

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY

Annual Post-Audit Presentation

(For the Audit Year Ended December 31, 2019)

March 26, 2020

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

Nassau County Sewer and Storm Water Finance Authority

Annual Audit Presentation – March 26, 2020
(For the Audit Year Ended December 31, 2019)

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Engagement Team – Nonprofit, Government & Healthcare Group (“NGH”)

685 Third Avenue
New York, NY 10017
212.503.8800

Audit Leadership:

Warren Ruppel, CPA
Partner
212.503.6391
wruppel@markspaneth.com



Professional Standards Group Reviewer:

Philip Marciano, CPA
Senior Manager
516.992.5841
pmarciano@markspaneth.com



Engagement Partner

Daniel McElwee, CPA
Senior Manager
212.201.2992
dmcelwee@markspaneth.com



Engagement Manager

Other Audit Team Members:

Natalie Fenocchi, Supervisor
John Abrenica, Semi-Senior
Zaineb Siddiqui, Semi-Senior
Lori Pobuk, Associate

MARKS PANETH LLP OVERVIEW SNAPSHOT



* Accounting Today ** Access to Global Resources through Independent Membership

Marks Paneth LLP is a premier accounting firm with origins dating back to 1907. The firm provides a full range of audit, accounting, tax and consulting services, with specialties in auditing Nonprofits, international tax, forensic accounting, litigation support, family office and financial advisory services.

Marks Paneth professionals deliver expert knowledge in a wide range of industries, including real estate, hospitality and restaurants; nonprofit, government and healthcare; manufacturing, wholesale and distribution; theater, media and entertainment; high-net-worth; and financial and professional services. The firm offers expanded resources through its membership in Morison KSi Ltd., a global association of professional service firms serving clients' cross-border accounting, tax and consulting needs.

Headquartered in New York City, with offices in major markets throughout the East Coast, Marks Paneth is ranked by Accounting Today among the 50 largest accounting firms in the nation and the top 10 in the Mid-Atlantic Region. For more information, visit www.markspaneth.com.

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- Commercial Business
- Private Client Services
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- Hospitality
- Nonprofit, Government & Healthcare
- Professional Service Firms
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- Tax
- Theater, Media and Entertainment

Service Lines

- Advisory
- Attest
- Tax

Crain's Top 25 Charities

Marks Paneth can proudly say that we work with several of New York's largest charities, as ranked by Crain's.

Marks Paneth fields an annual survey of nonprofit professionals in the New York City market. The findings garner attention from top US and international media.

To participate and receive the results before they are released publicly, send an email to: contacts@markspaneth.com

We Are Trusted Advisors

- Serving the NFP community for over 60 years
- Serving over 150 tax exempt and government clients
- Our Group does over 70 Pension Plan Audits and over 100 Single Audits
- Group leadership has authored numerous accounting and tax books
- Deep client base in government funded NFPs including cost reports
- 45% of all Marks Paneth's audits are:
 - NFP/Government/Single Audit & Pension Plans
- Our leadership positions at the NYS Society of CPAs:
 - FAE President
 - Board Member
 - Audit Committee Chair
 - Nonprofit Committee Chair
 - Government Committee Chair
- Received the *Changemakers of New York Award* in 2019, honoring our longstanding commitment in supporting the success of New York's nonprofit organizations



Changemakers of
New York

**OVER 150
NONPROFITS/
GOVERNMENT
HEALTHCARE
ENTITIES**

**NATIONALLY
AMONG THE
TOP PERCENTAGE
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**60+
NONPROFITS/
GOVERNMENT
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SPECIALISTS**

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**Nassau County Sewer and Storm Water Finance Authority
(A Component Unit of The County of Nassau, New York)**

**Annual Post-Audit Report to the Board of Directors
(Under AICPA AU-C Section 260)**

For the Audit Year Ended December 31, 2019

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

March 24, 2020

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

In accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"), Marks Paneth LLP ("Marks Paneth" or "us" or "we" or "our") is pleased to provide this communication in accordance with the American Institute of Certified Public Accountants ("AICPA") AU-C Section 260, *"The Auditor's Communication with Those Charged with Governance."* In your case, the Audit Committee (or "you"), on behalf of the Board of Directors, the party charged with governance, has the responsibility to oversee the external audit of Nassau County Sewer and Storm Water Finance Authority (the "Authority"). Marks Paneth has a responsibility to bring to the attention of the Board of Directors any accounting, auditing, internal control, or other related matters that we believe warrant its consideration or action. Matters in this communication are concerning the completion of the December 31, 2019 financial statement audit.

This report is intended solely for the information and use of the Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties, unless permission is granted.

Very truly yours,



MARKS PANETH LLP

Attachment:

- Draft management representation letter

Nassau County Sewer and Storm Water Finance Authority
Annual Post-Audit Report to the Board of Directors
For the Audit Year Ended December 31, 2019

1. Auditors' Responsibility

Our responsibility as the independent auditors is to express an opinion on the Authority's financial statements as of and for the year ended December 31, 2019 based on our audit. Also, it must be emphasized that our audit does not relieve management, and those charged with governance, of their responsibilities.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS") and was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. Our audit included tests of the accounting records of the Authority and other procedures we considered necessary to enable us to express an unmodified opinion that the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In addition, we conducted our audit of the Authority under standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("GAS").

Based on our audit, we are prepared to issue an **unmodified** opinion on the financial statements, subject to the following open items being cleared:

- A) Review of the financial statements and audit documentation by our Professional Standards Group.
- B) Acceptance of the draft financial statements by the Board of Directors.
- C) Receipt of confirmations from BNY Mellon for investments and bonds payable.
- D) Finalization of arbitrage rebate calculation by BLX Advisors.
- E) Receipt of signed management representation letter.
- F) Additional post balance sheet review by Marks Paneth to be extended through our report date.

2. Audit Timing Recap

a. Engagement letter issued	January 31, 2020
b. Presentation of preliminary audit plan to the Board of Directors (via email)	March 10, 2020
c. Audit fieldwork start	February 26, 2020
d. Finalization of audit fieldwork and review of draft financial statements	March 2020
e. Post-audit communication to those charged with governance	March 26, 2020
f. Issuance of signed financial statements	By March 31, 2020

3. Management's Responsibility

The Authority's management is responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. We have advised you about appropriate accounting principles and their application and have assisted in the preparation of your financial statements, but the responsibility for the financial statements remains with the Authority.

**Nassau County Sewer and Storm Water Finance Authority
Annual Post-Audit Report to the Board of Directors
For the Audit Year Ended December 31, 2019**

The management of the Authority is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with U.S. GAAP.

In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the Authority involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of their knowledge of any allegations of fraud or suspected fraud affecting the Authority received in communications from employees, former employees, regulators, or others. In addition, management is responsible for identifying and ensuring that the Authority complies with applicable laws and regulations.

Management is also responsible for the preparation of any supplementary information in conformity with U.S. GAAP. Management agrees to include our report on the supplementary information with any document that contains, and indicates that we have reported on, the supplementary information. Management also agrees to include the audited financial statements with any presentation of the supplementary information that includes our report thereon.

4. Selection, Application or Changes in Significant Accounting Principles

The Authority follows specific accounting principles for reporting on its net position and the classification of its fund balances, valuation of its investments, bonds payable and the recognition of sewer and storm water assessment revenues and other income. The principles are discussed in detail in Note 1 to the financial statements. During the year ended December 31, 2019, the Authority adopted the following new accounting standard:

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, ("GASB 88") is effective for reporting periods beginning after June 15, 2018. The objective of GASB 88 is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. GASB 88 requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, GASB 88 also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The adoption of GASB 88 required the Authority to disclose its assets pledged as collateral for debt in Note 6 to its financial statements. In addition, terms specified in the Authority's debt agreements related to significant events of default are disclosed in Note 6 to its financial statements.

There were no other changes in accounting principles or new standards adopted in the current year that had an effect on the Authority's financial statements.

Based upon our audit, the financial statement disclosures are neutral, consistent and clear.

Nassau County Sewer and Storm Water Finance Authority
Annual Post-Audit Report to the Board of Directors
For the Audit Year Ended December 31, 2019

5. Significant Management Judgments and Accounting Estimates

The preparation of financial statements requires the use of accounting estimates, by which management uses its best judgment in the determination of certain amounts to be recorded in those statements. These amounts are calculated using all information available at the time and applying the knowledge and expertise of management. These amounts are subject to revisions as time passes and more information becomes available.

6. Significant Recorded and Proposed Unrecorded Audit Adjustments

We are required to inform the Board of Directors about adjustments or misstatements arising from the audit that could, in our judgment, either individually, or in the aggregate, have a significant effect on the Authority's financial reporting process.

The adjustments proposed and recorded by management or Marks Paneth during the audit are provided below:

Adjusting journal entries recorded:

There were none.

Uncorrected misstatements due to non-materiality:

There were none.

7. Significant Issues Discussed, or Subject to Correspondence, with Management

Since we have been engaged, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

8. Disagreements with Management and Audit Difficulties

For purposes of this report, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit. We received the full cooperation of management and staff throughout the process of performing our audit procedures.

9. Fraud or Likely Illegal Acts/Conflict of Interest Matters/Other Governance Issues

Our audit procedures did not detect any such items. We advise all our clients that there is always a risk that fraud or illegal acts may exist and not be detected by any audit firm in performing an audit.

10. Internal Controls: Control and Significant Deficiencies and Material Weaknesses

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 deficiency in *design* exists when a control necessary to meet the control objective is missing; or an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met.

**Nassau County Sewer and Storm Water Finance Authority
Annual Post-Audit Report to the Board of Directors
For the Audit Year Ended December 31, 2019**

A deficiency in *operation* exists when a properly designed control does not operate as designed; or the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A *significant deficiency* is a deficiency, or 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.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

We did not observe any material weaknesses as a result of our audit (see Tab 3).

11. Consultation with Other Accountants

We are not aware of any consultations with other accountants about auditing and accounting matters during or subsequent to the year ended December 31, 2019, with the exception that the Authority has engaged Albrecht, Viggiano, Zureck & Company, P.C. to assist with its financial closing and reporting.

12. Auditor Independence

We affirm that Marks Paneth is independent with respect to the Authority in accordance with the AICPA's *Code of Professional Conduct*.

13. Other Matters

A) Going Concern

The Authority's financial statements were prepared on the assumption that the Authority will continue as a going concern. During the audit, we noted the following events or conditions that indicated there could be substantial doubt about the Authority's ability to continue as a going concern:

- As of December 31, 2019, the Corporation had a net deficit of \$119,165,000. This represents a decrease of \$12,210,000 from the prior year net deficit of \$131,375,000. Management anticipates this decrease in the net deficit will continue as the Authority continues to pay the debt principal of the bonds and projects the deficit to be eliminated by 2034.

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. As required by the 2014 General Revenue Bond Resolution, the Authority retains sufficient funds to service principal and interest due and to pay its operating expenses; the remaining funds are remitted to the County (on behalf of the District). This will ensure that the Authority will continue to receive sufficient funds to service its debt and operating costs.

Based upon our evaluation of the conditions and events noted above, we have concluded that there was not substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time. Accordingly, no modifications to the auditors' report was considered necessary.

**Nassau County Sewer and Storm Water Finance Authority
Annual Post-Audit Report to the Board of Directors
For the Audit Year Ended December 31, 2019**

B) Impact of Novel Coronavirus

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a pandemic, which continues to spread throughout the United States. The Authority could be materially and adversely affected by the risks, or the public perception of the risks, related to an epidemic, pandemic, outbreak, or other public health crisis, such as the recent outbreak of COVID-19. The ultimate extent of the impact of any epidemic, pandemic or other health crisis on our mission, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others. Accordingly, the extent to which the Authority's financial condition and results of operations may be affected cannot be predicted at this time.

14. New Accounting and Auditing Matters on the Horizon

Refer to the pre-audit presentation to the Board of Directors on March 10, 2020.

****END****

March XX, 2020

Marks Paneth LLP
685 Third Avenue
New York, NY 10017

This representation letter is provided in connection with your audit of the financial statements of the Nassau County Sewer and Storm Water Finance Authority (the "Authority"), which comprise the government-wide statement of net position (deficit) as of December 31, 2019 and the statement of activities for the year then ended, and the governmental funds balance sheet as of December 31, 2019 and the statement of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The representations in this letter, whether or not explicitly so indicate, are made with reference to material matters. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 31, 2020, including our responsibility for the preparation and fair presentation of the financial statements.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all financial information required by U.S. GAAP to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, if any, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- 7) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
- 8) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

- 9) Guarantees, whether written or oral, under which NCTSC is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 10) We have provided you with:

- a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
- b) Additional information that you have requested from us for the purpose of the audit.
- c) Unrestricted access to persons at the Authority from whom you determined it necessary to obtain audit evidence.
- d) Minutes of the meetings of the Authority or summaries of actions of recent meetings for which minutes have not yet been prepared.

- 11) All material transactions have been recorded in the accounting records and are reflected in the financial statements.

- 12) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- 13) We have no knowledge of any fraud or suspected fraud that affects the Authority and involves:

- a) Management,
- b) Employees who have significant roles in internal control, or
- c) Others where the fraud could have a material effect on the financial statements.

- 14) We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority's financial statements communicated by employees, former employees, regulators, or others.

- 15) We have disclosed to you all known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

- 16) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

- 17) We have disclosed to you the identity of any related parties and all the related party relationships and transactions of which we are aware, if any.

Government—specific

- 18) We have made available to you all financial records and related data.

- 19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

- 20) The Authority has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

- 21) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- 22) There are no violations or possible violations of laws and regulations, provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 23) The Authority is a local development corporation organized under the New York State Not-for-Profit Corporation Law and is exempt from taxation and has not conducted any activities that would jeopardize its tax-exempt status.
- 24) The Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as made known to you and disclosed in the notes to the financial statements.
- 25) The Authority has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 26) We have followed all applicable laws and regulations in adopting, approving and amending budgets.
- 27) The financial statements properly classify all funds and activities.
- 28) Components of net position (restricted and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 29) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 30) We are responsible for making the fair value measurements and disclosures included in the financial statements in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"), including determining the fair value of investments for which a readily determinable fair value does not exist, using the inputs described in Level 2 and Level 3 of the fair value hierarchy. As part of fulfilling this responsibility, we have established an accounting and financial reporting process for determining the fair value measurements and disclosures, in accordance with the fair value techniques included in GASB 72, considered the appropriateness of valuation methods, adequately supported any significant assumptions used and ensured that the presentation and disclosure of the fair value measurements are in accordance with U.S. GAAP, including the disclosure requirements of GASB 72. We believe the assumptions and methods used by us are in accordance with the definition of fair value in GASB 72 and the disclosures adequately describe the level of the inputs used in the fair value measurement, in accordance with the fair value hierarchy in GASB 72.
- 31) We have appropriately disclosed the Authority's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.
- 32) We acknowledge our responsibility for the required supplementary information ("RSI"). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Signature: _____

Printed Name: Beaumont A. Jefferson

Title: County Treasurer

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March XX, 2020

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

In planning and performing our audit of the financial statements of Nassau County Sewer and Storm Water Finance Authority (the "Authority") as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) 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. 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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

This report is intended solely for the information and use of the Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties, unless permission is granted.

Sincerely,

MARKS PANETH LLP

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

**A COMPONENT UNIT OF THE
COUNTY OF NASSAU, NEW YORK**

**Financial Statements
(Together with Independent Auditors' Report)**

and

**Reports in Accordance with
*Government Auditing Standards***

December 31, 2019

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
(A Component Unit of The County of Nassau, New York)

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

and

Reports in Accordance with *Government Auditing Standards*

DECEMBER 31, 2019

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities of the Nassau County Sewer and Storm Water Finance Authority (the "Authority"), a component unit of the County of Nassau, New York, as of and for the year ended December 31, 2019, which collectively comprise the Authority's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Authority as of December 31, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March XX, 2020 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.

New York, NY
March XX, 2020

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
Year Ended December 31, 2019
(Dollars in Thousands)

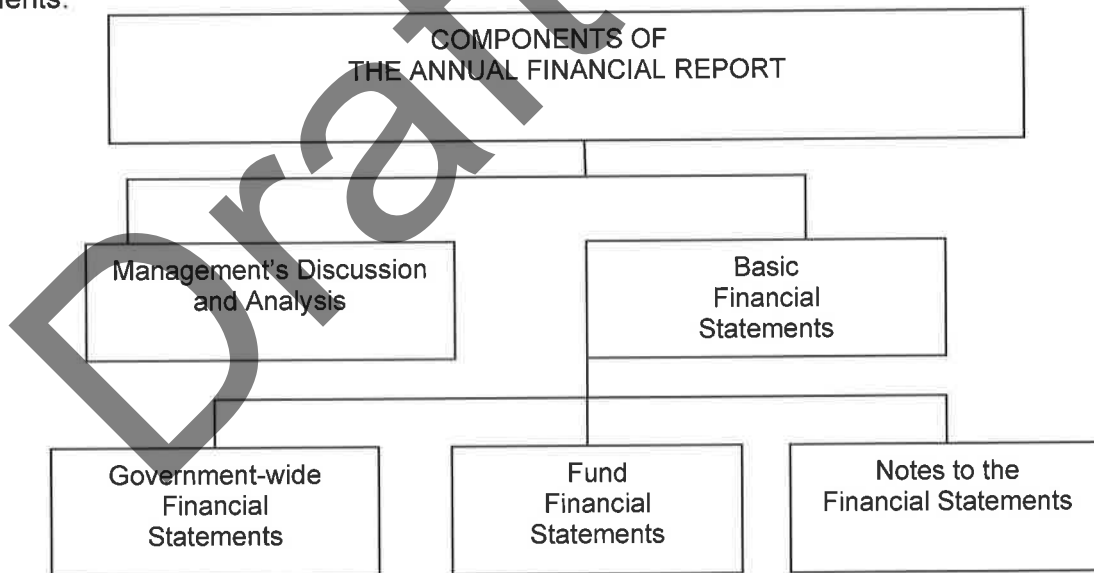
As management of the Nassau County Sewer and Storm Water Finance Authority (the "Authority"), we offer readers of the financial statements this narrative overview and analysis of our financial activities for the year ended December 31, 2019. We encourage readers to consider the information presented 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.

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 retains sufficient funds to service all principal and interest due in the current year and pay its operating expenses, and then remits the remaining funds to the County (on behalf of the Nassau County Sewer and Storm Water Resources District (the "District")).

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 (deficit) 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.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
Year Ended December 31, 2019
(Dollars in Thousands)

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Government-wide Financial Statements (continued)

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.

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.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
Year Ended December 31, 2019
(Dollars in Thousands)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The statement of net position (deficit) details the assets, liabilities and deferred outflows/inflows of resources (if any) 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 net position or unrestricted net position. For the year ended December 31, 2019, the Authority's liabilities exceeded its assets and deferred outflows of resources, which resulted in a net position (deficit) of \$(119,165).

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

Net Position (Deficit)

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

	2019	2018
Assets		
Current and other assets	\$ 3,145	\$ 3,226
Total Assets	<u>3,145</u>	<u>3,226</u>
Deferred Outflows of Resources		
Deferred charges on refundings	9,137	10,136
Total Deferred Outflows of Resources	<u>9,137</u>	<u>10,136</u>
Liabilities		
Current	13,399	12,906
Non-current	118,048	131,831
Total Liabilities	<u>131,447</u>	<u>144,737</u>
Net Position (Deficit)		
Restricted for debt service	2,788	3,072
Unrestricted	(121,953)	(134,447)
Total Net Position (Deficit)	<u>\$ (119,165)</u>	<u>\$ (131,375)</u>

Current and other assets decreased by \$81 during 2019; this was due to the decrease in cash and investments required to be held for future debt payments.

Deferred outflows of resources decreased by \$999 during 2019; this was due to the current year amortization of loss on refunding, due to the recognition of deferred charges on refunding in relation to the 2014 refunding bonds that were issued.

Total liabilities decreased by \$13,290 during 2019, primarily due to principal payments and amortization of the premiums.

Net deficit decreased by \$12,210, resulting in a net deficit at December 31, 2019 of \$119,165.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
Year Ended December 31, 2019
(Dollars in Thousands)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Changes in Net Position (Deficit)

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

	2019	2018
Revenues		
Sewer and storm water assessments	\$ 138,137	\$ 132,616
Less: distribution to the District	(121,116)	(115,518)
Investment income	238	178
Total Revenues, net	17,259	17,276
Expenses		
General government support	35	28
Interest expense	5,014	5,562
Total Expenses	5,049	5,590
Change in Net Position	12,210	11,686
Net Position (Deficit) at Beginning of Year	(131,375)	(143,061)
Net Position (Deficit) at End of Year	\$ (119,165)	\$ (131,375)

Sewer and storm water assessments totaled \$138,137 for 2019, an increase of \$5,521 from the prior year.

Distributions to the District increased from the prior year due to the increase in sewer assessments available to be transferred, and a decrease in the amount required to be reserved for debt service payments, as compared to 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, the spendable fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

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

General Fund

At the end of 2019, the total fund balance of the general fund was \$2,935, decreasing \$291 from the prior year. Of the \$138,137 of sewer and storm water assessments collected, 88% (or \$121,116) 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 \$17,515 from the general fund, which was used to pay debt service requirements for Authority bonds.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
Year Ended December 31, 2019
(Dollars in Thousands)

DEBT ADMINISTRATION

At the end of 2019, the Authority had total bonded debt outstanding of \$129,843 (including premiums).

Outstanding Debt

A summary of activity for the year ended December 31, 2019 is as follows:

	Balance 1/1/2019	Additions	Reductions	Balance 12/31/2019
Revenue bonds payable:				
Series 2014A	\$ 122,895	\$ -	\$ (11,370)	\$ 111,525
Premiums	20,306	-	(1,988)	18,318
Total bonds payable	<u>\$ 143,201</u>	<u>\$ -</u>	<u>\$ (13,358)</u>	<u>\$ 129,843</u>

At the end of 2019, the Authority's 2014A bonds were rated AAA by S&P Global Ratings and Aa3 by Moody's Investors Service, Inc.

Additional information on the Authority's indebtedness is shown in Note 6 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, 2019
(Dollars in Thousands)

Assets

Cash and cash equivalents
Investments

\$ 339
2,806

Total Assets 3,145

Deferred Outflows of Resources

Deferred charges on refundings

9,137

Total Deferred Outflows of Resources 9,137

Liabilities

Accrued interest

1,394

Due to County

210

Bonds payable:

Due within one year

11,795

Due in more than one year

99,730

Unamortized bond premiums

18,318

Total Liabilities 131,447

Net Position (Deficit)

Restricted for debt service

2,788

Unrestricted

(121,953)

Total Net Position (Deficit) \$ (119,165)

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, 2019
(Dollars in Thousands)

Expenses:

General government support
Interest on debt

\$ 35
5,014

Total Expenses 5,049

Revenues

Sewer and storm water assessments
Less: distribution to the District
Investment income

138,137
(121,116)
238

Total Revenues, net 17,259

Change in Net Position 12,210

Net Position (Deficit) at Beginning of Year

(131,375)

Net Position (Deficit) - End of Year

\$ (119,165)

See notes to the financial statements.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
GOVERNMENTAL FUNDS
BALANCE SHEET
December 31, 2019
(Dollars in Thousands)

	General	Debt Service	Total (Governmental Funds)
Assets			
Cash and cash equivalents	\$ 339	\$ -	\$ 339
Investments	2,806	-	2,806
Total Assets	<u>\$ 3,145</u>	<u>\$ -</u>	<u>\$ 3,145</u>
Liabilities			
Due to County	\$ 210	\$ -	\$ 210
Total Liabilities	<u>210</u>	<u>-</u>	<u>210</u>
Fund Balances			
Restricted for debt service	\$ 2,788	\$ -	\$ 2,788
Unassigned	147	-	147
Total Fund Balances	<u>2,935</u>	<u>-</u>	<u>2,935</u>
Total Liabilities and Fund Balances	<u>\$ 3,145</u>	<u>\$ -</u>	<u>\$ 3,145</u>

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, 2019
(Dollars in Thousands)

Total Fund Balances - Governmental Funds

\$ 2,935

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

Deferred charges that are included in the statement of net position (deficit) 9,137

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

Authority bonds payable	(111,525)
Unamortized bond premiums	(18,318)
Accrued interest	<u>(1,394)</u>

Net Position (Deficit) of Governmental Activities	<u>\$ (119,165)</u>
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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, 2019
(Dollars in Thousands)

	General	Debt Service	Total (Governmental Funds)
Revenues			
Sewer and storm water assessments	\$ 138,137	\$ -	\$ 138,137
Investment income	238	-	238
Total Revenues	138,375	-	138,375
Expenditures			
General government support	35	-	35
Distribution to the District	121,116	-	121,116
Debt service:			
Principal	-	11,370	11,370
Interest	-	6,145	6,145
Total Expenditures	121,151	17,515	138,666
Excess (Deficiency) of Revenues Over (Under) Expenditures	17,224	(17,515)	(291)
Other Financing Sources (Uses)			
Transfer out	(17,515)	-	(17,515)
Transfer in	-	17,515	17,515
Total Other Financing Sources (Uses)	(17,515)	17,515	-
Net Change in Fund Balances	(291)	-	(291)
Fund Balances - Beginning of year	3,226	-	3,226
Fund Balances - End of Year	\$ 2,935	\$ -	\$ 2,935

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
Year Ended December 31, 2019
(Dollars in Thousands)

Net Change in Fund Balances - Total Governmental Funds

\$ (291)

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

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

Principal payments of bonds

11,370

Accrued interest payable and amortization of deferred charges on refundings

(857)

Government funds reports premium on debt issued as other financing sources. However, in the statement of activities, the premium on debt issued is amortized over the life of the related debt.

1,988

Changes in Net Position of Governmental Activities

\$ 12,210

See notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019
(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 financial statements, 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.

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

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. As required by the 2014 General Revenue Bond Resolution, the Authority retains sufficient funds to service principal and interest due and to pay its operating expenses; the remaining funds are remitted to the County (on behalf of the District).

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 (deficit) 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.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019
(Dollars in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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.

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

- The general fund accounts for sewer and storm water assessments and other revenues received by the Authority for its general operating expenses, transfers to the debt service fund to pay debt service as it comes due, and distributions to the County (on behalf of the District).
- The debt service fund is used to account for and report financial resources that are for principal and interest payments.

The Authority does not have a legally adopted budget as per the definition provided by the GASB Comprehensive Implementation Guide and therefore, no budget to actual information is presented in these financial statements.

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.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019
(Dollars in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (continued)

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 (deficit) and the changes in net position (deficit).

C. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, NET POSITION (DEFICIT), 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. 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.

2. Deferred Outflows of Resources

The statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows 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 \$9,137 that will be recognized in future periods.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019
(Dollars in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, NET POSITION (DEFICIT), AND FUND EQUITY (continued)

3. 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 are included with long-term debt in the government-wide financial statements. Issuance costs are expensed when incurred.

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

4. Interfund Transactions

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

5. Net Position and Fund Equity Classifications

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

- a) 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.
- b) Unrestricted net position — is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of any other component of net position. The unrestricted net position is currently a deficit due to liabilities exceeding assets and deferred outflows of resources.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019
(Dollars in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, NET POSITION (DEFICIT), AND FUND EQUITY (continued)

5. Net Position and Fund Equity Classifications (continued)

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

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

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

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

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019
(Dollars in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. REVENUES AND EXPENDITURES/EXPENSES

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

Sewer and storm water 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 retains funds to service its debt and pay its operating expenses, then remits remaining funds to the County (on behalf of the District). The District is responsible for paying all of the operational costs of the System.

E. USE OF ESTIMATES

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

F. NEW ACCOUNTING PRINCIPLES

The Authority has adopted all of the current Statements of the GASB that are applicable during the year ended December 31, 2019.

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, which includes the District.

The legal documents of the Authority require revenue remaining after application of amounts needed to fund debt service requirements and operations of the Authority be remitted to the County (on behalf of the District). During the year ended December 31, 2019, the Authority remitted \$121,116 to the County (on behalf of the District).

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

The following table summarizes the Authority's cash and cash equivalents held by the Authority's trustee as of December 31, 2019:

Money Market Fund

\$ 339

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019
(Dollars in Thousands)

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

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

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

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

Credit Risk - State law and the Authority's policies limit investments to those authorized by the State statutes. The Authority has a written investment policy which is designed to protect deposits and investment principal by limiting permitted investments.

Interest Rate Risk - The risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's investments are relatively short-term investments based on the cash flow needs of the Authority. All investments held at December 31, 2019 mature on March 26, 2020.

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% or more in securities of a single issuer. All of the Authority's investments are in U.S. Treasury Bills at December 31, 2019.

At December 31, 2019, the Authority's cash and cash equivalents balance was fully covered by the Federal Deposit Insurance Corporation and/or collateralized. All cash, cash equivalents and investments are held by the Authority's trustee solely as agent of the Authority.

The following is a summary of the fair value of investments of the Authority as of December 31, 2019:

U.S. Treasury securities	<u>\$ 2,806</u>
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Fair Value Hierarchy

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation of inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs (the Authority does not value any of its investments using Level 3 inputs).

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
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(Dollars in Thousands)

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

Investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Investments classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique provided by third party custodians. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The Authority's current investments in U.S. Treasury securities are valued using pricing provided by a third party pricing service (Level 2 inputs).

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

During the year ended December 31, 2019, the general fund transferred \$17,515 to the debt service fund for payment of principal and interest on debt.

5. DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources from the deferred loss on refunding are as follows for the year ended December 31, 2019.

Deferred outflows of resources from:	
Loss on refunding	\$ 14,263
Less accumulated amortization	(5,126)
	<u>\$ 9,137</u>

6. LONG-TERM DEBT

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

	Balance 1/1/2019	Additions	Reductions	Balance 12/31/2019	Due within One Year	Non-current
Revenue bonds payable:						
Series 2014A	\$ 122,895	\$ -	\$ (11,370)	\$ 111,525	\$ 11,795	\$ 99,730
Premiums	20,306	-	(1,988)	18,318	-	18,318
Total bonds payable	<u>\$ 143,201</u>	<u>\$ -</u>	<u>\$ (13,358)</u>	<u>\$ 129,843</u>	<u>\$ 11,795</u>	<u>\$ 118,048</u>

Authority Bonds

The County is required to levy assessments and/or impose charges each year of no less than 200% of the Authority's 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. The 2014 System Revenue Bonds proceeds were used to refinance outstanding Authority bonds previously issued for capital improvements to the sewer and storm water system and to fund additional capital improvements to the sewer and storm water system.

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6. LONG-TERM DEBT (continued)

Aggregate debt service to maturity for Authority Bonds as of December 31, 2019, excluding premiums, is as follows:

Years Ending December 31st,	Principal	Interest	Total
2020	\$ 11,795	\$ 5,576	\$ 17,371
2021	12,365	4,987	17,352
2022	12,865	4,368	17,233
2023	13,445	3,725	17,170
2024	10,285	3,053	13,338
2025-2029	39,235	8,150	47,385
2030-2034	11,535	1,787	13,322
	<u>\$ 111,525</u>	<u>\$ 31,646</u>	<u>\$ 143,171</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Nassau County Sewer and Water Finance Authority (the "Authority"), a component unit of the County of Nassau, New York, as of and for the year ended December 31, 2019 as listed in the table of contents, and the related notes to the financial statements, and have issued our report thereon dated March XX, 2020.

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 opinion 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 Authority'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.

New York, NY
March XX, 2020

DRAFT