

**ONTARIO TOBACCO ASSET
SECURITIZATION CORPORATION**
A Component Unit of Ontario County

NEW YORK

BASIC FINANCIAL STATEMENTS

For The Years Ended December 31, 2020 and 2019



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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Independent Auditors' Report

To the Board of Directors
Ontario Tobacco Asset Securitization Corporation
A Component Unit of Ontario County, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Ontario Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of Ontario County, New York, as of and for the years ended December 31, 2020 and 2019, 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 Corporation'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 Corporation'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 financial position of the Corporation as of December 31, 2020 and 2019, and the changes in its financial position for the years 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 3–5 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 March 31, 2021 on our consideration of the Ontario Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of Ontario County, New York'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 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 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 Ontario Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of Ontario County, New York's internal control over financial reporting and compliance.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
March 31, 2021

ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION

A COMPONENT UNIT OF ONTARIO COUNTY, NEW YORK

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

INTRODUCTION

This discussion and analysis of the Ontario Tobacco Asset Securitization Corporation (TASC), a component unit of Ontario County, New York's financial performance provides an overview of the financial activities for the year ended December 31, 2020. It should be read in conjunction with the basic financial statements which immediately follow this section, and it is intended to enhance understanding of the TASC's financial performance.

THE STATEMENT OF NET POSITION AND THE STATEMENT OF ACTIVITIES

The Statement of Net Position includes all assets and liabilities of the Ontario TASC, with the difference between assets and liabilities reported as Net Position. The Statement of Activities presents financial information as to how the TASC's Net Position changed during the year, with all of the changes being reported. Over time, increases or decreases in the TASC's Net Position are one indicator of whether its "financial health" is strengthening or deteriorating. Both statements utilize the full accrual basis of accounting.

The total net position at the close of the 2020 year was (\$26,480,871). Net position decreased by \$540,070, from the previous year as illustrated below:

	2020	2019	2018
	<u>Total</u>	<u>Total</u>	<u>Total</u>
Operating Revenues	\$ 1,292,670	\$ 1,120,132	\$ 1,161,634
Operating Expenses	<u>1,912,089</u>	<u>1,861,003</u>	<u>1,804,925</u>
Operating Income (Loss)	\$ (619,419)	\$ (740,871)	\$ (643,291)
Non-Operating Revenues	94,349	99,915	98,411
Non-Operating (Expenses)	<u>(15,000)</u>	<u>(15,000)</u>	<u>(30,000)</u>
Increase (Decrease) in Net Position	<u><u>\$ (540,070)</u></u>	<u><u>\$ (655,956)</u></u>	<u><u>\$ (574,880)</u></u>

The decrease in Net Position in 2020 is explained in the following revenue and expense summaries.

OPERATING REVENUES

The Ontario TASC's operating revenues increased by \$172,538 in 2020 as compared to 2019. The increase in revenues in 2020 is due to the increase in tobacco settlement revenues received.

OPERATING EXPENSES

The Ontario TASC's operating expenses increased by \$51,086 in 2020; this increase can be attributed to the amount paid for debt service.

NOTES TO THE FINANCIAL STATEMENTS

The Notes to the Basic Financial Statements provide additional information considered essential to a clear understanding of the financial information provided in the TASC's financial statements.

2020 FINANCIAL ACTIVITIES

In 2020, the cash balance of the TASC increased by \$8,000 to a year ending balance of \$202,033 at December 31, 2020. This increase was caused by a reduction of \$5,000 paid to Ontario County for rent and administrative services and no distribution of \$10,000 to Ontario County which was made in the past.

While the TASC has \$202,033 of cash on hand at December 31, 2020, the Statement of Net Position indicates that the TASC has outstanding debt for the Series 2001 New York Counties Trust II and Series 2005 New York Counties Tobacco Trust V of \$10,815,000 and \$18,472,064 net of discount at year end, respectively. These debt instruments have varying principal payment terms.

Due to the outstanding debt and accrued liabilities, the TASC had a net position balance at December 31, 2020 of (\$26,480,871) which is the difference between the total liabilities as listed at December 31, 2020 of (\$29,338,559) less the sum of cash currently on hand to pay those bondholders of \$202,033, investments of \$1,460,416, and accounts receivable of \$1,195,239. The following is a summary of the Ontario TASC's Net Position as of December 31, 2020, 2019 and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<u>ASSETS:</u>			
Current Assets	\$ 2,857,688	\$ 2,836,407	\$ 2,817,968
Total Assets	\$ 2,857,688	\$ 2,836,407	\$ 2,817,968
<u>LIABILITIES:</u>			
Current Liabilities	\$ 2,956,495	\$ 2,494,612	\$ 1,891,815
Noncurrent Liabilities	26,382,064	26,282,596	26,210,998
Total Liabilities	\$ 29,338,559	\$ 28,777,208	\$ 28,102,813
<u>NET POSITION:</u>			
Restricted	\$ 2,857,688	\$ 2,836,407	\$ 2,817,968
Unrestricted	(29,338,559)	(28,777,208)	(28,102,813)
Total Net Position	\$ (26,480,871)	\$ (25,940,801)	\$ (25,284,845)

The decrease in Net Position of \$540,070 in 2020 and the 2019 decrease of \$655,956 are the result of the increase in the amount of bond payments due.

FACTORS BEARING ON THE TASC'S FUTURE

There are three main factors to consider that may have a bearing on the TASC's future. The first factor is the declining amount of sales of cigarettes as compared to what was originally projected, and consequently the declining revenues received by the TASC. Second, the provision in the bond agreements for an alternative debt repayment schedule in the event revenue is not sufficient to meet the original repayment schedule. Third, various actions that have been filed by smokers' rights organizations, consumer groups, cigarette importers and distributors, cigarette manufactures and Native American Tribes alleging, among other things, that the Master Settlement Agreement, Settling States' Qualifying Statutes and Legislation are void or unenforceable for various reasons. A determination by a court that the Master Settlement Agreement or related State legislation is void or unenforceable could have a materially adverse effect on the payments made to the TASC. It could also lead to a decrease in the market value and/or liquidity of the TASC bonds, which could adversely affect the amount of pass-through funds available to the Trust to pay the bonds' turbo redemption payments, and principal and interest on the bonds.

The Corporation is closely monitoring the potential impact of the COVID-19 pandemic.

CONTACTING THE TASC FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the TASC's finances for anyone having an interest and should be considered along with the Basic Financial Statements and related notes. Questions concerning any of the information provided in this report should be addressed to Ms. Lorrie Scarrott, Ontario County, 3019 County Complex Drive, Canandaigua, New York 14424.

ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION

A COMPONENT UNIT OF ONTARIO COUNTY, NEW YORK

Statement of Net Position

December 31, 2020 and 2019

	Governmental Activities	
	<u>2020</u>	<u>2019</u>
<u>ASSETS:</u>		
<u>Current Assets -</u>		
Restricted cash	\$ 202,033	\$ 194,033
Restricted investments	1,460,416	1,460,416
Tobacco settlement receivables	1,195,239	1,181,958
TOTAL ASSETS	\$ 2,857,688	\$ 2,836,407
 <u>LIABILITIES:</u>		
<u>Current Liabilities -</u>		
Bonds payable	\$ 2,905,000	\$ 2,440,000
Accrued liabilities	51,495	54,612
Total Current Liabilities	\$ 2,956,495	\$ 2,494,612
<u>Non-Current Liabilities -</u>		
Bonds payable - net of discount	\$ 26,382,064	\$ 26,282,596
TOTAL LIABILITIES	\$ 29,338,559	\$ 28,777,208
 <u>NET POSITION:</u>		
Restricted for debt service	\$ 2,857,688	\$ 2,836,407
Unrestricted	(29,338,559)	(28,777,208)
TOTAL NET POSITION	\$ (26,480,871)	\$ (25,940,801)

(See accompanying notes to financial statements)

ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION

A COMPONENT UNIT OF ONTARIO COUNTY, NEW YORK

Statement of Activities

For the Year Ended December 31, 2020 and 2019

	<u>Governmental Activities</u>	
	<u>2020</u>	<u>2019</u>
<u>OPERATING REVENUES:</u>		
Tobacco settlement revenues	\$ 1,292,670	\$ 1,120,132
TOTAL OPERATING REVENUES	\$ 1,292,670	\$ 1,120,132
<u>OPERATING EXPENSES:</u>		
Debt service - interest	\$ 1,862,992	\$ 1,812,958
Insurance	12,191	11,339
Professional fees	36,906	36,706
TOTAL OPERATING EXPENSES	\$ 1,912,089	\$ 1,861,003
OPERATING INCOME (LOSS)	\$ (619,419)	\$ (740,871)
<u>NON-OPERATING REVENUES (EXPENSES):</u>		
Interest	\$ 94,349	\$ 99,915
Distribution to Ontario County, New York	(15,000)	(15,000)
TOTAL NON-OPERATING REVENUES (EXPENSES)	\$ 79,349	\$ 84,915
CHANGE IN NET POSITION	\$ (540,070)	\$ (655,956)
NET POSITION - BEGINNING OF YEAR	(25,940,801)	(25,284,845)
NET POSITION - END OF YEAR	\$ (26,480,871)	\$ (25,940,801)

(See accompanying notes to financial statements)

ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION

A COMPONENT UNIT OF ONTARIO COUNTY, NEW YORK

Balance Sheet – Governmental Funds

December 31, 2020 and 2019

	<u>Debt Service Fund</u>	
	<u>2020</u>	<u>2019</u>
<u>ASSETS:</u>		
Cash and cash equivalents	\$ 202,033	\$ 194,033
Investments	1,460,416	1,460,416
TOTAL ASSETS	<u>\$ 1,662,449</u>	<u>\$ 1,654,449</u>
<u>FUND BALANCES:</u>		
Restricted fund balance	\$ 1,662,449	\$ 1,654,449
TOTAL FUND BALANCES	<u>\$ 1,662,449</u>	<u>\$ 1,654,449</u>
 Amounts reported in the statement of net position are different because:		
Receivables related to tobacco settlement revenues are not available financial resources and therefore, are not reported in the governmental funds	1,195,239	1,181,958
Accrued interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds balance sheet.	(51,495)	(54,612)
Long-term liabilities, including bonds payable, are not due in the current period and therefore, are not reported in the fund.	(29,287,064)	(28,722,596)
Net Position of Governmental Activities	<u><u>\$ (26,480,871)</u></u>	<u><u>\$ (25,940,801)</u></u>

(See accompanying notes to financial statements)

ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION

A COMPONENT UNIT OF ONTARIO COUNTY, NEW YORK

**Statement of Revenues, Expenditures, and
Changes in Fund Balances – Governmental Funds**

For the Years Ended December 31, 2020 and 2019

	<u>Debt Service Fund</u>	
	<u>2020</u>	<u>2019</u>
<u>REVENUES:</u>		
Tobacco settlement revenues	\$ 1,279,389	\$ 1,115,231
Interest income	94,349	99,915
TOTAL REVENUES	<u>\$ 1,373,738</u>	<u>\$ 1,215,146</u>
<u>EXPENDITURES:</u>		
<u>Current -</u>		
General governmental support	\$ 49,097	\$ 48,045
Distributions to Ontario County	15,000	15,000
<u>Debt Service -</u>		
Principal	665,000	470,000
Interest	636,641	668,563
TOTAL EXPENDITURES	<u>\$ 1,365,738</u>	<u>\$ 1,201,608</u>
NET CHANGE IN FUND BALANCE	\$ 8,000	\$ 13,538
FUND BALANCE - BEGINNING OF YEAR	<u>1,654,449</u>	<u>1,640,911</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 1,662,449</u></u>	<u><u>\$ 1,654,449</u></u>

(See accompanying notes to financial statements)

ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION

A COMPONENT UNIT OF ONTARIO COUNTY, NEW YORK

**Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance to the Statement of Activities**

For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
NET CHANGE IN FUND BALANCE -		
DEBT SERVICE FUND	\$ 8,000	\$ 13,538
Amounts reported in the statement of activities are different because:		
The issuance of long-term debt, including bonds, provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of insurance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(561,351)	(674,395)
Receivables related to tobacco settlement revenues are not available financial resources and therefore, are not reported in the governmental funds	<u>13,281</u>	<u>4,901</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (540,070)</u></u>	<u><u>\$ (655,956)</u></u>

(See accompanying notes to financial statements)

ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION
A COMPONENT UNIT OF ONTARIO COUNTY, NEW YORK

Notes to Financial Statements

December 31, 2020

I. Organization:

The Ontario Tobacco Asset Securitization Corporation (The Corporation), a component unit of Ontario County, New York is a special purpose, bankruptcy-remote local development corporation organized under the Not-For-Profit Corporation Law of the State of New York (the State). The Corporation was established on July 2, 2001. The Corporation is an instrumentality of, but separate and apart from the County of Ontario, New York (the County). The Corporation is managed by a Board of Directors, four members of which shall serve ex officio, consisting of the County Administrator, the County Director of Finance, Assistant County Attorney, and the Chairman of the Finance Committee of the Board of Supervisors, and one member of which shall be an Independent Director (as defined in the bylaws of the Corporation). Although legally separate from the County, the Corporation is a component unit of the County, and accordingly, is included in the County's financial statements as a blended component unit.

On July 3, 2001, pursuant to a Purchase and Sale Agreement with the County, the County sold to the Corporation all of its future rights, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgment (the Decree). The MSA resolved cigarette smoking-related litigation between the settling states and the Participating Manufacturers (PMs), released the PMs from past and present smoking-related claims, and provides for a continuing release of future smoking-related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future rights, title and interest of the County's share were sold to the Corporation.

The purchase price of the County's future rights, title and interest in the TSRs has been financed by the issuance of serial bonds. A Residual Certificate exists, which represents the entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses and certain other costs as set forth in the indenture. Payments on the Residual Certificate from TSR collections are subordinate to payments on the bonds and payment of certain other costs specified in the indenture. Excess TSRs not required by the Corporation to pay various expenses, debt service or required reserves with respect to the bonds are transferred to the Ontario Tobacco Asset Securitization Corporation Residual Trust (the Trust), as owner of the Residual Certificate. The County is the beneficial owner of the Trust and thus, the funds received by the Trust will ultimately transfer to the County.

II. Summary of Significant Accounting Policies:

A. Adoption of Accounting Principles

The Governmental Accounting Standards Board (GASB) promulgates accounting principles and guidelines for financial reporting for use by state and local governments throughout the United States. Effective January 1, 2004, the following governmental Accounting Standards Board's (GASB) Statements became applicable: Statement No. 46 – *Net Assets Restricted by Enabling Legislation, an Amendment of GASB No. 34* and GASB Technical Bulletin No. 2004-1 – *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. Technical Bulletin No. 2004-1 had an impact on the Corporation's basic financial statements. As a result, the Corporation began recognizing tobacco settlement revenues based on the date of domestic shipment of cigarettes.

GASB has issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

GASB has issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The Statement of Net Assets is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which improves financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

B. Basis of Presentation

The Corporation uses one governmental fund (Debt Service Fund) to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and aid financial management by segregating transactions related to certain functions and activities. The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on long-term debt and supports the operations of the Corporation.

C. Basis of Accounting/Measurement Focus

The Corporation follows the modified accrual basis of accounting in its debt service fund, which focuses on changes in available resources, in preparation of the fund financial statements. Under the modified accrual basis of accounting, revenues and related receivables are recorded in the accounting period that they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay the liabilities of the current period (ninety days or less). Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recognized as expenditures to the extent they have matured.

General administration expenditures are direct costs incurred by the Corporation, such as legal and auditing fees, financial advisory fees, printing costs, trustee fees and other related costs. General administration expenditures are paid either from bond proceeds or from TSR's.

(II.) (Continued)

The Corporation utilizes the full accrual basis of accounting, which focuses on changes in total economic resources, in preparation of the Corporation-wide financial statements. Under the full accrual basis of accounting, changes in long-term assets and liabilities are incorporated into the financial statements and revenues and expenses are recorded based on the timing of the underlying transaction without regard for the timing of cash flows. Since the fund financial statements are prepared on a different measurement focus and basis of accounting than the Corporation-wide financial statements, a reconciliation is presented to explain differences between the fund based financial statements and the Corporation-wide financial statements.

D. Cash, Cash Equivalents and Investments

The Corporation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

E. Interest Expenditures/Expense

The Corporation recognizes all interest paid as interest expenditures for the statement of governmental fund revenues, expenditures and changes in fund balance, and as expenses as incurred on the full accrual basis for the statement of activities.

F. Amortized Bond Discounts

The Corporation recognizes bond discounts fully in the year of issuance for the governmental fund statements. Bond discounts are deferred and are amortized over the life of the related bonds for the Corporation-wide statements.

G. Equity Classifications

1. Government-Wide Statements

Equity is classified for accounting purposes into applicable net position categories. The Corporation has the following:

a. Restricted Net Position - Net Position is reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributions, or law or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The restricted net position of the Corporation is those net positions that are restricted based on externally imposed conditions.

b. Unrestricted Net Position - any remaining net position that does not meet the definition of “restricted” and can be internally designated.

(II.) (Continued)

2. **Financial Statements – Fund Balance**

The Corporation implemented GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

- a. **Restricted fund balance** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- b. **Unassigned fund balance** – Amounts that are available for Corporation purposes pursuant to any Law restrictions.

3. The following policies relate to GASB No. 54:

- a. **Spending policy** – Resources will generally be spent from Budgetary Appropriations first. Utilization of reserve funds will be determined based on the legal appropriation of such funds which require Board approval.
- b. **Order of fund balance** – The County’s policy is to apply expenditures against restricted fund balance and unassigned fund balance at the end of the year.

It is possible for the fund to have negative unassigned fund balance when the restricted fund balances for specific purpose amounts exceed the positive fund balance.

H. **Use of Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America require the Corporation’s management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

I. **Tax Status**

The Corporation is exempt from federal income tax under Section 115 of the Internal Revenue Code.

III. **Cash, Cash Equivalents and Investments:**

The Corporation’s cash and cash equivalents including restricted amounts, consist of bank deposits and short term liquid debt instruments held by the Corporation’s agent in the Corporation’s name. At December 31, 2020, total cash and cash equivalents aggregated \$202,033 and the Corporation’s book value equaled the bank balance.

(III.) (Continued)

The Corporation's trustee holds investments for the funds included in the basic financial statements. The Corporation invests in authorized investments as described in the bond resolution including: commercial paper or finance company paper rated "P-1" by Moody's; special time deposit accounts; certificates of deposit; obligations of the United States of America; obligations guaranteed by agencies of the United States of America; obligations of the State of New York; obligations issued pursuant to Local Finance Law Sect. 24.00 or 25.00 (with approval of the State Comptroller) by any municipality, school district or district corporation other than the County of Ontario, New York, obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where general State statutes governing such entities or whose specific enabling legislation authorizes such investments; and repurchase agreements limited to obligations of the United States of America and obligations guaranteed by agencies of the United States of America.

All deposits of the Corporation, including money market deposits, are insured under the provisions of the Federal Deposit Insurance Act. Excess deposits are not secured.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Corporation's investment in commercial paper, \$1,460,416, is held by the counterparty in the Corporation's name and is not insured.

Concentration of Credit Risk – The Corporation places no limit on the amount that it may invest with in any one issuer. The entire amount of the Corporation's investments are in commercial paper and represent 100% of the investments of the Corporation. This investment has an original maturity of six months.

Interest Rate Risk – The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rates.

As of December 31, 2020 the Corporation's investments were as follows:

	<u>Issued</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Cost</u>	<u>Market Value</u>
MetLife Short Term Funding					
Discount Commercial Paper	9/25/2020	6/1/2021	5.7800%	\$ 1,459,569	\$ 1,459,569
Blackrock Liquidity Funds	9/25/2020	6/1/2021	1.4000%	847	847
Total				\$ 1,460,416	\$ 1,460,416

IV. **Long-Term Liabilities:**

Interest on long-term debt for the year was composed of:

	<u>2020</u>	<u>2019</u>
Interest paid	\$ 636,641	\$ 668,563
<u>Less: interest accrued in the prior year</u>	(54,612)	(56,815)
<u>Plus: current amortization of bond discount / accrued interest</u>	1,229,468	1,146,598
<u>Plus: interest accrued in the current year</u>	51,495	54,612
Total Interest Expense	\$ 1,862,992	\$ 1,812,958

(IV.) (Continued)

Bond payable activity for the year ended December 31, 2020 is summarized below:

Governmental Activities:	Balance	Issued	Redeemed	Change in	Balance	Classified As	
	12/31/2019			Discount	12/31/2020	Current	Non-Current
<u>Bonds and Notes Payable -</u>							
Series 2001 NY Counties Trust II Tobacco Settlement Pass- Through Bonds	\$ 11,480,000	\$ -	\$ 665,000	\$ -	\$ 10,815,000	\$ 2,905,000	\$ 7,910,000
Series 2005 S1, S2, S3, & S4B Subordinate Turbo Capital Appreciation NY Counties Trust V Tobacco Settlement Pass-Through Bonds	17,242,596	-	-	1,229,468	18,472,064	-	18,472,064
Total Long-Term Obligations	\$ 28,722,596	\$ -	\$ 665,000	\$ 1,229,468	\$ 29,287,064	\$ 2,905,000	\$ 26,382,064

Series 2001 NY Counties Trust II Bonds:

As discussed in Note 1, the purchase price of the County's future rights, title and interest in the TSRs, was financed through the issuance of Series 2001 Bonds in the amount of \$19,985,000 bearing interest at rates ranging from 5.25% to 5.75%. The bonds are secured by a perfected security interest in, which includes, among other things, the TSRs and all investment earnings on amounts on deposit in the accounts established under the Indenture (collectively, the Collections). Among the accounts so established are the Liquidity Reserve Account and the Trapping Account. The Corporation retains TSRs in an amount sufficient to service its debt, not otherwise provided for from bond proceeds, and pay its operating expenses, and remits the remaining balance to the Trust (Note I).

(IV) (Continued)

Principal and interest debt service requirements for required maturities and flexible amortization payments at December 31, 2020 for liquidation of the \$10,815,000 bonds are as follows:

Year Ended December 31,	Amortization Assuming Super Sinker Payments		Amortization Assuming No Super Sinker Payments	
	Principal	Interest	Principal	Interest
2021	\$ 2,905,000	\$ 536,234	\$ -	\$ 617,938
2022	1,205,000	420,034	-	617,938
2023	1,270,000	349,025	-	617,938
2024	1,340,000	273,988	-	617,938
2025	1,410,000	194,925	-	617,938
2026-30	2,685,000	145,906	-	3,089,688
2031-35	-	-	3,140,000	2,658,813
2036-40	-	-	4,275,000	1,627,394
2041-43	-	-	3,400,000	301,588
Total	\$ 10,815,000	\$ 1,920,112	\$ 10,815,000	\$ 10,767,173

Series 2005 S1, S2, S3, and S4B Subordinate Turbo Capital Appreciation Bonds:

On November 15, 2005, the Corporation issued \$7,111,340 in Series 2005 S1, S2, S3, and S4B Subordinate Turbo Term NY Counties Trust IV Tobacco Settlement Pass-Through Capital Appreciation Bonds bearing interest ranging from 6.00% to 7.85%, collateralized by future TSR revenues. Capital Appreciation Bonds do not pay current interest. Interest accretes until both principal and accreted interest are paid. Future interest accretion has been recorded as bond discount, amortized as the current interest accretes.

(IV) (Continued)

At December 31, 2020, the outstanding principal, net of change in discount, totaled \$18,472,064. The amortization schedule for the turbo amortization payments is as follows:

Amortization Schedule Assuming Turbo Amortization Payments				
Year Ended	Turbo	Gross Bond	Remaining	Net Bond
December 31,	Redemption	Balance	Discount	Balance
	Payments			
2021	\$ -	\$ 35,208,831	\$ 16,736,767	\$ 18,472,064
2022	767,567	34,441,264		
2023	853,842	33,587,422		
2024	899,399	32,688,023		
2025	960,648	31,727,375		
2026-30	10,139,505	21,587,870		
2031-35	11,423,761	10,164,109		
2036-40	10,164,109	-		

Any debt service amounts not paid in accordance with the above turbo amortization schedule will be due and payable on the following final maturity dates:

Series 2005 S1	June 1, 2038
Series 2005 S2	June 1, 2050
Series 2005 S3	June 1, 2055
Series 2005 S4B	June 1, 2060

V. **Restricted Fund Balance:**

As required by the Corporation Indenture, the Corporation has the following reserves at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Liquidity reserve	\$ 1,460,416	\$ 1,460,416
Trapping reserve	4,411	3,760
Restricted fund balance	197,622	190,273
Total Restricted Funds	<u>\$ 1,662,449</u>	<u>\$ 1,654,449</u>

(V) (Continued)

Liquidity Reserve –to fund future debt service payments if needed.

Trapping Reserve – established as a result of a financial rating downgrade of a major tobacco corporation.

Restricted Fund Balance – to fund future costs of the TASC.

Upon retirement of the outstanding bonds payable, any funds available in any of these reserves will be distributed to Ontario County, New York.

VI. Contingencies:

Future tobacco settlement revenues are subject to adjustment based upon tobacco consumption, inflation and other potential reductions. Pursuant to the Purchase and Sale Agreement these adjustments and other events could trigger additional debt service reserve requirements.

VII. Unrestricted Net Position – Deficit:

The deficit unrestricted net position balance represents the outstanding bond liability to be paid off with future rights to receive tobacco revenues.

VIII. COVID-19

On January 30,2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the TASC’s financial condition, liquidity, budgetary projections and future results of operation. Management is actively monitoring the global situation on its financial condition, liquidity, budgetary projections, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the TASC is not able to estimate the effects of the COVID-19 outbreak on its budgetary projections, results of operations, financial condition, or liquidity for year 2021.

**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***

Independent Auditors' Report

To the Board of Directors
Ontario Tobacco Asset Securitization Corporation
A Component Unit of Ontario County, New York

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 Ontario Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of Ontario County, New York, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Ontario Tobacco Asset Securitization Corporation, a blended component unit of Ontario County, New York's basic financial statements, and have issued our report thereon dated March 31, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Ontario Tobacco Asset Securitization Corporation, a blended component unit of Ontario County, New York's internal control over financial reporting 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 Ontario Tobacco Asset Securitization Corporation, a blended component unit of Ontario County, New York's internal control. Accordingly, we do not express an opinion on the effectiveness of Ontario Tobacco Asset Securitization Corporation, a blended component unit of Ontario County, New York'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 Corporation'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 Ontario Tobacco Asset Securitization Corporation, a blended component unit of Ontario County, New York'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
March 31, 2021