

**Sullivan County Tobacco Asset
Securitization Corporation**

(A Blended Component Unit of the
County of Sullivan, New York)

Communication of Internal Control Matters Identified in the
Audit to Those Charged with Governance and Management

December 31, 2014

**Communication of Internal Control Matters Identified in the Audit to
Those Charged with Governance and Management**

**The Honorable Chairman and,
Members of the Board of Directors.
Sullivan County Tobacco Asset Securitization Corporation, New York
100 North Street
Monticello, NY 12701**

Auditors' Communication on Internal Control

In planning and performing our audit of the financial statements of the Sullivan County Tobacco Asset Securitization Corporation ("STASC") as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the STASC'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the STASC's internal control. Accordingly, we do not express an opinion on the effectiveness of the STASC'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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, as indicated in the attached Addendum A, we share for your consideration other observations about the internal control and operations.

This communication and addenda are intended solely for the information and use of management and the Board of Directors and are not intended to be and should not be used by anyone other than these specified parties. We will be pleased to discuss these communications and comments in further detail at your convenience, or to assist you in implementing the recommendations.

O'Connor Davies, LLP

O'Connor Davies, LLP
Harrison, New York
March 3, 2015

Sullivan County Tobacco Asset Securitization Corporation, New York

Addendum A

Other Matters

- **Optional Turbo Bond Payments**

Observation

The structure of the original bond redemption schedule included the use of optional “turbo” bond payments. The board had elected to use the more aggressive payment schedule to help reduce future interest costs. Given the fact that the payments received from the master settlement agreement (“MSA”) have remained relatively stable over the past few years even though the original projections had these revenues increasing, thus the STASC has not been able to make all of the optional turbo payments.

Recommendation

The board should monitor the cash inflow from the MSA and ensure that all funds are invested to yield the highest return allowed under your investment policy and that the expenses are kept to a minimum so that the STASC can again begin the process of paying the optional turbo payments to reduce the future interest costs.

Sullivan County Tobacco Asset Securitization Corporation, New York

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We have audited the financial statements of the Sullivan County Tobacco Asset Securitization Corporation ("STASC") as of and for the year ended December 31, 2014, and have issued our report thereon dated March 3, 2015. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit.

Our responsibility under professional standards

Our responsibility is to form and express an opinion about whether the financial statements, which are the responsibility of management, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). Those individuals charged with governance of the STASC are responsible for the oversight of the financial reporting process, and our audit does not relieve management and those charged with governance of their respective responsibilities.

Our responsibility for the supplementary information accompanying the financial statements is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

With respect to such supplementary information, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with US GAAP, the method of preparing it has not changed from the prior year, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In connection with our audit, we performed tests of the STASC's compliance with certain provisions of laws, regulations, contracts, and grants, 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. While our audit provided a reasonable basis for our opinion, it does not provide a legal determination on the STASC's compliance with those requirements.

Planned scope and timing of the audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Qualitative aspects of significant accounting practices

Significant accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the STASC are described in Note 1 to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during the reporting period that had a significant impact on the financial statements. No matters have come to our attention that would require us to inform you about (1) the methods used to account for significant unusual transactions, and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Sullivan County Tobacco Asset Securitization Corporation, New York

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Qualitative aspects of significant accounting practices *(Continued)*

Significant accounting estimates

Accounting estimates made by management are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Actual results could differ from those estimates.

Certain accounting estimates are particularly sensitive because of their significance to financial statements and their susceptibility to change, such as:

- Estimates of certain receivable balances
- Estimates for certain current and long-term liabilities

Management believes that the estimates used and assumptions made are adequate based on the information currently available. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements as a whole.

Financial statement disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements relate to:

- Outstanding bonded indebtedness
- Net position

The financial statement disclosures are consistent and clear.

Significant difficulties encountered during the audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and corrected misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management.

We are required to communicate to you misstatements that remain uncorrected, including any related to prior periods, and the effect, if any, that they may have on the opinion in our report, and request their correction.

There are no such financial statement misstatements that remain uncorrected.

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Disagreements with management

For purposes of this letter, a disagreement with management is a matter, whether or not resolved to our satisfaction, concerning financial accounting, reporting, or auditing, which could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations requested from management

We have requested certain written representations from management in a separate letter.

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other matters discussed with management

We generally discuss with management a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the STASC, and plans and strategies that may affect the risks of material misstatement. None of the matters discussed and our responses thereto were a condition to our retention as auditors.

We have provided our comments regarding deficiencies and other matters noted during our audit in the attached addenda.

Auditor independence

We affirm that O'Connor Davies, LLP is independent with respect to the STASC in accordance with professional standards.

This communication is intended solely for the information and use of the Board of Directors and management of the Sullivan County Tobacco Asset Securitization Corporation and is not intended to be and should not be used by anyone other than these specified parties.