

Nassau County Tobacco Settlement Corporation

Report to the Board of Directors
March 29, 2016



RSM US LLP

1185 Avenue of the Americas
Sixth Floor
New York, NY 10036

T +1 212 372 1000
F +1 212 372 1001

www.rsmus.com

March 29, 2016

Board of Directors
Nassau County Tobacco Settlement Corporation
Mineola, New York

Attention: Board of Directors

We are pleased to present this report related to our audit of the financial statements of the Nassau County Tobacco Settlement Corporation (the Corporation) as of and for the year ended December 31, 2015. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Corporation'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 will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the Corporation.

RSM US LLP

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

Contents

Required communications	1-2
Summary of significant accounting estimates	3
Exhibit A—Significant written communications between management and our firm	
Representation Letter	

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 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
Our Responsibilities With Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated January 14, 2016. 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.
Overview of the Planned Scope and Timing of the Financial Statement Audit	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.
Accounting Policies and Practices	<p>Preferability of Accounting Policies and Practices Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p>Adoption of, or Change in, Accounting Policies Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Corporation. The Corporation 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>Significant or Unusual Transactions 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>Management's Judgments and Accounting Estimates 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
Basis of Accounting	<p>The basic financial statements were prepared on the assumption that the Corporation 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 Corporation's ability to continue as a going concern:</p> <ul style="list-style-type: none"> • Payments with respect to the Series 2006 Bonds are dependent upon receipt of Tobacco Settlement Revenues (TSRs). The Series 2006 bonds are special obligations of the Corporation payable solely from the pledged revenues, the Senior Liquidity Reserve Account, and other funds and accounts as provided in the Indenture. The Corporation has no other funds and accounts as provided by the Indenture. 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. During fiscal year 2015, funds were borrowed from the Senior Liquidity Reserve Account to make a principal payment of \$859,000. <p>We evaluated the events and conditions and concluded that there was not a substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.</p>
Audit Adjustments	<p>There were no audit adjustments made to the original trial balance presented to us to begin our audit.</p>
Uncorrected Misstatements	<p>We are not aware of any uncorrected misstatements, if any, other than misstatements that are clearly trivial.</p>
Disagreements With Management	<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 financial statements.</p>
Consultations With Other Accountants	<p>We are not aware of any consultations management had with other accountants about accounting or auditing matters.</p>
Significant Issues Discussed With Management	<p>No significant issues arising from the audit were discussed or the subject of correspondence with management.</p>
Significant Difficulties Encountered in Performing the Audit	<p>We did not encounter any significant difficulties in dealing with management during the audit.</p>
Significant Written Communications Between Management and Our Firm	<p>Copies of significant written communications between our firm and the management of the Company, including the draft representation letter to be provided to us by management, are attached as Exhibit A.</p>

Summary of Significant Accounting Estimates

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 the Corporation's December 31, 2015 financial statements.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Investments	Investments are stated at fair value.	Management records investments at fair value based on the Trustee statements.	RSM performed independent fair value testing of investment holdings as of December 31, 2015 and has concluded that management's estimates are reasonable.
Amortization of deferred outflows of refunding	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 an expense/expenditure is achieved through amortization each year.	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.	RSM has recalculated amortization expense and has concluded that management's estimates are reasonable.

Exhibit A—Significant Written Communications Between Management and Our Firm

March 29, 2016

RSM US 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, 2015 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, that as of March 29, 2016

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated January 14, 2016, 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 GASB Statement No.10 and No. 62.
- 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 U.S. Office of Management and Budget Uniform Guidance 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 have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

- 14. 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; and
 - 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, as may have been requested.
- 15. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- 16. 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.
- 17. We have no knowledge of allegations of fraud or suspected fraud affecting the entity's financial statements involving:
 - a. 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 the 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 outside legal counsel concerning litigation or claims.
21. We have disclosed to you the identity of the 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 the NCTSC's ability to record, process, summarize and report financial data.
23. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
24. 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.

Supplementary Information

25. 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 U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. There are no underlying significant assumptions or interpretations regarding the measurement or presentation of such information.

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

1. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
2. Is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the auditee.
3. 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.

4. 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.
5. 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.
6. Is responsible 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.
7. Acknowledges its responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.
8. 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, if any.
9. Has a process to track the status of audit findings and recommendations.
10. 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.
11. Has provided views on the auditor's reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.
12. Acknowledges that no nonaudit services have been performed by the auditor.

Nassau County Tobacco Settlement Corporation

Beaumont Jefferson, Nassau County Treasurer