Nassau County Sewer and Storm Water Finance Authority

Financial Statements as of and for
the Year Ended
December 31, 2012 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:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Nassau County Sewer and Storm Water Finance Authority (the "Authority), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 and each major fund of the Authority, as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 1 to the financial statements, in 2012, the Authority adopted Governmental Accounting Standards Board ("GASB") Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the Authority is a public benefit corporation that has material transactions with the County of Nassau (the "County"). The County is under a control period as imposed by the Nassau County Interim Finance Authority.

As described in Notes 1 and 5, the Authority realized an impairment loss due to Superstorm Sandy.

Other Matters

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 which 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 October 17, 2013 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.

Deloitte & Touche LLP

October 17, 2013

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2012
(Dollars in Thousands)

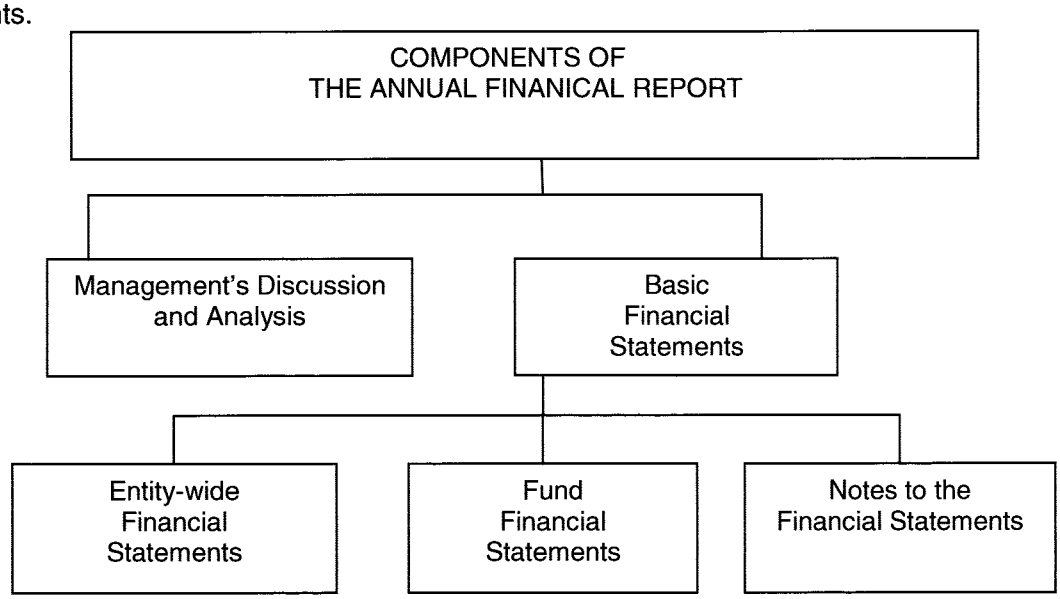
As management of the Nassau County Sewer and Storm Water Finance Authority, we offer readers of the financial statements this narrative overview and analysis of our financial activities for the year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction 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 by or on behalf of Nassau County (the "County") and the financing of future County sewer and storm water resources projects, ultimately providing substantial savings to the County and its residents.

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 the 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 the 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 the remaining funds to the Nassau County Sewer and Storm Water Resources District (the "District"). 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. This includes the repairs needed at the facilities damaged by Superstorm Sandy.

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.



OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Entity-wide Financial Statements

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

The statement of net position presents financial information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. This combines and consolidates the Authority's current financial resources with capital assets and long-term obligations. The purpose of this statement is to give the reader an understanding of the Authority's total net worth.

The statement of activities presents information showing how the Authority's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. This method is known as the accrual basis of accounting and is different from the modified accrual basis of accounting used in the Authority's fund financial statements.

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

Fund Financial Statements

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

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

The Authority maintains two individual governmental funds, the general fund and the debt service fund, both of which are reported as major funds. Information is presented separately in the governmental 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.

ENTITY-WIDE FINANCIAL ANALYSIS

The statement of net position details the assets and liabilities of the Authority based on their liquidity, utilizing current and noncurrent categories. The resulting net position, in this statement, is displayed as either net investment in capital assets, restricted or unrestricted. The Authority's assets exceeded its liabilities by $581,422 (net position) at the close of the most recent year.

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

Condensed Statement of Net Position
As of December 31, 2012 and 2011

Governmental Activities:	**2012**	**2011**
Assets		
Current and other assets	$ 34,520	$ 25,377
Capital assets	997,828	1,043,302
Total Assets	1,032,348	1,068,679
Liabilities		
Current	55,487	34,093
Non-current	395,439	421,912
Total Liabilities	450,926	456,005
Net Position		
Net Investment in capital assets	578,379	595,151
Restricted	-	3,126
Unrestricted	3,043	14,397
Total Net Position	$ 581,422	$ 612,674

Condensed Statement of Activities
For the Years Ended December 31, 2012 and 2011

Governmental Activities	**2012**	**2011**
Revenues		
Property taxes (sewer assessments)	$ 117,282	$ 119,041
Less: Transfer to the District	(87,300)	(75,000)
Income from debt payments made directly by NIFA	5,824	5,102
Federal aid	-	3,126
Investment income, net and amortization of premiums	164	97
Total Revenues, net	35,970	52,366
Expenses		
General government support	227	220
Depreciation	47,027	45,432
Interest expense	19,645	20,792
Amortization of bond issuance costs	282	282
Impairment loss on capital assets	20,989	-
Total Expenses	88,170	66,726
Transfer from the County	20,948	113,077
Increase (Decrease) in Net Position	(31,252)	98,717
Net Position, beginning of year	612,674	513,957
Net Position, end of year	$ 581,422	$ 612,674

ENTITY-WIDE FINANCIAL ANALYSIS (continued)

Capital assets decreased by $45,474 during 2012, this was due to depreciation exceeding additions and the impairment loss sustained due to Superstorm Sandy (see Capital Assets below) recognized during the year.

Total liabilities decreased by $5,079 during 2012, primarily due to scheduled principal payments totaling $31,119, increases for County Bonds issuances of $2,135 and increases for amounts due to the County of $24,000.

Net position decreased by $31,252 resulting in net position at December 31, 2012 of $581,422. The decrease in net position is primarily due to the increase in the amount transferred to the District and the impairment loss recognized during the year.

Prior year restricted net position was released from restriction and transferred to the District for capital purposes.

Property taxes (sewer assessments) totaled $117,282 for 2012, a decrease of $1,759 from the prior year.

Depreciation and interest expense are the most significant ordinary expenses of the Authority. Depreciation increased $1,595 from the prior year due to prior year capital asset additions receiving a full year of depreciation. Interest expense decreased by $1,147 from the prior year due to scheduled debt reductions.

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 2012, the total fund balance of the general fund was $6,287, decreasing $14,575 from the prior year. Of the $117,282 of sewer assessments collected, 74.44% or $87,300 was transferred to the District; the remaining amount was transferred to the debt service fund or used to pay for the operations of the Authority.

Debt Service Fund

During the year, the debt service fund received $44,495 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 2012, the Authority added approximately $22,542 in capital assets. On October 29, 2012, Superstorm Sandy, a Category 1 post-tropical cyclone, struck the southern Atlantic coast of Nassau County, New York and caused destruction across the County.

CAPITAL ASSETS (continued)

Sandy's impact on land during high tide, together with the tidal surges and strong winds caused unprecedented flooding levels. As a result of the impact of the storm, the Authority suffered physical damage to buildings, infrastructure and equipment. The Authority evaluated its capital assets and realized a loss from impairment of $20,989. The cost associated with the repairs, replacement, required mitigation and compliance with current codes and standards with respect to these assets is estimated to be approximately $750,000. The County is in the process of requesting funds from the Federal Emergency Management Agency ("FEMA") to repair or replace these assets that were impaired. As of October 17, 2013, no funds have been obligated for permanent repairs as the County and FEMA continue to refine the estimated costs to restore the facilities. In accordance with an order by President Obama on May 23, 2013, FEMA will reimburse 90% of all eligible costs. The remaining 10% will be funded by either the County or the State. Repairs are expected to take approximately 5 years.

DEBT ADMINISTRATION

At the end of 2012, the Authority had total bonded debt outstanding of $148,656 (including premiums). Additionally, the Authority is obligated to pay $275,026 of County Bonds.

A summary of activity for the year ended December 31, 2012 is as follows:

Outstanding Debt

	Balance 1/1/12	Additions/ Reallocations	Reductions	Balance 12/31/12
Revenue bonds payable:				
Series 2008A	$ 134,240	$ -	$ (6,655)	$ 127,585
Series 2004B	20,355		(1,145)	19,210
Subtotal	154,595	-	(7,800)	146,795
Premiums	2,005		(144)	1,861
Total bonds payable	156,600	-	(7,944)	148,656
Due to the County for acquisition of the System	296,066	2,135	(23,175)	275,026
	$ 452,666	$ 2,135	$ (31,119)	$ 423,682

At the end of 2012, the Authority's 2008A bonds were rated AA+(insured), A+(uninsured) by Standard & Poor's, Aa1(insured), Aa3(uninsured) by Moody's and AA- by Fitch. At the end of 2012, the 2004B bonds were rated 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 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
STATEMENT OF NET POSITION
December 31, 2012
(Dollars in Thousands)

Assets		
Cash and cash equivalents	$	30,287
Capital assets - net of depreciation		997,828
Other noncurrent assets - net of amortization		4,233
Total Assets		1,032,348
Liabilities		
Accrued expenses		32
Accrued interest on Authority Bonds		1,299
Due to County		24,000
Bonds payable:		
Due within one year		8,098
Due in more than one year		140,558
Due to County:		
Due within one year		20,145
Due in more than one year		254,881
Accrued interest payable		1,913
Total Liabilities		450,926
Net Position		
Net Investment in capital assets		578,379
Unrestricted		3,043
Total Net Position	$	581,422

See notes to the financial statements.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
STATEMENT OF ACTIVITIES
Year Ended December 31, 2012
(Dollars in Thousands)

Revenues		
Property taxes (sewer assessments)		$ 117,282
Less: transfer to the District		(87,300)
Income from debt payments made directly by NIFA		5,824
Investment Income, net and amortization of premiums		164
	Total Revenues, net	35,970
Expenses:		
General government support		227
Depreciation		47,027
Interest expense:		
Authority Bonds		7,613
County Bonds		12,032
Amortization of issuance costs		282
Impairment loss on capital assets		20,989
	Total Expenses	88,170
Transfer from the County		20,948
	Changes in Net Position	(31,252)
	Net Position - Beginning of Year	612,674
	Net Position - End of Year	$ 581,422

See notes to the financial statements.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012
(Dollars in Thousands)

	General	Debt Service	Total (Governmental Funds)
Assets			
Cash and cash equivalents	$ 30,287	$ -	$ 30,287
Total Assets	$ 30,287	$ -	$ 30,287
Liabilities			
Due to County	$ 24,000	$ -	$ 24,000
Total Liabilities	24,000	-	24,000
Fund Balances			
Unassigned	6,287	-	6,287
Total Fund Balances	6,287	-	6,287
Total Liabilities and Fund Balances	$ 30,287	$ -	$ 30,287

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
December 31, 2012
(Dollars in Thousands)

Total Fund Balances - Governmental Funds	$	6,287
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Capital assets, depreciable		1,345,045
Accumulated depreciation		(347,217)
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:		
Authority bonds payable		(148,656)
Due to the County		(275,026)
Accrued interest		(3,212)
Accrued expenses		(32)
Long-term assets are not available to pay for current period expenditures and accordingly are not reported in the funds.		4,233
Net Position of Governmental Activities	$	581,422

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
Year Ended December 31, 2012
(Dollars in Thousands)

	General	Debt Service	Total (Governmental Funds)
Revenues			
Property taxes (sewer assessments)	$ 117,282	$ -	$ 117,282
Investment Income, net	20	-	20
Total Revenues	117,302	-	117,302
Other Financing Sources			
Operating transfer in	-	44,495	44,495
Total Revenues and Other Financing Sources	117,302	44,495	161,797
Expenditures			
Current			
General government support	82	144	226
Debt service			
Principal	-	7,800	7,800
Interest	-	7,679	7,679
Total Expenditures	82	15,623	15,705
Other Financing Uses			
Transfer to debt service fund	44,495	-	44,495
Transfer to District	87,300	-	87,300
Transfer to District - County debt principal	-	18,733	18,733
Transfer to District - County debt interest	-	10,139	10,139
Total Expenditures and Other Financing Uses	131,877	44,495	176,372
Excess of Expenditures and Other Financing Uses Over Revenue and Other Financing Sources	(14,575)	-	(14,575)
Fund Balances - Beginning of year	20,862	-	20,862
Fund Balances - End of Year	$ 6,287	$ -	$ 6,287

See notes to the financial statements.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
Year Ended December 31, 2012
(Dollars in Thousands)

Net Change in Fund Balances - Total Governmental Funds	$	(14,575)
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 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 position.		26,533
Principal payments made directly by NIFA are reported in the statement of activities as revenue and as a reduction in the obligations to NIFA in the statement of net position; this transaction is not included in the governmental funds statements.		3,902
Interest payments made directly by NIFA are reported in the statements of activities as revenue and an expense; this transaction is not included in the governmental funds statements.		1,922
Governmental funds report costs of debt issuance as an 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.		144
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.		(1,827)
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.		20,948
Certain expenses are reported in the statement of activities but do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Depreciation expense		(47,027)
Impairment loss on capital assets		(20,989)
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.		(1)
Change in Net Position of Governmental Activities	$	(31,252)

See notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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").

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.

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 deposits 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. Sewer assessments are determined annually during the County's budget process. During this process the County ensures that assessments include sufficient funds to cover the required debt service and operating costs of the Authority and the District.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The basic financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. ENTITY-WIDE AND FUND FINANCIAL STATEMENTS

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

Entity-Wide Financial Statements

The entity-wide financial statements of the Authority, which include the statement of net position and the statement of activities, are presented to display information about the reporting entity as a whole. The 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANICAL 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 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' governmental activities column, a reconciliation is presented that briefly explains the adjustments necessary to reconcile ending net position and the change in net position.

C. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE

1. Cash, Cash Equivalents and Investments

The Authority invests in accordance with the applicable law, authorizing resolutions, and the Authority's Investment Guidelines. As of December 31, 2012, the Authority held cash and money market accounts. All bank deposits of the Authority are required to be fully collateralized or insured. The money market accounts are recorded at cost, which approximates fair value.

The Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Investments are recorded at fair value, which includes accrued interest receivable. 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, expenditures, and changes in fund balances. Fair value is determined using quoted market values at December 31, 2012. There are no investments at December 31, 2012.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION/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:

	Years
Infrastructure	15 - 40
Buildings	40
Equipment	5

On October 29, 2012, Superstorm Sandy, a Category 1 post-tropical cyclone, struck the southern Atlantic coast of Nassau County, New York and caused destruction across the County.

Sandy's impact on land during high tide, together with the tidal surges and strong winds caused unprecedented flooding levels. As a result of the impact of the storm, the Authority suffered physical damage to buildings, infrastructure and equipment. The Authority evaluated its capital assets and realized a loss from impairment of $20,989. The cost associated with the repairs, replacement, required mitigation and compliance with current codes and standards with respect to these assets is estimated to be approximately $750,000. The County is in the process of requesting funds from the Federal Emergency Management Agency ("FEMA") to repair or replace these assets that were impaired. As of October 17, 2013, no funds have been obligated for permanent repairs as the County and FEMA continue to refine the estimated costs to restore the facilities. In accordance with an order by President Obama on May 23, 2013, FEMA will reimburse 90% of all eligible costs. The remaining 10% will be funded by either the County or the State. Repairs are expected to take approximately 5 years.

3. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority did not have any items qualifying for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time. The Authority did not have any items qualifying for reporting in this category.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4. 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 position. 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.

5. 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.

6. Net Position and Fund Equity Classifications

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

a) Net investment in capital assets — Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, due to County, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b) Restricted net position — Consists of net position with constraints placed on the use of such, either by: (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c) Unrestricted net position — All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

6. Net Position and Fund Equity Classifications (continued)

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

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

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

3) Committed fund balance reflects amounts that can only be used for specific purposes by a government using its highest and most binding level of decision making authority. The Authority is not empowered to establish law; accordingly the Authority will not have committed fund balances.

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

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

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

D. REVENUES AND EXPENDITURES

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

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, and pay its operating expenses and then remits remaining funds to the Nassau County Sewer and Storm Water Resources District (the "District'). The District is responsible for paying all of the operational costs of the System.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. USE OF ESTIMATES

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

F. NEW ACCOUNTING PRINCIPLES

The Authority has adopted all of the current statements of the GASB that are applicable. Effective with the financial report for the year ended December 31, 2012, the Authority has adopted GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

G. IMPAIRMENT LOSS

On October 29, 2012, Superstorm Sandy, a Category 1 post-tropical cyclone, struck the southern Atlantic coast of Nassau County, New York and caused destruction across the County. Sandy's impact on land during high tide, together with the tidal surges and strong winds caused unprecedented flooding levels. As a result of the impact of the storm, the Authority suffered physical damage to buildings, infrastructure and equipment. The Authority evaluated its capital assets and realized a loss from impairment of $20,989. The County is in the process of requesting funds from FEMA to repair or replace these assets that were impaired, subject to a 10% local match from the County or State.

H. 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.

On July 15, 2013 the County Legislature approved borrowing for $262,000 for various sewer and storm water resources projects including repairs to facilities damaged by Superstorm Sandy.

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. 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, 2012, the Authority effectively remitted $28,872 to the County for the installment payments due for purchase of the System by making the required County Bonds debt service payments (excluding amounts paid by NIFA).

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

Nassau County (continued)

The Authority reported revenue from a transfer from the County of $20,948, consisting of capital assets transferred during the year, net of related debt. During the year ended December 31, 2012, the County transferred to the Authority $22,542 of capital improvements made to the System. Additionally, during 2012, the County issued its 2012 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 2012 was allocated to the Authority. Other County Bonds from prior years were refunded during 2012. These transactions resulted in an additional amount due to the County for related debt service totaling $1,594.

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, 2012, the Authority remitted $87,300 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, 2012, to reflect the payments made by NIFA, the Authority reduced the amount due to County by $3,902, reported $5,824 of income from debt payments made directly by NIFA and reported $1,922 of interest expense.

3. CASH AND CASH EQUIVALENTS

The following table summarizes the Authority's cash and cash equivalents held by the Authority's Trustee as of December 31, 2012:

Money Market	$ 30,287

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

3. CASH AND CASH EQUIVALENTS

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

At December 31, 2012, the Authority's cash and cash equivalents balance was fully covered by the Federal Deposit Insurance Corporation and/or collateralized.

As of December 31, 2012, 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.

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

During the year ended December 31, 2012, the general fund transferred $44,495 to the debt service fund for payment of principal and interest on debt and related operating costs.

5. CAPITAL ASSETS

Capital assets activities for the year ended December 31, 2012 are as follows:

	Balance at 1/1/12	Additions	Deletions	Balance at 12/31/12
Depreciable capital assets:				
Infrastructure	$ 1,019,668	$ 22,090	$ (5,708)	$ 1,036,050
Buildings	326,452	17	(20,355)	306,114
Equipment	2,552	435	(106)	2,881
Total depreciable assets	1,348,672	22,542	(26,169)	1,345,045
Less accumulated depreciation				
Infrastructure	234,383	37,469	(565)	271,287
Buildings	69,960	9,163	(4,527)	74,596
Equipment	1,027	395	(88)	1,334
Total accumulated depreciation	305,370	47,027	(5,180)	347,217
Total net capital assets	$ 1,043,302	$ (24,485)	$ (20,989)	$ 997,828

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 Authority's practice is to record an impairment loss in the period when the Authority determines that the carrying amount of the asset will not be recoverable. At December 31, 2012, the Authority evaluated its capital assets and realized an impairment loss of $20,989, as a result of Superstorm Sandy. Depreciation expense totaled $47,027 for the year ending December 31, 2012. See note 1.G for further explanation.

6. LONG-TERM DEBT

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

	Balance 1/1/2012	Additions/ Reallocations	Reductions	Balance 12/31/12	Due within One Year	Non-current
Revenue bonds payable:						
Series 2008A	$ 134,240	$ -	$ (6,655)	$ 127,585	$ 6,810	$ 120,775
Series 2004B	20,355		(1,145)	19,210	1,145	18,065
Subtotal	154,595	-	(7,800)	146,795	7,955	138,840
Premiums	2,005		(144)	1,861	143	1,718
Total bonds payable	156,600	-	(7,944)	148,656	8,098	140,558
Due to the County for acquisition of the System	296,066	2,135	(23,175)	275,026	20,145	254,881
	$ 452,666	$ 2,135	$ (31,119)	$ 423,682	$ 28,243	$ 395,439

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.

Aggregate debt service to maturity for Authority Bonds as of December 31, 2012, is as follows:

Years Ending December 31,	Principal	Interest	Total
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	9,210	5,841	15,051
2018-2022	52,690	21,794	74,484
2023-2027	42,805	8,531	51,336
2028	8,185	440	8,625
	$ 146,795	$ 63,731	$ 210,526

6. LONG-TERM DEBT (continued)

Due to the County for the Acquisition of the System

Pursuant to the 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, 2012, the County issued $2,135 of Series 2012A bonds for the purpose of capital improvements to the System, the total of which was effectively transferred to the Authority.

Aggregate debt service to maturity for County Bonds as of December 31, 2012, is as follows:

Years Ending December 31,	Total Principal	Total Interest	Total	Payments to be made by NIFA	Cash Requirments of the Authority
2013	$ 20,145	$ 13,541	$ 33,686	$ (5,081)	$ 28,605
2014	19,521	12,534	32,055	(4,856)	27,199
2015	18,377	11,640	30,017	(4,386)	25,631
2016	16,414	10,860	27,274	(5,067)	22,207
2017	15,452	10,110	25,562	(4,675)	20,887
2018-2022	80,386	38,811	119,197	(20,034)	99,163
2023-2027	51,028	20,434	71,462	(4,271)	67,191
2028-2032	30,722	10,599	41,321		41,321
2033-2037	20,561	3,371	23,932		23,932
Thereafter	2,420	185	2,605		2,605
	$ 275,026	$ 132,085	$ 407,111	$ (48,370)	$ 358,741

7. PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

The Governmental Accounting Standards Board (GASB) has issued 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 Authority for the year ended December 31, 2013.

The GASB has issued Statement No. 65, "Items Previously Reported as Assets and Liabilities." This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this statement become effective for the Authority for the year ended December 31, 2013.

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

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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, in accordance with the auditing standards generally accepted in the United States of America the financial statements of the governmental activities and each major fund of the Nassau County Sewer and Storm Water Finance Authority (the "Authority"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 17, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority 's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results

of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Deloitte & Touche LLP

October 17, 2013