

**YATES TOBACCO ASSET
SECURITIZATION CORPORATION**
(A Component Unit of the County of Yates, New York)
*Basic Financial Statements and Required
Supplementary Information for the
Year Ended December 31, 2020
and Independent Auditors' Reports*

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

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Yates Tobacco Asset Securitization Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Yates Tobacco Asset Securitization Corporation ("YTASC"), a component unit of the County of Yates, New York, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise YTASC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of YTASC, as of December 31, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2021 on our consideration of YTASC'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 YTASC's internal control over financial reporting and compliance.

Drescher & Malecki LLP

March 2, 2021

YATES TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Yates, New York)
Management's Discussion and Analysis
Year Ended December 31, 2020

As management of the Yates Tobacco Asset Securitization Corporation ("YTASC"), a blended component unit of the County of Yates, New York (the "County"), we offer readers of YTASC's financial statements this narrative overview and analysis of the financial activities of YTASC for the fiscal year ended December 31, 2020. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in YTASC's financial statements, which follow this narrative.

Financial Highlights

- Total liabilities of YTASC's primary government exceeded its assets and deferred outflows of resources by \$6,182,877 at December 31, 2020. This compares to YTASC's total liabilities of YTASC exceeding its assets and deferred outflows of resources by \$6,009,532 at December 31, 2019.
- YTASC's net position decreased by \$173,345 during the year ended December 31, 2020.
- At the close of the current fiscal year, YTASC's governmental fund reported fund balance of \$401,693, an increase of \$3,342 in comparison with the prior year. All of the fund balance is restricted for debt service.
- YTASC's total Tobacco Settlement Bonds decreased by \$80,000 as a result of principal payments made during the year, while Subordinate Turbo Capital Appreciation Bonds ("CABs") increased by \$226,969 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 YTASC's basic financial statements. YTASC's basic financial statements are comprised 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 YTASC's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all YTASC's assets, liabilities, and deferred inflows/outflows of resources, 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 YTASC is improving or deteriorating.

The *statement of activities* presents information showing how YTASC'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 8-9 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. YTASC, 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 evaluating 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*.

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

The basic governmental fund financial statements can be found on pages 10-13 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 14-22 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 YTASC, liabilities exceeded assets and deferred outflows of resources by \$6,182,877 at December 31, 2020, as compared to \$6,009,532 at December 31, 2019. Table 1, shown below, presents the condensed statements of net position for YTASC at December 31, 2020 and December 31, 2019.

Table 1—Condensed Statements of Net Position

	December 31,	
	2020	2019
Current assets	\$ 700,890	\$ 700,004
Total assets	<u>700,890</u>	<u>700,004</u>
Deferred outflow of resources	<u>72,029</u>	<u>97,416</u>
Current liabilities	40,850	44,763
Noncurrent liabilities	<u>6,914,946</u>	<u>6,762,189</u>
Total liabilities	<u>6,955,796</u>	<u>6,806,952</u>
Net position	<u>\$ (6,182,877)</u>	<u>\$ (6,009,532)</u>

A portion of YTASC’s net position, \$401,693, represents resources that are subject to external restrictions on how they may be used. Therefore, the unrestricted deficit totals \$(6,584,570) at December 31, 2020, which compares to \$(6,407,883) at December 31, 2019. 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, 2020, total assets were \$700,890, compared to \$700,004 at December 31, 2019. The largest asset held by YTASC represents restricted cash and cash equivalents which was \$401,693 and \$398,351 at December 31, 2020 and 2019, respectively. YTASC has no noncurrent assets at December 31, 2020 or December 31, 2019.

YTASC’s deferred outflows of resources, which resulted from a deferred charge on refunding, totaled \$72,029 and \$97,416 at December 31, 2020 and 2019, respectively.

Total liabilities at December 31, 2020 were \$6,955,796, compared to \$6,806,952 at December 31, 2019. The largest portion of the liabilities was outstanding debt totaling \$6,914,946 and \$6,762,189 at December 31, 2020 and 2019, respectively.

During the current year, net position for governmental activities decreased \$173,345 from the prior fiscal year for an ending net position of \$(6,182,877). The statement of activities presents revenues received and expenses paid by YTASC. Presented as Table 2, below, are the condensed statements of activities for the years ended December 31, 2020 and 2019.

Table 2—Condensed Statements Activities

	Year Ended December 31,	
	2020	2019
General revenues	\$ 315,123	\$ 263,057
Expenses—governmental activities	<u>488,468</u>	<u>482,235</u>
Change in net position	(173,345)	(219,178)
Net position—beginning	<u>(6,009,532)</u>	<u>(5,790,354)</u>
Net position—ending	<u>\$ (6,182,877)</u>	<u>\$ (6,009,532)</u>

Overall revenues of the primary government increased 19.8 percent from the prior year, due primarily to an additional distribution of tobacco settlement revenue. Total expenses increased 1.3 percent from the year ended December 31, 2019, which is primarily attributed to increases in interest and fiscal charges.

Total revenues for the years ended December 31, 2020 and 2019 were \$315,123 and \$263,057, respectively. Revenues for the years ended December 31, 2020 and 2019 consisted of \$312,153 (99.1 percent) and \$253,424 (96.3 percent), respectively, of tobacco settlement revenues, and \$2,970 and \$9,633, respectively, of interest earnings.

A summary of sources of revenues for the years ended December 31, 2020 and December 31, 2019 is presented in Table 3 on the following page.

Table 3—Sources of Revenues

	Year Ended December 31,		Increase/(Decrease)	
	2020	2019	Dollars	Percent (%)
Tobacco settlement revenues	\$ 312,153	\$ 253,424	\$ 58,729	23.2
Interest earnings	2,970	9,633	(6,663)	(69.2)
Total revenues	<u>\$ 315,123</u>	<u>\$ 263,057</u>	<u>\$ 52,066</u>	19.8

Total expenses for the years ended December 31, 2020 and 2019 were \$488,468 and \$482,235, respectively. Expenses for the years ended December 31, 2020 and 2019 primarily consisted of \$442,553 (90.6%) and \$437,204 (90.7%), respectively, of interest and fiscal charges, and \$45,915 and \$45,031 respectively, of general government support expenses incurred in connection with the operations of the YTASC.

A summary of expenses for the years ended December 31, 2020 and 2019 is presented below in Table 4.

Table 4—Expenses

	Year Ended December 31,		Increase/(Decrease)	
	2020	2019	Dollars	Percent (%)
General government support	\$ 45,915	\$ 45,031	\$ 884	2.0
Interest and fiscal charges	442,553	437,204	5,349	1.2
Total expenses	<u>\$ 488,468</u>	<u>\$ 482,235</u>	<u>\$ 6,233</u>	1.3

Financial Analysis of Governmental Funds

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

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

At December 31, 2020, YTASC’s Debt Service Fund reported fund balance of \$401,693, an increase of \$3,342 in comparison with the prior year. All of the fund balance is restricted for debt service. The increase in fund balance of \$3,342 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 \$264,725 were paid during the year.

Debt Administration

Long-Term Debt—At the end of the current fiscal year, YTASC had net Tobacco Settlement Bonds outstanding of \$3,643,580 and Subordinate Turbo CABs outstanding of \$3,271,366. During the year ended December 31, 2020, YTASC made principal payments of \$80,000 on its Tobacco Settlement Bonds while interest accreted \$226,969 on its Subordinate Turbo CABs, as compared to principal payments made in the amount of \$40,000 on its Tobacco Settlement Bonds and interest accretion of \$211,086 on its Subordinate Turbo CABs during the year ended December 31, 2019. Additional information on YTASC’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 YTASC's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Yates Tobacco Asset Securitization Corporation, c/o Ms. Winona Flynn, Yates County, 417 Liberty Street, Suite 1081, Penn Yan, New York 14527-1122.

BASIC FINANCIAL STATEMENTS

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YATES TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Yates, New York)
Statement of Net Position
December 31, 2020

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 25,614
Restricted cash and cash equivalents	401,693
Due from New York State	<u>273,583</u>
Total assets	<u>700,890</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	<u>72,029</u>
Total deferred outflows of resources	<u>72,029</u>
 LIABILITIES	
Current liabilities:	
Due to other governments	25,614
Accrued interest payable	15,236
Noncurrent liabilities:	
Due within one year—net Tobacco Settlement Bonds payable	2,199,275
Due within more than one year—net Tobacco Settlement Bonds payable	1,444,305
Subordinate Turbo CABs payable	<u>3,271,366</u>
Total liabilities	<u>6,955,796</u>
 NET POSITION	
Restricted for debt service	401,693
Unrestricted	<u>(6,584,570)</u>
Total net position	<u>\$ (6,182,877)</u>

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

YATES TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Yates, New York)
Statement of Activities
Year Ended December 31, 2020

Functions/Programs	Expenses	Net (Expenses) and Changes in Net Position
		Primary Government
		Governmental Activities
Primary government:		
Governmental activities:		
General government support	\$ 45,915	\$ (45,915)
Interest and fiscal charges	442,553	(442,553)
Total primary government	\$ 488,468	(488,468)
General revenues:		
Tobacco settlement revenues		312,153
Interest earnings		2,970
Total general revenues		315,123
Change in net position		(173,345)
Net position—beginning		(6,009,532)
Net position—ending		\$ (6,182,877)

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

YATES TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Yates, New York)
Balance Sheet—Governmental Funds
December 31, 2020

	Debt Service
ASSETS	
Cash and cash equivalents	\$ 25,614
Restricted cash and cash equivalents	401,693
Total assets	\$ 427,307
 LIABILITIES	
Due to County	\$ 25,614
Total liabilities	25,614
 FUND BALANCE	
Restricted for debt service	401,693
Total fund balance	401,693
Total liabilities and fund balance	\$ 427,307

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

YATES TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Yates, New York)
Reconciliation of the Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
December 31, 2020

Amounts reported for governmental activities in the statement of net position (page 8) are different because:

Total fund balance—governmental funds (page 10)	\$	401,693
A long-term asset, due from New York State, \$273,583, is not available to pay for current period expenditures and, therefore, is not reported in the funds.		273,583
Deferred charges associated with refunding of bonds are not reported in the governmental funds. The charge is reported as a deferred outflow of resources on the statement of net position and is recognized as a component of interest expense over the life of the related debt.		72,029
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	\$	(15,236)
Tobacco Settlement Bonds payable		(3,660,000)
Discount on Tobacco Settlement Bonds payable		16,420
Subordinate Turbo CABs payable		<u>(3,271,366)</u>
		<u>(6,930,182)</u>
Net position of governmental activities	\$	<u>(6,182,877)</u>

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

YATES TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Yates, New York)
Statement of Revenues, Expenditures, and Changes in Fund Balance—
Governmental Funds
Year Ended December 31, 2020

	Debt Service
REVENUES	
Tobacco settlement revenue	\$ 311,012
Interest earnings	2,970
Total revenues	313,982
EXPENDITURES	
Current:	
General government support	45,915
Debt service:	
Principal	80,000
Interest	184,725
Total expenditures	310,640
Net change in fund balance	3,342
Fund balance—beginning	398,351
Fund balance—ending	\$ 401,693

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

YATES TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Yates, New York)
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance—
Governmental Funds to the Government-wide Statement of Activities
Year Ended December 31, 2020

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

Net change in fund balance—total governmental funds (page 12)	\$	3,342
Certain revenues are not recognized in the 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.		1,141
Expenses related to the deferred charge on refunding reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		(25,387)
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. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized 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	\$	316
Principal repayments on Tobacco Settlement Bonds payable		80,000
Amortization of discount on Tobacco Settlement Bonds payable		(5,788)
Accreted interest on Subordinate Turbo CABs payable		(226,969)
		(152,441)
Change in net position of governmental activities	\$	(173,345)

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

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YATES TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Yates, New York)
Notes to the Financial Statements
Year Ended December 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Yates Tobacco Asset Securitization Corporation (“YTASC”) 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 (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of YTASC’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 YTASC. 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. YTASC reports no fiduciary or business-type activities.

Reporting Entity

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

The YTASC was incorporated on October 11, 2000 for the purpose of issuing asset backed bonds in order to provide funds to purchase from the County all 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.

The board of directors of YTASC will have not less than three or more than five directors, consisting of two ex-officio positions including the Chairman of the County Legislature and the County Administrator, up to two additional Directors 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 October 15, 2000, pursuant to a Purchase and Sale Agreement with the County, the County sold to YTASC all of its future rights, title and interest in Tobacco Settlement Revenues (“TSRs”) under the MSA and the Decree. The County dedicated approximately \$3.8 million of the net proceeds of the sale of the bonds as a source of funds for certain capital expenditures and the defeasance of debt.

Subsequent to the initial sale of the bonds, the County has the right to receive net proceeds of future bond issuances and the revenues of YTASC that are in excess of YTASC’s expenses, debt service and contractual obligations, pursuant to the Bond Indenture. In the current year, there were no payments to the County resulting from these excess revenues.

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 2019 is 225,130,468,453. According to the MSA Report, the amount shown as relevant shipments for the year 2019 was less than the shipment amount specified above, and therefore a Consumption Decline Trapping Event has occurred.

Basis of Presentation – Government-Wide Financial Elements

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 YTASC’s fund. The emphasis of fund financial statements is on the major governmental fund.

YTASC 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, YTASC 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, YTASC 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 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, YTASC 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 have 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 case is received by YTASC.

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

Cash, Cash Equivalents and Investments—Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date acquired by YTASC. At December 31, 2020, YTASC does not report any investments; however, when YTASC does have investments they are recorded at fair value in accordance with GASB.

Restricted Cash and Cash Equivalents—Restricted cash and cash equivalents represent amounts to support fund balance restrictions.

Due from New York State—Represents an estimate of YTASC's portion of the Master Settlement Agreement and is recorded as a 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, 2020, YTASC reports a deferred outflow of resources of \$72,029 related to a deferred charge on refunding bonds that is being amortized over the life of the bond.

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, 2020, YTASC does not have any items that qualify for reporting in this category.

Net Position Flow Assumption—Sometimes YTASC 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 YTASC’s policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

Fund Balance Flow Assumption—Sometimes YTASC 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 YTASC 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 YTASC 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. YTASC 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 YTASC’s highest level of decision-making authority (YTASC 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 (YTASC 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 revenues are reported as general revenues rather than as program revenues.

Tobacco Settlement Revenues—During the fiscal year ended December 31, 2020, YTASC 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. 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.

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, 2020, YTASC implemented GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. GASB Statement No. 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The implementation of GASB Statement No. 95 did not have a material impact on YTASC's financial position or results from operations.

Future Impacts of Accounting Pronouncements—YTASC has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and No. 93, *Replacement of Interbank Offered Rates*, effective for the year ending December 31, 2021, No. 87, *Leases*; No. 91, *Conduit Debt Obligations*; No. 92, *Omnibus 2020*; and 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*, effective for the year ending December 31, 2022, 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. YTASC is, therefore, unable to disclose the impact that adopting GASB Statements No. 87, 89, 91, 92, 93, 94, 96, and 97 will have on its financial position and results of operations when such statements are adopted.

Deficit Net Position—At December 31, 2020, YTASC reported a net position deficit of \$6,182,877. The deficit is caused by long-term obligations that are greater than currently available resources.

2. CASH AND CASH EQUIVALENTS

YTASC’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. YTASC 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, 2020, YTASC’s cash and cash equivalents consisted of the following:

	Debt Service Fund
Cash on deposit	\$ 110,822
Money market funds	6,834
Discount notes	309,651
Total	<u>\$ 427,307</u>

Deposits—All deposits including cash in bank and certain investments (i.e. certificates of deposit) are carried at fair value and are classified by custodial credit risk at December 31, 2020 as follows:

	Bank Balance	Carrying Amount
FDIC insured	<u>\$ 110,822</u>	<u>\$ 110,822</u>

Cash Equivalents—Cash equivalents held by YTASC 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—YTASC reports restricted cash and cash equivalents of \$401,693 to support restricted fund balance.

Custodial Credit Risk—Deposits—In the case of deposits, this is the risk that in the event of a bank failure, YTASC’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. As of December 31, 2020, YTASC’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, YTASC 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, YTASC’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 YTASC’s practice to generally limit investments to 180 days or less.

3. RECEIVABLES

Due from New York State—Represents amounts owed to YTASC for tobacco settlement revenue earned in 2020. YTASC has accrued \$273,583 within the government-wide statements only, as it is only recognized on the full accrual basis of accounting.

4. LONG-TERM DEBT

On August 19, 2005, the YTASC issued \$4,950,000 in Series 2005A Turbo Term Tax-Exempt NY Counties Trust IV Tobacco Settlement Pass-Through Bonds (“Series 2005A Bonds”) bearing interest from 4.25%-5.00%, collateralized by future TSR revenues, to advance refund \$3,445,000 of outstanding Series 2000 NY Counties Trust I Tobacco Settlement Pass-Through Bonds bearing interest ranging from 5.25%-6.625%. The net proceeds of \$3,842,760 (after payment of \$1,107,240 in underwriting fees, insurance, other issuance costs, and distributions to the County) were used to purchase United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2000 bonds. YTASC advance refunded the bonds to revise its payment schedules due to changes in TSR earnings and related trapping events.

On November 15, 2005, YTASC 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 Capital Appreciation Bonds (“CABs”) in various series for the purpose of securitizing additional future tobacco settlement revenues. The net proceeds of the 2005 series amounted to \$1,111,025, and were used to purchase tobacco settlement rights from the County. The issuance has three components and payments on the Subordinate Turbo CABs are subordinate to the Series 2005A Bonds.

The payment of Series 2005A and Subordinate Turbo Bonds is dependent on the receipt of TSRs. The amount of TSRs actually collected is dependent on many factors including cigarette consumption and the continued operations of the OPMs. Such bonds are secured by and payable solely from TSRs and investment earnings pledged under the Bond Indenture and amounts established and held in accordance with Bond Indenture.

In the event sufficient funds are not available to meet Planned Payment Maturities, Rated Maturity dates will be used.

Changes in bonds payable for the Tobacco Settlement Bonds, Series 2005A Bonds for the year ended December 31, 2020 are shown below:

Description	Year of Maturity	Yield	Beginning Balance 1/1/2020	Additions	Deletions	Ending Balance 12/31/2020	Amounts Due Within One Year
2005A Tobacco Settlement Bonds	2025	various	\$ 3,740,000	\$ -	\$ 80,000	\$ 3,660,000	\$ 2,215,000
Less:							
Bond discount			(22,208)	-	(5,788)	(16,420)	(15,725)
Net Tobacco Settlement Bonds			<u>\$ 3,717,792</u>	<u>\$ -</u>	<u>\$ 74,212</u>	<u>\$ 3,643,580</u>	<u>\$ 2,199,275</u>

Amortization of Bond Discount—Bond discounts are being amortized on an effective interest rate method over the life of the bonds. The unamortized bond discount as of December 31, 2020 was \$16,420.

YTASC debt service requirements based upon planned principal payments for Tobacco Settlement Bonds, Series 2005A are presented below.

Year ending December 31,	Principal	Interest	Total
2021	\$ 2,215,000	\$ 127,538	\$ 2,342,538
2022	405,000	62,125	467,125
2023	435,000	41,125	476,125
2024	450,000	19,000	469,000
2025	155,000	3,875	158,875
Total	<u>\$ 3,660,000</u>	<u>\$ 253,663</u>	<u>\$ 3,913,663</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 accrued 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, 2020 follows:

	Interest Rate	Original Principal	Beginning Balance 1/1/2020	Annual Net Interest Accretion	Turbo Redemption Payments	Ending Balance 12/31/2020
Subordinate	6.10%-					
Turbo CABs	7.85%	<u>\$ 1,111,025</u>	<u>\$ 3,044,397</u>	<u>\$ 226,969</u>	<u>\$ -</u>	<u>\$ 3,271,366</u>

Redemption of the Subordinate Turbo CABs as outlined in the original official statement totals \$1,111,025 with interest ranging from 6.10% to 7.85%. During the year ended December 31, 2020 funds were not available to make 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 S2	June 1, 2050
Series 2005 S3	June 1, 2055
Series 2005 4B	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 YTASC. At December 31, 2020, the balance of this restriction was \$401,693.

- **Unrestricted Component of Net Position**—This component represents net position of YTASC 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, 2020, YTASC reported \$401,693 of fund balance restricted for debt service that must be used toward the future repayment of bonded debt.

As of December 31, 2020, YTASC reported no nonspendable, committed, assigned or unassigned fund balances.

6. CONTINGENCIES

The ability of YTASC 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 YTASC 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, taxpayer, 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

The County provides YTASC with administrative services. The cost of these services has been included as expenses on YTASC's statements of activities. YTASC paid the County \$22,864 and \$22,118 for administrative expenses for the years ended December 31, 2020 and December 31, 2019, respectively.

8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 2, 2021, 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.

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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
Yates 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 Yates Tobacco Asset Securitization Corporation ("YTASC") as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise YTASC's basic financial statements, and have issued our report thereon dated March 2, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered YTASC's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of YTASC's internal control. Accordingly, we do not express an opinion on the effectiveness of the YTASC'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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 YTASC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 2, 2021