



**NASSAU COUNTY
TOBACCO SETTLEMENT CORPORATION**

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

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

and

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

December 31, 2021



NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
A Component Unit of The County of Nassau, New York

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

and

Reports in Accordance with *Government Auditing Standards*

DECEMBER 31, 2021

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Mayer Hoffman McCann CPAs

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Nassau County Tobacco Settlement Corporation

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Nassau County Tobacco Settlement Corporation (the "Corporation"), a component unit of the County of Nassau, New York, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

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 Corporation as of December 31, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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; and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control - related matters that we identified during the audit.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2022 on our consideration of the Corporation'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 solely 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 the effectiveness of the Corporation's 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 Corporation's internal control over financial reporting and compliance.

Mayer Hoffman McCann CPAs

New York, NY
March 29, 2022

REQUIRED SUPPLEMENTARY INFORMATION
Management's Discussion and Analysis
(unaudited)

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited) (in thousands, unless noted)
Year Ended December 31, 2021

The following is a discussion and analysis of the Nassau County Tobacco Settlement Corporation's ("NCTSC" or "Corporation") financial performance, which provides an overview of NCTSC's financial activities for the year ended December 31, 2021. Please read this in conjunction with the financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- NCTSC's liabilities exceeded its assets and deferred outflows of resources by \$463,801 (total net deficit) at December 31, 2021.
- NCTSC's total net deficit increased by \$6,781.
- NCTSC's governmental funds reported total ending fund balance of \$14,999 at December 31, 2021.
- At the end of the current year, the unassigned fund balance for the general fund was \$273 or 227.5% of total general fund expenditures.
- NCTSC's total bonds payable decreased by \$1,318 or 0.3% during the current year. This decrease is due to the repayment of bond principal offset by the accretion of interest on outstanding bonds and the amortization of bond discounts.

OVERVIEW OF THE FINANCIAL STATEMENTS

NCTSC's annual report is presented in two parts, management's discussion and analysis (this section) and the basic financial statements.

The basic financial statements include government-wide financial statements, governmental funds financial statements and notes that provide more detailed information to supplement the basic financial statements.

Reporting on NCTSC as a Whole

The government-wide financial statements are designed to present the comprehensive financial position of NCTSC and start on page 9. These statements consist of the statement of net position (deficit) and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses, with the exception of tobacco settlement revenues ("TSRs") (see notes to the financial statements for additional information) received under the Master Settlement Agreement ("MSA"), are included regardless of when cash is received or paid, producing a view of the financial position similar to that presented by most private-sector companies.

The statement of net position (deficit) reports all assets, liabilities, deferred outflows/inflows of resources and net position. The net position (deficit) is displayed as one of two categories: restricted and unrestricted. Over time, changes in NCTSC's net position (deficit) is one indicator of whether its financial health is improving or deteriorating. The reader should consider other nonfinancial factors, such as regulatory changes and tobacco consumption, to assess the overall health of the Corporation.

The statement of activities focuses on both the gross and net cost of various activities; these costs are paid by NCTSC's revenues. This statement summarizes the cost of providing specific government services, and includes all current year revenues and expenses.

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited) (in thousands, unless noted)
Year Ended December 31, 2021

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Reporting on NCTSC's Most Significant Funds

The governmental funds financial statements begin on page 11 and provide detailed information about the most significant funds. The Board of Directors (the "Board"), per the Amended and Restated Indenture by and between Nassau County Tobacco Settlement Corporation, as Issuer, and Deutsche Bank Trust Company Americas, as Trustee ("Trustee") dated as of March 1, 2006 ("Indenture Agreement" or "Indenture"), established accounts for the purpose of creating funds to help control and manage money for particular purposes and to demonstrate that it is meeting legal responsibilities for using certain money.

- *Governmental funds* – NCTSC's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental funds financial statements provide a detailed short-term view of NCTSC's general government operations. We describe the relationship (or differences) between government-wide activities (reported in the statement of net position (deficit) and the statement of activities) and governmental funds in reconciliations on pages 12 and 14.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the information provided in the government-wide and the governmental funds financial statements. The notes to the basic financial statements can be found beginning on page 15.

FINANCIAL ANALYSIS OF NCTSC AS A WHOLE

Our analysis below focuses on the net position (deficit) and changes in the net position (deficit) of NCTSC as a whole.

Net Position (Deficit)

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

	2021	2020
Assets		
Current assets	\$ 308	\$ 321
Non-current assets, net	14,691	22,278
Total Assets	14,999	22,599
Deferred Outflows of Resources		
Deferred loss on refunding	9,435	10,024
Liabilities		
Current liabilities	1,430	12,377
Non-current liabilities	486,805	477,266
Total Liabilities	488,235	489,643
Net Position (Deficit)		
Unrestricted	(463,801)	(457,020)
Total Net Position (Deficit)	\$ (463,801)	\$ (457,020)

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited) (in thousands, unless noted)
Year Ended December 31, 2021

FINANCIAL ANALYSIS OF NCTSC AS A WHOLE (continued)

As of December 31, 2021, total assets and deferred outflows of resources of NCTSC were \$24,434, a decrease of \$8,189 or 25.1% from the prior year. The decrease is primarily attributable to the decrease in the deferred loss on refunding due to amortization, and decreases in cash and the restricted cash equivalent.

Total liabilities decreased by \$1,408 or 0.3% to \$488,235. The decrease is attributable to the repayment of bond principal offset by the accretion of interest on outstanding bonds and amortization of bond discounts. The overall net deficit increased over the prior year by \$6,781 to a current net deficit of \$463,801.

Changes in Net Position (Deficit)

Condensed Statement of Activities
Years ended December 31st,

	2021	2020
General Revenues		
Tobacco settlement revenues	\$ 20,937	\$ 19,361
Interest on investments	3	111
Total General Revenues	20,940	19,472
Expenses		
General government support	120	118
Interest on debt	27,601	27,518
Total Expenses	27,721	27,636
Change in Net Position (Deficit)	(6,781)	(8,164)
Net Position (Deficit) at Beginning of Year	(457,020)	(448,856)
Net Position (Deficit) at End of Year	\$ (463,801)	\$ (457,020)

For the year ended December 31, 2021, total general revenues were \$20,940, an increase of \$1,468, which is directly attributable to an increase in TSRs received in the current year, offset by a decrease in interest on investments. For the year ended December 31, 2021, total expenses were \$27,721, an increase from the prior year of \$85. This increase is attributable to the increase in interest on debt as compared to the prior year. As a result of expenses exceeding revenues, the net deficit as of December 31, 2021 was \$463,801, an increase in the deficit of \$6,781 from the prior year.

FINANCIAL ANALYSIS OF NCTSC'S FUNDS

Governmental Funds

The focus of NCTSC's governmental funds is to provide information on short-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing NCTSC's financing requirements.

At December 31, 2021, NCTSC's governmental funds reported combined ending fund balances of \$14,999, a decrease of \$7,572 in comparison with the prior year. Of this total, \$273 constitutes unassigned fund balance, which is available for spending at NCTSC's discretion. The remainder of the fund balance is non-spendable or restricted.

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited) (in thousands, unless noted)
Year Ended December 31, 2021

FINANCIAL ANALYSIS OF NCTSC'S FUNDS (continued)

General Fund

The general fund is the principal operating fund of NCTSC. At December 31, 2021 and 2020, the total fund balance of the general fund was \$308 and \$293, respectively. The fund balance of NCTSC's general fund increased by \$15 for the year ended December 31, 2021 in comparison with the prior year.

Debt Service Fund

The debt service fund is used to account for the proceeds of specific revenue sources and the accumulation of resources for payment of general long-term bond principal and interest that are legally restricted to expenditures for specified purposes such as funding required debt service obligations and making required transfers in accordance with the Indenture Agreement.

This fund also includes the Senior Liquidity Reserve Account. In accordance with the Indenture Agreement, the Senior Liquidity Reserve Account was underfunded at its required level by \$9,318.

In accordance with the Indenture, amounts on deposit in the Senior Liquidity Reserve Account will be available to pay principal and interest of the Series 2006 Bonds when due.

At December 31, 2021, total fund balance of the debt service fund was \$14,691 and is restricted to pay future debt service. Such fund balance decreased by \$7,587 for the year ended December 31, 2021. This decrease is due to an excess of expenditures and other financing uses over revenues. Revenues consisted solely of TSRs and interest earned on investments. Financing uses consisted of amounts transferred to the general fund from TSRs received. Expenditures include payments of principal and interest on NCTSC's outstanding bonds.

DEBT ADMINISTRATION

Debt

NCTSC's total bonded debt decreased by \$1,318 or 0.3% during the current year. This decrease is due to the repayment of bond principal offset by the combination of additional accretion of interest on outstanding bonds and amortization of bonds discounts. More detailed information about NCTSC's long-term liabilities is presented in the notes to the basic financial statements.

In 2021, the Corporation's TSRs payment was 8.1% more than the amount received in 2020. This increase is due to the end of catch up credits that were provided in prior years, offset by the continued decrease in the domestic consumption of cigarettes.

As of December 31, 2021, the rating of the Series 2006A-2 Senior Convertible Bonds, due June 1, 2026, the Series 2006A-3 Senior Bonds, due June 1, 2035, and Series 2006A-3 Senior Bonds, due June 1, 2046, was CCC+. On February 25, 2021, S&P Global Ratings downgraded the rating for NCTSC's Series 2006A-2 Senior Convertible Bonds, due June 1, 2026, Series 2006A-3 Senior Bonds, due June 1, 2035, and Series 2006A-3 Senior Bonds, due June 1, 2046 from a rating of B- to a rating of CCC+.

TSRs received in April 2021 were insufficient to meet debt service requirements. As a result, NCTSC withdrew \$7,586 from the Senior Liquidity reserve.

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited) (in thousands, unless noted)
Year Ended December 31, 2021

FUTURE ECONOMIC FACTORS

The amount of TSRs received is dependent on many economic factors, including, but not limited to, future domestic cigarette consumption, the financial capability of the Participating Manufacturers (the "PMs"), litigation affecting the MSA and related legislation, and enforcement of state legislation related to the MSA and the tobacco industry. Payments by the PMs under the MSA are subject to certain adjustments, which may be material.

Effective October 16, 2015, New York (the "State") entered into a settlement agreement with all the MSA tobacco companies regarding the Non-Participating Manufacturers ("NPM") adjustment dispute; the settlement resolved all past NPM adjustment disputes, as well as any NPM adjustment disputes arising subsequent to the effective date of the settlement. In addition, as a result of the settlement, the tobacco companies are no longer challenging the State's diligent enforcement of its escrow statute, so the State no longer faces the risk of losing its entire payment in any year and the companies are no longer placing a portion of the State's annual payment into a disputed payments account. Furthermore, the State does not have to participate in any diligent enforcement arbitrations. The companies receive a discount on MSA annual payments tied to the total in-state sales volume of cigarettes that are manufactured on Native American reservations and sold untaxed from smoke shops on those reservations to State consumers. The discount is for a fixed amount per pack, with a modifier based on overall volume.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide NCTSC's interested parties with an overview of NCTSC's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Nassau County Tobacco Settlement Corporation, One West Street, 1st Floor, Mineola, New York 11501.

BASIC FINANCIAL STATEMENTS

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
GOVERNMENT-WIDE FINANCIAL STATEMENT
STATEMENT OF NET POSITION (DEFICIT) (in thousands)
December 31, 2021

ASSETS

Current Assets:

Cash	\$	273
Prepays		35
		308
Total Current Assets		308

Non-Current Assets:

Restricted cash equivalent - special reserves		14,691
		14,691
Total Non-Current Assets		14,691

		14,999
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DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on refunding		9,435
		9,435
Total Deferred Outflows of Resources		9,435

LIABILITIES

Current Liabilities:

Accrued interest payable		1,430
		1,430
Total Current Liabilities		1,430

Non-Current Liabilities:

Bonds payable, net		486,805
		486,805
Total Non-Current Liabilities		486,805

		488,235
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NET POSITION (DEFICIT)

Unrestricted		(463,801)
		(463,801)
Total Net Position (Deficit)	\$	(463,801)

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
GOVERNMENT-WIDE FINANCIAL STATEMENT
STATEMENT OF ACTIVITIES (in thousands)
Year Ended December 31, 2021

Expenses:	
General government support	\$ 120
Interest on debt	<u>27,601</u>
Total Expenses	<u>27,721</u>
 General Revenues:	
Tobacco settlement revenues	20,937
Interest on investments	<u>3</u>
Total General Revenues	<u>20,940</u>
Change in Net Position (Deficit)	(6,781)
Net Position (Deficit) at Beginning of Year	<u>(457,020)</u>
Net Position (Deficit) at End of Year	<u><u>\$ (463,801)</u></u>

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
GOVERNMENTAL FUNDS FINANCIAL STATEMENT
BALANCE SHEET (in thousands)
December 31, 2021

	MAJOR FUNDS		
	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash	\$ 273		\$ 273
Cash equivalent - restricted		\$ 14,691	14,691
Prepays	35		35
Total Assets	\$ 308	\$ 14,691	\$ 14,999
FUND BALANCES			
Non-spendable:			
Prepays	\$ 35		\$ 35
Restricted:			
Debt service		\$ 14,691	14,691
Unassigned	273		273
Total Fund Balances	\$ 308	\$ 14,691	\$ 14,999

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION (DEFICIT) (in thousands)
December 31, 2021

Total Fund Balances - Governmental Funds	\$	14,999
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Amounts reported for government-wide activities in the statement of net position (deficit) are different because:

Governmental funds report loss on debt refunding as an expenditure when those costs are first incurred because they require the use of current financial resources. However, loss on debt refunding must be included as a deferred outflow of resources in government-wide financial statements:

Unamortized balance of deferred outflows of resources on loss on refunding		9,435
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Long-term liabilities applicable to NCTSC's governmental activities are not due and payable in the current period and, accordingly, are not reported in the funds. However, these liabilities are included in the statement of net position (deficit):

Bonds payable, net		(486,805)
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Accrued interest payable applicable to NCTSC's governmental activities are not due and payable in the current period and, accordingly, are not reported in the funds. However, these liabilities are included in the statement of net position (deficit).

		<u>(1,430)</u>
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Net Position (Deficit)	\$	<u>(463,801)</u>
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NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
GOVERNMENTAL FUNDS FINANCIAL STATEMENT
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (in thousands)
Year Ended December 31, 2021

		MAJOR FUNDS		
		General Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
	Tobacco settlement revenues		\$ 20,937	\$ 20,937
	Interest on investments		3	3
	Total Revenues		20,940	20,940
EXPENDITURES				
	General government support	\$ 120		120
	Debt service:			
	Principal		10,857	10,857
	Interest		17,535	17,535
	Total Expenditures	120	28,392	28,512
Excess (Deficiency) of Revenues				
Over (Under) Expenditures				
		(120)	(7,452)	(7,572)
OTHER FINANCING SOURCES (USES)				
	Transfers in	135		135
	Transfers out		(135)	(135)
	Total Other Financing Sources (Uses)	135	(135)	-0-
Net Change in Fund Balances				
		15	(7,587)	(7,572)
Fund Balances at Beginning of Year				
		293	22,278	22,571
	Fund Balances at End of Year	\$ 308	\$ 14,691	\$ 14,999

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES (in thousands)
Year Ended December 31, 2021

Net Change in Fund Balances - Total Governmental Funds	\$	(7,572)
 Governmental funds report loss on debt refunding as an expenditure when those costs are first incurred because they require the use of current financial resources. However, loss on debt refunding must be included as a deferred outflows of resources in government-wide financial statements and amortized in the statement of activities.		(589)
 Bond interest and accreted interest are recorded as an expenditure in the fund statements when it is due, and in the statement of activities when it is incurred.		(9,477)
 Repayment of bond principal is recorded as an expenditure in the fund statements, and as a reduction of the bonds payable liability in the government-wide financial statements.		10,857
		<hr/>
Change in Net Position (Deficit)	\$	(6,781)
		<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (in thousands, unless noted)
December 31, 2021

A. ORGANIZATION

The Nassau County Tobacco Settlement Corporation (“NCTSC” or “Corporation”) is a special-purpose local development corporation, and is an instrumentality of, but separate and apart from Nassau County (the “County”), New York, incorporated under the provisions of the New York State Not-For-Profit Corporation Law. Although legally separate from and independent of the County, the Corporation is considered an affiliated organization. Accordingly, the Corporation is being reported as a blended component unit for financial reporting purposes in the County’s financial statements.

The Board of Directors of NCTSC has three members, one of which must meet certain requirements of independence: (i) one appointed by a majority vote of the County Legislature, (ii) one who must be the County Treasurer, ex officio, designated by the County Executive, and (iii) one selected by (i) and (ii). As of December 31, 2021, one position was vacant.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of NCTSC 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.

The more significant of NCTSC's accounting policies are described below.

1. BASIS OF PRESENTATION

NCTSC’s basic financial statements include both government-wide (reporting on NCTSC as a whole) and governmental funds financial statements (reporting on NCTSC’s most significant funds).

Government-Wide Financial Statements

The government-wide financial statements, i.e. the statement of net position (deficit) and the statement of activities, display information about NCTSC as a whole. These statements include all financial activities of the overall government. Eliminations of internal activity have been made in these statements. All of the activities of NCTSC are considered government-wide activities.

In the government-wide statement of net position (deficit), NCTSC’s government-wide activities are presented on a consolidated basis and are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables (except for tobacco settlement revenues (“TSRs”) as discussed in note B.4), as well as long-term debt and obligations.

The government-wide statement of activities reports the gross expenses of each of the NCTSC’s functional categories which are supported by general revenues.

The government-wide statements focus is more on the sustainability of NCTSC as an entity and the change in NCTSC’s net position (deficit) resulting from the current year’s activities.

Governmental Funds Financial Statements

Governmental funds financial statements report detailed information about NCTSC. The focus of governmental funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds (if applicable) are aggregated and presented in a single column. NCTSC has presented all funds as major funds.

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (in thousands, unless noted)
December 31, 2021

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. BASIS OF PRESENTATION (continued)

Governmental Funds Financial Statements (continued)

The funds of NCTSC are each considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues, and expenditures, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Governmental funds are those through which most governmental functions are financed. The acquisition, use, and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of the governmental funds is on the fund balance and changes in fund balance.

NCTSC reports the following major governmental funds:

General Fund – is the principal operating fund of NCTSC. This fund is used to account for and report all financial resources not accounted for and reported in other funds.

Debt Service Fund – is used to account for and report resources that are restricted, committed, or assigned for payment of general long-term bond principal and interest, and also includes the Senior Liquidity Reserve Account.

2. BASIS OF ACCOUNTING/MEASUREMENT FOCUS

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.

In the government-wide financial statements, government-wide activities are presented using the economic resources measurement focus and are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. TSRs are recognized as revenue when they are collected because the amounts are not measurable until received.

In the governmental funds financial statements, governmental funds use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (measurable and available to finance current operations). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. NCTSC considers all revenues available if they are collected within 60 days after the year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest are recognized as expenditures when due.

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (in thousands, unless noted)
December 31, 2021

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. ASSETS, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, LIABILITIES, NET POSITION AND FUND BALANCES

CASH AND CASH EQUIVALENTS

NCTSC's cash consists of demand deposits.

Cash equivalents consist of shares in a money market fund which invests in cash, U.S. government securities and in repurchase agreements collateralized by U.S. government securities and are stated at amortized cost, which approximates fair value.

RESTRICTED ASSETS

Certain assets of NCTSC are classified as restricted assets because their use is restricted by contractual agreements and regulations.

PREPAIDS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position (deficit) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that is applicable to future reporting period(s) and therefore will not be recognized as an outflow of resources (expense/expenditure) until that time. NCTSC currently has one item that qualifies for reporting in this category, deferred loss on refunding.

Deferred loss on refunding is the difference between the reacquisition (refunding) price and the net carrying amount of the old debt and it is recognized as a component of interest expense over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position (deficit) 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 therefore will not be recognized as an inflow of resources (revenues) until that time. NCTSC does not have any items qualifying for reporting in this category.

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt obligations are reported as liabilities in the statement of net position (deficit). Debt discounts are netted against debt payable. Unamortized debt discounts are deferred and amortized over the life of the debt using the straight-line method and recognized as a component of interest expense. Also, interest in the government-wide financial statements is accrued as incurred.

In the governmental funds financial statements, governmental fund types recognize debt premiums and discounts during the current period. The face amount of 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. Principal and interest paid on debt is recorded as an expenditure.

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (in thousands, unless noted)
December 31, 2021

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

BALANCE CLASSIFICATIONS

In the government-wide financial statements, net position is displayed in one component:

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

In the governmental funds financial statements there are five classifications of fund balance:

Non-spendable – Includes amounts that cannot be spent because they are either not in spendable form, not available within a year, or legally or contractually required to be maintained intact. Non-spendable fund balance includes prepaid expenses recorded in the general fund.

Restricted – Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted fund balance includes all amounts reported in the debt service fund per the requirements of the Indenture.

Committed – Includes amounts that are subject to a purpose constraint imposed by a formal action of the NCTSC's highest level of decision-making authority. NCTSC is not empowered to establish law; accordingly, NCTSC will not have committed fund balances.

Assigned – Includes amounts that are constrained by NCTSC's intent to be used for specific purposes, but are not restricted. NCTSC has no assigned fund balances as of December 31, 2021.

Unassigned – Includes all other general fund balances that do not meet the definition of the above four classifications and are deemed to be available for general use by NCTSC. It is also used to report negative fund balances in other governmental funds.

Order of Use of Restricted and Unrestricted Funds

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications, management will assess the current financial condition of NCTSC and then determine the order of application of expenditures to which fund balance classification will be charged. It is the intention of the NCTSC that the expenditure is to be spent first from the restricted fund balance, to the extent included in the budget, and then from the unrestricted fund balance. Expenditures incurred in the unrestricted fund balance shall be applied first to the assigned fund balance, to the extent that there is an assignment, and then to the unassigned fund balance.

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (in thousands, unless noted)
December 31, 2021

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. REVENUES AND EXPENDITURES

TOBACCO SETTLEMENT REVENUES

On November 23, 1999, NCTSC entered into a Purchase and Sale Agreement (“Agreement”), dated as of October 1, 1999, with the County pursuant to which NCTSC acquired from the County, among other things, all of the County's right, title, and interest under the Master Settlement Agreement (“MSA”) and the Consent Decree, as such terms are defined in the Agreement, and which are referred to herein as TSRs. The consideration paid by NCTSC to the County for such acquisition consisted of \$247,500 in cash (of which \$77,500 was placed into escrow for the benefit of the County) and the sole beneficial interest in the NCTSC Residual Trust (“Residual Trust”), a Delaware business trust to which NCTSC has conveyed a residual interest in all the TSRs. The NCTSC funded such consideration from the proceeds of its Tobacco Settlement Asset-Backed Bonds, Series A, which are referred to herein as the 1999 Bonds. NCTSC's right to receive TSRs is its primary revenue source.

Per the Agreement, TSRs are transferred directly to NCTSC. Under the MSA, amounts are paid by the participating manufacturers to the escrow agent on or before April 15th of each year. The escrow agent then disburses these funds to NCTSC's Trustee. During 2021, NCTSC collected \$20,937 of TSRs, of which \$135 was transferred to the general fund to pay operating expenses, and the balance was used to pay the debt service requirements.

INTERFUND TRANSACTIONS

Interfund transactions have been eliminated from the government-wide financial statements. In the funds statement, the interfund transactions include payments to the general fund to cover various operating costs and are presented as other financing sources (uses).

5. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

6. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of this report, which is the date the financial statements were available to be issued.

7. NEW ACCOUNTING PRINCIPLES

NCTSC has adopted all of the current Statements of the GASB that are applicable during the year ended December 31, 2021.

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
 NOTES TO FINANCIAL STATEMENTS (in thousands, unless noted)
 December 31, 2021

C. DETAIL NOTES ON ALL FUNDS

1. CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits/Investments – Custodial credit risk for cash exists when, in the event of the failure of the counterparty, a government will not be able to recover the value of its cash or collateral securities that are in possession of an outside party.

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

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

At December 31, 2021, NCTSC's deposit balances were \$273, which were fully covered by the Federal Deposit Insurance Corporation.

At December 31, 2021, NCTSC's cash equivalents were \$14,691. Cash equivalents consisted of shares in a money market fund, which invests in cash, U.S. government securities and in repurchase agreements collateralized by U.S. government securities.

Credit Risk. NCTSC's restricted cash equivalent money market fund carried a credit rating of AAAm by S&P Global Ratings and Aaa-mf by Moody's Investors Service, Inc. as of December 31, 2021.

As of December 31, 2021, the Corporation did not have any cash subject to interest-rate risk or concentration of credit risk.

2. DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources from the deferred loss on refunding as of December 31, 2021 are as follows:

Deferred outflows of resources from:	
Loss on refunding	\$ 18,869
Less: accumulated amortization	<u>(9,434)</u>
	<u>\$ 9,435</u>

3. INTERFUND TRANSFERS

For the year ended December 31, 2021, interfund transfers represent payments from the collections account in the debt service fund to the general fund to pay operating costs per the Indenture. Interfund transfers are stated as follows:

	Transfer In	Transfer Out
General Fund	\$ 135	
Debt Service Fund		\$ 135
	<u>\$ 135</u>	<u>\$ 135</u>

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (in thousands, unless noted)
December 31, 2021

C. DETAIL NOTES ON ALL FUNDS (continued)

4. LONG-TERM DEBT

Bonds – In 1999, the NCTSC issued \$294,500 of the 1999 Bonds. On April 5, 2006, NCTSC issued \$431,034 of Tobacco Settlement Asset-Backed Bonds, Series 2006 ("Series 2006 Bonds") pursuant to an Amended and Restated Indenture dated as of March 1, 2006 ("Indenture"). The Series 2006 Bonds consisted of the Series 2006A-1 Taxable Senior Current Interest Bonds of \$42,645, the Series 2006A-2 Senior Convertible Bonds of \$37,906, the Series 2006A-3 Senior Current Interest Bonds of \$291,540, and the Series 2006B-E Subordinate CABs of \$58,943. Unless otherwise indicated, defined terms have the meanings ascribed to them in the Offering Circular for the Series 2006 Bonds dated March 31, 2006.

NCTSC used the proceeds from the Series 2006 Bonds, along with other funds, to: (i) refund all of the 1999 Bonds then-currently outstanding in the aggregate principal amount of \$272,125; (ii) fund a Senior Liquidity Reserve for the Series 2006 Senior Bonds of \$24,009; (iii) pay the costs of issuance of the Series 2006 Bonds; (iv) fund certain projected requirements for the Operating Account; (v) fund interest on the Series 2006 Bonds through the December 1, 2007 payment; and (vi) pay certain amounts to the NCTSC Residual Trust as registered owner of the Residual Certificate. Pursuant to the Indenture, TSRs received on or after April 1, 2008 are subject to the lien of the Indenture. Interest and principal paid on these bonds in 2021 totaled \$17,535 and \$10,857, respectively.

Any additional revenues received above the required debt service payments are required to fund sinking fund installments and/or Turbo Redemptions. NCTSC received TSRs that were insufficient to meet the required debt service interest and principal payments of \$17,535 and \$10,857 respectively on its Series 2006 Bonds during 2021. As a result, NCTSC withdrew \$7,586 from the Senior Liquidity Reserve. In accordance with the Indenture Agreement, the Senior Liquidity Reserve Account was underfunded at its required level by \$9,318 at December 31, 2021.

Payments with respect to the Series 2006 Bonds are dependent upon receipt of 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.

The amount of TSRs received is dependent on many factors, including, but not limited to, future domestic cigarette consumption, the financial capability of the Participating Manufacturers (the "PMs"), litigation affecting the MSA and related legislation and enforcement of state legislation related to the MSA and the tobacco industry. Payments by the PMs under the MSA are subject to certain adjustments, which may be material.

A summary of changes in long-term liabilities for the year ended December 31, 2021 is as follows:

	Balance 1/1/21	Increases	Reductions	Balance 12/31/21	Due within one year	Due in more than one year
Bonds	\$ 399,247		\$ 10,857	\$ 388,390		\$ 388,390
Plus: accreted interest	93,662	\$ 9,257		102,919		102,919
Less: bond discount	(4,786)		(282)	(4,504)		(4,504)
Total bonds	\$ 488,123	\$ 9,257	\$ 10,575	\$ 486,805	\$ -0-	\$ 486,805

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (in thousands, unless noted)
December 31, 2021

C. DETAIL NOTES ON ALL FUNDS (continued)

4. LONG-TERM DEBT (continued)

Bonds outstanding at December 31, 2021, are as follows:

Description	Original Date Issued	Original Amount	Interest Rate	Maturity Date	Amount Outstanding	Amount Outstanding Including Acc. Interest
2006A2	04/05/06	\$ 37,906	5.250%	6/1/2026	\$ 37,906	\$ 44,640
2006A3(2035)	04/05/06	97,005	5.000%	6/1/2035	97,005	97,005
2006A3(2046)	04/05/06	194,535	5.125%	6/1/2046	194,535	194,535
2006B	04/05/06	10,670	5.800%	6/1/2046	10,670	26,242
2006C	04/05/06	9,868	6.000%	6/1/2046	9,868	25,022
2006D	04/05/06	37,604	6.400%	6/1/2060	37,604	101,367
2006E	04/05/06	802	7.350%	6/1/2060	802	2,498
					<u>\$ 388,390</u>	<u>491,309</u>
Unamortized Bond Discount						<u>(4,504)</u>
						<u>\$ 486,805</u>

The following table summarizes NCTSC's minimum future debt service requirements as of December 31, 2021:

	Principal	Interest	Total Principal and Interest
2022	\$ -0-	\$ 17,164	\$ 17,164
2023	-0-	17,164	17,164
2024	-0-	17,164	17,164
2025	-0-	17,164	17,164
2026	37,906	22,726	60,632
2027-2031	-0-	74,101	74,101
2032-2036	97,005	66,825	163,830
2037-2041	-0-	49,849	49,849
2042-2046	215,073	236,292	451,365
2047-2051	-0-	-0-	-0-
2052-2056	-0-	-0-	-0-
2057-2060	38,406	1,141,808	1,180,214
	<u>\$ 388,390</u>	<u>\$ 1,660,257</u>	<u>\$ 2,048,647</u>



Mayer Hoffman McCann CPAs

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

To the Board of Directors of the
Nassau County Tobacco Settlement Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Nassau County Tobacco Settlement Corporation (the "Corporation"), a component unit of the County of Nassau, New York, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 29, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting ("internal control") as a basis for designing 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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 financial statements. 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*.



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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 Corporation'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.

A handwritten signature in black ink that reads "Mayer Hoffman McCann CPAs". The signature is written in a cursive, flowing style.

New York, NY
March 29, 2022