

**NASSAU COUNTY SEWER AND STORM  
WATER FINANCE AUTHORITY  
(Component Unit of Nassau County)  
FINANCIAL STATEMENTS**

Year Ended December 31, 2015

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RSM US LLP

## Independent Auditor's Report

To the Board of Directors  
Nassau County Sewer and Storm Water 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 Sewer and Storm Water Finance Authority (the "Authority"), a component unit of the County of Nassau, New York, as of and for the year ended December 31, 2015, 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, 2015, 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.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-8 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 March 29, 2016 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.

*RSM US LLP*

New York, New York  
March 29, 2016

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)  
Year Ended December 31, 2015  
(Dollars in Thousands)

As management of the Nassau County Sewer and Storm Water Finance Authority (the "Authority"), we offer readers of the financial statements this narrative overview and analysis of our financial activities for the year ended December 31, 2015. Reclassifications were made to the prior year's financial statements to conform to current year's presentation. Such reclassifications had no effect on changes in net position as previously reported. We encourage readers to consider the information presented here in conjunction with the financial statements.

The Authority was established in 2003 by the State of New York (the "State") under the Nassau County Sewer and Storm Water Finance Authority Act, codified as Title 10-D of Article 5 of the Public Authorities Law of the State, as a public benefit corporation. The Authority was established primarily to refinance outstanding sewer and storm water resources debt issued by or on behalf of Nassau County (the "County") and to finance future County sewer and storm water resources projects.

Pursuant to a financing and acquisition agreement dated March 1, 2004, by and between the Authority and the County (the "2004 Agreement"), the Authority had acquired all of the sewer and storm water resources infrastructure, buildings, equipment, and related assets, other than land, (the "System") of the County. The Authority made payments for the System in installments equal to the debt service requirements on outstanding bonds issued by or on behalf of the County (including bonds issued by the Nassau County Interim Finance Authority ("NIFA") on behalf of the County), originally issued to finance the System ("County Bonds"). The purchase price included any refinancing of County Bonds by the Authority. The 2004 Agreement was replaced and superseded by the 2014 Agreement (defined below).

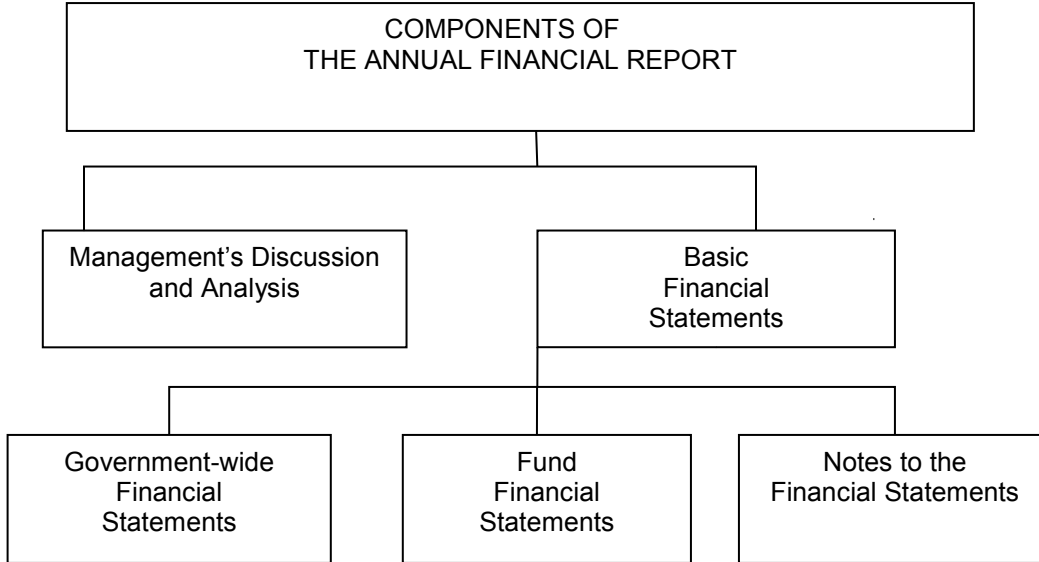
During the year ended December 31, 2014, pursuant to a financing agreement dated October 1, 2014, by and between the Authority and the County (the "2014 Agreement"), the Authority released the System to the County, effective as of the closing date of the 2014 Authority refunding bonds. As the 2014 Agreement no longer requires the Authority to pay County Bonds, the responsibility for making payments on County Bonds returned to the County at that time.

Most of the Authority's revenues are derived through the imposition, by the County, of assessments for sewer and storm water resources services. The County has directed each city and town receiver of taxes to remit all such assessments directly to the Trustee for the Authority's bonds. The Authority receives sufficient funds to service all Authority debt and pay its operating expenses, and then remits the remaining funds to the Nassau County Sewer and Storm Water Resources District (the "District"). The District is responsible for paying debt service on County Bonds (as of the 2014 Agreement) and the operational costs of the System.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)  
Year Ended December 31, 2015  
(Dollars in Thousands)

**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) government-wide financial statements, 2) fund financial statements and 3) notes to basic financial statements.



**Government-wide Financial Statements**

The government-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 reports all of the Authority's assets, liabilities, deferred outflows/inflows of resources, and net position. This combines and consolidates the Authority's current financial resources with capital assets and long-term obligations. The purpose of this statement is to give the reader an understanding of the Authority's total net worth.

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

**Fund Financial Statements**

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

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)**  
Year Ended December 31, 2015  
(Dollars in Thousands)

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

**Fund Financial Statements (continued)**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-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 government-wide and governmental fund statements.

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

**Notes to the Financial Statements**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The statement of net position details the assets, liabilities and deferred outflows/inflows of resources of the Authority based on their liquidity, utilizing current and noncurrent categories. The resulting net position, in this statement, is displayed as either net investment in capital assets, restricted or unrestricted. The Authority's liabilities exceeded its assets by \$165,384, net position (deficit) at the close of the most recent year.

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

**Condensed Statement of Net Position (Deficit)**  
**As of December 31st,**

**Governmental Activities:**

	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Current and other assets	\$ 4,060	\$ 1,471
Total Assets	4,060	1,471
<b>Deferred Outflows of Resources</b>		
Deferred charges on refundings	13,131	14,130
Total Deferred Outflows of Resources	13,131	14,130
<b>Liabilities</b>		
Current	12,252	7,089
Non-current	170,323	180,528
Total Liabilities	182,575	187,617
<b>Net Position (Deficit)</b>		
Restricted for debt service	3,826	-
Unrestricted	(169,210)	(172,016)
Total Net Position (Deficit)	\$ (165,384)	\$ (172,016)

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)**  
Year Ended December 31, 2015  
(Dollars in Thousands)

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

Current and other assets increased by \$2,589 during 2015; this was due to the increase in cash required to be held for future debt payments.

Deferred outflows of resources decreased by \$999 during 2015; this was due to the current year amortization of loss on refunding, due to the recognition of deferred charges on refunding in relation to the 2014 refunding bonds that were issued.

Total liabilities decreased by \$5,042 during 2015, primarily due to planned principal payments and amortization of the premiums.

Net deficit decreased by \$6,632, resulting in a net deficit at December 31, 2015 of \$165,384. The decrease in net deficit is primarily due to the decrease in amounts released to the County, debt interest expense, and depreciation.

**Condensed Statement of Activities**  
**For the Years Ended December 31st,**

**Governmental Activities**

**Revenues**

	<b>2015</b>	<b>2014</b>
Property taxes (sewer assessments)	\$ 123,314	\$ 117,271
Less: distribution to the District	(109,929)	(119,037)
Debt payments made directly by NIFA	-	4,856
Investment income	2	3
Total Revenues, net	13,387	3,093

**Expenses**

General government support	35	1,578
Depreciation	-	41,115
Interest expense	6,720	17,196
Loss on capital assets disposal	-	3
Total Expenses	6,755	59,892

**Special Item**

Release of capital assets, net of related debt to the County	-	(578,524)
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**Change in Net Position**

	6,632	(635,323)
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**Net Position (Deficit) at Beginning of Year**

	(172,016)	463,307
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**Net Position (Deficit) at End of Year**

	\$ (165,384)	\$ (172,016)
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Property taxes (sewer assessments) totaled \$123,314 for 2015, an increase of \$6,043 from the prior year.

Distributions to the District decreased from prior year due to the decrease in available cash, as the Authority was required to retain additional funds for future debt service payments. As per the 2014 Agreement, the Authority was no longer responsible to pay County debt or record capital assets, so debt payments made directly by NIFA, general government support, depreciation, interest expense, and release of capital assets, net of related debt to the County, all decreased as compared to prior year. During the year ended December 31, 2014, the Authority reported a special item charge from the release to the County of \$578,524, consisting of capital assets released during 2014 of \$911,641, and \$333,117 of its obligation for County Bonds.



**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)**  
Year Ended December 31, 2015  
(Dollars in Thousands)

**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, the spendable fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

The Authority does not have a legally adopted budget as per the definition provided by the GASB Comprehensive Implementation Guide.

**General Fund**

At the end of 2015, the total fund balance of the general fund was \$3,834, increasing \$3,708 from the prior year. Of the \$123,314 of sewer assessments collected, 89% (or \$109,929) was distributed to the District; the remaining amount was transferred to the debt service fund, retained for future debt service payments, or used to pay for the operations of the Authority.

**Debt Service Fund**

During the year, the debt service fund received \$9,644 from the general fund, which was used to pay debt service requirements for Authority bonds.

**DEBT ADMINISTRATION**

At the end of 2015, the Authority had total bonded debt outstanding of \$180,528 (including premiums).

**Outstanding Debt**

A summary of activity for the year ended December 31, 2015 is as follows:

	Balance 1/1/2015	Additions	Reductions	Balance 12/31/15
Revenue bonds payable:				
Series 2014A	\$ 155,765	\$ -	\$ (2,940)	\$ 152,825
Series 2014B	1,435	-	-	1,435
Subtotal	157,200	-	(2,940)	154,260
Premiums	28,255	-	(1,987)	26,268
Total bonds payable	<u>\$ 185,455</u>	<u>\$ -</u>	<u>\$ (4,927)</u>	<u>\$ 180,528</u>

At the end of 2015, the Authority's 2014A and 2014B bonds were rated AAA by Standard & Poor's and Aa3 by Moody's.

Additional information on the Authority's indebtedness is shown in note 5 to the financial statements.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)  
Year Ended December 31, 2015  
(Dollars in Thousands)

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the Authority's interested parties with an overview of the Authority's financial operations and financial condition. If you have any questions about this report or need additional information, contact the Nassau County Sewer and Storm Water Finance Authority, 1 West Street, 1<sup>st</sup> Floor, Mineola, New York 11501.

**BASIC FINANCIAL STATEMENTS**

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**GOVERNMENT-WIDE FINANCIAL STATEMENT**  
**STATEMENT OF NET POSITION (DEFICIT)**  
December 31, 2015  
(Dollars in Thousands)

<b>Assets</b>		
Cash and cash equivalents		\$ <u>4,060</u>
	Total Assets	<u>4,060</u>
<b>Deferred Outflows of Resources</b>		
Deferred charges on refundings		<u>13,131</u>
	Total Deferred Outflows of Resources	<u>13,131</u>
<b>Liabilities</b>		
Accrued interest on Authority Bonds		1,913
Due to County		134
Bonds payable:		
Due within one year		10,205
Due in more than one year		144,055
Unamortized bond premiums		<u>26,268</u>
	Total Liabilities	<u>182,575</u>
<b>Net Position (Deficit)</b>		
Restricted for debt service		3,826
Unrestricted		<u>(169,210)</u>
	Total Net Deficit	<u>\$ (165,384)</u>

See notes to the financial statements.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**GOVERNMENT-WIDE FINANCIAL STATEMENT**  
**STATEMENT OF ACTIVITIES**  
Year Ended December 31, 2015  
(Dollars in Thousands)

**Expenses:**

General government support	\$	35
Interest expense:		
Authority Bonds		6,720
		6,755
Total Expenses		6,755

**Revenues**

Property taxes (sewer assessments)		123,314
Less: distribution to the District		(109,929)
Investment Income		2
		13,387
Total Revenues, net		13,387

		6,632
Changes in Net Position		6,632

<b>Net Deficit at Beginning of Year</b>		(172,016)
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	\$	(165,384)
<b>Net Deficit - End of Year</b>		<b>(165,384)</b>

See notes to the financial statements.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
December 31, 2015  
(Dollars in Thousands)

	General	Debt Service	Total (Governmental Funds)
<b>Assets</b>			
Cash and cash equivalents	\$ 3,968	\$ 92	\$ 4,060
Total Assets	\$ 3,968	\$ 92	\$ 4,060
<b>Liabilities</b>			
Due to County	\$ 134	\$ -	\$ 134
Total Liabilities	134	-	134
<b>Fund Balances</b>			
Restricted for debt service	3,734	92	3,826
Unassigned	100	-	100
Total Fund Balances	3,834	92	3,926
Total Liabilities and Fund Balances	\$ 3,968	\$ 92	\$ 4,060

See notes to the financial statements.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION (DEFICIT)**  
December 31, 2015  
(Dollars in Thousands)

<b>Total Fund Balances - Governmental Funds</b>	\$	3,926
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Deferred charges that are included in the Statement of Net Position		13,131
Long-term liabilities are not due and payable in the current period, and accordingly, are not reported in the funds:		
Authority bonds payable		(180,528)
Accrued interest		(1,913)
		(182,441)
<b>Net Position (Deficit) of Governmental Activities</b>	<b>\$</b>	<b>(165,384)</b>

See notes to the financial statements.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
Year Ended December 31, 2015  
(Dollars in Thousands)

	General	Debt Service	Total (Governmental Funds)
<b>Revenues</b>			
Property taxes (sewer assessments)	\$ 123,314	\$ -	\$ 123,314
Investment Income	2	-	2
Total Revenues	<u>123,316</u>	<u>-</u>	<u>123,316</u>
<b>Expenditures</b>			
General government support	35	-	35
Distribution to the District	109,929	-	109,929
Debt service:			
Principal	-	2,940	2,940
Interest	-	6,704	6,704
Total Expenditures	<u>109,964</u>	<u>9,644</u>	<u>119,608</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>13,352</u>	<u>(9,644)</u>	<u>3,708</u>
<b>Other Financing Sources (Uses)</b>			
Transfer out	(9,644)	-	(9,644)
Transfer in	-	9,644	9,644
Total Other Financing Sources (Uses)	<u>(9,644)</u>	<u>9,644</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	3,708	-	3,708
<b>Fund Balances - Beginning of year</b>	<u>126</u>	<u>92</u>	<u>218</u>
<b>Fund Balances - End of Year</b>	<u>\$ 3,834</u>	<u>\$ 92</u>	<u>\$ 3,926</u>

See notes to the financial statements.



**NASSAU COUNTY SEWER AND STORM WATER 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**  
Year Ended December 31, 2015  
(Dollars in Thousands)

**Net Change in Fund Balances - Total Governmental Funds** \$ 3,708

Amounts reported for governmental activities in the statement of activities are different because:

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of gains or losses on refundings, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

The following amounts are the net effect of these differences in the treatment of long-term debt and related items:

Principal payments of bonds	2,940
Accrued interest payable and amortization of deferred charges on refundings	(2,003)

Government funds reports premium on debt issued as other financing sources.

However, in the statement of activities, the premium on debt issued is amortized over the life of the related debt	1,987
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<b>Changes in Net Position of Governmental Activities</b>	<b>\$ 6,632</b>
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See notes to the financial statements.

**NOTES TO FINANCIAL STATEMENTS**

# NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

(Dollars in Thousands)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Nassau County Sewer and Storm Water Finance Authority (the "Authority") is a public benefit corporation created by the Nassau County Sewer and Storm Water Finance Authority Act, codified as Title 10-D of Article 5 of the Public Authorities Law of the State of New York (the "Act") in 2003. Although legally separate and independent of Nassau County (the "County"), the Authority is a component unit of the County and, accordingly, is included in the County's financial statements. Additional information regarding the County can be found in the County's CAFR, which can be obtained by contacting the Nassau County Comptroller's Office at 240 Old Country Road, Mineola, NY 11501.

The Authority is governed by seven board members, each appointed by the County Executive of the County with confirmation by the County legislature. Each member serves a three-year term without compensation. For the year ended December 31, 2015, one position was vacant.

The Authority was established to finance future county sewer and storm water resources projects, as well as to refinance outstanding sewer and storm water resources debt issued by or on behalf of the County, up to \$350,000.

The Nassau County Interim Finance Authority ("NIFA") has certain limited authority under Title 1 of Article 10-D of the N.Y. Public Authorities Law (the "NIFA Act") to monitor and oversee the finances of the County and covered organizations such as the Authority, and upon the declaration of a "control period" as defined in the NIFA Act, additional oversight authority.

Pursuant to a Financing and Acquisition Agreement dated as of March 1, 2004 (the "2004 Agreement"), the County sold and released to the Authority the County's sewer and storm water resources facilities, buildings, equipment, and related assets, other than land (the "System"). The Authority made payments for the System in installments equal to the County's debt service requirements on the bonds, then outstanding, issued for the System, including bonds issued by the County and NIFA on behalf of the County ("County Bonds"). The payments were made at the time bonds were issued to refund County Bonds, and as necessary for purposes of permitting the County to satisfy debt service on such County Bonds payable until so refunded, or if not refunded, until maturity. Although the System was released to the Authority, responsibility for paying for the operations of the System remained with the Nassau County Sewer and Storm Water Resources District (the "District").

Additionally, pursuant to the 2004 Agreement, the County agreed to release and the Authority agreed to acquire, any additional System facilities, which became part of the System (at the time the project was completed), including those facilities financed by obligations of the County or NIFA after the 2004 closing date; and, the Authority paid debt service on such new County Bonds in the same manner and time set forth above for the payment of County Bonds. Additionally, the County agreed that, during the term of the 2004 Agreement, it would not sell, lease, mortgage or otherwise give up or encumber the real property upon which the facilities are situated.

The 2004 Agreement was replaced and superseded by the 2014 Agreement (defined below).

During the year ended December 31, 2014, pursuant to a financing agreement dated October 1, 2014, by and between the Authority and the County (the "2014 Agreement"), the Authority released the System to the County, effective as of the closing date of the 2014 Authority refunding bonds. As the 2014 Agreement no longer requires the Authority to pay County Bonds, the responsibility for making payments on County Bonds returned to the County at that time.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2015

(Dollars in Thousands)

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

Most of the Authority's revenues are derived through the imposition, by the County, of assessments for sewer and storm water resources services. The County has directed each city and town receiver of taxes to remit all such assessments directly to the Trustee for the Authority's bonds. The Authority receives funds to service all Authority debt and pay its operating expenses; the remaining funds are remitted to the District. The District is responsible for paying debt service on County Bonds (as of the 2014 Agreement) and the operational costs of the System.

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. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

**Government-Wide Financial Statements**

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

**Fund Financial Statements**

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

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

Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. These Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2015  
(Dollars in Thousands)

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

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

**Fund Financial Statements** (continued)

The Authority uses the following governmental funds to report its activities:

- The general fund accounts for sewer assessments and other revenues received by the Authority for its general operating expenses, transfers to the debt service fund to pay debt service as it comes due, and distributions to the District.
- The debt service fund is used to account for and report financial resources that are for principal and interest payments, and for financial resources that are being accumulated for principal and interest in future years.

The Authority does not have a legally adopted budget as per the definition provided by the GASB Comprehensive Implementation Guide.

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of year end. Revenue susceptible to accrual generally includes investment income. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest are recognized as expenditures when due.

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

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2015  
(Dollars in Thousands)

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

**C. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, AND FUND EQUITY**

**1. Cash, Cash Equivalents and Investments**

The Authority invests in accordance with the applicable law, authorizing resolutions, and the Authority's investment guidelines. As of December 31, 2015, the Authority held cash and money market accounts. All bank deposits of the Authority are required to be fully collateralized or insured. The money market accounts are recorded at cost, which approximates fair value.

The Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Investments are recorded at fair value, which includes accrued interest receivable. Fair value is determined using quoted market values at December 31, 2015. There are no investments at December 31, 2015.

**2. Capital Assets**

During 2014, pursuant to the 2014 Agreement, the Authority released all of the System assets to the County, effective as of November 18, 2014 (the closing date of the 2014 Authority refunding bonds). Therefore, there were no capital asset activities for the year ended December 31, 2015.

**3. Deferred Outflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that is applicable to future period(s) and therefore will not be recognized as an outflow of resources (expense) until that time. The Authority reports deferred outflows for deferred charges on refunding which totaled \$13,131 that will be recognized in future periods.

**4. Long-Term Obligations**

Liabilities for long-term obligations consisting of amounts due for the Authority's revenue bonds are reported in the government-wide financial statement of net position. Bond premiums and discounts are capitalized and amortized over the lives of the related debt issues using the straight-line method, which approximates the effective interest method, and netted with long-term debt in the government-wide financial statements. Issuance costs are expensed when 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. Debt principal payments are reported as debt service expenditures.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2015  
(Dollars in Thousands)

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

**C. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, AND FUND EQUITY**  
(continued)

**5. Interfund Transactions**

Interfund transactions and balances have been eliminated from the government-wide financial statements. In the funds statements, interfund transactions consist of transfers to the debt service fund from the general fund to finance the required debt service costs.

**6. Net Position and Fund Equity Classifications**

The net position in the government-wide financial statements is displayed in three components:

- a) Net investment in capital assets — consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The Authority had no items meeting this component at December 31, 2015.
- b) Restricted net position — consists of net position with constraints placed on the use of such, either by: (1) external groups such as creditors, grantors or contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) Unrestricted net position — all other net position that does not meet the definition of “restricted” or “net investment in capital assets.” A deficit will require future funding.

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) committed, 4) assigned, or 5) unassigned.

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

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

- 2) Restricted fund balance reflects the constraints imposed on resources either: (a) externally by creditors, grantors or contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2015  
(Dollars in Thousands)

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

**C. ASSETS, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, LIABILITIES, AND FUND EQUITY** (continued)

**6. Net Position and Fund Equity Classifications** (continued)

- 3) Committed fund balance reflects amounts that can only be used for specific purposes by a government using its highest and most binding level of decision making authority. The Authority is not empowered to establish law; accordingly, the Authority will not have committed fund balances.
- 4) Assigned fund balance reflects the amounts constrained by the Authority's "intent" to be used for specific purposes, but are neither restricted nor committed. The members 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 not restricted.
- 5) Unassigned fund balance. This fund balance is the residual classification for the general fund. It is also used to report negative fund balances in other governmental funds.

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

**D. REVENUES AND EXPENDITURES/EXPENSES**

Interest expense is recognized on the accrual basis of accounting in the government-wide financial statements. In the governmental fund statements, interest expenditures are recognized when due.

In accordance with the 2014 Agreement, property taxes (sewer assessments) are collected by the city and town receivers of taxes, and the County has directed them to remit all such assessments directly to the Authority's Trustee. The Authority receives funds to service its debt and pay its operating expenses, then remits remaining funds to the District. The District is responsible for paying all of the operational costs of the System.

**E. USE OF ESTIMATES**

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



**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2015  
(Dollars in Thousands)

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

**F. NEW ACCOUNTING PRINCIPLES**

The Authority has adopted all of the current statements of the GASB that are applicable. The implementation of these GASBs had no impact on the financial statements.

GASB issued Statement No. 72, *Fair Value Measurement and Application*. GASB 72 addresses accounting and financial reporting issues related to fair value measurements and provides 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 the Authority for the year ended December 31, 2016.

GASB has issued Statement No. 77 "Tax Abatement Disclosures". The objective of this Statement is to provide additional disclosures in financial statements prepared by state and local governments in conformity with GAAP, and provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. The requirements of the new statement become effective for the Authority for the year ended December 31, 2016.

The Authority is currently evaluating the impact of the above pronouncements.

**G. SUBSEQUENT EVENTS**

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

**2. TRANSACTIONS WITH AND ON BEHALF OF RELATED ENTITIES**

**A. NASSAU COUNTY**

The Act and other legal documents of the Authority establish various financial relationships between the Authority and the County, which includes the District.

The legal documents of the Authority require revenue remaining after application of amounts needed to fund debt service requirements and operations of the Authority be remitted to the County (on behalf of the District). During the year ended December 31, 2015, the Authority remitted \$109,929 to the County (on behalf of the District).

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2015  
(Dollars in Thousands)

**3. CASH AND CASH EQUIVALENTS**

The following table summarizes the Authority’s cash and cash equivalents held by the Authority’s Trustee as of December 31, 2015:

Cash	\$	92
Money Market Fund		3,968
Total Cash and Cash Equivalents	\$	4,060

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

Deposits are to be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are either:

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

At December 31, 2015, the Authority’s cash and cash equivalents balance was fully covered by the Federal Deposit Insurance Corporation and/or collateralized. All cash and cash equivalents are held by the Authority’s Trustee solely as agent of the Authority.

As of December 31, 2015, the Authority did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

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

During the year ended December 31, 2015, the general fund transferred \$9,644 to the debt service fund for payment of principal and interest on debt.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2015  
(Dollars in Thousands)

**5. LONG-TERM DEBT**

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

	Balance 1/1/2015	Additions	Reductions	Balance 12/31/15	Due within One Year	Non-current
Revenue bonds payable:						
Series 2014A	\$ 155,765	\$ -	\$ (2,940)	\$ 152,825	\$ 8,770	\$ 144,055
Series 2014B	1,435	-	-	1,435	1,435	-
Subtotal	157,200	-	(2,940)	154,260	10,205	144,055
Premiums	28,255	-	(1,987)	26,268		26,268
Total bonds payable	<u>\$ 185,455</u>	<u>\$ -</u>	<u>\$ (4,927)</u>	<u>\$ 180,528</u>	<u>\$ 10,205</u>	<u>\$ 170,323</u>

Authority Bonds

Based on the 2014 Agreement, the County is required to levy assessments and/or impose charges each year of no less than 200% of that fiscal year's debt service payment requirements over the life of the debt. The 2014 General Revenue Bond Resolution, dated October 1, 2014, requires that the Authority pledge those revenues to the debt service payments.

Aggregate debt service to maturity for Authority Bonds as of December 31, 2015, excluding premiums, is as follows:

Years Ending December 31,	Principal	Interest	Total
2016	\$ 10,205	\$ 7,651	\$ 17,856
2017	10,345	7,203	17,548
2018	10,815	6,686	17,501
2019	11,370	6,145	17,515
2020	11,795	5,576	17,371
2021-2025	57,600	18,671	76,271
2026-2030	32,685	6,189	38,874
2031-2034	9,445	1,210	10,655
	<u>\$ 154,260</u>	<u>\$ 59,331</u>	<u>\$ 213,591</u>

Prior year defeasance of debt - In 2014, the Authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payment on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At December 31, 2015, there were \$106,465 in outstanding bonds considered defeased.

**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 Sewer and Storm Water 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 the Nassau County Sewer and Storm Water Finance Authority (the "Authority"), a component unit of the County of Nassau, New York, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 29, 2016.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*RSM US LLP*

New York, New York  
March 29, 2016