

**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, 2020

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

**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, 2020

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INDEPENDENT AUDITORS' REPORT

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

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, 2020, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Corporation as of December 31, 2020, 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.

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 3 through 7, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2021 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.



New York, NY
May 21, 2021

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited) (in thousands, unless noted)
Year Ended December 31, 2020

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, 2020. 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 \$457,020 (total net deficit) at December 31, 2020.
- NCTSC's total net deficit increased by \$8,164.
- NCTSC's governmental funds reported total ending fund balances of \$22,571 at December 31, 2020.
- At the end of the current year, the unassigned fund balance for the general fund was \$259 or 219% of total general fund expenditures.
- NCTSC's total bonds payable increased by \$7,696 or 1.60% during the current year. This increase is due to the accretion of interest on outstanding bonds and the amortization of bond discounts, partially offset by the repayment of bond principal.

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 8. 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, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Reporting on NCTSC's Most Significant Funds

The governmental funds financial statements begin on page 10 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 statements provide a detailed short-term view of NCTSC's general government operations. We describe the relationship (or differences) between governmental activities (reported in the statement of net position (deficit) and the statement of activities) and governmental funds in reconciliations on pages 11 and 13.

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 governmental funds financial statements. The notes to the basic financial statements can be found beginning with page 14.

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,

	2020	2019
Assets		
Current assets	\$ 321	\$ 276
Non-current assets, net	22,278	22,180
Total Assets	22,599	22,456
Deferred Outflows of Resources		
Deferred loss on refunding	10,024	10,614
Liabilities		
Current liabilities	12,377	1,499
Non-current liabilities	477,266	480,427
Total Liabilities	489,643	481,926
Net Position (Deficit)		
Unrestricted	(457,020)	(448,856)
Total Net Position (Deficit)	\$ (457,020)	\$ (448,856)

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited) (in thousands, unless noted)
Year Ended December 31, 2020

FINANCIAL ANALYSIS OF NCTSC AS A WHOLE (continued)

As of December 31, 2020, total assets and deferred outflows of resources of NCTSC were \$32,623, a decrease of \$447 or 1.35% from the prior year. The decrease is primarily attributable to the decrease in the deferred loss on refunding due to amortization, partially offset by increases in cash and the restricted cash equivalent.

Total liabilities increased by \$7,717 or 1.60% to \$489,643. The increase is attributable to the combination of additional accretion of interest on outstanding bonds and amortization of bond discounts, offset by the repayment of bond principal. The overall net deficit increased over the prior year by \$8,164 to a current net deficit of \$457,020.

Changes in Net Position (Deficit)

Condensed Statement of Activities
Years ended December 31st,

	2020	2019
General Revenues		
Tobacco settlement revenues	\$ 19,361	\$ 16,876
Interest on investments	111	611
Total General Revenues	19,472	17,487
Expenses		
General government support	118	104
Interest on debt	27,518	27,046
Total Expenses	27,636	27,150
Change in Net Position	(8,164)	(9,663)
Net Position (Deficit) at Beginning of Year	(448,856)	(439,193)
Net Position (Deficit) at End of Year	\$ (457,020)	\$ (448,856)

For the year ended December 31, 2020, total general revenues were \$19,472, an increase of \$1,985, 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, 2020, total expenses were \$27,636, an increase from the prior year of \$486. This increase is attributable to the increase in interest on debt as compared to prior year. As a result of expenses exceeding revenues, the net deficit as of December 31, 2020 was \$457,020, an increase in the deficit of \$8,164 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, 2020, NCTSC's governmental funds reported combined ending fund balances of \$22,571, an increase of \$115 in comparison with the prior year. Of this total, \$259 constitutes unassigned fund balance, which is available for spending at NCTSC's discretion. The remainder of 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, 2020

FINANCIAL ANALYSIS OF NCTSC'S FUNDS (continued)

General Fund

The general fund is the principal operating fund of NCTSC. At December 31, 2020 and 2019, the total fund balance of the general fund was \$293 and \$276, respectively. The fund balance of NCTSC's general fund increased by \$17 for the year ended December 31, 2020 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 \$1,735.

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, 2020, total fund balance of the debt service fund was \$22,278 and is restricted to pay future debt service. Such fund balance increased by \$98 for the year ended December 31, 2020. This increase is due to an excess of revenue over expenditures and other financing uses. 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 increased by \$7,696 or 1.60% during the current year. This increase is due to the combination of additional accretion of interest on outstanding bonds and amortization of bond discounts, offset by the repayment of bond principal. More detailed information about NCTSC's long-term liabilities is presented in the notes to the basic financial statements.

In 2020, the Corporation's TSRs payment was 14.73% more than the amount received in 2019. 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, 2020, the rating from S&P Global Ratings on the Series 2006A-1 Senior Bonds, due on June 1, 2021, was A, and 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 B-. 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+.

During 2020, NCTSC did not withdraw funds from the Senior Liquidity Reserve Account as a result of TSRs received in April 2020 under the MSA exceeding debt service requirements for the year.

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited) (in thousands, unless noted)
Year Ended December 31, 2020

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.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a pandemic, which spread throughout the United States. The Corporation could be materially and adversely affected by the risks, or the public perception of the risks, related to an epidemic, pandemic, outbreak, or other public health crisis, such as the outbreak of COVID-19. The ultimate extent of the impact of any epidemic, pandemic or other health crisis on the Corporation's mission, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others. Accordingly, the Corporation cannot predict the extent to which its financial condition and results of operations will be affected.

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, 2020

ASSETS

Current Assets:

Cash	\$	287
Prepays		34
		321
Total Current Assets		321

Non-Current Assets:

Restricted cash equivalents - special reserves		22,278
		22,278
Total Non-Current Assets		22,278

		22,599
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DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on refunding		10,024
		10,024
Total Deferred Outflows of Resources		10,024

LIABILITIES

Current Liabilities:

Due to primary government		28
Accrued interest payable		1,492
Bonds payable		10,857
		12,377
Total Current Liabilities		12,377

Non-Current Liabilities:

Bonds payable		477,266
		477,266
Total Non-Current Liabilities		477,266

		489,643
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NET POSITION (DEFICIT)

Unrestricted		(457,020)
		(457,020)

	\$	(457,020)
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NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
GOVERNMENT-WIDE FINANCIAL STATEMENT
STATEMENT OF ACTIVITIES (in thousands)
Year Ended December 31, 2020

Expenses:

General government support	\$	118
Interest on debt		<u>27,518</u>

		<u>27,636</u>
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General Revenues:

Tobacco settlement revenues		19,361
Investment income		<u>111</u>

		<u>19,472</u>
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		(8,164)
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Net Position (Deficit) at Beginning of Year		<u>(448,856)</u>
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Net Position (Deficit) at End of Year	\$	<u><u>(457,020)</u></u>
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NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
GOVERNMENTAL FUNDS
BALANCE SHEET (in thousands)
December 31, 2020

	MAJOR FUNDS		
	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash	\$ 287	\$ -	\$ 287
Cash equivalents - restricted	-	22,278	22,278
Prepays	34	-	34
Total Assets	\$ 321	\$ 22,278	\$ 22,599
LIABILITIES			
Due to primary government	\$ 28	\$ -	\$ 28
Total Liabilities	28	-	28
FUND BALANCES			
Non-spendable:			
Prepays	34	-	34
Restricted:			
Debt service	-	22,278	22,278
Unassigned	259		259
Total Fund Balances	293	22,278	22,571
Total Liabilities and Fund Balances	\$ 321	\$ 22,278	\$ 22,599

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION (DEFICIT) (in thousands)
December 31, 2020

Total Fund Balances - Governmental Funds	\$	22,571
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Amounts reported for governmental 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		10,024
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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		(488,123)
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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>(1,492)</u>
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Net Position (Deficit) of Governmental Activities	\$	<u><u>(457,020)</u></u>
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NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (in thousands)
Year Ended December 31, 2020

	<u>MAJOR FUNDS</u>		
	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Tobacco settlement revenues	\$ -	\$ 19,361	\$ 19,361
Investment income	-	111	111
Total Revenues	<u> </u>	<u>19,472</u>	<u>19,472</u>
EXPENDITURES			
General government support	118	-	118
Debt service:			
Principal	-	1,290	1,290
Interest	-	17,949	17,949
Total Expenditures	<u>118</u>	<u>19,239</u>	<u>19,357</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(118)</u>	<u>233</u>	<u>115</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	135	-	135
Transfers out	-	(135)	(135)
Total Other Financing Sources (Uses)	<u>135</u>	<u>(135)</u>	<u>-0-</u>
Net Change in Fund Balances	17	98	115
Fund Balance at Beginning of Year	<u>276</u>	<u>22,180</u>	<u>22,456</u>
Fund Balances at End of Year	<u>\$ 293</u>	<u>\$ 22,278</u>	<u>\$ 22,571</u>

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, 2020

Net Change in Fund Balances	\$	115
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.		(590)
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.		(8,979)
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.		1,290
Change in Net Position (Deficit) of Governmental Activities	\$	<u>(8,164)</u>

NOTES TO FINANCIAL STATEMENTS

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (in thousands, unless noted)
December 31, 2020

A. ORGANIZATION

The Nassau County Tobacco Settlement Corporation (“NCTSC”) 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, 2020, 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 fund 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 governmental activities.

In the government-wide statement of net position (deficit), NCTSC’s governmental 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 fund 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, 2020

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. BASIS OF PRESENTATION (continued)

Fund 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 – 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 financial position and changes in financial position.

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 statements, governmental 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, 2020

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. ASSETS, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, LIABILITIES, NET POSITION (DEFICIT), 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 short-term U.S. Treasury securities and in repurchase agreements backed by U.S. Treasury 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.

DUE TO PRIMARY GOVERNMENT

Amounts due to primary government are for expenses paid by the County on behalf of NCTSC.

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, 2020

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

BALANCE CLASSIFICATIONS

In the government-wide 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 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, 2020.

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, 2020

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 2020, NCTSC collected \$19,361 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 governmental 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. 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+.

7. NEW ACCOUNTING PRINCIPLES

NCTSC has adopted all of the current Statements of the GASB that are applicable during the year ended December 31, 2020.

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
 NOTES TO FINANCIAL STATEMENTS (in thousands, unless noted)
 December 31, 2020

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, 2020, NCTSC’s deposit balances were \$287, which were fully covered by the Federal Deposit Insurance Corporation.

At December 31, 2020, NCTSC’s cash equivalents were \$22,278. Cash equivalents consisted of shares in a money market fund, which invests in short-term U.S. Treasury securities paying a fixed or variable interest rate, and in repurchase agreements backed by U.S. Treasury 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, 2020.

As of December 31, 2020, 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 are as follows for the year ended December 31, 2020.

Deferred outflows of resources from:	
Loss on refunding	\$ 18,869
Less: accumulated amortization	<u>(8,845)</u>
	<u>\$ 10,024</u>

3. INTERFUND TRANSFERS

For the year ended December 31, 2020, 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, 2020

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 2020 totaled \$17,949 and \$1,290, 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 in excess of the required debt service payment of \$17,949 on its Series 2006 Bonds during 2020, and used the additional funds to make a turbo payment of \$1,290 on the Series 2006A-1 Taxable Senior Current Interest Bonds. In accordance with the Indenture Agreement, the Senior Liquidity Reserve Account was underfunded at its required level by \$1,735 at December 31, 2020.

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 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, 2020 is as follows:

	Balance 1/1/20	Increases	Reductions	Balance 12/31/20	Due within one year	Due in more than one year
Bonds	\$ 400,537		\$ 1,290	\$ 399,247	\$ 10,857	\$ 388,390
Plus: accreted interest	84,958	\$ 8,704		93,662		93,662
Less: bond discount	(5,068)		(282)	(4,786)		(4,786)
Total bonds	\$ 480,427	\$ 8,704	\$ 1,008	\$ 488,123	\$ 10,857	\$ 477,266

NASSAU COUNTY TOBACCO SETTLEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS (in thousands, unless noted)
December 31, 2020

C. DETAIL NOTES ON ALL FUNDS (continued)

4. LONG-TERM DEBT (continued)

Bonds outstanding at December 31, 2020, are as follows:

Description	Original Date Issued	Original Amount	Interest Rate	Maturity Date	Amount Outstanding	Amount Outstanding Including Acc. Interest
2006A1	04/05/06	\$ 42,645	6.830%	6/1/2021	\$ 10,857	\$ 10,857
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	24,784
2006C	04/05/06	9,867	6.000%	6/1/2046	9,868	23,585
2006D	04/05/06	37,604	6.400%	6/1/2060	37,604	95,179
2006E	04/05/06	802	7.350%	6/1/2060	802	2,324
					<u>\$ 399,247</u>	<u>492,909</u>
Unamortized Bond Discount						<u>(4,786)</u>
						<u>\$ 488,123</u>

The following table summarizes NCTSC's minimum future debt service requirements as of December 31, 2020:

	Principal	Interest	Total Principal and Interest
2021	\$ 10,857	\$ 17,535	\$ 28,392
2022	-0-	17,164	17,164
2023	-0-	17,164	17,164
2024	-0-	17,164	17,164
2025	-0-	17,164	17,164
2026-2030	37,906	82,007	119,913
2031-2035	97,005	71,676	168,681
2036-2040	-0-	49,849	49,849
2041-2045	-0-	49,849	49,849
2046-2050	215,072	196,413	411,485
2051-2055	-0-	-0-	-0-
2056-2060	38,407	1,141,808	1,180,215
	<u>\$ 399,247</u>	<u>\$ 1,677,793</u>	<u>\$ 2,077,040</u>

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, 2020, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated May 21, 2021.

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") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Marks Paneth LLP

New York, NY
May 21, 2021