

***Nassau County Interim  
Finance Authority***



***Financial Statements for the  
Year Ended December 31, 2011 and  
Independent Auditors' Report***

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT .....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	2-9
BASIC FINANCIAL STATEMENTS:	
Entity-Wide Financial Statements:	
Statement of Net Assets (Deficit) .....	10
Statement of Activities and Changes in Net Assets (Deficit).....	11
Governmental Funds Financial Statements:	
Balance Sheet .....	12
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit).....	13
Statement of Revenues, Expenditures, and Changes in Fund Balances .....	14
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities and Changes in Net Assets (Deficit) .....	15
Notes to Financial Statements .....	16-41
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS:	
Schedule of Funding Progress – Other Postemployment Benefits (unaudited) .....	42
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	43-44



**& Touche LLP**  
Two Jericho Plaza  
Jericho, NY 11753-1683  
USA

Tel: +1 516 918-7000  
Fax: +1 516 827-3980  
www.deloitte.com

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Nassau County Interim Finance Authority:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Nassau County Interim Finance Authority (the "Authority"), a component unit of the County of Nassau, as of and for the year ended December 31, 2011, which collectively comprise the Authority's basic financial statements as listed in the 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Authority, as of December 31, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 9, and the Schedule of Funding Progress – Other Postemployment Benefits on page 42, are not a required part of the basic financial statements but are supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 2011 supplementary information. However, we did not audit the information and express no opinion on it.

*Deloitte & Touche LLP*

May 10, 2012

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended December 31, 2011

As management of the Nassau County Interim Finance Authority, we offer readers of the financial statements this narrative overview and analysis of our financial activities for the year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with the financial statements.

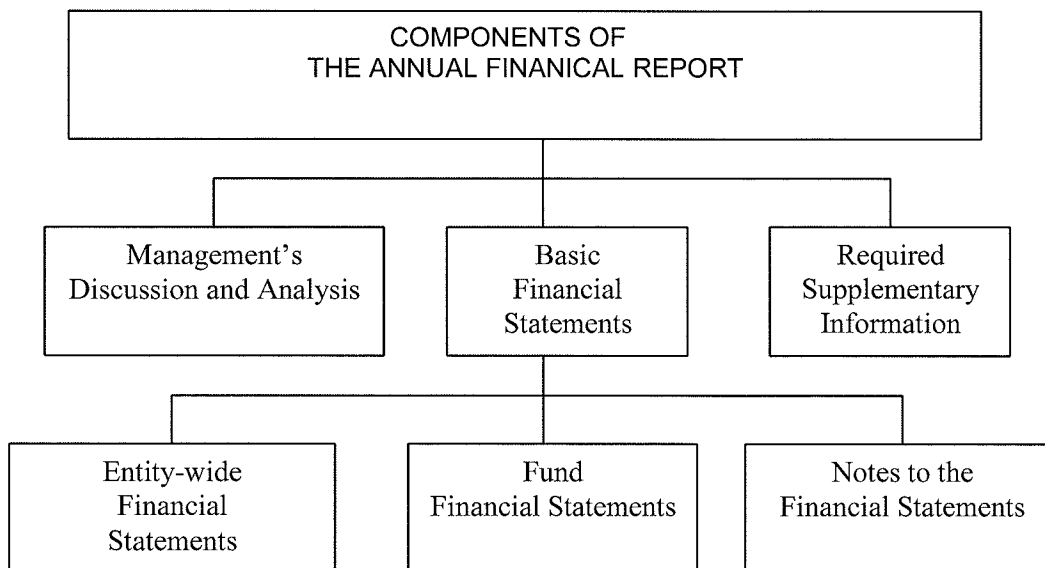
The Nassau County Interim Finance Authority (the "Authority" or "NIFA") is a New York State Authority empowered to monitor and oversee the finances of Nassau County, New York (the "County") and is, or has previously been, empowered within certain statutory limits to issue bonds and notes for various County purposes. The Authority will continue to be in existence until its oversight, control or other responsibilities and its liabilities (including the payment in full of Authority bonds and notes) have been met or discharged, but no later than January 31, 2036. The Authority is a component unit of the County for financial reporting purposes. In its oversight capacity, the Authority is, or has previously been, 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 impose a "control period" upon making one of several statutory findings concerning the County's financial position.

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; however, NIFA did not have the statutory authority, except for refunding of bonds or notes previously issued by the Authority, to issue any additional bonds or notes in 2011. NIFA is currently rated in the highest rating category by Standard & Poor's (AAA), and Fitch (AAA), and the second highest rating category by Moody's (Aa1).

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**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of the following components: 1) entity-wide financial statements, 2) fund financial statements and 3) notes to basic financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.



**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended December 31, 2011

**OVERVIEW OF THE FINANCIAL STATEMENTS** (continued)

**Entity-wide Financial Statements**

The entity-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net assets (deficit) presents financial information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. This combines and consolidates the Authority's current financial resources with capital assets (if any) and long-term obligations. The purpose of this statement is to give the reader an understanding of the Authority's total net worth. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as maintaining excellent bond ratings, effectively managing the debt and the amount of cash flow provided to the County.

The statement of activities presents information showing how the Authority's net assets changed during the most recent 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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. This method is known as the accrual basis of accounting and is different from the modified accrual basis of accounting used in the Authority's fund financial statements.

The intent of the government-wide financial statements is to give the reader a long-term view of the Authority's financial condition.

**Fund Financial Statements**

The fund financial statements focus on current available resources and are organized and operated on the basis of funds, each of which is defined as an accounting entity with a self-balancing set of accounts established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restriction or limitations. The Authority, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Because the focus of governmental funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the entity-wide financial statements. By doing so, readers may better understand the long-term effect of the Authority's near term financial decisions. In addition to these two statements, the financial statements include reconciliations between the entity-wide and governmental fund statements.

The Authority maintains two individual governmental funds, the general fund and the debt service fund, both of which are reported as major funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each fund.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the entity-wide and fund financial statements.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended December 31, 2011

**OVERVIEW OF THE FINANCIAL STATEMENTS** (continued)

**Other Information**

In addition to the basic financial statements, this report contains supplementary information immediately following the notes to the financial statements.

**ENTITY-WIDE FINANCIAL ANALYSIS**

The statement of net assets details the assets and liabilities of the Authority based on their liquidity, utilizing current and noncurrent categories. The resulting net assets, in this statement, are displayed as either restricted or unrestricted. The Authority's liabilities exceeded its assets by \$1,498,500,000 at the close of the most recent year.

Our analysis below focuses on the net assets and changes in net assets of NIFA's governmental activities.

**Condensed Statement of Net Assets (Deficit)**  
**As of December 31, 2011 and 2010**  
(Dollars in Thousands)

<b>Governmental Activities:</b>	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Current	\$ 176,847	\$ 165,289
Other	119,671	91,096
	<u>296,518</u>	<u>256,385</u>
<b>Liabilities</b>		
Current	251,569	222,683
Non-current	1,543,449	1,662,320
Total Liabilities	<u>1,795,018</u>	<u>1,885,003</u>
<b>Net Assets (Deficit)</b>		
Restricted	32,671	31,785
Unrestricted	<u>(1,531,171)</u>	<u>(1,660,403)</u>
	<u>\$ (1,498,500)</u>	<u>\$ (1,628,618)</u>



**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended December 31, 2011

**ENTITY-WIDE FINANCIAL ANALYSIS** (continued)

**Condensed Statement of Activities and Changes in Net Assets (Deficit)**  
**For the Years Ended December 31, 2011 and 2010**  
(Dollars in thousands)

<b>Governmental Activities:</b>	<u>2011</u>	<u>2010</u>
<b>Revenues</b>		
Sales tax	\$ 967,088	\$ 950,935
Program revenue	-	7
Interest income, net	5,109	5,101
Total Revenues	<u>972,197</u>	<u>956,043</u>
<b>Expenses</b>		
General and administrative	1,309	1,274
Control period expenses	1,865	129
Bond interest expense	73,394	82,746
Distribution to Nassau County	765,511	766,563
Total Expenses	<u>842,079</u>	<u>850,712</u>
<b>Changes in Net Assets</b>	130,118	105,331
<b>Net Deficit, beginning of year</b>	<u>(1,628,618)</u>	<u>(1,733,949)</u>
<b>Net Deficit, end of year</b>	<u>\$ (1,498,500)</u>	<u>\$ (1,628,618)</u>

Overall, net assets increased by \$130,118,000, primarily as a result of sales tax revenue earned exceeding operating expenses, which included amounts required to fund debt service and amounts remitted to Nassau County. The Authority has an overall net accumulated deficit of \$1,498,500,000, resulting primarily from the liabilities relating to bonds payable of \$1,528,440,000, which will be paid in future periods as sales tax is received. The deficit is expected to be reduced, and has been reduced historically, including by \$130,118,000 in 2011 as the bonds are repaid. The Authority is scheduled to repay \$144,580,000 of principal in 2012.

Overall, bonds payable decreased in fiscal year 2011 by \$119,745,000 (7.27%), due to retirement of prior bond issues. The statement of net assets (deficit) shows a total net accumulated deficit of \$1,498,500,000. The deficit results primarily from the Authority debt issuance that is backed by future sales tax revenue. The debt is reported as a long-term liability, but the future revenues are not reportable. As of December 31, 2011, the Authority had bonds payable of \$1,528,440,000, of which \$928,440,000 are fixed rate and \$600,000,000 are hedged variable rate (with, effectively, a fixed rate). Since NIFA has completed its new money borrowing program, the amount of bonds outstanding and its net deficit are likely to decrease as bonds continue to be retired. The reconciliation on page thirteen of these financial statements provides additional detail on the determination of the net deficit amount.

General and administrative expenses and control period expenses reported in the condensed statement of activities for 2010 have been reclassified for comparative purposes to conform with the presentation of the current year.

Additional information on the Authority's debt activity can be found in the notes to the financial statements.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended December 31, 2011

**ENTITY-WIDE FINANCIAL ANALYSIS** (continued)

The single most critical factor in the Authority's financial operations is sales tax revenue, which provided over 99% of the Authority's 2011 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 4.25%, on the sales and use of personal property and services in the County, but excluding the 0.25% component that is allocable to towns and cities within the County and up to 1/12% allocable to villages within the County. Sales taxes are collected by the State and remitted to the Authority's bond trustee, usually twice each month. After provision for Authority debt service 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 4.25% sales tax rate, 3.00% is a base rate and the remaining 1.25% is subject to periodic renewals. NIFA's sales tax receipts increased by 1.7% in FY 2011. 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, 2011 was \$967,088,000, an increase of 1.7% from the prior year due to an increased level of economic activity. Interest income, net of \$797,000 of unrealized depreciation, and excluding bond premium amortization of \$5,010,000, which accounts for the remaining Authority revenue, totaled \$100,000 in 2011, an increase of \$ 9,000 from 2010.

Sales tax revenue provided 4.9 times the coverage of the Authority's 2011 debt service of approximately \$197,313,000. This coverage will change as the Authority refunds and/or amortizes its debt, or as rates change. Altogether, the Authority used \$202,123,000 of 2011 sales tax revenue for debt service and Authority operations, remitting the balance of \$764,965,000 to Nassau County.

On January 26, 2011, NIFA adopted a resolution declaring a control period in Nassau County in accordance with its enabling legislation. Consequently, in addition to the Authority's baseline operating expenses of \$1,309,000, NIFA had control period-related operating expenses of \$1,865,000 for legal, accounting and consulting services and other costs outside the normal course of business that were needed to assist NIFA in carrying out its statutory mission.

A portion of the Authority's total operating expense was also funded with interest earnings resulting from the investments held by the Authority. As with sales tax, interest earnings that are not required for Authority operations or reserves are remitted to the County. During the year ended December 31, 2011, the Authority remitted \$546,000 to the County from interest earnings.

**GOVERNMENTAL FUNDS FINANCIAL ANALYSIS**

The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, spendable fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.



**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended December 31, 2011

**GOVERNMENTAL FUNDS FINANCIAL ANALYSIS** (continued)

The Authority has implemented Governmental Accounting standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. As a result of this implementation, the fund balance section of the governmental funds balance sheet has been modified. The change has been made in order for the Authority's new fund balance components to focus on "the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent". Previously, the fund balance section focused on whether these resources were available for appropriation. It also distinguished the unreserved fund balance from the reserved fund balance. In order to show compliance with GASB Statement No. 54, however, the components of the new fund balance include the following line items:

- **Nonspendable fund balance** - \$49,000 (inherently nonspendable) includes the portion of net resources that cannot be spent because they must be maintained intact.
- **Restricted fund balance** - \$32,671,000 (externally enforceable limitations on use) include amounts subject to limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments.
- **Assigned fund balance** - \$-0- (limitation resulting from intended use) consists of amounts where the intended use is established by the highest level of decision making.
- **Unassigned fund balance** - \$993,000 (residual net resources) is the total fund balance in the general fund in excess of nonspendable, restricted, and assigned fund balance.

The implementation of these new components is intended to decrease confusion and help service the need of the financial statement users. See Note 1.C.10 for more information.

**General Fund**

At the end of the current year, the total fund balance of the general fund was \$18,411,000, increasing \$1,920,000 from the prior year. Of the \$18,411,000, \$17,369,000 is restricted for debt service and in 2012 will be transferred to the debt service fund. Of the \$967,088,000 of sales tax revenue, 79.10% or \$764,965,000 was transferred to the County and 20.56% or \$198,800,000 was transferred to the debt service fund. The remaining was used to pay for the operations of the Authority in the amount of \$1,201,000 and to fund the additional expenses incurred in fulfilling its responsibilities under the control period totaling \$1,865,000 (discussed above).

**Debt Service Fund**

At the end of the current year, the total fund balance of the debt service fund was \$15,302,000, of which all is restricted for debt service. During the year, the debt service fund received \$198,800,000 from the general fund and it was used to fund \$197,313,000 of debt service requirements.

**DEBT ADMINISTRATION**

At the end of the current year, NIFA has total sales tax secured bonded debt outstanding of \$1,528,440,000. Of the total debt, \$928,440,000 is subject to a fixed interest rate and \$600,000,000 is subject to variable interest rate, which are hedged by associated swaps, effectively creating a fixed interest rate.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended December 31, 2011

**DEBT ADMINISTRATION** (continued)

**Outstanding Debt (in thousands)**

	<u>Outstanding Principal Balance at January 1, 2011</u>	<u>Principal Retired</u>	<u>Outstanding Principal Balance at December 31, 2011</u>	<u>Total Interest Payments FY 2011</u>
Sales tax secured bonds:				
Fixed Rate	\$ 1,048,185	\$ 119,745	\$ 928,440	\$ 69,178
Variable Rate Hedged	600,000		600,000	18,853
	<u>\$ 1,648,185</u>	<u>\$ 119,745</u>	<u>\$ 1,528,440</u>	<u>\$ 88,031</u>
	<u>Outstanding Principal Balance at January 1, 2010</u>	<u>Principal Retired</u>	<u>Outstanding Principal Balance at December 31, 2010</u>	<u>Total Interest Payments FY 2010</u>
Sales tax secured bonds:				
Fixed Rate	\$ 1,152,600	\$ 104,415	\$ 1,048,185	\$ 73,662
Variable Rate Hedged	600,000		600,000	18,427
	<u>\$ 1,752,600</u>	<u>\$ 104,415</u>	<u>\$ 1,648,185</u>	<u>\$ 92,089</u>

As stated above, NIFA is currently rated in the highest rating category by Standard & Poor's (AAA), and Fitch (AAA), and the second highest rating category by Moody's (Aa1).

In accordance with New York State Statues, NIFA does not currently have the authority to issue additional bonds or notes, except for refunding bonds or notes previously issued.

Additional information on NIFA's indebtedness is shown in the notes to the financial statements.

**CURRENTLY KNOWN FACTS**

NIFA executed new standby bond purchase agreements for the 2008D-2 Bonds and 2008E Bonds, effective January 2012 and a new standby bond purchase agreement for the 2008B Bonds, effective March 2012.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended December 31, 2011

**CURRENTLY KNOWN FACTS** (continued)

County Litigation

On January 26, 2011, the Authority determined that the County's proposed budget for fiscal year 2011 reflected a substantial likelihood that it would produce a major operating funds deficit in excess of one percent of the aggregate result of operations of such funds, and accordingly adopted a resolution which imposed a control period on the County pursuant to the Act. On February 1, 2011, the County commenced a proceeding in State Supreme Court seeking to annul the Authority's determination. On March 11, 2011, the Court denied the County's motion for a preliminary injunction and converted the Authority's request for dismissal into a motion for summary judgment that the Authority's determination was not arbitrary or capricious. After the County determined to not contest the motion for summary judgment, the Court granted NIFA's motion for summary judgment, effectively ending the lawsuit against NIFA.

On March 24, 2011, after determining that the requirements of its governing legislation were met, the Authority exercised its authority to impose a one-year wage freeze on County personnel. Unions representing County personnel have filed lawsuits in the United States District Court for the Eastern District of New York against the Authority and its Directors. The lawsuits allege that the wage freeze is unauthorized by the Authority's governing legislation and unconstitutionally impairs the unions' collective bargaining agreements with the County in violation of the Contracts Clause of the United States Constitution. The cases are in the discovery phase.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide taxpayers, investors, and creditors with a general overview of the Authority's finances and to demonstrate its accountability for the money it receives. If you have any questions about this report or need additional information, contact Nassau County Interim Finance Authority, 170 Old Country Road, Suite 205, Mineola, New York 11501 or email us at [nifacomments@nifa.state.ny.us](mailto:nifacomments@nifa.state.ny.us).

## **BASIC FINANCIAL STATEMENTS**

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**STATEMENT OF NET ASSETS (DEFICIT)**  
December 31, 2011  
(Dollars in Thousands)

**Governmental Activities:**

**Assets**

Unrestricted cash	\$	312
Restricted cash		8
Restricted investments		51,093
Sales tax revenue receivable		125,345
Interest income receivable		40
Other assets		49
Other noncurrent assets - net of amortization		35,035
Deferred outflows of resources		<u>84,636</u>
<b>Total Assets</b>		<u><u>296,518</u></u>

**Liabilities**

Accrued liabilities		17,258
Due to Nassau County - sales tax revenue		89,608
Due to Nassau County - interest income		123
Derivative instruments - interest rate swaps		84,636
Bonds payable:		
Due within one year		144,580
Due in more than one year		1,383,860
Unamortized bond premium		62,769
Other postemployment benefits payable		1,134
Other liabilities, net of amortization		10,770
Accrued vacation and sick pay		<u>280</u>
<b>Total Liabilities</b>		<u><u>1,795,018</u></u>

**Net Assets (Deficit)**

Restricted for debt service		32,671
Unrestricted		<u>(1,531,171)</u>
<b>Total Net Assets (Deficit)</b>	<b>\$</b>	<u><u>(1,498,500)</u></u>

See notes to the financial statements.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)**  
December 31, 2011  
(Dollars in Thousands)

**Governmental Activities:**

**Expenses**

General and administrative	\$	1,309
Bond interest expense		73,394
Distribution to Nassau County - general operations		546
		75,249
Total Expenses		75,249

**General Revenues**

Sales tax		967,088
Less: distributions to Nassau County		(764,965)
		202,123
Total Sales Tax and State Aid Revenues Retained		202,123
Interest income, net		5,109
Special item - control period expenses		(1,865)
		205,367
Total General Revenues and Special Items		205,367

Changes in Net Assets (Deficit) 130,118

**Net Assets (Deficit) - Beginning of Year** (1,628,618)

**Net Assets (Deficit) - End of Year** \$ (1,498,500)

See notes to the financial statements.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2011  
(Dollars in Thousands)

	General	Debt Service	Total (Governmental Funds)
<b>Assets</b>			
Unrestricted cash	\$ 312	\$ -	\$ 312
Restricted cash	-	8	8
Restricted investments	-	51,093	51,093
Sales tax revenue receivable	125,345	-	125,345
Interest income receivable	-	40	40
Due from other funds	3	17,565	17,568
Other assets	49	-	49
Total Assets	\$ 125,709	\$ 68,706	\$ 194,415
 <b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accrued liabilities	\$ 125	\$ 53,278	\$ 53,403
Due to Nassau County - sales tax revenue	89,608	-	89,608
Due to Nassau County - interest income	-	123	123
Due to other funds	17,565	3	17,568
Total Liabilities	107,298	53,404	160,702
 <b>Fund Balances</b>			
Nonspendable:			
Prepaid items	49	-	49
Restricted for:			
Debt service	17,369	15,302	32,671
Unassigned, reported in:			
General fund	993	-	993
Total Fund Balance	18,411	15,302	33,713
Total Liabilities and Fund Balances	\$ 125,709	\$ 68,706	\$ 194,415

See notes to the financial statements.



**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT**  
**OF NET ASSETS (DEFICIT)**  
December 31, 2011  
(Dollars in Thousands)

**Total Fund Balances - Governmental Funds** \$ 33,713

Amounts reported for governmental activities in the Statement of Net Assets (Deficit) are different because:

Long-term liabilities are not due and payable in the current period and accordingly are not reported in the governmental funds:

Unamortized deferred gain	(10,770)
Bonds payable	(1,492,295)
Unamortized bond premiums	(62,769)
Other postemployment benefits payable	(1,134)
Accrued vacation and sick pay	(280)

Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

35,035

**Net Deficit of Governmental Activities** \$ (1,498,500)

See notes to the financial statements.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
December 31, 2011  
(Dollars in Thousands)

	<u>General</u>	<u>Debt Service</u>	<u>Total (Governmental Funds)</u>
<b>Revenues</b>			
Sales tax	\$ 967,088	\$ -	\$ 967,088
Interest income, net	-	100	100
Total Revenues	<u>967,088</u>	<u>100</u>	<u>967,188</u>
<b>Other Financing Sources</b>			
Operating transfer in	<u>2,083</u>	<u>198,800</u>	<u>200,883</u>
Total Revenues and Other Financing Sources	<u>969,171</u>	<u>198,900</u>	<u>1,168,071</u>
<b>Expenditures</b>			
General and administrative	1,201	-	1,201
Distribution to Nassau County for:			
General operations	420	126	546
Debt service	-	197,313	197,313
Total Expenditures	<u>1,621</u>	<u>197,439</u>	<u>199,060</u>
<b>Other Financing Uses</b>			
Transfer to Nassau County - sales tax revenue	764,965	-	764,965
Operating transfers out	198,800	2,083	200,883
Special item - control period expenditures	<u>1,865</u>	<u>-</u>	<u>1,865</u>
Total Expenditures and Other Financing Uses	<u>967,251</u>	<u>199,522</u>	<u>1,166,773</u>
<b>Net Change in Fund Balance</b>	1,920	(622)	1,298
<b>Fund Balances</b>			
Beginning of year	<u>16,491</u>	<u>15,924</u>	<u>32,415</u>
End of Year	<u>\$ 18,411</u>	<u>\$ 15,302</u>	<u>\$ 33,713</u>

See notes to the financial statements.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES AND**  
**CHANGES IN NET ASSETS (DEFICIT)**  
Year Ended December 31, 2011  
(Dollars in Thousands)

**Net Change in Fund Balances - Total Governmental Funds** \$ 1,298

Amounts reported for governmental activities in the Statement of Net Assets are different because:

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of bond debt consumes the current financial resources of governmental funds:

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets (deficit). 125,955

Governmental funds report costs of debt issuance as an expenditure. However, in the statement of activities, the cost of debt issuance is amortized over the lives of the debt. (2,833)

Governmental funds report premium on debt issued as revenue. However, in the statement of activities, the premium on debt issued is amortized over the lives of the debt. 5,010

Governmental funds report the gain/losses on debt refunding as revenue and expenditures. However, in the statement of activities, the deferred gain is amortized over the lives of debt. 797

Change in other postemployment benefit obligation (88)

Some 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. (21)

**Change in Net Assets of Governmental Activities** \$ 130,118

See notes to the financial statements.

**NOTES TO FINANCIAL STATEMENTS**

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Nassau County Interim Finance Authority (the "Authority" or "NIFA") 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 and 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 State Assembly, and the State Comptroller. The Governor also designates the chairperson and vice chairperson from among the directors. At present, the vice chairperson has not been designated and one seat 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. Although the Act currently provides that the Authority may no longer issue new bonds or notes, other than to retire or otherwise refund Authority debt, the Authority was previously empowered to and did issue its bonds and notes for various County purposes, defined in the Act as "Financeable Costs." 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.

The basic financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**A. ENTITY-WIDE AND FUND FINANCIAL STATEMENTS**

The Authority's basic financial statements include both the entity-wide (reporting the Authority as a whole) and the fund financial statements (reporting the Authority's major funds).

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**A. ENTITY-WIDE AND FUND FINANCIAL STATEMENTS** (continued)

**Entity-Wide Financial Statements**

The entity-wide financial statements of the Authority, which include the statement of net assets (deficit) and the statement of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB Statement No. 34. The entity-wide statement of activities demonstrates the degree to which the direct expenses of a given function are otherwise supported first by program income, if any, and then by general government revenues. Direct expenses are those that are clearly identifiable with a specific function.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Fund Financial Statements**

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The focus of the governmental funds financial statements is on the major funds.

Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of the governmental funds is upon determination of financial position and changes in financial position.

The Authority uses the following governmental funds to report its financial position and the results of operations:

- The general fund accounts for sales tax and other revenues received by the Authority and for its general operating expenses, as well as distributions to Nassau County.
- The debt service fund is used to account for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest, and for financial resources that are being accumulated for principal and interest in future years.

The Authority does not have legally adopted budgets for its operating funds as it is not required; however, the Directors approve a multi-year financial plan annually, with the current year of any given multi-year plan functioning as a budget framework for that year.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

Measurement focus refers to what is being measured whereas the basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, NIFA considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue susceptible to accrual generally includes New York State sales tax and investment income. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recognized in accordance with indenture requirements, and expenditures related to compensated absences, and other postemployment benefits are recorded when payment is due.

Because governmental fund statements are presented using a measurement focus and basis of accounting different from that used in the government-wide statements' governmental activities column, a reconciliation is presented that briefly explains the adjustments necessary to reconcile ending net assets and the change in net assets.

**C. ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE**

**1. 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, 2011, the Authority held cash, Treasury Bills, and Federal Home Loan Mortgage Corporation Discount Notes. All bank deposits of Authority funds are required to be fully collateralized or insured. Collateral for the Authority's cash and certificates of deposit is 102% of the amount in excess of Federal Deposit Insurance and is held by a third-party custodian in the Authority's name and consists of U.S. government or agency obligations.



**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**C. ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE** (continued)

**1. Cash and Investments** (continued)

The Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Investments include government agency bonds, notes and certificates of deposit with a maturity of longer than three months. Short-term investments with maturities of 90 days or less, and nonmarketable 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 in the statement of revenue, expenditures, and changes in fund balances. Fair value is determined using quoted market values at December 31, 2011. In the balance sheet, the accrual of interest on investments is reported as interest receivable, and the unrealized change in fair value of marketable securities with maturities longer than 90 days is reflected in the amount of the investment asset.

**2. Receivables**

Receivables include amounts due from New York State for sales tax remittances as well as interest earned from financial institutions but not yet received. Sales tax revenues received after December 31 but attributable to the prior year are shown in the balance sheet as sales tax receivable, due to Nassau County and due to debt service fund. In the statement of revenues, expenditures, and changes in fund balances, 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.

**3. Other Assets**

Included in other assets are prepaid expenses and security deposits. Prepaid balances are for payments made by the Authority in the current year to provide services occurring in the subsequent year. Fund balance has been adjusted to reflect an equal amount as nonspendable fund balance, indicating a portion of fund balance is not comprised of spending resources.

**4. Capital Assets**

Capital assets purchased or acquired with an original cost of greater than \$15,000 are capitalized. The Authority has no such assets.

**5. Derivative Instrument – Interest Rate Swap/Deferred Outflow of Resources**

In accordance with GASB 53, the Authority's derivative instruments, consisting of interest rate swap agreements, qualify as hedging derivative instruments; have been recorded at fair value, using the zero coupon methodology, in the statement of net assets as derivative instruments – interest rate swaps. This method calculates the future net settlement payments required by the swap agreement, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps. The recording of the fair value of hedging derivative instruments has not affected investment income or the Authority's net assets (deficit) position, but has been reported as a deferral and is included in the deferred outflow of resources in the statement of net assets.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**C. ASSETS, LIABILITIES AND FUND EQUITY/EQUITY** (continued)

**6. Long-Term Obligations**

In the entity-wide financial statements, liabilities for long-term obligations consisting of general obligation bonds, compensated absences, and other postemployment benefits ("OPEB") are reported in the entity-wide financial statement of net assets (deficit). Bond premiums, discounts, issuance costs and gains and losses on early retirement of refunded bonds are capitalized and amortized over the lives of the related debt issues using the straight-line method in the entity-wide financial statements, and are included in other noncurrent assets and other liabilities in the entity-wide financial statements.

In the fund financial statements governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as debt service expenditures.

The County has assumed responsibility for calculating arbitrage rebate liability on bonds or notes issued by the Authority; however, any resulting payments would be made by the Authority and reduce sales tax remittances to the County in a like amount.

**7. Interfund Transactions**

Interfund transactions and balances have been eliminated from the entity-wide financial statements. In the funds statements, interfund transactions consist of operating transfers and primarily represent payments to the debt service fund from the general fund to finance the debt service.

**8. Other Postemployment Benefits**

In addition to providing pension benefits, the Authority provides health insurance coverage for retired employees and their survivors. Substantially all of the Authority's employees may become eligible for these benefits if they reach normal retirement age while working for the Authority.

Health care benefits in accordance with New York State Health Insurance Rules and Regulations (administered by the New York State Department of Civil Service), are provided through the New York State Empire Plan (the "Empire Plan") whose premiums are based on the benefits paid throughout the State during the year or from a choice of HMO.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**C. ASSETS, LIABILITIES AND FUND EQUITY/EQUITY** (continued)

**8. Other Postemployment Benefits** (continued)

The Authority recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid. The Authority's employee handbook requires that it provide its eligible enrollees with the Empire Plan benefit coverage or, if another provider is utilized, the equivalent coverage. Under the provisions of the Empire Plan, premiums are adjusted on a prospective basis for any losses experienced by the Empire Plan. The Authority has the option to terminate its participation in the Empire Plan at any time without liability for its respective share of any previously incurred loss. The liability for postemployment benefits payable is recorded as a non-current liability in the government-wide statements. The current year increase in the liability is based on the most recent actuarial valuation in accordance with parameters of GASB Statement No. 45.

**9. Compensated Absences**

The obligation for vested or accumulated vacation, holiday and sick leave (compensated absences) is recorded as a liability in the entity-wide statements. In the fund financial statements, only the compensated absences liability expected to be payable from expendable current financial resources is reported.

**10. Net Asset/Deficit and Fund Equity Classifications**

The entity-wide financial statements, net assets are displayed in two components:

- a) Restricted net assets—Consists of net assets with constraints placed on its use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- b) Unrestricted net assets (deficit) —All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Definitions* (GASB 54) has been implemented. GASB-54 changed the terminology and classification of fund balance to reflect spending constraints on resources rather than availability for appropriation. The fund balance section of the governmental funds balance sheets have been modified accordingly. Not all of the Authority's funds will necessarily have all of the components of fund balance available to that fund. The implementation of these new components is intended to decrease confusion and help serve the needs of the financial statements users.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**C. ASSETS, LIABILITIES AND FUND EQUITY/EQUITY** (continued)

**10. Net Asset/Deficit and Fund Equity Classifications** (continued)

In the fund financials statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources; they are 1) nonspendable, 2) restricted 3) committed, 4) assigned, or 5) unassigned.

- 1) Nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form (i.e. prepaid items or inventories), (b) will not convert to cash within the current period (i.e. long term receivables and financial assets held for resale), or (c) legally or contractually required to be maintained intact (i.e. the principal of a permanent fund).

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

- 2) Restricted fund balance reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- 3) Committed fund balance reflects amounts that can only be used for specific purposes by a government using its highest and most binding level of decision making authority. The Authority's highest decision making authority is the Authority's Board.
- 4) Assigned fund balance reflects the amounts constrained by the Authority's "intent" to be used for specific purposes, but are neither restricted nor committed. The Directors of the Authority have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed.
- 5) Unassigned fund balance. This fund balance is the residual classification for the general fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources – committed, assigned and unassigned - in order, as needed.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**D. REVENUES AND EXPENDITURES**

Interest expense is recognized on the accrual basis in the entity-wide financial statements. In the governmental fund statements, interest expenditures are recognized in accordance with indenture requirements.

Normally, the Authority receives sales tax revenues twice 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 non-mandatory debt service reserves, Authority operations and operating reserves. Residual sales tax revenues and investment earnings are then wire transferred to the County.

**E. USE OF ESTIMATES**

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 those estimates.

**F. NEW ACCOUNTING PRINCIPLES**

NIFA has adopted all of the current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. During the year ended December 31, 2011, NIFA adopted:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
- GASB Statement No. 59, *Financial Instruments Omnibus*

GASB Statement No. 54 establishes criteria for classifying fund balances into specifically defined classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Governments are required to classify and report fund balance as nonspendable, restricted, committed, assigned or unassigned by applying accounting principles that determine whether restricted, committed, assigned and unassigned amounts are considered to have been spent. The object of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying fund balances type definitions. Fund balances have been reclassified to conform to the provisions of this Statement.

GASB Statement 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investments pools for which significant issues have been identified in practices. This Statement had no impact on the Authority's financial statements.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**G. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through the date of the report which, is the date the financial statements were available to be issued.

**2. 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 2011 included:

- Sales tax revenues of \$967,088,329, of which \$764,965,116 was remitted to Nassau County. The balance was retained for Authority debt service and operations.
- The remittance to the County for general County operations, of earnings on various funds held by or on behalf of the Authority, to the extent that those earnings are not required for the payment of Authority debt service or operating expenses. In 2011, the Authority remitted \$545,469 of interest earnings.

**3. CASH AND INVESTMENTS**

Cash and investments held by the Trustee in the amount of \$51,101,308 are restricted for debt service.

The following table summarizes the Authority's cash and investments as of December 31, 2011:

	<b>(Dollars in thousands)</b>		
	<b>Held by Authority</b>	<b>Held by Trustee</b>	<b>Total</b>
Cash	<u>\$ 312</u>	<u>\$ 8</u>	<u>\$ 320</u>
Total cash	<u>312</u>	<u>8</u>	<u>320</u>
U.S. government and agency discount notes (maturities greater than 90 days)	<u>-</u>	<u>51,093</u>	<u>51,093</u>
Total marketable securities	<u>-</u>	<u>51,093</u>	<u>51,093</u>
Total cash and investments	<u><u>\$ 312</u></u>	<u><u>\$ 51,101</u></u>	<u><u>\$ 51,413</u></u>

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**3. CASH AND INVESTMENTS** (continued)

The following table summarizes the Authority's cash and investments by type as of December 31, 2011:

	<b>Investment Maturities</b>		
	<b>(Dollars in thousands)</b>		
	<b>Held by Authority</b>	<b>Held by Trustee</b>	<b>Total</b>
	<b>General Fund</b>	<b>Debt Service Fund</b>	
Investment type:			
Cash	\$ 312	\$ 8	\$ 320
U.S. government securities	-	2,589	2,589
U.S. discount notes	-	48,504	48,504
Total	\$ 312	\$ 51,101	\$ 51,413

Custodial Credit Risk – Deposits / Investments – Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, a government may be unable to recover deposits, or recover collateral securities that are in possession of an outside agency. Custodial credit risk for investments exists when, in the event of the failure of the counterparty, a government will be unable to recover the value of its investments or collateral securities that are in possession of an outside party. The Authority does not participate in a multi-municipal cooperation investment pool.

Governmental Accounting Standards Board Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are either:

- Uncollateralized, or
- Collateralized with securities held by the pledging financial institution, or
- Collateralized with securities held by the pledging financial institution's trust department or agent but not in the Authority's name

At December 31, 2011, the carrying amount of the Authority's cash and investments were covered by FDIC and collateral held by the Authority's agent, a third party financial institution, in the Authority's name. Investments in U.S. government securities and discount rates do not require collateral.

Credit Risk – State law and the Authority's policies limit investments to those authorized by the State statutes. The Authority has a written investment policy.

Interest-Rate Risk – Interest-rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates substantially increase, thereby affording potential purchasers more favorable rates on essentially equivalent securities. Accordingly, such investments would have to be held to maturity to avoid potential loss.



**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**3. CASH AND INVESTMENTS (continued)**

Concentration of Credit Risk – Credit risk can arise as a result of failure to adequately diversify investments. Concentration risk disclosure is required for positions of 5 percent or more in securities of a single issuer. The Authority has substantially all of its investments in U.S. Government guaranteed securities and U.S. Government agency securities.

As of December 31, 2011, the Authority did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

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

**4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

As of December 31, 2011, the general fund owes the debt service fund \$17,565,322 of sales tax revenue to cover debt service set aside requirements, and the debt service fund owes the general fund \$2,622.

A summary of operating transfers for primarily debt service set aside requirements is as follows:

	<b>Transfer In</b>	<b>Transfer Out</b>
Debt Service Fund		
General Fund	\$ 198,800,281	\$ 2,082,927
General Fund		
Debt Service Fund	2,082,927	198,800,281
	\$ 200,883,208	\$ 200,883,208

**5. LONG-TERM DEBT**

A summary of changes in long-term debt for governmental activities is as follows:

(Dollars in Thousands)

	Balance 1/1/2011	Additions	Reductions	Balance 12/31/11	Due within One Year	Non-current
Bonds payable:						
Sales tax secured bonds payable	\$ 1,648,185	\$ -	\$ (119,745)	\$ 1,528,440	\$ 144,580	\$ 1,383,860
Premiums	67,779	-	(5,010)	62,769	-	62,769
Total bonds payable	1,715,964	-	(124,755)	1,591,209	144,580	1,446,629
OPEB Liability	1,046	88	-	1,134	-	1,134
Compensated absences	259	21	-	280	-	280
	\$ 1,717,269	\$ 109	\$ (124,755)	\$ 1,592,623	\$ 144,580	\$ 1,448,043

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**5. LONG-TERM DEBT** (continued)

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 Mellon (the "Trustee"), under which the Authority has pledged its right, title and interest in the revenues of the Authority to secure repayment of Authority debt. The Act provides that the Authority's pledge of its revenues represents a perfected first security interest on behalf of holders of its bonds. The lien of the indenture on the revenues for the security of Authority bonds is prior to all other liens thereon. The Authority does not have any significant assets or sources of funds other than sales tax revenues and amounts on deposit pursuant to the indenture. The Authority does not have independent taxing power.

As of December 31, 2011, the Authority had outstanding sales tax secured bonds in the amount of \$1,528,440,000, maturing through the year 2025, of which \$928,440,000 are fixed rate and \$600,000,000 are hedged variable rate. Other than a possible refunding of its debt if market conditions permit, the Authority has no plans or authority to issue additional bonds, except to cover the costs of issuance incurred in connection with the refunding of its bonds.

**Fixed Rate Bonds** — The Authority has outstanding fixed rate bonds at rates ranging between 1% and 6%. Interest on the Authority's fixed rate bonds is payable on May 15 and November 15 of each year, and interest on the variable rate bonds is payable on the first business day of each month. Principal on all bonds is payable on November 15. A debt service account has been established under the indenture to provide for the payment of interest 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. Because of this monthly deposit requirement, the amount accrued for debt service ("debt service set aside") 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.

**Variable Rate Bonds** — Interest rates on the variable rate bonds are currently reset weekly by remarketing agents at the minimum rate necessary for the bonds to have a market value equal to the principal amount. Interest rates are set separately for each series of variable rate bonds. The variable rate bonds are in most circumstances subject to tender at the option of the bondholder. Payment of the purchase price of eligible Series 2008 A-E bonds are subject to optional or mandatory tender for purchase and if not remarketed by the remarketing agent, payment will be made under and pursuant to, and subject to the terms, conditions and provisions of liquidity facility agreements. The liquidity facility agreements currently in effect are slated to expire between April 30, 2013 and November 15, 2025 and are subject to extension or early termination. Bonds that are purchased by financial institutions under the liquidity facility and not remarketed, if any, must be paid over a periods varying between three and five years. If this was to occur, annual Authority debt service expense would increase substantially. A debt service account has been established under the indenture to provide for the payment of principal of bonds outstanding under the indenture. The Trustee makes monthly deposits to the debt service account for principal debt service requirements. Additionally, the Trustee makes monthly interest payments.

The County has assumed responsibility for calculating arbitrage rebate liability on bonds or notes issued by the Authority; however, any resulting payments would be made by the Authority.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**5. LONG-TERM DEBT** (continued)

Bonds are recorded at the principal amount outstanding and consist of the following at December 31, 2011:

	Dollars in Thousands				
	Bond Par Issued	Balance at 1/1/11	Additions	Retired	Balance at 12/31/2011
Sales Tax Secured Bonds, Series 2001A 4% to 5.375% serial and term bonds due through 2021	\$ 181,480	\$ 16,335	\$ -	\$ 8,275	\$ 8,060
Sales Tax Secured Bonds, Series 2003A 2% to 6% serial bonds due through 2023	275,990	201,065	-	11,885	189,180
Sales Tax Secured Refunding Bonds, Series 2003B 2% to 5% serial bonds due through 2018	238,485	112,545	-	22,510	90,035
Sales Tax Secured Bonds, Series 2004A 2% to 5% serial bonds due through 2013	153,360	53,050	-	15,310	37,740
Sales Tax Secured Bonds, Series 2004H 2.15% to 5% serial bonds due through 2017	187,275	150,015	-	7,650	142,365
Sales Tax Secured Bonds Series 2005A 3.26% to 4.8% serial due through 2024	124,200	124,200	-	11,925	112,275
Sales Tax Secured Bonds Series 2005 D 3.23% to 4.32% serial and term bonds due through 2022	143,795	107,075	-	13,185	93,890
Sales Tax Secured Variable Rate Bonds Series 2008 A-B * due 2018 through 2025	250,000	250,000	-	-	250,000
Sales Tax Secured Variable Rate Bonds Series 2008 C-E * due 2012 through 2019	355,055	350,000	-	-	350,000
Sales Tax Secured Bonds Series 2009 A 1% to 5% serial bonds due through 2025	303,100	283,900	-	29,005	254,895
	<u>\$ 2,212,740</u>	<u>\$ 1,648,185</u>	<u>\$ -</u>	<u>\$ 119,745</u>	<u>\$ 1,528,440</u>

\*During 2011, the interest rate on the Variable Rate Bonds ranged from .01% to 1.25%.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**5. LONG-TERM DEBT** (continued)

Aggregate debt service to maturity as of December 31, 2011, is as follows (dollars in thousands):

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest*</u>	<u>Total</u>
2012	\$ 144,580	\$ 63,844	\$ 208,424
2013	150,965	57,064	208,029
2014	156,850	50,293	207,143
2015	142,570	43,648	186,218
2016	136,155	37,233	173,388
2017–2021	579,705	110,085	689,790
2022–2025	217,615	18,313	235,928
	<u>\$ 1,528,440</u>	<u>\$ 380,480</u>	<u>\$ 1,908,920</u>

\*Interest on the Variable Rate Bonds is calculated at the fixed payer rates on the associated interest rate swaps.

In 2011, the only major transactions that affected NIFA's bonds was the replacement or renewal of the standby bond purchase agreements with JPMorgan Chase Bank, National Association in connection with NIFA's 2008A Bonds; KBC Bank N.V., New York Branch in connection with NIFA's 2008B Bonds; and Bank of America, NA in connection with NIFA's 2008D-1 Bonds. The new agreements expire on May 15, 2014, May 15, 2014, and June 1, 2014, respectively.

**6. DERIVATIVE INSTRUMENTS – SWAP AGREEMENTS**

Derivative instruments, which consist of interest rate swap agreements, have been reported at fair value as of December 31, 2011. As the interest rate swap agreements qualify as a hedging derivative instrument, the fair value has been recorded as a deferred outflow of resources.

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

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

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**6. DERIVATIVE INSTRUMENTS – SWAP AGREEMENTS** (continued)

**Background** — NIFA entered into the following six swap contracts with an effective date of April 8, 2004, in connection with the issuance of \$450 million in auction rate securities to provide for the refunding or restructuring of a portion of the County's outstanding bonds, refunding of certain outstanding NIFA bonds, tax certiorari judgments and settlements to which the County is a party, other legal judgments and settlements, County capital projects and to pay costs of issuance. These auction rate securities were subsequently refunded on May 16, 2008 with variable rate demand bonds and the swap agreements transferred to the 2008 Bond Series A-E.

- \$72.5 million notional amount (2004 Series B - swap agreement) with Goldman Sachs Mitsui Marine Derivative Products, L.P. ("GSMMDP")
- \$72.5 million notional amount (2004 Series C - swap agreement) with GSMMDP
- \$80 million notional amount (2004 Series D - swap agreement) with GSMMDP
- \$72.5 million notional amount (2004 Series E - swap agreement) with UBS AG
- \$72.5 million notional amount (2004 Series F - swap agreement) with UBS AG
- \$80 million notional amount (2004 Series G - swap agreement) with UBS AG

NIFA entered into the following three swap contracts with an effective date of December 9, 2004, in connection with the issuance of \$150 million in Auction Rate Securities to provide for the refunding of a portion of the County's outstanding bonds, tax certiorari judgments and settlements to which the County is a party, other legal judgments, and settlements and to pay costs of issuance. These auction rate securities were subsequently refunded on May 16, 2008 with variable rate demand bonds and the swap agreements transferred to the 2008 Bond Series A-E.

- \$50 million notional amount (2004 Series I - swap agreement) with GSMMDP
- \$50 million notional amount (2004 Series J - swap agreement) with UBS AG
- \$50 million notional amount (2004 Series K - swap agreement) with Morgan Stanley Capital Services ("MSCS")

**Fair Value** — Replacement interest rates on the swaps, as of December 31, 2011, are reflected in the chart entitled "Derivative instruments - Interest Rate Swap Valuation" (the "Chart"). As noted in the Chart, replacement rates were lower than market interest rates on the effective date of the swaps. Consequently, as of December 31, 2011, the swaps had negative fair values. In the event there is a positive fair value, NIFA would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value should the swap be terminated.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**6. DERIVATIVE INSTRUMENTS – SWAP AGREEMENTS** (continued)

**Fair Value** (continued) — The total value of each swap, including accrued interest, is provided in the chart. The total value of each swap listed represents the theoretical value/(cost) to NIFA if it terminated the swap as of the date indicated, assuming that a termination event occurred on that date. Negative fair values may be offset by reductions in total interest payments required under the related variable interest rate bonds. The market value is calculated at the mid-market for each of the swaps. Fair values were estimated using the zero coupon methodology. This methodology calculates the future net settlement payments under the swap agreement, assuming the current forward rates implied by the yield curve correctly anticipate future spot rates. These payments are then discounted using rates derived from the same yield curve. As of December 31, 2011, the total market-to-market valuation of NIFA’s swaps, including accrued interest, was negative \$84,636,000. In the event that both parties continue to perform their obligations under the swap, there is not a risk of termination and neither party is required to make a termination payment to the other. NIFA is not aware of any event that would lead to a termination event with respect to any of its swaps.

**Risks Associated with the Swap Agreements** — From NIFA’s perspective, the following risks are generally associated with swap agreements:

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

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

NIFA’s swap policy requires that counterparties have credit ratings from at least one nationally recognized statistical rating agency that is within the two highest investment grade categories, without distinction as to grade within the category. If after entering into an agreement the ratings of the counterparty or its guarantor or credit support party are downgraded below the described ratings by any one of the rating agencies, then the agreement is subject to termination unless the counterparty provides either a substitute guarantor or assigns the agreement, in either case, to a party meeting the rating criteria reasonably acceptable to NIFA or collateralizes its obligations in accordance with the criteria set forth in the transaction documents. The counterparties have the ratings set forth on page 34. The table shows the diversification, by percentage of notional amount, among the various counterparties that have entered into agreements with NIFA.

<b>Counterparty:</b>	<b>Dollars in Millions</b>	<b>Notional Percentage</b>
GSMMDP	\$ 275	45.80%
USB AG	275	45.80%
MSCS	50	8.40%
	\$ 600	100.00%

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**6. DERIVATIVE INSTRUMENTS – SWAP AGREEMENTS** (continued)

**Risks Associated with the Swap Agreements** (continued)

- *Credit/Counterparty Risk (continued)* — NIFA insured its performance in connection with the swaps originally associated with the Series 2004 B-G bonds with Ambac Assurance Corporation (“Ambac”), which is rated Caa2/R (Moody’s/S&P/Fitch), including NIFA termination payments. NIFA’s payments to the counterparties on the swaps originally associated with the Series 2004 I-K bonds are insured with CDC IXIS Financial Guaranty North America, Inc. (“CIFG NA”), which is rated WR/NR/NR (Moody’s/S&P/Fitch); however, termination payments from NIFA are not guaranteed except on NIFA’s swap with UBS AG, where it is guaranteed up to a maximum of \$2 million.
- *Basis Risk* — The variable interest rate paid by the counterparty under the swap and the variable interest rate paid by NIFA on the associated variable interest rate bonds are not the same. If the counterparty’s rate under the swap is lower than the bond interest rate, then the counterparty’s payment under the swap agreement does not fully reimburse NIFA for its interest payment on the associated bonds. Conversely, if the bond interest rate is lower than the counterparty’s rate on the swap, there is a net benefit to NIFA.

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

- *Interest Rate Risk* — The risk that changes in interest rates will adversely affect the fair value of the financial instrument or its cash flows.

NIFA is exposed to interest rate risk on its pay fixed, receive variable interest rate swap. As LIBOR decreases, NIFA’s net payment on the swaps increase.

- *Termination Risk* — The swap agreement will be terminated and if at the time of termination the fair value of the swap is negative, NIFA will be liable to the counterparty for an amount equal to the fair value.

The swaps use International Swaps and Derivative Association (“ISDA”) documentation and use standard provisions regarding termination events with one exception: if the termination amount is over \$5 million for the Authority, the Authority can pay such excess amount over six months, financing the delay at LIBOR, plus 1%. However, adverse termination for credit deterioration is unlikely due to the NIFA’s current credit rating. NIFA or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. In addition, NIFA may terminate the swaps at their fair market value at any time. NIFA would be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. A termination of the swap agreement may also result in NIFA making or receiving a termination payment. NIFA is not aware of any event that would lead to a termination event with respect to any of its swaps.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**6. DERIVATIVE INSTRUMENTS – SWAP AGREEMENTS** (continued)

**Risks Associated with the Swap Agreements** (continued)

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

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

- *Market-access risk* — The Authority is not exposed to market-access risk on its hedging derivative instruments.
- *Foreign currency risk* — The Authority is not exposed to foreign currency risk on its hedging derivative instruments.
- *Contingency* — Generally, the derivative instruments require the Authority to post collateral at varying thresholds by counterparty based on the Authority's credit rating in the form of cash, U.S. Treasury securities, or specified Agency securities. If the Authority were not to post collateral when required, the counterparty may terminate the hedging derivative instrument.

At December 31, 2011, the aggregate fair value of all hedging derivative instrument agreements whose terms contain such collateral provisions is \$84,636,000. If the collateral posting requirements had been triggered at December 31, 2011, the Authority would have been required to post \$27,571,000 in collateral to UBS AG if the Authority's credit rating was A3/A-. The Authority would have been required to post \$12,562,000 in collateral to GSMMDP, \$37,571,000 in collateral to UBS AG and \$9,504,000 in collateral to MSCS if the Authority's credit rating was Baa1/BBB+. The Authority would have been required to post \$27,562,000 in collateral to GSMMDP, \$37,571,000 in collateral to UBS AG and \$9,504,000 in collateral to MSCS if the Authority's credit rating was Baa2/BBB. The Authority would have been required to post \$37,562,000 in collateral to GSMMDP, \$37,571,000 in collateral to UBS AG, and \$9,504,000 in collateral to MSCS if the Authority's credit rating was Baa3/BBB-. Because the Authority's credit rating is Aa1/AAA, no collateral has been required or posted.



**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**6. DERIVATIVE INSTRUMENTS – SWAP AGREEMENTS (continued)**

As of December 31, 2011, NIFA's Derivative Instrument - Interest Rate Swap Valuation is as follows:

Swap Agreements	2004 Series B	2004 Series C	2004 Series D	2004 Series E	2004 Series F	2004 Series G	2004 Series I	2004 Series J	2004 Series K	Total
Notional Amount	\$ 72,500,000	\$ 72,500,000	\$ 80,000,000	\$ 72,500,000	\$ 72,500,000	\$ 80,000,000	\$ 50,000,000	\$ 50,000,000	\$ 50,000,000	\$ 600,000,000
Counterparty	GSMMDP	GSMMDP	GSMMDP	UBS	UBS	UBS	GSMMDP	UBS	MSCS	
Counterparty Rating (1)	Aa1/AAA/NR	Aa1/AAA/NR	Aa1/AAA/NR	Aa2/A+/A+	Aa2/A+/A+	Aa2/A+/A+	Aa1/AAA/NR	Aa2/A+/A+	A2/A/A	
Effective Date	April 8, 2004	April 8, 2004	April 8, 2004	April 8, 2004	April 8, 2004	April 8, 2004	December 9, 2004	December 9, 2004	December 9, 2004	
Maturity Date	November 15, 2024	November 15, 2024	November 15, 2016	November 15, 2024	November 15, 2024	November 15, 2016	November 15, 2025	November 15, 2025	November 15, 2025	
NIFA Pays	3.146 %	3.146 %	3.002 %	3.146 %	3.146 %	3.003 %	3.432 %	3.432 %	3.432 %	
Replacement Rate	1.190 %	1.189 %	0.778 %	1.190 %	1.189 %	0.775 %	1.423 %	1.423 %	1.423 %	
NIFA Receives	60% of LIBOR plus 16 basis points weekly (Tuesday)	60% of LIBOR plus 16 basis points weekly (Friday)	60% of LIBOR plus 26 basis points monthly (4th Monday)	60% of LIBOR plus 16 basis points weekly (Tuesday)	60% of LIBOR plus 16 basis points weekly (Friday)	60% of LIBOR plus 26 basis points monthly (5th Thursday)	61.5% of LIBOR plus 20 basis points	61.5% of LIBOR plus 20 basis points	61.5% of LIBOR plus 20 basis points	
Change in Fair Value	\$ (4,363,693)	\$ (4,361,737)	\$ (750,561)	\$ (4,363,693)	\$ (4,361,739)	\$ (706,744)	\$ (4,166,386)	\$ (4,166,386)	\$ (4,166,386)	\$ (31,407,325)
As of December 31, 2011:										
Net Accrued	\$ (283,074)	\$ (285,106)	\$ (283,163)	\$ (283,074)	\$ (285,106)	\$ (279,484)	\$ (206,646)	\$ (206,646)	\$ (206,646)	\$ (2,318,945)
Net Present Value	(10,549,640)	(10,554,835)	(6,102,346)	(10,549,640)	(10,554,835)	(6,115,294)	(9,296,967)	(9,296,967)	(9,296,967)	(82,317,491)
Total Fair Value of Swap	\$ (10,832,714)	\$ (10,839,941)	\$ (6,385,509)	\$ (10,832,714)	\$ (10,839,941)	\$ (6,394,778)	\$ (9,503,613)	\$ (9,503,613)	\$ (9,503,613)	\$ (84,636,436)

(1) Moodys/S&P/Fitch.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2010

**6. DERIVATIVE INSTRUMENTS – SWAP AGREEMENTS** (continued)

**Swap Payments and Associated Debt** - Using rates as of December 31, 2011, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, is shown below. As rates change over time, variable-rate bond interest payments and net swap payments will change.

**Variable Rate Debt and Swap Payments (in thousands):**

<u>Year Ending</u> <u>December 31,</u>	<u>Variable-Rate Bonds</u>		<u>Interest Rate Swaps</u>	<u>Total Payments</u>
	<u>Principal</u>	<u>Interest</u>	<u>Net Payments</u>	
2012	\$ -	\$ 2,506	\$ 16,791	\$ 19,297
2013	31,100	2,472	16,698	50,270
2014	45,300	2,305	15,857	63,462
2015	31,725	2,141	14,740	48,606
2016	61,275	2,039	13,826	77,140
2017-2021	333,025	6,841	42,171	382,037
2022-2025	97,575	179	6,049	103,803
<b>Total</b>	<b>\$ 600,000</b>	<b>\$ 18,483</b>	<b>\$ 126,132</b>	<b>\$ 744,615</b>

**7. RETIREMENT SYSTEM**

Plan Description

The Authority participates in the New York State and Local Employees' Retirement System ("ERS"), a cost-sharing multiple-employer employer retirement system. The System provides retirement benefits as well as death and disability benefits.

Obligation 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 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 their funds. The System issues a publicly available financial report that includes financial statements and required supplemental information. That report may be found at <http://www.osc.state.ny.us/retire/publications/index.php> or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244-0001.

Funding Policy

The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 and who have less than ten years of membership and less than ten years of credited service with a retirement system under the provisions of article fourteen or fifteen of the NYSRSSL, who contribute 3% of their salary. Employees hired on or after January 1, 2010 are required to permanently contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**7. RETIREMENT SYSTEM** (continued)

Funding Policy (continued)

The Authority is required to contribute at an actuarially determined rate. The Authority's actual contributions were equal to the actuarially required amounts.

The required contributions, for the Authority, for the current year and two preceding years, were:

		<u>Annual Required Contribution</u>		<u>Total Payment</u>	<u>Percentage of Payroll Covered</u>
2011	\$	99,844	\$	99,844	13.97%
2010		75,306		75,306	10.49%
2009		47,777		47,777	6.52%

As shown in the table above, the Authority's contribution to the system was 100% of the contributions required each year.

**8. OTHER POSTEMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE)**

Plan Description

The Authority, in accordance with New York State Health Insurance Rules and Regulations, provides group health care benefits for retirees (and for eligible dependents and survivors of retirees). Contributions of 10% toward the costs of these benefits are required of the retirees. Retiree contributions toward the cost of the benefit are a percentage of the premium adjusted for accumulated sick leave credits. An actuarially determined valuation of these benefits was performed by Aquarius Capital a consultant hired by the County, to estimate the benefit obligation for the fiscal year ended December 31, 2011 and the impact of changes in GASB accounting rules applicable to the retiree medical benefits for retired employees and their eligible dependents. There is currently one plan participant receiving benefits.

The number of participants as of January 1, 2011, the date of the most recent actuarial valuation is as follows:

Active employees	5
Retired employees	<u>1</u>
Total	<u><u>6</u></u>

There have been no significant changes in the number of employees or the type of coverage since that date.

Annual Other Postemployment Benefit Cost

For the year ended December 31, 2011, the Authority's annual other postemployment benefits costs were \$105,000. Considering the annual expense as well as the payment of current health insurance premiums, which totaled \$17,000 for retirees, the result was an increase in other postemployment benefits liability of \$88,000.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**8. OTHER POSTEMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE)**  
(continued)

Benefit Obligations

The benefit obligations and normal cost are as follows:

Actuarial Accrued Liability (AAL)	\$ 1,134,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	1,134,000
Funded ratio	0%
Normal cost	55,000
Covered payroll	714,559
UAAL as a percentage of covered payroll	158.70%

The Authority's annual other postemployment benefit cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The unfunded actuarial accrued liability for the Authority for the year ended December 31, 2011 amounted to \$1,134,000.

The following table shows the components of the other postemployment benefits liability:

Level Dollar Amortization  
Calculation of ARC under the Projected Unit Credit Cost Method

Amortization of UAAL	\$ 1,094,000
Normal cost	55,000
Interest on normal cost	<u>2,000</u>
Annual Required Contribution	1,151,000
Interest on Net OPEB obligation	44,000
Adjustment to annual required contribution	<u>(1,090,000)</u>
Annual OPEB expense	105,000
Contributions made	<u>(17,000)</u>
Increase in net OPEB obligation	88,000
Net OPEB obligation - beginning of year	<u>1,046,000</u>
Net OPEB obligation - end of year	<u><u>\$ 1,134,000</u></u>

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**8. OTHER POSTEMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE)**  
(continued)

Funded Status and Funding Progress

The Authority elected to record the entire amount of the Unfunded Actuarial Accrued Liability ("UAAL"), totaling \$803,000, in the fiscal year ended December 31 2007, and not to fund the UAAL. The UAAL, including accrued interest relating to postemployment benefits, is approximately \$1,134,000 as of December 31, 2011. The Authority is not required by law or contractual agreement to provide funding for postemployment retirement benefits other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. The Authority currently pays for other postemployment benefits on a pay-as-you-go basis.

The Authority's annual OPEB cost, the estimated annual OPEB amount contributed to the plan, and the net OPEB obligation for the current year and proceeding two years, were as follows:

<b>Fiscal Year End</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
2011	\$ 105,000	16.19%	\$ 1,134,000
2010	144,000	13.77%	1,046,000
2009	41,000	4.47%	918,000

The funded status of the plan as of December 31, 2011 is as follows:

Actuarial Accrued Liability (AAL)	\$ 1,134,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	1,134,000
Funded ratio	0%
Covered payroll	714,559
UAAL as a percentage of covered payroll	158.70%

The required schedule of funding progress can be found immediately following the notes, in required supplementary information, and presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**8. OTHER POSTEMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE)**  
(continued)

Actuarial Methods and Assumptions (continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term liability in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

As of January 1, 2011, the date of the latest actuarial valuation, the liabilities were calculated using the Projected Unit Credit Method, level debt amortization method, and an open 30 year amortization period to amortize the initial unfunded liability. The actuarial assumptions utilized a 4.25% per annum discount rate. The valuation assumes an 8% health care cost trend for 2011 through 2013 and decrements to a rate of 5% in 2019. Retiree contributions as a percentage of premiums are assumed to remain constant over the valuation.

**9. COMPENSATED ABSENCES**

The Authority's employees earn vacation, holiday, sick leave and compensatory absences in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation subject to certain maximum limitations, and unlimited holiday leave. 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. Authority employees who were previously employed by New York State or New York State agency or authority were permitted to transfer certain leave balances to the Authority. The value of these transferred balances is included in the amount accrued in the entity-wide statement of net assets (deficit).

Estimated vacation and compensatory absences accumulated for employees have been recorded in the statements of net assets (deficit). Management believes that sufficient resources will be made available for the payments of vacation, sick leave and compensatory absences when such payments become due. As of December 31, 2011, the value of the accumulated vacation time, sick leave and compensatory absences was approximately \$279,835.

**10. RISK MANAGEMENT**

The Authority carries coverage for workers' compensation and general liability claims and excess liability insurance coverage of \$1,000,000 per occurrence with a \$2,000,000 annual aggregate. The Authority is self-insured for property protection on the first \$10,000 per loss with insurance protection coverage of up to \$150,000 for any loss. The Authority Directors and employees are indemnified under the NIFA Act Section 3662 (7) (a) by New York State. The Authority is prohibited by the NIFA Act Section 3654 (14) from owning real property. There have been no significant reductions in insurance coverage as compared to the prior year.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**11. CONTROL PERIOD EXPENSES**

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. On January 26, 2011, NIFA adopted a resolution declaring a control period upon its determination that there existed a substantial likelihood and imminence of the County incurring a major operating funds deficit of one percent or more in the aggregate results of operations during its fiscal year 2011 assuming all revenues and expenditures were reported in accordance with GAAP.

During a control period, NIFA is empowered, among other things, to approve or disapprove proposed contracts and borrowings by the County and Covered Organizations; approve, disapprove or modify the County's multi-year financial plan; and issue binding orders to the appropriate local officials. It can and did impose a wage freeze on March 24, 2011 for County employees. NIFA will terminate the control period upon finding that no condition exists which would permit imposition of a control period. During 2011, NIFA incurred \$1,865,000 of expenses directly related to fulfilling its expanded oversight responsibilities of the County during the control period.

**12. COMMITMENTS AND CONTINGENCIES**

Authority employees are entitled to accumulate unused vacation, holiday and sick leave, and to be paid for that leave, up to amounts specified by the Authority. The amount of payment is limited for vacation and sick pay and unlimited for holiday pay. At current salary levels, the Authority's liability for payment of vacation and holiday pay is \$157,308 which includes the Authority's share of taxes and other withholdings. Authority employees are also permitted to either 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 or to be paid for up to 13 days of sick leave each year as long as certain sick leave balances are maintained. At current salary levels, the Authority's liability for payment of this sick leave accumulation is \$122,527, 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 certain 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 noncurrent liability in the entity-wide statement of net assets (deficit).

The Authority has been named as a defendant in actions resulting from its imposition of a control period in January of 2011. Based upon the opinion of counsel, management believes that the resolution of these matters will not have a material effect on its statement of net assets or its statement of activities.

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

**13. PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE**

The following statements have been issued by GASB and are to be implemented in the year ending December 31, 2012:

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, establishes measurement, recognition and disclosure requirements for service concession arrangements. A service concession arrangement is an arrangement between a transferor (government) and an operator (government or non government) in which the transferor conveys to an operator the right and related obligation to provide services or another public asset through the use of infrastructure in exchange for significant consideration and the operator collects and is compensated by fees from third parties.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures

The Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Propriety Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Those entities who chose to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements can continue to apply those pronouncements as other accounting literature.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial and reporting guidance for deferred outflows of resources, which is a consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources which is an acquisition of net assets by the government that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. This Statement also amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions and amendment of GASB Statement No. 53*, clarifies whether an effective hedging relations continues after a replacement of a swap counterparty or swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

The Authority is evaluating the impact of the afore-mentioned GASB Statements on its financial statements.



**REQUIRED SUPPLEMENTARY INFORMATION  
OTHER THAN MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

**NASSAU COUNTY INTERIM FINANCE AUTHORITY**  
**SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS**  
**(UNAUDITED)**  
 December 31, 2011

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>UAAL as Percentage Covered Payroll</b>
1/01/11	\$ -	\$ 1,134,000	\$ 1,134,000	0%	158.70%
1/01/10 *	-	1,046,000	1,046,000	0%	145.63%
1/01/09	-	918,000	918,000	0%	125.34%

\* Rollforward valuation from the 1/01/09 actuarial valuation

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

To the Board of Directors of  
Nassau County Interim Finance Authority:

We have audited the financial statements of Nassau County Interim Finance Authority (the "Authority"), as of and for the year ended December 31, 2011, and have issued our report thereon dated May 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

*Deloitte & Touche LLP*

May 10, 2012