

# Nassau County Sewer and Storm Water Finance Authority

Financial Statements as of and for  
the Year Ended  
December 31, 2011 and  
Independent Auditors' Reports

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## INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors of  
Nassau County Sewer and Storm Water Finance Authority:

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") as of December 31, 2011 and for the year then ended, which collectively comprise the Authority's basic financial statements. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

The Management's Discussion and Analysis on pages 2 through 6 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2012, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Deloitte & Touche LLP*

July 30, 2012

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended December 31, 2011  
(Dollars in Thousands)

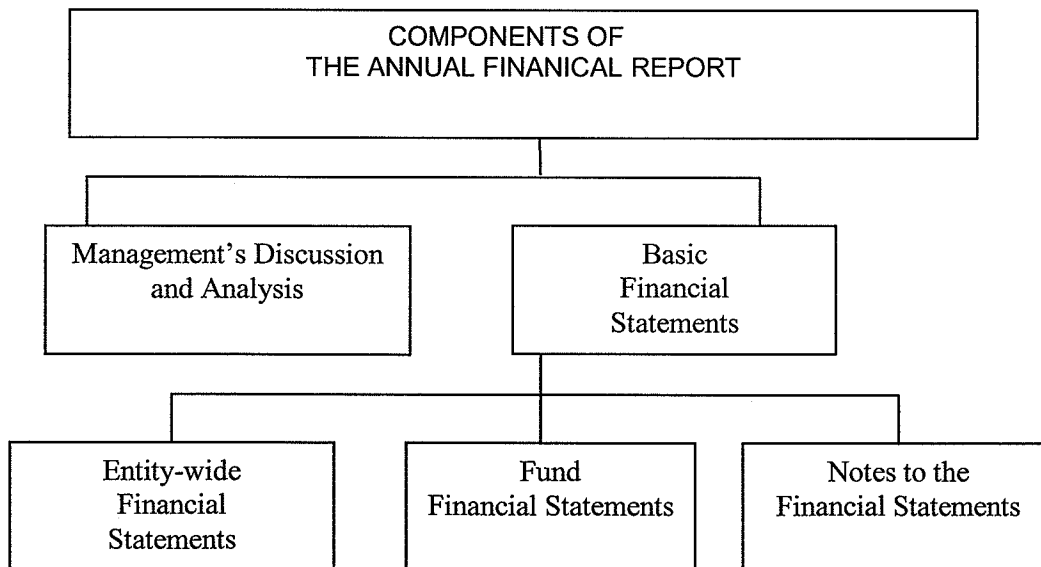
As management of the Nassau County Sewer and Storm Water Finance Authority, we offer readers of the financial statements this narrative overview and analysis of our financial activities for the year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction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

The Nassau County Sewer and Storm Water Finance Authority (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 on behalf of Nassau County (the "County") and the financing of future County sewer and storm water resource projects, ultimately providing substantial savings to the County.

The Authority has acquired all the sewer and storm water resources infrastructure, buildings, equipment and related assets, other than land, (the "System") of the County pursuant to a financing and acquisition agreement dated March 1, 2004, by and between the Authority and the County (the "Agreement"). The Authority is paying 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 Nassau County Interim Finance Authority ("NIFA") on behalf of the County), originally issued to finance the System ("County Bonds"). In addition, as part of such purchase price, the Authority may, at the request of the County, refinance County Bonds. 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 debt, including County Bonds, pay its operating expenses and remit funds to the Nassau County Sewer and Storm Water Resources District (the "District"), taking into account available funds. The District is responsible for paying all of the operational costs of the County's sewer and storm water resources services, including repairs and maintenance on the System.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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



**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended December 31, 2011  
(Dollars in Thousands)

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

**Entity-wide Financial Statements**

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

The statement of net assets presents financial information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. This combines and consolidates the Authority's current financial resources with capital assets 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 assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. This method is known as the accrual basis of accounting and is different from the modified accrual basis of accounting used in the Authority's fund financial statements.

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

**Fund Financial Statements**

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

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

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

**Notes to the Financial Statements**

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

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended December 31, 2011  
(Dollars in Thousands)

**ENTITY-WIDE FINANCIAL ANALYSIS**

The statement of net assets details the assets and liabilities of the Authority based on their liquidity, utilizing current and noncurrent categories. The resulting net assets, in this statement, are displayed as either invested in capital assets, net of related debt, restricted or unrestricted. The Authority's assets exceeded its liabilities by \$612,674 at the close of the most recent year.

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

**Condensed Statement of Net Assets**  
**As of December 31, 2011 and 2010**

<b>Governmental Activities:</b>	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Current and other assets	\$ 25,377	\$ 26,815
Capital assets	1,043,302	959,622
	<u>1,068,679</u>	<u>986,437</u>
<b>Liabilities</b>		
Current	34,093	33,966
Non-current	421,912	438,514
Total Liabilities	<u>456,005</u>	<u>472,480</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	595,151	491,969
Restricted	3,126	
Unrestricted	14,397	21,988
	<u>612,674</u>	<u>513,957</u>

**Condensed Statement of Activities**  
**For the Years Ended December 31, 2011 and 2010**

<b>Governmental Activities</b>	<u>2011</u>	<u>2010</u>
<b>Revenues</b>		
Property taxes (sewer assessment)	\$ 119,041	\$ 116,038
Less: transfer to the District	(75,000)	(70,085)
Income from debt payments made directly by NIFA	5,102	5,319
Federal aid	3,126	-
Investment loss, net and amortization of premiums	97	171
Total Revenues, net	<u>52,366</u>	<u>51,443</u>
<b>Expenses</b>		
General government support	220	261
Depreciation	45,432	41,744
Interest expense	20,792	20,265
Amortization of bond issuance costs	282	282
Total Expenses	<u>66,726</u>	<u>62,552</u>
<b>Transfer from the County</b>	113,077	133,200
<b>Increase in Net Assets</b>	98,717	122,091
<b>Net Assets, beginning of year</b>	<u>513,957</u>	<u>391,866</u>
<b>Net Assets, end of year</b>	<u>\$ 612,674</u>	<u>\$ 513,957</u>

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended December 31, 2011  
(Dollars in Thousands)

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

Overall, net assets increased by \$98,717 resulting in net assets at December 31, 2011 totaling \$612,674. The increase in net assets is primarily due to the transfer of additional capital assets, net of related debt from the County, totaling \$113,077. The Authority received a grant recovery from the U.S. Environmental Protection agency totaling \$3,126, the monies of which are restricted to capital improvements or debt service requirements.

Overall, bonds payable and due to the County decreased in fiscal year 2011 by \$16,211 (3.5%), due to principal payments made totaling \$32,245 and increases for debt issuances and reallocations of \$16,034. Additional information on the Authority's debt activity can be found in the notes to the financial statements.

Property taxes (sewer assessments) totaled \$119,041 for 2011, an increase of \$3,003 from the prior year. This increase is the primary factor for the \$4,915 increase in the transfer to the District from \$70,085 in 2010 to \$75,000 in 2011.

Depreciation and interest expense are the most significant expenses of the Authority. Depreciation increased \$3,688 from the prior year and interest expense increased by \$527 from the prior year.

**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 the current year, the total fund balance of the general fund was \$20,862, decreasing \$1,156 from the prior year. Of the \$119,041 of sewer assessments collected, 63.00% or \$75,000 was transferred to the District; the remaining 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 \$48,213 from the general fund which was used to fund debt service requirements, (including Authority and County Bonds) and Environmental Facilities Corporation (EFC) fees.

**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 2011, the Authority added approximately \$129,112 in capital assets. Capital improvements for infrastructure were the most significant factor for the increase in capital assets. The details of capital assets are shown in Note 5 to the financial statements.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended December 31, 2011  
(Dollars in Thousands)

**DEBT ADMINISTRATION**

At the end of the current year, the Authority has total bonded debt outstanding of \$156,600 (including premiums). Additionally, the Authority is obligated to pay \$296,066 of County Bonds.

A summary of activity for the year ended December 31, 2011 is as follows:

**Outstanding Debt**

	Balance 1/01/2011	Additions/ Reallocations	Reductions	Balance 12/31/11
Revenue bonds payable:				
Series 2008A	\$ 21,460	\$ -	\$ (1,105)	\$ 20,355
Series 2004B	140,495		(6,255)	134,240
Subtotal	161,955	-	(7,360)	154,595
Premiums	2,148		(143)	2,005
Total bonds payable	164,103	-	(7,503)	156,600
Due to the County for acquisition of the System	304,917	16,034	(24,885)	296,066
	<u>\$ 469,020</u>	<u>\$ 16,034</u>	<u>\$ (32,388)</u>	<u>\$ 452,666</u>

At the end of 2011, the Authority's 2008A bonds were rated as AA+(insured), A+(uninsured) by Standard & Poor's, Aa1(insured), Aa3(uninsured) by Moody's and AA- by Fitch. At the end of 2011, the 2004B bonds were rated as A+ by Standard & Poor's, Aa3 by Moody's and AA- by Fitch.

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 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**  
**STATEMENT OF NET ASSETS**  
December 31, 2011  
(Dollars in Thousands)

**Governmental Activities:**

**Assets**

Cash	\$	1
Unrestricted investments		17,735
Restricted investments		3,126
Capital assets		1,043,302
Other noncurrent assets - net of amortization		4,515
		4,515
<b>Total Assets</b>		<b>1,068,679</b>

**Liabilities**

Accrued expenses		31
Accrued interest on Authority Bonds		1,365
Bonds payable:		
Due within one year		7,800
Due in more than one year		146,795
Premiums, net		2,005
Due to County:		
Due within one year		22,954
Due in more than one year		273,112
Accrued interest payable		1,943
		1,943
<b>Total Liabilities</b>		<b>456,005</b>

**Net Assets**

Invested in capital assets, net of related debt		595,151
Restricted		3,126
Unrestricted		14,397
		14,397
<b>Total Net Assets</b>	<b>\$</b>	<b>612,674</b>

See notes to the financial statements.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**STATEMENT OF ACTIVITIES**  
December 31, 2011  
(Dollars in Thousands)

**Governmental Activities:**

**Revenues**

Property taxes (sewer assessments)	\$	119,041
Less: transfer to District		(75,000)
Income from debt payments made directly by NIFA		5,102
Investment loss, net and amortization of premiums		97
Federal aid		3,126
		3,126
<b>Total Revenues, net</b>		<b>52,366</b>

**Expenses:**

General government support		220
Depreciation		45,432
Interest expense:		
Authority bonds		7,936
County bonds		12,856
Amortization of issuance costs		282
		282
<b>Total expenses</b>		<b>66,726</b>

Transfer from the County		113,077
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		Changes in Net Assets	98,717
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		<b>Net Assets - Beginning of Year</b>	<b>513,957</b>
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		<b>Net Assets - End of Year</b>	<b>\$ 612,674</b>
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See notes to the financial statements.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2011  
(Dollars in Thousands)

	General	Debt Service	Total (Governmental Funds)
<b>Assets</b>			
Cash	\$ 1	\$ -	\$ 1
Unrestricted investments	17,735	-	17,735
Restricted investments	3,126		3,126
Total Assets	\$ 20,862	\$ -	\$ 20,862
 <b>Liabilities and Fund Balances</b>			
<b>Fund Balances</b>			
Restricted	\$ 3,126	\$ -	\$ 3,126
Unassigned	17,736		17,736
Total fund balances	20,862	-	20,862
Total Liabilities and Fund Balances	\$ 20,862	\$ -	\$ 20,862

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 ASSETS**  
December 31, 2011  
(Dollars in Thousands)

**Total Fund Balances - Governmental Funds** \$ 20,862

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Capital assets, depreciable	1,348,672
Accumulated depreciation	(305,370)

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

Authority bonds payable	(154,595)
Due to the County	(296,066)
Unamortized bond premiums	(2,005)
Accrued interest	(3,308)
Accrued expenses	(31)

Long-term assets are not available to pay for current period expenditures and accordingly are not reported in the funds.

4,515

**Net Assets of Governmental Activities** \$ 612,674

See notes to the financial statements.

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

	General	Debt Service	Total (Governmental Funds)
<b>Revenues</b>			
Property taxes (sewer assessments)	\$ 119,041	\$ -	\$ 119,041
Federal aid	3,126		3,126
Investment loss, net	(47)		(47)
Total Revenues	122,120	-	122,120
<b>Other Financing Sources</b>			
Operating transfer in		48,213	48,213
Total Revenues and Other Financing Sources	122,120	48,213	170,333
<b>Expenditures</b>			
Current			
General government support	63	157	220
Debt service			
Principal		7,360	7,360
Interest		7,992	7,992
Total Expenditures	63	15,509	15,572
<b>Other Financing Uses</b>			
Transfer to debt service fund	48,213		48,213
Transfer to District	75,000		75,000
Deposited with paying agent - County debt principal		21,843	21,843
Deposited with paying agent - County debt interest		10,861	10,861
Total Expenditures and Other Financing Uses	123,276	48,213	171,489
<b>Excess of Revenue and Other Financing Sources Over Expenditures and Other Financing Uses</b>			
	(1,156)	-	(1,156)
<b>Fund Balances - Beginning of year</b>	22,018	-	22,018
<b>Fund Balances - End of Year</b>	\$ 20,862	\$ -	\$ 20,862

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 ASSETS**  
Year Ended December 31, 2011  
(Dollars in Thousands)

**Net Change in Fund Balances - Total Governmental Funds** **\$ (1,156)**

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

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

Payments to paying agents for bond principal is an expenditure in the governmental funds, but the payment reduced long-term liabilities in the statement of net assets.	29,203
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 assets; it is not included in the governmental funds statements.	3,042
Interest payments made directly by NIFA are reported in the statements of activities as revenue and an expense; it is not included in the governmental funds statements.	2,061
Governmental funds report costs of debt issuance as expenditure. However, in the statement of activities, the cost of debt issuance is amortized over the lives of the related debt.	(282)
Governmental funds report premium on debt issued as revenue. However, in the statement of activities, the premium on debt issued is amortized over the lives of the related debt.	143
Interest expense on Authority bonds and County Bonds (due to County) is reported as an expenditure on the governmental funds statements when it is paid, and on the statement of activities when it is accrued.	(1,938)
The assumption of new debt or transfer in of capital assets, net of related debt 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.	113,077
Depreciation expense is reported 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.	(45,432)
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.	<u>(1)</u>

**Change in Net Assets of Governmental Activities** **\$ 98,717**

See notes to the financial statements.

**NOTES TO FINANCIAL STATEMENTS**



# NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011

(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.

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 up to \$350,000, as well as to refinance outstanding sewer and storm water resources debt issued by or on behalf of the County.

Pursuant to a Financing and Acquisition Agreement dated as of March 1, 2004 (the "Agreement"), the County sold and transferred to the Authority the County's sewer and storm water resources facilities, buildings, equipment and related assets other than land (the "System"). The Authority is paying 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 are made at the time bonds are 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 at all, until maturity. Although the System was transferred to the Authority, responsibility for paying for the operations of the System rests with the Nassau County Sewer and Storm Water Resources District (the "District").

Additionally, pursuant to the Agreement, the County agreed to transfer and the Authority agreed to acquire, any additional System facilities, which became part of the System (at the time the project is completed), including those facilities financed by obligations of the County or NIFA after the closing date; and, the Authority shall pay 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 agrees that, during the term of the Agreement, it will not sell, lease mortgage or otherwise give up or encumber the real property upon which the facilities are situated.

Revenues of the Authority ("Revenues") primarily consist of property taxes (sewer assessments) and investment earnings on money and investments on deposit in various Authority accounts. The County has directed each City and Town Receiver of Taxes to remit all such assessments collected directly to the Authority's trustee for its bonds. The Authority retains sufficient funds to service all debt, including amounts due for County Bonds, and to pay its expenses. Excess funds are remitted to the District to pay for the operations 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.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011  
(Dollars in Thousands)

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

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

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

**Entity-Wide Financial Statements**

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

**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, liabilities, fund balances, revenues, and expenditures, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The focus of the governmental funds financial statements is on the major funds.

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

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

- The general fund accounts for sewer assessments and other revenues received by the Authority and for its general operating expenses and transfers 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.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011  
(Dollars in Thousands)

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue susceptible to accrual generally includes investment income. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on indebtedness 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' governmental activities column, a reconciliation is presented that briefly explains the adjustments necessary to reconcile ending net assets and the change in net assets.

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

**1. Cash and Investments**

The Authority invests in accordance with the applicable law, authorizing resolutions, and the Authority's Investment Guidelines. As of December 31, 2011, the Authority held cash and U.S. Treasury Bills. All bank deposits of the Authority are required to be fully collateralized or insured.

The Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Investments at year end consist of U. S. Treasury Bills with an original maturity of longer than three months. Investments are recorded at fair value, which includes accrued interest receivable. Revenue and losses related to investments, including interest earned, changes in fair values and realized gains and losses are reported in the statement of revenues and expenditures, and changes in fund balance. Fair value is determined using quoted market values at December 31, 2011.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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

**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 transferred from the County are reported at the County's cost, which approximates fair value.

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

**3. Long-Term Obligations**

In the entity-wide financial statements, liabilities for long-term obligations consisting of amounts due for the Authority's revenue bonds and amounts due to the County for County Bonds, are reported in the entity-wide financial statement of net assets. Bond premiums, discounts and issuance costs are capitalized and amortized over the lives of the related debt issues using the straight-line method in the entity-wide financial statements, and are included in other noncurrent assets and liabilities in the entity-wide financial statements.

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

**4. Interfund Transactions**

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

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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

**5. Net Assets and Fund Equity Classifications**

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

- a) Invested in capital assets, net of related debt — Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, due to County, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net assets — Consists of net assets with constraints placed on the use of such, either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. Restricted net assets reported in the statement of net assets as of December 31, 2011, represent amounts restricted for the funding of either capital improvements or debt service requirements.
- c) Unrestricted net assets (deficit) — All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

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

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

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

- 2) Restricted fund balance reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. At December 31, 2011, restricted fund balance represents amounts restricted for the funding of either capital improvements or debt service requirements.

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

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

**5. Net Asset 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**

Interest expense is recognized on the accrual basis in the entity-wide financial statements. In the governmental fund statements, interest expenditures are recognized when paid to service debt.

In accordance with the Agreement, property taxes (sewer assessments) are collected by various City and Town Receivers of Taxes and the County has directed them to remit all such assessments directly to the Trustee for the Authority's bonds. The Authority receives sufficient funds to service all debt, including County Bonds, pay its operating expenses and remit funds to the Nassau County Sewer and Storm Water Resources District (the "District"), taking into account available funds. 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 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**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. NEW ACCOUNTING PRINCIPLES**

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

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

**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**

Nassau County

The Act, and other legal documents of the Authority establish various financial relationships between the Authority and the County. Pursuant to the Agreement to acquire the System, the Authority is obligated to pay debt service on County Bonds.

During the year ended December 31, 2011, the Authority effectively remitted \$27,602 to the County for the installment payment due for purchase of the System by making the required County Bonds debt service payments (excluding amounts paid by NIFA).

The Authority reported revenue from a transfer from the County of \$113,077, consisting of capital assets transferred during the year, net of related debt. During the year ended December 31, 2011, the County transferred to the Authority \$129,112 of capital improvements made to the System. Additionally, during 2011, the County issued its 2011 Series A bonds, with which a portion of the proceeds will be used to finance sewer and storm water resources projects. The portion of such County Bonds issued in 2011 was allocated to the Authority. Other County Bonds from prior years were reallocated to the Authority during 2011. These transactions resulted in an additional amount due to the County for related debt service totaling \$16,034.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
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**2. TRANSACTIONS WITH AND ON BEHALF OF RELATED ENTITIES (continued)**

Nassau County (continued)

The legal documents of the Authority require revenue remaining after application of amounts needed to fund debt service requirements and operations of the Authority, taking into account available funds, be remitted to the County (on behalf of the District). During the year ended December 31, 2011, the Authority remitted \$75,000 to the County (on behalf of the District).

Nassau County Interim Finance Authority

Included in the amount due to the County are bonds issued by 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. The Authority recognizes 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, 2011, to reflect the payments made by NIFA, the Authority reduced the amount due to County by \$3,041, reported \$5,102 of income from debt payments made directly by NIFA and reported \$2,061 of interest expense.

**3. CASH AND INVESTMENTS**

The following table summarizes the Authority's cash and investments, which includes restricted investments, held by the Authority's Trustee as of December 31, 2011:

Cash	\$	1
U. S. Treasury Bills ( original maturities greater than 90 days)		20,861
Total cash and investments	\$	20,862

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

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

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



**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
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**3. CASH AND INVESTMENTS (continued)**

At December 31, 2011, the Authority's cash balance was fully covered by the Federal Deposit Insurance Corporation. Investments in U.S. Government securities do not require collateral.

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

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

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

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

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

The Authority has \$3,126 of restricted investments. In accordance with New York State Public Authorities Law, the use of these monies is limited to either the funding of 1) capital improvements or 2) debt service requirements, and therefore is considered restricted assets.

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

During the year ended December 31, 2011, the general fund transferred \$48,213 to the debt service fund for payment of principal and interest on debt.

**5. CAPITAL ASSETS**

Capital assets activities for the year ended December 31, 2011 are as follows:

	Balance at January 1, 2011	Additions	Deletions	Balance at December 31, 2011
<b>Depreciable capital assets:</b>				
Infrastructure	\$ 891,027	\$ 128,641	\$ -	\$ 1,019,668
Buildings	326,327	125		326,452
Equipment	2,206	346		2,552
Total depreciable assets	1,219,560	129,112	-	1,348,672
<b>Less accumulated depreciation</b>				
Infrastructure	198,764	35,619		234,383
Buildings	60,475	9,485		69,960
Equipment	699	328		1,027
Total accumulated depreciation	259,938	45,432	-	305,370
Total net capital assets	\$ 959,622	\$ 83,680	\$ -	\$ 1,043,302

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
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**5. CAPITAL ASSETS (continued)**

The Authority evaluates capital assets for prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. The Agency'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. At December 31, 2011, the Authority has not recorded any such impairment losses. Depreciation expense totaled \$45,432 for the year ending December 31, 2011.

**6. LONG-TERM DEBT**

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

	Balance 1/01/2011	Additions/ Reallocations	Reductions	Balance 12/31/11	Due within One Year	Non-current
Revenue bonds payable:						
Series 2008A	\$ 21,460	\$ -	\$ (1,105)	\$ 20,355	\$ 1,145	\$ 19,210
Series 2004B	140,495		(6,255)	134,240	6,655	127,585
Subtotal	161,955	-	(7,360)	154,595	7,800	146,795
Premiums	2,148		(143)	2,005	143	1,862
Total bonds payable	164,103	-	(7,503)	156,600	7,943	148,657
Due to the County for acquisition of the System	304,917	16,034	(24,885)	296,066	22,954	273,112
	<u>\$ 469,020</u>	<u>\$ 16,034</u>	<u>\$ (32,388)</u>	<u>\$ 452,666</u>	<u>\$ 30,897</u>	<u>\$ 421,769</u>

Authority Bonds

The Authority issued revenue bonds where the Authority pledged sewer assessments and other revenues to pay debt service.

The Series 2008A revenue bonds mature at various dates through 2028 with current interest rates ranging from 3.75% to 5.375%. Berkshire Hathaway Assurance Corporation has provided a financial guarantee insurance policy totaling \$120,840. This policy guarantees the payment of principal and interest on bonds maturing November 1, 2014 through November 1, 2028.

The Series 2004B revenue bonds mature at various dates through 2024 at a current interest rate of 5.0%. MBIA Insurance Corporation has provided a financial guarantee insurance policy which guarantees the scheduled payment of principal and interest of the Series 2004B bonds.

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
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**6. LONG-TERM DEBT (continued)**

Authority Bonds (continued)

Aggregate debt service to maturity for Authority Bonds as of December 31, 2011, is as follows:

Years Ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 7,800	\$ 7,679	\$ 15,479
2013	7,955	7,310	15,265
2014	8,425	6,956	15,381
2015	8,545	6,607	15,152
2016	8,980	6,252	15,232
2017-2021	50,450	24,350	74,800
2022-2026	46,485	10,959	57,444
2027-2028	15,955	1,297	17,252
	<u>\$ 154,595</u>	<u>\$ 71,410</u>	<u>\$ 226,005</u>

Due to the County for the Acquisition of the System

Pursuant to the Financing and Acquisition Agreement, in consideration for the purchase of the System, the Authority agreed to make installment payments which are 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.

During the year ended December 31, 2011, the County issued \$15,984 of Series 2011A revenue bonds for the purpose of capital improvements to the System and reallocated \$50 of existing bonds based on updated information, the total of which was effectively transferred to the Authority.

Aggregate debt service to maturity for County Bonds as of December 31, 2011, is as follows:

Years Ending December 31,	<u>Total</u>		<u>Total</u>	<u>Payments to be made by NIFA</u>	<u>Cash Requirments of the Authority</u>
	<u>Principal</u>	<u>Interest</u>			
2012	\$ 22,954	\$ 14,686	\$ 37,640	\$ (5,824)	\$ 31,816
2013	20,145	13,591	33,736	(5,223)	28,513
2014	19,944	12,607	32,551	(5,502)	27,049
2015	18,325	11,673	29,998	(4,517)	25,481
2016	16,260	10,861	27,121	(5,071)	22,050
2017-2021	79,903	43,159	123,062	(22,150)	100,912
2022-2026	58,956	23,169	82,125	(6,854)	75,271
2027-2028	31,447	12,137	43,584		43,584
Thereafter	28,132	4,998	33,130		33,130
	<u>\$ 296,066</u>	<u>\$ 146,881</u>	<u>\$ 442,947</u>	<u>\$ (55,141)</u>	<u>\$ 387,806</u>

**NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**  
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**7. PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE**

The following statement has been issued by GASB:

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, establishes measurement, recognition and disclosure requirements for service concession arrangements. A service concession arrangement is an arrangement between a transferor (government) and an operator (government or non government) in which the transferor conveys to an operator the right and related obligation to provide services or another public asset through the use of infrastructure in exchange for significant consideration and the operator collects and is compensated by fees from third parties. The requirements of this statement become effective for the year ended December 31, 2012.

Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. This statement amends the requirements of GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* to better meet user needs and to address reporting entity issues that have arisen since the issuance of those statements. The requirements of this statement become effective for the year ended December 31, 2013.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements of this statement become effective for the year ended December 31, 2012.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial and reporting guidance for deferred outflows of resources, which is a consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources which is an acquisition of net assets by the government that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. This Statement also amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this statement become effective for the year ended December 31, 2012.

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



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## **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 Members of the Board of Directors of  
Nassau County Sewer and Storm Water Finance Authority

We have audited the financial statements of the Nassau County Sewer and Storm Water Finance Authority (the "Authority"), as of and for the year ended December 31, 2011, and have issued our report thereon dated July 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

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

*Deloitte & Touche LLP*

July 30, 2012