

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

Year Ended December 31, 2014

TABLE OF CONTENTS

| | <u>Page No.</u> |
|---|-----------------|
| Independent Auditor's Report | 1-2 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited) | 3-8 |
| BASIC FINANCIAL STATEMENTS: | |
| Government-Wide Financial Statements: | |
| Statement of Net Position (Deficit) | 9 |
| Statement of Activities | 10 |
| Governmental Funds Financial Statements: | |
| Balance Sheet | 11 |
| Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position (Deficit) | 12 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances | 13 |
| Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities and Changes in Net Position | 14 |
| Notes to Financial Statements | 15-25 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 26-27 |



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 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, 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.

Other Matters

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 June 29, 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.

The image shows a handwritten signature in cursive script that reads "McGladrey LLP". The signature is written in black ink and is positioned to the left of the date and location text.

New York, New York
June 29, 2015

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
Year Ended December 31, 2014
(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, 2014. 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).

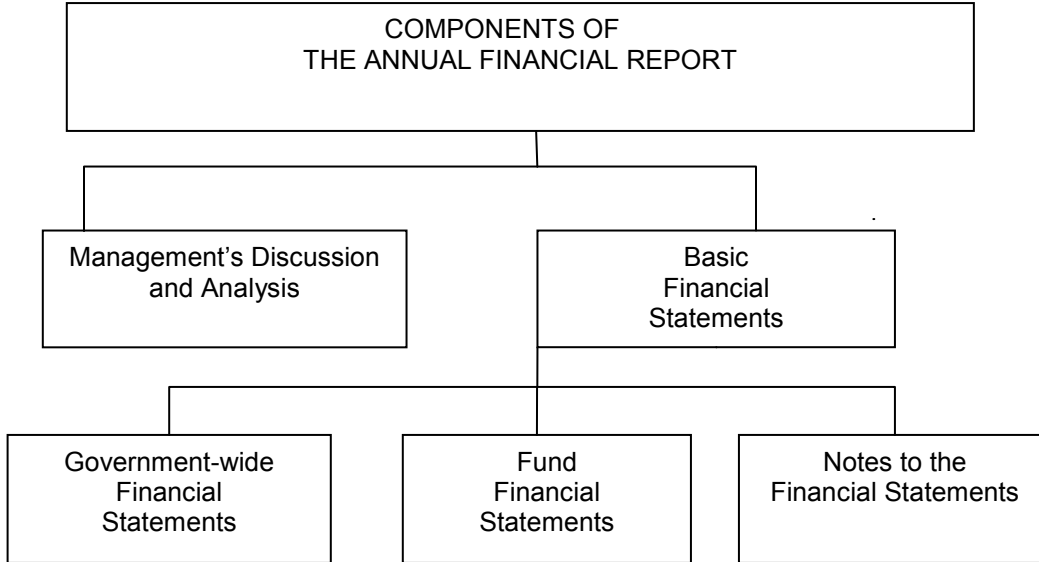
Pursuant to a financing agreement dated October 1, 2014, by and between the Authority and the County (the "2014 Agreement"), the Authority released the System to the County, effective as of the closing date of the 2014 Authority refunding bonds. As the 2014 Agreement no longer requires the Authority 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, pay its operating expenses and remit 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, 2014
(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, 2014
(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 \$172,016, 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:

| | 2014 | 2013 |
|---------------------------------------|---------------------|-------------------|
| Assets | | |
| Current and other assets | \$ 1,471 | \$ 8,389 |
| Capital assets | - | 952,759 |
| Total Assets | <u>1,471</u> | <u>961,148</u> |
| Deferred Outflows of Resources | | |
| Deferred charges on refundings | 14,130 | - |
| Total Deferred Outflows of Resources | <u>14,130</u> | <u>-</u> |
| Liabilities | | |
| Current | 7,089 | 32,985 |
| Non-current | 180,528 | 464,856 |
| Total Liabilities | <u>187,617</u> | <u>497,841</u> |
| Net Position (Deficit) | | |
| Net investment in capital assets | - | 458,748 |
| Restricted | - | 1,108 |
| Unrestricted | (172,016) | 3,451 |
| Total Net Position (Deficit) | <u>\$ (172,016)</u> | <u>\$ 463,307</u> |

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
Year Ended December 31, 2014
(Dollars in Thousands)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Current and other assets decreased by \$6,918 during 2014; this was due to the additional distribution of cash to the County as per the changes in the 2014 Agreement, which required less to be withheld at year end to cover debt service requirements.

Capital assets decreased by \$952,759 during 2014; this was due to the release of assets to the County as per the 2014 Agreement.

Deferred outflows of resources increased by \$14,130 during 2014; this was due to the recognition of deferred charges on refunding in relation to the 2014 refunding bonds that were issued.

Total liabilities decreased by \$310,224 during 2014, primarily due to the release of County Bonds to the County as per the 2014 Agreement.

Net position decreased by \$635,323 resulting in a net position (deficit) at December 31, 2014 of (\$172,016). The decrease in net position is primarily due to the increase in amounts released to the County (as per the 2014 Agreement) and expenses exceeding revenues.

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

Governmental Activities

Revenues

| | 2014 | 2013 |
|---|-------------|-------------|
| Property taxes (sewer assessments) | \$ 117,271 | \$ 117,275 |
| Less: distribution to the District | (119,037) | (73,790) |
| Debt payments made directly by NIFA | 4,856 | 5,223 |
| Federal aid | - | 1,108 |
| Investment income, net and amortization of premiums | 377 | 150 |
| Total Revenues, net | 3,467 | 49,966 |

Expenses

| | | |
|---------------------------------|--------|--------|
| General government support | 1,578 | 171 |
| Depreciation | 41,115 | 46,371 |
| Interest expense | 17,570 | 20,051 |
| Loss on capital assets disposal | 3 | - |
| Total Expenses | 60,266 | 66,593 |

Special Item

| | | |
|--|-----------|----------|
| Release of capital assets, net of related debt to the County | (578,524) | (97,255) |
|--|-----------|----------|

Decrease in Net Position

| | | |
|--|-----------|-----------|
| | (635,323) | (113,882) |
|--|-----------|-----------|

Net Position at Beginning of Year

| | | |
|--|---------|---------|
| | 463,307 | 577,189 |
|--|---------|---------|

Net Position (Deficit), end of year

| | | |
|--|--------------|------------|
| | \$ (172,016) | \$ 463,307 |
|--|--------------|------------|

Property taxes (sewer assessments) totaled \$117,271 for 2014, a decrease of \$4 from the prior year.

Distributions to the District and release of capital assets, net of related debt, to the County increased over prior year due to the distribution of available cash to the District, the distribution of a portion of the proceeds from the 2014 refunding bonds and the release of the assets net of the County Bonds to the County, as per the 2014 Agreement.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
Year Ended December 31, 2014
(Dollars in Thousands)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Depreciation and interest expense are the most significant ordinary expenses of the Authority. Depreciation decreased \$5,256 from the prior year due to part year depreciation as compared to prior year, in relation to the release of the assets. Interest expense decreased by \$2,481 from the prior year due to release of County Bonds.

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.

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 2014, the total fund balance of the general fund was \$126, decreasing \$8,263 from the prior year. Of the \$117,271 of sewer assessments collected, 69% or \$81,254 was distributed to the District; the remaining amount was transferred to the debt service fund or used to pay for the operations of the Authority.

Debt Service Fund

During the year, the debt service fund received \$44,217 from the general fund which was used to fund debt service requirements (including Authority bonds and County Bonds) and N.Y. State Environmental Facilities Corporation (EFC) fees.

During the year the Authority issued bonds to refund the 2004B and the 2008A Authority bonds and provide proceeds for various County sewer and storm water projects. See note 6 for more detail.

CAPITAL ASSETS

Capital improvements are made by the County throughout the course of the year and are primarily funded by the issuance of long-term debt. In 2014, the Authority added approximately \$45 in capital assets. Pursuant to the 2014 Agreement, the Authority released all of the System assets to the County, effective as of the closing date of the 2014 Authority refunding bonds.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
Year Ended December 31, 2014
(Dollars in Thousands)

DEBT ADMINISTRATION

At the end of 2014, the Authority had total bonded debt outstanding of \$185,455 (including premiums). Additionally, the Authority released obligated bonds of \$333,117 to the County.

Outstanding Debt

A summary of activity for the year ended December 31, 2014 is as follows:

| | Balance 1/1/2014 | Additions | Reductions | Released to County | Balance 12/31/14 |
|--|---------------------|-------------------|---------------------|-----------------------|---------------------|
| Revenue bonds payable: | | | | | |
| Series 2008A | \$ 120,840 | \$ - | \$ (120,840) | \$ - | \$ - |
| Series 2004B | 18,000 | - | (18,000) | - | - |
| Series 2014A | - | 155,765 | - | - | 155,765 |
| Series 2014B | - | 1,435 | - | - | 1,435 |
| Subtotal | 138,840 | 157,200 | (138,840) | - | 157,200 |
| Premiums | 1,718 | 28,504 | (1,967) | - | 28,255 |
| Total bonds payable | 140,558 | 185,704 | (140,807) | - | 185,455 |
| Due to the County for acquisition of the System | 353,453 | - | (20,336) | (333,117) | - |
| | <u>\$ 494,011</u> | <u>\$ 185,704</u> | <u>\$ (161,143)</u> | <u>\$ (333,117)</u> | <u>\$ 185,455</u> |

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

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

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, 1st 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, 2014
(Dollars in Thousands)

Assets

| | | |
|---------------------------|----|--------------|
| Cash and cash equivalents | \$ | 1,445 |
| Due from the County | | 26 |
| Total Assets | | <u>1,471</u> |

Deferred Outflows of Resources

| | | |
|---|--|---------------|
| Deferred charges on refundings | | <u>14,130</u> |
| Total Deferred Outflows of Resources | | <u>14,130</u> |

Liabilities

| | | |
|-------------------------------------|--|----------------|
| Accrued expenses | | 120 |
| Accrued interest on Authority Bonds | | 909 |
| Due to County | | 1,133 |
| Bonds payable: | | |
| Due within one year | | 4,927 |
| Due in more than one year | | <u>180,528</u> |
| Total Liabilities | | <u>187,617</u> |

Net Position (Deficit)

| | | |
|--------------------------|-----------|-------------------------|
| Unrestricted | | <u>(172,016)</u> |
| Total Net Deficit | \$ | <u><u>(172,016)</u></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, 2014
(Dollars in Thousands)

Expenses:

| | | |
|---------------------------------|----|--------|
| General government support | \$ | 1,578 |
| Depreciation | | 41,115 |
| Interest expense: | | |
| Authority Bonds | | 6,904 |
| County Bonds | | 10,666 |
| Loss on capital assets disposal | | 3 |

| | | |
|--|--|--------|
| | | 60,266 |
|--|--|--------|

Revenues

| | | |
|---|--|-----------|
| Property taxes (sewer assessments) | | 117,271 |
| Less: distribution to the District | | (119,037) |
| On-behalf payments for debt service | | 4,856 |
| Investment Income, net and amortization of premiums | | 377 |

| | | |
|--|--|-------|
| | | 3,467 |
|--|--|-------|

Special Item

| | | |
|--|--|-----------|
| Release of capital assets, net of related debt to the County | | (578,524) |
|--|--|-----------|

| | | |
|--|--|-----------|
| | | (635,323) |
|--|--|-----------|

| | | |
|--|--|---------|
| Net Position at Beginning of Year | | 463,307 |
|--|--|---------|

| | | |
|--|--|--------------|
| | | \$ (172,016) |
|--|--|--------------|

See notes to the financial statements.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
GOVERNMENTAL FUNDS
BALANCE SHEET
December 31, 2014
(Dollars in Thousands)

| | General | Debt Service | Total (Governmental Funds) |
|--------------------------------------|----------|-----------------|----------------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 1,233 | \$ 212 | \$ 1,445 |
| Due from County | 26 | - | 26 |
| Total Assets | \$ 1,259 | \$ 212 | \$ 1,471 |
| Liabilities | | | |
| Accrued expenses | \$ - | \$ 120 | \$ 120 |
| Due to County | 1,133 | - | 1,133 |
| Total Liabilities | 1,133 | 120 | 1,253 |
| Liabilities and Fund Balances | | | |
| Restricted | - | 92 | 92 |
| Unassigned | 126 | - | 126 |
| Total Fund Balances | 126 | 92 | 218 |
| Total Liabilities and Fund Balances | \$ 1,259 | \$ 212 | \$ 1,471 |

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, 2014
(Dollars in Thousands)

| | | |
|---|----|-----|
| Total Fund Balances - Governmental Funds | \$ | 218 |
|---|----|-----|

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

| | | |
|--|--|--------|
| Deferred charges included in the Statement of Net Position | | 14,130 |
|--|--|--------|

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

| | | |
|-------------------------|--|-----------|
| Authority bonds payable | | (185,455) |
| Accrued interest | | (909) |

| | | |
|--|-----------|------------------|
| Net Position (Deficit) of Governmental Activities | \$ | (172,016) |
|--|-----------|------------------|

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, 2014
(Dollars in Thousands)

| | <u>General</u> | <u>Debt Service</u> | <u>Total (Governmental Funds)</u> |
|--|-----------------|-------------------------|---|
| Revenues | | | |
| Property taxes (sewer assessments) | \$ 117,271 | \$ - | \$ 117,271 |
| Investment Income, net | 3 | - | 3 |
| Total Revenues | <u>117,274</u> | <u>-</u> | <u>117,274</u> |
| Expenditures | | | |
| General government support | 66 | 125 | 191 |
| Distribution to the District | 81,254 | 66,494 | 147,748 |
| Debt service | | | |
| Principal | - | 25,160 | 25,160 |
| Interest | - | 7,096 | 7,096 |
| Debt issuance cost | - | 1,419 | 1,419 |
| Total Expenditures | <u>81,320</u> | <u>100,294</u> | <u>181,614</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>35,954</u> | <u>(100,294)</u> | <u>(64,340)</u> |
| Other Financing Sources (Uses) | | | |
| Transfer out | (44,217) | - | (44,217) |
| Transfer in | - | 44,217 | 44,217 |
| Bond proceeds | - | 157,200 | 157,200 |
| Premiums | - | 28,504 | 28,504 |
| Payments to escrow for refunding | - | (129,535) | (129,535) |
| Total Other Financing Sources (Uses) | <u>(44,217)</u> | <u>100,386</u> | <u>56,169</u> |
| Net Change in Fund Balances | (8,263) | 92 | (8,171) |
| Fund Balances - Beginning of year | <u>8,389</u> | <u>-</u> | <u>8,389</u> |
| Fund Balances - End of Year | <u>\$ 126</u> | <u>\$ 92</u> | <u>\$ 218</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, 2014
(Dollars in Thousands)

Net Change in Fund Balances - Total Governmental Funds **\$ (8,171)**

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, premiums, discounts, 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:

| | |
|--|-----------|
| Proceeds from sale of bonds | (157,200) |
| Principal payments of bonds and payments for refunded bonds | 171,588 |
| Principal payments made directly by NIFA are reported in the statement of activities as revenue and as a reduction in the obligations to NIFA in the statement of net position; this transaction is not included in the governmental funds statements. | 3,443 |
| Interest payments made directly by NIFA are reported in the statements of activities as revenue and an expense; this transaction is not included in the governmental funds statements. | 1,413 |
| Premiums from sale of bonds | (28,504) |
| Accrued interest payable | 1,344 |

| | |
|--|-----|
| Government funds reports premium on debt issued as revenue. However, in the statement of activities, the premium on debt issued is amortized over the lives of the related debt. | 374 |
|--|-----|

| | |
|--|-----------|
| The net distribution of debt and of capital assets in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. | (578,524) |
|--|-----------|

| | |
|--|----------|
| Certain expenses are reported in the statement of activities but do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. | |
| Depreciation expense | (41,115) |
| Loss on capital assets disposal | (3) |

| | |
|---|----|
| General government support is reported in the statement of activities that does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. | 32 |
|---|----|

| | |
|---|---------------------|
| Changes in Net Position of Governmental Activities | \$ (635,323) |
|---|---------------------|

See notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

(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.

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.

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 the Nassau County Interim Finance Authority ("NIFA") on behalf of the County ("County Bonds") (see note 6). 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).

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, 2014

(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, 2014
(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 and for its general operating expenses and distributions to the District.
- The debt service fund is used to account for and report financial 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 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, 2014

(Dollars in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. ASSETS, DEFERRED OUTFLOWS/INFLOWS 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, 2014, 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, 2014. There are no investments at December 31, 2014.

2. Capital Assets

Capital assets purchased or acquired with an original cost exceeding certain thresholds, established by the County, are reported at historical costs or estimated historical cost. Donated capital assets are reported at estimated fair market value at the date of donation. Capital assets received from the County are reported at the County's cost.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | <u>Years</u> |
|----------------|--------------|
| Infrastructure | 15 - 40 |
| Buildings | 40 |
| Equipment | 5 |

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).

3. Deferred Outflows/Inflows 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 \$14,130 that will be recognized in future periods.

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 represents an acquisition of net position that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenues) until that time. The Authority did not have any items qualifying for reporting in this category.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

(Dollars in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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 and primarily represent payments 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.
- 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.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2014
(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)

- 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.
- 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 in the government-wide financial statements. In the governmental fund statements, interest expenditures are recognized when due.

In accordance with the 2004 and 2014 Agreements, 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.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

(Dollars in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. USE OF ESTIMATES

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

F. NEW ACCOUNTING PRINCIPLES

The Authority has adopted all of the current statements of the GASB that are applicable, including GASB Statement No. 67 and GASB Statement No. 69. The implementation of these GASBs had no impact on the financial statements.

In February 2015, 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 this Statement are effective for financial statements for periods beginning after June 15, 2015. The Authority has not completed the process of evaluating the impact of GASB 72.

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. Pursuant to the 2004 Agreement to acquire the System, the Authority was obligated to pay debt service on County Bonds prior to the closing date of the 2014 Authority refunding bonds. (See note 6.)

During the year ended December 31, 2014 (prior to the closing date of the 2014 Authority refunding bonds), the Authority effectively remitted \$28,711 to the County for the installment payments due for purchase of the System by making the required debt service payments on County Bonds (excluding amounts paid by NIFA).

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, 2014, the Authority remitted \$81,254 to the County (on behalf of the District).

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2014
(Dollars in Thousands)

2. TRANSACTIONS WITH AND ON BEHALF OF RELATED ENTITIES (continued)

B. SPECIAL ITEM

On November 18, 2014, a new agreement was entered into which released the System and the County Bonds back to the County.

The Authority reported a special item from the release to the County of \$578,524, consisting of capital assets released during the year, net of related debt. During the year ended December 31, 2014, the County released to the Authority \$45 of capital improvements made to the system, and as per the new agreement the Authority released to the County \$911,686 of capital assets resulting in a net release of \$911,641. Additionally, during 2014, the Authority released to the County \$333,117 of its obligation for County Bonds.

| | |
|--|--------------|
| Capital Assets | \$ (911,641) |
| Due to the County for acquisition of the System | 333,117 |
| | \$ (578,524) |

C. NASSAU COUNTY INTERIM FINANCE AUTHORITY

Included in the amount due to the County are bonds issued by the Nassau County Interim Finance Authority ("NIFA"), the proceeds of which were used to partially finance the System. It is the responsibility of NIFA to remit the required debt service on these bonds. Prior to the closing date of the 2014 Authority refunding bonds, the Authority recognized revenue equal to the amount of debt service paid by NIFA related to this debt. This revenue is reported in income from debt payments made directly by NIFA in the statement of activities. During the year ended December 31, 2014, to reflect the payments made by NIFA, the Authority reduced the amount due to the County by \$3,443, reported \$4,856 of income from debt payments made directly by NIFA and reported \$1,413 of interest expense. As of December 31, 2014, there is no remaining amount due to the County.

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, 2014:

| | |
|-------------------|----------|
| Money Market Fund | \$ 1,445 |
|-------------------|----------|

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.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2014
(Dollars in Thousands)

3. CASH AND CASH EQUIVALENTS (continued)

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, 2014, 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, 2014, 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, 2014, the general fund transferred \$44,217 to the debt service fund for payment of principal and interest on debt and related operating costs.

5. CAPITAL ASSETS

Capital assets activities for the year ended December 31, 2014 are as follows:

| | Balance at 1/1/14 | Additions | Deletions | Assets Released | Balance at 12/31/14 |
|--------------------------------|----------------------|--------------------|---------------|--------------------|------------------------|
| Depreciable capital assets: | | | | | |
| Infrastructure | \$ 1,036,508 | \$ 6 | \$ - | \$ 1,036,514 | \$ - |
| Buildings | 306,114 | - | - | 306,114 | - |
| Equipment | 3,725 | 39 | 32 | 3,732 | - |
| Total depreciable assets | <u>1,346,347</u> | <u>45</u> | <u>32</u> | <u>1,346,360</u> | <u>-</u> |
| Less accumulated depreciation | | | | | |
| Infrastructure | 308,885 | 33,380 | - | 342,265 | - |
| Buildings | 82,918 | 7,387 | - | 90,305 | - |
| Equipment | 1,785 | 348 | 29 | 2,104 | - |
| Total accumulated depreciation | <u>393,588</u> | <u>41,115</u> | <u>29</u> | <u>434,674</u> | <u>-</u> |
| Total net capital assets | <u>\$ 952,759</u> | <u>\$ (41,070)</u> | <u>\$ (3)</u> | <u>\$ 911,686</u> | <u>\$ -</u> |

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2014
(Dollars in Thousands)

5. CAPITAL ASSETS (continued)

Prior to the closing date of the 2014 Authority refunding bonds, the Authority evaluated capital assets for significant events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset had occurred. The Authority's practice is to record an impairment loss in the period when the Authority determines that the carrying amount of the asset will not be recoverable. For the year ending December 31, 2014, the Authority has not recorded any such impairment losses. Depreciation expense totaled \$41,115 for the year ending December 31, 2014. Pursuant to the 2014 Agreement, the Authority released all of the System assets to the County, effective as of the closing date of the 2014 Authority refunding bonds.

6. LONG-TERM DEBT

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

| | Balance 1/1/2014 | Additions | Reductions | Release to County | Balance 12/31/14 | Due within One Year | Non-current |
|--|---------------------|-------------------|---------------------|----------------------|---------------------|------------------------|-------------------|
| Revenue bonds payable: | | | | | | | |
| Series 2008A | \$ 120,840 | \$ - | \$ (120,840) | \$ - | \$ - | \$ - | \$ - |
| Series 2004B | 18,000 | - | (18,000) | - | - | - | - |
| Series 2014A | - | 155,765 | - | - | 155,765 | 2,940 | 152,825 |
| Series 2014B | - | 1,435 | - | - | 1,435 | - | 1,435 |
| Subtotal | 138,840 | 157,200 | (138,840) | - | 157,200 | 2,940 | 154,260 |
| Premiums | 1,718 | 28,504 | (1,967) | - | 28,255 | 1,987 | 26,268 |
| Total bonds payable | 140,558 | 185,704 | (140,807) | - | 185,455 | 4,927 | 180,528 |
| Due to the County for acquisition of the System | 353,453 | - | (20,336) | (333,117) | - | - | - |
| | <u>\$ 494,011</u> | <u>\$ 185,704</u> | <u>\$ (161,143)</u> | <u>\$ (333,117)</u> | <u>\$ 185,455</u> | <u>\$ 4,927</u> | <u>\$ 180,528</u> |

Authority Bonds

On November 18, 2014, the Authority issued \$155,765 in System Revenue Bonds, 2014 Series A, at various rates of 2.000% to 5.000%, and a final maturity date of October 1, 2034 and \$1,435 in System Revenue Bonds, 2014 Series B (Federally Taxable), at a rate of 0.700%, and a final maturity date of October 1, 2016, to advance refund \$113,680 of 2008A Serial Bonds with rates ranging from 4.000% - 5.375% through 2028, to current refund \$16,735 of 2004B Serial Bonds with rates of 5.000% through 2024, and fund certain capital improvements to the system of \$37,783.

The net proceeds of \$184,285 (the par amount of the bonds plus a premium of \$28,504, less underwriter's fees and other issuance costs of \$1,419) were used to fund certain capital improvements to the system of \$37,783, and to fund the escrow of \$146,409. The excess proceeds of \$92 is restricted in the debt service fund and will be used during 2015 for debt service.

The escrow funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2008A and 2004B serial bonds. As a result, the 2008A and 2004B bonds are considered to be defeased and the liability for those bonds removed from the non-current government liabilities. Of the refunded issues, \$16,735 were called in 2014. The remaining \$113,680 in outstanding bonds are considered defeased.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2014
(Dollars in Thousands)

6. LONG-TERM DEBT (continued)

Authority Bonds (continued)

The Authority's advance and current refunding refunded the 2008A and 2004B serial bonds to reduce its total debt service payments over the next fourteen years by \$8,686 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$8,080.

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, 2014, excluding premiums, is as follows:

| Years Ending December 31, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------|-------------------|------------------|-------------------|
| 2015 | \$ 2,940 | \$ 6,703 | \$ 9,643 |
| 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 |
| 2020-2024 | 60,755 | 21,709 | 82,464 |
| 2025-2029 | 39,235 | 8,150 | 47,385 |
| 2030-2034 | 11,535 | 1,787 | 13,322 |
| | <u>\$ 157,200</u> | <u>\$ 66,034</u> | <u>\$ 223,234</u> |

Due to the County for the Acquisition of the System

Pursuant to the 2004 Agreement, in consideration for the purchase of the System, the Authority agreed to make installment payments which were calculated as the debt service payments due under the County Bonds related to the System at the time of the purchase, including bonds issued by NIFA on behalf of the System, and for additional acquisitions.

Pursuant to the 2014 Agreement the Authority released all of the sewer System assets to the County, effective as of the closing date of the 2014 Authority refunding bonds. As per the 2014 Agreement the Authority is no longer responsible to pay County Bonds, therefore \$333,117 of Due to the County for County Bond debt was also released to the County.



**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 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, 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 June 29, 2015.

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.

A handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

New York, New York
June 29, 2015