

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

NEW YORK

BASIC FINANCIAL STATEMENTS

For The Years Ended December 31, 2021 and 2020



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 Audit of the Financial Statements

Opinions

We have audited 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, 2021 and 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2021 and 2020, and the changes in its financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, information on pages 4-6 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 15, 2022 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
March 15, 2022

ONTARIO TOBACCO ASSET SECURITIZATION CORPORATION

A COMPONENT UNIT OF ONTARIO COUNTY, NEW YORK

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2021

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, 2021. 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 2021 year was (\$26,960,500). Net position decreased by \$479,629, from the previous year as illustrated below:

	2021	2020	2019
	<u>Total</u>	<u>Total</u>	<u>Total</u>
Operating Revenues	\$ 1,402,923	\$ 1,292,670	\$ 1,120,132
Operating Expenses	<u>1,959,936</u>	<u>1,912,089</u>	<u>1,861,003</u>
Operating Income (Loss)	\$ (557,013)	\$ (619,419)	\$ (740,871)
Non-Operating Revenues	92,384	94,349	99,915
Non-Operating (Expenses)	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>
Increase (Decrease) in Net Position	<u><u>\$ (479,629)</u></u>	<u><u>\$ (540,070)</u></u>	<u><u>\$ (655,956)</u></u>

The decrease in Net Position in 2021 is explained in the following revenue and expense summaries.

OPERATING REVENUES

The Ontario TASC's operating revenues increased by \$110,253 in 2021. The increase in revenues in 2021 is due to the increase in tobacco settlement revenues received.

OPERATING EXPENSES

The Ontario TASC's operating expenses increased by \$47,847 in 2021; 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.

2021 FINANCIAL ACTIVITIES

While the TASC has \$212,702 of cash on hand at December 31, 2021, 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 \$10,010,000 and \$19,790,472 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, 2021 of (\$26,960,500) which is the difference between the total liabilities as listed at December 31, 2021 of (\$29,848,193) less the sum of cash currently on hand to pay those bondholders of \$212,703, investments of \$1,460,418, and accounts receivable of \$1,214,573. The following is a summary of the Ontario TASC's Net Position as of December 31, 2021, 2020 and 2019:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<u>ASSETS:</u>			
Current Assets	\$ 2,887,693	\$ 2,857,688	\$ 2,836,407
Total Assets	<u>\$ 2,887,693</u>	<u>\$ 2,857,688</u>	<u>\$ 2,836,407</u>
<u>LIABILITIES:</u>			
Current Liabilities	\$ 3,352,721	\$ 2,956,495	\$ 2,494,612
Noncurrent Liabilities	26,495,472	26,382,064	26,282,596
Total Liabilities	<u>\$ 29,848,193</u>	<u>\$ 29,338,559</u>	<u>\$ 28,777,208</u>
<u>NET POSITION:</u>			
Restricted	\$ 2,887,693	\$ 2,857,688	\$ 2,836,407
Unrestricted	(29,848,193)	(29,338,559)	(28,777,208)
Total Net Position	<u>\$ (26,960,500)</u>	<u>\$ (26,480,871)</u>	<u>\$ (25,940,801)</u>

The decrease in Net Position of \$479,629 in 2021 and the 2020 decrease of \$540,070 are the result of the change in the amount of bond payments due.

FACTORS BEARING ON THE TASC'S FUTURE

There are five main factors to consider that may have a bearing on the TASC's future. The first factor is the amount of sales of cigarettes as compared to what was originally projected in the Master Settlement Agreement, and potentially declining revenues received by the TASC. Second, the provision in the bond agreements for an alternative debt repayment schedule if revenue is not sufficient to meet the original repayment schedule. Third, several litigation actions have been filed by various organizations, consumer groups, cigarette importers and distributors, cigarette manufactures, Native American Tribes and Medicaid 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. Fourth, the credit ratings of the Original Participating Manufacturers, can affect whether or not a trapping event occurs. Lastly, the potential impact of the COVID-19 pandemic on cigarette production and sales, as well as, the stability of manufacturers may have an impact on the TASC revenues and bond values.

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, 2021 and 2020

	<u>Governmental Activities</u>	
	<u>2021</u>	<u>2020</u>
<u>ASSETS:</u>		
<u>Current Assets -</u>		
Restricted cash	\$ 212,702	\$ 202,033
Restricted investments	1,460,418	1,460,416
Tobacco settlement receivables	1,214,573	1,195,239
TOTAL ASSETS	\$ 2,887,693	\$ 2,857,688
<u>LIABILITIES:</u>		
<u>Current Liabilities -</u>		
Bonds payable	\$ 3,305,000	\$ 2,905,000
Accrued liabilities	47,721	51,495
Total Current Liabilities	\$ 3,352,721	\$ 2,956,495
<u>Non-Current Liabilities -</u>		
Bonds payable - net of discount	\$ 26,495,472	\$ 26,382,064
TOTAL LIABILITIES	\$ 29,848,193	\$ 29,338,559
<u>NET POSITION:</u>		
Restricted for debt service	\$ 2,887,693	\$ 2,857,688
Unrestricted	(29,848,193)	(29,338,559)
TOTAL NET POSITION	\$ (26,960,500)	\$ (26,480,871)

(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, 2021 and 2020

	Governmental Activities	
	<u>2021</u>	<u>2020</u>
<u>OPERATING REVENUES:</u>		
Tobacco settlement revenues	\$ 1,402,923	\$ 1,292,670
TOTAL OPERATING REVENUES	\$ 1,402,923	\$ 1,292,670
<u>OPERATING EXPENSES:</u>		
Debt service - interest	\$ 1,909,931	\$ 1,862,992
Insurance	12,579	12,191
Professional fees	37,426	36,906
TOTAL OPERATING EXPENSES	\$ 1,959,936	\$ 1,912,089
OPERATING INCOME (LOSS)	\$ (557,013)	\$ (619,419)
<u>NON-OPERATING REVENUES (EXPENSES):</u>		
Interest	\$ 92,384	\$ 94,349
Distribution to Ontario County, New York	(15,000)	(15,000)
TOTAL NON-OPERATING REVENUES (EXPENSES)	\$ 77,384	\$ 79,349
CHANGE IN NET POSITION	\$ (479,629)	\$ (540,070)
NET POSITION - BEGINNING OF YEAR	(26,480,871)	(25,940,801)
NET POSITION - END OF YEAR	\$ (26,960,500)	\$ (26,480,871)

(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, 2021 and 2020

	Debt Service Fund	
	<u>2021</u>	<u>2020</u>
<u>ASSETS:</u>		
Cash and cash equivalents	\$ 212,702	\$ 202,033
Investments	1,460,418	1,460,416
TOTAL ASSETS	\$ 1,673,120	\$ 1,662,449
<u>FUND BALANCES:</u>		
Restricted fund balance	\$ 1,673,120	\$ 1,662,449
TOTAL FUND BALANCES	\$ 1,673,120	\$ 1,662,449
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	1,214,573	1,195,239
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.	(47,721)	(51,495)
Long-term liabilities, including bonds payable, are not due in the current period and therefore, are not reported in the fund.	(29,800,472)	(29,287,064)
Net Position of Governmental Activities	\$ (26,960,500)	\$ (26,480,871)

(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, 2021 and 2020

	<u>Debt Service Fund</u>	
	<u>2021</u>	<u>2020</u>
<u>REVENUES:</u>		
Tobacco settlement revenues	\$ 1,383,589	\$ 1,279,389
Interest income	92,384	94,349
TOTAL REVENUES	<u>\$ 1,475,973</u>	<u>\$ 1,373,738</u>
<u>EXPENDITURES:</u>		
<u>Current -</u>		
General governmental support	\$ 50,005	\$ 49,097
Distributions to Ontario County	15,000	15,000
<u>Debt Service -</u>		
Principal	805,000	665,000
Interest	595,297	636,641
TOTAL EXPENDITURES	<u>\$ 1,465,302</u>	<u>\$ 1,365,738</u>
NET CHANGE IN FUND BALANCE	\$ 10,671	\$ 8,000
FUND BALANCE - BEGINNING OF YEAR	<u>1,662,449</u>	<u>1,654,449</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 1,673,120</u></u>	<u><u>\$ 1,662,449</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
NET CHANGE IN FUND BALANCE -		
DEBT SERVICE FUND	\$ 10,671	\$ 8,000
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.	(509,634)	(561,351)
Receivables related to tobacco settlement revenues are not available financial resources and therefore, are not reported in the governmental funds	<u>19,334</u>	<u>13,281</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (479,629)</u></u>	<u><u>\$ (540,070)</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, 2021

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, 2021, total cash and cash equivalents aggregated \$212,702 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, \$1,460,418, 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, 2021 the Corporation's investments were as follows:

	<u>Issued</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Cost</u>	<u>Market Value</u>
United States Treasury Bills	11/26/2021	5/26/2022	5.6700%	\$ 1,460,418	\$ 1,460,418
Total				<u>\$ 1,460,501</u>	<u>\$ 1,460,501</u>

IV. Long-Term Liabilities:

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

	<u>2021</u>	<u>2020</u>
Interest paid	\$ 595,297	\$ 636,641
<u>Less:</u> interest accrued in the prior year	(51,495)	(54,612)
<u>Plus:</u> current amortization of bond discount / accrued interest	1,318,408	1,229,468
<u>Plus:</u> interest accrued in the current year	47,721	51,495
Total Interest Expense	<u>\$ 1,909,931</u>	<u>\$ 1,862,992</u>

(IV.) (Continued)

Bond payable activity for the year ended December 31, 2021 is summarized below:

<u>Governmental Activities:</u>	<u>Balance</u>			<u>Change in</u>	<u>Balance</u>	<u>Classified As</u>	
	<u>12/31/2020</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Discount</u>	<u>12/31/2021</u>	<u>Current</u>	<u>Non-Current</u>
<u>Bonds and Notes Payable -</u>							
Series 2001 NY Counties Trust II Tobacco Settlement Pass- Through Bonds	\$ 10,815,000	\$ -	\$ 805,000	\$ -	\$ 10,010,000	\$ 3,305,000	\$ 6,705,000
Series 2005 S1, S2, S3, & S4B Subordinate Turbo Capital Appreciation NY Counties Trust V Tobacco Settlement Pass-Through Bonds	18,472,064	-	-	1,318,408	19,790,472	-	19,790,472
Total Long-Term Obligations	<u>\$ 29,287,064</u>	<u>\$ -</u>	<u>\$ 805,000</u>	<u>\$ 1,318,408</u>	<u>\$ 29,800,472</u>	<u>\$ 3,305,000</u>	<u>\$ 26,495,472</u>

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, 2021 for liquidation of the \$10,010,000 bonds are as follows:

Year Ended December 31,	Amortization Assuming Super Sinker Payments		Amortization Assuming No Super Sinker Payments	
	Principal	Interest	Principal	Interest
2022	\$ 3,305,000	\$ 479,097	\$ -	\$ 572,656
2023	1,270,000	349,025	-	572,656
2024	1,340,000	273,988	-	572,656
2025	1,410,000	194,925	-	572,656
2026	1,490,000	111,550	-	572,656
2027-31	1,195,000	34,356	-	2,863,281
2032-36	-	-	3,070,000	2,471,884
2037-41	-	-	4,600,000	1,372,238
2042-43	-	-	2,340,000	136,563
Total	\$ 10,010,000	\$ 1,442,941	\$ 10,010,000	\$ 9,707,246

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, 2021, the outstanding principal, net of change in discount, totaled \$19,790,472. 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
<u>December 31,</u>	<u>Redemption</u>	<u>Balance</u>	<u>Discount</u>	<u>Balance</u>
	<u>Payments</u>			
2022	\$ 767,567	\$ 34,441,264	\$ 15,418,359	\$ 19,790,472
2023	853,842	33,587,422		
2024	899,399	32,688,023		
2025	960,648	31,727,375		
2026	1,005,967	30,721,408		
2027-31	11,352,785	19,368,623		
2032-36	11,567,764	7,800,859		
2037-40	7,800,859	-		

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, 2021 **and 2020:**

	<u>2021</u>	<u>2020</u>
Liquidity reserve	\$ 1,460,418	\$ 1,460,416
Trapping reserve	4,411	4,411
Restricted fund balance	208,291	197,622
Total Restricted Funds	<u>\$ 1,673,120</u>	<u>\$ 1,662,449</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 2022.

**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, 2021 and 2020, 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 15, 2022.

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

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, Barw & Co. LLP

Rochester, New York
March 15, 2022