

**NASSAU COUNTY INTERIM
FINANCE AUTHORITY**

2006 ANNUAL REPORT

**170 OLD COUNTRY ROAD, SUITE 205
MINEOLA, NY 11501
(516) 248-2828
www.nifa.state.ny.us**

**NASSAU COUNTY INTERIM FINANCE AUTHORITY
2006 ANNUAL REPORT**

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May 2, 2007

The Honorable Eliot Spitzer
Governor of the State of New York
State Capitol
Albany, NY 12224

Dear Governor Spitzer:

In June 2000, the Nassau County Interim Finance Authority (“NIFA”) was created as part of a five-point plan that offered Nassau County a 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. NIFA has provided the County with monetary assistance in excess of \$482 million. This includes \$105 million of State aid, \$146.5 million of debt service savings through NIFA’s ability to issue higher rated debt and \$236.1 million of temporary budget relief from debt restructuring.

Since 2000, NIFA has issued bonds in excess of \$2.5 billion on behalf of the County. At the end of 2006, NIFA had approximately \$2 billion in bonds outstanding. The final maturity of the outstanding bonds is November 15, 2025. NIFA’s statute requires it to remain in existence until all of its bonds have been paid or are no longer outstanding.

The County was able to end FY 2006 with an operating surplus of \$45.4 million; however, the amount of recurring expenditures still exceeds recurring revenues. Indeed, the County projects gaps of \$164.8 million in FY 2008, and \$209.2 million for FY 2009 and \$256.1 million for FY 2010.

The State has assisted the County in reducing the projected gaps through NIFA’s enactment, pension relief and capping of Medicaid costs, but continued vigilance is necessary to maintain fiscal health. The County continues to face major problems including the depletion of reserves, the need for the Nassau Health Care Corporation to achieve long term financial stability, the need to commit large amounts of money from its operating budget for tax certiorari judgments and settlements, and the need to upgrade the County’s physical infrastructure.

The hard choices that lie ahead will 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,

A handwritten signature in black ink, appearing to read "Ronald A. Stack". The signature is fluid and cursive, with a large initial "R" and "S".

Ronald A. Stack
Chairperson

cc:

Senate Majority Leader Bruno

NYS Assembly Speaker Silver

New York State Comptroller Thomas DiNapoli

Assemblyman Herman Farrell, Chairman of the Assembly Ways and Means Committee

Assemblyman James Hayes, Ranking Minority Member of the Assembly Ways and
Means Committee

Senator Owen Johnson, Chairman of the Senate Finance Committee

Senator William Stachowski, Ranking Minority Member of Senate Finance Committee

Mr. Paul E. Francis, Director of the Budget

Mr. Thomas Suozzi, Nassau County Executive

Ms. Judy Jacobs, Nassau County Legislative Presiding Officer

Mr. Peter Schmitt, Nassau County Legislative Minority Leader

Mr. Howard Weitzman, Nassau County Comptroller

Mr. Steve Conkling, Nassau County Treasurer

Nassau County Interim Finance Authority

AUTHORITY DIRECTORS AND STAFF AS OF DECEMBER 31, 2006

Directors

Ronald A. Stack, Chairperson
Richard M. Kessel, Vice Chairperson
Paul J. Leventhal
Gregory J. Raphael
Robert G. Smith, Ph.D.

Staff

Richard Luke, Executive Director
Evan Cohen, Deputy Director
Jane Cunneen, Deputy Treasurer
Laurel Leat, Chief Administrator and Corporate Secretary
Susan Rich, Treasurer
Jeremy Wise, General Counsel

INTRODUCTION

Former Governor Pataki, in response to persistent fiscal distress in Nassau County, presented a five-point recovery plan for the County in May 2000. The 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 were taken by the County each year to reach structural budget balance.
3. Special State Transitional Aid of \$100 million over five years, plus debt restructuring through NIFA, if the County took 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 failed to meet financial management standards.

The 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.

When fully constituted, the Authority is governed by seven Directors; however, there are currently two vacancies, one of which was created in 2006 by the resignation of Martin Payson. 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 at the end of calendar year 2006:

Ronald A. Stack was the Chairperson of the Authority in 2006. He is a Managing Director and Head of the Public Finance Department of Lehman Brothers. His term of office expires on December 31, 2008.

Richard M. Kessel was a member and Vice-Chairperson of the Authority in 2006. Mr. Kessel is the Chief Executive Officer and President (formerly Chairman) of the Long Island Power Authority. His term of office expires on December 31, 2008.

Gregory J. Raphael was appointed to the Authority on June 3, 2005. He is a founding partner of the New York City law firm of Ryan, Raphael & Ryan, P.C. His term of office expired on December 31, 2006 and he currently serves as a holdover.

Robert G. Smith, Ph.D., 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 expired on December 31, 2006 and he currently serves as a holdover.

Paul Leventhal was appointed to the Authority on September 7, 2006. He is the Managing member of the accounting firm of Leventhal and Company, LLP. The firm represents corporate and individual clients in the areas of accounting, taxation, management advisory services, and auditing. His term of office expires on December 31, 2009.

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

Richard Luke, Executive Director. Mr. Luke serves as Executive Director. 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, the NIFA Act, and the Public Authority Accountability Act of 2005. The Report covers the year ended December 31, 2006. It also incorporates other reports required by New York State law.

SUMMARY OF ACCOMPLISHMENTS IN 2006

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 2006, NIFA continued to bring fiscal stability to Nassau County and help the County on its road to long-term budget balance and financial health. Nassau County ended Fiscal 2006 with an operating surplus totaling \$45.4 million aggregated across its major operating funds. The County attributes its successful performance to a number of different factors, including:

- The achievement of \$30 million in wage-related savings;
- Additional investment income earnings;
- Reimbursement for Medicaid administrative salary costs;
- Additional Chapter 621 Medicaid recoveries; and
- Successful management and strategic deployment of available staffing resources to reduce overtime usage.

In 2006 NIFA continued its monitoring of the County's finances and helped to facilitate dialogue among the County's elected and appointed leaders. NIFA also continued its monitoring of the Nassau Health Care Corporation which helped to facilitate positive changes and keep the problems of the Corporation as a priority for the County.

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.

Financial Highlights

The County ended FY 2006 with an operating surplus of \$45.4 million; however, this included the use of \$121.6 million of non-recurring resources. This positive operating surplus was realized despite absorbing several negative variances. These included:

- Higher utility costs due to higher fuel costs and increased energy consumption;
- Sales tax growth that reached only 3.9% growth rate versus 4.4% forecast;
- Special Education expenses that rose due to State increases and prior year billings;
- Increased workers compensation expenses; and
- Parks revenue targets not achieved due to delays in the revenue enhancement initiatives.

Monitoring

On April 1, 2006 the County Executive submitted his update of the Four Year Financial Plan ("Plan") for the period FY 2006 – FY 2009.

On September 15, 2006 the County Executive submitted his Four Year Financial Plan for the period FY 2007-2010. The first year of the Plan contained no property tax increases, but relied on \$103.2 million of non-recurring items to close a projected Budget gap of \$186.1 million. Non-recurring items included the use of \$26.4 million from the Pension Reserve Fund, \$25 million of one time revenues to pay for certiorari funding, \$23.6 million of tobacco funding, \$14.8 million from the Bonded Indebtedness Reserve and \$13.4 million of fund balance.

NIFA reviewed the County Executive's proposed Plan and issued a report on October 17, 2006 identifying the major positive and negative aspects which the Legislature should consider when adopting the Budget and Financial plan.

On November 3, 2006, NIFA accepted the Four Year Financial Plan adopted by the County Legislature. While NIFA accepted the Plan, it found that the Plan was less conservative and therefore more risky than in the recent past, including the following assumptions:

- Less conservative sales tax revenue estimates;
- Adoption of property tax increases in 2007 for 2008 and beyond; and
- The County's ability to achieve significant savings from labor concessions projected to be attained in FY 2007.

Taken separately, each item may be "reasonable," but taken as a whole, these items represented to NIFA an alarming trend toward fiscal risks that are a disturbing departure from standards of appropriate financial discipline. As a result, NIFA requested that the County Executive submit a revised Plan no later than April, 1, 2007.

NIFA continued 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 covered timely issues affecting the County and promoted the exchange of information and problem solving.

Monthly financial monitoring meetings were held with representatives of the County Executive, County Legislature, County Comptroller and NIFA to oversee budget status. NIFA also monitored key financial indicators such as sales tax, staffing, and social service costs in order to allow NIFA to project year-end operating results.

NIFA also met with the Nassau Health Care Corporation monthly to remain up to date on their financial condition and 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, estimated to rise from \$164.8 million in FY 2008 to \$209.2 million for FY 2009 and \$256.1 million in FY 2010.

Debt Issuance By or 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.

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 through 2005. The Authority did not issue any new short or long term debt in 2006. However, NIFA does retain the authority to fund certain financeable costs described under the Act including approximately \$20.6 million in statutory capacity to restructure or refund County indebtedness and approximately \$318 million in statutory capacity to refund or restructure County tax certiorari related debt; however, it is unclear whether this debt will ever be economic to refund. In addition, the County or NIFA has the authority through the end of 2007 to issue approximately \$1.7 million of debt to fund certiorari proceedings commenced after June 1, 2000.

The County had two major financings in 2006:

In April of 2006 the Nassau County Tobacco Settlement Corporation issued \$431,034,246 of Tobacco Settlement Asset-Backed Bonds, Series 2006. The majority of the bonds were used to refund outstanding debt and fund a residual account in the amount of \$120 million. Monies in the residual account were not released in 2006, but were intended to be used for various County purposes with the largest percentage of the funds going to the Nassau County University Medical Center.

In December of 2006 the County issued \$150,000,000 of Tax Anticipation Notes, which were scheduled to mature in September and October of 2007. The Notes were issued to provide monies to meet a cash flow deficit expected to occur during the period of the Notes.

The outstanding debt of NIFA as of December 31, 2006 was \$2,038,500,000 and was comprised of \$1,116,580,000 of conventional fixed rate debt, \$321,920,000 of unhedged variable rate debt, and \$600 million of synthetic fixed rate debt. Total estimated remaining debt service was \$2,828,165,000.

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

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.

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 of 1 day, 7 days, 28 days and 35 days. As rates vary, variable rate and auction rate interest payments will vary.

SWAPS - 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.

\$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

NIFA Outstanding Bonds (Dollars in Thousands)

	Balance at December 31, 2005	Issued	Retired	Balance at December 31, 2006
Sales Tax Secured Bonds, Series 2000A 4.50% to 5.625% Serial and term bonds due through 2020	\$ 12,845	\$ -	\$ -	\$ 12,845
Sales Tax Secured Bonds, Series 2001A 4% to 5.375% Serial and term bonds due through 2021	62,695	-	6,740	55,955
Sales Tax Secured Bonds, Series 2002A (variable rate) Term bond due 2022 with mandatory sinking fund redemptions due through 2021	105,585	-	4,085	101,500
Sales Tax Secured Bonds, Series 2002B (variable rate) Term Bond due 2022 with mandatory sinking fund redemptions due through 2021	102,070	-	3,950	98,120
Sales Tax Secured Bonds, Series 2003A 2% to 6% Serial bonds due through 2023	253,155	-	8,695	244,460
Sales Tax Secured Refunding Bonds, Series 2003B 2% to 5% Serial bonds due through 2018	226,770	-	13,930	212,840
Sales Tax Secured Bonds, Series 2004A 2% to 5% Serial bonds due through 2013	149,525	-	6,395	143,130
Sales Tax Secured Variable Rate Bonds, Series 2004 B-G Auction Rate Securities due 2016 - 2024	450,000	-	-	450,000
Sales Tax Secured Bonds, Series 2004H 2.15% to 5% Serial bonds due through 2017	184,020	-	4,665	179,355
Sales Tax Secured Bonds, Series 2004 I-K Auction Rate Securities due through 2025	150,000	-	-	150,000
Sales Tax Secured Bonds Series 2005A 3.26% to 4.8% Serial due through 2024	124,200	-	-	124,200
Sales Tax Secured Variable Rate Bonds Series 2005 B-C Auction Rate Securities due through 2025	122,300	-	-	122,300
Sales Tax Secured Bonds Series 2005 D 3.23% to 4.32% Serial and term bonds due through 2022	<u>143,795</u>	<u>-</u>	<u>-</u>	<u>143,795</u>
	<u>\$ 2,086,960</u>	<u>\$ 0</u>	<u>\$ 48,460</u>	<u>\$2,038,500</u>

Aggregate debt service to maturity as of December 31, 2006 is as follows (Dollars in thousands):

Year Ending December 31	Dollars in Thousands		
	Principal	Interest*	Total
2007	79,975	87,536	167,511
2008	95,315	84,266	179,581
2009	104,265	80,549	184,814
2010	104,930	75,627	180,557
2011	119,690	70,777	190,467
2012 - 2016	722,640	257,631	980,271
2017 - 2021	586,760	113,762	700,522
2022 - 2025	224,925	19,517	244,442
	<u>\$ 2,038,500</u>	<u>\$ 789,665</u>	<u>\$ 2,828,165</u>

* Interest on the Variable Rate Bonds is calculated at 5%. During 2006, the interest rate on the Variable Rate Bonds ranged from 2.90% to 3.95%.

Sales tax revenue of \$933,996,823 provided 6.5 times coverage of NIFA's 2006 total monthly set-asides of \$145,418,000. All together the Authority used \$146,137,346 of sales tax revenue for set asides and its operations, which were \$1,138,644 for 2006. Included in the expenses for operations were certain salaries of high level employees as follows: Richard Luke, Executive Director-\$165,038, Jeremy Wise General Counsel-\$163,124, Evan Cohen, Deputy Director-\$138,601, Susan Rich, Treasurer-\$135,850.

NIFA maintained its 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+

As of December 31, 2006 total unspent NIFA proceeds were \$28,783,000, the largest portions of which were earmarked for capital projects.

Administrative Matters

During 2006 the Authority had six employees, four of whom have been with NIFA since 2000. NIFA continued to implement and improve its monitoring, internal controls 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, 2006 (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)
- Independent Auditor’s Compliance Report on Investment Policies and Procedures, Tab 2 (Required by NIFA Investment Guidelines)
- Revenues and Expenses - See Audited Financial Statements, Tab 2
- Assets and Liabilities - See Audited Financial Statements, Tab 2
- Outstanding Bonds and Notes - See Audited Financial Statements, Tab 2
- Assessment of Internal Controls – See Audited Financial Statements, Tab 2
- Authority Report on Investments, Tab 3 (PAL Section 2925)
- Authority Prompt Payment Report, Tab 4 (PAL Section 2880)
- Authority Procurement Guidelines Report, Tab 5 (PAL Section 2879)
- Compensation Schedule – See previous page.
- Projects Undertaken – NIFA has not undertaken any projects.
- Real Property Disposition, Tab 6
- Authority Code of Ethics, Tab 7

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

For additional information on the Authority, please contact:

Nassau County Interim Finance Authority
170 Old Country Road, Suite 205
Mineola, NY 11501
(516) 248-2828
www.nifa.state.ny.us

**NASSAU COUNTY INTERIM FINANCE AUTHORITY
AUTHORITY REPORT ON DEBT ISSUANCE
YEAR ENDED DECEMBER 31, 2006**

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

In calendar year 2006, NIFA did not issue any bonds or notes.

CERTIFICATION FORM

This is to certify that the attached financial statements were approved by the Directors on May 2, 2007, and that based on the knowledge of the Chief Executive Officer and the Chief Financial Officer; (a) the information provided therein is accurate, correct and does not contain any untrue statement of material fact; (b) does not omit any material fact which, if omitted, would cause the financial statement to be misleading in light of the circumstances under which such statements are made; and (c) fairly presents in all material respects the financial condition and results of operations of the Authority as of, and for, the periods presented in the financial statements.

Signed copy on file with NIFA

Richard L. Luke, Executive Director

Date

Signed copy on file with NIFA

Susan A. Rich, Treasurer

Date

*Nassau County Interim
Finance Authority*

Independent Auditors' Report

Financial Statements
Year Ended December 31, 2006

NASSAU COUNTY INTERIM FINANCE AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Nassau County Interim Finance Authority

We have audited the accompanying financial statements of the governmental activities and each major fund of the Nassau County Interim Finance Authority (the "Authority"), a component unit of the County of Nassau, as of December 31, 2006, 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, 2006, 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 2006 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 April 20, 2007, 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

April 20, 2007

NASSAU COUNTY INTERIM FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2006

The Nassau County Interim Finance Authority (the "Authority" or "NIFA") is a New York State authority empowered to monitor and oversee the finances of Nassau County, New York (the "County") and to issue bonds and notes for various County purposes. The Authority is a component unit of the County for financial reporting purposes. In its oversight capacity, the Authority is empowered to, among other things, review County financial plans submitted to it; make recommendations or, if necessary, adverse findings thereon; make transitional State aid available as it determines; comment on proposed borrowings by the County and 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 2006 because the County has chosen to undertake its own cash flow borrowings. 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, 2006. 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 restricted net assets presents information on all the Authority's restricted assets and liabilities, with the difference between the two reported as net assets. The statement of activities presents information showing how the Authority's net assets changed during the fiscal year. All changes in restricted net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

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 2006 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. NIFA's sales tax receipts grew by 3.99% in FY 2006. 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, 2006 was \$934,219,000, an increase of 3.99% over the prior year due to an increased level of economic activity. Investment income, net of \$104,775 of unrealized appreciation, which accounts for the remaining Authority revenue, totaled \$6,854,000 in 2006, an increase of 51% from 2005. This increase is attributable to higher interest rates and a higher level of fund balances to invest.

Sales tax revenue provided 6.5 times coverage of the Authority's 2006 total monthly set-asides for debt service of \$145,418,000. 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 \$146,137,000 of sales tax revenue for debt service set-asides and Authority operations, remitting the balance of \$788,082,000 to Nassau County. A portion of the Authority's total operating expense of \$1,139,000 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 2006, the Authority did not issue any new short or long term debt, and as a result, bonds payable decreased in fiscal year 2006 by \$48,460,000 (2.32%), due to retirement on prior bond issues. The Authority did not have any notes payable outstanding during 2006 because the County has chosen to undertake its own cash flow borrowings. The statement of net assets shows a total net deficit of \$2,021,898,000. 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, 2006, the Authority had bonds payable of \$2,038,500,000. In any year where the Authority issues more long-term debt than it retires, the deficit is likely to increase, however, since NIFA has substantially completed its new money borrowing program the amount of bonds outstanding and its net deficit are likely to decrease as bonds continue to be retired. The reconciliation on page eight of these financial statements provides additional detail on the determination of the net deficit amount. NIFA does retain approximately \$20.6 million in statutory capacity to restructure or refund County indebtedness and approximately \$317 million in statutory capacity to refund or restructure County tax certiorari related debt; however, it is unclear whether this debt will ever be economic to refund. In addition, the County or NIFA has the authority through the end of 2007 to issue approximately \$1.7 million of debt to fund certiorari proceedings commenced after June 1, 2000.

Cash and investments decreased by 47.28% or \$66,234,000 in part because the County has drawn down bond proceeds as expected.

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NASSAU COUNTY INTERIM FINANCE AUTHORITY

STATEMENT OF NET ASSETS (DEFICIT)

DECEMBER 31, 2006

(Dollars in thousands)

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 29,878
Investments	43,978
Sales Tax Receivable	98,128
Interest Receivable	893
Other Assets	64
Other Noncurrent Assets, Net of Amortization	<u>47,609</u>
Total Assets	<u>\$ 220,550</u>
LIABILITIES	
Accrued liabilities	\$ 50,740
Due to Nassau County - sales tax	71,696
Due to Nassau County - interest	221
Bonds payable:	
Due within one year	79,975
Due in more than one year	1,958,525
Other liabilities	80,908
Accrued vacation and sick pay	<u>383</u>
Total liabilities	<u>2,242,448</u>
NET ASSETS (DEFICIT)	
Restricted deficit	<u>(2,021,898)</u>
Total liabilities and restricted net assets (deficit)	<u>\$ 220,550</u>

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2006 (Dollars in thousands)

	<u>Governmental Activities</u>
EXPENSES	
General and administrative	\$ 1,181
Bond interest expense	97,321
Distribution to Nassau County for financeable costs	70,943
Distribution to Nassau County for general operations	<u>5,251</u>
Total expenses	<u>174,696</u>
GENERAL REVENUES	
Sales tax	934,219
Less distributions to Nassau County	<u>(788,082)</u>
Sales tax revenues retained	146,137
Interest income, net	<u>11,897</u>
Total general revenues	<u>158,034</u>
Change in net assets (deficit)	(16,662)
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	<u>(2,005,236)</u>
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ (2,021,898)</u>

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

BALANCE SHEET
DECEMBER 31, 2006
(Dollars in thousands)

	<u>Governmental Funds</u>			Total (Governmental Funds)
	General	Debt Service	Capital Projects	
ASSETS				
Cash and cash equivalents	\$ 633	\$ 462	\$ 28,783	\$ 29,878
Investments	-	41,250	2,728	43,978
Sales tax receivable	98,128	-	-	98,128
Interest receivable	2	844	47	893
Due from other funds	-	26,431	-	26,431
Other assets	<u>64</u>	<u>-</u>	<u>-</u>	<u>64</u>
TOTAL ASSETS	<u>\$ 98,827</u>	<u>\$ 68,987</u>	<u>\$ 31,558</u>	<u>\$ 199,372</u>
LIABILITIES AND FUND BALANCES				
Accrued liabilities	\$ 112	\$ 50,614	\$ 14	\$ 50,740
Due to Nassau County - sales tax	71,696	-	-	71,696
Due to Nassau County - interest	-	174	47	221
Due to other funds	<u>26,431</u>	<u>-</u>	<u>-</u>	<u>26,431</u>
Total liabilities	<u>98,239</u>	<u>50,788</u>	<u>61</u>	<u>149,088</u>
FUND BALANCES - Unreserved	<u>588</u>	<u>18,199</u>	<u>31,497</u>	<u>50,284</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 98,827</u>	<u>\$ 68,987</u>	<u>\$ 31,558</u>	<u>\$ 199,372</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, 2006
(Dollars in thousands)

TOTAL FUND BALANCES - Governmental funds	\$	50,284
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS (DEFICIT) ARE DIFFERENT BECAUSE:		
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds		
Unamortized Bonds Premium		(80,908)
Bonds payable		(2,038,500)
Accrued vacation and sick pay		(383)
Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds		<u>47,609</u>
NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES	\$	<u>(2,021,898)</u>

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2006

(Dollars in thousands)

	Governmental Funds			Total Governmental funds)
	General	Debt Service	Capital Projects	
REVENUES				
Sales tax	\$ 934,219	\$ -	\$ -	\$ 934,219
Interest income, net	104	3,763	2,987	6,854
Total revenues	934,323	3,763	2,987	941,073
OTHER FINANCING SOURCES				
Operating transfers in	5,437	145,418	151	151,006
Total revenues and other financing sources	939,760	149,181	3,138	1,092,079
EXPENDITURES				
Current:				
General and administrative	1,139	-	-	1,139
Cost of issuance - notes/bonds	-	-	6	6
Distribution to Nassau County for financeable costs	-	-	70,943	70,943
Distribution to Nassau County for general operations	5,030	174	47	5,251
Total current expenditures	6,169	174	70,996	77,339
Debt service	-	142,857	-	142,857
Total expenditures	6,169	143,031	70,996	220,196
OTHER FINANCING USES				
Transfers to Nassau County - sales tax	788,082	-	-	788,082
Operating transfers out	145,568	2,408	3,029	151,005
Total expenditures and other financing uses	939,819	145,439	74,025	1,159,283
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES				
	(59)	3,742	(70,887)	(67,204)
FUND BALANCES, BEGINNING OF PERIOD	647	14,457	102,384	117,488
FUND BALANCES, END OF PERIOD	\$ 588	\$ 18,199	\$ 31,497	\$ 50,284

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, 2006

(DOLLARS IN THOUSANDS)

NET CHANGE IN FUND BALANCES - Total governmental funds	\$ (67,204)
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:	
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of restricted net assets	48,460
Governmental funds report costs of debt issuance as expenditures. However, in the statement of activities, the cost of debt issuance is amortized over the lives of the debt	(1,243)
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	5,043
Payments to escrow agents for bond refundings is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of restricted net assets	(1,676)
Some expense (accrued vacation and sick pay) reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds financial statements	<u>(42)</u>
CHANGE IN NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES	<u>\$ (16,662)</u>

See notes to financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2006

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 approximately \$1.7 million of such capacity remains that could be borrowed in 2007. Bonds issued to refund bonds theretofore issued for purposes subject to the debt limits described above are not counted against such limits. The Act currently provides that the Authority may not issue bonds or notes after 2005, other than as described above and to retire or otherwise refund Authority debt or certain County debt and as discussed above to finance up to \$1.7 million for tax certiorari purposes. No bond of the Authority may mature later than January 31, 2036 or more than 30 years from its date of issuance.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The Authority's governmental fund financial statements, the balance sheet and the statement of revenues, expenditures and changes in fund balance are presented using the current financial resources measurement focus and the modified accrual basis of accounting. They recognize revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized when the related liability is incurred, except for unmatured debt service on bonds payable, which is recognized when due (see Note 6).

The Authority uses four governmental funds to report its financial position and the results of operations. The General Fund accounts for sales tax revenues received by the Authority and for general operating expenses of the Authority. Short-term borrowings of the Authority are also accounted for in the General Fund except for those bond anticipation notes intended to be refinanced with long term obligations of the Authority, which are accounted for in the Capital Fund. The Special Revenue Fund accounts for Transitional State Aid, as defined in the Act, which includes assistance for general County needs and aid targeted to assist the County in streamlining its tax certiorari processing. Both types of aid are provided to the County through the Authority. As of December 31, 2006 NIFA has provided all State Aid to the County that was granted pursuant to the NIFA Act. The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on the Authority's bonds. Only that portion of bonds payable expected to be financed from expendable available resources is reported as a liability of the Debt Service Fund. The Capital Projects Fund accounts for resources to be transferred to the County for its Financeable Costs.

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

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

The Authority receives Sales Tax Revenues several times each month, and receives interest earnings from time to time as investments mature. Funds for debt service are required to be set aside from

revenues on a monthly basis, and the Authority also deducts, as necessary, amounts which in its judgment are required for Authority operations and operating reserves. Residual Sales Tax Revenues and investment earnings are then transferred to the County as cash.

No revenues are generated from operating activities of the Authority, therefore, all revenues are defined by the Authority as 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 adjusted at the close of each fiscal year. A provision for an arbitrage liability is not required since investment earnings on applicable bond issues are significantly less than the interest debt service paid on such bond issues.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (e.g., life insurance) when provided separately from a pension plan. The approach followed in the Statement generally is consistent with the approach adopted in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with modifications to reflect differences between pension benefits and OPEB. Statement No. 45 improves the relevance and usefulness of financial reporting by: (i) recognizing the cost of benefits in periods when the related services are received by the employer; (ii) providing information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and (iii) providing information useful in assessing potential demands on the employer's future cash flows. NIFA has not completed the process of evaluating the impact that will result from adopting Statement of Governmental Accounting Standards No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*; and is therefore unable to disclose the impact that adopting Statement of Governmental Accounting Standards No. 45 will have on its financial position and results of operations when such statement is required to be adopted for FY 2007.

In December 2004, GASB issued statement No. 46, *Net Assets Restricted by Enabling Legislation*. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government, can compel a government to honor. Under the NIFA Act of 2000 (see page 11), all net assets of NIFA (primarily sales tax receipts) are restricted in their use for payment of outstanding bonds, administrative expenses, with the balance transmitted to Nassau County. When NIFA eventually ceases to exist, all assets and liabilities would remit to Nassau County. As a result, the accompanying financial statements have been labeled accordingly and net assets are now identified as "Restricted Net Assets".

In July 2005, GASB issued statement No. 47, *Accounting for Termination Benefits*. Under the NIFA Legislation, certain oversight responsibilities for Nassau County are scheduled to conclude effective December 31, 2007. Should this occur and a downsizing in staff is implemented, the Authority may be liable for involuntary termination costs related to this action. Such costs could approximate \$740,000.

However, no provision has been made in the accompanying financial statements since the NIFA Board of Directors has not made a determination on future staffing needs and operations of the Authority should oversight responsibility be reduced.

In September 2005, GASB issued the Proposed Statement No. 48, *Sales and Pledges of Receivables and Future Revenues* which should be implemented beginning with fiscal years ending December 31, 2007. The Authority has not completed the process of implementing GASB Statement No. 48 and is therefore unable to determine the impact that adopting this statement will have on its financial position and results of operations when such statement is adopted.

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

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 2006 included:

- Sales tax revenues (see Notes 1, 2 and 5) of \$934,219,000, of which \$788,082,000 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 2006, the Authority remitted \$5,251,000 of interest earnings.
- Transitional State Aid for general County needs in 2005 was \$7,500,000, which was fully disbursed to the County on January 4, 2006. In addition, of the \$5,000,000 of aid appropriated by New York State in 2000 to assist the County in streamlining its tax certiorari process, the remaining \$4,832,938 was transferred to the County on June 1, 2006 and recognized as revenue by the County in 2005. As a result, the County has received all of the state aid granted pursuant to the NIFA Act.
- Transfer to the County, upon County requisition, of bond proceeds from debt issuance in 2005 and prior years. For the year ended December 31, 2006, \$70,943,000 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, 2006 the Authority held cash, Treasury Notes and Treasury Bills, Farm Credit Discount Notes and Federal National Mortgage Association Discount Notes. All bank deposits of Authority funds are required to be fully collateralized or insured. In the event the Authority

requires collateral for the Authority cash and certificates of deposit (in amounts in excess of Federal deposit insurance) is 102% of the amount of the cash or certificate of deposit amount, is held by a third party custodian in the Authority's account, and consists of U.S. government or agency obligations.

The following table summarizes the Authority's cash and investments as of December 31, 2006. 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, 2006. On the Balance Sheet, the accrual of interest on investments is reported as interest receivable, and the unrealized change in fair value of marketable securities with maturities longer than 90 days is reflected in the amount of the investment asset.

Summary of Cash and Investments

	Dollars in thousands		
	Held by Authority	Held by Trustee	Total
Cash	\$ 10	\$ 18	\$ 28
U.S. government and agency discount notes (maturities less than 90 days)	623	29,227	29,850
Total cash and cash equivalents	633	29,245	29,878
U.S. government and agency discount notes (maturities greater than 90 days)	-	43,978	43,978
Total marketable securities	-	43,978	43,978
Total cash and investments	\$ 633	\$ 73,223	\$ 73,856

Custodial Credit Risk

Investment Type	Investment Maturities			TOTAL
	Held by Authority	Held by Trustee		
	General Fund	Debt Service	Capital Projects Fund	
Cash	\$ 10	\$ 14	\$ 4	\$ 28
U.S. Government securities	623	41,698	2,728	45,049
U.S. Discount Notes	-	-	28,779	28,779
Total	<u>\$ 633</u>	<u>\$ 41,712</u>	<u>\$ 31,511</u>	<u>\$ 73,856</u>

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

5. SALES TAX REVENUE RECEIVABLE

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

6. BONDS PAYABLE

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

As of December 31, 2006 the Authority had outstanding bonds in the amount of \$2,038,500,000. The Authority did not issue any new short or long term debt in 2006. However, NIFA does retain the authority to fund certain financeable costs described under the Act including approximately \$20.6 million in statutory capacity to restructure or refund County indebtedness and approximately \$318 million in statutory capacity to refund or restructure County tax certiorari related debt; however, it is unclear whether this debt will ever be economic to refund. In addition, the County or NIFA has the authority through the end of 2007 to issue approximately \$1.7 million of debt to fund certiorari proceedings commenced after June 1, 2000.

NIFA's debt matures through the year 2025, and is comprised of fixed, variable and auction rate bonds issued at variable rates, which are discussed below. Other than a possible refunding of its debt if market conditions permit, the Authority has no plans to issue additional debt.

Fixed Rate Bonds - The Authority has issued fixed rate bonds at rates ranging between 2% and 6%. Interest on the Authority's Fixed Rate Bonds is payable on May 15 and November 15 of each year, and interest on the Variable Rate Bonds is payable on the first business day of each month.

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

The County has assumed responsibility for calculating arbitrage rebate liability on bonds or notes issued by the Authority. Since investment earnings on NIFA bond issues, that are subject to arbitrage, have been significantly lower than the average interest debt service payments on those issues, no provision for an arbitrage liability is required. Variable Rate Bonds - Interest rates on the 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, 2005	Retired	Balance at December 31, 2006
Sales Tax Secured Bonds, Series 2000A 4.50% to 5.625% Serial and term bonds due through 2020	\$ 12,845	\$ -	\$ 12,845
Sales Tax Secured Bonds, Series 2001A 4% to 5.375% Serial and term bonds due through 2021	62,695	6,740	55,955
Sales Tax Secured Bonds, Series 2002A (variable rate) Term bond due 2022 with mandatory sinking fund redemptions due through 2021	105,585	4,085	101,500
Sales Tax Secured Bonds, Series 2002B (variable rate) Term Bond due 2022 with mandatory sinking fund redemptions due through 2021	102,070	3,950	98,120
Sales Tax Secured Bonds, Series 2003A 2% to 6% Serial bonds due through 2023	253,155	8,695	244,460
Sales Tax Secured Refunding Bonds, Series 2003B 2% to 5% Serial bonds due through 2018	226,770	13,930	212,840
Sales Tax Secured Bonds, Series 2004A 2% to 5% Serial bonds due through 2013	149,525	6,395	143,130
Sales Tax Secured Variable Rate Bonds, Series 2004 B-G Auction Rate Securities due 2016 - 2024	450,000	-	450,000
Sales Tax Secured Bonds, Series 2004H 2.15% to 5% Serial bonds due through 2017	184,020	4,665	179,355
Sales Tax Secured Bonds, Series 2004 I-K Auction Rate Securities due through 2025	150,000	-	150,000
Sales Tax Secured Bonds Series 2005A 3.26% to 4.8% Serial due through 2024	124,200	-	124,200
Sales Tax Secured Variable Rate Bonds Series 2005 B-C Auction Rate Securities due through 2025	122,300	-	122,300
Sales Tax Secured Bonds Series 2005 D 3.23% to 4.32% Serial and term bonds due through 2022	<u>143,795</u>	<u>-</u>	<u>143,795</u>
	<u>\$ 2,086,960</u>	<u>\$ 48,460</u>	<u>\$ 2,038,500</u>

Aggregate debt service to maturity as of December 31, 2006 is as follows (Dollars in thousands):

Year Ending December 31	Dollars in Thousands		
	Principal	Interest*	Total
2007	\$ 79,975	\$ 87,536	\$ 167,511
2008	95,315	84,266	179,581
2009	104,265	80,549	184,814
2010	104,930	75,627	180,557
2011	119,690	70,777	190,467
2012 - 2016	722,640	257,631	980,271
2017 - 2021	586,760	113,762	700,522
2022 - 2025	224,925	19,517	244,442
	<u>\$ 2,038,500</u>	<u>\$ 789,665</u>	<u>\$ 2,828,165</u>

* Interest on the Variable Rate Bonds is calculated at 5%. During 2006, the interest rate on the Variable Rate Bonds ranged from 2.90% to 3.95%.

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”).

Background.

- NIFA entered into the following six swap contracts with an effective date of April 8, 2004, in connection with the issuance of \$450 million in auction rate securities to provide for the refunding or restructuring of a portion of the County’s outstanding bonds, refunding of certain outstanding NIFA bonds, tax certiorari judgments and settlements to which the County is a party, other legal judgments and settlements, County capital projects and to pay costs of issuance.
 - \$72.5 million notional amount (2004 Series B) with Goldman Sachs Mitsui Marine Derivative Products, L.P. (“GSMMDP”)
 - \$72.5 million notional amount (2004 Series C) with Goldman Sachs Mitsui Marine Derivative Products, L.P.
 - \$80.0 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, 2006, are reflected in the chart entitled "Interest Rate Swap Valuation" (the "Chart"). As noted in the Chart, replacement rates were higher than market interest rates on the effective date of the Swaps. Consequently, as of December 31, 2006, the Swaps 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 value to NIFA if it terminated the swap as of the date indicated, assuming that a termination event occurred on that date. Negative fair values may be offset by reductions in total interest payments required under the related variable interest auction rate bonds. The market value is calculated at the mid-market for each of the Swaps. Fair values were estimated using the zero coupon methodology. This methodology calculates the future net settlement payments under the swap agreement, assuming the current forward rates implied by the yield curve correctly anticipate future spot rates. These payments are then discounted using rates derived from the same yield curve. As of December 31, 2006, the total marked-to-market valuation, net of accruals, of NIFA's Swaps was positive \$6,728,999. In the event that both parties continue to perform their obligations under the swap, there is not a risk of termination and neither party is required to make a termination payment to the other. NIFA is not aware of any event that would lead to a termination event with respect to any of its Swaps.

Risks Associated with the Swap Agreements.

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

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

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

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

Counterparty	(\$ in millions)	Percentage
GSMMDP	275	45.80 %
UBS AG	275	45.80
MSCS	<u>50</u>	<u>8.40</u>
 Total	 <u>600</u>	 <u>100</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, 2006:

Nassau County Interim Finance Authority

Interest Rate Swap Valuation (as of December 31, 2006)

Series	2004 Series B	2004 Series C	2004 Series D	2004 Series E	2004 Series F	2004 Series G	2004 Series I	2004 Series J	2004 Series K	Total
Notional Amount	72,500,000	72,500,000	80,000,000	72,500,000	72,500,000	80,000,000	50,000,000	50,000,000	50,000,000	600,000,000
Counterparty	GSMMDP	GSMMDP	GSMMDP	UBS	UBS	UBS	GSMMDP	UBS	MSCS	
Counterparty Rating (1)	Aaa/AAA/NR	Aaa/AAA/NR	Aaa/AAA/NR	Aa2/AA+/AA+	Aa2/AA+/AA+	Aa2/AA+/AA+	Aaa/AAA/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	3.314%	3.314%	3.364%	3.314%	3.314%	3.364%	3.443%	3.443%	3.443%	
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	(264,746)	(285,106)	(215,378)	(264,746)	(285,106)	(184,533)	(141,786)	(141,786)	(141,786)	(1,924,973)
Net Present Value	1,135,201	1,135,841	1,977,016	1,135,201	1,135,841	1,970,244	54,876	54,876	54,876	8,653,972
Total Value of Swap	870,455	850,735	1,761,638	870,455	850,735	1,785,711	(86,910)	(86,910)	(86,910)	6,728,999

(a) Moodys/S&P/Fitch

Swap Payments and Associated Debt.

Using rates as of December 31, 2006, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, is shown below. As rates vary, variable-rate bond interest payments and net swap payments will vary.

The net swap payments shown below are receipts. As of year-end, the swaps are generating positive cashflow as the floating swap rates have been greater than the corresponding fixed swap rates.

**Nassau County Interim Finance Authority
Swap Payments and Associated Variable-Rate Debt (in Thousands)**

Year(s) Ending December 31	Variable-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps, Net	
2007	\$ -	\$ 19,707	\$ (1,667)	\$ 18,040
2008	-	19,761	(1,724)	18,037
2009	-	19,707	(1,667)	18,040
2010	-	19,707	(1,667)	18,040
2011	-	19,707	(1,667)	18,040
2012 - 2016	169,400	90,599	(7,239)	252,760
2017 - 2021	333,025	47,076	(2,616)	377,485
2022 - 2025	97,575	6,591	(259)	103,907
Total	<u>\$ 600,000</u>	<u>\$ 242,855</u>	<u>\$ (18,506)</u>	<u>\$ 824,349</u>

8. PENSION LIABILITY

Eligible Authority employees participate in the New York State and Local Employees' Retirement System and the Public Employees Group Life Insurance Plan (together, the "System"), a cost-sharing multiple-employer defined benefit retirement system. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law ("NYSRSSL"). As set forth in the NYSRSSL, the Comptroller of the State of New York ("Comptroller") serves as the sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12236.

Employer contribution rates are determined by the Comptroller. Under the authority of the NYSRSSL, the Comptroller certifies annually the rates, expressed as proportions of the payroll of members, which shall be used in computing the contributions required to be made by the employer to the pension accumulation fund.

As of December 31, 2006, the Authority has paid its pension bill from the State in the amount of \$74,829, covering the period April 1, 2006 to March 31, 2007. The portion of this payment attributable to the year ended December 31, 2006 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, 2006. 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 \$180,085, 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 \$202,722, 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.

* * * * *

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, 2006 and for the year then ended, and have issued our report thereon dated April 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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 Board of Directors, management, and the Office of the State Comptroller, State of New York and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

April 20, 2007

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, 2006 and for the year then ended, and have issued our report thereon dated April 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

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

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

Deloitte + Touche LLP

April 20, 2007

**NASSAU COUNTY INTERIM FINANCE AUTHORITY
AUTHORITY REPORT ON INVESTMENTS
YEAR ENDED DECEMBER 31, 2006**

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, 2006 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 and updated to include requirements of the Public Authorities Accountability Act of 2005 and the Legislation applicable as issued by the New York State Comptroller. The NIFA Guidelines set forth the Authority’s policy and objectives regarding the investment of Authority funds, in accordance with the NIFA statute and the bond indenture executed by NIFA and its Trustee for debt issuances, the Bank of New York, New York, New York.

As 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 \$6,854,050 in interest on investments during the fiscal year ended December 31, 2006. In addition, as of December 31, 2006 NIFA held marketable securities with maturity dates greater than 90 days for which accrued interest was included. Additionally, in accordance with accounting principles used by NIFA, these securities were valued at fair market value and the amount of unrealized depreciation of (\$104,775) was netted against interest income.

In the year ended December 31, 2006, 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

Interest earned in the year ended December 31, 2006 from these accounts were as follows:

<u>Type of Account</u>	<u>Total Interest Earnings</u>
1. Bond and Note Related, held by Trustee	\$6,750,181
2. NIFA Operating Funds and Reserves	103,869
Total Earnings (cash and accrued)	\$6,854,050

The Authority invests in accordance with the Act, as well as other applicable rules and regulations, the Indenture, and Authority Investment Guidelines amended and readopted by the Authority Directors on May 4, 2006. As of December 31, 2006 the Authority held cash, Treasury Note Strips, Treasury Notes and Treasury Bills, Federal National Mortgage Association Discount Notes, and Federal Home Loan Mortgage Corporation Discount Notes. 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
(Re-adopted September 12, 2003)
(Re-adopted June 22, 2004)
(Re-adopted, as amended, June 16, 2005)
(Re-adopted May 4, 2006)

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 Treasurer 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 Treasurer; and the General Counsel, but only if designated in writing by the Treasurer. 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 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 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 Treasurer 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 Treasurer 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 Treasurer 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 Treasurer 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 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 Treasurer, 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;
- 8) a report on the status of any swaps entered into by the Authority in accordance with its "Interest Rate Swap Policy", as the same shall be amended from time to time, 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, 2006**

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, 2006, NIFA entered into one principal category of contracts:

1. Contracts related to swap bond debt financing by NIFA, such as with a financial advisor.

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, 2006**

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 amended and readopted by the Authority at its May 4, 2006 meeting. 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 2006

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
Swap Financial	Financial Advisor

Status of Existing Contracts (Entered Into Prior to FY 2006)

Vendor	Service	Status of Contract
Old Country Road Realty L.P.	Lease for NIFA office	Ongoing (to 2010)
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
Sidley Austin Brown & Wood	Reprogramming	Ongoing
Hawkins Delafield & Wood	Seqra and reprogramming	Ongoing
Deloitte & Touche	Financial Auditing	Ongoing
Citigroup	Remarketing Agents	Ongoing
Goldman, Sachs & Co.	Remarketing Agents	Ongoing
UBS	Remarketing Agents	Ongoing
Morgan Stanley	Remarketing Agents	Ongoing
Fitch Investor Services	Bond monitoring services	Ongoing
Standard & Poors	Bond monitoring services	Ongoing
Moody's Investors Service	Bond monitoring services	Ongoing
BNP Paribas	Letter of credit (2002B Bonds)	Ongoing
Dexia	Letter of credit (2002A Bonds)	Ongoing
Bank of New York	Trustee banking services	Ongoing
United States Life Insurance & Co.	Long term disability 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
Re-adopted September 12, 2003
Re-adopted June 22, 2004
Re-adopted (as amended) June 16, 2005
Re-adopted May 4, 2006

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:

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

Invoices shall be made on the Consultants own invoice forms or letterhead and must include NIFA's contract and project numbers, if any. Consultant shall also include federal identification number with their first invoice, and a list of each individual who is expected regularly to bill time to this matter, his/her title and hourly billing rate. Invoices shall be in the form attached to this Schedule A. Time shall be billed on a 1/10th of an hour basis.

6.2 **REIMBURSABLE EXPENSES.**

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

6.3 **NON-REIMBURSABLES.**

The following will not be reimbursed:

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

6.4 NO REIMBURSEMENT FOR SALES TAX CHARGES

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

6.5 GENERAL.

- (a) All receipts must be legible. Illegible receipts will not be reimbursed.
- (b) Whenever possible original receipts should be presented for reimbursement.

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

[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>
-------------	---------------	---------------	--------------------------------

* 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>
-------------	--------------------	---------------

TOTAL CHARGES AND DISBURSEMENTS \$

TOTAL FOR FEES AND CHARGES AND DISBURSEMENTS: \$

Certified as true and correct _____
Vendor/Title

NIFA internal approval _____
Name Title Date

Attachment to Schedule A

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

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

<u>TYPE OF EXPENSE</u>	<u>RATE OF REIMBURSEMENT</u>
Secretarial	None (unless overtime)
Word Processing	None (unless overtime and then up to \$50/hr)
Local Telephone Expenses	None
Taxis or Private Cars	Actual cost up to \$70; amounts over \$50 must be submitted for approval on a case-by-case basis. Mileage reimbursement for private cars is reimbursed at the rate set by the Internal Revenue Service.
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.

Property Disposition Report

No less frequently than annually, the Contracting Officer shall prepare and submit to the Directors a report which summarizes all Property Disposition Contracts and entered into for the period of the report, which report will include a list of all Property Disposition Contracts, the process used to sell or dispose of any Property and the consideration and/or other benefits received or paid therefore, the name of the purchaser for all such property sold by the Authority, and the status of all existing Property Disposition Contracts.

For purposes of this Report the following defined terms shall apply:

"Dispose" or "disposal" shall mean transfer of title or any other beneficial interest in personal or real property in accordance with these guidelines.

"Property" shall mean personal property in excess of five thousand dollars in value, real property, and any inchoate or other interest in such property owned by the Authority, to the extent that such interest may be conveyed to another person for any purpose, excluding an interest securing a loan or other financial obligation of another party.

"Property Disposition Contracts" shall mean written agreements for the sale, lease, transfer or other disposition of Property.

"Real Property" shall mean real property and interests therein.

Based upon the foregoing definitions, there have been no Property Disposition Contracts for calendar year 2006.

CODE OF ETHICS
OF THE
NASSAU COUNTY INTERIM FINANCE AUTHORITY

May 4, 2006

Nassau County Interim Finance Authority
170 Old Country Road (Suite 205)
Mineola, New York 11501

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NASSAU COUNTY INTERIM FINANCE AUTHORITY CODE OF ETHICS

I. Introduction

The Nassau County Interim Finance Authority (the “Authority”), as a public entity, has a responsibility for maintaining the highest level of honesty, ethical conduct and public trust in all of its activities. To meet this responsibility the Authority is adopting this Code of Ethics to address important aspects of ethical conduct.

Authority Employees are entitled to privacy in their personal affairs. At the same time, as employees of a public entity, Authority Employees are responsible for conducting Authority business solely in the public interest.

This Code of Ethics applies to the Authority's Employees, including Directors, and Former Employees. This Code of Ethics is divided into the following areas: (1) introduction (2) definitions used in this Code of Ethics, (3) standards of ethical conduct, (4) use of material, nonpublic and confidential information (5) restrictions on post-employment activities, (6) certification of absence of conflict of interest, (7) requests for interpretation, clarification and waiver of this Code of Ethics, and (8) remedies for breaches of this Code of Ethics.

This Code of Ethics states in specific form the Authority's position on conflicts of interest. Personal integrity is the cornerstone of this Code of Ethics. Each Employee has the primary responsibility for avoiding Financial Interests and Other Interests, which create a conflict with his or her job.

In a case where any Employee, regardless of level or job assignment, believes his or her Financial Interest or involvement in a Transaction might present a conflict of interest, the Employee must immediately notify his or her supervisor and disqualify himself or herself from involvement in the Transaction until advised in writing that he or she may continue to be involved in the Transaction.

Upon the request of an Employee's supervisor, the General Counsel of the Authority may advise the supervisor whether an existing or prospective Transaction involving the Employee would create a possible conflict of interest.

Any person, who has a question as to whether a prospective personal or business Transaction or assumption of a position of responsibility or trust would be a violation of this Code of Ethics, may request in writing an advance determination on the matter from the Authority's General Counsel pursuant to Section VII of this Code of Ethics.

This Code will be reviewed and updated as necessary with a copy distributed to each Employee.

II. Definitions

The following definitions apply to this Code of Ethics.

- A. "Authority" means the Nassau County Interim Finance Authority.
- B. "Benefit" means any gain or advantage to, or reduction in the liabilities of, the beneficiary and includes any gain or advantage to, or reduction in the liabilities of, a third person pursuant to the desire or consent of the beneficiary.
- C. "Confidential Information" means information which is available to an Employee only because of his or her status as an Employee of the Authority and is not a matter of public knowledge.
- D. "County" means Nassau County, New York.
- E. "Dependent Child" means a son, daughter, stepson or stepdaughter of an Employee, who is either: (1) unmarried, under age 21, and is living in the household of the Employee or (2) a "dependent" of the Employee within the meaning of section 152 of the Internal Revenue Code of 1954.
- F. "Employee" means, for the purpose of this Code of Ethics, any person employed by the Authority, and any Director.
- G. "Employee's Independent Business" means, for the purposes of Section III (B) (6) of this Code of Ethics, a firm or association of which an (1) Employee, or an Employee's Spouse or Dependent Child is a member, or (2) a corporation, 10% or more of the stock of which is owned or controlled directly or indirectly by such Employee or an Employee's Spouse or Dependent Child. This definition shall exclude any employee of a governmental public entity.
- H. "Financial Interest" means:
1. Ownership of an interest, either active or passive (e.g., stock ownership), or involvement in a relationship from which or as a result of which there has been received within the past 12 months, or there is an entitlement to receive in any future year, more than \$1,000 or its equivalent;
 2. Ownership of an interest in a business or real property which interest (a) has a market value in excess of \$5,000, (b) reflects a 10 percent ownership of the business, or (c) in the case of an Employee or an Employee's Spouse or Dependent Child, constitutes 25 percent of the net worth of the person owning such interest, or the combined net worth of the Employee and his or her Spouse and Dependent Child. This excludes an interest in the Employee's primary personal residence. In determining the value of an interest, debts, mortgages, liens or other encumbrances thereon are to be disregarded; or
 3. Liability or indebtedness to a person or business in excess of \$5,000, excluding liabilities owed to relatives and excluding mortgages, liens or other encumbrances on or secured by real property which is the Employee's primary personal residence or furniture or appliances therein.
- I. "Former Employee" means persons other than Directors who are no longer Employees of the Authority but were Employees in the time period following the effective date of this Code of Ethics.

J "Gift" means a payment, advance, forbearance, rendering, or deposit of money, or any thing of value, unless the donor receives consideration of equal or greater value.

K. "Key Employee" means any Employee who (1) receives annual compensation in excess of the filing rate established by paragraph (1) of § 73-a of the Public Officers Law,* or (2) holds a policy-making position as determined annually by the Authority and filed with the State Ethics Commission.**

L. "Other Interest" means holding a position in a business such as an officer, director, trustee, partner, proprietor, executor, employee, or a position of management, or acting as a consultant, agent or representative therefore in any capacity.

M. "Spouse" means the married partner of an Employee (1) who has not received a decree of permanent separation from such Employee or (2) who is not living separate and apart from the reporting Employee with the intention of terminating the marriage or providing for permanent separation.

N. "Trading" means, in reference to securities, the buying and selling of securities (including bonds or notes), or the buying and selling of options, calls, puts, or any other right relating to a security.

O. "Transaction" means buying, selling, renting (as lessor or lessee), or otherwise acquiring or disposing of services, materials, supplies, equipment, or property having a value of one hundred dollars or more or an interest having a value of one hundred dollars or more in such services, materials, supplies, equipment or property; borrowing or investment of money; preparing, requisitioning, ordering, approving, advising on, administering or otherwise acting in reference to the performance of a contract having a value of one hundred dollars or more; or the promulgation of rules and regulations affecting such activities.

* As of the adopted date of this Code, the level is \$74,621;

** A list of the Employees who hold policy making positions at the Authority is attached hereto as Appendix C.

III. Standards and Principles of Conduct

The following standards and principles of conduct are to be followed to assure compliance with this Code of Ethics. A breach of these standards and principles constitutes a violation of this Code of Ethics.

A. General Standards and Principles

1. An Employee shall not have any interest or incur any obligation, financial or otherwise, direct or indirect, or engage in any business or Transaction or professional activity, which is in conflict with the proper discharge of his or her duties in the public interest.

2. An Employee shall avoid any action, whether or not specifically prohibited by this Code of Ethics, which might result in or create the appearance of:

- (a) using his or her official position for private gain;
- (b) giving preferential treatment to any person, including himself or herself;
- (c) lacking independence or impartiality;
- (d) affecting adversely the confidence of the public in the integrity of the Authority; or
- (e) violating any provision of this Code of Ethics.

3. No Employee shall use or attempt to use his or her official position to secure unwarranted privileges or exemptions for himself or herself or others.

4. An Employee shall not by his or her conduct give reasonable basis for the impression that any person may improperly influence him or her or unduly enjoy his or her favor in the performance of his or her official duties, or that he or she is affected by the kinship, rank, position or influence of any party or person.

B. Specific Standards and Principles

1. No Employee shall be involved in any Transaction as representative or agent of the Authority with, or be involved in any evaluation of, any business entity in which the Employee, the Employee's Spouse or Dependent Child has a direct or indirect Financial Interest that might reasonably tend to conflict with the proper discharge of his or her official duties. Prior to becoming involved in any Transaction as representative or agent of the Authority with, or becoming involved in any evaluation of, a business entity in which the Employee, the Employee's Spouse or Dependent Child holds a Financial Interest, the Employee, the Employee's Spouse or Dependent Child must sell or transfer such Financial Interest.

2. No Employee, Employee's Spouse or Dependent Child shall acquire, except by Gift, inheritance or the dissolution of a trust, any Financial Interest in any business entity which the Employee has reason to believe may be directly involved in decisions to be made by him or her which will create conflict between his or her duty in the public interest and his or her private interest. If an Employee, an Employee's Spouse or Dependent Child receives such a Financial Interest by Gift, inheritance,

operation of an automatic dividend reinvestment plan or the dissolution of a trust, the interest shall be promptly sold or transferred. If an Employee's Spouse or Dependent Child receives or retains such a Financial Interest in violation of the foregoing provisions, it will be deemed to be a violation by the Employee of this provision.

3. No Employee shall (1) accept employment which will impair his or her independence of judgment in the exercise of his or her official duties, including employment by Nassau County or any Covered Organization under the NIFA Act, or which involves a matter in which the Authority has a substantial interest, or (2) receive or enter into any agreement for any compensation for the appearance or rendition of services against the interest of the Authority in relation to any case, proceeding, or matter.

4. No Employee shall accept employment or engage in any business, which will require him or her to disclose Confidential Information which he or she has gained by reason of his or her official position or authority.

5. No Employee shall disclose confidential information acquired by him or her in the course of his or her official duties nor use such information to further his or her personal interests.

6. No Employee, Employee's Spouse or Dependent Child, or an Employee's Independent Business shall (1) sell any goods or services having a value in excess of twenty-five dollars to the Authority, or (2) contract for or provide such goods or services with or to any private entity where the power to contract, appoint or retain on behalf of such private entity is exercised, directly or indirectly, by the Authority or any of its officers, unless such goods or services are provided pursuant to an award of contract let after public notice and competitive bidding. If an Employee's Spouse or Dependent Child engages in the conduct described in the preceding sentence, it will be deemed to be a violation by the Employee of this provision.

7. (a) No Employee, Employee's Spouse or Dependent Child shall, directly or indirectly, solicit, accept or receive any Gift having a value of \$75 or more, whether in the form of money, service, loan, meal payment, travel, entertainment, hospitality, thing, or promise, or in any other form, from any person or entity:

(1) which is regulated by, negotiates with, appears before on other than a ministerial matter, does business with or seeks to do business with or has contracts with the Authority (including, but not limited to, vendors, bidders, proposers, contractors, subcontractors or consultants), as well as anyone, whether or not a registered lobbyist, who attempts to influence the Authority's decisions; or

(2) under circumstances in which it could reasonably be inferred that the Gift was intended to influence the Employee, or could reasonably be expected to influence the Employee in the performance of the Employee's official duties, or was intended as a reward for any official action on the Employee's part.

(a) An Employee, and an Employee's Spouse or Dependent Child may not receive within a single calendar year, two or more Gifts of the type identified in paragraph (a) above, which individually are worth less than \$75 but in the aggregate equal or exceed \$75.

(b) An Employee may not solicit, accept or receive a gift of any value if to do so would constitute a substantial conflict with the proper discharge of his or her duties in the public interest.

(c) If an Employee's Spouse or Dependent Child engages in the conduct prohibited by paragraph (a) or (b) above, it will be deemed to be a violation by the Employee of such provisions.

C. Applicable New York Law

These standards do not replace and are in addition to the requirements of law, particularly Sections 73 and 74 of the New York Public Officers Law, which, among other things, govern the business activities of Authority Employees and set forth the State Code of Ethics.

Copies of Sections 73 and 74 of the Public Officers Law are attached to and made a part of this Code of Ethics as Appendices A and B, respectively.

IV Use of Material, Nonpublic and Confidential Information

It is the policy of the Authority to prohibit all Employees from (1) trading in securities (which includes municipal bonds or notes) based on material, nonpublic information derived from or relating to Authority activities and (2) disclosing confidential information to unauthorized third parties

A. Trading of Securities Based on Material, Nonpublic Information

1. Employees shall not trade in bonds or other securities issued by the Authority based on material, nonpublic information derived from any source or from disclosing such information for the purpose of allowing third parties to profit from trading in Authority securities.
2. Employees shall not trade in stocks, bonds or other securities issued by other business entities based on material, nonpublic information obtained in the course of their duties for the Authority and shall not disclose such information for the purpose of allowing others to profit from trading in securities issued by other business entities based on such information.

Information is material if there is a substantial likelihood that a reasonable investor would consider the information important in making his or her investment decision concerning the securities in question.

Information is nonpublic if, in the case of Authority securities, it has not been publicly disseminated by the Authority. Information is nonpublic if, in the case of securities issued by other business entities, it has not been publicly disseminated by those business entities.

B. Disclosure or Use of Confidential Information

Employees shall not disclose confidential information obtained in the course of their duties at the Authority to any third party not authorized to receive such information and shall not profit from the use of such information.

Information is confidential if it has been expressly designated as confidential or should be treated as confidential because of the nature of, or circumstances surrounding, such information. If an Employee has a question concerning the confidential status of any information, he or she should consult with General Counsel regarding such information.

Employees who violate the provisions of this section may be subject to civil and criminal penalties under Federal and state laws, including fines and/or imprisonment. In addition, Employees who violate the provisions of this section may be subject to disciplinary action by the Authority, including termination of employment.

VI. Restrictions on Post-Employment Activities of Former Employees

The post-employment activities of persons who are Former Employees are governed by the restrictions set forth in Section 73 of the Public Officers Law, attached hereto as Appendix A.

VII. Certification of Absence of Conflict of Interest

All Employees are required to certify that they have read this Code of Ethics and that they have no conflict of interest. The Certification Form is attached hereto as Appendix D. These certifications shall be submitted to the Human Resources Department.

Any Employee who knowingly fails to complete, sign and submit the required Certification Form violates this Code of Ethics and may be subject to disciplinary action.

VIII. Requests for Interpretation, Clarification or Waiver of This Code of Ethics

A. Interpretation and Clarification

An Employee may submit a written request to the General Counsel for an interpretation or clarification of the provisions of this Code of Ethics.

B. Waivers

An Employee may submit a written request to the Chairman of the Authority for a waiver of any restriction contained in this Code of Ethics. All waiver requests shall include a description of the nature of the restriction or prohibition for which waiver is sought; the nature of the Employee's interest involved; the effect on the Employee or the Authority of the restriction or prohibition for which the waiver is sought; and the reasons why the waiver should be granted.

IX. Remedies for Breaches of This Code of Ethics

In addition to any other remedies, civil or otherwise, which the Authority may have, an Employee or Former Employee who violates this Code of Ethics may be disciplined under this Code of Ethics. Remedies or disciplinary action may be imposed only upon the basis of a written statement of findings and recommendations by the General Counsel, and may include one or more of the following:

1. Issuance of written warnings;
2. Direction of corrective action to eliminate the conflict of interest;
3. Restitution;
4. Changes in assigned duties or suspension or termination of employment; provided, however, that only the Chairman shall impose said remedies.

A Former Employee found to have violated this Code of Ethics is subject to one or more of the following: written warnings; termination of existing Transactions involving the individual in question to the extent permitted by law; disqualification or suspension from future Transactions of the Former Employee and/or the person on whose behalf he or she is participating in Transactions with the Authority; and notification to appropriate persons that a conflict exists.

APPENDIX C

Policy Making Positions of the Nassau County Interim Finance Authority

Executive Director

Deputy Director

General Counsel

Corporate Secretary

Treasurer

Deputy Treasurer

APPENDIX D

Certification Form

Please sign & return a copy of this Certification Form to the General Counsel.

RECEIPT FOR CERTIFICATION FORM

This is to acknowledge that I have received a copy of the Code of Ethics and understand that it contains important information on the Authority's policy and on my obligations as an employee.

I acknowledge that I have read the Code of Ethics and that it is intended to give me information about the Code of Ethics policy of the Authority.

I have read and understand the contents of the Code of Ethics. I agree to abide by the conditions specified in this policy and by other rules, practices or procedures that the Authority adopts.

Please sign and date this receipt and return it to the General Counsel.

Print Name

Dated

Signature