

***Nassau County Interim
Finance Authority***



***Financial Statements for the
Year Ended December 31, 2013 and
Independent Auditors' Report***

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INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Nassau County Interim Finance Authority (the "Authority"), a component unit of Nassau County, NY, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority, as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Notes 1E and 12, in 2013 the Authority adopted Governmental Accounting Standards Board (“GASB”) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 3 through 11 and page 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2014 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* in considering the Authority’s internal control over financial reporting and compliance.

Deloitte & Touche LLP

June 18, 2014

NASSAU COUNTY INTERIM FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

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, 2013. We encourage readers to consider the information presented within this section in conjunction with the financial statements.

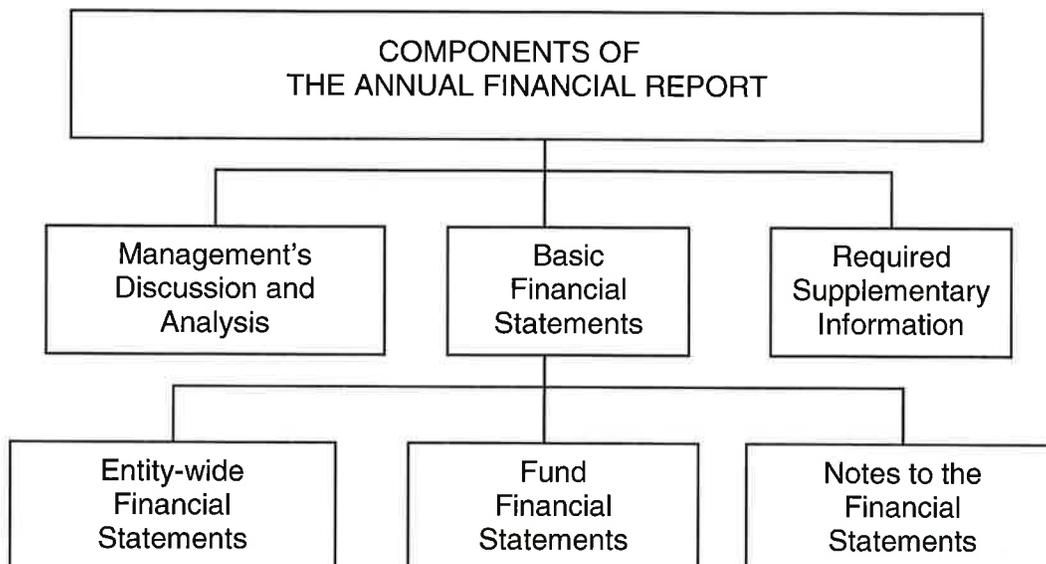
The Nassau County Interim Finance Authority (the "Authority" or "NIFA") is a New York State Authority empowered to monitor and oversee the finances of Nassau County, New York (the "County") and is, or has previously been, empowered within certain statutory limits to issue bonds and notes for various 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 assistance 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 has not had the statutory authority, except for refunding of bonds or notes previously issued by the Authority, to issue any additional bonds or notes in 2013. 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, 2013

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 position presents financial information on all of the Authority's assets and liabilities, with the difference between the two reported as "net position". 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 or deficiency. Over time, increases or decreases in the Authority's net position 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 position changed during the most recent year. All changes in net position 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 entity-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, restrictions 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 funds balance sheet and in the governmental funds 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, 2013

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 position details the assets and liabilities of the Authority based on their liquidity, utilizing current and noncurrent categories. During the year ended December 31, 2013, the Authority adopted *Government Accounting Standards Board (GASB) Statement No. 65, Items Previously Reported as Assets and Liabilities*, which resulted in certain items being reported as deferred outflows of resources and deferred inflows of resources, and additionally, previously capitalized bond issuance costs were written off against net position. Accordingly, the amounts reported for the year ended December 31, 2012 have been restated to reflect this new accounting pronouncement. The resulting net position, in this statement, is displayed as either restricted or unrestricted. The Authority's liabilities exceeded its assets by \$1,230,121,000 at the close of the most recent year.

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

Condensed Statement of Net Position
As of December 31, 2013 and 2012
(Dollars in Thousands)

Governmental Activities:	<u>2013</u>	<u>2012</u>
Assets		
Current	\$ 165,791	\$ 176,550
Other	-	30,946
Total Assets	<u>165,791</u>	<u>207,496</u>
 Deferred Outflows of Resources	 <u>72,596</u>	 <u>83,976</u>
 Liabilities		
Current	239,652	257,057
Non-current	1,200,719	1,407,488
Total Liabilities	<u>1,440,371</u>	<u>1,664,545</u>
 Deferred Inflow of Resources	 <u>28,137</u>	 <u>-</u>
 Net Position		
Restricted	30,868	32,021
Unrestricted	<u>(1,260,989)</u>	<u>(1,405,094)</u>
Total Net Position	<u>\$ (1,230,121)</u>	<u>\$ (1,373,073)</u>

Overall, net position improved by \$152,322,000 primarily as a result of the repayment of \$150,965,000, in debt from the sales tax receipts. The Authority has an overall net accumulated deficit of \$1,230,121,000 resulting primarily from the liabilities relating to bonds payable of \$1,228,158,000 which will be paid in future periods as sales tax is received. The deficit is expected to be further reduced, and has been reduced historically as the bonds have been repaid. The Authority is scheduled to repay \$140,642,000 of principal in 2014.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

ENTITY-WIDE FINANCIAL ANALYSIS (continued)

Overall, bonds payable decreased in fiscal year 2013 by \$150,965,000 (10.9%), due to retirement of prior bond issues. 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, 2013, the Authority had bonds payable of \$1,228,158,000, of which \$659,258,000 are fixed rate and \$568,900,000 are hedged variable rate (with, effectively, a fixed rate resulting from the hedge). The reconciliation on page fifteen of these financial statements provides additional detail on the determination of the net deficit amount.

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

Condensed Statement of Activities and Changes in Net Position
For the Years Ended December 31, 2013 and 2012
(Dollars in thousands)

Governmental Activities:	<u>2013</u>	<u>2012</u>
Revenues		
Sales tax	\$ 1,070,986	\$ 1,007,220
Program revenue	110	265
Investment income	5,197	3,741
Income from other sources	531	-
Total Revenues	<u>1,076,824</u>	<u>1,011,226</u>
Expenses		
General and administrative	1,712	1,273
Control period expenses	587	663
Bond interest expense	50,244	86,187
Distribution to Nassau County	871,959	797,676
Total Expenses	<u>924,502</u>	<u>885,799</u>
Change in Net Position	152,322	125,427
Net Position, beginning of year	(1,373,073)	(1,498,500)
Cumulative Effect of Change in Accounting Principle	<u>(9,370)</u>	<u>-</u>
Net Position, end of year	<u>\$ (1,230,121)</u>	<u>\$ (1,373,073)</u>

The single most critical factor in the Authority's financial operations is sales tax revenue, which provided over 99% of the Authority's 2013 revenues. 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.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

ENTITY-WIDE FINANCIAL ANALYSIS (continued)

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% County sales tax rate, 3.00% is a base rate and the remaining 1.25% is subject to periodic renewals. 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, 2013 was \$1,070,986,000, an increase of 6.3% from the prior year due to an increased level of economic activity. Investment income, net of \$37,000 of unrealized depreciation, and excluding bond premium amortization of \$5,040,000, accounts for the remaining Authority revenue, totaled \$157,000 in 2013, a decrease of \$220,000 from 2012. Additional revenue of \$531,000 was received in 2013 as the result of a class action lawsuit that was settled. Additional information is provided in the litigation section of this Management Discussion and Analysis.

Sales tax revenue provided 5.4 times the coverage of the Authority's 2013 debt service of approximately \$199,088,000. This coverage will change as sales tax fluctuates, as the Authority refunds and/or amortizes its debt, or as borrowing rates change. Altogether, the Authority used \$199,091,000 of 2013 sales tax revenue for debt service and Authority operations, remitting the balance of \$871,895,000 to Nassau County.

The Authority's baseline operating expenses were \$1,712,000 and \$1,273,000 for the years ended December 31, 2013 and 2012, respectively. The increase in baseline operating expenses of \$439,000 from 2012 to 2013 is primarily due to a change in actuarial assumptions, which led to an increase in OPEB expense in 2013. Please refer to footnote 8 for additional information. On January 26, 2011, NIFA adopted a resolution declaring a control period in Nassau County in accordance with its enabling legislation. NIFA had control period-related operating expenses of \$587,000 in 2013 and \$663,000 in 2012 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. During 2013, the Authority received \$110,000 in assistance from New York State to fund a portion of the control period legal expenses.

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, 2013, the Authority remitted \$64,000 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, 2013

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS (continued)

At December 31, 2013, the Authority's governmental funds reported total ending fund balances of \$31,621,000, a decrease of \$1,096,000 in comparison with the prior year. This change in total governmental fund balances resulted from expenditures exceeding revenues in the general fund by \$1,510,000 offset by revenues exceeding expenditures by \$414,000 in the debt service fund. The total ending fund balances are categorized as follows:

- **Nonspendable fund balance** - \$58,000 (inherently nonspendable) includes the portion of net resources that cannot be spent because they must be maintained intact.
- **Restricted fund balance** - \$30,868,000 (externally enforceable limitations on use) includes amounts subject to limitations imposed by bond indentures, grantors, contributors, or laws and regulations of other governments.
- **Unassigned fund balance** - \$695,000 (residual net resources) is the total fund balance in the general fund in excess of nonspendable, restricted, and assigned fund balance.

The Authority has no committed or assigned fund balance.

General Fund

At the end of the current year, the total fund balance of the general fund was \$16,102,000, decreasing \$1,510,000 from the prior year. Of the \$16,102,000, \$15,349,000 is restricted for debt service and, in 2014, will be transferred to the debt service fund. Of the \$1,070,986,000 of sales tax revenue, 81.41% or \$871,895,000 was transferred to the County and 18.73% or \$200,641,000 was transferred to the debt service fund. The remaining was used to pay for the operations of the Authority in the amount of \$1,246,000 and to fund the additional expenses incurred in fulfilling its responsibilities under the control period totaling \$587,000. Additionally, during the year ended December 31, 2013, the Authority received \$531,000 from a class action lawsuit.

Debt Service Fund

At the end of the current year, the total fund balance of the debt service fund was \$15,519,000, of which all is restricted for debt service. During the year, the debt service fund received \$200,641,000 from the general fund and it was used to fund \$199,088,000 of debt service requirements.

DEBT ADMINISTRATION

At the end of the current year, NIFA has total sales tax secured bonded debt outstanding of \$1,228,158,000. Of the total debt, \$659,258,000 is subject to a fixed interest rate and \$568,900,000 is subject to a variable interest rate which is hedged by associated interest rate swaps, effectively creating a fixed interest rate. During 2013, the Authority did not issue any debt nor did it retire any debt other than the scheduled portion of existing debt.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

DEBT ADMINISTRATION (continued)

Outstanding Debt (in thousands)

	Outstanding Principal Balance at January 1, 2013	Bond Issuance	Principal Retired	Outstanding Principal Balance at December 31, 2013	Total Interest Payments FY 2013
Sales tax secured bonds:					
Fixed Rate	\$ 779,123	\$ -	\$ 119,865	\$ 659,258	\$ 51,088
Variable Rate Hedged	600,000		31,100	568,900	1,044
	<u>\$ 1,379,123</u>	<u>\$ -</u>	<u>\$ 150,965</u>	<u>\$ 1,228,158</u>	<u>\$ 52,132</u>

As stated earlier, 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 statutes, 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 issued a "Request for Bids" seeking proposals for a Liquidity Facility in the form of a Standby Bond Purchase Agreement ("SBPA") for an expiring facility for the 2008A Bonds. NIFA anticipates that an extension of the current SBPA will be negotiated, executed and take effect in early May 2014 upon the expiration of the current SBPA for the 2008A Bonds.

Litigation

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 unions also filed lawsuits in the same court challenging NIFA's renewals of the one-year wage freeze in March 2012 and March 2013.

On February 14, 2013, United States District Judge Leonard D. Wexler granted summary judgment to the plaintiff unions in one of these wage freeze litigations, ruling that as a matter of statutory interpretation of NIFA's enabling legislation NIFA's wage freeze power expired in 2008. The District Court stayed its ruling pending appeal, so the wage freeze remained in effect. NIFA filed a notice of appeal with the United States Court of Appeals for the Second Circuit, which granted NIFA's motion for an expedited appeal. On September 20, 2013, the Second Circuit vacated the District Court's judgment, ruling that it should have declined to exercise jurisdiction over the pendent state claim, and remanded the case with instructions to dismiss the claim. In accordance with the decision of the Second Circuit, in October 2013, the District Court closed all the pending federal actions without prejudice to re-opening at the conclusion of state litigation.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

CURRENTLY KNOWN FACTS (continued)

Litigation (continued)

In October 2013, following the closure of the federal actions, the unions filed petitions in Nassau County Supreme Court pursuant to Article 78 of the N.Y. Civil Practice Law and Rules. Their petitions alleged that the wage freezes were unauthorized as NIFA's wage freeze power under its enabling legislation expired in 2008. One of the unions also alleged that one of its members' interest arbitration awards were not within the ambit of NIFA's wage freeze powers. NIFA moved to dismiss the petitions. On March 11, 2014, Justice Arthur M. Diamond granted NIFA's motion to dismiss, ruling that, as a matter of statutory interpretation, NIFA's wage freeze power had not expired and that the interest arbitration award was within the ambit of that power. The unions have appealed to the Appellate Division, Second Judicial Department.

Attorneys representing various Nassau County property owners have filed three related petitions in Nassau County Supreme Court against the County and NIFA pursuant to Article 78. In these proceedings, the petitioners have asked the court to order the County to issue bonds to finance payment by the County of more than \$50 million in judgments against the County arising from tax certiorari proceedings. The petitioners name NIFA as a respondent in two of the cases and ask the Court to order NIFA to vote on and approve the County's issuance of such bonds. In the third action, NIFA has been granted leave to intervene since it believes that the issues in all three cases are substantially the same. NIFA moved to dismiss the three actions on February 14, 2013. On November 6, 2013, the Court stayed the actions pending resolution of the County's appeal to the Appellate Division in a related proceeding. A motion to vacate the stay is currently pending in one of the litigations.

Finally, on March 29, 2013, the County filed a petition commencing a combined Article 78 proceeding and declaratory judgment action against NIFA in Nassau County Supreme Court. In this proceeding, the County raised a series of claims, including: (i) that NIFA improperly asserted the right to review and approve the County Attorney's proposed program for financing tax certiorari settlements and judgments, and (ii) that NIFA improperly has withheld approval of certain County contracts with its bond counsel and lobbyists. NIFA moved to dismiss the proceeding. Justice Thomas A. Adams granted its motion on July 9, 2013. The County decided to discontinue any further action on this matter and withdrew an appeal that it had filed before the Appellate Division.

The Authority was the beneficiary of certain lawsuit settlements in connection with alleged violations of state and federal antitrust and other laws involving the marketing, sale and placement of certain municipal bond derivatives. The Authority did not initiate any such actions but, rather, was the beneficiary as part of a class action. Pursuant to the settlements, the Authority received \$531,000 in exchange for rights to participate in future actions against the defendants. Such amounts benefitted 2013 results for both the Authority and, ultimately, Nassau County.

In 2011, Nassau County filed a lawsuit in state court claiming fraud and breach of contract against certain banks in connection with their issuance of LIBOR based financial instruments. NIFA was named as a Nominal Defendant.

The banks removed the case to federal court (Eastern District). The case was subsequently transferred to Southern District federal court as part of multi-district litigation. In late 2013 the Southern District federal court denied the County's motion to remand the County's case to state court. The action is currently stayed and the defendants will have to respond to the County's complaint either by motion to dismiss or answer to the complaint once the stay is lifted.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

CURRENTLY KNOWN FACTS (continued)

Litigation (continued)

In February of 2014, NIFA requested a FINRA arbitration. The claims proposed for arbitration allege wrongdoing by certain investment banks, including Goldman Sachs, Citigroup, UBS Financial Services, J.P. Morgan Securities, Wells Fargo and Merrill Lynch, who underwrote issuances of Auction Rate Securities ("ARS") for NIFA. The arbitration claims allege, among other things, that the investment banks failed to disclose that the auction features underlying NIFA's ARS were not supported by organic investor demand, but were in fact maintained from the outset substantially by bids submitted by the investment banks. In addition, the claims allege that, in late 2007 and early 2008, the banks did not promptly advise the Authority of the imminent collapse of the ARS market (as the banks anticipated their withdrawal from the ARS market and widespread auction failures), to allow the Authority an organized and more cost effective exit from the market. Damages to be asserted in arbitration include penalty interest paid during the ARS market collapse, interest paid on long term replacement financing in excess of the ARS obligation, refinancing fees, and costs associated with ARS-linked swap contracts. The arbitration is currently stayed pending resolution of a Second Circuit appeal that governs the same forum selection clause as the one in NIFA's broker-dealer agreement.

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 nifacomment@nifa.state.ny.us.

BASIC FINANCIAL STATEMENTS

NASSAU COUNTY INTERIM FINANCE AUTHORITY
STATEMENT OF NET POSITION
December 31, 2013
(Dollars in Thousands)

Governmental Activities:

Assets

Unrestricted cash	\$	744
Restricted cash		89
Restricted investments		46,078
Sales tax revenue receivable		118,678
State assistance receivable		20
Interest income receivable		124
Other assets		58

		<u>165,791</u>
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Deferred Outflows of Resources

Deferred charges on refundings		19,625
Accumulated decrease in fair value of hedging derivatives		52,971

		<u>72,596</u>
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Liabilities

Accrued liabilities		11,002
Due to Nassau County - sales tax revenue		87,986
Due to Nassau County - interest income		22
Derivative instruments - interest rate swaps		52,971
Bonds payable:		
Due within one year		140,642
Due in more than one year		1,087,516
Unamortized bond premium		58,276
Other postemployment benefits payable		1,665
Accrued vacation and sick pay		291

		<u>1,440,371</u>
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Deferred Inflows of Resources

Deferred amounts on refundings		28,137
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		<u>28,137</u>
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Net Position

Restricted for debt service		30,868
Unrestricted		(1,260,989)

		<u>\$ (1,230,121)</u>
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See notes to the financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
December 31, 2013
(Dollars in Thousands)

Governmental Activities:

Expenses

General and administrative	\$	1,712
Bond interest expense		50,244
Distribution to Nassau County - general operations		<u>64</u>
Total Expenses		<u><u>52,020</u></u>

General Revenues

Sales tax		1,070,986
Less: distributions to Nassau County		(871,895)
Investment income		5,197
Other compensation for loss		531
State assistance - control period legal expenses		<u>110</u>
Total Sales Tax and Other General Revenues Retained		<u>204,929</u>

Special Item

Control period legal expenses		<u>(587)</u>
Total General Revenues and Special Items		<u><u>204,342</u></u>

Change in Net Position 152,322

Net Position - Beginning of Year (1,373,073)

Cumulative Effect of Change in Accounting Principle (9,370)

Net Position- End of Year \$ (1,230,121)

See notes to the financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2013
(Dollars in Thousands)

	General	Debt Service	Total (Governmental Funds)
Assets			
Unrestricted cash	\$ 744	\$ -	\$ 744
Restricted cash	-	89	89
Restricted investments	-	46,078	46,078
Sales tax revenue receivable	118,678	-	118,678
State aid receivable	20	-	20
Interest income receivable	5	119	124
Due from other funds	-	15,346	15,346
Other assets	58	-	58
Total Assets	\$ 119,505	\$ 61,632	\$ 181,137
 Liabilities and Fund Balances			
Liabilities			
Accrued liabilities	\$ 71	\$ 46,091	\$ 46,162
Due to Nassau County - sales tax revenue	87,986	-	87,986
Due to Nassau County - interest income	-	22	22
Due to other funds	15,346	-	15,346
Total Liabilities	103,403	46,113	149,516
 Fund Balances			
Nonspendable:			
Prepaid items & other assets	58	-	58
Restricted for:			
Debt service	15,349	15,519	30,868
Unassigned, reported in:			
General fund	695	-	695
Total Fund Balance	16,102	15,519	31,621
Total Liabilities and Fund Balances	\$ 119,505	\$ 61,632	\$ 181,137

See notes to the financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
December 31, 2013
(Dollars in Thousands)

Total Fund Balances - Governmental Funds \$ 31,621

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

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

Bonds payable	(1,192,998)
Unamortized bond premiums	(58,276)
Net deferred amounts on refundings	(8,512)
Other postemployment benefits payable	(1,665)
Accrued vacation and sick pay	(291)
	(1,230,121)

Net Position of Governmental Activities \$ (1,230,121)

See notes to the financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
December 31, 2013
(Dollars in Thousands)

	General	Debt Service	Total (Governmental Funds)
Revenues			
Sales tax	\$ 1,070,986	\$ -	\$ 1,070,986
State assistance	110	-	110
Other compensation for loss	531	-	531
Investment income	-	157	157
Total Revenues	1,071,627	157	1,071,784
Other Financing Sources			
Operating transfer in	1,232	200,641	201,873
Total Revenues and Other Financing Sources	1,072,859	200,798	1,273,657
Expenditures			
General and administrative	1,246	-	1,246
Distribution to Nassau County for:			
General operations	-	64	64
Debt service	-	199,088	199,088
Total Expenditures	1,246	199,152	200,398
Other Financing Sources and (Uses)			
Transfer to Nassau County - sales tax revenue	871,895	-	871,895
Operating transfers out	200,641	1,232	201,873
Control period expenditures	587	-	587
Total Expenditures and Other Financing Uses	1,074,369	200,384	1,274,753
Net Change in Fund Balances	(1,510)	414	(1,096)
Fund Balances			
Beginning of year	17,612	15,105	32,717
End of Year	\$ 16,102	\$ 15,519	\$ 31,621

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 POSITION
December 31, 2013
(Dollars in Thousands)

Net Change in Fund Balances - Total Governmental Funds \$ (1,096)

Amounts reported for governmental activities in the Statement of Net Position 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. Also the governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:

Principal payments of bonds and payments for refunded bonds	148,384
Amortization of deferred outflow of resources	(1,951)
Additions and amortization of premiums on bond issued	5,040
Amortization of deferred inflow of resources	2,411
Change in other postemployment benefits obligation	<u>(466)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 152,322</u></u>

See notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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, is accordingly 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.

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"), investment earnings on money and investments on deposit in various Authority accounts and state assistance received to partially fund the control period expenditures. 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, 2013

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 position and the statement of activities, are presented to display information about the reporting entity as a whole. The statement of net position and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Fund Financial Statements

The Authority's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures incurred in the current year. 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.

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 they are 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.

B. ASSETS, LIABILITIES AND NET POSITION/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, 2013, 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, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. ASSETS, LIABILITIES AND NET POSITION/FUND BALANCE (continued)

1. Cash and Investments (continued)

Restricted cash and investments represent amounts held by the Authority's Bond Trustee for payment of future debt service payments.

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, 2013. 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 and state assistance, as well as interest earned 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 non-spendable 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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) of time and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has two items that qualify for reporting in this category, which is the interest rate swap derivative instrument and deferred charges on debt refundings.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. ASSETS, LIABILITIES AND FUND EQUITY/EQUITY (continued)

5. Deferred Outflows/Inflows of Resources (continued)

The Authority's derivative instruments, consisting of interest rate swap agreements, which qualify as hedging derivative instruments, have been recorded at fair value, using the zero coupon methodology, in the statement of net position 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 position (deficit) position, but has been reported as a deferral and is included in the deferred outflow of resources in the statement of net position.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one item that qualifies for reporting in this category. It is the deferred gain on refunding reported in the entity-wide statement of net position. A deferred gain on refunding results from the difference in the carrying value of refunded debt and its acquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

6. Long-Term Obligations & Related Amounts

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 position. Bond premiums are capitalized and amortized over the lives of the related debt issues using the straight-line method and are reported with the bonds payable. With the implementation of GASB Statement No. 65 (discussed below) bond issuance costs are recognized as an outflow of resources incurred.

In the fund financial statements governmental funds recognize bond premiums and discounts 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.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. ASSETS, LIABILITIES AND FUND EQUITY/EQUITY (continued)

7. Interfund Transactions

Interfund transactions and balances have been eliminated from the entity-wide financial statements. In the funds statements, inter-fund 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 HMOs.

The Authority recognizes the cost of providing benefits by recording its share of insurance premiums as expenditures 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.

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 Position and Fund Equity Classifications

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. ASSETS, LIABILITIES AND FUND EQUITY/EQUITY (continued)

10. Net Position and Fund Equity Classifications (continued)

The entity-wide financial statements net position is displayed in two components:

- a) Restricted net position — Consists of net position 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 position — All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

In the fund financial 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) non-spendable, 2) restricted 3) committed, 4) assigned, or 5) unassigned.

- 1) Non-spendable 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 non-spendable 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.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. ASSETS, LIABILITIES AND FUND EQUITY/EQUITY (continued)

10. Net Position and Fund Equity Classifications (continued)

- 6) Resources constrained for debt service or redemption in accordance with the Authority's Indenture is classified as restricted on the statements of net position and the governmental funds balance sheets.

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.

C. 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.

D. 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.

E. 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, 2013, NIFA adopted:

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34*
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*
- GASB Statement No. 66, *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No 62*

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. NEW ACCOUNTING PRINCIPLES (continued)

Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and 34*, modifies certain requirements (including a financial benefit/burden relationship criterion) for inclusion of component units in the financial reporting entity. This Statement had no effect on the Authority's financial statements.

Statement No. 65, *Items Previously Reported as Assets and Liabilities*, originally introduced and defined in GASB Concepts Statement No. 4, *Elements of Financial Statements*, as a consumption of net assets applicable to a future reporting period and an acquisition of net assets applicable to a future reporting period, respectively. Further, Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of net position. Statement No. 65, *Items Previously Reported as Assets and Liabilities* reclassifies certain items that are currently reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and recognize certain items currently being reported as assets and liabilities as outflows and inflow of resources. In addition, it limits the use of the term deferred in the financial statement presentation. Concepts Statement No. 4 requires that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. Statement No. 65 provides that Guidance. The implementation of this Statement resulted in reporting a restatement of NIFA's net position (see Note 12) and to change the presentation of the statement of net position.

Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and 62*, provides financial and reporting guidance by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 62, *Codification of Accounting and Financial*. This Statement had no effect on the Authority's financial statements.

As stated above, the following Statements were implemented in 2013 with no effect: Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and 34* and Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and 62*. Additionally, Statement No. 65, *Items Previously Reported as Assets and Liabilities* was implemented which resulted in a restatement of \$9,370,000 as further discussed in Note 12.

F. 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. No significant events were identified that would require adjustment of or disclosure in the financial statements.

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.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

2. TRANSACTIONS WITH AND ON BEHALF OF NASSAU COUNTY (continued)

The receipt and remittance of revenues in 2013 included:

- Sales tax revenues of \$1,070,986,000 of which \$871,895,000 was remitted to Nassau County. The balance was retained for Authority debt service and operations.
- The remittance to the County for general County operations, of earnings on various funds held by or on behalf of the Authority, to the extent that those earnings are not required for the payment of Authority debt service or operating expenses. In 2013, the Authority remitted \$84,000 of interest income, resulting in a remaining accrual of \$22,000 of interest due to the County.

3. CASH AND INVESTMENTS

Cash and investments held by the Trustee in the amount of \$46,167,000 are restricted for debt service.

The following table summarizes the Authority's cash and investments as of December 31, 2013:

	(Dollars in thousands)		
	Held by Authority	Held by Trustee	Total
Cash	\$ 744	\$ 89	\$ 833
Total cash	744	89	833
U.S. government and agency discount notes (maturities greater than 90 days)	-	46,078	46,078
Total marketable securities	-	46,078	46,078
Total cash and investments	<u>\$ 744</u>	<u>\$ 46,167</u>	<u>\$ 46,911</u>

The following table summarizes the Authority's cash and investments by type as of December 31, 2013:

	Investment Maturities (Dollars in thousands)		
	Held by Authority	Held by Trustee	
	General Fund	Debt Service Fund	Total
Investment type:			
Cash	\$ 744	\$ 89	\$ 833
U.S. government securities	-	24,741	24,741
U.S. discount notes	-	21,337	21,337
Total	<u>\$ 744</u>	<u>\$ 46,167</u>	<u>\$ 46,911</u>

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

3. CASH AND INVESTMENTS (continued)

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.

Deposits are required to 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, 2013, 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 obligations issued by the United States government or an agency thereof 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.

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, 2013, 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 Authority. All investments mature in less than one year.

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

As of December 31, 2013 the general fund owes the debt service fund \$15,346,000 of sales tax revenue to cover debt service set aside requirements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (continued)

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

	(Dollars in thousands)	
	Transfer In	Transfer Out
Debt Service Fund		
General Fund	\$ 200,641	\$ 1,232
General Fund		
Debt Service Fund	1,232	200,641
	\$ 201,873	\$ 201,873

5. LONG-TERM DEBT

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

(Dollars in thousands)

	Balance 1/1/2013	Additions	Reductions	Balance 12/31/13	Due within One Year	Non-current
Bonds payable:						
Sales tax secured bonds payable	\$ 1,379,123	\$ -	\$ (150,965)	\$ 1,228,158	\$ 140,642	\$ 1,087,516
Premiums	63,316	-	(5,040)	58,276	4,473	53,803
Total bonds payable	1,442,439	-	(156,005)	1,286,434	145,115	1,141,319
OPEB Liability	1,199	491	(25)	1,665	-	1,665
Compensated absences	291	-		291	-	291
	\$ 1,443,929	\$ 491	\$ (156,030)	\$ 1,288,390	\$ 145,115	\$ 1,143,275

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, 2013, the Authority had outstanding sales tax secured bonds in the amount of \$1,228,158,000, maturing through the year 2025, of which \$659,258,000 are fixed rate and \$568,900,000 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.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

5. LONG-TERM DEBT (continued)

Fixed Rate Bonds — The Authority has outstanding fixed rate bonds at rates ranging between 0.688% and 5.0%. 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, 2014 and November 16, 2015 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 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, 2013

5. LONG-TERM DEBT (continued)

Bonds are recorded at the principal amount outstanding and consist of the following at December 31, 2013:

	Dollars in thousands				
	Bond Par Issued	Balance at 1/1/2013	Additions	Retired	Balance at 12/31/2013
Sales Tax Secured Bonds, Series 2003A 2% to 6% serial bonds due through 2023	\$ 275,990	\$ 12,985	\$ -	\$ 12,985	\$ -
Sales Tax Secured Refunding Bonds, Series 2003B 2% to 5% serial bonds due through 2018	238,485	21,245	-	21,245	-
Sales Tax Secured Bonds, Series 2004A 2% to 5% serial bonds due through 2013	153,360	510	-	510	-
Sales Tax Secured Bonds, Series 2004H 2.15% to 5% serial bonds due through 2017	187,275	56,715	-	35,755	20,960
Sales Tax Secured Bonds Series 2005A 3.26% to 4.8% serial due through 2024	124,200	86,575	-	16,950	69,625
Sales Tax Secured Bonds Series 2005 D 3.23% to 4.32% serial and term bonds due through 2022	143,795	46,010	-	14,540	31,470
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	-	31,100	318,900
Sales Tax Secured Bonds Series 2009 A 1% to 5% serial bonds due through 2025	303,100	237,370	-	17,880	219,490
Sales Tax Secured Bonds Series 2012 A 3% to 5% serial bonds due 2015 through 2025	141,580	141,580	-	-	141,580
Sales Tax Secured Bonds 2012 B 0.688% to 2.822% serial bonds due 2014 through 2023	176,133	176,133	-	-	176,133
	<u>\$ 2,530,453</u>	<u>\$ 1,379,123</u>	<u>\$ -</u>	<u>\$ 150,965</u>	<u>\$ 1,228,158</u>

*During 2013, the interest rate on the Variable Rate Bonds ranged from .04% to .26%.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

5. LONG-TERM DEBT (continued)

Aggregate debt service to maturity as of December 31, 2013, is as follows (dollars in thousands):

Years Ending December 31,	Principal	Interest*	Total
2014	\$ 140,642	\$ 43,542	\$ 184,184
2015	143,585	38,331	181,916
2016	139,426	33,895	173,321
2017	129,666	28,925	158,591
2018	118,505	24,861	143,366
2019-2023	484,054	63,380	547,434
2024-2025	72,280	3,802	76,082
	\$ 1,228,158	\$ 236,736	\$ 1,464,894

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

Prior year defeasance of debt. In prior years, the Authority defeased sales-tax secured bonds by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At December 31, 2013, \$102,035,000 of defeased bonds remains outstanding.

6. DERIVATIVE INSTRUMENTS – INTEREST RATE EXCHANGE SWAP AGREEMENTS

Derivative instruments, which consist of interest rate swap agreements, have been reported at fair value as of December 31, 2013. As the interest rate swap agreements qualify as hedging derivative instruments, 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 the year 2004 (the “Swaps”).

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

6. DERIVATIVE INSTRUMENTS – INTEREST RATE EXCHANGE 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. The original notional amounts are as follows:

- \$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, 2013, 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, 2013, 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.

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, 2013, the total market-to-market valuation of NIFA's swaps, including accrued interest, was negative \$52,971,000. 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.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

6. DERIVATIVE INSTRUMENTS – INTEREST RATE EXCHANGE SWAP AGREEMENTS
(continued)

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 35.

The table shows the diversification, by percentage of notional amount outstanding at December 31, 2013, among the various counterparties that have entered into agreements with NIFA.

Counterparty:	Dollars in Millions	Notional Percentage
GSMMDP	\$ 260	45.69%
UBS AG	259	45.52%
MSCS	50	8.79%
	\$ 569	100.00%

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 WR/NR/NR (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.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

6. DERIVATIVE INSTRUMENTS – INTEREST RATE EXCHANGE SWAP AGREEMENTS
(continued)

Risks Associated with the Swap Agreements (continued)

- *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.

- *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.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

6. DERIVATIVE INSTRUMENTS – INTEREST RATE EXCHANGE SWAP AGREEMENTS
(continued)

Risks Associated with the Swap Agreements (continued)

- *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, 2013, the aggregate fair value of all hedging derivative instrument agreements whose terms contain such collateral provisions is \$52,971,000. Because the Authority's credit rating is Aa1/AAA, no collateral has been required or posted.

Upon the Authority's credit ratings declining to a certain threshold (as noted below), collateral posting requirements will be triggered as follows:

- A3/A-
\$13,496,000 in collateral to UBS AG.
- Baa1/BBB+
\$23,496,000 in collateral to UBS AG and \$5,986,000 in collateral to MSCS.
- Baa2/BBB
\$13,490,000 in collateral to GSMMDP, \$23,496,000 in collateral to UBS AG, and \$5,986,000 in collateral to MSCS.
- Baa3/BBB-
\$23,490,000 in collateral to GSMMDP, \$23,496,000 in collateral to UBS AG, and \$5,986,000 in collateral to MSCS.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

6. DERIVATIVE INSTRUMENTS – SWAP AGREEMENTS (continued)

As of December 31, 2013, 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:										
Original 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
At December 31, 2013	\$ 72,500,000	\$ 72,500,000	\$ 64,550,000	\$ 72,500,000	\$ 72,500,000	\$ 64,350,000	\$ 50,000,000	\$ 50,000,000	\$ 50,000,000	\$ 568,900,000
Counterparty	GSMMDP	GSMMDP	GSMMDP	UBS	UBS	UBS	GSMMDP	UBS	MSCS	
Counterparty Rating (1)	Aa2/AAA/NA	Aa2/AAA/NA	Aa2/AAA/NA	A2/A/A	A2/A/A	A2/A/A	Aa2/AAA/NA	A2/A/A	Baa1/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	1.439 %	1.438 %	0.594 %	1.439 %	1.438 %	0.582 %	1.855 %	1.855 %	1.855 %	
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	\$ 3,912,513	\$ 3,913,387	\$ 2,085,173	\$ 3,912,513	\$ 3,913,387	\$ 2,095,522	\$ 3,724,051	\$ 3,724,051	\$ 3,724,051	\$ 31,004,648
As of December 31, 2013:										
Net Accrued	\$ (291,442)	\$ (289,346)	\$ (233,339)	\$ (291,442)	\$ (289,346)	\$ (234,681)	\$ (212,540)	\$ (212,540)	\$ (212,540)	\$ (2,267,216)
Net Present Value	(6,874,421)	(6,880,960)	(2,933,920)	(6,874,421)	(6,880,960)	(2,938,805)	(5,773,592)	(5,773,592)	(5,773,592)	(50,704,263)
Total Fair Value of Swap	\$ (7,165,863)	\$ (7,170,306)	\$ (3,167,259)	\$ (7,165,863)	\$ (7,170,306)	\$ (3,173,486)	\$ (5,986,132)	\$ (5,986,132)	\$ (5,986,132)	\$ (52,971,479)

(1) Moodys/S&P/Fitch.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

6. DERIVATIVE INSTRUMENTS – SWAP AGREEMENTS (continued)

Swap Payments and Associated Debt - Using rates as of December 31, 2013, 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.

Years Ending December 31	Variable-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps Net	
2014	\$ 45,300	\$ 272	\$ 16,288	\$ 61,860
2015	31,725	251	15,139	47,115
2016	61,275	233	14,199	75,707
2017	57,675	200	12,561	70,436
2018	58,100	168	10,889	69,157
2019-2023	275,375	334	24,707	300,416
2024-2025	39,450	17	1,334	40,801
Total	\$ 568,900	\$ 1,475	\$ 95,117	\$ 665,492

7. RETIREMENT SYSTEM

Plan Description

The Authority participates in the New York State and Local Employees' Retirement System ("NYERS"/the "System"), 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 (the "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

Plan members who joined the system before July 27, 1976 are not required to make contributions. Those joining after July 27, 1976 and before January 1, 2010 with less than ten years of membership are required to contribute 3% of their annual salary. Those joining on or after January 1, 2010 and before April 1, 2012 are required to contribute 3% of their salary for NYERS members throughout active membership. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, depending upon their salary, throughout active membership. 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, 2013

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>
2013	\$	135,104	\$ 135,104	18.91%
2012		133,000	133,000	18.43%
2011		100,000	100,000	13.97%

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 Milliman Inc., a consultant hired by the County, to estimate the benefit obligation for the fiscal year ended December 31, 2013 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, 2013, 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.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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

Summary of Changes from Prior Actuarial Valuation

Since the prior valuation as of January 1, 2012, several changes to the actuarial assumptions were made that resulted in changes to the liability. The following changes made are as follows:

- Healthcare trend rates used in the actuarial valuation are based on the Long-Run Medical Cost Trend Model, commonly referred to as the Getzen Model. The Getzen Model assumes a much slower decline to an ultimate rate than the previous actuarial valuation. Additionally, the estimated impact of the excise tax due to Healthcare Reform ('Cadillac Tax') has been incorporated in the valuation through an adjustment to the trend assumption
- The discount rate was lowered from 4.25% to 3.75%.
- Actuarial assumptions regarding withdrawal and retirement were changed to conform to the changes adopted by the New York State and Local Retirement Systems ('NYSLRS'). Additionally, retiree health benefits paid upon disability were not previously valued and are now included based on assumptions adopted by NYSLRS.
- Per capita claims costs have been updated to reflect the actual NYSHIP premiums for 2013 and 2014.

The aforementioned changes resulted in an increase in the AAL of approximately \$330,000 as of January 1, 2013.

Annual Other Postemployment Benefit Cost

For the year ended December 31, 2013, the Authority's annual other postemployment benefits costs were \$492,000. Considering the annual expense as well as the payment of current health insurance premiums, which totaled \$26,000 for retirees, the result was an increase in other postemployment benefits liability of \$466,000.

Benefit Obligations

The benefit obligations and normal cost are as follows:

Actuarial Accrued Liability (AAL)	\$ 1,665,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	1,665,000
Funded ratio	0%
Normal cost	106,000
Covered payroll	715,000
UAAL as a percentage of covered payroll	233%

The Authority's annual other postemployment benefit cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined. 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 liability for the Authority as of December 31, 2013 amounted to \$1,665,000.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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

Benefit Obligations (continued)

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	\$ 1,554,000
Normal cost	106,000
Interest on normal cost	<u>31,000</u>
Annual Required Contribution	1,691,000
Interest on Net OPEB obligation	45,000
Adjustment to annual required contribution	<u>(1,244,000)</u>
Annual OPEB expense	492,000
Contributions made	<u>(26,000)</u>
Increase in net OPEB obligation	466,000
Net OPEB obligation - beginning of year	<u>1,199,000</u>
Net OPEB obligation - end of year	<u><u>\$ 1,665,000</u></u>

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 \$1,665,000 as of December 31, 2013. 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:

Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 492,000	5.28%	\$ 1,665,000
2012	82,000	20.80%	1,199,000
2011	105,000	16.19%	1,134,000

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

8. OTHER POSTEMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE)

(continued)

Funded Status and Funding Progress (continued)

The funded status of the plan as of December 31, 2013 is as follows:

Actuarial Accrued Liability (AAL)	\$ 1,665,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	1,665,000
Funded ratio	0%
Normal Cost	106,000
Covered payroll	715,000
UAAL as a percentage of covered payroll	233%

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.

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, 2013, the date of the latest actuarial valuation, the liabilities were calculated using the Projected Unit Credit Method, level dollar amortization method, and an open 1 year amortization period to amortize the initial unfunded liability. The actuarial assumptions utilized a 3.75% per annum discount rate. The healthcare trend assumption used is based on the Society of Actuaries-Getzen Model, reflecting a trend of 5% in 2015 and decreasing to 4.4% in 2095; actual premium rates were used for 2014. Retiree contributions as a percentage of premiums are assumed to remain constant over the valuation.

9. COMPENSATED ABSENCES

Authority employees are entitled to accumulate unused vacation, holiday and sick leave. In the event of termination or upon retirement an employee is entitled to be paid for that leave, up to amounts specified by the Authority. At current salary levels, the Authority's liability for payment of vacation and holiday pay is \$176,000 which includes the Authority's share of taxes and other withholdings. Authority employees are also permitted to accrue unused sick leave without limitation and, upon certain conditions, apply the salary value of the leave upon retirement to the cost of the retiree's share of his or her health insurance premium. At current salary levels, the Authority's liability for payment of this sick leave accumulation is \$115,000, 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.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

9. COMPENSATED ABSENCES (continued)

The value of accrued unused leave is has been recorded in the statements of net assets (deficit). Management believes that sufficient resources will be made available for the payments of the accrued unused leave. As of December 31, 2013, the value of the accumulated vacation time, holiday time and sick leave was approximately \$291,000.

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.

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 assuming all revenues and expenditures were reported in accordance with GAAP. The County has since incurred a major operating funds deficit, measured on a GAAP basis, well in excess of that threshold.

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 2013, NIFA incurred \$587,000 of expenses directly related to fulfilling its expanded oversight responsibilities of the County during the control period.

12. EFFECT OF NEW ACCOUNTING STANDARD ON CURRENT-PERIOD FINANCIAL STATEMENTS

During the year ended December 31, 2013, the Authority implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. One of the provisions of this Statement is to recognize debt issuance costs as an outflow of resources/expense in the period incurred, as these costs no longer meet the definition of an asset or deferred outflows of resources, as defined in Statement No. 65 or Concepts Statement No. 4.

The implementation of this Statement required the Authority to retroactively recognize costs of debt issuance as outflows of resources and restate its net position as of January 1, 2013. As a result the Authority's January 1, 2013 net position was reduced by \$9,370,000 from a deficit balance of \$1,373,073,000 to \$1,382,443,000. The difference represents a restatement for unamortized bond issuance costs that were amortized under the prior standard but expensed in the period incurred under the new standard.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

13. COMMITMENTS AND CONTINGENCIES

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 position or its statement of activities.

14. PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

The following statements have been issued by GASB and are to be implemented in the years ending December 31, 2014 and 2015:

Statement Nos. 67 and 68, "*Financial Reporting for Pension Plans.*" These Statements establish financial reporting standards for state and local governments, state and local governmental pension plans, defined benefit plans and defined contribution pension plans that are administered through trusts or equivalent arrangements. The requirements of GASB No. 67 (applicable to pension plans) are effective for fiscal years beginning after June 15, 2013 and the requirements of GASB No. 68 (applicable to state and local governments) are effective for fiscal years beginning after June 15, 2014.

Statement No. 69 "*Governmental Combinations and Disposals of Governmental Operations*". The statement establishes accounting and financial reporting standards related to governmental combinations and disposals of governmental operations. As used in this Statement, the term *government combination includes* a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The requirements of this statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

Statement No. 70 "*Accounting and Reporting for Nonexchange Financial Guarantees*". The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013.

The Authority is currently evaluating the impact of the aforementioned 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, 2013

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	UAAL as Percentage Covered Payroll
1/01/13	\$ -	\$ 1,665,000	\$ 1,665,000	0%	233.01%
1/01/11	-	1,134,000	1,134,000	0%	158.70%
1/01/09	-	918,000	918,000	0%	125.34%

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, in accordance with the 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, the financial statements of the governmental activities and each major fund of Nassau County Interim Finance Authority (the "Authority"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 a 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material

effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

June 18, 2014