

**WARREN TOBACCO ASSET
SECURITIZATION CORPORATION**
(A Component Unit of the County of Warren, New York)
*Basic Financial Statements and Required
Supplementary Information for the
Year Ended December 31, 2021
and Independent Auditors' Reports*

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF WARREN, NEW YORK)

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Warren Tobacco Asset Securitization Corporation:

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and the major fund of Warren Tobacco Asset Securitization Corporation ("WTASC"), a component unit of the County of Warren, New York, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise WTASC'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 respective financial position of the governmental activities and the major fund of WTASC, as of December 31, 2021, and the respective changes in its financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of WTASC 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

WTASC'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 WTASC's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' 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 auditors' 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 WTASC'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 WTASC's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 21, 2022 on our consideration of WTASC'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 WTASC's internal control over financial reporting and compliance.

Drescher & Malecki LLP

March 21, 2022

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF WARREN, NEW YORK)
Management's Discussion and Analysis
Year Ended December 31, 2021

As management of the Warren Tobacco Asset Securitization Corporation ("WTASC"), a blended component unit of the County of Warren, New York (the "County"), we offer readers of WTASC's financial statements this narrative overview and analysis of the financial activities of WTASC for the fiscal year ended December 31, 2021. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in WTASC's financial statements, which follow this narrative.

Financial Highlights

- Total liabilities of WTASC's primary government exceeded its assets by \$5,670,023 (net position) at December 31, 2021. This compares to WTASC's total liabilities exceeding assets by \$5,683,603 at December 31, 2020.
- WTASC's net position increased by \$13,580 during the year ended December 31, 2021.
- At the close of the current fiscal year, WTASC's governmental fund reported fund balance of \$467,217, an increase of \$4,979 in comparison with the prior year. All of the fund balance is restricted for debt service.
- WTASC's total Tobacco Settlement Bonds decreased by \$260,000 as a result of principal payments made during the year, while Subordinate Turbo Capital Appreciation Bonds ("CABs") increased by \$288,203 as a result of annual net interest accretion.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to WTASC's basic financial statements. WTASC's basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

Government-wide financial statements—The *government-wide financial statements* are designed to provide readers with a broad overview of WTASC's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of WTASC's assets and liabilities with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of WTASC is improving or deteriorating.

The *statement of activities* presents information showing how WTASC's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements—A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. WTASC, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds—*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources*, available at the end of the fiscal year. Such information may be useful in assessing a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

WTASC maintains one individual governmental fund, the Debt Service Fund.

The basic governmental fund financial statements can be found on pages 11-14 of this report.

Notes to the financial statements—The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-24 of this report.

Government-Wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government’s financial position. In the case of WTASC, liabilities exceeded assets by \$5,670,023 at December 31, 2021, as compared to \$5,683,603 at December 31, 2020. Table 1, shown below, presents the condensed statements of net position for WTASC at December 31, 2021 and December 31, 2020.

Table 1—Condensed Statements of Net Position

	December 31,	
	2021	2020
Current assets	\$ 1,198,327	\$ 1,157,763
Total assets	<u>1,198,327</u>	<u>1,157,763</u>
Current liabilities	10,486	11,705
Noncurrent liabilities	<u>6,857,864</u>	<u>6,829,661</u>
Total liabilities	<u>6,868,350</u>	<u>6,841,366</u>
Net position	<u>\$ (5,670,023)</u>	<u>\$ (5,683,603)</u>

A portion of WTASC's net position, \$467,217, represents resources that are subject to external restrictions on how they may be used. Therefore, the unrestricted deficit totals \$6,137,240 at December 31, 2021, which compares to \$6,145,841 at December 31, 2020. The unrestricted net position deficit must be financed by future operations. The deficit results from long-term operations that are greater than currently available resources.

At December 31, 2021, total WTASC assets were \$1,198,327, compared to \$1,157,763 at December 31, 2020. The largest asset held by WTASC is the tobacco settlement revenue receivable due from New York State totaling \$731,110 and \$695,525 at December 31, 2021 and December 31, 2020, respectively. WTASC reported no noncurrent assets at December 31, 2021 or December 31, 2020.

Total liabilities at December 31, 2021 were \$6,868,350, compared to \$6,841,366 at December 31, 2020. The largest portion of the liabilities was net outstanding debt totaling \$6,857,864 and \$6,829,661 at December 31, 2021 and 2020, respectively.

During the current year, net position for governmental activities increased \$13,580 from the prior fiscal year for an ending net position of \$(5,670,023). The statement of activities presents revenues earned and expenses incurred by WTASC. Table 2, shown below, presents the condensed statements of activities for the years ended December 31, 2021 and 2020.

Table 2—Condensed Statements of Activities

	Year Ended December 31,	
	2021	2020
General revenues	\$ 924,375	\$ 839,588
Expenses—governmental activities	478,901	474,735
Transfer to County	<u>431,894</u>	<u>399,367</u>
Change in net position	13,580	(34,514)
Net position—beginning	<u>(5,683,603)</u>	<u>(5,649,089)</u>
Net position—ending	<u>\$ (5,670,023)</u>	<u>\$ (5,683,603)</u>

Total general revenues for the years ended December 31, 2021 and 2020 were \$924,375 and \$839,588, respectively. Revenues for the years ended December 31, 2021 and 2020 consisted of \$899,373 (97.3 percent) and \$814,216 (97.0 percent), respectively, of tobacco settlement revenues, and \$25,002 (2.7 percent) and \$25,372 (3.0 percent), respectively, of interest earnings.

A summary of sources of revenues for the years ended December 31, 2021 and December 31, 2020 is presented below in Table 3.

Table 3—Sources of Revenues

	Year Ended December 31,		Increase/(Decrease)	
	2021	2020	Dollars	Percent (%)
Tobacco settlement revenues	\$ 899,373	\$ 814,216	\$ 85,157	10.5
Interest earnings	<u>25,002</u>	<u>25,372</u>	<u>(370)</u>	<u>(1.5)</u>
Total revenues	<u>\$ 924,375</u>	<u>\$ 839,588</u>	<u>\$ 84,787</u>	<u>10.1</u>

Total expenses and transfers for the years ended December 31, 2021 and 2020 were \$910,795 and \$874,102, respectively. Expenses for the years ended December 31, 2021 and 2020 consisted of \$420,134 (46.1 percent) and \$416,093 (47.6 percent), respectively, of interest and fiscal charges, and \$58,767 (6.5 percent) and \$58,642 (6.7 percent) respectively, of general government support expenses incurred in connection with the operations of the WTASC. In addition, WTASC transferred \$431,894 (47.4 percent) and \$399,367 (45.7 percent) to the County during the years ended December 31, 2021 and 2020, respectively.

A summary of expenses and transfers for the years ended December 31, 2021 and December 31, 2020 is presented below in Table 4.

Table 4—Expenses and Transfers

	Year Ended December 31,		Increase/(Decrease)	
	2021	2020	Dollars	Percent (%)
General government support	\$ 58,767	\$ 58,642	\$ 125	0.2
Interest and fiscal charges	420,134	416,093	4,041	1.0
Transfer to County	431,894	399,367	32,527	8.1
Total expenses and transfers	<u>\$ 910,795</u>	<u>\$ 874,102</u>	<u>\$ 36,693</u>	4.2

Financial Analysis of Governmental Funds

As noted earlier, WTASC uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds—The focus of WTASC’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing WTASC’s financing requirements.

At December 31, 2021, WTASC’s Debt Service Fund reported fund balance of \$467,217, an increase of \$4,979 in comparison with the prior year. All of the fund balance is restricted for debt service. The increase in fund balance of \$4,979 is a result of tobacco settlement revenues and interest earnings exceeding general government support and debt service costs. Principal and interest in the amount of \$393,150 were paid during the year.

Debt Administration

Long-Term Debt—As of December 31, 2021, WTASC had \$2,190,000 of Tobacco Settlement Bonds outstanding and Subordinate Turbo CABs outstanding of \$4,667,864, which are reported in the statement of net position.

During the year ended December 31, 2021, WTASC made principal payments of \$260,000 on its Tobacco Settlement Bonds, while its Subordinate Turbo CABs had annual interest accretion of \$288,203, as compared to principal payments made in the amount of \$220,000 on its Tobacco Settlement Bonds and interest accretion of \$270,475 on its Subordinate Turbo CABs during the year ended December 31, 2020. Additional information on WTASC’s long-term debt can be found in Note 4 to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of WTASC's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Warren Tobacco Asset Securitization Corporation, c/o Warren County, 1340 State Route 9, Lake George, New York 12845.

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BASIC FINANCIAL STATEMENTS

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WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Warren, New York)
Statement of Net Position
December 31, 2021

	Primary Government
	Governmental Activities
ASSETS	
Current assets:	
Restricted cash and cash equivalents	\$ 467,217
Due from New York State	731,110
Total assets	1,198,327
LIABILITIES	
Current liabilities:	
Accrued interest payable	10,486
Noncurrent liabilities:	
Tobacco Settlement Bonds payable	2,190,000
Subordinate Turbo CABs payable	4,667,864
Total liabilities	6,868,350
NET POSITION	
Restricted for debt service	467,217
Unrestricted	(6,137,240)
Total net position	\$ (5,670,023)

The notes to the financial statements are an integral part of this statement.

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Warren, New York)
Statement of Activities
Year Ended December 31, 2021

Functions/Programs	Expenses	Net (Expenses) and Changes in Net Position
		Primary Government Governmental Activities
Primary government:		
Governmental activities:		
General government support	\$ 58,767	\$ (58,767)
Interest and fiscal charges	420,134	(420,134)
Total primary government	\$ 478,901	(478,901)
General revenues:		
Tobacco settlement revenues		899,373
Interest earnings		25,002
Transfer to County		(431,894)
Total general revenues and transfer		492,481
Change in net position		13,580
Net position—beginning		(5,683,603)
Net position—ending		\$ (5,670,023)

The notes to the financial statements are an integral part of this statement.

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Warren, New York)
Balance Sheet—Governmental Funds
December 31, 2021

	<u>Debt Service</u>
ASSETS	
Restricted cash and cash equivalents	\$ 467,217
Total assets	<u>\$ 467,217</u>
FUND BALANCES	
Restricted for debt service	\$ 467,217
Total fund balances	<u>\$ 467,217</u>

The notes to the financial statements are an integral part of this statement.

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Warren, New York)
Reconciliation of the Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
December 31, 2021

Amounts reported for governmental activities in the statement of net position (page 9) are different because:

Total fund balances—governmental funds (page 11)	\$	467,217
A long-term asset, due from New York State, \$731,110, is not available to pay for current period expenditures and, therefore, is not reported as revenue in the funds.		
		731,110
Certain current and long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. The effects of these items are:		
Accrued interest payable	\$	(10,486)
Tobacco Settlement Bonds payable		(2,190,000)
Subordinate Turbo CABs payable		(4,667,864)
		(6,868,350)
Net position of governmental activities	\$	(5,670,023)

The notes to the financial statements are an integral part of this statement.

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Warren, New York)
Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds
Year Ended December 31, 2021

	Debt Service
REVENUES	
Tobacco settlement revenues	\$ 863,788
Interest earnings	25,002
Total revenues	888,790
EXPENDITURES	
Current:	
General government support	58,767
Debt service:	
Principal	260,000
Interest	133,150
Total expenditures	451,917
Excess of revenues over expenditures	436,873
OTHER FINANCING (USES)	
Transfer to County	(431,894)
Total other financing (uses)	(431,894)
Net change in fund balances	4,979
Fund balances—beginning	462,238
Fund balances—ending	\$ 467,217

The notes to the financial statements are an integral part of this statement.

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Warren, New York)
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances—Governmental Funds to the Government-wide Statement of Activities
Year Ended December 31, 2021

Amounts reported for governmental activities in the statement of activities (page 10) are different because:

Net change in fund balances—total governmental funds (page 13)	\$	4,979
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Certain revenues are not recognized in governmental funds because they are not available soon enough after year-end to pay for the current period's expenditures. On the statement of activities, however, revenue is recognized regardless of when its collected.		35,585
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The issuance of long-term debt (e.g., 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 position. Governmental funds report interest expense when paid, whereas interest is accrued in the statement of activities. The net effect of these differences in the treatment of long-term debt and the related items is as follows:

Change in accrued interest payable	\$	1,219	
Principal repayments on Tobacco Settlement Bonds payable		260,000	
Accreted interest on Subordinate Turbo CABs payable		(288,203)	(26,984)

Change in net position of governmental activities	\$	13,580
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The notes to the financial statements are an integral part of this statement.

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WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Warren, New York)
Notes to the Financial Statements
Year Ended December 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Warren Tobacco Asset Securitization Corporation (“WTASC”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (the “GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of WTASC’s accounting policies are described below.

Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., statement of net position and the statement of changes in net position) report information on all the nonfiduciary activities of WTASC. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. WTASC reports no fiduciary or business-type activities.

Reporting Entity

WTASC is a special purpose, bankruptcy remote, local development corporation organized under the Not-for-Profit Corporation Law of the State of New York. WTASC is an instrumentality of, but separate and apart from, the County of Warren, New York (the “County”). Although legally separate from the County, WTASC is a component unit of the County. Based on the nature and significance of WTASC’s relationship with the County and the criteria set forth by GASB, WTASC is included within the County’s basic financial statements as a blended component unit.

WTASC was incorporated on July 3, 2001 for the purpose of issuing asset backed bonds in order to provide funds to purchase from the County fifty percent of the County’s right, title and interest under the Master Settlement Agreement (the “MSA”) and the Consent Decree and Final Judgment (the “Decree”) as described herein. WTASC has issued bonds in two series: 1) the New York Counties Tobacco Trust II issued in 2001, and 2) Subordinate Capital Appreciation Bonds issued in 2005.

WTASC was formed to acquire from the County all future rights, title, and interest in 50% of the tobacco settlement revenue (“TSR”) under the MSA with respect to tobacco related litigation among various states and participating manufacturers. The purchase price of 50% of the County’s future rights, title, and interest in the TSR 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 bonds and certain other costs specified in the indenture. Excess TSR not required by the Corporation to pay various expenses, debt service, or required reserves with respect to the bonds are transferred to the WTASC 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.

The Board of Directors of WTASC has five members. The Board of Directors of WTASC is comprised of a majority of elected or appointed officials of the County and one independent Director.

The MSA was entered into on November 23, 1998, among the attorneys general of 46 states (including New York), the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Territory of the Northern Marianas and for the four largest United States tobacco manufacturers: Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown and Williamson Tobacco Company and Lorillard Tobacco Company (collectively the “Original Participating Manufacturers” or “OPMs”) in settlement of certain smoking-related litigation and the Decree entered in New York Supreme Court, including the County’s right to receive certain initial and annual payments to be made by the OPMs under the MSA.

On August 8, 2001, WTASC participated in the New York Counties Tobacco Trust II (“NYCTT II”), along with six other New York County Tobacco Corporations. The trust issued \$215,220,000 in aggregate principal Tobacco Settlement Pass-through Bonds Series 2001. On November 29, 2005, WTASC issued subordinate Capital Appreciation Bonds (“CABs”) in various series for the purpose of securitizing additional future tobacco settlement revenues. Net proceeds of the 2005 series amounted to \$1,852,507. The County set these proceeds aside for capital projects. With the issuance of the 2005 CAB, the County is no longer entitled to any residual cash receipts until such time that the 2005 CAB is retired.

In accordance with the Bond Indenture and to the extent contained in the MSA Report, a trapping event has occurred. A Consumption Decline Trapping Event occurs when shipments of cigarettes in or to the 50 United States, the District of Columbia and Puerto Rico as measured under the MSA, are less in any year preceding a deposit date than the amount opposite such year under the “Consumption Decline Trapping Event” definition, which number for the year 2020 was 229,730,257,477. According to the MSA Report, the amount shown as relevant shipments for the year 2020 was less than the shipment amount specified above, and therefore a Consumption Decline Trapping Event has occurred for the year ended December 31, 2021.

Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds.

Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about WTASC’s fund. The emphasis of fund financial statements is on the major governmental fund.

WTASC reports the following major governmental fund:

- *Debt Service Fund*—The Debt Service Fund is used to account for the accumulation of resources that are restricted for the payment of principal and interest on long-term obligations of governmental funds as well as the administration of such debt services.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Tobacco settlement revenues are exchange transactions, based on the notion that the payments are made to the settling states in exchange for their agreement to release the tobacco companies from present and future litigation. Under the terms of the MSA, the tobacco companies have agreed to make annual payments in perpetuity. The MSA includes a schedule of projected annual base payments, subject to certain adjustments based on future events or circumstances. The most significant factor affecting the annual payments is a *volume adjustment*, which creates a direct relationship between domestic shipments of cigarettes and the annual payments. Based on the MSA, the tobacco companies have no obligation to make settlement payments until cigarettes are shipped.

The event that results in the recognition of an asset and revenue by a settling government is the domestic shipment of cigarettes (sales). Therefore, WTASC recognizes a receivable and revenue for tobacco settlement revenues when that event occurs. Because annual tobacco settlement revenue payments are based on cigarette sales from the preceding calendar year, WTASC estimates accrued tobacco settlement revenues that derive from sales from January 1 to their respective fiscal year ends. Under the modified accrual basis of accounting, revenue should be recognized to the extent that the event occurs and resources become *available*.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, WTASC considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when the payment is due. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source. All other revenue items are considered to be measurable and available only when cash is received by WTASC.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Restricted Cash and Cash Equivalents—WTASC’s restricted cash and cash equivalents consist of cash on hand, demand deposits, time deposits and short-term, highly liquid investments with original maturities of six months or less from the date of acquisition. Restricted cash and cash equivalents represent amounts to support fund balance restricted for debt service.

Due from New York State—Represents an estimate of WTASC’s portion of the Master Settlement Agreement and is recorded as revenue in the government-wide financial statements.

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. At December 31, 2021, WTASC does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At December 31, 2021, WTASC does not have any items for reporting in this category.

Net Position Flow Assumption—Sometimes WTASC will fund outlays for a particular purpose from both restricted (e.g., restricted bond proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is WTASC’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumption—Sometimes WTASC will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. If WTASC must use funds for emergency expenditures it shall expend funds first from funds classified under GASB as nonspendable (if funds become available) then restricted funds. The use of committed and assigned funds as classified by GASB will occur after the exhaustion of available restricted funds. Finally, if no other fund balances are available WTASC will use unassigned fund balance.

Fund Balance Policies—Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. WTASC itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of WTASC’s highest level of decision-making authority (WTASC Board). The governing board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund

balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing board (WTASC Board) has by resolution authorized the sole Member to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenses/Expenditures

Program and General Revenues—Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. There are no program revenues in the current year. All tobacco settlement revenue and other internally dedicated resources are reported as general revenues rather than as program revenues.

Tobacco Settlement Revenues—During the fiscal year ended December 31, 2021, WTASC recognized tobacco settlement revenues in accordance with the Master Settlement Agreement. Payments are made according to a set formula based on tobacco sales.

Expenses/Expenditures—General administration costs consist of operating expenses for professional service fees and are paid from revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Indirect expenses have been included as part of the program expenses reported for the various functional activities. Expenditures are recorded on a modified accrual basis of accounting. Payments to the County are recorded when the obligation is incurred.

Transfers Out—Payments to the County of their share of the Tobacco Settlement Revenue are recorded when the obligation is incurred.

Other

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

Adoption of New Accounting Pronouncements—During the year ended December 31, 2021, WTASC implemented GASB Statements No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*; No. 91, *Conduit Debt Obligations*; No. 92, *Omnibus 2020*; No. 93, *Replacement of Interbank Offered Rates*; No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a suppression of GASB Statement No. 32, and No. 98, The Annual Comprehensive Financial Report*. GASB Statement No. 89 enhances the

relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for certain interest costs. GASB Statement No. 91 provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. GASB Statement No. 92 enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB Statement No. 93 addresses those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate (“IBOR”). GASB Statement No. 97 increases the consistency and comparability related to the reporting of fiduciary units, mitigates costs associated with the reporting of certain defined contribution plans and enhances the relevance, consistency and comparability of the accounting and reporting for Internal Revenue Code Section 457 deferred compensation plans. GASB Statement No. 98 establishes the term annual comprehensive financial report and its acronym ACFR, which replaces the acronym for comprehensive annual financial report. The implementation of GASB Statements No. 89, 91, 92, 93, 97 and 98 did not have a material impact on WTASC’s financial position or results from operations.

Future Impacts of Accounting Pronouncements—WTASC has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 87, *Leases*, effective for the year ending December 31, 2022, and No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*; and No. 96, *Subscription-Based Information Technology Arrangements*, effective for the year ending December 31, 2023. WTASC is, therefore, unable to disclose the impact that adopting GASB Statements No. 87, 94 and 96 will have on its financial position and results of operations when such statements are adopted.

Deficit Net Position—At December 31, 2021, WTASC reported a net position deficit of \$5,670,023. The deficit is caused by long-term obligations that are greater than currently available resources.

Tax Status—The Corporation is exempt from federal income tax under section 501(a) of the Internal Revenue Code (IRC) as an organization described in section 501(c)(3).

2. CASH AND CASH EQUIVALENTS

WTASC’s investment policies are governed by New York State statutes. All deposits are carried at fair value. Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit not covered by Federal deposit insurance (“FDIC”). WTASC has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligation that may be pledged as collateral. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York.

At December 31, 2021, WTASC’s cash and cash equivalents consisted of the following:

	Debt Service Fund
Deposits	\$ 45,384
Money market funds	14,383
Discount notes	407,450
Total	<u>\$ 467,217</u>

Deposits—All deposits of cash in the bank are carried at fair value, and are classified by custodial credit risk at December 31, 2021 as follows:

	Bank Balance	Carrying Amount
FDIC insured	<u>\$ 45,384</u>	<u>\$ 45,384</u>

Cash Equivalents—Cash equivalents held by WTASC include money market accounts with a maturity date within three months of year end and discount notes with a maturity date within six months of year end. These cash equivalents are carried at amortized cost.

Restricted Cash and Cash Equivalents—WTASC reports restricted cash and cash equivalents in the Debt Service Fund of \$467,217 for future debt service payments.

Custodial Credit Risk—Deposits—Custodial credit risk is the risk that in the event of a bank failure, WTASC’s deposits may not be returned to it. As noted above, by New York State statute all deposits in excess of FDIC insurance coverage must be collateralized. At December 31, 2021, WTASC’s deposits were FDIC insured.

Custodial Credit Risk—Cash Equivalents—For cash equivalents, this is the risk that, in the event of the failure of the counterparty, WTASC will not be able to recover the value of its cash equivalents or collateral securities that are in the possession of an outside party. For cash equivalents, this is the risk that in the event of a bank failure, WTASC’s cash equivalents may not be returned to it.

Interest Rate Risk—As a means of limiting its exposure to fair value losses arising from fluctuating interest rates, it is WTASC’s practice to generally limit investments to 180 days or less.

3. RECEIVABLES

Due from New York State—Represents amounts owed to WTASC for tobacco settlement revenue earned in 2021. WTASC has accrued \$731,110 within the government-wide statements only, as it is only recognized on the full accrual basis of accounting.

4. LONG-TERM DEBT

In 2001, WTASC issued \$5,540,000 of the New York Counties Tobacco Trust II Tobacco Settlement Pass-Through Bonds, Series 2001 (“Series 2001 Bonds”) pursuant to an indenture dated as of August 8, 2001.

The debt service payments include serial bond principal and super sinking term bond payments and are payable solely from pledged tobacco settlement revenue and investment earnings on amounts on deposit.

According to the terms of the required amortization payments, WTASC is required to make annual debt service payments through 2043, with interest ranging from 5% to 6%. Under the terms of the flexible amortization payments, WTASC can make debt service payments that allows for increased payments and a final maturity of June 1, 2025 for the super sinker payments. The flexible amortization payments are dependent upon the extent of actual collections from the TSR payments and availability of funds. The term bond structuring planned payment in 2022 is \$1,020,000. WTASC is able to make a higher super sinker principal payment to the extent TSR funds are available.

On November 15, 2005, WTASC participated in New York Counties Tobacco Trust V (“NYCTT”), along with 23 other New York County Tobacco Corporations, and issued Tobacco Settlement Pass-Through Bonds—Subordinate Turbo CABs in various series for the purpose of securitizing additional future tobacco settlement revenues. The proceeds of these bonds, \$1,852,507, were used to purchase tobacco settlement rights from the County. The issuance had four components and payments on the Subordinate Turbo CABs were subordinate to the Series 2001 Term Bonds.

Changes in Series 2001 Tobacco Settlement Bonds for the year ended December 31, 2021 are as follows:

Description	Year of Maturity	Yield	Beginning Balance 1/1/2021	Additions	Deletions	Ending Balance 12/31/2021	Amounts* Due Within One Year
2001 Tobacco Settlement Bonds	2025	various	<u>\$ 2,450,000</u>	<u>\$ -</u>	<u>\$ 260,000</u>	<u>\$ 2,190,000</u>	<u>\$ 1,020,000</u>

*Actual amounts due within one year may vary based on the receipt of TSRs and WTASC’s ability to make the payment of principal and interest, as referenced in Note 6.

WTASC debt service requirements, based upon planned principal payments, for Tobacco Settlement Bonds, Series 2001 are as follows:

Year Ending December 31,	Principal	Interest	Total
2022	\$ 1,020,000	\$ 96,556	\$ 1,116,556
2023	405,000	55,631	460,631
2024	425,000	31,769	456,769
2025	<u>340,000</u>	<u>9,775</u>	<u>349,775</u>
Total	<u>\$ 2,190,000</u>	<u>\$ 193,731</u>	<u>\$ 2,383,731</u>

Subordinate Turbo CABs—Interest on the Subordinate Turbo CABs is compounded semi-annually on June 1 and December 1, but is not payable until bond maturity. Interest accretes until both principal and accreted interest are paid. Future interest accretion has been recorded as bond discount and amortized as the current interest accretes. The accreted interest on the Subordinate Turbo CABs is reflected within the Subordinate Turbo CABs payable liability.

A summary of the Subordinate Turbo CABs net bond balance activity for the year ended December 31, 2021 follows:

	Interest Rate	Original Principal	Beginning Balance 1/1/2021	Annual Net Interest Accretion	Turbo Redemption Payments	Ending Balance 12/31/2021
Subordinate Turbo CABs	6.00% - 7.15%	<u>\$ 1,852,507</u>	<u>\$ 4,379,661</u>	<u>\$ 288,203</u>	<u>\$ -</u>	<u>\$ 4,667,864</u>

Redemption of the Subordinate Turbo CABs as outlined in the New York Counties Tobacco Trust V Tobacco Settlement Pass-Through Bonds, Series 2005 official statement totals \$1,852,507 with interest rates ranging from 6.00% to 7.15%. During the year ended December 31, 2021, WTASC did not make any redemption payments.

Any debt service amounts not paid in accordance with the Subordinate Turbo CABs redemption payments schedule will be due and payable on the following maturity dates:

Series 2005 S1	June 1, 2038
Series 2005 S2	June 1, 2050
Series 2005 S3	June 1, 2055
Series 2005 S4A	June 1, 2060

5. NET POSITION AND FUND BALANCE

The government-wide financial statements utilize a net position presentation. Net position is categorized as restricted and unrestricted components.

- ***Restricted for Debt Service***—This category restricts a portion of net position for payment of the debt service obligations of WTASC. At December 31, 2021, the balance of this restriction was \$467,217.
- ***Unrestricted Component of Net Position***—This component represents net position of WTASC not restricted for any other purpose.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. At December 31, 2021, WTASC reported \$467,217 of fund balance restricted for debt service that must be used toward the future repayment of bonded debt.

As of December 31, 2021, WTASC reported no nonspendable, committed, assigned, or unassigned fund balances.

6. CONTINGENCIES

The ability of WTASC to meet debt service payments of bonds is contingent upon the receipt of TSRs. TSRs are principally dependent upon future levels of domestic consumption. A significant decline in the overall consumption of cigarettes could have a material adverse effect on the payments by the OPMs under the MSA and the amounts available to WTASC to make payments of principal and interest on their bonds.

Certain smokers, smokers' rights organizations, consumer groups, cigarette importers, cigarette distributors, cigarette manufacturers, Native American tribes, taxpayers, taxpayers' groups and other parties have filed actions against some, and in certain cases all, of the signatories to the MSA. In the event of an adverse court ruling in such types of litigation, Bondholders could incur a complete loss of their investment.

Additionally, the OPMs are also exposed to liability from various lawsuits including individual lawsuits, class action lawsuits and health care cost recovery litigation. Ultimately, the outcome of these and any other pending or future lawsuits is uncertain. One or more adverse judgment could result in delays in, or reductions of amounts available for, payments on the bonds.

7. RELATED PARTY TRANSACTIONS

As outlined in Note 1, WTASC's excess TSR that is not required to pay various expenses, debt service, or required reserves with respect to the bonds is transferred to the County on an annual basis. WTASC transferred excess TSR to the County in the amount of \$431,894 for the year ended December 31, 2021.

The County provides WTASC with administrative services. The cost of these services has been included as expenses on WTASC's statements of activities. WTASC paid the County \$30,000 for administrative expenses for the year ended December 31, 2021.

8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 21, 2022, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

* * * * *

Certified Public Accountants

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

To the Board of Directors
Warren Tobacco Asset Securitization Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Warren Tobacco Asset Securitization Corporation ("WTASC"), a component unit of the County of Warren, New York, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise WTASC's basic financial statements, and have issued our report thereon dated March 21, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered WTASC's internal control over financial reporting ("internal control") as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WTASC's internal control. Accordingly, we do not express an opinion on the effectiveness of WTASC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether WTASC'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Drescher & Malecki LLP

March 21, 2022