



Hon. George Maragos
Nassau County Comptroller



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VIA HAND DELIVERY

TO: Hon. Edward P. Mangano, County Executive
Hon. Jon Kaiman, Chairman, NIFA
Hon. Norma Gonsalves, Presiding Officer
Hon. Kevan Abrahams, Minority Leader

DATE: April 29, 2014

FROM: Hon. George Maragos, County Comptroller

RE: Restatement of the County's 2012 Comprehensive Annual Financial Report (CAFR).

This letter is to advise you that during our Office's 2013 year-end closing process, two material misstatements relating to our pension plans were discovered which affect the County's 2012 Comprehensive Annual Financial Report (CAFR). The more significant finding dates back to 2005. These misstatements are sufficiently significant to require restatement of the 2012 CAFR to be in accordance with Generally Accepted Accounting Principles (GAAP) for governmental entities.

The County's outside auditors have verified the materiality of these misstatements and have recommended the restatement. We are continuing to evaluate the total impact to the numerous financial statements and disclosures in the CAFR, in cooperation with the County's outside auditors, who have not yet completed their audit of the restatement. Since the County's financial statements may be relied upon by rating agencies and purchasers of County obligations in its upcoming offerings, it is important that we complete the restatement as soon as possible. These findings will have NO impact to the County's results as reported on a budgetary basis. The County operates financially on a budgetary basis and reports on a GAAP basis.

The un-audited findings are as follows:

1. **Prepaid Pension Expense.** In 2004, New York State changed the timing of the pension bill and gave municipalities a discount incentive to prepay its annual pension bill. In 2005 the County was permitted for the first year to prepay and took advantage of the option. In making this election, the previous Comptroller's Office erred in setting up an accounting methodology to convert the pension expense and the prepaid asset from a budgetary basis to a GAAP reporting basis. The current Comptroller staff determined that the adopted methodology incorrectly reversed the prior year's adjustment, resulting in a seven year (2006 - 2012) cumulative understatement of pension expense on a GAAP basis, of approximately \$84.3 million for the General and Police District Funds (PDD) as reported in the 2012 CAFR.

The amount incorrectly accrued from 2006 to 2009 in the General and Police District Funds was negative \$71.6 million and negative \$12.8 million from 2010 to 2012. The effect of this restatement is a reduction of the County's ending fund balance as reported in the 2012 CAFR on a GAAP basis for the General and Police District funds from \$111.4 million to \$27.1 million. However, as the unaudited 2013 results recently released showed a restated GAAP surplus of \$48.9 million (after \$9.8 million negative adjustment on the reported unaudited 2013 GAAP results due to the error above), the year-end 2013 General and PDD fund balance is expected to increase to over \$70 million.

2. **Pension Amortization.** Beginning with the retirement bill due and payable in February 2012, New York State provided budgetary relief to local municipalities by permitting the amortization of a portion of the bill, provided the local municipality elected the amortization. There was staff error in the calculation of the government-wide accrued liabilities for the amount that should have been accrued for pension expense and the amount owed to the New York State Retirement System ("Retirement System") for 2011 and 2012. Unfortunately, this error was not identified during the review process that occurs prior to the issuance of the financial statements.

Consequently, the pension expense as reported on the government-wide financial statements (full-accrual) for 2012 was additionally understated in the amount of \$87.3 million, and the liability to the Retirement System was understated by \$89.9 million on the government-wide financial statements. The difference represents an understatement of assets for the College's portion of the liability, which is reimbursed by the College to the County. However, it is important to note that unlike the previous finding noted above, this error had no impact to the governmental fund statements in the CAFRs.

It should be noted that these misstatements do not impact the budgetary results reported in any of the previous years. However, the Nassau County Interim Finance Authority (NIFA) presentation results (using the recently agreed modified NIFA basis) will be negatively affected as follows:

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<u>YEAR</u>	<u>NIFA PRESENTATION \$ Millions)</u>	
	<u>PREVIOUS</u>	<u>REVISED (*Unaudited)</u>
2013	\$(68.5)*	(\$ 78.3)
2012	\$(64.0)	(\$ 68.8)
2011	\$(150.7)	(\$163.1)
2010	\$(156.4)	(\$ 152.0)
2009	\$(169.5)	(\$190.7)
2008	\$(117.1)	(\$137.7)

We will need your support to expedite the approval of a contract amendment with AVZ & Company for professional services to assist the Comptroller staff in conjunction with our outside auditors to prepare the restated County 2012 CAFR. The County has a legal obligation in compliance with Rule 10(b)(5) of the Securities Exchange Act of 1934, to expeditiously reissue financial statements when material errors or omissions are discovered. It is in the County's best interest to complete this restatement before any debt offerings.

Cc: Mr. Tim Sullivan, Deputy County Executive of Finance
Hon. Carnell Foskey, County Attorney