

# Nassau County Tobacco Settlement Corporation

Report to the Board of Directors  
May 6, 2015



May 6, 2015

Board of Directors  
Nassau County Tobacco Settlement Corporation  
One West Street  
Mineola, NY 11501

Attention: Board of Directors

We are pleased to present this report related to our audit of the basic financial statements of Nassau County Tobacco Settlement Corporation (NCTSC) for the year ended December 31, 2014. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for NCTSC's financial reporting process.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties. It would be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to NCTSC.

*McGladrey LLP*

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# Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the basic financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
<b>Our Responsibilities With Regard to the Financial Statement Audit</b>	Our responsibilities under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States, have been described to you in our arrangement letter dated January 13, 2015. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities which are also described in that letter.
<b>Overview of the Planned Scope and Timing of the Financial Statement Audit</b>	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.
<b>Accounting Policies and Practices</b>	<p><b>Adoption of, or Change in, Accounting Policies</b> Management has the ultimate responsibility for the appropriateness of the accounting policies used by NCTSC. NCTSC did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.</p> <p><b>Significant or Unusual Transactions</b> We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p><b>Management's Judgments and Accounting Estimates</b> Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.</p>

Area	Comments
<b>Basis of Accounting</b>	<p>The basic financial statements were prepared on the assumption that NCTSC will continue as a going concern. During the audit we noted the following events or conditions that indicated there could be substantial doubt about NCTSC's ability to continue as a going concern:</p> <ul style="list-style-type: none"> <li>• Payments with respect to the Series 2006 Bonds are dependent upon receipt of Tobacco Settlement Receipts (TSRs). The Series 2006 Bonds are special obligations of NCTSC payable solely from the pledged revenues, the Senior Liquidity Reserve Account, and other funds and accounts as provided in the Indenture. NCTSC has no other assets available for the payment of the Series 2006 Bonds. Failure to pay when due any interest on Senior Bonds or any Serial Maturity or Turbo Term Bond Maturity for Senior Bonds, among other things, will constitute an event of default.</li> </ul> <p>We evaluated the events and conditions and concluded that there was not substantial doubt about NCTSC's ability to continue as a going concern for a reasonable period of time.</p>
<b>Audit Adjustments</b>	<p>There were no audit adjustments made to the original trial balance presented to us to begin our audit.</p>
<b>Uncorrected Misstatements</b>	<p>We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.</p>
<b>Disagreements With Management</b>	<p>We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the basic financial statements.</p>
<b>Consultations With Other Accountants</b>	<p>We are not aware of any consultations management had with other accountants about accounting or auditing matters.</p>
<b>Significant Issues Discussed With Management</b>	<p>Following is a description of significant issues arising from the audit that were discussed with management.</p> <ul style="list-style-type: none"> <li>• A correction of an error in previously issued financial statements was necessary to reclassify amounts historically recorded to net position balances to properly conform with accounting principles generally accepted in the United States of America (GAAP). The restatement allocates the restricted balance to unrestricted. The restricted investment balance was funded by debt proceeds and, therefore, there is no net position. The restatement has no effect on the statement of activities or other financial statements in prior years.</li> </ul>
<b>Significant Difficulties Encountered in Performing the Audit</b>	<p>We did not encounter any significant difficulties in dealing with management during the audit.</p>

Area	Comments
<b>Letter(s) Communicating Significant Deficiencies and Material Weaknesses in Internal Control over Financial Reporting</b>	We have separately communicated a significant deficiency in internal control over financial reporting identified during our audit of the financial statements as required by the <i>Government Auditing Standards</i> . This communication is in our separate Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> dated May 1, 2015.
<b>Significant Written Communications Between Management and Our Firm</b>	Copies of material written communications between our firm and the management of NCTSC, including the representation letter provided to us by management, are attached as Exhibit A.

# Nassau County Tobacco Settlement Corporation

## Summary of Significant Accounting Estimates

### Year Ended December 31, 2014

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in NCTSC's December 31, 2014, basic financial statements.

<b>Estimate</b>	<b>Accounting Policy</b>	<b>Management's Estimation Process</b>	<b>Basis for Our Conclusions on Reasonableness of Estimate</b>
<b>Investments</b>	Investments are stated at fair value.	Management records investments at fair value based on the Trustee statements.	McGladrey performed independent fair value testing of investment holdings as of December 31, 2014 and has concluded that management's estimates are reasonable.
<b>Amortization of deferred outflows of resources – deferred loss on refunding and deferral of cost from purchase of Tobacco Settlement Receipts (TSRs)</b>	Deferred outflows of resources represent a consumption of net position that is applicable to future reporting period(s) and therefore will not be recognized as an outflow of resources (expense/expenditure) until that time. Recognition as expense/expenditure is achieved through amortization each year.	<p>The deferred loss on refunding is recognized as a component of interest expense over the shorter of the life of the refunded debt or refunding debt.</p> <p>The cost from purchase of future TSRs is being recognized in a systematic and rational manner over the duration of the purchase agreement.</p>	McGladrey has recalculated amortization expense and has concluded that management's estimates are reasonable.

## **Exhibit A—Significant Written Communications Between Management and Our Firm**





**NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION**

**One West Street  
Mineola, NY 11501  
(516) 571-2090**

May 1, 2015

McGladrey, LLP.  
1185 Avenue of the Americas  
New York, NY 10036

This representation letter is provided in connection with your audit of the basic financial statements of the Nassau County Tobacco Settlement Corporation ("NCTSC"), a component unit of Nassau County, New York, as of and for the year ended December 31, 2014 for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of May 1, 2015:

*Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated January 13, 2015, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party transactions, including those with Nassau County or other organizations for which the nature and significance of their relationship with NCTSC are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements, and guarantees, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. 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.

7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. The following have been properly recorded and/or disclosed in the financial statements:
  - a. Net positions and fund balance classifications and related disclosures.
  - b. Expenditures are appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
9. In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. NCTSC has not completed the process of evaluating the impact of GASB 72.
10. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No.5 and/or GASB Statement No.10.
11. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private, or to special assessment bond holders that is not disclosed in the financial statements.
12. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act and OMB Circular No. A-133, because we have not received, expended, or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
13. We agree with the restatement of the previously issued financial statements discussed in Note E. In that regard:
  - a. The restatement corrects an error in those financial statements.
  - b. We were not aware of the error when those financial statements were issued.
  - c. We are not aware of any other errors in those financial statements.

We do not believe it is necessary to recall those financial statements and a copy of the current year's financial statements and independent auditor's report will be available to all users of those financial statements.
14. We have no knowledge of any uncorrected misstatements in the financial statements.

*Information Provided*

15. We have made available to you:
  - 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 within NCTSC from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
16. All transactions have been recorded in the accounting records and are reflected in the financial statements.

17. We have made available to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
  - a. We have no knowledge of allegations of fraud or suspected fraud, affecting NCTSC's financial statements involving: Management.
  - b. Employees who have significant roles in internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
18. We have no knowledge of any allegations of fraud or suspected fraud affecting NCTSC's financial statements received in communications from employees, former employees, analysts, regulators, short sellers, or others.
19. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.
20. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
21. We have disclosed to you the identity of NCTSC's related parties and all the related-party relationships and transactions of which we are aware.
22. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect NCTSC's ability to record, process, summarize, and report financial data, other than what you have provided to us in your internal control communication.
23. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

*Required Supplementary Information*

24. With respect to the management's discussion and analysis presented as required by the Government Accounting Standards Board to supplement the basic financial statements:
  - a. We acknowledge our responsibility for the presentation of such required supplementary information.
  - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by accounting principles generally accepted in the United States of America.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
25. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

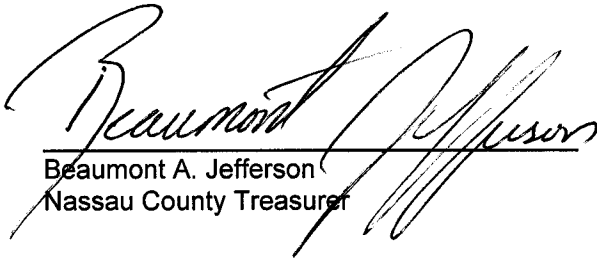
In connection with your audit, conducted in accordance with *Government Auditing Standards*, we confirm that management:

1. Is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the auditee.
2. Has identified and disclosed to the auditor all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
3. Has identified and disclosed to the auditor all instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a

material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

4. Has identified and disclosed to the auditor all instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
5. Has taken timely and appropriate steps to remedy fraud; noncompliance with provisions of laws, regulations, contracts, and grant agreements; or abuse that the auditor reports.
6. Has a process to track the status of audit findings and recommendations.
7. Has made available to the auditor previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
8. Has provided views on the auditor's reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.
9. Acknowledges that no non-audit services have been performed by the auditor.

Nassau County Tobacco Settlement Corporation



Beaumont A. Jefferson  
Nassau County Treasurer