Nassau County Interim Finance Authority

NIFA

Financial Statements for the Year Ended December 31, 2014 and Independent Auditors' Report

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McGladrey

Independent Auditor's Report

To the Board of Directors
Nassau County Interim Finance Authority
Mineola, New York

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 the County of Nassau, New York, as of and for the year ended December 31, 2014, 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.

Auditor's 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 entity'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 entity'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.

Opinions

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, 2014, 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 Matter
As discussed in Note 12 to the financial statements, certain beginning balances of the 2014 financial statements have been restated to correct an error in previously issued financial statements. Our opinions are 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 3-10 and the schedule of funding progress – other postemployment benefits on page 42 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 May 8, 2015 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.

McGladrey LLP

New York, New York
May 8, 2015

NASSAU COUNTY INTERIM FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2014

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, 2014. We encourage readers to consider the information presented within this section in conjunction with the financial statements.

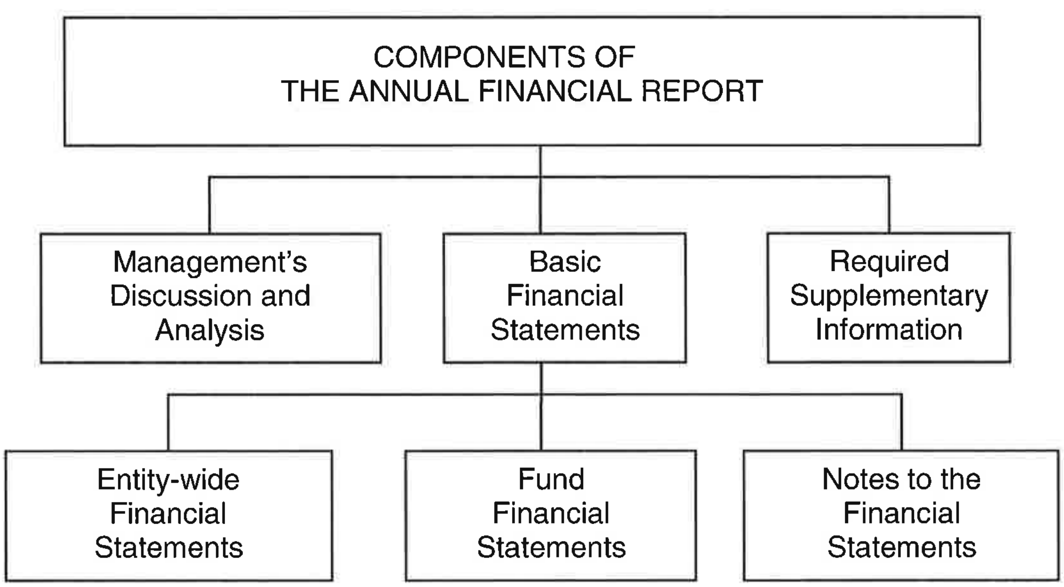
The Nassau County Interim Finance Authority (the "Authority" or "NIFA") is a New York State Authority empowered to monitor and oversee the finances of Nassau County, New York (the "County") and is, or has previously been, empowered within certain statutory limits to issue bonds and notes for various 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 2014. 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.



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, deferred outflows of resources, liabilities and deferred inflows of resources with the difference between them 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.

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, while the deferred outflows of resources and deferred inflow of resources are reported separately. The resulting net position, in this statement, is displayed as either restricted or unrestricted. The Authority's liabilities and deferred inflows exceeded its assets and deferred outflows by $1,077,000,000 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 Statements of Net Position
As of December 31, 2014 and 2013
(Dollars in Thousands)

Governmental Activities:	**2014**	(As Restated) **2013**
Assets		
Current	$ 164,099	$ 165,791
Total Assets	164,099	165,791
Deferred Outflows of Resources	70,053	72,596
Liabilities		
Current	325,787	232,947
Non-current	959,749	1,200,719
Total Liabilities	1,285,536	1,433,666
Deferred Inflows of Resources	25,727	28,137
Net Position		
Unrestricted	(1,077,111)	(1,223,416)
Total Net Position	$ (1,077,111)	$ (1,223,416)

Overall, net position improved by $146,305,000, primarily as a result of the repayment of $140,642,000 in debt principal from the sales tax receipts. The Authority has an overall net accumulated deficit of $1,077,000,000, resulting primarily from the liabilities relating to bonds payable of $1,087,516,000, which will be paid in future periods as sales tax is received. The deficit results primarily from the Authority debt issuance that is backed by future sales tax revenue. 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 $143,585,000 of principal in 2015 pursuant to the bond indenture agreements.

ENTITY-WIDE FINANCIAL ANALYSIS (continued)

Overall, bonds payable decreased in fiscal year 2014 by $140,642,000 (11.5%), due to retirement of prior bond issues. The debt is reported as a long-term liability, but the future revenues are not reportable. As of December 31, 2014, the Authority had bonds payable of $1,087,516,000, of which $563,916,000 are fixed rate and $523,600,000 are hedged variable rate (with, effectively, a fixed rate resulting from the hedge). The reconciliation on page sixteen 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 Statements of Activities and Changes in Net Position
For the Years Ended December 31, 2014 and 2013
(Dollars in Thousands)

Governmental Activities:	2014	(As Restated) 2013
Revenues		
Sales tax	$ 1,026,900	$ 1,070,986
Program revenue	34	110
Investment income	5,528	5,197
Income from other sources	-	531
Total Revenues	1,032,462	1,076,824
Expenses		
General and administrative	1,453	1,712
Control period expenses	302	587
Bond interest and other debt service expenses	44,263	54,213
Distribution to Nassau County	840,139	871,959
Total Expenses	886,157	928,471
Change in Net Position	146,305	148,353
Net Position, beginning of year, as restated (See Note 12)	(1,223,416)	(1,362,399)
Cumulative Effect of Change in Accounting Principle	-	(9,370)
Net Position, end of year	$ (1,077,111)	$ (1,223,416)

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 as of January 1, 2013 have been restated to reflect this new accounting pronouncement. Additionally, the previous year's net position has been restated to correct the amount of accrued interest previously reported. See Note 12 for additional information.

ENTITY-WIDE FINANCIAL ANALYSIS (continued)

The single most critical factor in the Authority's financial operations is sales tax revenue, which provided over 99% of the Authority's 2014 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.

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, 2014 was $1,026,900,000, a decrease of 4.12% from the prior year due to brutal winter weather conditions in 2014 and a surge in spending during 2013 that was attributable to the recovery from Superstorm Sandy. Investment income, excluding bond premium amortization of $5,040,000, accounts for the remaining Authority revenue, and totaled $488,000 in 2014, an increase of $331,000 from 2013.

Sales tax revenue of $1,026,900,000 provided 5.5 times the coverage of the Authority's 2014 debt service of approximately $184,905,000. 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 $186,878,000 of 2014 sales tax revenue for debt service and Authority operations, remitting the balance of $840,022,000 to Nassau County.

The Authority's baseline operating expenses were $1,453,000 and $1,712,000 for the years ended December 31, 2014 and 2013, respectively. The decrease in baseline operating expenses of $259,000 from 2013 to 2014 is primarily due to a change in actuarial assumptions, which led to an increase in other postemployment benefits ("OPEB") expense in 2013. Please refer to Note 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 $302,000 in 2014 and $587,000 in 2013 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 2014, the Authority received $34,000 in assistance from New York State to fund a portion of the control period legal expenses, a decrease of $76,000 from 2013 as the overall level of control expenses have decreased.

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, 2014, the Authority remitted $117,000 to the County from interest earnings.

Certain amounts in the 2013 condensed statement of activities and changes in net position have been reclassified to be consistent with the 2014 presentation.

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.

At December 31, 2014, the Authority's governmental funds reported total ending fund balances of $77,270,000, a decrease of $397,000 in comparison with the prior year. This change in total governmental fund balances resulted from expenditures exceeding revenues in the general fund by $22,000 and from expenditures exceeding revenues by $375,000 in the debt service fund. The total ending fund balances are categorized as follows:

- **Nonspendable fund balance** - $66,000 (inherently nonspendable) includes the portion of net resources that cannot be spent because they must be maintained intact.
- **Restricted fund balance** - $76,350,000 (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** - $854,000 (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 $16,080,000, decreasing $22,000 from the prior year. Of the $16,080,000, $15,160,000 is restricted for debt service and, in 2015, will be transferred to the debt service fund. Of the $1,026,900,000 of sales tax revenue, 81.80% or $840,022,000 was transferred to the County. During 2014, the general fund transferred $186,093,000 to the debt service fund. An additional $1,550,000 was used to pay for the operations of the Authority, as well as to fund the additional costs incurred in fulfilling its responsibilities under the control period. During the year ended December 31, 2013, the Authority benefited from a one-time receipt of $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 $61,190,000, of which all is restricted for debt service. During the year, the debt service fund received $186,093,000 from the general fund and it was used to fund $186,047,000 of debt service requirements. The accumulation of fund balance is a function of when the required debt service set asides are due versus the timing of the actual principal and interest paid to the bond holders.

DEBT ADMINISTRATION

At the end of the current year, NIFA has total sales tax secured bonded debt outstanding of $1,087,516,000. Of the total debt, $563,916,000 is subject to a fixed interest rate and $523,600,000 is subject to a variable interest rate which is hedged by associated interest rate swaps, effectively creating a fixed interest rate. During 2014, the Authority did not issue any debt, nor did it retire any debt other than the scheduled portion of existing debt.

DEBT ADMINISTRATION (continued)

Outstanding Debt (in thousands)

	Outstanding Principal Balance at January 1, 2014	Bond Issuance	Principal Retired	Outstanding Principal Balance at December 31, 2014	Total Interest Payments FY 2014
Sales tax secured bonds:					
Fixed Rate	$ 659,258	$ -	$ 95,342	$ 563,916	$ 34,447
Variable Rate Hedged	568,900		45,300	523,600	9,094
	$ 1,228,158	$ -	$ 140,642	$ 1,087,516	$ 43,541

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

In February 2015, the Authority negotiated an extension of the Liquidity Facility Agreement in the form of a Standby Bond Purchase Agreement ("SBPA") related to the 2008B 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.

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 was granted in one of the litigations, but the petitioners' motion for rehearing was denied as improperly filed.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

NASSAU COUNTY INTERIM FINANCE AUTHORITY
STATEMENT OF NET POSITION
December 31, 2014
(Dollars in Thousands)

Governmental Activities:		
Assets		
Unrestricted cash	$	645
Restricted cash		86
Restricted investments		46,306
Sales tax revenue receivable		116,932
State assistance receivable		10
Interest income receivable		54
Other assets		66
Total Assets		164,099
Deferred Outflows of Resources		
Deferred charges on refundings		17,674
Accumulated decrease in fair value of hedging derivatives		52,379
Total Deferred Outflows of Resources		70,053
Liabilities		
Accounts payable and accrued liabilities		3,897
Due to Nassau County - sales tax revenue		86,413
Due to Nassau County - interest income		17
Derivative instruments - interest rate swaps		52,379
Bonds payable:		
Due within one year		235,460
Due in more than one year		852,056
Unamortized bond premium		53,236
Other postemployment benefits payable		1,815
Accrued vacation and sick pay		263
Total Liabilities		1,285,536
Deferred Inflows of Resources		
Deferred amounts on refundings		25,727
Total Deferred Inflows of Resources		25,727
Net Position		
Unrestricted		(1,077,111)
Total Net Position	$	(1,077,111)

See notes to the financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
December 31, 2014
(Dollars in Thousands)

Governmental Activities:	
Expenses	
General and administrative	$ 1,453
Control period legal expenses	302
Bond interest and other debt service expenses	44,263
Distribution to Nassau County - general operations	117
Total Expenses	46,135
General Revenues	
Sales tax	1,026,900
Less: distributions to Nassau County	(840,022)
Investment income	5,528
State assistance - control period legal expenses	34
Total Sales Tax and Other General Revenues Retained	192,440
Change in Net Position	146,305
Net Position - Beginning of Year, as restated (See Note 12)	(1,223,416)
Net Position- End of Year	$ (1,077,111)

See notes to the financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2014
(Dollars in Thousands)

	General	Debt Service	Total (Governmental Funds)
Assets			
Unrestricted cash	$ 645	$ -	$ 645
Restricted cash	-	86	86
Restricted investments	-	46,306	46,306
Sales tax revenue receivable	116,932	-	116,932
State aid receivable	10	-	10
Interest income receivable	-	54	54
Due from other funds	-	15,157	15,157
Other assets	66	-	66
Total Assets	$ 117,653	$ 61,603	$ 179,256
Liabilities and Fund Balances			
Liabilities			
Accounts payable and accrued liabilities	$ 3	$ 396	$ 399
Due to Nassau County - sales tax revenue	86,413	-	86,413
Due to Nassau County - interest income	-	17	17
Due to other funds	15,157	-	15,157
Total Liabilities	101,573	413	101,986
Fund Balances			
Nonspendable:			
Prepaid items and other assets	66	-	66
Restricted for:			
Debt service	15,160	61,190	76,350
Unassigned, reported in:			
General fund	854	-	854
Total Fund Balances	16,080	61,190	77,270
Total Liabilities and Fund Balances	$ 117,653	$ 61,603	$ 179,256

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, 2014
(Dollars in Thousands)

Total Fund Balances - Governmental Funds	$	77,270
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Deferred outflows of resources not recorded in governmental funds		17,674
Liabilities that are not due and payable in the current period and accordingly are not reported in the governmental funds:		
Bonds payable		(1,087,516)
Unamortized bond premiums		(53,236)
Other postemployment benefits payable		(1,815)
Accrued vacation and sick pay		(263)
Accrued interest payable		(3,498)
Deferred inflows of resources not recorded in governmental funds		(25,727)
Net Position of Governmental Activities	$	(1,077,111)

See notes to the financial statements.

NASSAU COUNTY INTERIM FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
December 31, 2014
(Dollars in Thousands)

	General	Debt Service	Total (Governmental Funds)
Revenues			
Sales tax	$ 1,026,900	$ -	$ 1,026,900
State assistance	34	-	34
Investment income	-	488	488
Total Revenues	1,026,934	488	1,027,422
Expenditures			
General and administrative	1,331	-	1,331
Control period expenditures	302		302
Distribution to Nassau County for:			
Sales tax remittance	840,022		840,022
General operations	117	-	117
Debt service	-	186,047	186,047
Total Expenditures	841,772	186,047	1,027,819
Excess (Deficiency) of Revenues Over (Under) Expenditures	185,162	(185,559)	(397)
Other Financing Sources and (Uses)			
Transfers In	909	186,093	187,002
Transfer out	(186,093)	(909)	(187,002)
Total Other Financing Sources and (Uses)	(185,184)	185,184	-
Net Change in Fund Balances	(22)	(375)	(397)
Fund Balances			
Beginning of year, as restated (see Note 12)	16,102	61,565	77,667
End of Year	$ 16,080	$ 61,190	$ 77,270

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, 2014

(Dollars in Thousands)

Net Change in Fund Balances - Total Governmental Funds	$	(397)
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Net change in deferred outflows of resources not reported in the funds		(1,951)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Also the governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. Furthermore, changes in certain liabilities do not provide or use current financial resources. 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		140,642
Amortization of premiums on bond issued		5,040
Change in other postemployment benefits obligation and accrued vacation and sick pay		(122)
Accrued interest		683
Net change in deferred inflows of resources not reported in the funds		2,410
Change in Net Position of Governmental Activities	$	146,305

See notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Authority is governed by seven directors, each appointed by the Governor, including one each appointed upon the recommendation of the Majority Leader of the State Senate, the Speaker of the State Assembly, and the State Comptroller. The Governor also designates the chairperson and vice chairperson from among the directors. At present, the vice chairperson has not been designated.

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).

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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, as well as 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 balances and transactions:

- 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 resources that are restricted 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 governmental 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 Directors in November 2000. As of December 31, 2014, 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Cash and Investments (continued)

The Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Investments include government agency bonds, notes and certificates of deposit with a maturity of longer than three months. Short-term investments with maturities of three months or less, and nonmarketable securities, are recorded at cost. Marketable securities with maturities longer than three months are recorded at fair value and all investment income, including changes in fair value, is reported as revenue in the current period. Fair value is determined using quoted market values at December 31, 2014. In the statement of net position and 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 three months is reflected in the amount of the investment asset.

2. Receivables/Liabilities/Revenues

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 statement of net position and balance sheet as sales tax revenue receivable. Liabilities associated with the sales tax receivable, such as amounts due to Nassau County and due to debt service fund to fund debt service requirements, have been reflected in the Authority's financial statements. 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 distributions to Nassau County and transfers to fund debt service expenditures.

3. Other Assets

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

4. Capital Assets

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

5. 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 are the interest rate swap derivative instrument and deferred charges on debt refundings.

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, which consist of interest rate swap agreements, have been determined to be an effective hedge, are reported at fair value as of December 31, 2014. The recording of the derivative instrument is not expected to be recognized in investment income and therefore a corresponding deferred outflow of resources has been reported. A deferred loss 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.

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 and 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, which approximates the effective interest method, and are reported with the bonds payable. Bond issuance costs are recognized as expenditures/expenses as 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. As of December 31, 2014, there is no outstanding arbitrage rebate liability.

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 transfers to the debt service fund from the general fund to finance debt service expenditures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 earned but not paid vacation, holiday and sick leave and related expenses (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.

In 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." The Authority's unrestricted net position is negative in 2014.

It is the Authority's policy to consider using restricted before unrestricted resources.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

10. Net Position and Fund Equity Classifications (continued)

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) nonspendable, 2) restricted , 3) assigned, or 4) unassigned.

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

The spendable portion of the fund balance comprises the remaining three classifications: restricted, 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) Assigned fund balance reflects the amounts constrained by the Authority's "intent" to be used for specific purposes, but are neither restricted nor committed. The Directors of the Authority have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed.

4) Unassigned fund balance. This fund balance is the residual classification for the general fund. It is also used to report negative residual fund balances in other governmental funds.

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, as applicable.

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 – 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 as due.

Normally, the Authority receives sales tax remittances 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 that in its judgment, are required to maintain sufficient cash balances to fund other debt service expenditures such as professional and administrative fees as well as potential amounts due pursuant to the interest rate swap agreements. Additionally, the Authority withholds sufficient funds for its operations and operating reserves from the sales tax. Residual sales tax revenues and investment earnings are then transferred to the County.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, deferred outflows or resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities as of the dates of the financial statements. Estimates also affect the reported amounts of revenues and expenditures/expenses 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 GASB that are applicable. During the year ended December 31, 2014, NIFA adopted:

- GASB Statement No. 69, *Governmental Combinations and Disposals of Governmental Activities*
- GASB Statement No. 70, *Accounting and Reporting for Nonexchange Finance Guarantees*

GASB has issued 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. This Statement had no effect on the Authority's financial statements.

GASB has issued 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. This Statement had no effect on the Authority's financial statements.

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 and are summarized below for the year ended December 31, 2014:

- Of the $1,026,900,000 sales tax revenues recognized, the Authority distributed $840,022,000 to Nassau County. The remainder was retained for Authority debt service and operations.
- The distribution 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 2014, the Authority distributed $117,000 of interest income, resulting in a remaining accrual of $17,000 of interest due to the County.

3. CASH AND INVESTMENTS

Cash and investments held by the Trustee in the amount of $46,392,000 are restricted for debt service.

The following table summarizes the Authority's cash and investments as of December 31, 2014:

	(Dollars in thousands)		
	Held by Authority	Held by Trustee	Total
Cash	$ 645	$ 86	$ 731
Total cash	645	86	731
U.S. government and agency discount notes (maturities greater than three months)	-	46,306	46,306
Total marketable securities	-	46,306	46,306
Total cash and investments	$ 645	$ 46,392	$ 47,037

The following table summarizes the Authority's cash and investments by type as of December 31, 2014:

	Investment Maturities (Dollars in thousands)		
	Held by Authority	Held by Trustee	
	General Fund	Debt Service Fund	Total
Investment type:			
Cash	$ 645	$ 86	$ 731
U.S. government securities	-	2,107	2,107
Federal Home Loan Bank discount notes	-	44,199	44,199
Total	$ 645	$ 46,392	$ 47,037

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.

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

3. CASH AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits / Investments (continued)

At December 31, 2014, 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. All investments are in the name of the Authority and consist of obligations issued by the United States government or an agency of the United States and therefore 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 which is designed to protect deposits and investment principal by limiting permitted investments.

Interest Rate Risk – The risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's investments are relatively short-term investments (no longer than six months) based on the cash flow needs of the Authority. At investments held at December 31, 2014 mature at various times through May 15, 2015.

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.

All investments are held by NIFA's trustee bank solely as agent of Authority. All investments mature in less than six months.

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

As of December 31, 2014, the general fund owes the debt service fund $15,157,000 of sales tax revenue to cover debt service set aside requirements.

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

	(Dollars in thousands) Transfer In	Transfer Out
Debt Service Fund		
General Fund	$ 186,093	$ (909)
General Fund		
Debt Service Fund	909	(186,093)
	$ 187,002	$ (187,002)

5. LONG-TERM DEBT

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

	Balance 1/1/2014	Additions	Reductions	Balance 12/31/14	Due within One Year	Noncurrent
Bonds payable:						
Sales tax secured bonds payable	$ 1,228,158	$ -	$ (140,642)	$ 1,087,516	$ 235,460	$ 852,056
Premiums	58,276	-	(5,040)	53,236	5,040	48,196
Total bonds payable	1,286,434	-	(145,682)	1,140,752	240,500	900,252
OPEB liability	1,665	185	(35)	1,815	-	1,815
Compensated absences	291	-	(28)	263	-	263
	$ 1,288,390	$ 185	$ (145,745)	$ 1,142,830	$ 240,500	$ 902,330

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, 2014, the Authority had outstanding sales tax secured bonds in the amount of $1,087,516,000, maturing through the year 2025, of which $563,916,000 are fixed rate and $523,600,000 are hedged variable rate. Other than a possible refunding of its debt if market conditions permit, the Authority has no plans or authority to issue additional bonds, except to cover the costs of issuance incurred in connection with the refunding of its bonds.

Fixed Rate Bonds — The Authority has outstanding fixed rate bonds at rates ranging between 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.

5. LONG-TERM DEBT (continued)

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 at various dates between November 15, 2015 and November 15, 2021 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. At December 31, 2014, there is no arbitrage rebate liability.

Bonds are recorded at the principal amount outstanding and consist of the following at December 31, 2014:

	Dollars in thousands				
	Bond Par Issued	Balance at 1/1/2014	Additions	Retired	Balance at 12/31/2014
Sales Tax Secured Bonds, Series 2004H 2.15% to 5% serial bonds due through 2017	$ 187,275	$ 20,960	$ -	$ 20,150	$ 810
Sales Tax Secured Bonds Series 2005A 3.26% to 4.8% serial due through 2024	124,200	69,625	-	15,135	54,490
Sales Tax Secured Bonds Series 2005D 3.23% to 4.32% serial and term bonds due through 2022	143,795	31,470	-	15,265	16,205
Sales Tax Secured Variable Rate Bonds Series 2008A-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	318,900	-	45,300	273,600
Sales Tax Secured Bonds Series 2009A 1% to 5% serial bonds due through 2025	303,100	219,490	-	29,685	189,805
Sales Tax Secured Bonds Series 2012A 3% to 5% serial bonds due 2015 through 2025	141,580	141,580	-	-	141,580
Sales Tax Secured Bonds 2012B 0.688% to 2.822% serial bonds due 2014 through 2023	176,133	176,133	-	15,107	161,026
	$ 1,681,138	$ 1,228,158	$ -	$ 140,642	$ 1,087,516

*During 2014, the interest rate on the Variable Rate Bonds ranged from .02% to .13%.

5. LONG-TERM DEBT (continued)

The aggregate debt service to retire bonds outstanding at December 31, 2014, in the table below, reflects final maturities of principal and interest for all bonds. As noted above, the Authority is party to liquidity facility agreements/stand by purchase agreements in connection with the variable rate bonds. As the Authority has two liquidity facilities agreements that will expire during the year ending December 31, 2015, the amount of outstanding bonds associated with these two agreements has been included in the 2015 amortization amounts in the event, however unlikely, that such bonds will be unable to be remarketed and these agreement are not renewed or replaced. Accordingly, an additional $91,875,000 and $2,945,000 has been included in the 2015 principal and interest amortization amounts, respectively. The aggregate debt service to maturity, providing for the above scenario, as of December 31, 2014, is as follows (dollars in thousands):

Years Ending December 31,	Principal	Interest*	Total
2015	$ 235,460	$ 41,276	$ 276,736
2016	78,151	31,931	110,082
2017	99,066	27,944	127,010
2018	118,505	24,861	143,366
2019	125,270	20,821	146,091
2020-2024	409,224	45,465	454,689
2025	21,840	896	22,736
	$ 1,087,516	$ 193,194	$ 1,280,710

If the remaining liquidity facility agreements set to expire in 2016 through 2021 expired, and the related bonds were unable to be remarketed, and these agreements are not renewed or replaced, principal due would increase by $150,000,000 and $125,000,000 in 2016 and 2019, respectively.

Aggregate debt service to maturity, pursuant to the bond indenture agreements and assuming the variable rate bonds are remarketed, as of December 31, 2014, is as follows (dollars in thousands):

Years Ending December 31,	Principal	Interest*	Total
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	125,270	20,821	146,091
2020-2024	409,224	45,465	454,689
2025	21,840	896	22,736
	$ 1,087,516	$ 193,194	$ 1,280,710

*Interest on the variable rate bonds is calculated at the fixed payer rates on the associated interest rate swaps, actual results may vary.

At December 31, 2014, $34,030,000 of defeased bonds remains outstanding.

6. DERIVATIVE INSTRUMENTS – INTEREST RATE EXCHANGE SWAP AGREEMENTS

Derivative instruments, which consist of interest rate swap agreements ("Swaps"), have been reported at fair value as of December 31, 2014. 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 — The objectives of the Swaps are 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 in 2004.

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")

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

Fair Value — Replacement interest rates on the swaps, as of December 31, 2014, 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, 2014, 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, 2014, the total market-to-market valuation of NIFA's swaps, including accrued interest, was ($52,379,000). In the event that both parties continue to perform their obligations under the swap, there is not a risk of termination and neither party is required to make a termination payment to the other. NIFA is not aware of any event that would lead to a termination event with respect to any of its swaps.

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

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

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

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

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

Risks Associated with the Swap Agreements (continued)

- *Credit/Counterparty Risk* (continued)

The table shows the diversification, by percentage of notional amount outstanding at December 31, 2014, among the various counterparties that have entered into agreements with NIFA.

Counterparty:	Dollars in Millions	Notional Percentage
GSMMDP	$ 237	45.23%
UBS AG	237	45.23%
MSCS	50	9.54%
	$ 524	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.

- *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 London Inter-Bank Offered Rate ("LIBOR"), 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 increases.

- *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.

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

Risks Associated with the Swap Agreements (continued)

- *Termination Risk* (continued)

  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.

- *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, 2014, the aggregate fair value of all hedging derivative instrument agreements whose terms contain such collateral provisions is $52,379,000. 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-
  $12,703,000 in collateral to UBS AG.

- Baa1/BBB+
  $22,703,000 in collateral to UBS AG and $6,958,000 in collateral to MSCS.

- Baa2/BBB
  $12,717,000 in collateral to GSMMDP, $22,703,000 in collateral to UBS AG, and $6,958,000 in collateral to MSCS.

- Baa3/BBB-
  $22,717,000 in collateral to GSMMDP, $22,703,000 in collateral to UBS AG, and $6,958,000 in collateral to MSCS.

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

As of December 31, 2014, 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, 2014	$ 72,500,000	$ 72,500,000	$ 41,875,000	$ 72,500,000	$ 72,500,000	$ 41,725,000	$ 50,000,000	$ 50,000,000	$ 50,000,000	$ 523,600,000
Counterparty	GSMMDP	GSMMDP	GSMMDP	UBS AG	UBS AG	UBS AG	GSMMDP	UBS AG	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	Baa2/A-/A	A2/A/A	
Effective Date	April 8, 2004	April 8, 2004	April 8, 2004	April 8, 2004	April 8, 2004	April 8, 2004	December 9, 2004	December 9, 2004	December 9, 2004	
Maturity Date	November 15, 2024	November 15, 2024	November 15, 2016	November 15, 2024	November 15, 2024	November 15, 2016	November 15, 2025	November 15, 2025	November 15, 2025	
NIFA Pays	3.146 %	3.146 %	3.002 %	3.146 %	3.146 %	3.003 %	3.432 %	3.432 %	3.432 %	
Replacement Rate	1.551 %	1.154 %	0.605 %	1.155 %	1.154 %	0.618 %	1.396 %	1.396 %	1.396 %	
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	$ 96,238	$ 98,141	$ 1,550,127	$ 96,238	$ 98,141	$ 1,570,314	$ (972,075)	$ (972,075)	$ (972,075)	$ 592,974
As of December 31, 2014:										
Net Accrued	$ (290,915)	$ (288,811)	$ (151,136)	$ (290,915)	$ (288,811)	$ (146,604)	$ (212,564)	$ (212,564)	$ (212,564)	$ (2,094,884)
Net Present Value	(6,778,710)	(6,783,354)	(1,465,996)	(6,778,710)	(6,783,354)	(1,456,568)	(6,745,643)	(6,745,643)	(6,745,643)	(50,283,621)
Total Fair Value of Swap	$ (7,069,625)	$ (7,072,165)	$ (1,617,132)	$ (7,069,625)	$ (7,072,165)	$ (1,603,172)	$ (6,958,207)	$ (6,958,207)	$ (6,958,207)	$ (52,378,505)

(1) Moodys/S&P/Fitch.

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

Swap Payments and Associated Debt - Using rates as of December 31, 2014, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, is shown below. As rates change over time, variable-rate bond interest payments and net swap payments will change.

Variable Rate Debt and Swap Payments (in thousands):

Year Ending	Variable-Rate Bonds		Interest Rate	
December 31,	Principal	Interest	Swaps, Net	Total Payments
2015	$ 31,725	$ 130	$ 15,138	$ 46,993
2016	61,275	120	14,198	75,593
2017	57,675	101	12,560	70,336
2018	58,100	84	10,889	69,073
2019	90,875	65	9,058	99,998
2020-2024	215,100	109	16,741	231,950
2025	8,850	1	242	9,093
Total	$ 523,600	$ 610	$ 78,826	$ 603,036

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 employee 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 NYSERS 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.

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:

	Rounded to the nearest thousand		Percentage
	Annual Required Contribution	Total Payment	of Covered Payroll
2014	$ 93,000	$ 93,000	15.93%
2013	135,000	135,000	19.30%
2012	133,000	133,000	18.43%

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, 2014 and the impact of changes in GASB accounting rules applicable to the retiree medical benefits for retired employees and their eligible dependents. There are currently two plan participants receiving benefits.

The number of participants as of January 1, 2014, the date of the most recent actuarial valuation is as follows:

Active employees	5
Retired employees	2
Total	7

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

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

Summary of Changes in Actuarial Assumptions

Several changes to the actuarial assumptions were made to the January 1, 2013 actuarial valuation 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, 2014, the Authority's annual other postemployment benefits costs were $185,000. Considering the annual expense as well as the payment of current health insurance premiums, which totaled $35,000 for retirees, the result was an increase in other postemployment benefits liability of $150,000.

Benefit Obligations

The benefit obligations and normal cost are as follows:

Actuarial Accrued Liability ("AAL")	$ 1,815,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	1,815,000
Funded ratio	0%
Normal cost	112,000
Covered payroll	733,000
UAAL as a percentage of covered payroll	248%

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, 2014 amounted to $1,815,000.

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	$ 1,704,000
Normal cost	112,000
Interest on normal cost	34,000
Annual Required Contribution	1,850,000
Interest on Net OPEB obligation	62,000
Adjustment to annual required contribution	(1,727,000)
Annual OPEB expense	185,000
Contributions made	(35,000)
Increase in net OPEB obligation	150,000
Net OPEB obligation - beginning of year	1,665,000
Net OPEB obligation - end of year	$ 1,815,000

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 $1,815,000 as of December 31, 2014. 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
2014	$ 185,000	18.92%	$ 1,815,000
2013	492,000	5.28%	1,655,000
2012	82,000	20.80%	1,199,000

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, 2014 is as follows:

Actuarial Accrued Liability ("AAL")	$	1,815,000
Actuarial value of plan assets		-
Unfunded actuarial accrued liability		1,815,000
Funded ratio		0%
Normal cost		112,000
Covered payroll		732,000
UAAL as a percentage of covered payroll		248%

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, 2014, 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 $163,000 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 $100,000, 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.

9. COMPENSATED ABSENCES (continued)

The value of accrued unused leave has been recorded in the statement of net position (deficit). Management believes that sufficient resources will be made available for the payments of the accrued unused leave. As of December 31, 2014, the value of the accumulated vacation time, holiday time and sick leave was approximately $263,000.

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. The wage freeze was lifted on May 3, 2014 for four of Nassau County's five labor unions and on September 9, 2014 for the fifth labor union and for Nassau County's non-union employees. The five unions ratified new labor agreements at the time their respective wage freezes were lifted. NIFA will terminate the Control Period upon finding that no condition exists which would permit imposition of a Control Period. During 2014, NIFA incurred $302,000 of expenses directly related to fulfilling its expanded oversight responsibilities of the County during the control period.

12. RESTATEMENTS

A prior period adjustment is reported in the debt service fund and the entity-wide statements in the amount of $46,045,893 and $6,705,391, respectively. Previously, the Authority's practice was to accrue three months of debt service set asides. As the debt service is not considered currently due and payable at the governmental fund level no accrual is to be recorded. This resulted in an understatement of the debt service fund's fund balance. Also, the accrued interest liability in the statement of net position was previously based on the three months of interest set asides versus the amount of accrued but unpaid interest that has been accumulated since the last interest payment.

12. RESTATEMENTS (continued)

The effects of the restatement on fund balance and net position are as follows:

	Thousands January 1, 2014
Entity-Wide Governmental Activities	
Net position, as originally reported	$ (1,230,121)
Adjust for overstatement of accrued liabilities	6,705
Net position, as restated	(1,223,416)
Debt Service Fund	
Fund balance, as originally reported	15,519
Adjust for overstatement of accrued liabilities	46,046
Fund balance, as restated	$ 61,565

Accordingly, the Authority has restated the beginning of year debt service fund's fund balance in the accompanying statement of revenues, expenditures and changes in fund balances and the beginning of year net position in the statement of activities and changes in net position to correct these errors.

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 the GASB and are to be implemented in the year ending December 31, 2015:

GASB has issued Statement No. 68 *"Accounting and Financial Reporting for Pensions"*—an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The requirements of the new statement become effective for fiscal periods beginning after June 15, 2014.

GASB has issued Statement No. 71 *"Pension Transition for Contributions Made Subsequent to the Measurement date – an amendment of GASB Statement No. 68."* The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68 *"Accounting and Financial Reporting for Pensions."* The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement should be applied simultaneously with the provision of Statement No. 68.

14. PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE (continued)

The following statement has been issued by GASB and is to be implemented in the year ending December 31, 2016:

GASB has issued Statement No. 72 *"Fair Value Measurement and Application."* The objective of this Statement is to address accounting and financial reporting issues related to fair value measurements and to provide guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of the new statement become effective for fiscal periods beginning after June 15, 2015.

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, 2014

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%

Summary of Changes in Actuarial Assumptions

Several changes to the actuarial assumptions were made to the January 1, 2013 actuarial valuation 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.

McGladrey

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors
Nassau County Interim Finance Authority
Mineola, New York

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"), a component unit of the County of Nassau, New York, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 8, 2015. Our report included an emphasis of matter paragraph regarding a restatement for a correction of an error.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a deficiency in internal control, described below, that we consider to be a significant deficiency.

Finding 2014-01
A correction of an error in previously issued financial statements was necessary to conform with accounting principles generally accepted in the United States of America ("GAAP"). Previously, the Authority's practice was to accrue three months of debt service set asides as an accrued liability in the Debt Service Fund based on its bond indenture. However, in accordance with GAAP, unmatured principal and accrued interest are not recognized as a liability of a governmental fund until the amounts are due to be paid. This resulted in an understatement of the Debt Service Fund's fund balance. Also, the accrued interest liability in the Statement of Net Position was previously based on the three months of interest set asides versus the amount of interest that has been accumulated since the last interest payment (November 15th) through December 31st.

Accordingly, the Authority has restated the beginning of year Debt Service Fund's fund balance in the Statement of Revenues, Expenditures and Changes in Fund Balances and the beginning of year net position in the Statement of Activities and Changes in Net Position to correct these errors. A prior period adjustment was made in the Debt Service Fund and the entity-wide statements in the amount of $46,045,893 and $6,705,391, respectively.

Management's Response
Management has reviewed the restated presentation and is in agreement with the correction of the error.

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*.

The Authority's Response to Findings
The Authority's response to the finding identified in our audit has been described previously. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

McGladrey LLP

New York, New York
May 8, 2015