

**NASSAU COUNTY INTERIM  
FINANCE AUTHORITY**

**2003 ANNUAL REPORT**

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**NASSAU COUNTY INTERIM FINANCE AUTHORITY  
2003 ANNUAL REPORT**

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June 22, 2004

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

Dear Governor Pataki:

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

During 2003, NIFA worked with the County Executive, Legislature, and Comptroller to develop plans, identify actions, and monitor progress toward achieving long-term structural balance. The County was able to end FY 2003 with an operating surplus of \$25.5 million, after making \$128.8 million of pre-payments and defeasances that will benefit FY 2004 and beyond. If the County had not made the \$128.8 million of pre-payments, for the first year since NIFA was created, the County would have ended the year with an excess of revenues over expenditures, without the \$15 million of State transitional aid, and \$40 million of restructuring relief, that NIFA provided. However, a large portion of the pre-payments was funded from non-recurring events. In October of 2003, NIFA approved the FY 04 operating budget, and requested that the County Executive submit an update of his financial plan for FY 04 – FY 07 by June 1, 2004.

Restoring fiscal health is a multi-year task that was recognized in crafting the NIFA legislation. While significant progress has been made, the County continues to face numerous fiscal challenges, with large gaps projected in the out-years of the financial plan. Continued vigilance is necessary to ensure that gap-closing initiatives are implemented and achieve their expected results. The County continues to face major problems, including the deteriorating financial condition of the Nassau Health Care Corporation, the need to significantly reduce the tax certiorari backlog, and the upgrade of the County's physical infrastructure.

The hard choices that lie ahead can only be solved if all parties work together. The Authority is committed to working with State, County, and other local leaders to ensure decisive and meaningful action to achieve the long-term financial stability that County residents need and deserve.

Sincerely,

Ronald A. Stack  
Chairman

## **Nassau County Interim Finance Authority**

### **AUTHORITY DIRECTORS AND STAFF AS OF DECEMBER 31, 2003**

#### **Directors**

Ronald A. Stack, Chairperson

Richard M. Kessel

Martin D. Payson

David H. Peirez

Robert G. Smith, Ph.D.

Robert M. Wallach

#### **Staff**

Richard Luke, Executive Director and Treasurer

Evan Cohen, Deputy Director

Jane Cunneen, Deputy Chief Financial Officer

Carol Kostik, Chief Financial Officer

Laurel Leat, Chief Administrator and Corporate Secretary

Timothy Sullivan, Deputy Director

Jeremy Wise, General Counsel

## INTRODUCTION

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

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

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

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

The Authority is governed by seven Directors, however, the resignation of Frank G. Zarb in 2003 created a vacancy that has not yet been filled. All Directors are appointed by the Governor, including one each upon the recommendation of the Majority Leader of the State Senate, the Speaker of the Assembly and the State Comptroller. The Governor designates the chairperson of the Authority. The following individuals served as Directors of NIFA in 2003:

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

Richard M. Kessel, Director. Mr. Kessel is the Chairman and Chief Executive Officer of the Long Island Power Authority. His term of office is scheduled to expire on December 31, 2004.

Martin D. Payson, Director. (Nominated by the State Comptroller.) Mr. Payson is a Director of Panavision Inc.; Delta Financial Corp.; Information Holdings, Inc; and Carl Marks & Co., Inc. His term of office is scheduled to expire on December 31, 2005.

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

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

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

Frank G. Zarb, former Director and Chairperson, resigned from the Board as of November 10, 2003. Mr. Zarb is the Chairman of Frank Zarb Associates. He serves as Advisor to Hellman and Friedman, The Nasdaq Stock Market, Inc., the NASD and other clients. His term of office is scheduled to expire on December 31, 2006.

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

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

Carol S. Kostik, Chief Financial Officer. Ms. Kostik serves as Chief Financial Officer. Ms. Kostik's professional experience is in government and as a public finance investment banker. She holds an MBA from Stanford University's Graduate School of Business. (*Ms. Kostik resigned in early 2004*).

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

NIFA came into existence on June 23, 2000 and the first meeting of its Directors took place on June 28, 2000. This Annual Report is made pursuant to Section 2800 of the

Public Authorities Law and to the NIFA Act, and covers the year ended December 31, 2003. It also incorporates other reports required by New York State law, as identified in “Additional Information” below.

## **SUMMARY OF ACCOMPLISHMENTS IN 2003**

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 2003, NIFA continued to bring fiscal stability to Nassau County and help the County on its road to long-term budget balance and financial health. Some of NIFA’s and the County’s major accomplishments in 2003 are as follows:

- The County ended FY 2003 with an operating surplus of \$25.5 million, with the benefit of \$15 million of State transitional aid, and \$40 million of restructuring relief, and after making \$128.8 million of pre-payments and defeasances that will benefit FY 2004 and beyond.
- For the first time since NIFA was created, the County would have ended the year with an excess of revenues over expenditures, without considering the assistance that NIFA provided. However, a large portion of the pre-payments was funded from non-recurring actions and events.
- The issuance of \$514,475,000 of bonds to fund long term and short term needs, with continuation of high credit ratings for NIFA debt.
- Savings to the County of approximately \$15.2 million in debt service expense through NIFA debt issuance in 2003, on behalf of the County, at NIFA’s higher credit rating levels. Since its creation NIFA has saved the County \$73.8 million in debt service expense.
- The County’s improved financial condition, as evidenced by the three ratings agency’s upgrade of the County’s bond rating
- The County has begun planning for the upgrade of the technology supporting its financial management and administrative systems.
- The continuation of monitoring mechanisms to improve financial tracking and facilitate dialogue between the County’s elected leaders.
- Improvements of the County’s cash flow reporting and monitoring systems which allowed the County to enter the financial markets for the first time since the creation of NIFA with a \$120 million Tax Anticipation borrowing for cash flow purposes.

## **NIFA MISSION AND ACTIVITIES**

### **Financial Oversight and Monitoring**

NIFA is charged with the overseeing and monitoring of the finances of Nassau County and, if necessary, establishing a “control period” to exercise additional oversight powers. Since its inception, NIFA had a substantial positive impact on the County’s budget and financial planning processes, and operating results. The Directors have continued to act as a unified group, with all actions receiving unanimous support of the Directors. Major budget and oversight actions in FY 2003 included:

#### Budgeting and Four-Year Plan

- At NIFA’s direction, and as a condition to receiving State Transitional Assistance in FY 2003, the County identified and implemented \$134.5 million of recurring measures, of which \$119.4 million was derived from a property tax increase, to help close its projected FY 2003 baseline gap of \$206.5 million.
- The County ended FY 2003 with a surplus of \$25.5 million.
- On May 1, 2003 the County Executive submitted his update of the Four Year Financial Plan (“Plan”) for the period FY 2003 – FY 2006.
- On September 15, 2003 the County Executive submitted his Four Year Financial Plan, with the first year of the Plan being the FY 2004 budget. The Plan contained no property tax increase, reducing the workforce by 1400 employees, savings through reengineering government, and recognized labor concessions achieved with the Police Benevolent Association, and the Civil Service Employees Association.
- NIFA reviewed the County Executive’s proposed Plan and issued a report on October 8, identifying the major positive and negative aspects. Overall, NIFA found the initial Plan to be adequate.
- On October 31, 2003 NIFA accepted the Four Year Financial Plan adopted by the County Legislature. While NIFA accepted the Plan, it also requested that the County Executive submit an updated Plan no later than June 1, 2004.

#### Monitoring

- NIFA continues to hold monthly meetings of the key elected officials of the County, including the County Executive, Legislative Majority and Minority Leaders, and County Comptroller. These meetings cover timely issues affecting the County and promote the exchange of information and problem solving.
- Monthly financial monitoring meetings are also held with representatives of the County Executive, County Legislature, County Comptroller and NIFA to oversee budget status.
- NIFA monitors key financial indicators such as sales tax, staffing, and social service costs in order to allow us to project year-end operating results.



- NIFA meets with the Nassau Health Care Corporation monthly to remain up to date on their financial condition.
- NIFA regularly meets with County representatives concerning the County's progress in streamlining its certiorari process.

While the County has made significant progress, much remains to be done. The County continues to face large budget gaps in the out years of the Plan, especially 2006 and 2007. The County's physical infrastructure needs to be upgraded, the Nassau Health Care Corporation, whose bonds are guaranteed by Nassau County, continues to experience financial difficulties, and the County has failed to significantly reduce the backlog of tax certiorari claims. These and other major problems must be addressed in the coming year.

### **Debt Issuance on Behalf of Nassau County**

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

NIFA's debt program was initiated in FY 2000 and continued successfully in 2003 with a total of \$2,157,690,000 of bonds and notes sold from inception through December 31, 2003. Of this total, \$1,123,320,000 of bonds was outstanding at the end of FY2003. NIFA did not have any notes outstanding since the County undertook to borrow for cash flow purposes on its own in 2003. Major debt-related actions in FY 2003 included:

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

Rating Agency	NIFA Long Term Debt Rating	NIFA Short Term Debt Rating
Fitch	AA+	F1+
Moody's Investors Service	Aa2	MIG 1
Standard & Poor's	AA	SP-1+

- Issuance of \$514,475,000 Sales Tax Secured Bonds, Series 2003A and 2003B, to: provide for the payment of certain Financeable Costs, including the payment at maturity on May 22, 2003 of principal and interest due on the Authority's Bond Anticipation Notes, Series 2002B-1; the restructuring of a portion of the County's bonds; the refunding of certain outstanding bonds of the County; the refunding of certain outstanding bonds of the Authority; and payment of tax certiorari judgments and settlements, other legal judgments and settlements, real property reassessment costs, County capital projects and costs of issuance.

NIFA's 2003 debt issuances provided timely, cost-effective financing of County needs and saved the County approximately \$15.2 million in debt expense over the term of the

bonds and notes compared to the costs that the County would have incurred if it issued debt directly. Together with the savings from earlier issuances NIFA has saved the County over \$73.8 million in debt expense through the end of FY 2003.

### **Administrative Matters**

During 2003 the Authority maintained its staff complement of seven employees. NIFA also continued to implement and improve its monitoring and oversight mechanisms. In addition, a website was implemented to provide the public with easier access to information regarding NIFA. The website contains reports issued by NIFA, a chart displaying NIFA debt, press releases, an event calendar which includes the minutes to the Directors' meetings and NIFA contact information.

### **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, 2003 (Tab 2). The Audit sets forth NIFA's receipts and disbursements, its assets and liabilities, and a schedule of its bonds and notes outstanding at the end of the year. Provision of the Audit also meets the requirements of Section 2802 of the Public Authorities Law.

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

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

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

For additional information on the Authority, please contact:

Nassau County Interim Finance Authority  
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(516) 248-2828  
[www.nifa.state.ny.us](http://www.nifa.state.ny.us)

**NASSAU COUNTY INTERIM FINANCE AUTHORITY  
REPORT ON DEBT ISSUANCE  
YEAR ENDED DECEMBER 31, 2003**

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

In the year ended December 31, 2003, NIFA issued one series of bonds. This debt issue financed costs as follows.

**\$275,990,000 Sales Tax Secured Bonds, Series 2003A  
\$238,485,000 Sales Tax Secured Bonds, Series 2003B**

The Series 2003A and Series 2003B Bonds were issued on May 15, 2003 as fixed rate bonds maturing in 2023, with scheduled annual sinking fund redemptions beginning in 2003. See Note 6 of the Authority Audit for additional details. The Series 2003A and Series 2003B Bonds financed the following County costs:

<u>County Cost Category</u>	<u>Amount</u>
Retire NIFA 2002 B-1 Bond Anticipation Note	\$24,090,000.00
Funding Escrow account to refund Authority	
Refunded Bonds	26,417,142.51
Funding escrow account to pay County	
Debt Service*	279,867,801.94
County Capital Needs	43,891,778.17
Tax Certiorari Settlements/Judgments	141,488,959.00
Other Settlements/Judgments:	29,300,000.00
Cash Flow Need of the County (Partial Cost	
of Reassessment Contract)	3,000,000.00
Nassau County Costs of Issuance	300,000.00
Deposit to Liquidity Reserve Account	<u>9,217,552.58</u>
 Total County Costs Financed	 \$557,573,234.20

*\* Includes \$41 million of FY 2003 budget benefit to the County on a net basis, that is, net of new debt service from the 2003A/B bonds.*

In addition, NIFA issuance expenses (including Authority costs of issuance of \$254,318.00, underwriters’ discount of \$2,961,339.75, and municipal bond insurance premium of \$1,962,190.26) were financed from bond proceeds.

***Nassau County Interim  
Finance Authority***

**Independent Auditors' Report  
Financial Statements  
Year Ended December 31, 2003**

# 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 Nassau County, as of December 31, 2003, 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 Authority's management. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority, as of December 31, 2003, and the respective changes in financial position thereof 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. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 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 30, 2004, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Deloitte & Touche LLP*

April 30, 2004

# NASSAU COUNTY INTERIM FINANCE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2003

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### Introduction

The Nassau County Interim Finance Authority (the "Authority" or "NIFA") is a New York State authority empowered to monitor and oversee the finances of Nassau County, New York (the "County") and to issue bonds and notes for various County purposes. In its oversight capacity, the Authority is empowered to, among other things, review County financial plans submitted to it; make recommendations or, if necessary, adverse findings thereon; make transitional State aid available as it determines; comment on proposed borrowings by the County and certain affiliated organizations; and impose a "control period" upon making one of several statutory finds 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 2003 because the County's improved financial condition allowed them to borrow for these needs on their own behalf. 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, 2003. The overview, which covers the most important financial events of the period, should be read in conjunction with the Authority's financial statements, including the notes to the financial statements.

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

Governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. These statements are the *balance sheet* and the *statement of revenues, expenditures and changes in fund balance*. They recognize revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current

fiscal period. These are the type of financial statements prepared by the Authority prior to GASB No. 34, though they have been modified to conform to GASB No. 34.

In addition to these two types of statements, the financial statements include a 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 2003 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 up to ¼ % component that is allocable to towns, cities and villages within the County. Sales taxes are collected by the State and remitted to the Authority's bond trustee, usually several times each month. After provision for Authority debt service deposits and operating expenses, the remaining funds are remitted immediately to the County.

The amount of sales tax revenues to be collected depends upon various factors including the economic conditions in the County, which has experienced numerous cycles of growth and recession. In addition, specific goods and services can be exempted from the imposition of sales tax, and the rate of taxation can be changed. Of the current 4 ¼% sales tax rate, 3% is a base rate and the remaining 1 ¼% is subject to periodic renewals. From County fiscal year 1981 to County fiscal year 2003, the average annual compound growth rate for sales tax collections was approximately 6.14%. (County collections are described because the Authority was only created in 2000.) NIFA's sales tax receipts grew by 3.3% in FY 2003. 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, 2003 was \$843,211,068 an increase of 3.3% over the prior year, resulting primarily from a higher level of retail sales. Investment income, which accounts for the remaining Authority revenue (apart from State Transitional Assistance to Nassau County, which is received and disbursed by the Authority), totaled \$1,591,363 in 2003, a decrease of 22% from 2002. This decrease is attributable to lower interest rates and lower fund balances to invest.

Sales tax revenue provided 11.8 times coverage of the Authority's 2003 total monthly set-asides for debt service of \$71,540,359. This coverage will decrease as the Authority issues more debt. 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 \$67,633,722 of sales tax revenue for debt service set-asides and Authority operations, remitting the balance of \$780,305,553 to Nassau County. A portion of the Authority's total operating expense of \$1,136,020 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 2003, the Authority issued \$275,990,000 long-term bonds (Series 2003A), and \$238,485,000 of refunding bonds (Series 2003B). The Series 2002A-1 BANs in the amount of \$109,145,000 financed cash



flow needs of the County and were retired at maturity in March 2003, and the Series 2002B-1 BANs of \$24,090,000 to finance extraordinary working capital needs of the County matured in May 2003, and were redeemed with the proceeds of Series 2003A Bonds. The Series 2002B-2 BANs totaling \$68,920,000 financed cash flow needs of the County and were retired in May and September 2003.

Bonds payable increased in fiscal year 2003 by \$473,140,000 (42%), to \$1,123,320,000, principally due to the issuance of the Series 2003A and Series 2003B Bonds, as offset by principal retirements on prior bond issues. Notes payable decreased by \$202,155,000 due to the County's improved financial condition allowing them to borrow for these needs on their own behalf.

The statement of net assets shows a total net deficit of \$1,060,042,415. The deficit results largely from Authority debt issuance that is backed by securitization of future sales tax revenue. The debt is reported as a long-term liability, but the future revenues are not reportable. As of December 31, 2003, the Authority had bonds payable of \$1,123,320,000. In any year where the Authority issues more long-term debt than it retires, the deficit is likely to increase. The reconciliation on page eight of these financial statements provides additional detail on the determination of the net deficit amount.

Cash and investments decreased by 47% or \$120,615,000. The decrease resulted from reduced County cash flow borrowing, which reduced the amount of County notes held by NIFA, and from debt proceeds requisitions by the County in excess of the new debt issued by the Authority.

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# NASSAU COUNTY INTERIM FINANCE AUTHORITY

## STATEMENT OF NET ASSETS DECEMBER 31, 2003 (Dollars in Thousands)

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	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 125,239
Investments	11,600
Sales tax receivable	94,158
Interest receivable	54
Other assets	36
Other noncurrent assets, net of amortization	<u>9,089</u>
Total assets	<u>\$ 240,176</u>
<b>LIABILITIES</b>	
Accrued liabilities	\$ 43,377
Due to Nassau County - sales tax	88,156
Due to Nassau County - interest	40
Bonds payable:	
Due within one year	46,015
Due in more than one year	1,077,305
Other liabilities	45,012
Accrued vacation and sick pay	<u>315</u>
Total liabilities	<u>1,300,220</u>
<b>NET ASSETS</b>	
Unrestricted (deficit)	<u>(1,060,044)</u>
Total liabilities and net assets (deficit)	<u>\$ 240,176</u>

See notes to financial statements.

# NASSAU COUNTY INTERIM FINANCE AUTHORITY

## STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2003 (Dollars in Thousands)

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	<b>Governmental Activities</b>
<b>EXPENSES</b>	
General and administrative	\$ 1,172
Bond interest expense	47,132
Deposited with the Escrow agent to refund Nassau County debt	279,085
Distribution to Nassau County for financeable costs	194,764
Distribution to Nassau County for general operations	<u>1,459</u>
Total expenses	<u>523,612</u>
<b>GENERAL REVENUES</b>	
Sales tax	843,211
Less distributions to Nassau County	(780,306)
State aid	15,000
Less distributions to Nassau County	<u>(15,000)</u>
Sales tax and state aid revenues retained	62,905
Interest income, net	3,960
Unrealized gain on investments	<u>14</u>
Total general revenues	<u>66,879</u>
Change in net assets	(456,733)
<b>NET ASSETS (DEFICIT) - BEGINNING OF YEAR</b>	<u>(603,311)</u>
<b>NET ASSETS (DEFICIT) - END OF YEAR</b>	<u>\$ (1,060,044)</u>

See notes to financial statements.

# NASSAU COUNTY INTERIM FINANCE AUTHORITY

**BALANCE SHEET**  
**DECEMBER 31, 2003**  
**(Dollars in Thousands)**

	<u>Governmental Funds</u>				Total (Governmental Funds)
	General	Special Revenue	Debt Service	Capital Projects	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 26,204	\$ -	\$ 10,729	\$ 88,306	\$ 125,239
Investments		-	11,600	-	11,600
Sales tax receivable	94,158	-	-	-	94,158
Interest receivable	9	-	5	40	54
Due from other funds	-	19,833	11,795	-	31,628
Other assets	<u>36</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36</u>
<b>TOTAL ASSETS</b>	<u>\$ 120,407</u>	<u>\$ 19,833</u>	<u>\$ 34,129</u>	<u>\$ 88,346</u>	<u>\$ 262,715</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Accrued liabilities	\$ 25	\$ 19,833	\$ 23,493	\$ 27	\$ 43,378
Due to Nassau County - sales tax	88,156	-	-	-	88,156
Due to Nassau County - interest	-	-	-	40	40
Due to other funds	<u>31,628</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,628</u>
Total liabilities	<u>119,809</u>	<u>19,833</u>	<u>23,493</u>	<u>67</u>	<u>163,202</u>
FUND BALANCES - Unreserved	<u>598</u>	<u>-</u>	<u>10,636</u>	<u>88,279</u>	<u>99,513</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 120,407</u>	<u>\$ 19,833</u>	<u>\$ 34,129</u>	<u>\$ 88,346</u>	<u>\$ 262,715</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

DECEMBER 31, 2003  
(Dollars in Thousands)

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TOTAL FUND BALANCES - Governmental funds	\$ 99,513
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:	
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:	
Other Liability - Unamortized Bond Premium	(45,012)
Bonds payable	(1,123,320)
Accrued vacation and sick pay	(314)
LONG-TERM ASSETS ARE NOT AVAILABLE TO PAY FOR CURRENT PERIOD EXPENDITURES AND, THEREFORE, ARE DEFERRED IN THE FUNDS	<u>9,089</u>
NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES	<u>\$ (1,060,044)</u>

See notes to financial statements.

# NASSAU COUNTY INTERIM FINANCE AUTHORITY

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

YEAR ENDED DECEMBER 31, 2003

(Dollars in Thousands)

	Governmental Funds				Total (Governmental Funds)
	General	Special Revenue	Debt Service	Capital Projects	
<b>REVENUES</b>					
Sales tax	\$ 843,211	\$ -	\$ -	\$ -	\$ 843,211
State aid	-	15,000	-	-	15,000
Interest income, net	149	-	309	1,133	1,591
Unrealized gain on investments	-	-	14	-	14
Total revenues	843,360	15,000	323	1,133	859,816
<b>OTHER FINANCING SOURCES</b>					
Principal amount of bonds issued	-	-	-	514,475	514,475
Other sources	-	-	672	47,381	48,053
Operating transfers in	1,817	-	71,540	100	73,457
Total revenues and other financing sources	845,177	15,000	72,535	563,089	1,495,801
<b>EXPENDITURES</b>					
Current:					
General and administrative	1,136	-	-	-	1,136
Cost of issuances - notes/bonds	-	-	-	5,195	-
Distribution to Nassau County for financeable costs	-	-	-	194,764	194,764
Distribution to Nassau County for general operations	1,418	15,000	-	41	16,459
Total current expenditures	2,554	15,000	-	200,000	212,359
Debt service	112	-	66,606	-	66,606
Total expenditures	2,666	15,000	66,606	200,000	284,272
<b>OTHER FINANCING USES</b>					
Transfers to Nassau County - sales tax	780,306	-	-	-	780,306
Deposited with Escrow Agent - NIFA Defeasance	-	-	-	26,305	26,305
Deposited with Escrow Agent - Nassau County Defeasance	-	-	-	279,085	279,085
Operating transfers out	62,231	-	672	10,553	73,456
Total expenditures and other financing uses	845,203	15,000	67,278	515,943	1,443,424
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES					
	(26)	-	5,257	47,146	52,377
FUND BALANCES, BEGINNING OF YEAR					
	625	-	5,378	41,133	47,136
FUND BALANCES, END OF YEAR					
	\$ 599	\$ -	\$ 10,635	\$ 88,279	\$ 99,513

See notes to financial statements.

# NASSAU COUNTY INTERIM FINANCE AUTHORITY

## CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2003 (Dollars in Thousands)

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NET CHANGE IN FUND BALANCES - Total governmental funds	\$ 52,377
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:	
Bond proceeds provide current financial resources to governmental funds, but debt issued increases long-term liabilities in the statement of net assets	(514,475)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	17,445
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	4,973
Interest expense is reported in the statement of activities on the accrual basis, but interest is reported as an expenditure in governmental funds when outlay of financial resources is required	1,705
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	(45,012)
Payments to escrow agents for bond refundings is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	26,291
Expenses (accrued vacation and sick pay) reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds' statement of revenues, expenditures and changes in fund balances	<u>(37)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (456,733)</u>

See notes to financial statements.

# NASSAU COUNTY INTERIM FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2003

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### 1. ORGANIZATION

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

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

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

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



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

Assets are capitalized only if their value is greater than \$15,000. The Authority has no such assets. The Authority holds no inventory beyond small amounts of office supplies. Prepaid expense accruals are minor and are adjusted at the close of each fiscal year. The Authority does not presently accrue for rebatable arbitrage, if any. The first date on which it may owe a rebate on its bonds is in 2006. Rebate liability on the Authority's notes is being calculated and, if necessary will be paid by Nassau County. See Note 7, "Bond Anticipation Notes Payable."

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

### **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 2003 included:

- The receipt and remittance to the County of sales tax revenues (see Notes 1, 2 and 5). Revenues of \$843,211,068, of which \$780,305,553 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 expenses. In 2003, the Authority remitted \$1,417,591 of interest earnings.
- The receipt from New York State of Transitional State Aid for Nassau County, and transfer of that aid to the County. Transitional State Aid for general County needs in 2003 was \$15,000,000, which was fully disbursed to the County on January 29, 2004. In addition, of the \$5,000,000 of aid appropriated by New York State in 2000 to assist the County in streamlining its tax certiorari process, \$4,832,938 continues to be held by the Authority pending appropriate County action.

Authority debt issuance to fund Financeable Costs of the County encompassed the following types of activity and transfers to Nassau County in 2003:

- The sale of \$275,990,000 of Bonds by the Authority to finance Financeable Costs of the County (see Notes 1 and 6).
- The sale of \$238,485,000 of Bonds by the Authority to refund outstanding indebtedness of the County (see Notes 1 and 6).
- Transfer to the County, upon County requisition, of bond and note proceeds from debt issuance in 2003 and prior years. For the year ended December 31, 2003, \$194,764,075 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, 2003 the Authority held cash, collateralized Certificates of Deposit, Treasury Note Strips, Treasury Bills, Federal National Mortgage Association Discount Notes, and commercial paper of the Citigroup Corporation. All bank deposits of Authority funds are required to be fully collateralized or insured. Collateral for the Authority cash and certificates of deposit (in amounts in excess of Federal deposit insurance) is 102% of the amount of the cash or certificate of deposit amount, is held by a third party custodian in the Authority's account, and consists of U.S. government or agency obligations.

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

At the start of the fiscal year, the Authority also held Nassau County Revenue Anticipation Notes, Series 2002A (the "RANs") in the principal amount of \$109,145,000, that matured on February 28, 2003; and Nassau County Tax Anticipation Notes, Series 2002A and 2002B (together, the "TANs"), in the aggregate principal amount of \$68,920,000 that matured in May and August 2003, respectively. The RANs were sold to the Authority at private sale, in connection with the Authority's Series 2002A-1 Bond Anticipation Note issuance in July 2002. The TANs were sold to the Authority at private sale, in connection with the Authority's 2002B-2 Bond Anticipation Note issuance in December 2002. The Authority did not hold any RANs or TANs as of December 31, 2003.

The following table summarizes the Authority's cash and investments as of December 31, 2003. 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, 2003. On the Balance Sheet, the accrual of interest on short-term investments is reported as interest receivable, and the unrealized change in fair value of marketable securities with maturities longer than 90 days is reflected in the amount of the investment asset.

	Dollars in Thousands		
	Held by Authority	Held by Trustee	Total
Cash	\$ 86	\$ 5,796	\$ 5,882
Certificates of Deposit (maturities less than 90 days)	20,326	-	20,326
Commercial Paper		10,725	10,725
U.S. government and agency discount notes (maturities less than 90 days)	<u>-</u>	<u>88,306</u>	<u>88,306</u>
Total cash and cash equivalents	<u>20,412</u>	<u>104,827</u>	<u>125,239</u>
U.S. government and agency discount notes (maturities greater than 90 days)	<u>-</u>	<u>11,600</u>	<u>11,600</u>
Total marketable securities	<u>-</u>	<u>11,600</u>	<u>11,600</u>
Total cash and investments	<u>\$ 20,412</u>	<u>\$ 116,427</u>	<u>\$ 136,839</u>

## 5. SALES TAX REVENUE RECEIVABLE

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

## 6. BONDS PAYABLE

Bonds of the Authority are issued pursuant to an Indenture, as supplemented and amended (the "Indenture") between the Authority and the United States Trust Company of New York and its successor The Bank of New York (the "Trustee"), under which the Authority has pledged its right, title and interest in the Revenues of the Authority to secure repayment of Authority debt. The Act provides that the Authority's pledge of its Revenues represents a perfected first security interest on behalf of holders of its bonds. The lien of the Indenture on the Revenues for the security of Authority bonds is prior to all other liens thereon. The Authority does not have any significant assets or sources of funds other than Sales Tax Revenues and amounts on deposit pursuant to the Indenture. The Authority has no independent taxing power.

The Authority issued \$254,720,000 of Sales Tax Secured Bonds, Series 2000A (the "2000A Bonds"), on October 25, 2000; \$181,480,000 of Sales Tax Secured Bonds, Series 2001A (the "2001A Bonds") on June 27, 2001; \$112,825,000 of Sales Tax Secured Bonds, Series 2002A (the "2002A Bonds") and \$112,825,000 Sales Tax Secured Bonds, Series 2002B (the "2002B Bonds" and together with the 2002A Bonds, the "2002A/B Bonds") on July 10, 2002; and \$275,990,000 of Sales Tax Secured Bonds, Series 2003A (the "2003A Bonds"), and \$238,485,000 Sales Tax Secured Refunding Bonds, Series 2003B (the "2003B Bonds") and together with the 2003A Bonds, the "2003A/B Bonds"), on May 21, 2003. The 2000A Bonds, the 2001A Bonds; the 2002A/B Bonds; and the 2003 A/B Bonds are collectively referred to as the "Bonds."

Of the \$238,485,000 Sales Tax Secured Refunding Bonds, \$26,305,158 was used to advance refund \$23,890,000 of outstanding 2000A Bonds. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, a portion of the 2000A bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide financial statement of net assets. In 2003, the refunding transaction decreased NIFA's aggregate debt service payments by \$1,972,591 and provided an economic gain of approximately \$1,400,000.

The 2000A Bonds and the 2001A Bonds were sold at fixed rates of interest as serial and term bonds and are collectively referred to as the "Fixed Rate Bonds". The 2002A/B Bonds were sold as variable rate demand obligations and are collectively referred to as the "Variable Rate Bonds." The 2002A Bonds and the 2002B Bonds are each term bonds maturing in 2022 with scheduled sinking fund redemptions in each year starting in 2003. The 2003A Bonds and the 2003B Bonds were sold at fixed rates of interest as serial bonds and are collectively referred to as "Fixed Rate Bonds"

Interest rates on the 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 determined and set separately for the 2002A Bonds and the 2002B 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 Los Angeles 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 repaid over a five year period. If this was to occur, annual Authority debt service expense would increase substantially.

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

	Dollars in Thousands			Balance at December 31, 2003
	Balance at December 31, 2002	Issued	Retired	
Sales Tax Secured Bonds, Series 2000A 4.50% to 5.625% Serial and term bonds due 2002 to 2020	\$ 247,740	\$ -	\$ 31,180	\$ 216,560
Sales Tax Secured Bonds, Series 2001A 4% to 5.375% Serial and term bonds due 2002 to 2021	176,790	-	5,110	171,680
Sales Tax Secured Bonds, Series 2002A (variable rate) Term Bond due 2022 with mandatory sinking fund redemptions 2003-2021	112,825	-	1,635	111,190
Sales Tax Secured Bonds, Series 2002B (variable rate) Term Bond due 2022 with mandatory sinking fund redemptions 2003-2021	112,825	-	3,410	109,415
Sales Tax Secured Bonds, Series 2003A 2% to 6% Serial bonds due 2004 to 2023	-	275,990	-	275,990
Sales Tax Secured Refunding Bonds, Series 2003B 2% to 5% Serial bonds due 2005 to 2018	-	238,485	-	238,485
	<u>\$ 650,180</u>	<u>\$ 514,475</u>	<u>\$ 41,335</u>	<u>\$ 1,123,320</u>

Aggregate debt service to maturity as of December 31, 2003 is as follows:

Year Ending December 31	Principal	Interest*	Total
2004	\$ 26,260	\$ 54,276	\$ 80,536
2005	44,670	52,966	97,636
2006	47,605	51,210	98,815
2007	61,350	49,612	110,962
2008	56,750	47,027	103,777
2009-2013	340,640	190,494	531,134
2014-2018	304,735	107,173	411,908
2019-2023	241,310	29,861	271,171
	<u>\$ 1,123,320</u>	<u>\$ 582,619</u>	<u>\$ 1,705,939</u>

\* Interest on the Variable Rate Bonds is calculated at 1.5%, the interest rate in effect as of December 31, 2003. During 2003, the interest rate on the Variable Rate Bonds ranged from 0.55% to 1.35%.

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.

**7. BOND ANTICIPATION NOTES PAYABLE**

As of January 1, 2003 the Authority had outstanding bond anticipation notes of \$202,155,000. These notes were paid off during 2003. The Series 2002B-1 Notes in the amount of \$24,090,000 were paid off from the proceeds of the Series 2003A Bonds and the other notes outstanding at the beginning of the year were paid by Nassau County. NIFA did not issue any notes during 2003 because the County's improved financial condition allowed the County to issue notes on its own behalf for these purposes.

The County is responsible for calculating arbitrage rebate liability on notes issued by the Authority, and for paying any rebate liability determined to exist. The County currently estimates that it has a rebate liability of approximately \$1,000,000 pertaining to retired Authority notes. The following chart shows the change in the Authority's short-term debt in 2003.

	<b>Dollars in Thousands</b>			
	<b>Balance at December 31, 2002</b>	<b>Issued</b>	<b>Retired</b>	<b>Balance at December 31, 2003</b>
Bond Anticipation Notes, Series 2002A	\$ 109,145	\$ -	\$ 109,145	\$ -
Bond Anticipation Notes, Series 2002B	<u>93,010</u>	<u>-</u>	<u>93,010</u>	<u>-</u>
	<u>\$ 202,155</u>	<u>\$ -</u>	<u>\$ 202,155</u>	<u>\$ -</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, 2003, the Authority has paid its pension bill from the State in the amount of \$84,743, covering the period April 1, 2003 to March 31, 2004. The portion of this payment attributable to the year ended December 31, 2003 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, 2003. 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 \$164,532, which includes the employers' share of taxes and other withholdings. Authority employees are permitted to accrue unused sick leave without limitation and, upon certain conditions, apply the salary value of the leave upon retirement to the cost of the retiree's share of his or her health insurance premium. At current salary levels, the Authority's liability for payment of this accumulation is \$148,353, 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.

## **10. SUBSEQUENT EVENT**

On April 8, 2004 the Authority sold \$603,360,000 of fixed and variable rate (auction rate securities) bonds. The proceeds were used to finance new County capital needs, refund for savings County debt, and refund for savings NIFA debt. The borrowing was structured as two transactions. The first is a \$153,360,000 fixed rate bond. The second is a \$450,000,000 Variable Rate Bond (Auction Rate Securities) that NIFA hedged by entering into a swap with Goldman Sachs' Mitsui Marine Derivative Products (Aaa counterparty rating) and UBS AG (Aa2), for the life of the bond, requiring that NIFA pay to the swap providers a fixed rate and NIFA will receive a variable rate based on London Interbank Offered Rate (LIBOR) which is expected to closely approximate the variable rate paid on the auction rate bonds based on historical levels.

\* \* \* \* \*



## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT 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, 2003 and for the year then ended, and have issued our report thereon dated April 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### COMPLIANCE

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

### INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

*Deloitte & Touche LLP*

April 30, 2004

## **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, 2003 and for the year then ended, and have issued our report thereon dated April 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

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

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

*Deloitte & Touche LLP*

April 30, 2004

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**REPORT ON INVESTMENTS**  
**YEAR ENDED DECEMBER 31, 2003**

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, 2003 are based on the principles and precepts of investment safety and control contained in the Office of the State Comptroller’s “Investment Guidelines for Public Authorities” as revised on January 2, 1998. The NIFA Guidelines set forth the Authority’s policy and objectives regarding the investment of Authority funds, in accordance with the NIFA statute and the bond indenture executed by NIFA and its Trustee for debt issuances, the Bank of New York, New York, New York. The Guidelines have not been amended as of December 31, 2003.

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 \$1.598 million in interest on investments during the fiscal year ended December 31, 2003. In addition, as of December 31, 2003 NIFA held marketable securities with maturity dates greater than 90 days for which accrued interest was not reported. Rather, in accordance with accounting principles used by NIFA, these securities were valued at fair market value and the amount of unrealized gain in value (\$0.014 million) was reported as revenue on a separate line from interest income. This unrealized gain is not included in the interest income detail below. The securities were scheduled to be held to maturity and the interest income will be reported as such in the 2004 Authority Investment Report.

In the year ended December 31, 2003, NIFA had two principal types of investment accounts: (1) accounts held by the Bank of New York, Trustee under the Authority's bond Indenture, which contained bond and note sale proceeds and debt service deposits; (2) NIFA operating fund and reserve accounts, which also included State aid to Nassau County being held by NIFA prior to disbursement to the County.

Interest earned in the year ended December 31, 2003 from these accounts were as follows:

<u>Type of Account</u>	<u>Total Interest Earnings</u>
1. Bond and Note Related, held by Trustee	\$1,496,869
2. NIFA Operating Funds and Reserves	101,242
Total Earnings (cash and accrued)	\$1,598,111

The Authority invests in accordance with the Act, as well as other applicable rules and regulations, the Indenture, and Authority Investment Guidelines readopted by the Authority Directors in March 2002. As of December 31, 2003 the Authority held cash, collateralized Certificates of Deposit, Treasury Note Strips, Treasury Bills, Federal National Mortgage Association Discount Notes, and commercial paper of the Citigroup Corporation. All bank deposits of Authority funds are required to be fully collateralized or insured. Collateral for the Authority cash and certificates of deposit, which is required to be 102% of the amount of the cash or certificate of deposit amount and is held by a third party custodian in the Authority's account, consisted of U.S. government and agency obligations.

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

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

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**INVESTMENT GUIDELINES**  
**(Readopted March 11, 2002)**  
**(Readopted September 12, 2003)**

**Introduction**

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

**ARTICLE ONE**

Definitions

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

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

## **ARTICLE TWO**

### Scope

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

## **ARTICLE THREE**

### Investment Objectives

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

## **ARTICLE FOUR**

### Permissible Investments

- 4.1 The Authority may invest its Investment Funds in any and all of the following, if and to the extent permitted by statutes, regulations and bond resolutions applicable at the time of investment of such Investment Funds:
- a) obligations of the State or the United States government;
  - b) obligations the principal and interest of which are guaranteed by the State or the United States government;
  - c) certificates of deposit, whether negotiable or non-negotiable, and banker's acceptances (1) of any of the fifty largest banks in the United States which bank, at the time of investment, has an outstanding unsecured, uninsured and unguaranteed debt issue ranked in either of the two highest rating categories of two nationally recognized independent rating agencies; or (2) the certificates of deposit are fully collateralized by obligations of the United States government or obligations the principal and interest of which are guaranteed by the United States government; or (3) the certificates of deposit are held in a "municipal" bank account and fully collateralized pursuant to General Municipal Law Section 10 and regulations of the Comptroller as the same shall be in effect

from time to time, or (4) certificates of deposit in the amount of \$100,000 or less that are fully guaranteed by Federal Deposit Insurance.

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

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

#### 4.2 Specific Requirements Regarding Certificates of Deposit

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

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

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

4.3 Specific Requirements Governing Repurchase Agreements. Notwithstanding Section 4.1 hereof, the following shall also apply to Repurchase Agreements.



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

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

## **ARTICLE FIVE**

### Operating Procedures

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

or trust company organized under the laws of any state of the United States of America, any national banking association, and any partnership, authority, or person which is authorized to do business in the State.

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

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

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

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

5.6 Written Contracts and Confirmations. A written contract and/or a written confirmation shall be a required for each investment transaction. With respect to the purchase or sale of Securities other than Repurchase Agreements, the Authority shall not be required to enter into a formal written contract, provided that the Authority's oral instructions to its broker, dealer, agent, investment advisor or custodian with respect to such transactions are confirmed in writing at

the earliest practicable moment. A written contract shall be required for each purchase and sale of a Repurchase Agreement.

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

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

## **ARTICLE SIX**

### Reports and Audits

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

- 6.1 Annual Investment Report. Within ninety (90) days after the close of each fiscal year of the Authority, the Chairman shall submit to the Directors and the Authority shall file with the State Division of the Budget, Comptroller, State

Senate Finance Committee and Assembly Ways and Means Committee an annual investment report, prepared with the assistance of the Chief Financial Officer, which shall include the following:

- 1) The Investment Guidelines required by Section 2925(3) of the Public Authorities Law and any amendments to such guidelines since the last investment report;
- 2) An explanation of the Investment Guidelines and amendments;
- 3) The results of the Annual Investment Audit (described below);
- 4) The investment income record of the Authority; and
- 5) A list of the total fees, commissions or other charges paid to each investment banker, broker, agent, dealer and advisor rendering investment associated services to the Authority since the date of the last investment report.

6.2 Annual Investment Audit. Each year, the Authority shall cause its independent auditors to conduct an audit (the "Annual Investment Audit") regarding the Authority's investments. (The Authority's financial statements with respect to investments, which are required to be prepared in conformance with generally accepted accounting principles for governments ("GAAP"), should contain all of the note disclosures on deposits with financial institutions and investments required by the Governmental Accounting Standards Board Statements No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" dated April 1986), as amended or supplemented. The Annual Investment Audit:

- 1) Shall determine whether: the Authority complies with its own investment policies; investment assets are adequately safeguarded; adequate accounts and records are maintained which accurately reflect all transactions and report on the disposition of the Authority's assets; and a system of adequate internal controls is maintained.
- 2) Shall determine whether the Authority has complied with applicable laws, regulations and State Comptroller's Investment Guidelines; and
- 3) Should be designed to the extent practical to satisfy both the common interest of the Authority and the public officials accountable to others.

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

- 1) verification of collateral;

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

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

## **ARTICLE SEVEN**

### **Affirmative Action**

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

## **ARTICLE EIGHT**

### **Miscellaneous**

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





**NASSAU COUNTY INTERIM FINANCE AUTHORITY  
AUTHORITY PROMPT PAYMENT REPORT  
YEAR ENDED DECEMBER 31, 2003**

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, 2003, NIFA entered into three principal categories of contracts:

1. Contracts related to annual audit and legal counsel.
2. Contracts related to debt financing by NIFA, such as with bond counsel and underwriters.
3. Contracts related to accounting software purchase and training.

For each contract, payments were made pursuant to approved invoices. NIFA paid \$261.54 in late fees to Old Country Road Realty for Rent late rent payments. All other 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, 2003**

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

Attached are the Procurement Guidelines (“Guidelines”) adopted by the Authority at its July 13, 2000 meeting, which Guidelines have not have not been amended for the period through December 31, 2003. 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 2003

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

Vendor	Service
Sidley Austin Brown & Wood	Bond related issues
Hawkins Delafield & Wood	Bond Counsel for FY 2003 debt issue
Ingerman Smith LLP	Legal Advice
Micro Force	Accounting Software and Training
Bank of New York	Trustee banking services
MBIA	Bond Insurance
Ambac	Bond Insurance
Grant Thornton LLP	Bond related issues
Fitch Investor Services	Bond rating services
Standard & Poors	Bond rating services
Moody's Investors Service	Bond rating services
UBS PaineWebber, Inc.	Senior managing underwriter of FY 2002 debt issue
Goldman, Sachs & Co.	Senior managing underwriter of FY 2002 debt issue
First Albany Corporation, Morgan Stanley, Salomon Smith Barney, M. R. Beal & Company, Merrill Lynch & Co., Quick & Reilly, Inc., Ramirez & Co., Inc. and Roosevelt & Cross Incorporated	Co-managing underwriters of FY 2003 debt issues

### Status of Existing Contracts (Entered Into Prior to FY 2002)

Vendor	Service	Status of Contract
Old Country Road Realty L.P.	Lease for NIFA office	ongoing (to 2005)
Verizon	Phone service	Ongoing
AT&T	Phone service	Ongoing
Staples	Office furniture and supplies	Ongoing
Deloitte & Touche	Financial auditing	ongoing (audits for FY 2000, 2001, 2002, 2003)
BNP Paribas	Letter of credit (2002B Bonds)	Ongoing
Dexia	Letter of credit (2002A Bonds)	Ongoing
Jackson Lewis Schnitzler & Krupman	Legal advice	closed in 2003
United States Life Insurance Company	Long term disability insurance	Ongoing
American International Group	Umbrella property, casualty and liability insurance	Ongoing

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

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

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)”).

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

- a. Requirements of special expertise or unusual qualifications;
- b. Nature, magnitude complexity of services required;
- c. Lack of sufficient in-house resources, support staff, specialized facilities or equipment;
- d. Lower cost;
- e. Short term need for the services;
- f. Infrequent need for the services; and
- g. Distance of the location or locations where the services must be performed from the Authority offices or facilities.

302. Procurement Contracts for Goods

The types of goods requiring Procurement Contracts include:

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

ARTICLE IV

SELECTION OF PERSONAL SERVICE CONTRACTORS

400. Selection Criteria

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

1. General Policy

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

- a. Such awards are to be made after notice is published in the New York State Contract Reporter and after the solicitation of proposals obtained from at least three qualified persons/firms.
- b. Such NIFA requests for proposals shall be preceded, where possible, by the preparation of reasonable cost estimates for such Contracts. Such cost estimates shall be the responsibility of the NIFA staff members initiating such requests for proposals.
- c. All proposals should be received at one designated location within the initiating department, and immediately should be stamped with the date and time of receipt.
- d. When appropriate, written selection criteria shall be prepared for each Contract, which shall include price as an important factor to be considered in the selection process. Analysis of the proposals and/or bids submitted and the award of the Contract shall be documented in reasonable detail. Awards to other than the low bidder shall include in such documentation the reason the low bidder was not selected.
- e. The initiator shall ensure that documentation related to proposals and/or bids and awards are maintained for not less than two years after completion of the services contracted for.

401. Advertisement Requirements

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

402. Term

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

403. Waiver of Selection Criteria

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

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

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

404. Approval Process

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

ARTICLE V

SELECTION OF VENDORS AND SUPPLIERS FOR THE  
PURCHASE OF GOODS



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

#### ARTICLE VI

#### MINORITY AND WOMEN-OWNED BUSINESS ENTERPRISE PARTICIPATION

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

#### ARTICLE VII

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

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

## ARTICLE VIII

### PROVISIONS MADE A PART OF SERVICE CONTRACTS

801. Provisions to be contained in Personal Service contracts shall include but not be limited to:
- a. Scope of services;
  - b. Contract price or fee structure;
  - c. Method or basis of payment;
  - d. Use of the Authority's supplies;
  - e. Use of the Authority's personnel
  - f. Term of the contract; and
  - g. The Authority's Schedule A, "Conditions Applicable to NIFA Agreements with Law Firms and other Consultants" which Schedule is made a part of these Guidelines.

## ARTICLE IX

### PROCUREMENT CONTRACTS WITH FORMER OFFICERS OR EMPLOYEES OF THE AUTHORITY

901. The Authority may not enter into Procurement Contracts with former Officers or employees of the Authority or former employees of New York State who provided services to the Authority, where such Contracts would be in contravention of law, would create a conflict of interest or may create the appearance of impropriety.

## ARTICLE X

### REPORTS TO THE DIRECTORS CONCERNING PROCUREMENT CONTRACTS

1001. The Authority shall annually prepare for approval by the Directors and public availability a report on Procurement Contracts as of the end of each fiscal year summarizing procurement activity by the Authority for the period of the report, including a listing of all Contracts entered into, the selection process used to

select such Contractors and the status of existing Procurement Contracts. NIFA's Executive Director shall also prepare, on an annual basis, a report for submission to:

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

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

#### ARTICLE XI

##### ANNUAL REVIEW AND APPROVAL OF GUIDELINES

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

#### ARTICLE XII

##### AMENDMENT OF GUIDELINES

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

#### ARTICLE XIII

##### EFFECT OF NONCOMPLIANCE WITH GUIDELINES

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

Attachment: Schedule A

## **SCHEDULE A**

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

**"NIFA" IS THE NASSAU COUNTY INTERIM FINANCE AUTHORITY**

#### **ARTICLE I**

##### **RELATION OF CONSULTANT TO NIFA**

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

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

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

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

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

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

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

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

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

## ARTICLE II

### DOCUMENTS AND RECORDS

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

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

the work, Consultant shall deliver all such material to NIFA.

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

### **ARTICLE III**

#### **TERMINATION**

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

### **ARTICLE IV**

#### **PROVISIONS REQUIRED BY LAW**

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

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

**4.3 NON-DISCRIMINATION.**

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

**4.4**                    **NO ASSIGNMENT WITHOUT CONSENT.** The Consultant agrees that:

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

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

## ARTICLE V

### **OTHER STANDARD PROVISIONS**

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

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

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

**5.4**                    **INDEMNIFICATION.** Notwithstanding anything to the contrary contained herein, Consultant shall be responsible for all injuries to persons, including

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

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

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

## **ARTICLE VI**

### **BILLING POLICY**

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

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

Invoices shall be made on the Consultants own invoice forms or letterhead and must include NIFA's contract and project numbers, if any. Consultant shall also



include federal identification number with their first invoice, and a list of each individual who is expected regularly to bill time to this matter, his/her title and hourly billing rate. Invoices shall be in the form attached to this Schedule A. Time shall be billed on a 1/10<sup>th</sup> of an hour basis.

**6.2 REIMBURSABLE EXPENSES.**

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

**6.3 NON-REIMBURSABLES.**

The following will not be reimbursed:

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

**6.4 NO REIMBURSEMENT FOR SALES TAX CHARGES**

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

**6.5 GENERAL.**

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

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

At any time or times until three years after completion of Consultant's services or earlier termination of this Agreement by NIFA, NIFA may have the vouchers and statements of cost audited. Each payment theretofore made shall be subject to reduction for amounts included in the related voucher, which are found by NIFA on the

basis of such audit, not to constitute allowable cost. Any such payment may be reduced for overpayments or increased for underpayment, as the case may be.

Attachment to Schedule A

**[CONSULTANT LETTERHEAD]**

Date  
Bill # \_\_\_\_\_  
NIFA Contract No:

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

**Matter Name/No.:** \_\_\_\_\_

**FOR PROFESIONAL FEES**

<u>Date</u>	<u>Hours*</u>	<u>Fees**</u>	<u>Description of Services</u>
-------------	---------------	---------------	--------------------------------

\* **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:

---

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

Out-of-Town Travel

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

Postage and Overnight Mail

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

Messenger Service

Actual cost up to \$15.