges in the years ahead, with large budget gaps projected in the out-years of its financial plan. It must take actions to ensure that proposed gap closing initiatives are implemented. It also has pending labor contracts that could have significant negative implications for the County's fiscal health if costs are not contained. Other major problems remain, including the County's physical infrastructure, a flawed real property tax system, the Nassau Health Care Corporation, and County debt practices, to name just the most pressing issues.

The hard choices that lie ahead can only be solved if all parties work together. 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, 2001

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

Jane Cunneen, Deputy Chief Financial Officer

Carol Kostik, Chief Financial Officer

Laurel Leat, Chief Administrator and Corporate Secretary

Lisa Morelli, Administrative Assistant

Timothy Sullivan, Deputy Director

Jeremy Wise, General Counsel

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 2001:

Frank G. Zarb, Chairperson	Mr. Zarb is the former 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 former Vice Chairman of Time Warner Inc., and is currently a Director of Panavision Inc.; Delta Financial Corp.,

Classic Communications, Inc., and Carl Marks & Co., 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 Annual Report is made pursuant to Section 2800 of the Public Authorities Law and to the NIFA Act, and covers the year ended December 31, 2001. It also incorporates other reports required by New York State law, as identified in "Additional Information" below.

SUMMARY OF ACCOMPLISHMENTS IN 2001

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.

During 2001 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:

- Successful implementation of the FY 2001 operating budget, ending the year with an operating surplus of \$7.1 million, after State transitional aid of \$25 million and NIFA restructuring of \$88 million.
- The issuance of \$647,445,000 of bonds and notes to fund long term and short term needs, with continuation of high credit ratings for NIFA debt.
- Savings to the County of approximately \$7.8 million in debt service expense during 2001 through NIFA debt issuance, on behalf of the County, at NIFA's higher credit rating levels. Since its creation NIFA has saved the County \$18.4 million in debt service expense.
- Adoption of a new capital plan process to allow for better fulfillment of the County's capital needs.
- Creation of monitoring mechanisms to improve financial tracking and facilitate dialogue between the County's elected leaders.
- Improvements in the County's cash flow reporting and monitoring systems. Due to improved tracking and a better cash position the County's two FY 2001 cash flow borrowings were reduced by a total of \$129 million from 2000 levels.
- NIFA's preparation of Labor Guidelines and Procurement Contract Guidelines for use by the County.
- NIFA's establishment of an internal budget monitoring systems, with links to the County's financial systems, to help facilitate our oversight responsibilities.
- Completion of the first audited financial statements for NIFA, with a clean opinion.

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. During 2001 NIFA has had a substantial positive impact on the County’s budget and financial planning processes. Major budget and oversight actions in FY 2001 included:

Budgeting and Four-Year Plan

- At NIFA’s direction, and as a condition to receiving State Transitional Assistance in FY 2001, the County identified and implemented measures to help close its FY 2001 budget gap.
- The County Executive submitted his four-year financial plan, with the first year of the plan being the FY 2002 budget.
- NIFA reviewed the County Executive’s proposed plan and issued a report on October 10, identifying major positive and negative aspects. Overall, NIFA found the initial plan to be inadequate.
- On December 7, 2001 NIFA accepted the FY 2002 budget, and gave the newly elected County Executive, who was taking office on January 1, 2002, until April 1, 2002 to submit a four-year plan that is realistic and acceptable to NIFA.

Monitoring

- NIFA held monthly meetings with the key elected officials of the County, including the County Executive, Legislative Majority and Minority Leaders, and County Comptroller. These meetings help facilitate the exchange of information and problem solving.
- Monthly monitoring meetings were held with representatives of the County Executive, County Legislature, County Comptroller and NIFA to oversee budget status.
- NIFA has an internal County budget monitoring system, with links to the County’s system, to facilitate ongoing oversight.
- NIFA continues to meet monthly with the Nassau Health Care Corporation to monitor its financial status.

A tremendous amount of work remains. The County faces large budget gaps in the out years of its financial plan, especially 2004 and 2005. 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 a significant amount of work to bring its financial difficulties under control, 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.

NIFA's debt program was initiated in FY 2000 and continued successfully in 2001 with a total of \$647,445,000 of bonds and notes sold. Major debt-related actions in FY 2001 included:

- Continued 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 \$181,480,000 Sales Tax Secured Bonds, Series 2001A, to fund County working capital needs and provide net County debt service relief of \$88 million in FY 2001. 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 \$4.65 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 three series of bond anticipation notes, or BANs. Proceeds of the \$180,920,000 Bond Anticipation Notes, Series 2001A-1 were used to purchase the County's annual Revenue Anticipation Notes, thus funding that annual County borrowing at NIFA's lower cost of borrowing. Similarly, proceeds of the \$159,150,000 Series 2001B-2 BANs funded the County's annual Tax Anticipation Notes. The \$125,895,000 Series 2002B-1 BAN funded various new money needs of the County. See Tab 1 for additional details.
- An estimated \$3.11 million in County debt service expense was saved by these NIFA note issuances, primarily because the NIFA debt could be sold without letter of credit support.

In sum, NIFA's 2001 debt issuances provided timely, cost-effective financing of County needs and saved the County almost \$8 million in debt expense compared to the costs that the County would have incurred if it issued debt directly. Together with the savings from NIFA issuance in FY 2000, NIFA has through the end of 2001 saved the County over \$18 million in debt expense.

Administrative Matters

The Authority hired two employees in 2001, bringing its staff complement up to eight employees. NIFA continued to implement and improve its monitoring and oversight mechanisms.

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, 2001 (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 2 (Required by NIFA Investment Guidelines)
- Authority Prompt Payment Report, Tab 4 (PAL Section 2880)
- Authority Procurement Guidelines Report, Tab 5 (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, is submitted separately.

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, 2001**

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, 2001, NIFA issued one series of bonds and two series of bond anticipation notes (BANs). These debt issues financed costs as follows.

\$181,480,000 Sales Tax Secured Bonds, Series 2001A

The Series 2001A Bonds were issued on June 27, 2001 and include serial and term bonds maturing from 2003 to 2021. See Note 6 of the Authority Audit for additional details. The Series 2001A Bonds financed the following County costs:

<u>County Cost Category</u>	<u>Amount</u>
Restructuring of Outstanding County Debt*	\$89,767,266.38
Tax Certiorari Settlements/Judgments	75,000,000.00
Other Settlements/Judgments:	6,000,000.00
Cash Flow Need of the County (Partial Cost of Reassessment Contract)	10,000,000.00
Nassau County Costs of Issuance	<u>200,000.00</u>
 Total County Costs Financed	 \$180,967,266.38

** Because of debt service on the 2001A Bonds accrued in FY 2001, the restructuring provided a net budget benefit to the County of \$88 million.*

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.

\$180,920,000 Bond Anticipation Notes, Series 2001A-1

The Series 2001A-1 BANs were issued on July 11, 2001. The 2001A-1 BANs financed cash flow needs of the County, by NIFA purchase with BAN proceeds of the County’s general obligation Revenue Anticipation Notes, Series 2001A and 2001B of Nassau County (RANs). It is expected that the BANs will be retired with funds received from the County’s RAN repayments. The final maturity of the BANs is April 11, 2002. See Note 7 of the Authority’s Audit for additional details.

<u>County Cost Category</u>	<u>Amount</u>
Cash Flow Need of the County (Tax Anticipation Notes)	\$182,000,000.00
Nassau County Costs of Issuance	<u>200,000.00</u>
Total County Costs Financed	\$182,200,000.00

In addition, NIFA issuance expenses (including Authority costs of issuance of \$84,773.84 and underwriters' discount of \$204,672.46) were financed from BAN proceeds, which included original issue premium.

\$125,895,000 Bond Anticipation Notes, Series 2001B-1
\$159,150,000 Bond Anticipation Notes, Series 2001B-2

The Series 2001B BANs were issued on December 20, 2001. The Series 2001B-1 BANs funded new money needs of Nassau County. The Series 2001B-2 BANs financed cash flow needs of the County, by NIFA purchase of County general obligation Tax Anticipation Notes, Series 2001A, 2001B and 2001C of Nassau County (TANs). It is expected that the Series 2001B-1 BANs will be repaid from the proceeds of a NIFA bond issue in 2002 and that the Series 2001B-2 BANs will be retired with funds received from the County's TAN repayments. The final maturity of the 2001B BANs is December 5, 2002. See Note 7 of the Authority's Audit for additional details.

<u>County Cost Category</u>	<u>Amount</u>
Cash Flow Need of the County (Tax Anticipation Notes)	\$160,000,000.00
Tax Certiorari Settlements/Judgments	100,000,000.00
Other Settlements/Judgments:	16,600,000.00
Cash Flow Need of the County (Partial Cost of Reassessment Contract)	9,500,000.00
Nassau County Costs of Issuance	<u>200,000.00</u>
Total County Costs Financed	\$286,300,000.00

In addition, NIFA issuance expenses (including Authority costs of issuance of \$202,341.20 and underwriters' discount of \$257,769.20) were financed from BAN proceeds, which included original issue premium.

*Nassau County Interim
Finance Authority*

Independent Auditors' Report

Financial Statements

Year Ended December 31, 2001

NASSAU COUNTY INTERIM FINANCE AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors

Nassau County Interim Finance Authority

We have audited the accompanying general-purpose financial statements of the Nassau County Interim Finance Authority (the "Authority"), as of December 31, 2001, and for the year then ended, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on this 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 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 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 the Authority, at December 31, 2001 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2002, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

/s/

March 26, 2002

NASSAU COUNTY INTERIM FINANCE AUTHORITY

BALANCE SHEET
DECEMBER 31, 2001
(Dollars in Thousands)

	<u>Governmental Fund Types</u>				<u>Account Group</u>	<u>Total (Memorandum only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>General Long-Term Obligations</u>	
ASSETS AND OTHER DEBITS						
Cash and cash equivalents	\$ 533	\$ 4,897	\$ 2	\$141,434	\$ -	\$ 146,866
Investments	-	-	5,675	-	-	5,675
Investments - Nassau County RAN's/TAN's	340,070	-	-	-	-	340,070
Sales tax receivable	90,281	-	-	-	-	90,281
Interest receivable	4	-	-	77	-	81
Due from general fund	-	-	5,658	-	-	5,658
Other assets	16	-	-	-	-	16
Amount available in debt service fund for principal retirement	-	-	-	-	18	18
Amount to be provided for general long-term obligations	-	-	-	-	436,399	436,399
TOTAL ASSETS AND OTHER DEBITS	<u>\$430,904</u>	<u>\$ 4,897</u>	<u>\$ 11,335</u>	<u>\$141,511</u>	<u>\$436,417</u>	<u>\$ 1,025,064</u>
LIABILITIES AND FUND BALANCES						
Accrued liabilities	\$ 27	\$ 64	\$ 11,317	\$ 51	\$ -	\$ 11,459
Bonds payable	-	-	-	-	436,200	436,200
Bond anticipation notes (BAN) payable	340,070	-	-	125,895	-	465,965
Due to Nassau County - sales tax	84,623	-	-	-	-	84,623
Due to Nassau County - interest	-	-	-	77	-	77
Deferred revenue-tax cert process	-	4,833	-	-	-	4,833
Due to debt service fund	5,658	-	-	-	-	5,658
Accrued vacation and sick pay	-	-	-	-	217	217
Total liabilities	<u>430,378</u>	<u>4,897</u>	<u>11,317</u>	<u>126,023</u>	<u>436,417</u>	<u>1,009,032</u>
FUND BALANCES - Unreserved	<u>526</u>	<u>-</u>	<u>18</u>	<u>15,488</u>	<u>-</u>	<u>16,032</u>
Total fund balances	<u>526</u>	<u>-</u>	<u>18</u>	<u>15,488</u>	<u>-</u>	<u>16,032</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$430,904</u>	<u>\$ 4,897</u>	<u>\$ 11,335</u>	<u>\$141,511</u>	<u>\$436,417</u>	<u>\$ 1,025,064</u>

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2001

(Dollars in Thousands)

	<u>Governmental Fund Types</u>				Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	
REVENUES					
Sales tax	\$ 783,897	\$ -	\$ -	\$ -	\$ 783,897
State aid	-	25,167	-	-	25,167
Interest income, net	3,772	-	207	5,210	9,189
Unrealized gain on investments	-	-	18	-	18
Total revenues	<u>787,669</u>	<u>25,167</u>	<u>225</u>	<u>5,210</u>	<u>818,271</u>
OTHER FINANCING SOURCES					
Principal amount of bonds issued	-	-	-	181,480	181,480
Other sources	2,216	-	-	340	2,556
Operating transfers in	<u>392</u>	<u>-</u>	<u>24,151</u>	<u>-</u>	<u>24,543</u>
Total revenues and other financing sources	<u>790,277</u>	<u>25,167</u>	<u>24,376</u>	<u>187,030</u>	<u>1,026,850</u>
EXPENDITURES					
Current:					
General and administrative	1,054	-	-	-	1,054
Cost of issuances - notes/bonds	86	-	-	448	534
Distribution to Nassau County for financeable costs	2,130	-	-	342,491	344,621
Distribution to Nassau County for general operations	<u>628</u>	<u>25,167</u>	<u>35</u>	<u>2,036</u>	<u>27,866</u>
Total current expenditures	3,898	25,167	35	344,975	374,075
Debt service	-	-	<u>24,400</u>	-	<u>24,400</u>
Total expenditures	3,898	25,167	24,435	344,975	398,475
OTHER FINANCING USES					
Transfers to Nassau County - sales tax	761,697	-	-	-	761,697
Transfers to RAN Withholding Account:					
Interest	2,812	-	-	-	2,812
Operating transfers out	<u>21,828</u>	<u>-</u>	<u>95</u>	<u>2,620</u>	<u>24,543</u>
Total expenditures and other financing uses	<u>790,235</u>	<u>25,167</u>	<u>24,530</u>	<u>347,595</u>	<u>1,187,527</u>
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES					
	42	-	(154)	(160,565)	(160,677)
FUND BALANCES, BEGINNING OF PERIOD					
	<u>484</u>	<u>-</u>	<u>172</u>	<u>176,053</u>	<u>176,709</u>
FUND BALANCES, END OF PERIOD					
	<u>\$ 526</u>	<u>\$ -</u>	<u>\$ 18</u>	<u>\$ 15,488</u>	<u>\$ 16,032</u>

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2001

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 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 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 5).

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 or the Capital Fund. The Special Revenue Fund accounts for Transitional State Aid, as defined in the Act, which includes assistance for general County needs and aid targeted to assist the County in streamlining its tax certiorari processing. Both types of aid are provided to the County through the Authority. The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on the Authority’s bonds. Only that portion of bonds payable expected to be financed from expendable available resources is reported as a liability of the Debt Service Fund. The Capital Projects Fund accounts for resources to be transferred to the County for its Financeable Costs. 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 as cash.

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 in 2001 (not including the Special Revenue Fund)
consists 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 for the year ended December 31, 2000 that would otherwise have been 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, including interest earned in the year ended December 31, 2001, prior to retirement of the Notes on March 20, 2001 and April 12, 2001 (See Note 9); and
- The remittance to the County, for Financeable Costs or for general County operations, 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.

Receipt and Use of Revenues in the year ended December 31, 2001

	Dollars in Thousands			
	Sales Tax Revenues	Earnings on RAN Withholding Acct	Other Earnings in General Fund	Debt Service and Capital Projects Fund Earnings
Inflows:				
Income received in 2001	\$ 693,616	\$ 2,832	\$ 936	\$ 5,340
Additional income accrued to FY 2001	<u>90,281</u>	<u>-</u>	<u>4</u>	<u>77</u>
Total for year ended December 31, 2001	<u>\$ 783,897</u>	<u>\$ 2,832</u>	<u>\$ 940</u>	<u>\$ 5,417</u>
Outflows:				
Deposited for Authority debt service	\$ 16,170	\$ -	\$ -	\$ 2,295
Accrued for Authority debt service	<u>5,658</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total applied to Authority debt service	<u>\$ 21,828</u>	<u>\$ -</u>	<u>\$ -</u>	<u>2,295</u>
Total applied to Authority operating expense/reserve	<u>\$ 372</u>	<u>\$ -</u>	<u>\$ 332</u>	<u>\$ 392</u>
Distributed to County for Financeable Costs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 659</u>
Total applied to RAN Withholding	<u>\$ -</u>	<u>\$ 2,812</u>	<u>\$ -</u>	<u>\$ -</u>
Transferred to County prior to December 31, 2001	\$ 677,074	\$ 20	\$ 608	\$ 1,994
Accrued to County	<u>84,623</u>	<u>-</u>	<u>-</u>	<u>77</u>
Total transferred to County	<u>\$ 761,697</u>	<u>\$ 20</u>	<u>\$ 608</u>	<u>\$ 2,071</u>

Borrowings for Financeable Costs in 2001:

- 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 (see Notes 1 and 7). In addition, the Authority holds Nassau County Revenue Anticipation Notes and Nassau County Tax Anticipation Notes (see Note 4). The following chart summarizes these debt-related financial flows from the Authority to the County from Authority debt issued in 2001:

Year Ended	Dollars in Thousands			
	Sales Tax Secured Bonds, Series 2001A	Bond Anticipation Notes Series 2001A-1	Bond Anticipation Notes Series 2001B-1	Bond Anticipation Notes Series 2001B-2
December 31, 2001				
Par amount of issue	\$ 181,480	\$ 180,920	\$ 125,895	\$ 159,150
Net proceeds to Authority	\$ 181,214	\$ 182,285	\$ 126,501	\$ 160,001
Reserved by Authority for costs of issuance	247	85	201	1
Net proceeds	180,967	182,200	126,300	160,000
Earnings applied for County Financeable Costs	659	-	-	-
Total available to County upon requisition	181,626	182,200	126,300	160,000
Requisitioned in year ended December 31, 2001	178,159	182,200	18,571	160,000
Balance available for County financeable costs	\$ 3,467	\$ -	\$ 107,729	\$ -

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, 2001 the Authority held cash, collateralized Certificates of Deposit, Treasury Note Principal Strips, 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) are required to be fully collateralized or insured. Collateral for the Authority cash and certificates of deposit, which is required to be 102% of the amount of the cash or certificate of deposit amount and to be held by a third party custodian, consisted of U.S. government and agency obligations.

The Authority also holds Nassau County Revenue Anticipation Notes, Series 2001A and 2001B (together, the "RANs") in the aggregate principal amount of \$180,920,000 and maturing in February and March 2002, respectively; and Nassau County Tax Anticipation Notes, Series 2001A, 2001B and 2001C (together, the "TANs"), in the aggregate principal amount of \$159,150,000 and maturing in April, August and November 2002, respectively. The RANs were sold to the Authority at private sale, in connection with the Authority's Series 2001A-1 Bond Anticipation Note issuance in July 2001. The TANs were sold to the Authority at private sale, in connection with the Authority's 2001B-2 Bond Anticipation Note issuance in December 2001 (see Note 7). The RANs and TANs are not considered to be marketable securities for financial reporting purposes.

The following table summarizes the Authority's cash and investments as of December 31, 2001. 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, 2001. 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	\$ 24	\$ 3
Certificates of Deposit (maturities less than 90 days)	5,401	-
U.S. government and agency discount notes (maturities less than 90 days)	<u>-</u>	<u>141,438</u>
Total cash and cash equivalents	<u>5,425</u>	<u>141,441</u>
Nassau County RANs/TANs*	<u>-</u>	<u>340,070</u>
Total non-marketable securities	<u>-</u>	<u>340,070</u>
U.S. government and agency discount notes (maturities greater than 90 days)	<u>-</u>	<u>5,675</u>
Total marketable securities	<u>-</u>	<u>5,675</u>
Total cash and investments	<u>\$ 5,425</u>	<u>\$ 487,186</u>

**County RANs and TANs are held by Trustee as Custodian and are not pledged to Authority debt holders*

5. SALES TAX REVENUE RECEIVABLE

Sales Tax Revenues are reported on a modified accrual basis. As such, Sales Tax Revenues received after December 31, 2001 through February 28, 2002, but attributable to Fiscal Year 2001 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 and Debt Service expense.

6. BONDS PAYABLE

The Authority issued \$254,720,000 of Sales Tax Secured Bonds, Series 2000A (the “2000A Bonds”), on October 25, 2000 and \$181,480,000 of Sales Tax Secured Bonds, Series 2001A (the “2001A Bonds” and, together with the 2000A Bonds, the “Bonds”), on June 27, 2001. The Bonds were issued pursuant to an Indenture (the “Indenture”) between the Authority and the United States Trust Company of New York and its successor The Bank of New York (the “Trustee”), under which the Authority has pledged its right, title and interest in the Revenues of the Authority to secure repayment of Authority debt. The Act provides that the Authority’s pledge of its Revenues represents a perfected first security interest on behalf of holders of its bonds. The lien of the Indenture on the Revenues for the security of Authority bonds is prior to all other liens thereon. The Authority does not have any significant assets or sources of funds other than Sales Tax Revenues and amounts on deposit pursuant to the Indenture. The Authority has no independent taxing power.

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

	<u>Dollars in Thousands</u>	
	<u>Issued</u>	<u>Balance at December 31, 2001</u>
Sales Tax Secured Bonds, Series 2000A 4.50% to 5.625% Serial and term bonds due 2002 to 2020	\$ 254,720	\$ 254,720
Sales Tax Secured Bonds, Series 2001A 4% to 5.375% Serial and term bonds due 2002 to 2021	<u>181,480</u>	<u>181,480</u>
	<u>\$ 436,200</u>	<u>\$ 436,200</u>

Aggregate debt service to maturity as of December 31, 2001 is as follows:

	<u>Dollars in Thousands</u>		
<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 11,670	\$ 22,275	\$ 33,945
2003	12,400	21,774	34,174
2004	12,920	21,238	34,158
2005	16,785	20,675	37,460
2006	16,945	19,940	36,885
Thereafter	365,480	168,744	534,224

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 both the Series 2000A Bonds and the Series 2001A 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, 2001 the Authority had made all required monthly deposits, in a total amount of \$5,657,566. Of the total deposited, \$3,712,566 was for interest payable on May 15, 2002 and \$1,945,000 for principal payable on November 15, 2002.

7. BOND ANTICIPATION NOTES PAYABLE

On July 11, 2001 the Authority issued \$180,920,000 Bond Anticipation Notes, Series 2001A-1 (the "2001A-1 Notes"). The Notes were issued to finance cash flow needs of Nassau County. On December 20, 2001 the Authority issued \$125,895,000 Bond Anticipation Notes, Series 2001B-1 (the "2001B-1 Notes") and \$159,150,000 Bond Anticipation Notes, Series 2001B-2 (the "2001B-2 Notes" and, together with the 2001B-1 Notes, the "2001B Notes"). The 2001B-1 Notes were issued to finance working capital needs of the County. The 2001B-2 Notes were issued to finance cash flow needs of Nassau County. Bond anticipation notes payable are recorded at the principal amount outstanding and consist of the following:

	Dollars in Thousands	
	Issued	Balance at December 31, 2001
Bond Anticipation Notes, Series 2001A-1	\$ 180,920	\$ 180,920

The 2001A-1 Notes bear interest at the rate of 3.75% per annum, pay interest only at maturity, and mature in the following amounts (in thousands) at the following dates:

March 14, 2002	\$ 104,415
April 11, 2002	76,505

	Dollars in Thousands	
	Issued	Balance at December 31, 2001
Bond Anticipation Notes, Series 2001A-1	\$ 125,895	\$ 125,895
	159,150	159,150

The 2001B Notes bear interest at the rate of 2.5% per annum, pay interest only at maturity, and mature in the following amounts (in thousands) at the following dates:

May 2, 2002 (2001B-2)	\$ 40,000
July 18, 2002 (2001 B-1)	125,895
September 12, 2002 (2001B-2)	100,000
December 5, 2002 (2001B-2)	19,150

The 2001A-1 Notes and the 2001B 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 2001A-1 Notes and the 2001B-2 Notes as follows. Proceeds of the Authority's 2001A-1 Note sale were used to purchase the County RANs, which are in principal amounts and bear interest rates sufficient to provide, when due, all amounts payable on the Authority 2001A-1 Notes. Proceeds of the Authority's 2001B-2 Note sale were used to purchase the County TANs, which are in principal amounts and bear interest rates sufficient to provide, when due, all amounts payable on the Authority Series 2001B-2 Notes. See Note D for additional description of the RANs and TANs. The County will pay principal and interest on the RANs and TANs to the Trustee, which will use the funds to pay principal and interest on the 2001A-1 Notes and 2001B-2 Notes, respectively. The RANs and TANs are not pledged to the holders of the 2001A-1 Notes or the 2001B-2 Notes, but the Authority has covenanted that to the extent it receives payments on the RANs and TANs, respectively, it will apply such payments to the payment of the respective Authority bond anticipation notes. It is anticipated the Series 2001B-1 Notes will be retired from proceeds of an Authority Bond issue or Authority renewal notes in 2002.

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, 2001, the Authority has paid its pension bill from the State in the amount of \$5,697, covering the period April 1, 2001 to March 31, 2002. Only the portion of this payment attributable to the year ended December 31, 2001 is presented as an expense in the financial statements.

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 was retained in the fund and applied to pay principal and interest on the RANs at maturity. All of the sales tax required to be withheld was withheld in (or accrued to) the year ended December 31, 2000. The funds withheld generated interest earnings in the year ended December 31, 2001 in the amount of \$2,831,674, substantially all of which was applied to payment of RAN debt service. The RANs were retired at maturity and no additional withholding of sales tax or interest was made in the year ended December 31, 2001.

10. COMMITMENTS AND CONTINGENCIES

The Authority is not a defendant in any litigation as of December 31, 2001. 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 \$108,187, which includes the Authority's 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 \$109,651, 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.

11. NEW ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board has adopted the following: Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", which establishes specific standards for the basic financial statements, management's discussion and analysis (MD&A), and certain required supplementary information (RSI) other than MD&A; Statement No. 37 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", which makes modifications to statement No. 34; and, Statement No. 38 "Certain Financial Statement Note Disclosures", which modifies,

establishes and rescinds certain financial statement disclosure requirements. These statements will be effective for the Authority for periods beginning after June 15, 2001. The Authority is in the process of evaluating the effect these pronouncements will have on the general-purpose financial statements.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE
AUDITS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

To the Board of Directors

Nassau County Interim Finance Authority

We have audited the financial statements of Nassau County Interim Finance Authority (the "Authority"), as of December 31, 2001 and for the year then ended, and have issued our report thereon dated March 26, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

COMPLIANCE

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. This report is intended solely for the information and use of the Directors, management, and the Office of the State Comptroller, State of New York and is not intended to be and should not be used by anyone other than these specified parties.

/s/

March 26, 2002

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

To the 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, 2001 and for the year then ended, and have issued our report thereon dated March 26, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

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

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

/s/

March 26, 2002

NASSAU COUNTY INTERIM FINANCE AUTHORITY
REPORT ON INVESTMENTS
YEAR ENDED DECEMBER 31, 2001

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 and the Independent Auditor’s Compliance Report on Investment Policies and Procedures, as required by the Authority’s Investment Guidelines, are in Tab 2. Other information required by Section 2925 follows.

Explanation of the Investment Guidelines and Amendments

The NIFA Investment Guidelines in effect as of December 31, 2001 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 its Trustee for debt issuances, the Bank of New York, New York, New York as successor trustee to United States Trust Company of New York. The Guidelines have not been amended as of December 31, 2001.

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 \$9.189 million in interest on investments during the fiscal year ended December 31, 2001. In addition, as of December 31, 2001 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 (\$.114 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 2002 Authority Investment Report.

In the year ended December 31, 2001, NIFA had three principal types of investment accounts: (1) accounts held by United States Trust Company of New York as agent for the Bank of New York, successor 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, 2001 from these accounts were as follows:

<u>Type of Account</u>	<u>Total Interest Earnings</u>
1. Bond and Note Related, held by Trustee	\$5,416,390.80
2. County of Nassau RAN Withholding Fund	2,831,674.11
3. NIFA Operating Funds and Reserves	<u>940,299.67</u>
Total Earnings (cash and accrued)	\$9,188,364.58

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 March 2001. As of December 31, 2001 the Authority held cash, collateralized Certificates of Deposit, Treasury Note Principal Strips, 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) are required to be fully collateralized or insured. Collateral for the Authority cash and certificates of deposit, which is required to be 102% of the amount of the cash or certificate of deposit amount and to be held by a third party custodian, consisted of U.S. government and agency obligations.

The Authority also held Nassau County Revenue Anticipation Notes, Series 2001A and 2001B (together, the "RANs") in the aggregate principal amount of \$180,920,000 and maturing in February and March 2002, respectively; and Nassau County Tax Anticipation Notes, Series 2001A, 2001B and 2001C (together, the "TANs"), in the aggregate principal amount of \$159,150,000 and maturing in April, August and November 2002, respectively. The RANs were sold to the Authority at private sale, in connection with the Authority's Series 2001A-1 Bond Anticipation Note issuance in July 2001. The TANs were sold to the Authority at private sale, in connection with the Authority's 2001B-2 Bond Anticipation Note issuance in December 2001. See Note 7 of the Authority Audit for additional details. The RANs and TANs are not considered to be marketable securities for financial reporting purposes.

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. Investments over dollar thresholds set forth in the NIFA Guidelines have been awarded through competitive bid based on the highest yield to the Authority, except in limited instances of market disruption or special cash flow needs for which eligible securities were not reasonably available through bidding (as documented in the records of the Authority), in which instances eligible securities were purchased directly from the Authority's bank, Trustee, or approved broker/dealer.

NASSAU COUNTY INTERIM FINANCE AUTHORITY INVESTMENT GUIDELINES

Introduction

These investment guidelines (“Guidelines”) are adopted as required by Section 2925 of the New York Public Authorities Law.

ARTICLE ONE

Definitions

As used herein the terms set forth below are defined as follows:

- 1.1 "Authority" or “NIFA” means the Nassau County Interim Finance Authority, a corporate governmental agency and instrumentality of the State of New York, constituting a public benefit Corporation, established pursuant to Chapter 84 of the Laws of 2000 of the State of New York.
- 1.2 "Comptroller" means the State Comptroller.
- 1.3 "Investment Funds" means all monies and financial resources available for investment by the Authority, other than proceeds of bonds issued by the Authority.
- 1.4 "Repurchase Agreement" means a repurchase agreement satisfying the requirements set forth in Article 4 herein.
- 1.5 "Securities" means any or all of the investment obligations of the categories described in Section 4.1 of Article 4 herein.
- 1.6 "State" means the State of New York.

ARTICLE TWO

Scope

These guidelines shall govern the investment and reinvestment of Investment Funds and the sale and liquidation of investments, as well as the monitoring, maintenance, accounting, reporting and internal controls by and of the Authority with respect to such investment, sale, reinvestment and liquidation.

ARTICLE THREE

Investment Objectives

The Authority's investment activities shall have as their first and foremost objective the safeguarding of the principal amount of the Investment Funds. Additional considerations regarding the Authority's investment activities shall be liquidity of investments, realization of a reasonable return on investments and diversification of investments.

ARTICLE FOUR

Permissible Investments

- 4.1 The Authority may invest its Investment Funds in any and all of the following, if and to the extent permitted by statutes, regulations and bond resolutions applicable at the time of investment of such Investment Funds:
- a) obligations of the State or the United States government;
 - b) obligations the principal and interest of which are guaranteed by the State or the United States government;
 - c) certificates of deposit, whether negotiable or non-negotiable, and banker's acceptances (1) of any of the fifty largest banks in the United States which bank, at the time of investment, has an outstanding unsecured, uninsured and unguaranteed debt issue ranked in either of the two highest rating categories of two nationally recognized independent rating agencies; or (2) the certificates of deposit are fully collateralized by obligations of the United States government or obligations the principal and interest of which are guaranteed by the United States government; or (3) the certificates of deposit are held in a "municipal" bank account

and fully collateralized pursuant to General Municipal Law Section 10 and regulations of the Comptroller as the same shall be in effect from time to time, or (4) certificates of deposit in the amount of \$100,000 or less that are fully guaranteed by Federal Deposit Insurance.

- d) commercial paper of any bank or authority created under the laws of either the United States or any state of the United States which commercial paper, at the time of the investment, has received the highest rating of two nationally recognized independent rating agencies;
- e) bonds, debentures, or other evidences of indebtedness, issued or guaranteed at the time of the investment by the federal national mortgage association, federal home loan mortgage authority, student loan marketing association, federal farm credit system, or any other United States government sponsored agency, provided that at the time of the investment such agency receives, or its obligations receive, any of the three highest rating categories of two nationally recognized independent rating agencies;
- f) any bonds or other obligations of any state, or the United States of America or of any political subdivision thereof or any agency, instrumentality or local government unit of any such state or political subdivision which bonds or other obligations, at the time of the investment, have received any of the three highest ratings of two nationally recognized independent rating agencies;
- g) any repurchase agreement or other investment agreements with any bank or trust company organized under the laws of any state of the United States of America or any national banking association or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities described in paragraph (a), (b), or (e) of this subdivision which securities shall at all times have a market value of not less than 102% of the full amount of the repurchase agreement and be delivered to another bank or trust company organized under the laws of New York State or any national banking association domiciled in New York State, as custodian;
- h) reverse repurchase agreements with any bank or trust company organized under the laws of any state of the United States of America or any national banking association or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities described in paragraph (a), (b) or (e) of this subdivision which securities shall at all times have a market value of not less than the full amount of the repurchase agreement and be delivered to another bank or trust company organized under the laws of New

York State or any national banking association domiciled in New York State, as custodian.

- i) investment agreements or guaranteed investment contracts with any financial institution whose senior long term debt obligations, or whose obligations under such an investment agreement or guaranteed investment contract are guaranteed by a financial institution whose senior long term debt obligations, have a rating (at the time such agreement or contract is entered into) in one of the three highest rating categories for comparable types of obligations by a rating agency;
- j) money market funds rated in one of the three highest rating categories for comparable types of obligations by a rating agency;

4.2 Specific Requirements Regarding Certificates of Deposit

4.2.1 Collateral for a Certificate of Deposit. If a certificate of deposit is required to be collateralized pursuant to Section 2 of paragraph (c) of section 4.1 of these Guidelines, the collateral must be reviewed weekly to determine if the market value of the collateral equals or exceeds the principal amount of the uninsured portion of the certificate of deposit plus accrued interest. If the market value of the collateral is insufficient, the issuer of the certificate of deposit must exchange or add to the amount of collateral to bring its market value equal to or in excess of the uninsured portion of the principal amount of the certificate of deposit plus accrued interest.

4.2.2 Standard Terms for Certificate of Deposit Collateral Agreement. The Authority shall negotiate and enter into a written agreement with each bank (and custodian) from which it has obtained a certificate of deposit. Such written agreement shall, at a minimum, address the following concerns:

- (a) The frequency of the valuation of the collateral to market, as set forth above (such valuation shall be done at least weekly);
- (b) The right and ability of the bank to substitute like Investment Securities as collateral;
- (c) Description of events of default which would permit the Authority or its custodian to liquidate or purchase the underlying Investment Securities;
- (d) Description of the party who is to have title to the underlying Investment Securities during the term of the agreement; and
- (e) With respect to the custodial bank, the agreement shall also provide that the custodial bank takes possession of the Investment Securities as agent of the Authority and that the claims of the custodial bank are subordinate to those of the Authority.

- 4.3 Specific Requirements Governing Repurchase Agreements. Notwithstanding Section 4.1 hereof, the following shall also apply to Repurchase Agreements.
- 4.3.1 Placement. The placement of Repurchase Agreements may be distributed among several authorized firms as appropriate to reduce the level of risk. The investment limit set for each such firm shall not be exceeded unless the Executive Director of the Authority makes a written finding that sufficient Securities are not available from other eligible firms. Not less frequently than once each year, the Authority's Executive Director shall review and, if appropriate, recommend adjustment of the investment limit for each eligible seller in light of such firm's current capitalization. All investment limit adjustments shall require the approval of the Chief Financial Officer and Executive Director.
- 4.2.2 Eligible Custodian Banks. To be eligible to hold the Securities which are the subject of a Repurchase Agreement, a custodial bank should be a member of the Federal Reserve Bank or maintain accounts with member banks to accomplish book-entry transfer of Securities to the credit of the Authority. Transfer of Securities, whether by book entry or physical delivery, should be confirmed in writing to the Authority by the custodial bank. The custodian should not be the same party that is selling the Securities. The Authority's Directors or their designee(s) must affirmatively find that a proposed custodial bank is financially sound before such bank may be eligible to perform custodial services for the Authority.
- 4.3.3 Maximum Maturity of Repurchase Agreements. Repurchase Agreements shall be limited to a maturity not to exceed thirty (30) days, or the Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral if any deficiency is not restored within five (5) business days of such valuation. Collateral securities shall have maturities not exceeding thirty (30) years.
- 4.3.4 Standard Terms for Repurchase Agreements. The Authority shall execute a master Repurchase Agreement with each broker-dealer which outlines the basic rights of both buyer and seller including:
- (a) The events of default which would permit the Authority to liquidate or purchase the underlying Securities;
 - (b) The relationship between parties to the agreement, which should ordinarily be purchaser and seller;
 - (c) A requirement that there be a written contract with the custodial bank outlining the responsibilities of the bank and the parties to the agreement. Such an agreement must provide, among other things, that the custodial bank will not make payment for the Securities until the bank actually receives them and that the custodial bank

takes possession of the Securities exclusively for the Authority and that any claims of the custodial bank are subordinate to those of the Authority;

- (d) Procedures which ensure that the Authority obtains a perfected security interest in the underlying Securities. The Authority or its custodian must take possession of the Securities being purchased by physical delivery or book entry. Furthermore, the written agreement shall contain a provision that, in the event a court of final jurisdiction construes the specific Repurchase Agreement to be a loan, the seller shall be deemed to have granted the Authority a perfected security interest in the purchased Securities;
- (e) The market value of the Securities purchased under a repurchase transaction must be at least equal to the purchase price. The value of the Securities must be monitored and marked to market on a daily basis. Additional Securities shall be required if market fluctuations cause the market value of the purchased Securities to become less than the purchase price.

ARTICLE FIVE

Operating Procedures

- 5.1 Authorized Officers and Employees. Only the following persons shall be authorized to make investment decisions on behalf of the Authority: the Chairman of the Authority's Directors; the Executive Director; the Chief Financial Officer; the Treasurer; and the General Counsel, but only if designated in writing by the Chief Financial Officer. The implementation of such investment decisions by placement of purchase or sale orders or otherwise shall be effected only by the foregoing officers and employees and by such employees as may from time to time be designated in writing by the Chief Financial Officer or Treasurer.
- 5.2 Standards for the Qualification of Brokers, Dealers and Agents. Any bank or trust company organized under the laws of any state of the United States of America or any national banking association or government bond dealer which is authorized to do business in the State may become qualified by the Authority to transact purchases and sales of Securities (other than Repurchase Agreements) with the Authority. Factors to be considered in determining the qualification of such firms shall include the firm's capitalization, quality, size and reliability, the Authority's prior experience with the firm, the firm's level of expertise and prior experience with respect to the contemplated transaction. The determination of qualification shall be made by the Chief Financial Officer and the Treasurer, who shall maintain a list of all such qualified firms.

- 5.3 Standards for the Qualification of Investment Advisors. For the purpose of rendering investment advice to the Authority, the Authority may qualify any bank or trust company organized under the laws of any state of the United States of America, any national banking association, and any partnership, authority, or person which is authorized to do business in the State.

The Authority also shall consider the additional criteria (other than capitalization) enumerated in the preceding paragraph.

- 5.4 Standards for the Qualification of Custodial Banks. To be eligible to hold Securities as collateral for an investment made by the Authority, a custodial bank should be a member of the Federal Reserve Bank or maintain accounts with member banks to accomplish book-entry transfer of Securities to the credit of the Authority. Transfer of Securities, whether by book entry or physical delivery, should be confirmed to in writing to the Authority by the custodial bank. The custodian should not be the same party that is selling the Securities. To be eligible to perform custodial services, the Authority's Directors or their designee(s) must affirmatively find that the proposed custodial bank is financially sound.

- 5.5 Competitive Bids; Negotiated Prices. In connection with the purchase and sale of Securities, for each transaction in excess of two and one-half million dollars (\$2,500,000.00) (or such other threshold dollar amount as the Chief Financial Officer may specify in writing), the Authority shall utilize competitive quotations. For each transaction which is equal to or less than two and one-half million dollars (\$2,500,000.00) (or such other threshold dollar amount as the Chief Financial Officer may specify in writing), the Authority may utilize either competitive quotations or negotiated prices. The foregoing shall not apply to the purchase of government securities at initial auction. A complete and continuous record of all quotes, solicited and received, shall be maintained by the Treasury Department.

For each transaction (other than the purchase of governmental securities at initial auction) in excess of two and one-half million dollars (or such other threshold dollar amount as the Chief Financial Officer may specify in writing), a minimum of three separate solicitations will be made on each direct purchase or sale of a Security (including a Repurchase Agreement). The transaction shall be awarded to the dealer(s) offering the highest yield or return, provided that, with respect to Repurchase Agreements, the amount of the investment with each individual firm does not exceed the investment limit referred to in Section 4.2.1 above.

- 5.6 Written Contracts and Confirmations. A written contract and/or a written confirmation shall be a required for each investment transaction. With respect to the purchase or sale of Securities other than Repurchase Agreements, the Authority shall not be required to enter into a formal written contract, provided

that the Authority's oral instructions to its broker, dealer, agent, investment advisor or custodian with respect to such transactions are confirmed in writing at the earliest practicable moment. A written contract shall be required for each purchase and sale of a Repurchase Agreement.

- 5.7 Payment. Payment for investments shall be made only upon written confirmation of presentation of the physical Security, or in the case of book-entry form Securities, when credited for the custodian's account, which shall be segregated for NIFA's sole use. The custodian may act on oral instructions from an authorized officer of the Authority, such instructions to be confirmed in writing immediately by an authorized officer of the Custodian. Such collateral shall, on the date of purchase, be at least equal in market value to the amount of the investment.
- 5.8 Collateral. Except as specifically otherwise provided herein, the Authority's financial interest in its investments shall be fully secured or collateralized at all times in an amount not less than the original amount invested plus accrued, unpaid interest thereon. Only Securities permissible for investment by the Authority pursuant to these Guidelines (other than Repurchase Agreements) may be accepted as collateral. Pledges of proportionate interests in pooled collateral shall not constitute acceptable collateral. In the case of certificates of deposit and demand and time deposits, collateral shall be provided for amounts in excess of the applicable limit of coverage provided by the Federal Deposit Insurance Authority. Collateral shall be maintained in the custody of the Authority or an approved third party custodian at all times. To assure that, at all times, the market value of said collateral is at least equal to the original amount invested plus all accrued, unpaid interest, collateral shall be marked to market at the time the investment is made and thereafter daily with respect to Repurchase Agreements and weekly with respect to certificates of deposit.
- 5.9 Operating Procedure Manual. The Authority's Chief Financial Officer shall prepare a Standard Operating Procedure Manual for placing, controlling and reporting of all investment activity which shall be consistent with these guidelines, be approved by the Authority's Executive Director and shall be consistent with the following:
- (a) Each disbursement of funds (and corresponding receipt of Securities) or delivery of Securities (and corresponding receipt of funds) should be based upon proper written authorization. If the authorization is initially given orally, there should be written or telegraphic confirmation from the Authority's authorized officer to the custodian;
 - (b) The process of initiating, reviewing and approving requests to buy and sell Securities should be documented and retained for audit

purposes. Dealer limits should be established and reviewed regularly;

- (c) Custodians must have prior authorization from the Authority to deliver obligations and collateral. All transactions must be confirmed in writing to the authority. Delivery of obligations sold should only be made upon receipt of funds;
- (d) Custodial banks should be required to report whenever activity has occurred in the Authority's custodial account;
- (e) There should be at least monthly verifications of both the principal amount and the market values of all investments and collateral. Appropriate listings should be obtained from the custodian and compared against the Authority's records;
- (f) A record of investments shall be maintained by the Authority's Chief Financial Officer or Treasurer. The records should identify the Security, the fund for which held, the place where kept, date of disposition and amount realized and the market value and custodian of collateral;
- (g) The establishment and maintenance of a system of internal controls;
- (h) Methods for adding, changing or deleting information contained in the investment record, including a description of the documents to be created and verification tests to be conducted;
- (i) A data base or record incorporating descriptions and amounts of investments, transaction dates, interest rates, maturities, bond ratings, market prices and related information necessary to manage the portfolio; and
- (j) Requirements for periodic reporting and a satisfactory level of accountability.

ARTICLE SIX

Reports and Audits

The following reports and audits shall be prepared in connection with the Authority's investment program.

- 6.1 Annual Investment Report. Within ninety (90) days after the close of each fiscal year of the Authority, the Chairman shall submit to the Directors and the Authority shall file with the State Division of the Budget, Comptroller, State Senate Finance Committee and Assembly Ways and Means Committee an annual investment report, prepared with the assistance of the Chief Financial Officer, which shall include the following:
- 1) The Investment Guidelines required by Section 2925(3) of the Public Authorities Law and any amendments to such guidelines since the last investment report;
 - 2) An explanation of the Investment Guidelines and amendments;
 - 3) The results of the Annual Investment Audit (described below);
 - 4) The investment income record of the Authority; and
 - 5) 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 Authority since the date of the last investment report.
- 6.2 Annual Investment Audit. Each year, the Authority shall cause its independent auditors to conduct an audit (the "Annual Investment Audit") regarding the Authority's investments. (The Authority's financial statements with respect to investments, which are required to be prepared in conformance with generally accepted accounting principles for governments ("GAAP"), should contain all of the note disclosures on deposits with financial institutions and investments required by the Governmental Accounting Standards Board Statements No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" dated April 1986), as amended or supplemented. The Annual Investment Audit:
- 1) Shall determine whether: the Authority complies with its own investment policies; investment assets are adequately safeguarded; adequate accounts and records are maintained which accurately reflect all transactions and

report on the disposition of the Authority's assets; and a system of adequate internal controls is maintained.

- 2) Shall determine whether the Authority has complied with applicable laws, regulations and State Comptroller's Investment Guidelines; and
- 3) Should be designed to the extent practical to satisfy both the common interest of the Authority and the public officials accountable to others.

6.3 Annual Investment Audit Report. The results of the Annual Investment Audit shall be set forth in a report (the "Annual Investment Audit Report") which shall include without limitation:

- 1) verification of collateral;
- 2) a description of the scope and objectives of the audit;
- 3) a statement that the audit was made in accordance with generally accepted government auditing standards;
- 4) a description of any material weaknesses found in the internal controls;
- 5) a description of all non-compliance with the Authority's investment policies as well as applicable laws, regulations and the State Comptroller's Investment Guidelines;
- 6) a statement of positive assurance of compliance on the items tested and negative assurance on those items not tested;
- 7) a statement on any other material deficiency or finding identified during the audit not covered in (6) above; and
- 8) recommendations, if any, with respect to amendment of these Guidelines.

The Annual Investment Audit Report shall be filed within ninety (90) days after the close of the Authority's fiscal year with the Coordinator of Public Authority Programs, Office of the State Comptroller, 110 State Street, Albany, NY 12236.

ARTICLE SEVEN

Affirmative Action

A program of Affirmative Action shall apply with respect to NIFA's corporate investment activities. NIFA shall seek to encourage participation by minority and women-owned financial services firms in the conduct of NIFA's corporate investment activities.

ARTICLE EIGHT

Miscellaneous

- 8.1 In connection with the Annual Investment Audit, each year the Authority shall review these Guidelines to determine whether the Authority shall amend or otherwise update these Guidelines.
- 8.2 The Authority's policy regarding conflicts of interest shall be followed regarding the investment of funds.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY
AUTHORITY PROMPT PAYMENT REPORT
YEAR ENDED DECEMBER 31, 2001**

Section 2880 of the Public Authorities law (PAL) 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, 2001, NIFA entered into two principal categories of contracts:

1. Contracts related to annual audit and legal counsel.
2. 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, 2001**

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 not have not been amended for the period through December 31, 2001. The Guidelines deal with the means by which the Authority acquires goods or services and have been fully utilized since their enactment.

As required by Article X of the Procurement Guidelines a report on Procurement Contracts as of the end of each fiscal year summarizing procurement activity by the Authority for the period of the report including a listing of all Contracts entered into, the selection process used to select such Contracts and the status of existing Procurement Contracts is herein attached.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
GUIDELINES REGARDING THE USE, AWARDING, MONITORING
AND REPORTING OF PROCUREMENT CONTRACTS

Effective June 13, 2000,
Amended March 11, 2001

ARTICLE I

STATEMENT OF PURPOSE

101. These Nassau County Interim Finance Authority Guidelines Regarding the Use, Awarding, Monitoring and Reporting of Procurement Contracts (“Guidelines”) are adopted pursuant to the provisions of the Act and Section 2879 of the Public Authorities Law and shall be reviewed and approved by a quorum of the Authority’s Directors at least annually.

ARTICLE II

DEFINITION OF TERMS

301. The areas of responsibility and oversight requiring Procurement Contracts for personal services include, but are not limited to the performance of legal, accounting, management consulting, investment, banking, planning, training, statistical, research, public relations, architectural, engineering, construction, surveying, or other services of a consulting, professional or technical nature for a fee, commission or other compensation by a person or persons who are not providing such services as officers or employees of NIFA (“Personal Service(s)”).

The reasons for use of Procurement Contracts for Personal Service include, but are not limited to:

- a. Requirements of special expertise or unusual qualifications;
- b. Nature, magnitude complexity of services required;
- c. Lack of sufficient in-house resources, support staff, specialized facilities or equipment;
- d. Lower cost;

- e. Short term need for the services;
- f. Infrequent need for the services; and
- g. Distance of the location or locations where the services must be performed from the Authority offices or facilities.

302. Procurement Contracts for Goods

The types of goods requiring Procurement Contracts include:

- a. Goods needed in order to proceed with a project of NIFA; and
- b. Goods needed in order to support the administrative needs of NIFA.

ARTICLE IV

SELECTION OF PERSONAL SERVICE CONTRACTORS

400. Selection Criteria

Except as specifically waived in accordance with the provisions of these Guidelines, the Act, State law, rules or regulations, Procurement Contracts shall be awarded as follows:

1. General Policy

Procurement Contracts are to be awarded to persons/firms on a competitive basis to the maximum extent possible.

- a. Such awards are to be made after notice is published in the New York State Contract Reporter and after the solicitation of proposals obtained from at least three qualified persons/firms.
- b. Such NIFA requests for proposals shall be preceded, where possible, by the preparation of reasonable cost estimates for such Contracts. Such cost estimates shall be the responsibility of the NIFA staff members initiating such requests for proposals.
- c. All proposals should be received at one designated location within the initiating department, and immediately should be stamped with the date and time of receipt.
- d. When appropriate, written selection criteria shall be prepared for

each Contract, which shall include price as an important factor to be considered in the selection process. Analysis of the proposals and/or bids submitted and the award of the Contract shall be documented in reasonable detail. Awards to other than the low bidder shall include in such documentation the reason the low bidder was not selected.

- e. The initiator shall ensure that documentation related to proposals and/or bids and awards are maintained for not less than two years after completion of the services contracted for.

401. Advertisement Requirements

The solicitation of bids, proposals or submissions of qualification data for Personal Service contracts shall be made by the Authority in a manner determined by an authorized Officer of the Authority to be the most cost effective for providing reasonable competition for the Authority's Personal Service contracts while also promoting State business enterprises where possible, practical, feasible and consistent with open bidding. This may include advertisement in appropriate newspapers or trade journals, direct mailings to firms considered qualified and such other outreach mechanisms as are consistent with the policy of these Guidelines and as directed in section 2879 of the Public Authorities Law. Notice of Procurement Contracts opportunities must also be advertised in the State's New York State Contract Reporter.

402. Term

All contracts for Personal Services shall be limited to a maximum of one year unless the Authority Directors by resolution determine that a longer period for a particular contract is in the best interest of the Authority. Contracts for legal services and financial advice services shall not be longer than five years, including the initial contract period and any contract extensions approved by the Directors of the Authority.

403. Waiver of Selection Criteria

Procurement Contracts may be awarded without notice being published in the New York State Contract Reporter to persons/firms on a sole source or single source basis only on the written approval of the Executive Director or the Directors of NIFA. That approval will only be granted where the initiator can demonstrate:

- a. Emergency or other extraordinary circumstances exist which make competition impracticable or inappropriate; or

- b. Only one source for the goods or services is available; or
- c. Specialized services are required for which a certain person/firm's expertise is unique or such person/firm has greatly superior qualifications to perform the services at a cost that is determined to be fair and reasonable.

The initiator shall ensure that documentation related to the reason for awarding the contract on a sole source or single source basis and for not publishing notice in the New York State Contract Reporter is maintained for not less than two years after completion of the services contracted for.

404. Approval Process

The NIFA Directors shall approve the award of all Procurement Contracts for Personnel Services, regardless of the amount of said contract.

ARTICLE V

SELECTION OF VENDORS AND SUPPLIERS FOR THE PURCHASE OF GOODS

501. Except as provided by the Act, State law, rules or regulations, in the procurement of furniture, equipment, supplies and other goods for the Authority, the Authority shall perform the following tasks:
- a. Establish a realistic furniture, equipment and supplies budget.
 - b. Place advertisements for goods and service in the same manner as described in 401 of these Guidelines.
 - c. Perform a comparative pricing and cost analysis for each item needed, including prices of those items, which are available through the State Office of General Service contracts.
 - d. Prepare contracts and/or purchase orders for the acquisition of all commodities. Use of State contracts is preferable when the items are available at lower costs.
 - e. Monitor vendors for quality control and timely deliveries.
 - f. Verify the quantities received and the quality of the products in light of the specifications, and monitor the vendor invoices for timely payments.
 - g. If the estimated cost of the goods exceeds \$15,000 or more, a competitive bidding procedure will be followed.

ARTICLE VI

MINORITY AND WOMEN-OWNED BUSINESS ENTERPRISE PARTICIPATION

601. The Authority shall, in order to promote the use of minority and women-owned enterprises in Procurement Contracts, solicit offers from minority and women-owned business enterprises known to have experience in the area of the goods or service to be provided, all in accordance with the NIFA Act and State and Federal laws and regulations.

ARTICLE VII

POLICIES TO PROMOTE THE PARTICIPATION BY NEW YORK BUSINESS ENTERPRISES AND NEW YORK STATE RESIDENTS IN PROCUREMENT CONTRACTS

701. The Authority shall comply with the Act and the State Omnibus Procurement Law when applicable.

ARTICLE VIII

PROVISIONS MADE A PART OF SERVICE CONTRACTS

801. Provisions to be contained in Personal Service contracts shall include but not be limited to:

- a. Scope of services;
- b. Contract price or fee structure;
- c. Method or basis of payment;
- d. Use of the Authority's supplies;
- e. Use of the Authority's personnel
- f. Term of the contract; and
- g. The Authority's Schedule A, "Conditions Applicable to NIFA Agreements with Law Firms and other Consultants" which Schedule is made a part of these Guidelines.

ARTICLE IX

PROCUREMENT CONTRACTS WITH FORMER OFFICERS OR EMPLOYEES OF THE AUTHORITY

901. The Authority may not enter into Procurement Contracts with former Officers or employees of the Authority or former employees of New York State who provided services to the Authority, where such Contracts would be in

contravention of law, would create a conflict of interest or may create the appearance of impropriety.

ARTICLE X

REPORTS TO THE DIRECTORS CONCERNING PROCUREMENT CONTRACTS

1001. The Authority shall annually prepare for approval by the Directors and public availability a report on Procurement Contracts as of the end of each fiscal year summarizing procurement activity by the Authority for the period of the report, including a listing of all Contracts entered into, the selection process used to select such Contractors and the status of existing Procurement Contracts. NIFA's Executive Director shall also prepare, on an annual basis, a report for submission to:

- a. The Division of Budget;
- b. The Department of Audit and Control;
- c. The Senate Finance Committee;
- d. The Assembly Ways and Means Committee;
- e. The Department of Economic Development; and
- f. Members of the public (upon receipt of reasonable requests therefore),

which shall include the Guidelines, amendments thereto, and an explanation thereof.

ARTICLE XI

ANNUAL REVIEW AND APPROVAL OF GUIDELINES

1101. The Directors shall annually review and approve these Guidelines.

ARTICLE XII

AMENDMENT OF GUIDELINES

1201. The Authority may, from time to time, amend by resolution, these Guidelines.

ARTICLE XIII

EFFECT OF NONCOMPLIANCE WITH GUIDELINES

1301. Failure by the Authority to comply with provisions of these Guidelines shall not be deemed to alter, affect the validity of, modify the terms of or impair any contract or agreement for the procurement of goods or services.

Attachment: Schedule A

SCHEDULE A

CONDITIONS APPLICABLE TO NIFA AGREEMENTS WITH LAW FIRMS AND OTHER CONSULTANTS (COLLECTIVELY, "CONSULTANT")

"NIFA" IS THE NASSAU COUNTY INTERIM FINANCE AUTHORITY

ARTICLE I

RELATION OF CONSULTANT TO NIFA

1.1 SUPERVISION BY NIFA. The services to be performed by Consultant under this Agreement shall be subject to the general supervision and direction of NIFA provided that neither NIFA's exercise nor failure to exercise such supervision and direction shall relieve the Consultant of any of its obligations or responsibilities for its acts or failure to act pursuant to this Agreement.

1.2 CONSULTANT'S PERSONNEL. The Consultant shall designate in writing to NIFA one individual, satisfactory to NIFA, who shall be responsible for coordinating all of the services to be rendered by the Consultant and who shall be NIFA's normal point of contact with the Consultant on matters relating to such services. Such individual shall be replaced upon NIFA's written request.

1.3 APPROVAL OF SUBCONSULTANTS. The Consultant shall not employ, contract with or use the services of any consultant, special contractors, or other third parties (collectively "Subconsultant") in connection with the performance of its obligations under this Agreement without the prior written consent of NIFA. The Consultant shall inform NIFA in writing of the name, proposed service to be rendered, and compensation of the Subconsultant, and of any interest it may have in the proposed Subconsultant.

1.4 CONSULTANT AS INDEPENDENT CONTRACTOR. Notwithstanding any other provisions of this Agreement, the Consultant's status (and that of any Subconsultant) shall be that of an independent contractor and not that of an agent or employee of NIFA. Accordingly, neither the Consultant nor any Subconsultant shall hold itself out as, or claim to be acting in the capacity of an employee, or agent of NIFA.

1.5 CONFLICT-OF-INTEREST. The Consultant represents that:

(a) The Consultant has not now, and will not acquire, any interest, direct or indirect, present or prospective, in the project to which the Consultant's work relates or the real estate which is the subject of the project, or in the immediate vicinity

thereof and has not employed and will not knowingly employ in connection with work to be performed hereunder, any person or entity having any such interest during the term of this Agreement.

(b) No officer, employee, agent or director of NIFA, or any of its subsidiaries shall be admitted to any share or part hereof or to any benefit to arise here from.

(c) No officer, employee, agent or director of NIFA, or any of its subsidiaries shall participate in any decision relating to this Agreement which affects his personal interest or the interests of any corporation, partnership, or association in which he is directly or indirectly interested; nor shall any officer, agent, director or employee of NIFA, or any of its subsidiaries have any interest, direct or indirect, in this Agreement or the proceedings thereof.

ARTICLE II

DOCUMENTS AND RECORDS

2.1 MAINTENANCE OF RECORDS. The Consultant shall, until three years after completion of its services hereunder or termination of this Agreement by NIFA, maintain and shall require each Subconsultant to maintain (a) complete and correct records of time spent by Consultant (and Subconsultant) in the performance of its obligations under this Agreement and (b) complete and correct books and records relating to all out-of-pocket expenses incurred under this Agreement, including, without limitation, accurate cost and accounting records specifically identifying the costs incurred by Consultant (and Subconsultant) in performing such obligations. Said time records shall specify the dates and numbers of hours or portions thereof spent by Consultant (and Subconsultant) in performing its obligations hereunder. Consultant shall make such books and records available to NIFA or its authorized representatives for review and audit at all such reasonable times as NIFA shall from time to time request. Consultant shall submit duplicate copies of time records and substantiation of out-of-pocket expenses at the time of submission of Consultant invoices in accordance with this Agreement.

2.2 OWNERSHIP OF DOCUMENTS AND OTHER MATERIALS. All originals and negatives of all plans, drawings, reports, photographs, charts, programs, models, specimens, specifications, and other documents or materials required to be furnished by the Consultant under this Agreement including drafts and reproduction copies thereof, shall be and remain the exclusive property of NIFA, and NIFA shall have the right to publish, transfer, sell, license and use all or any part of such reports, plans, drawings, specification and other documents without payment of any additional royalty, charge or other compensation to Consultant. Upon request of NIFA during any stage of the work, Consultant shall deliver all such material to NIFA.

The Consultant agrees that it shall not publish, transfer, license or, except in connection with carrying out its obligations under this Agreement, use or reuse all or any part of such reports and other documents, including working papers, without the prior written approval of NIFA, except that Consultant may retain copies of such reports and other documents for general reference use.

ARTICLE III

TERMINATION

3.1 OPTIONAL TERMINATION BY NIFA. NIFA at anytime, in its sole discretion, may terminate this Agreement or postpone, delay, all or any part of the Agreement upon written notice to the Consultant. In the event of such termination, postponement, or delay, NIFA shall pay the Consultant for reasonable professional time and out-of-pocket expenses incurred by Consultant to the date notice of such action is received by Consultant. The Consultant agrees to cause any agreement or contract entered into by Consultant with any Subconsultant to provide for an optional termination by Consultant similar to the provision of this Section 3.1.

ARTICLE IV

PROVISIONS REQUIRED BY LAW

4.1 CONSULTANT TO COMPLY WITH LEGAL REQUIREMENTS. The Consultant in performing its obligations and in preparing all documents required under this Agreement shall comply with all material applicable laws and regulations. All provisions required by such laws and regulations to be included in this Agreement shall be deemed to be included in this Agreement with the same effect as if set forth in full.

4.2 CONSULTANT TO OBTAIN PERMITS, ETC. Except as otherwise instructed in writing by NIFA, the Consultant shall obtain and comply with all legally required licenses, consents, approvals, orders, authorizations, permits, restrictions, declarations and filings required to be obtained by NIFA or the Consultant in connection with this Agreement.

4.3 NON-DISCRIMINATION.

The Consultant during the performance of this Agreement, specifically agrees that the Consultant will not discriminate against any employee or applicant for employment because of race, creed, color, sex, national origin, age, disability or marital status.

4.4 NO ASSIGNMENT WITHOUT CONSENT. The Consultant agrees that:

(a) It is prohibited from assigning, transferring or otherwise disposing of this Agreement, or of its rights or interests therein, or its power to execute such agreement to any person, company, partnership, or corporation, without the previous written consent of NIFA;

(b) If the prohibition of Section 4.4(a) be violated, NIFA may revoke and annul this Agreement and NIFA shall be relieved from any and all liability and obligations thereunder to the Consultant and to the person, company, partnership or corporation to whom such assignment, transfer or other disposal shall have been made and the Consultant and such assignee or transferee shall forfeit and lose all the money theretofore earned under this Agreement.

ARTICLE V

OTHER STANDARD PROVISIONS

5.1 GOVERNING LAW. This Agreement shall be construed and enforced in accordance with the laws of the State of New York.

5.2 ENTIRE AGREEMENT/AMENDMENT. This Agreement constitutes the entire Agreement between the parties hereto and no statement, promise, condition, understanding, inducement, or representation, oral or written, expressed or implied, which is not contained herein shall be binding or valid and this Agreement shall not be changed, modified or altered in any manner except by an instrument in writing executed by the parties hereto.

5.3 CONFIDENTIALITY. Consultant hereby agrees that all data, recommendations, reports and other materials developed in the course of this study are strictly confidential between Consultant and NIFA and Consultant may not at any time reveal or disclose such data, recommendations or reports in whole or in part to any third party without first obtaining permission from NIFA, other than as required by law. Notwithstanding the preceding sentence, Consultant shall cooperate fully with such third parties as NIFA may designate by written request. Such cooperation shall include making available to such parties, data, information and reports used or developed by Consultant in connection with this study.

5.4 INDEMNIFICATION. Notwithstanding anything to the contrary contained herein, Consultant shall be responsible for all injuries to persons, including death, or damage to property sustained while performing or resulting from the work under this Agreement, if and to the extent the same results from any act, omission, negligence, fault or default of Consultant or Subconsultants, or their employees, agents, servants,

independent contractors or subcontractors retained by Consultant pursuant to this Agreement. Consultant agrees to defend, indemnify and hold the Indemnitees (the State of New York and NIFA) harmless from any and all claims, judgments and liabilities, including but not limited to, claims, judgments and liabilities for injuries to persons (including death) and damage to property, if and to the extent the same results from any act, omission, negligence, fault or default of Consultant or its Subconsultants, or their agents, employees, servants, independent contractors and subcontractors and from any claims against, or liability incurred by the indemnities by reason of claims against Consultant or its Subconsultants, or their employees, agents, servants, independent contractors and subcontracts for any matter whatsoever in connection with the services performed under this Agreement, including, but not limited to, claims for compensation, injury or death, and agree to reimburse the indemnities for reasonable attorneys' fees incurred in connection with the above. Consultant shall be solely responsible for the safety and protection of all its Subconsultants, or the employees, agents, servants, independent contractors, or subcontractors of Consultant or its Subconsultants, and shall assume all liability for injuries, including death, that may occur to said persons due to the negligence, fault or default of Consultant, its Subconsultants, or their respective agents, employees, servants, independent contractors or subcontractors.

This Article shall survive the expiration or earlier termination of this Agreement.

5.5 MISCELLANEOUS. The parties hereto agree that this Schedule A shall be controlling in the event of any inconsistencies or conflicts between the terms of this Schedule A and any part of the Agreement.

ARTICLE VI

BILLING POLICY

6.1 INVOICES. The Consultant is required to submit detailed documentation in support of Consultant's request for reimbursement. All invoices and their accompanying documentation must be forwarded to:

Chief Financial Officer
Nassau County Interim Finance Authority
170 Old Country Road, Suite 205
Mineola, New York 11501

Invoices shall be made on the Consultants own invoice forms or letterhead and must include NIFA 's contract and project numbers, if any. Consultant shall also include federal identification number with their first invoice, and a list of each individual who is expected regularly to bill time to this matter, his/her title and hourly billing rate. Invoices

shall be in the form attached to this Schedule A. Time shall be billed on a 1/10th of an hour basis.

6.2 REIMBURSABLE EXPENSES.

Consultant's monthly invoices should present out-of-pocket expenses on a daily, itemized basis, grouped by general category. The Consultant must submit supporting documentation for each individual expense item over \$250. Out-of-pocket expenses will be reimbursed only in accordance with the attached **SCHEDULE OF MAXIMUM REIMBURSEMENT ALLOWANCES FOR NIFA AGREEMENTS WITH LAW FIRMS AND OTHER CONSULTANTS.**

6.3 NON-REIMBURSABLES.

The following will not be reimbursed:

- a) Flight insurance
- b) Valet Services (except five or more consecutive days)
- c) Personal expenses of any type
- d) Expenses paid for NIFA employees
- e) Travel to any NIFA office to "deliver vouchers or pick up check".

6.4 NO REIMBURSEMENT FOR SALES TAX CHARGES

NIFA is a public benefit corporation and as such is exempt from all sales and use taxes in New York State. NIFA will not reimburse the Consultant for sales or use taxes over \$10.00 incurred in connection with the contract. If the Consultant will make purchases of goods or services that involve sales or use taxes in excess of that amount, the Consultant must, in advance of making such purchases, obtain a sales tax certification from NIFA so that no such taxes are incurred.

6.5 GENERAL.

(a) All receipts must be legible. Illegible receipts will not be reimbursed.

(b) Whenever possible original receipts should be presented for reimbursement.

At any time or times until three years after completion of Consultant's services or earlier termination of this Agreement by NIFA, NIFA may have the vouchers and statements of cost audited. Each payment theretofore made shall be subject to reduction for amounts included in the related voucher, which are found by NIFA on the basis of such audit, not to constitute allowable cost. Any such payment may be reduced for overpayments or increased for underpayment, as the case may be.

Attachment to Schedule A

[CONSULTANT LETTERHEAD]

Date
Bill # _____
NIFA Contract No:

To: Nassau County Interim Finance Authority
Attention: General Counsel and Chief Financial Officer

Matter Name/No.: _____

FOR PROFESIONAL FEES

<u>Date</u>	<u>Hours*</u>	<u>Fees**</u>	<u>Description of Services</u>
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* Billing on 1/10th of an hour.
** # of hours x the applicable rate.

CHARGES AND DISBURSEMENTS (grouped by category):

<u>Date</u>	<u>Description</u>	<u>Amount</u>
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TOTAL CHARGES AND DISBURSEMENTS \$

TOTAL FOR FEES AND CHARGES AND DISBURSEMENTS: \$

Certified as true and correct _____
Vendor/Title

NIFA internal approval _____
Name Title Date

Attachment to Schedule A

**SCHEDULE OF MAXIMUM REIMBURSEMENT ALLOWANCES FOR
NIFA AGREEMENTS WITH LAW FIRMS AND OTHER CONSULTANTS**

Consultant will be reimbursed for the following types of expenses at the following maximum rates. Reimbursable expenses must be billed currently and in any event within 60 days of being incurred:

<u>TYPE OF EXPENSE</u>	<u>RATE OF REIMBURSEMENT</u>
Secretarial	None (unless overtime)
Word Processing	None (unless overtime and then up to \$50/hr)
Local Telephone Expenses	None
Taxis or Private Cars	Actual cost up to \$70; amounts over \$50 must be submitted for approval on a case-by-case basis. Mileage reimbursement for private cars is \$.36.5/mile.
Meal Charges	Actual cost of evening or overtime meals in the office up to \$30 and reasonable cost of outside catering service for meetings. No reimbursements for breakfast or lunch.
Time Spent Preparing Bills	None
Long Distance Telephone	Actual cost
Photocopying	Firm's standard rate, up to \$.25/page; Actual cost if out-sourced.
Fax Transmission	None for incoming faxes; Firm's standard rate, up to \$1.00/page for outgoing faxes
Computer Research	Actual cost (no overhead) and only as needed and deemed cost effective.

Out-of-Town Travel

Reasonable expenses, to be submitted for approval, in advance, on a case-by-case basis.

Postage and Overnight Mail

None for individual letters;
FedEx and other special delivery services will be reimbursed at actual cost

Messenger Service

Actual cost up to \$15.