

**NASSAU COUNTY INTERIM  
FINANCE AUTHORITY**

**2004 ANNUAL REPORT**

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**NASSAU COUNTY INTERIM FINANCE AUTHORITY  
2004 ANNUAL REPORT**

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June 16, 2005

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 make needed structural reforms.

Since our inception, NIFA has worked with the County Executive, Legislature, and Comptroller to develop plans, identify actions, and monitor progress toward achieving long-term structural balance. Through NIFA's ability to issue higher rated debt, and our ability to enter into interest rate swap agreements, NIFA saved the County \$65.7 million in 2004, bringing the total savings from borrowing to \$139.6 million. NIFA has provided the County with total savings of \$468.3 million, including \$92.7 million of State aid, and \$236.1 million of temporary budget relief from debt restructuring.

The County was able to end FY 2004 with an operating surplus of \$9 million, after setting aside approximately \$66 million to establish certain reserves and accruals that will benefit FY 2005 and beyond. This will be the second year since NIFA was created that the County ended the year with an excess of revenues over expenditures, without the \$7.5 million of State transitional aid, and \$9.1 million of restructuring relief, that NIFA provided. However, the amount of recurring expenditures still exceeds recurring revenues. In November of 2004, NIFA approved the FY 05 – FY 08 financial plan, and requested that the County Executive submit an update of his financial plan for FY 05 – FY 08 by June 1, 2005.

Restoring fiscal health is a multi-year task that was recognized in crafting the NIFA legislation. While significant progress has been made, the County continues to face numerous fiscal challenges, with large gaps of \$204.5 million for FY 2006, \$307.8 million in FY 2007, and \$395.2 million for FY 2008, projected in the out-years of the financial plan that was adopted on November 8, 2004. However the County's June 1, 2005 financial plan update shows that the gaps have been reduced a total of \$225 million largely because of the Medicaid cap enacted by Governor Pataki and the New York State Legislature. The County now projects gaps of \$148.6 million in FY 2006, \$231.6 million in FY 2007, and \$302.0 in FY 2008.

Continued vigilance is necessary to ensure that gap-closing initiatives are implemented and achieve their expected results. The County continues to face major problems, including the need for the Nassau Health Care Corporation to achieve long term financial stability, the need to significantly reduce the tax certiorari backlog since the County must begin paying certiorari settlements from the operating budget in 2006, and the upgrade of the County's physical infrastructure.

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 that County residents need and deserve.

Sincerely,

Ronald A. Stack  
Chairman

## **Nassau County Interim Finance Authority**

### **AUTHORITY DIRECTORS AND STAFF AS OF DECEMBER 31, 2004**

#### **Directors**

Ronald A. Stack, Chairperson

Richard M. Kessel

Martin D. Payson

Robert G. Smith, Ph.D.

Robert M. Wallach

#### **Staff**

Richard Luke, Executive Director and Treasurer

Evan Cohen, Deputy Director

Jane Cunneen, Deputy Chief Financial Officer

Laurel Leat, Chief Administrator and Corporate Secretary

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 the County's 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 formed the basis of State legislation creating NIFA (the "Act"). 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 Act has been amended several times since its original enactment. The main changes have had to do with the amounts and timing of borrowings. However, in 2003 a significant change was made that extended the "interim finance period," as defined in the Act, through and including Fiscal Year 2007.

The Authority is governed by seven Directors, however, the resignation of Frank G. Zarb in 2003 and David H. Periez in 2004 created two vacancies that have not yet been filled. All Directors are 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 2004:

Ronald A. Stack, Director was appointed Chairperson as of November 10, 2003. Mr. Stack is a Managing Director and Head of the Public Finance Department of Lehman Brothers. His term of office expired on December 31, 2004, but he continues to serve as a holdover.

Richard M. Kessel, Director. Mr. Kessel is the Chairman and Chief Executive Officer of the Long Island Power Authority. His term of office expired on December 31, 2004, but he continues to serve as a holdover.

Martin D. Payson, Director. (Nominated by the State Comptroller.) Mr. Payson is a Director of Panavision Inc.; Delta Financial Corp.; Information Holdings, Inc;

and Carl Marks & Co., Inc. His term of office is scheduled to expire on December 31, 2005.

David H. Peirez, Director. (Nominated by the Speaker of the Assembly.) Mr. Peirez is a senior partner in the law firm of Reisman, Peirez & Reisman, L.L.P. His term of office is scheduled to expire on December 31, 2005. (*Mr. Peirez resigned in April 2004*).

Robert G. Smith, Ph.D., Director. Dr. Smith is the Founder of Smith Affiliated Capital Corp. He is a member of the New York State Financial Control Board, director and chairman of the Audit Committee of the Guardian Insurance Family of Mutual Funds, Director of the New York State Charitable Asset Foundation, and a member of the New York State Comptroller's Investment Advisory Board for the State Common Fund. His term of office is scheduled to expire on December 31, 2006.

Robert Wallach, Director. (Nominated by the Senate Majority Leader.) Mr. Wallach is Chairman and Chief Executive Officer of The Robert Plan Corporation. His term of office is scheduled to expire on December 31, 2005.

The following is a brief description of certain officers and staff members of the Authority:

Richard Luke, Executive Director and Treasurer. Mr. Luke serves as Executive Director and Treasurer. Mr. Luke is a CPA with 35 years' financial management experience dealing with local governments, including 15 years working for the Office of the State Comptroller.

Jeremy Wise, General Counsel. Mr. Wise serves as General Counsel and Chief Borrowing Officer. Mr. Wise has been admitted to the practice of law in New York State since 1978. The majority of his legal career has been spent working in the area of public finance.

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, 2004. It also incorporates other reports required by New York State law, as identified in "Additional Information" below.

## **SUMMARY OF ACCOMPLISHMENTS IN 2004**

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 2004, NIFA continued to bring fiscal stability to Nassau County and help the County on its road to long-term budget balance and financial health. Some of NIFA's and the County's major accomplishments in 2004 are as follows:

- NIFA issued the most bonds of any local authority in New York State in 2004, totaling \$940.6 million, while still maintaining its high credit ratings.
- During 2004 NIFA entered into \$600 million of swaps to manage the interest rate exposure of its debt pursuant to an Interest Rate Swap Policy adopted by the NIFA Directors.
- NIFA saved the County approximately \$67.5 million in debt service expense through refinancing of debt. This included \$36.8 million of refundings, which generated net present value savings of \$42.9 million. Since its creation, by effectively using its statutory powers and higher credit ratings, NIFA has saved the County \$139.6 million in debt service expense.
- The County ended FY 2004 with an operating surplus of \$9 million, after setting aside approximately \$66 million to establish certain reserves and accruals that will benefit FY 2005 and beyond.
- For the second time since NIFA was created, the County would have ended the year with an excess of revenues over expenditures, without considering the assistance that NIFA provided through \$7.5 million of State transitional aid, and \$9.1 million of restructuring relief. However, non-recurring actions and events produced a large portion of the County's surplus.
- The County's improved its financial condition, as evidenced by the three rating agency's upgrading the County's bond ratings into the A category for the first time in almost a decade.
- NIFA continued its monitoring of the County's finances and helped to facilitate dialogue among the County's elected and appointed leaders.
- The County improved its cash flow reporting and monitoring systems which, together with its improved financial condition, allowed the County to eliminate any cash flow borrowings in 2004.
- NIFA's monitoring of the Nassau Health Care Corporation helped to facilitate positive changes, including a refinancing of the hospital's debt.

## **NIFA MISSION AND ACTIVITIES**

### **Financial Oversight and Monitoring**

NIFA is charged with the overseeing and monitoring of the finances of Nassau County and, if necessary, establishing a "control period" to exercise additional oversight powers. Since its inception, NIFA had a substantial positive impact on the County's budget and financial planning processes, and operating results. The Directors have continued to act as a unified group, with all actions receiving unanimous support of the Directors. Major budget and oversight actions in FY 2004 included:

## Budgeting and Four-Year Plan

- At NIFA's direction, and as a condition to receiving State Transitional Assistance in FY 2004, the County identified and implemented sufficient recurring and non-recurring measures to help close its projected FY 2004 baseline gap of \$120 million.
- During 2004 NIFA provided the County with \$7.5 million of State Transitional Assistance (\$92.7 since inception) and \$9.1 million of restructuring of maturing debt (\$236.1 million since inception).
- The County ended FY 2004 with a small surplus.
- On June 1, 2004 the County Executive submitted his update of the Four Year Financial Plan ("Plan") for the period FY 2004 – FY 2007.
- On September 1, 2004 the County Executive submitted his Four Year Financial Plan, with the first year of the Plan being the FY 2005 budget. The Plan contained no property tax increases, but relied on non-recurring items to close a projected Budget gap of \$120.3 million. Non-recurring items included the use of \$35 million from the Retirement Contribution Reserve Fund and \$26.1 million of 2004 surplus to pre-pay certain 2005 expenditures.
- NIFA reviewed the County Executive's proposed Plan and issued a report on October 5, 2004 identifying the major positive and negative aspects. Overall, NIFA found the Plan to be adequate.
- On November 8, 2004 NIFA accepted the Four Year Financial Plan adopted by the County Legislature. While NIFA accepted the Plan, it also requested that the County Executive submit an updated Plan no later than June 1, 2005.

## Monitoring

- NIFA continues to hold monthly meetings of the key elected officials of the County, including the County Executive, Legislative Majority and Minority Leaders, and County Comptroller. These meetings cover timely issues affecting the County and promote the exchange of information and problem solving.
- Monthly financial monitoring meetings are also held with representatives of the County Executive, County Legislature, County Comptroller and NIFA to oversee budget status.
- NIFA monitors key financial indicators such as sales tax, staffing, and social service costs in order to allow NIFA to project year-end operating results.
- NIFA meets with the Nassau Health Care Corporation monthly to remain up to date on their financial condition.
- NIFA regularly meets with County representatives concerning the County's progress in streamlining its certiorari process.

While the County has made significant progress, much remains to be done. The County continues to face large budget gaps in the out years of the Plan, currently estimated at \$204.5 million in 2006, \$307.8 million in 2007, and \$395.2 million in 2008. The County's physical infrastructure and technology need to be upgraded; the Nassau Health Care Corporation, has survived another year because of a refunding of its debt and the

use of reserves, but continues to experience financial difficulties; and the County has failed to prove that it has significantly reduced the backlog of tax certiorari claims, as evidenced by the County's failure to request up to \$4.8 million in available State aid for reducing the certiorari backlog. These and other major problems must be addressed in 2005.

**Debt Issuance on Behalf of Nassau County**

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. Sales Tax Revenue provided 8.8 times coverage of the Authority's 2004 total monthly set-asides for debt service of \$951,602,000.

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 2004 with a total of \$1,748,425,000 of bonds outstanding at the end of FY2004. The outstanding debt is comprised of \$933,120,000 of fixed rate debt, \$215,305,000 of unhedged variable rate debt, and \$600 million of synthetic fixed rate debt. Total estimated debt service is \$2,507,112,882. NIFA's debt matures through the year 2025, and is comprised of fixed, variable and auction rate bonds issued at variable rates. NIFA does not have any notes outstanding.

Major debt-related actions in FY 2004 included:

- Continued high credit ratings for NIFA debt, as follows:

Rating Agency	NIFA Long Term Debt Rating
Fitch	AA+
Moody's Investors Service	Aa2
Standard & Poor's	AA

- During 2004, the Authority issued \$940,635,000 of long term bonds, including \$153,360,000 of fixed rate Bonds, Series A, and \$450,000,000 of auction rate bonds, Series 2004B-2004G. The Authority also issued \$187,275,000 of fixed rate bonds, Series 2004H, and \$150,000,000 of auction rate bonds, Series 2004I-2004K. In addition, the Authority entered into interest rate Swaps for Series 2004B-2004G, and Series 2004I-2004K bonds.

- A portion of the 2004 proceeds were used to refund County and NIFA debt, resulting in an approximately \$36.8 million decrease in aggregate debt service payments and net present value savings of approximately \$42.9 million. Together with the savings from earlier issuances NIFA has saved the County over \$139.6 million in debt expense through the end of FY 2004.
- In addition to refunding County and NIFA debt, Bonds issued in 2004 were used to: provide for the payment of certain other Financeable Costs, including : the restructuring of a portion of the County's bonds; payment of tax certiorari judgments and settlements, other legal judgments and settlements, County capital projects and costs of issuance.

Bonds payable increased in fiscal year 2004 by \$ 625,105,000 (55.6%), principally due to the issuance of the Series 2004A-K bonds, as offset by the refunding of indebtedness and retirement on prior bond issues. The Authority did not have any notes payable outstanding during 2004 because the County's improved financial condition did not require the issuance of any cash flow borrowings by either the County or NIFA.

### **Administrative Matters**

During most of 2004 the Authority had five employees, 4 of whom have been with NIFA since 2000. NIFA continued to implement its monitoring and oversight mechanisms. The NIFA website was also maintained and updated.

### **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, 2004 (Tab 2). The Audit sets forth NIFA's receipts and disbursements, its assets and liabilities, and a schedule of its bonds and notes outstanding at the end of the year. Provision of the Audit also meets the requirements of Section 2802 of the Public Authorities Law.

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

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

The Authority Personnel Report required by PAL Section 2806 is being submitted under separate cover. The Authority Budget Report required by PAL Section 2801, which is to be submitted annually, not less than 60 days before the commencement of the Authority fiscal year, is submitted separately.

For additional information on the Authority, please contact:

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**NASSAU COUNTY INTERIM FINANCE AUTHORITY  
 REPORT ON DEBT ISSUANCE  
 YEAR ENDED DECEMBER 31, 2004**

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.”

During 2004, the Authority issued \$940,635,000 of long term bonds, including \$153,360,000 of fixed rate Bonds, Series A, and \$450,000,000 of auction rate bonds, Series 2004B-2004G. The Authority also issued \$187,275,000 of fixed rate bonds, Series 2004H, and \$150,000,000 of auction rate bonds, Series 2004I-2004K. In addition, the Authority entered into interest rate Swaps for Series 2004B-2004G, and Series 2004I-2004K bonds.

Set forth below are the estimated sources and uses of the proceeds of the Series 2004A Bonds and Series 2004 ARS Bonds Series 2004B-2004G:

**SOURCES OF FUNDS**

Par amount of the Series 2004 ARS Bonds and the Series 2004A Bonds .....	\$603,360,000.00
Plus Original Issuance Premium.....	13,907,785.35
Prior Debt Service Funds.....	<u>7,697,547.51</u>
Total Sources of Funds.....	<u>\$624,965,332.86</u>

**USES OF FUNDS**

Deposit to Bond Proceeds Fund for the following Purposes:	
Funding escrow accounts to pay County debt service and NIFA Debt Service (refundings) .....	\$473,196,036.51
County capital projects.....	93,462,812.00
Tax certiorari judgments and settlements.....	34,700,000.00
Other legal judgments and settlements.....	17,500,000.00
County Costs of Issuance .....	450,000.00
Underwriters’ Discount, Insurance Premiums and Other	
Authority Costs of Issuance.....	<u>5,656,484.35</u>
Total Uses of Funds	<u>\$624,965,332.86</u>

**Sources and Uses of Funds**

Set forth below are the estimated sources and uses of the proceeds of the Series 2004H Bonds and the Series 2004 ARS Bonds Series 2004I, J and K.:

**SOURCES OF FUNDS**

Par amount of the Series 2004I, J and K ARS Bonds and the Series 2004H Bonds .....	\$337,275,000.00
Plus Net Original Issuance Premium .....	<u>18,219,668.65</u>
Total Sources of Funds.....	\$355,494,668.65

**USES OF FUNDS**

Deposit to Bond Proceeds Fund for the following Purposes:

Funding escrow accounts to pay County debt service (refundings) .....	\$174,450,010.00
Tax certiorari judgments and settlements.....	160,000,000.00
Other legal judgments and settlements.....	17,500,000.00
County Costs of Issuance .....	260,000.00
Underwriters' Discount .....	1,755,543.48
Authority Costs of Issuance, Insurance Premium and Surety Premium .....	<u>1,529,115.17</u>
Total Uses of Funds.....	\$355,494,668.65

***Nassau County Interim  
Finance Authority***

**Independent Auditors' Report**

**Financial Statements**

Year Ended December 31, 2004

# NASSAU COUNTY INTERIM FINANCE AUTHORITY

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Nassau County Interim Finance Authority

We have audited the accompanying financial statements of the governmental activities and each major fund of the Nassau County Interim Finance Authority (the "Authority"), as of December 31, 2004, and for the year then ended, which collectively comprise the Authority's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Authority, as of December 31, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages two through four is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 2004 supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2005, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Deloitte + Touche LLP*

March 31, 2005

# NASSAU COUNTY INTERIM FINANCE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2004

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The Nassau County Interim Finance Authority (the "Authority" or "NIFA") is a New York State authority empowered to monitor and oversee the finances of Nassau County, New York (the "County") and to issue bonds and notes for various County purposes. In its oversight capacity, the Authority is empowered to, among other things, review County financial plans submitted to it; make recommendations or, if necessary, adverse findings thereon; make transitional State aid available as it determines; comment on proposed borrowings by the County and certain affiliated organizations; and impose a "control period" upon making one of several statutory findings concerning the County's financial position. To date, the Authority has not imposed a control period.

In its capacity to issue bonds and notes on behalf of the County, the Authority has funded cash flow, capital and working capital needs of the County since the Authority was created in 2000. NIFA did not fund any County cash flow needs during 2004 because the County's financial condition has improved and therefore the County did not need any cash flow borrowing. Revenues to fund Authority operations and pay Authority debt service are provided by a portion of the sales tax revenues of the County on which the Authority has a first lien and, to a much smaller extent, by investment earnings. The Authority has no operating income or taxing power.

### Overview of the Financial Statements

The annual financial statements of the Authority consist of the following components: management's discussion and analysis (this section), financial statements, and notes to the financial statements.

Management's discussion and analysis of the Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31, 2004. The overview, which covers the most important financial events of the period, should be read in conjunction with the Authority's financial statements, including the notes to the financial statements.

Entity-wide financial statements of the Authority are in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." The entity-wide financial statements use the economic resource measurement focus and accrual basis of accounting. These statements are presented to display information about the reporting entity as a whole. The statement of net assets presents information on all the Authority's assets and liabilities, with the difference between the two reported as net assets. The statement of activities presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

Governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. These statements are the *balance sheet* and the *statement of revenues, expenditures and changes in fund balance*. They recognize revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. These are the type of financial statements prepared by the Authority prior to GASB No. 34, though they have been modified to conform to GASB No. 34.

In addition to these two types of statements, the financial statements include reconciliation between the entity-wide and governmental fund statements. Accompanying notes to the financial statements are an integral part of the financial statements.

### **Financial Highlights and Overall Analysis**

The single most critical factor in the Authority's financial position is sales tax revenue, which provided over 99% of the Authority's 2004 revenue. The State legislation that created NIFA in June 2000 granted the Authority a first lien and perfected security interest in net collections from sales and compensating use taxes authorized by the State and imposed by the County, currently at the rate of 4 ¼%, on the sales and use of personal property and services in the County, excluding the up to ¼ % component that is allocable to towns, cities and villages within the County. Sales taxes are collected by the State and remitted to the Authority's bond trustee, usually several times each month. After provision for Authority debt service deposits and operating expenses, the remaining funds are remitted immediately to the County.

The amount of sales tax revenues to be collected depends upon various factors including the economic conditions in the County, which has experienced numerous cycles of growth and recession. In addition, specific goods and services can be exempted from the imposition of sales tax, and the rate of taxation can be changed. Of the current 4 ¼% sales tax rate, 3% is a base rate and the remaining 1 ¼% is subject to periodic renewals. From County fiscal year 1981 to County fiscal year 2004, the average annual compound growth rate for sales tax collections was approximately 6.08 %. (County collections are described because the Authority was only created in 2000.) NIFA's sales tax receipts grew by 4.9% in FY 2004. There can be no assurance that historical data is predictive of future trends. The Authority does not make projections of sales tax revenues.

Sales tax revenue for the year ended December 31, 2004 was \$884,807,000 an increase of 4.9% over the prior year, resulting primarily from a higher level of economic activity. Investment income, which accounts for the remaining Authority revenue (apart from State Transitional Assistance to Nassau County, which is received and disbursed by the Authority), totaled \$2,010,000 in 2004, an increase of 26.3% from 2003. This increase is attributable to higher interest rates and a higher level of fund balances to invest.

Sales tax revenue provided 8.8 times coverage of the Authority's 2004 total monthly set-asides for debt service of \$94,163,000. This coverage may change as the Authority issues more debt or as rates change. The Authority has covenanted to not issue senior debt unless sales tax revenue for 12 consecutive months of the prior 15 months is at least three times the amount of annual senior bond debt service in any future year (3 times coverage). All together, the Authority used \$95,602,000 of sales tax revenue for debt service set-asides and Authority operations, remitting the balance of \$789,803,741 to Nassau County. A portion of the Authority's total operating expense of \$1,251,000 was also provided by interest earnings. As with sales tax, interest earnings that are not required for Authority operations or reserves are remitted to the County.

Other significant elements in the Authority's financial position include long-term and short-term debt of the Authority, reported as long- and short-term liabilities, and proceeds from Authority debt issuance that are retained by the Authority until requisitioned by the County, which are reported as cash and investments. Many of the financial elements typical of other governmental entities, such as operating revenues, program revenues and expenses, capital assets, and inventories, are not present at the Authority.

During 2004, the Authority issued \$940,635,000 of long term bonds, including \$153,360,000 of fixed rate Bonds, Series A, and \$450,000,000 of auction rate bonds, Series 2004B-2004G. The Authority also issued \$187,275,000 of fixed rate bonds, Series 2004H, and \$150,000,000 of auction rate bonds, Series 2004I-2004K. In addition, the Authority entered into interest rate Swaps for Series 2004B-2004G, and Series 2004I-2004K bonds.

A portion of the 2004 proceeds were used to refund County and NIFA debt, resulting in an approximately \$36.8 million decrease in aggregate debt service payments and net present value savings of approximately \$42.9 million.

Bonds payable increased in fiscal year 2004 by \$625,105,000 (55.6%), principally due to the issuance of the Series 2004A-K bonds, as offset by the refunding of indebtedness and retirement on prior bond issues. The Authority did not have any notes payable outstanding during 2004 because the County's improved financial condition did not require the issuance of any cash flow borrowings by either the County or NIFA. The statement of net assets shows a total net deficit of \$1,609,268,000. The deficit results largely from Authority debt issuance that is backed by future sales tax revenue. The debt is reported as a long-term liability, but the future revenues are not reportable. As of December 31, 2004, the Authority had bonds payable of \$1,748,425,000. In any year where the Authority issues more long-term debt than it retires, the deficit is likely to increase. The reconciliation on page eight of these financial statements provides additional detail on the determination of the net deficit amount.

Cash and investments increased by 36 % or \$49,498,000 in part because NIFA issued debt late in the year and the County did not draw down bond proceeds as soon as expected.

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# NASSAU COUNTY INTERIM FINANCE AUTHORITY

## STATEMENT OF NET ASSETS (DEFICIT)

DECEMBER 31, 2004

(Dollars in thousands)

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 159,576
Investments	26,761
Sales Tax Receivable	100,808
Interest Receivable	190
Other Assets	110
Other Noncurrent Assets, Net of Amortization	<u>49,124</u>
Total Assets	<u>\$ 336,569</u>
<b>LIABILITIES</b>	
Accrued liabilities	\$ 42,428
Due to Nassau County - sales tax	80,911
Due to Nassau County - interest	89
Bonds payable:	
Due within one year	51,760
Due in more than one year	1,696,665
Other liabilities	73,684
Accrued vacation and sick pay	<u>300</u>
Total liabilities	<u>1,945,837</u>
<b>NET ASSETS (DEFICIT)</b>	
Unrestricted (deficit)	<u>(1,609,268)</u>
Total liabilities and net assets (deficit)	<u>\$ 336,569</u>

See notes to financial statements.

# NASSAU COUNTY INTERIM FINANCE AUTHORITY

## STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2004 (Dollars In thousands)

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	<b>Governmental Activities</b>
<b>EXPENSES</b>	
General and administrative	\$ 1,239
Bond interest expense	60,660
Deposited with the Escrow agent to refund Nassau County debt	324,210
Distribution to Nassau County for financeable costs	261,450
Distribution to Nassau County for general operations	<u>2,136</u>
Total expenses	<u>649,695</u>
<b>GENERAL REVENUES</b>	
Sales tax	884,808
Less distributions to Nassau County	(789,803)
State aid	7,500
Less distributions to Nassau County	<u>(7,500)</u>
Sales tax and state aid revenues retained	95,005
Interest income, net	<u>5,466</u>
Total general revenues	<u>100,471</u>
Change in net assets	(549,224)
<b>NET ASSETS (DEFICIT) - BEGINNING OF YEAR</b>	<u>(1,060,044)</u>
<b>NET ASSETS - (DEFICIT) END OF YEAR</b>	<u>\$ (1,609,268)</u>

See notes to financial statements.

# NASSAU COUNTY INTERIM FINANCE AUTHORITY

**BALANCE SHEET**  
**DECEMBER 31, 2004**  
(Dollars in thousands)

	<u>Governmental Funds</u>				Total (Governmental Funds)
	General	Special Revenue	Debt Service	Capital Projects	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 5,128	\$ -	\$ 2,838	\$ 151,610	\$ 159,576
Investments		-	26,761		26,761
Sales tax receivable	100,808	-	-	-	100,808
Interest receivable	3	-	101	86	190
Due from other funds	27	4,833	19,875	-	24,735
Other assets	<u>110</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>110</u>
<b>TOTAL ASSETS</b>	<u>\$ 106,076</u>	<u>\$ 4,833</u>	<u>\$ 49,575</u>	<u>\$ 151,696</u>	<u>\$ 312,180</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Accrued liabilities	\$ 3	\$ 4,833	\$ 37,445	\$ 147	\$ 42,428
Due to Nassau County - sales tax	80,911	-	-	-	80,911
Due to Nassau County - interest	-	-	4	85	89
Due to other funds	<u>24,708</u>	<u>-</u>	<u>-</u>	<u>27</u>	<u>24,735</u>
Total liabilities	<u>105,622</u>	<u>4,833</u>	<u>37,449</u>	<u>259</u>	<u>148,163</u>
FUND BALANCES - Unreserved	<u>454</u>	<u>-</u>	<u>12,126</u>	<u>151,437</u>	<u>164,017</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 106,076</u>	<u>\$ 4,833</u>	<u>\$ 49,575</u>	<u>\$ 151,696</u>	<u>\$ 312,180</u>

See notes to financial statements.

# NASSAU COUNTY INTERIM FINANCE AUTHORITY

## RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS (DEFICIT)

DECEMBER 31, 2004  
(Dollars in thousands)

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TOTAL FUND BALANCES - Governmental funds	\$	164,017
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:		
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds		
Unamortized Bonds Premium		(73,684)
Bonds payable		(1,748,425)
Accrued vacation and sick pay		(300)
Long-term Assets are not available to pay for current period expenditures and, therefore, are deferred in the funds		<u>49,124</u>
NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES	\$	<u>(1,609,268)</u>

See notes to financial statements.

# NASSAU COUNTY INTERIM FINANCE AUTHORITY

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2004

(Dollars in thousands)

	Governmental Funds				Total Governmental funds)
	General	Special Revenue	Debt Service	Capital Projects	
<b>REVENUES</b>					
Sales tax	\$ 884,808	\$ -	\$ -	\$ -	\$ 884,808
State aid	-	7,500	-	-	7,500
Interest income, net	<u>97</u>	<u>-</u>	<u>526</u>	<u>1,387</u>	<u>2,010</u>
Total revenues	884,905	7,500	526	1,387	894,318
<b>OTHER FINANCING SOURCES</b>					
Principal amount of bonds issued	-	-	-	940,635	940,635
Other sources	-	-	-	32,128	32,128
Operating transfers in	<u>3,659</u>	<u>-</u>	<u>94,163</u>	<u>-</u>	<u>97,822</u>
Total revenues and other financing sources	<u>888,564</u>	<u>7,500</u>	<u>94,689</u>	<u>974,150</u>	<u>1,964,903</u>
<b>EXPENDITURES</b>					
Current:					
General and administrative	1,251	-	-	-	1,251
Cost of issuances - notes/bonds	-	-	-	8,838	8,838
Distribution to Nassau County for financeable costs	-	-	-	261,450	261,450
Distribution to Nassau County for general operations	<u>2,047</u>	<u>7,500</u>	<u>4</u>	<u>85</u>	<u>9,636</u>
Total current expenditures	3,298	7,500	4	270,373	281,175
Debt service	<u>-</u>	<u>-</u>	<u>84,583</u>	<u>-</u>	<u>84,583</u>
Total expenditures	3,298	7,500	84,587	270,373	365,758
<b>OTHER FINANCING USES</b>					
Transfers to Nassau County - sales tax	789,803	-	-	-	789,803
Deposited with Escrow Agent:					
NIFA Defeasance	-	-	7,697	315,109	322,806
Nassau County Defeasance	-	-	-	324,210	324,210
Operating transfers out	<u>95,608</u>	<u>-</u>	<u>914</u>	<u>1,300</u>	<u>97,822</u>
Total expenditures and other financing uses	<u>888,709</u>	<u>7,500</u>	<u>93,198</u>	<u>910,992</u>	<u>1,900,399</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>					
	(145)	-	1,491	63,158	64,504
FUND BALANCES, BEGINNING OF PERIOD	<u>599</u>	<u>-</u>	<u>10,635</u>	<u>88,279</u>	<u>99,513</u>
FUND BALANCES, END OF PERIOD	<u>\$ 454</u>	<u>\$ -</u>	<u>\$ 12,126</u>	<u>\$ 151,437</u>	<u>\$ 164,017</u>

See notes to financial statements.

# NASSAU COUNTY INTERIM FINANCE AUTHORITY

## RECONCILIATION OF STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

DECEMBER 31, 2004

(DOLLARS IN THOUSANDS)

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NET CHANGE IN FUND BALANCES - Total governmental funds	\$ 64,504
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:	
Bond proceeds provide current financial resources to governmental funds, but debt issued increases long-term liabilities in the statement of net assets	(940,635)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	26,260
Governmental funds report costs of debt issuance as expenditures. However, in the statement of activities, the cost of debt issuance is amortized over the lives of the debt	8,174
Governmental funds report premium on debt issued as revenue. However, in the statement of activities, the premium on debt issued is amortized over the lives of the debt	(28,669)
Payments to escrow agents for bond refundings is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	321,130
Some expense (accrued vacation and sick pay) reported in the statement of activities do not require the use of current financial resource and therefore, are not reported as expenditures in the governmental funds financial	<u>12</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (549,224)</u>

See notes to financial statements.

# NASSAU COUNTY INTERIM FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2004

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### 1. ORGANIZATION

The Nassau County Interim Finance Authority (the "Authority") is a corporate governmental agency and instrumentality of the State of New York (the "State") constituting a public benefit corporation created by the Nassau County Interim Finance Authority Act, Chapter 84 of the Laws of 2000, as supplemented by Chapter 179 of the Laws of 2000 and as may be amended from time to time, including but not limited to Chapter 528 of the Laws of 2002, and Chapters 314 and 685 of the Laws of 2003 (the "Act"). The Act became effective June 23, 2000. Although legally separate and independent of Nassau County (the "County"), the Authority is a component unit of the County for County financial reporting purposes and, accordingly, is included in the County's financial statements.

The Authority is governed by seven directors, each appointed by the Governor, including one each appointed upon the recommendation of the Majority Leader of the State Senate, the Speaker of the Assembly and the State Comptroller. The Governor also designates the chairperson and vice-chairperson from among the directors. At present two Director's positions are vacant.

The Authority has power under the Act to monitor and oversee the finances of Nassau County, and upon declaration of a "Control Period" as defined in the Act, additional oversight authority. The Authority is also empowered to issue its bonds and notes for various County purposes, defined in the Act as "Financeable Costs." The Act authorizes the issuance of bonds and notes, without limit, to finance capital projects and cash flow needs of the County, as well as, to the extent authorized by State law, any County deficit. In addition, the Authority may issue bonds up to the limits as currently set forth in the Act, exclusive of any bonds issued to finance reserves, capitalized interest or costs of issuing such obligations, to refinance any of the County's indebtedness (up to \$415,000,000); to refinance only tax certiorari settlements or assignments of any kind to which the County is a party (up to \$790,000,000); and to finance tax certiorari judgments and settlements of the County (up to \$400,000,000 if the proceeding commenced before June 1, 2000 and up to \$400,000,000, in aggregate, for proceedings commenced between June 1, 2000 and December 31, 2007, however of said amount up to \$15 million can be issued in 2006, and up to \$10 million can be issued in 2007. Bonds issued to refund bonds theretofore issued for purposes subject to the debt limits described above are not counted against such limits. The Act currently provides that the Authority may not issue bonds or notes after 2005, other than to retire or otherwise refund Authority debt and as discussed above to finance up to \$25 million for tax certiorari purposes. No bond of the Authority may mature later than January 31, 2036 or more than 30 years from its date of issuance.

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

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

In accordance with the Act, the Authority's fiscal year is the calendar year.

The entity-wide financial statements of the Authority, which include the statement of net assets and the statement of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB No. 34. The statement of net assets and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

The Authority's governmental fund financial statements, the balance sheet and the statement of revenues, expenditures and changes in fund balance are presented using the current financial resources measurement focus and the modified accrual basis of accounting. They recognize revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized when the related liability is incurred, except for unmatured debt service on bonds payable, which is recognized when due (see Note 5).

The Authority uses four governmental funds to report its financial position and the results of operations. The General Fund accounts for sales tax revenues received by the Authority and for general operating expenses of the Authority. Short-term borrowings of the Authority are also accounted for in the General Fund except for those bond anticipation notes intended to be refinanced with long term obligations of the Authority, which are accounted for in the Capital Fund. The Special Revenue Fund accounts for Transitional State Aid, as defined in the Act, which includes assistance for general County needs and aid targeted to assist the County in streamlining its tax certiorari processing. Both types of aid are provided to the County through the Authority. The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on the Authority's bonds. Only that portion of bonds payable expected to be financed from expendable available resources is reported as a liability of the Debt Service Fund. The Capital Projects Fund accounts for resources to be transferred to the County for its Financeable Costs.

Beginning in 2002, bond premiums, discounts and issuance costs for bonds are capitalized and amortized over the lives of the related debt issues using the straight-line method in the entity-wide financial statements. The governmental fund financial statements recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued, together with bond premiums, is reported as other financing sources, while discounts on debt issuances, credit enhancement costs, and costs of issuance are reported as other financing uses.

Interest expense is recognized on the accrual basis in the entity-wide financial statements. In the governmental fund statements, interest expenditures are recognized when funds are deposited in the debt service fund.

The Authority receives Sales Tax Revenues several times each month, and receives interest earnings from time to time as investments mature. Funds for debt service are required to be set aside from revenues on a monthly basis, and the Authority also deducts, as necessary, amounts which in its

judgment are required for Authority operations and operating reserves. Residual Sales Tax Revenues and investment earnings are then transferred to the County as cash.

No revenues are generated from operating activities of the Authority, therefore, all revenues are defined by the Authority as non-operating revenues. Revenues are received in the General Fund, Special Revenue Fund, Debt Service Fund or Capital Projects Fund, depending on their source. Overhead expenses of the Authority that arise in the course of providing the Authority's oversight services, such as payroll and office expenses, are considered operating expenses and are accounted for in the General Fund. Expenditures related to debt issuance, and transfers of funds to the County, are considered non-operating expenses and are accounted for in the appropriate fund. See Note 3, "Transactions with and On Behalf of Nassau County."

Assets are capitalized only if their value is greater than \$15,000. The Authority has no such assets. The Authority holds no inventory beyond small amounts of office supplies. Prepaid expense accruals are minor and are adjusted at the close of each fiscal year. The Authority does not presently accrue for rebatable arbitrage, if any. The first date on which it may owe a rebate on its bonds is in 2006. Rebate liability on the Authority's debt is being calculated and, if necessary will be paid by Nassau County.

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

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

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

The Act and other legal documents of the Authority establish various financial relationships between the Authority and the County. The resulting financial transactions between the Authority and the County include the receipt and use of Revenues as well as Authority debt issuances to fund Financeable Costs of the County.

The receipt and remittance of revenues in 2004 included:

- Sales tax revenues (see Notes 1, 2 and 5) of \$884,808,000, of which \$789,803,000 was remitted to Nassau County. The balance was retained for Authority debt service and operations.
- The remittance to the County for general County operations, of earnings on various funds held by or on behalf of the Authority, to the extent that those earnings are not required for the payment of Authority debt service or operating expenses. In 2004, the Authority remitted \$2,047,000 of interest earnings.
- The receipt from New York State of Transitional State Aid for Nassau County, and transfer of that aid to the County. Transitional State Aid for general County needs in 2004 was

\$7,500,000, which was fully disbursed to the County on December 23, 2004. In addition, of the \$5,000,000 of aid appropriated by New York State in 2000 to assist the County in streamlining its tax certiorari process, \$4,832,938 continues to be held by the Authority pending appropriate County action.

Authority debt issuance encompassed the following types of activity and transfers to Nassau County in 2004:

- The sale of \$603,360,000 of Bonds by the Authority for the refunding of NIFA debt and to finance Financeable Costs of the County (see Notes 1 and 6).
- The sale of \$337,275,000 of Bonds by the Authority to finance Financeable Costs of the County (see Notes 1 and 6).
- Transfer to the County, upon County requisition, of bond proceeds from debt issuance in 2004 and prior years. For the year ended December 31, 2004, \$261,450,000 of proceeds was distributed to Nassau County from the Capital Projects Fund.

#### **4. CASH AND INVESTMENTS**

The Authority invests in accordance with the Act, as well as other applicable rules and regulations, the Indenture, and Authority Investment Guidelines originally adopted by the Authority Directors in November 2000. As of December 31, 2004 the Authority held cash, collateralized Certificates of Deposit, Treasury Note Strips, Treasury Notes and Treasury Bills, Federal National Mortgage Association Discount Notes, Federal Home Loan Mortgage Corporation Discount Notes and commercial paper of the General Electric Credit Corporation. All bank deposits of Authority funds are required to be fully collateralized or insured. Collateral for the Authority cash and certificates of deposit (in amounts in excess of Federal deposit insurance) is 102% of the amount of the cash or certificate of deposit amount, is held by a third party custodian in the Authority's account, and consists of U.S. government or agency obligations.

Investments of the Authority are categorized by level of credit risk (the risk that a counterparty to an investment transaction will not fulfill its obligations). Category 1, the lowest risk, includes investments that are insured or registered or for which securities are held by the entity or its agent in the entity's name, including collateralized bank deposits for which collateral is held by a third party, segregated in the entity's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or agent in the entity's name. Category 3, the highest risk, includes investments that are uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the entity's name. The Authority's investments were Category 1.

The following table summarizes the Authority's cash and investments as of December 31, 2004. 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, 2004. 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.

	<b>Dollars in thousands</b>		
	<b>Held by Authority</b>	<b>Held by Trustee</b>	<b>Total</b>
Cash	\$ 7	\$ 11	\$ 18
Certificates of Deposit (maturities less than 90 days)	5,121	-	5,121
Commercial Paper		1,200	1,200
U.S. government and agency discount notes (maturities less than 90 days)	<u>-</u>	<u>153,237</u>	<u>153,237</u>
Total cash and cash equivalents	<u>5,128</u>	<u>154,448</u>	<u>159,576</u>
U.S. government and agency discount notes (maturities greater than 90 days)	<u>-</u>	<u>26,761</u>	<u>26,761</u>
Total marketable securities	<u>-</u>	<u>26,761</u>	<u>26,761</u>
Total cash and investments	<u>\$5,128</u>	<u>\$ 181,209</u>	<u>\$ 186,337</u>

## **5. SALES TAX REVENUE RECEIVABLE**

Sales tax revenues received after December 31 but attributable to the prior year are shown on the balance sheet as sales tax receivable and due to Nassau County and due to debt service fund. On the statement of revenues, expenditures and changes in fund balance, the full amount of the receivable has been recognized as sales tax revenue and applicable portions of these funds have been included as transfers to Nassau County and debt service expense.

## **6. BONDS PAYABLE**

Bonds of the Authority are issued pursuant to an Indenture, as supplemented and amended (the "Indenture") between the Authority and the United States Trust Company of New York and its successor The Bank of New York (the "Trustee"), under which the Authority has pledged its right, title and interest in the Revenues of the Authority to secure repayment of Authority debt. The Act provides that the Authority's pledge of its Revenues represents a perfected first security interest on behalf of holders of its bonds. The lien of the Indenture on the Revenues for the security of Authority bonds is prior to all other liens thereon. The Authority does not have any significant assets or sources of funds other than Sales Tax Revenues and amounts on deposit pursuant to the Indenture. The Authority does not have independent taxing power.

As of December 31, 2004 the Authority had outstanding bonds in the amount of \$1,748,425,000 including \$940,635,000 of debt issued during 2004. These 2004 borrowings were comprised of the following:

On April 8, 2004 the Authority issued \$153,360,000 of fixed rate Sales Tax Secured Bonds, Series 2004A, and the following auction rate bonds: \$72,500,000 2004B; \$72,500,000 2004C; \$72,500,000 2004E; \$72,500,000 2004F; \$80,000,000 2004D; and \$80,000,000 2004G.

The fixed rate bonds were issued at rates ranging between 2% and 5%, and the auction rate bonds were auctioned in periods ranging from 7 days to 35 days. In addition, the Authority entered into interest rate Swaps for the Series 2004B – 2004G bonds. The interest rate exchange agreements (Swaps) are discussed in more detail in Note 7. Of the \$603,360,000 Sales Tax Secured Bonds, Series 2004A-G, \$315,738,098 was used to advance refund \$289,270,000 of the Authority's bonds including portions of the Series 2000A, Series 2001A, and Series 2003A Bonds. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, a portion of the Series 2000A, Series 2001A, and Series 2003A Bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide financial statement of net assets. In 2004, NIFA's refunding transactions decreased combined County and NIFA aggregate debt service payments by approximately \$36.8 million and provided net present value savings of approximately \$42.9 million.

On December 9, 2004 the Authority issued \$187,275,000 of fixed rate Sales Tax Secured Bonds, Series 2004H, and the following auction rate bonds: \$50,000,000 Series 2004 I; \$50,000,000 Series 2004J; and \$50,000,000 Series 2004K. The fixed rate bonds were issued at rates ranging between 2.15% and 5.25%, and the auction rate bonds were auctioned every 7 days. In addition, the Authority entered into interest rate Swaps for the Series 2004I – 2004K bonds.

NIFA's debt matures through the year 2025, and is comprised of fixed, variable and auction rate bonds issued at variable rates, which are discussed below.

**Fixed Rate Bonds** - The Authority has issued fixed rate bonds at rates ranging between 2% and 6%. Interest on the Authority's Fixed Rate Bonds is payable on May 15 and November 15 of each year, and interest on the Variable Rate Bonds is payable on the first business day of each month. Principal on all bonds is payable on November 15. A debt service account has been established under the Indenture to provide for the payment of interest on and principal of bonds outstanding under the Indenture. The Trustee makes monthly deposits to the debt service account in the amount of debt service accrued through the end of that month. For the Fixed Rate Bonds, this is essentially one-sixth of the next interest payment and one-twelfth of the next principal payment. For the Variable Rate Bonds, this is one-twelfth of the next principal payment and the amount needed to maintain a prudent level of funding in excess of the anticipated interest expense to be accrued that month. Because of this monthly deposit requirement, the amount accrued for debt service in the Authority's financial statements in any year will not be the same as the debt service on the bonds paid to bondholders in that year.

The County is responsible for calculating arbitrage rebate liability on notes issued by the Authority, and for paying any rebate liability determined to exist. The County currently estimates that it has a rebate liability of approximately \$1,000,000 pertaining to retired Authority notes.

**Variable Rate Bonds** - Interest rates on the non-auction Variable Rate Bonds are currently reset weekly by a remarketing agent at the minimum rate necessary for the bonds to have a market value equal to the principal amount. Interest rates are set separately for each series of variable rate bonds. The Variable Rate Bonds are in most circumstances subject to tender at the option of the bondholder. Payment of the purchase price of eligible 2002A Bonds and 2002B Bonds subject to optional or mandatory tender for purchase and not remarketed by the remarketing agent, will be made under and pursuant to, and subject to the terms, conditions and provisions of, a liquidity facility issued by Dexia Credit Local, acting through its New York Agency, with respect to the Series 2002A Bonds; or a liquidity facility issued by BNP Paribas, acting through its New York branch, with respect to the Series 2002B Bonds. Each liquidity facility is slated to expire July 9, 2007, subject to extension or early termination. Bonds that are purchased by Dexia Credit Local or BNP Paribas and not remarketed, if any, must be paid over a five year period. If this was to occur, annual Authority debt service expense would increase substantially.

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

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

	Dollars in Thousands			Balance at December 31, 2004
	Balance at December 31, 2003	Issued	Retired	
Sales Tax Secured Bonds, Series 2000A 4.50% to 5.625% Serial and term bonds due 2002 to 2020	\$ 216,560	\$ -	\$ 193,965	\$ 22,595
Sales Tax Secured Bonds, Series 2001A 4% to 5.375% Serial and term bonds due 2002 to 2021	171,680	-	101,950	69,730
Sales Tax Secured Bonds, Series 2002A (variable rate) Term Bond due 2022 with mandatory sinking fund redemptions 2003-2021	111,190	-	1,715	109,475
Sales Tax Secured Bonds, Series 2002B (variable rate) Term Bond due 2022 with mandatory sinking fund redemptions 2003-2021	109,415	-	3,585	105,830
Sales Tax Secured Bonds, Series 2003A 2% to 6% Serial bonds due 2004 to 2023	275,990	-	14,315	261,675
Sales Tax Secured Refunding Bonds, Series 2003B 2% to 5% Serial bonds due 2005 to 2018	238,485	-	-	238,485
Sales Tax Secured Bonds, Series 2004A 2% to 5% Serial bonds due 2005 to 2013	-	153,360	-	153,360
Sales Tax Secured Variable Rate Bonds, Series 2004 B-G Auction Rate Securities due 2016 to 2024	-	450,000	-	450,000
Sales Tax Secured Bonds, Series 2004H 2.15% to 5% Serial bonds due 2005 to 2017	-	187,275	-	187,275
Sales Tax Secured Bonds, Series 2004 I-K Auction Rate Securities due 2025	-	150,000	-	150,000
	<u>\$ 1,123,320</u>	<u>\$ 940,635</u>	<u>\$ 315,530</u>	<u>\$ 1,748,425</u>

Aggregate debt service to maturity as of December 31, 2004 is as follows (Dollars in thousands):

<b>Year Ending December 31</b>	<b>Principal</b>	<b>Interest*</b>	<b>Total</b>
2005	\$ 51,760	\$ 71,579	\$ 123,339
2006	48,460	70,551	119,011
2007	75,555	69,165	144,720
2008	81,625	66,109	147,734
2009	87,095	62,877	149,972
2010-2014	497,260	249,492	746,752
2015-2019	552,250	134,690	686,940
2020-2025	<u>354,420</u>	<u>34,225</u>	<u>388,645</u>
	<u>\$ 1,748,425</u>	<u>\$ 758,688</u>	<u>\$ 2,507,113</u>

\* Interest on the Variable Rate Bonds is calculated at 1.5%, the interest rate in effect as of December 31, 2004. During 2004, the interest rate on the Variable Rate Bonds ranged from 0.80% to 1.95%.

## 7. SWAP AGREEMENTS

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

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

*Activity during the Period.*

- NIFA entered into the following six swap contracts with an effective date of April 8, 2004, in connection with the issuance of \$450 million in auction rate securities to provide for the refunding or restructuring of a portion of the County’s outstanding bonds, refunding of certain outstanding NIFA bonds, tax certiorari judgments and settlements to which the County is a party, other legal judgments and settlements, County capital projects and to pay costs of issuance.
  - \$72.5 million notional amount (2004 Series B) with Goldman Sachs Mitsui Marine Derivative Products, L.P. (“GSMMDP”)
  - \$72.5 million notional amount (2004 Series C) with Goldman Sachs Mitsui Marine Derivative Products, L.P.
  - \$80.0 million notional amount (2004 Series D) with Goldman Sachs Mitsui Marine Derivative Products, L.P.
  - \$72.5 million notional amount (2004 Series E) with UBS AG
  - \$72.5 million notional amount (2004 Series F) with UBS AG
  - \$80.0 million notional amount (2004 Series G) with UBS AG

- NIFA entered into the following three swap contracts with an effective date of December 9, 2004, in connection with the issuance of \$150 million in Auction Rate Securities to provide for the refunding of a portion of the County’s outstanding bonds, tax certiorari judgments and settlements to which the County is a party, other legal judgments and settlements and to pay costs of issuance.
  - \$50.0 million notional amount (2004 Series I) with Goldman Sachs Mitsui Marine Derivative Products, L.P.
  - \$50.0 million notional amount (2004 Series J) with UBS AG
  - \$50.0 million notional amount (2004 Series K) with Morgan Stanley Capital Services (“MSCS”)

*Fair Value.* Replacement interest rates on the Swaps, as of December 31, 2004, are reflected in the chart entitled “Interest Rate Swap Valuation” (the “Chart”). As noted in the Chart, replacement rates in some cases were higher than, and in some cases lower than, market interest rates on the effective date of the Swaps. Consequently, as of December 31, 2004, some of the Swaps had negative fair values and some had positive fair values. In the event there is a positive fair value, NIFA would be exposed to the credit risk of the counterparties in the amount of the Swaps’ fair value should the Swap be terminated.

The total value of each swap, including accrued interest, is provided in the Chart. The total value of each Swap listed represents the theoretical cost to NIFA to terminate the swap as of the date indicated, assuming that a termination event occurred on that date. Negative fair values may be offset by reductions in total interest payments required under the related variable interest auction rate bonds. The market value is calculated at the mid-market for each of the Swaps. Fair values were estimated using the zero coupon methodology. This methodology calculates the future net settlement payments under the swap agreement, assuming the current forward rates implied by the yield curve correctly anticipate future spot rates. These payments are then discounted using rates derived from the same yield curve. As of December 31, 2004, the total marked-to-market valuation, net of accruals, of NIFA’s Swaps was negative \$3,672,890. In the event that both parties continue to perform their obligations under the swap, there is not a risk of termination and neither party is required to make a termination payment to the other. NIFA is not aware of any event that would lead to a termination event with respect to any of its Swaps.

*Risks Associated with the Swap Agreements.*

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

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

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

NIFA’s Swap Policy requires that counterparties have credit ratings from at least one nationally recognized statistical rating agency that is within the two highest investment grade categories, without distinction as to grade within the category. If after entering into an agreement the ratings of the counterparty or its guarantor or credit support party are downgraded below the described ratings by any

one of the rating agencies, then the agreement is subject to termination unless the counterparty provides either a substitute guarantor or assigns the agreement, in either case, to a party meeting the rating criteria reasonably acceptable to NIFA or collateralizes its obligations in accordance with the criteria set forth in the transaction documents. The counterparties have the ratings set forth below. The table shows the diversification, by percentage of notional amount, among the various counterparties that have entered into agreements with NIFA.

Counterparty	Notional Amount (\$ in millions)	% of Total Notional Amount
GSMMDP	275	45.80 %
UBS AG	275	45.80
MSCS	<u>50</u>	<u>8.40</u>
Total	<u><u>600</u></u>	<u><u>1.00</u></u>

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

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

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

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

The Swaps use International Swaps and Derivative Association ("ISDA") documentation and use standard provisions regarding termination events with one exception: if the termination amount is over \$5 million for the Authority, the Authority can pay such excess amount over six months, financing the delay at LIBOR plus 1%. However, adverse termination for credit deterioration is remote since the Swaps are insured and the insurers will control termination. NIFA or the counterparty may terminate any of the Swaps if the other party fails to perform under the terms of the contract. In addition, NIFA may terminate the Swaps at their fair market value at any time. NIFA would be exposed to variable rates

if the counterparty to the Swap defaults or if the swap is terminated. A termination of the Swap agreement may also result in NIFA making or receiving a termination payment. NIFA is not aware of any event that would lead to a termination event with respect to any of its Swaps.

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

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

The following chart represents NIFA's Interest Rate Swap Valuation as of December 31, 2004:

**Nassau County Interim Finance Authority**

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

Series	2004 Series B	2004 Series C	2004 Series D	2004 Series E	2004 Series F	2004 Series G	2004 Series I	2004 Series J	2004 Series K	Total
Notional Amount	72,500,000	72,500,000	80,000,000	72,500,000	72,500,000	80,000,000	50,000,000	50,000,000	50,000,000	600,000,000
Counterparty	GSMMDP	GSMMDP	GSMMDP	UBS	UBS	UBS	GSMMDP	UBS	MSCS	
Counterparty Rating (1)	Aaa/AA+/NR	Aaa/AA+/NR	Aaa/AA+/NR	Aa2/AA+/AA+	Aa2/AA+/AA+	Aa2/AA+/AA+	Aaa/AA+/NR	Aa2/AA+/AA+	Aa3/A+/AA-	
Effective Date	4/8/2004	4/8/2004	4/8/2004	4/8/2004	4/8/2004	4/8/2004	12/9/2004	12/9/2004	12/9/2004	
Maturity Date	11/15/2024	11/15/2024	11/15/2016	11/15/2024	11/15/2024	11/15/2016	11/15/2025	11/15/2025	11/15/2025	
NIFA Pays	3.146%	3.146%	3.002%	3.146%	3.146%	3.003%	3.432%	3.432%	3.432%	
Replacement Rate	3.130%	3.130%	3.065%	3.130%	3.130%	3.065%	3.304%	3.304%	3.304%	
NIFA Receives	60% of LIBOR plus 16 basis points weekly (Tuesday).	60% of LIBOR plus 16 basis points weekly (Friday).	60% of LIBOR plus 26 basis points monthly (4th Monday).	60% of LIBOR plus 16 basis points weekly (Tuesday).	60% of LIBOR plus 16 basis points weekly (Friday).	60% of LIBOR plus 26 basis points monthly (5th Thursday).	61.5% of LIBOR plus 20 basis points.	61.5% of LIBOR plus 20 basis points.	61.5% of LIBOR plus 20 basis points.	
Net Accrued	(281,728)	(268,738)	(265,132)	(281,728)	(268,738)	(224,742)	(67,457)	(67,457)	(67,457)	(1,793,177)
Principal	(120,957)	(121,747)	423,899	(120,957)	(121,747)	415,242	(744,482)	(744,482)	(744,482)	(1,879,713)
Total Value of Swap	(402,685)	(390,485)	158,767	(402,685)	(390,485)	190,500	(811,939)	(811,939)	(811,939)	(3,672,890)

(a) Moodys/S&P/Fitch

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

- Beginning in 2005, it is assumed that the variable rate bonds would bear interest at a rate of 3.16% per annum.
- The net swap payments were calculated using the actual fixed rate on swap agreements. An assumption of 10 – 25 basis points spread was factored in for basis risk to be conservative.

**Nassau County Interim Finance Authority  
Variable-Rate Bonds (in Thousands)**

Year(s) Ending December 31	Principal	Interest	Net Swap Payments	Total
2005	\$ -	\$ 19,302	\$ 535	\$ 19,837
2006	-	19,223	967	20,190
2007	-	19,223	967	20,190
2008	-	19,276	914	20,190
2009	-	19,223	967	20,190
2010 - 2014	76,400	94,972	5,000	176,372
2015 - 2019	299,650	67,619	5,509	372,778

**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 NYRSSL, 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 NYRSSL, 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, 2004, the Authority has paid its pension bill from the State in the amount of \$87,833, covering the period April 1, 2004 to March 31, 2005. The portion of this payment attributable to the year ended December 31, 2004 is presented as an expense in the financial statements, together with the prepaid amount from the prior year. The balance is treated as a prepaid expense and reported on the Balance Sheet in "Other Assets" in the General Fund.

## 9. COMMITMENTS AND CONTINGENCIES

The Authority was not a defendant in any litigation as of December 31, 2004. Authority employees are entitled to accumulate unused vacation and holiday leave, and to be paid for that leave, up to amounts specified by the Authority, upon separation. The amount is limited for vacation pay and unlimited for holiday pay. At current salary levels, the Authority's liability for payment of this accumulation is \$151,536, which includes the Authority's share of taxes and other withholdings. Authority employees are permitted to accrue unused sick leave without limitation and, upon certain conditions, apply the salary value of the leave upon retirement to the cost of the retiree's share of his or her health insurance premium. At current salary levels, the Authority's liability for payment of this accumulation is \$148,830, which includes only the salary value of the time accumulated. Authority employees who were previously employed by the State or a State agency or authority were permitted to transfer leave balances to the Authority. The value of these transferred balances is included in the foregoing amounts. The value of accrued unused leave is included as a non-current liability in the entity-wide Statement of Net Assets.

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

To the Board of Directors  
Nassau County Interim Finance Authority

We have audited the financial statements of Nassau County Interim Finance Authority (the "Authority"), as of December 31, 2004 and for the year then ended, and have issued our report thereon dated March 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **COMPLIANCE AND OTHER MATTERS**

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

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

*Deloitte + Touche LLA*

March 31, 2005



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

To the Board of Directors  
Nassau County Interim Finance Authority

We have audited the financial statements of Nassau County Interim Finance Authority (the "Authority"), as of December 31, 2004 and for the year then ended, and have issued our report thereon dated March 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

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

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

*Deloitte + Touche LLA*

March 31, 2005

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**REPORT ON INVESTMENTS**  
**YEAR ENDED DECEMBER 31, 2004**

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, 2004 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. The Guidelines have not been amended as of December 31, 2004.

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 \$2.011 million in interest on investments during the fiscal year ended December 31, 2004. In addition, as of December 31, 2004 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 (\$0.034 million) was reported interest income.

In the year ended December 31, 2004, NIFA had two principal types of investment accounts: (1) accounts held by the Bank of New York, Trustee under the Authority’s

bond Indenture, which contained bond and note sale proceeds and debt service deposits; (2) 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, 2004 from these accounts were as follows:

<u>Type of Account</u>	<u>Total Interest Earnings</u>
1. Bond and Note Related, held by Trustee	\$1,912,664
2. NIFA Operating Funds and Reserves	98,043
Total Earnings (cash and accrued)	\$2,010,707

The Authority invests in accordance with the Act, as well as other applicable rules and regulations, the Indenture, and Authority Investment Guidelines readopted by the Authority Directors in September 2003. As of December 31, 2004 the Authority held cash, collateralized Certificates of Deposit, Treasury Note Strips, Treasury Notes and Treasury Bills, Federal National Mortgage Association Discount Notes, Federal Home Loan Mortgage Corporation Discount Notes and commercial paper of the General Electric Credit Corporation. All bank deposits of Authority funds 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 is held by a third party custodian in the Authority's account, consisted of U.S. government and agency obligations.

#### **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**  
**(Readopted March 11, 2002)**  
**(Readopted September 12, 2003)**  
**(Readopted June 22, 2004)**

**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, 2004**

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, 2004, 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. All payments were made within prescribed time limits, so that no charges for interest would be incurred.



**NASSAU COUNTY INTERIM FINANCE AUTHORITY  
AUTHORITY PROCUREMENT GUIDELINES REPORT  
YEAR ENDED DECEMBER 31, 2004**

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”) which were readopted by the Authority at its June 22, 2004 meeting, which Guidelines have not have not been amended for the period through December 31, 2004. 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.

### Procurement Contracts Entered Into In FY 2004

Pursuant to the Authority's Procurement Guidelines, this chart describes contracts greater than \$15,000. All contractors are selected pursuant to authorization from the Authority's Directors.

Vendor	Service
Sidley Austin Brown & Wood	Bond related issues
Hawkins Delafield & Wood	Bond Counsel for FY 2004 debt issue
Nixon Peabody LLP	Bond related issues
Bank of New York	Trustee banking services
Lamont Financial	Financial Services
Swap Financial	Financial Services
Ambac	Bond Insurance
CIFG	Surety Bond Insurance
Fitch Investor Services	Bond rating services
Standard & Poors	Bond rating services
Moody's Investors Service	Bond rating services
Deloitte & Touche	Financial Auditing
Deloitte & Touche	Accounting Services
UBS PaineWebber, Inc.	Senior managing underwriter of FY 2004 debt issues
Goldman, Sachs & Co.	Senior managing underwriter of FY 2004 debt issues
Morgan Stanley	Senior managing underwriter of FY 2004 debt issue
First Albany Corporation, Morgan Stanley, Salomon Smith Barney, M. R. Beal & Company, Merrill Lynch & Co., Quick & Reilly, Inc., Ramirez & Co., Inc. and Roosevelt & Cross Incorporated	Co-managing underwriters of FY 2004 debt issues

### Status of Existing Contracts (Entered Into Prior to FY 2004)

Vendor	Service	Status of Contract
Old Country Road Realty L.P.	Lease for NIFA office	ongoing (to 2005)
Verizon	Phone service	Ongoing
Verizon Wireless	Phone service	Ongoing
AT&T	Phone service	Ongoing
Staples	Office furniture and supplies	Ongoing
Micro Force	Accounting Software and Training	Ongoing
BNP Paribas	Letter of credit (2002B Bonds)	Ongoing
Dexia	Letter of credit (2002A Bonds)	Ongoing
United States Life Insurance & Co.	Long term disability insurance	Ongoing
American International Group	Umbrella property, casualty and liability insurance	Ongoing

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

Effective June 13, 2000,  
Amended March 11, 2002  
Readopted September 12, 2003  
Readopted June 22, 2004

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

201. Definitions. The following terms shall, for purposes of these Guidelines, have the following meanings unless the context shall clearly indicate some other meaning:

“Act” shall mean Chapter 84 of the Laws of 2000, as amended or supplemented.

“Authority” or “NIFA” shall mean the Nassau County Interim Finance Authority.

“Officer” shall mean any person so designated by the Directors of the Authority.

“Procurement Contract” or “Contract” means any written agreement of the Authority for the acquisition of goods or services of any kind in the actual or estimated amount of \$15,000, or more.

### ARTICLE III

#### TYPES OF SERVICES FOR PROCUREMENT

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)”).

302. 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 indemnitees 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 indemnitees 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 1/10<sup>th</sup> 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:

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<b><u>TYPE OF EXPENSE</u></b>	<b><u>RATE OF REIMBURSEMENT</u></b>
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.