

Washington Tobacco Asset Securitization Corporation
[W T A S C]
383 Broadway Fort Edward, New York 12828
(518) 746 - 2591

March 4, 2021

EFPR Group, CPAs PLLC
6390 Main Street, Suite 200
Williamsville, NY 14221

This representation letter is provided in connection with your audit of the financial statements of Washington Tobacco Asset Securitization Corporation (the Corporation) as of December 31, 2020, and the respective changes in financial position for the year then ended, and the disclosures (collectively, the "financial statements"), for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of March 4, 2021, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated December 14, 2020, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
- 8) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit.
- 9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 10) Guarantees, whether written or oral, under which the Corporation is contingently liable, if any, have been properly recorded or disclosed.

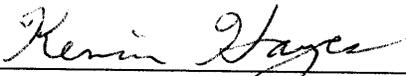
Information Provided

- 11) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records (including information obtained from outside of the general and subsidiary ledgers), documentation, and other matters.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the Corporation from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of Corporation or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 13) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 14) We have no knowledge of any fraud or suspected fraud that affects the Corporation and involves—
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
- 15) We have no knowledge of any allegations of fraud or suspected fraud affecting the Corporation's financial statements communicated by employees, former employees, regulators, or others.
- 16) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.
- 17) We have disclosed to you the names of the Corporation's related parties and all the related party relationships and transactions, including any side agreements.

Government-specific

- 18) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 19) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 20) The Corporation has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.
- 21) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
- 22) We have appropriately disclosed all information for conduit debt obligations in accordance with GASBS No. 91.
- 23) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 24) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 25) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 26) As part of your audit, you assisted with preparation of the financial statements and disclosures. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and disclosures.
- 27) The Corporation has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 28) The Corporation has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 29) The financial statements include all component units, appropriately present majority equity interests in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 30) The financial statements include all fiduciary activities required by GASBS No. 84.
- 31) The financial statements properly classify all funds and activities in accordance with GASBS No. 34, as amended, and GASBS No. 84.
- 32) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

- 33) Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- 34) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 35) Provisions for uncollectible receivables have been properly identified and recorded.
- 36) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 37) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 38) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 39) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 40) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.
- 41) We have appropriately disclosed the Corporation's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 42) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 43) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.



Treasurer and Contracting Officer
Kevin Hayes

REPORT TO THE BOARD

March 4, 2021

The Board of Directors
Washington Tobacco Asset Securitization Corporation

We have audited the financial statements of the governmental activities and the major fund of the Washington Tobacco Asset Securitization Corporation (the Corporation) for the year ended December 31, 2020. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. Significant accounting policies used by the Corporation are described in note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2020. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

For the year ended December 31, 2020, we evaluated the key factors and assumptions used by management in determining that accounting estimates were reasonable in relation to the financial statements taken as a whole.

Significant Disclosures

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

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

Disagreements with Management

For purposes of this report, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Corporation's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to be engaged as auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our appointment.

* * * * *

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

Very truly yours,

EFPR Group, CPAs, PLLC

EFPR GROUP, CPAs, PLLC

WASHINGTON TOBACCO ASSET
SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)

Basic Financial Statements,
Supplementary Information and
Independent Auditors' Report

December 31, 2020

WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Washington 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 the Washington Tobacco Asset Securitization Corporation (the Corporation), a governmental fund of Washington County, New York (the County), as of and for the year ended December 31, 2020, and the related notes to financial statements which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 the Washington Tobacco Asset Securitization Corporation as of December 31, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Correction of Error

As discussed in note 8 to the financial statements, a correction of error made in prior periods was made during the year ended December 31, 2020. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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 4, 2021, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Corporation's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

Williamsville, New York
March 4, 2021

WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)

Management's Discussion and Analysis

December 31, 2020

Our management's discussion and analysis of the Washington Tobacco Asset Securitization Corporation's (the Corporation) financial performance provided an overview of the Corporation's financial activities for the year ended December 31, 2020. This document should be read in conjunction with the Corporation's financial statements.

The Corporation is a governmental fund of the Washington, New York (the County) and is blended in the County's financial statements.

FINANCIAL HIGHLIGHTS

During the year ended December 31, 2020 the Corporation:

- Paid down \$170,000 on outstanding bonds.
- Received \$675,207 in tobacco settlement revenue.
- Received \$7,953 in interest income.

USING THIS ANNUAL REPORT

The financial statements consists of three parts: Management's Discussion and Analysis, Financial Statements and notes. The notes explain in more detail some of the information in the Financial Statements.

OVERVIEW OF FINANCIAL STATEMENTS

This management's discussion and analysis is intended to serve as an introduction to the Corporation's financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Corporation's finances, similar to a private-sector business.

The Statement of Net Position presents information on the Corporation's assets and liabilities with the net difference being net position. Over time, changes in net position may serve as a useful indicator as to whether the financial position of the Corporation is improving or deteriorating.

The Statement of Activities accounts for all revenue and expenses. This statement measures the success of the Corporation's operations over the past year and can be used to determine if the Corporation has successfully recovered all of its costs through revenue sources.

WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)
Management's Discussion and Analysis, Continued

Governmental Fund

The governmental fund 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 the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

The focus of governmental funds is narrower than that of the government-wide financial statements so it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The notes to financial statements provide additional information essential to understanding the data provided in the basic financial statements.

Government-wide Financial Analysis

Condensed Statements of Net Position

	<u>2020</u>	<u>2019*</u>
Current assets	\$ 846,373	944,757
Other assets	<u>894,779</u>	<u>907,832</u>
Total assets	<u>1,741,152</u>	<u>1,852,589</u>
Deferred outflows of resources	-	<u>21,586,737</u>
Current liabilities	5,824,700	50,373
Long-term debt outstanding	<u>6,210,000</u>	<u>12,155,000</u>
Total liabilities	<u>12,034,700</u>	<u>12,205,373</u>
Deferred inflows of resources	-	<u>21,586,737</u>
Net position (deficit):		
Restricted for debt	-	907,832
Unrestricted (deficit)	<u>(10,293,548)</u>	<u>(11,260,616)</u>
Total net position (deficit)	\$ <u>(10,293,548)</u>	<u>(10,352,784)</u>

*Restated for correction of error for accounts receivable.

Net position for the year ended December 31, 2020, increased by \$59,236 and increased by \$95,539 for the year ended December 31, 2019.

WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)
Management’s Discussion and Analysis, Continued

Condensed Statements of Activities

	<u>2020</u>	<u>2019</u>
Revenue:		
Tobacco settlement revenue	\$ 675,207	696,249
Interest income	<u>7,953</u>	<u>28,420</u>
Total revenue	<u>683,160</u>	<u>724,669</u>
Expenses:		
General government support	24,159	23,270
Interest on long-term debt	<u>599,765</u>	<u>605,860</u>
Total expenses	<u>623,924</u>	<u>629,130</u>
Change in net position	\$ <u>59,236</u>	<u>95,539</u>

Total revenue decreased by \$41,509 in 2020. Tobacco settlement revenue decreased by \$21,042 and interest income decreased by \$20,467.

GOVERNMENTAL FUND ANALYSIS

At December 31, 2020, the Corporation’s governmental funds reported ending fund balance of \$1,741,152, a decrease of \$111,437 in comparison with the prior year. Of this total, \$846,373 constitutes unassigned fund balance, which is available for spending at the Corporation’s discretion. The remainder of fund balance is restricted for debt service.

LONG-TERM DEBT ACTIVITIES

As of December 31, 2020 and 2019, the Corporation had \$11,985,000 and \$12,155,000, respectively, of outstanding bonds payable. In 2020 and 2019, the Corporation paid \$170,000 and \$70,000, respectively, in principal, and \$600,438 and \$606,137, respectively, in interest during the year. Currently, there are no plans for the Corporation to issue additional debt.

ECONOMIC FACTORS

Tobacco settlement revenue is the primary source for the Corporation. Tobacco settlement revenue is dependent on future tobacco sales, as well as the participating manufacturers’ ability to pay. Increases or decreases in tobacco consumption will result in corresponding increases or decreases in tobacco settlement revenue.

The ability of the Corporation to make debt service payments on bonds is contingent upon the receipt of tobacco settlement payments.

WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)
Management's Discussion and Analysis, Continued

The United States is presently in the midst of a national health emergency related to the COVID-19 virus. The overall consequences of the COVID-19 virus on a national, regional and local level are unknown, but has the potential to result in a significant economic impact. The impact of this situation on the Corporation and its future results and financial position is not presently determinable.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide investors and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have questions about this report or need additional information, contact the Corporation's Treasurer's Office at 383 Broadway, Fort Edward, New York 12828.

WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)
Statement of Net Position
December 31, 2020

<u>Assets</u>	
Cash - unrestricted	\$ 171,373
Cash - restricted	894,779
Tobacco settlement proceeds receivable	<u>675,000</u>
Total assets	<u>1,741,152</u>
 <u>Liabilities</u>	
Current liabilities:	
Accrued interest	49,700
Current portion of bonds payable	<u>5,775,000</u>
Total current liabilities	5,824,700
Bonds payable, excluding current portion	<u>6,210,000</u>
Total liabilities	<u>12,034,700</u>
 <u>Net Position (Deficit)</u>	
Unrestricted net position (deficit)	<u>\$ (10,293,548)</u>

See accompanying notes to financial statements.

WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)
Statement of Activities
Year ended December 31, 2020

Revenue:	
Tobacco settlement revenue	\$ 675,207
Interest income	<u>7,953</u>
Total revenue	<u>683,160</u>
Expenses:	
General government support	24,159
Interest on long-term debt	<u>599,765</u>
Total expenses	<u>623,924</u>
Change in net position	<u>59,236</u>
Net position (deficit) at beginning of year, before restatement	(11,151,312)
Restatement - correction of error (note 8)	<u>798,528</u>
Net position (deficit) at beginning of year, as restated	<u>(10,352,784)</u>
Net position (deficit) at end of year	<u><u>\$ (10,293,548)</u></u>

See accompanying notes to financial statements.

WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)
Balance Sheet - Governmental Fund
December 31, 2020

Assets:	
Cash - unrestricted	\$ 171,373
Cash - restricted	894,779
Tobacco settlement proceeds receivable	<u>675,000</u>
Total assets	<u>\$ 1,741,152</u>
Fund balance:	
Restricted for debt service	894,779
Unassigned	<u>846,373</u>
Total fund balance	<u>\$ 1,741,152</u>

See accompanying notes to financial statements.

WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)
Reconciliation of the Balance Sheet - Governmental Fund to the Statement of Net Position
December 31, 2020

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance - governmental fund	\$ 1,741,152
Long-term and related liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental fund. These liabilities at year end consist of:	
Bonds payable	(11,985,000)
Accrued interest	<u>(49,700)</u>
Net position (deficit) of governmental activities	<u>\$ (10,293,548)</u>

See accompanying notes to financial statements.

WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)
Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Fund
Year ended December 31, 2020

Revenue:	
Tobacco settlement revenue	\$ 675,207
Interest income	<u>7,953</u>
Total revenue	<u>683,160</u>
Expenditures:	
General government support	24,159
Debt service - principal	170,000
Debt service - interest	<u>600,438</u>
Total expenditures	<u>794,597</u>
Change in fund balance	<u>(111,437)</u>
Fund balance at beginning of year, before restatement	1,054,061
Restatement - correction of error (note 8)	<u>798,528</u>
Fund balance at beginning of year, as restated	<u>1,852,589</u>
Fund balance at end of year	<u><u>\$ 1,741,152</u></u>

See accompanying notes to financial statements.

WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)
Reconciliation of the Statement of Revenue, Expenditures and
Changes in Fund Balance - Governmental Fund to the Statement of Activities
Year ended December 31, 2020

Net change in fund balance	\$ (111,437)
Amounts reported for governmental activities in the statement of activities are different because:	
The repayment of the principal of bonds payable consumes the current financial resources.	170,000
Bond interest is recorded as an expenditure on the fund statement when it is paid and on the statement of activities when it is incurred. Accrued interest changed by this amount.	<u>673</u>
Changes in net position of governmental activities	<u><u>\$ 59,236</u></u>

See accompanying notes to financial statements.

WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)

Notes to Financial Statements

December 31, 2020

(1) Organization and Summary of Significant Accounting Policies

(a) Nature of Organization

Washington Tobacco Asset Securitization Corporation (the Corporation) was incorporated in 2000 under the Not-for-Profit Law of the State of New York for the purpose of bonding the value of future receipts due to Washington County, New York (the County) under the New York State Master Settlement Agreement (MSA). The Corporation sold bonds on December 7, 2000, and paid over the proceeds net of issuance costs to the County, who used the funds to build a county jail. The Corporation will pay off the bonds with future settlement payments and any residual amounts received under the settlement agreement. The Corporation is a blended component unit of the County and is included as such in the County's general-purpose financial statements as a governmental fund.

The MSA includes New York and 45 other states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Island, American Samoa and the Territory of the Northern Marianas, and four of the largest United States tobacco product manufacturers: Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown and Williamson Tobacco Company (B&W), and Lorillard Tobacco Company (collectively, the Original Participating Manufacturers or OPMs). On January 4, 2004, Reynolds American Inc. was incorporated as a holding company to facilitate the combination of the U.S. assets, liabilities, and operations of B&W with those of Reynolds Tobacco. The agreement was entered into 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.

(b) Basis of Accounting and Measurement Focus

The financial statements of the Corporation are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The government-wide financial statements report using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All assets, liabilities and deferred inflows of resources or deferred outflows of resources associated with the operation of the Corporation are included in the statement of net position.

WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)

Notes to Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

(b) Basis of Accounting and Measurement Focus, Continued

Net Position Classifications

In the government-wide statements there are three classes of net position:

Net investment in capital assets - consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvement of those assets, if any. The Corporation did not have any capital assets as of December 31, 2020.

Restricted net position - reports net position when constraints placed on the assets or deferred outflows of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - reports the balance of net position that does not meet the definition of the above two classifications and is deemed to be available for general use by the Corporation.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as they are both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Corporation considers revenue to be available if it is collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures to the extent they have matured. Proceeds of general long-term debt are reported as other financing sources.

Fund Balance Classifications

Fund balance is divided into five classifications based primarily on the extent to which the Corporation is bound to observe constraints imposed upon the use of the resources in the governmental fund. The classifications are as follows:

Nonspendable fund balance - Amounts that are not in a separate form such as inventory, prepaid expenses or long-term portions of loans receivable. The Corporation had no nonspendable fund balance as of December 31, 2020.

Restricted fund balance - Amounts subject to a constraint imposed by providers such as creditors, grantors, contributors or higher levels of government or through constitutional provisions or enabling legislation.

WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)

Notes to Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

(b) Basis of Accounting and Measurement Focus, Continued

Committed fund balance - Amounts subject to a purpose imposed by a formal action of the government's highest level of decision-making authority before the end of the fiscal year and that require the same level of formal action to remove the constraint. The Corporation had no committed fund balance as of December 31, 2020.

Assigned fund balance - Amounts subject to a constraint that represents an intended use established by the government's highest level of decision-making authority or by their designated body or official, which is the Board of Directors. The Corporation had no assigned fund balance as of December 31, 2020.

Unassigned fund balance - Amounts available for any purpose, which are only found in the general fund or as a deficit balance in any other fund.

(c) Investments

A framework has been established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.
- Level 2 - Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the assets or liabilities; and
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)

Notes to Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

(c) Investments, Continued

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The Corporation invests in the United States Treasury bills which are valued at fair value (considered level 1 investments). There have been no changes in the methodologies used at December 31, 2020.

The Corporation assess the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with its accounting policy regarding the recognition of transfers between levels of the fair value hierarchy.

(d) Concentrations of Credit Risk

Financial instruments which potentially expose the organization to concentrations of credit risk consist primarily of short-term government securities. Management considers the credit risk to be immaterial to its operations.

The Corporation had funds on deposit at local banks totaling \$171,373 at December 31, 2020. These deposits are fully insured by the Federal Deposit Insurance Corporation.

(e) Tobacco Settlement Proceeds Receivable

Tobacco settlement proceeds receivable consisted of receivables for tobacco settlement revenue, net of residual payments. The Corporation has not recorded an allowance for doubtful accounts related to the tobacco settlement revenues and does not anticipate future write-offs.

(f) Accrued Liabilities and Long-Term Obligations

Payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources. Bonds that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

Long-term obligations represent the Corporation's future obligations or future economic outflows. The liabilities are reported as due in one year or due within more than one year in the statement of net position.

(g) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)

Notes to Financial Statements, Continued

(2) Restricted Assets

A provision of the bonds issued by the Corporation requires that an initial portion of the bond proceeds be set aside in a “liquidity reserve” account. A “collections” account will receive the tobacco settlements. A “debt service reserve” account will receive debt service deposits plus earnings on the liquidity reserve and other accounts.

The required amortization payments on the term bonds are made from the “debt service reserve” account. As of December 31, 2020, these accounts are invested in U.S. Treasury Bills with a fair value of \$894,779.

As future tobacco settlements are received, the bonds will be paid off and the unrestricted net deficit will be eliminated.

The Corporation uses any restricted assets available for a specific purpose before using unrestricted assets.

(3) Tobacco Settlement Proceeds Receivable

This asset represents estimated annual payments to be received from the MSA between various tobacco manufacturers and state and local governments. The MSA resolved cigarette smoking-related litigation between the manufacturers and the states. The right to receive the payments was acquired by the Corporation through a purchase from the County. A residual certificate exists that represents the County’s entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses, and certain other costs set forth in the indenture. Tobacco settlement proceeds receivable were recorded net of residual payments owed to the County. As of December 31, 2020, the annual tobacco settlement proceeds receivable amounted to \$675,000.

(4) Bonds Payable

In December 2000, the Corporation issued \$11,160,000 in serial and term bonds for the purpose of funding the building of a county jail. These bonds are fully secured by receipts from the New York Tobacco Settlement Agreement. On August 25, 2005, the Corporation issued \$14,690,000 in bonds to refund the balance of the 2000 bonds. The following is a summary of changes in bonds payable for the year ended December 31, 2020:

	Balance at December 31, <u>2019</u>	Issued/ <u>Redeemed</u>	<u>Payments</u>	Balance at December 31, <u>2020</u>	Due Within <u>One year</u>	Due After <u>One Year</u>
Serial bonds	\$ <u>12,155,000</u>	<u> </u> -	(<u>170,000</u>)	<u>11,985,000</u>	<u>5,775,000</u>	<u>6,210,000</u>

WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)

Notes to Financial Statements, Continued

(4) Bonds Payable, Continued

The interest rate for the term bonds issued in 2005 vary from 4.25% to 5%. The total debt service has been projected assuming that the tobacco settlement revenue will be at a level that allows the flexible amortization term bonds to be repaid by June 1, 2045. However, the current amortization schedules calculates payments to 2027. During the year ended December 31, 2020, sufficient funds were not available to meet maturities, therefore, principal payments amounted to \$170,000. The unpaid principal amounts on the flexible amortization will be added to the flexible maturities for the year ending December 31, 2021. A summary of the future debt maturities follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 5,775,000	453,450	6,228,450
2022	1,020,000	285,000	1,305,000
2023	1,080,000	232,500	1,312,500
2024	1,155,000	176,625	1,331,625
2025	1,230,000	117,000	1,347,000
2026-2027	<u>1,725,000</u>	<u>64,875</u>	<u>1,789,875</u>
	\$ <u>11,985,000</u>	<u>1,329,450</u>	<u>13,314,450</u>

(5) Contingency

The ability of the Corporation to meet the debt service payments is contingent upon receipt of tobacco settlement revenue from tobacco manufacturers.

(6) Subsequent Events

Management has evaluated subsequent events through the date of the report, which is the date the financial statements were available to be issued.

The United States is presently in the midst of a national health emergency related to the COVID-19 virus. The overall consequences of the COVID-19 on a national, regional and local level are unknown, but has the potential to result in a significant economic impact. The impact of this situation on the Corporation and its future results and financial position is not presently determinable.

WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION
(A Governmental Fund of Washington County, New York)

Notes to Financial Statements, Continued

(7) Net Deficit

The net deficit is due to various expenses associated with the bonds. The future cash receipts from the MSA are expected to offset this deficit. The largest payments provided for in the MSA are called initial payments and annual payments. Both are subject to certain adjustments, reductions and offsets, which are described in the following paragraphs.

Initial payments to New York State were made in the first five years of the agreement, starting with \$2.4 billion in 1999; the last four of these were subject to the volume adjustments, the non-settling states reduction, and the offset for miscalculated or disputed payments.

Annual MSA payments to the State commenced on April 15, 2000, starting at \$2.5 billion in 2000 and continuing into perpetuity at a cap of \$9 billion reached in 2018. The annual payments are subject to inflation adjustment, the volume adjustment, the previously settled states reduction, the non-settling states reduction, the non-participating manufacturer's adjustment, the offset for miscalculated or disputed payments, the federal tobacco legislation offset, the litigating parties offset, and the offsets for claims. The Corporation started receiving the County's portion of the annual payments on April 15, 2001.

(8) Correction of Error

The Corporation made a correction for unrecorded accounts receivable in order to recognize tobacco settlement revenue in the prior period. This revenue was recorded on the cash basis of accounting and did not accrue for the next fiscal year's tobacco settlement receipt that is attributable to the current year. Accordingly, \$798,528 should have been recorded as tobacco settlement receivables which would have increased governmental fund balance and net position in the prior year.

**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**

The Board of Directors
Washington Tobacco Asset Securitization Corporation:

We have audited, 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, the financial statements of the governmental activities and the major fund of Washington Tobacco Asset Securitization Corporation (the Corporation), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Corporation's basic statements, and have issued our report thereon dated March 4, 2021.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

EFPR Group, CPAs, PLLC

Williamsville, New York
March 4, 2021