

## REPORT TO THE BOARD

March 25, 2022

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, 2021. 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 2021. 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, 2021, 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

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statements users. 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. There were no misstatements detected as a result of our auditing procedures.

### 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 retention as the Corporation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding 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 to the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

\* \* \* \* \*

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, 2021

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

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 - 3
Management's Discussion and Analysis	4 - 7
Basic Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Balance Sheet - Governmental Fund	10
Reconciliation of the Balance Sheet - Governmental Fund to the Statement of Net Position	11
Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Fund	12
Reconciliation of Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Fund to the Statement of Activities	13
Notes to Financial Statements	14 - 20
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 <u>Government Auditing Standards</u>	21 - 22

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Washington Tobacco Asset Securitization Corporation:

### Report on the Audit of the Financial Statements

#### Opinions

We have audited the financial statements of the governmental activities and the major fund of the Washington Tobacco Asset Securitization Corporation (the Corporation), as of and for the year ended December 31, 2021, and the related notes to financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Corporation, as of December 31, 2021, 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.

#### Basis for Opinions

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

#### Responsibilities of Management for the Financial Statements

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

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

## Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

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

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

## Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 25, 2022 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Corporation's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

Williamsville, New York  
March 25, 2022

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

Management's Discussion and Analysis

December 31, 2021

Our management's discussion and analysis of the Washington Tobacco Asset Securitization Corporation's (the Corporation) financial performance provides an overview of the Corporation's financial activities for the year ended December 31, 2021. This document should be read in conjunction with the Corporation's financial statements.

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

### **FINANCIAL HIGHLIGHTS**

During the year ended December 31, 2021 the Corporation:

- Paid down \$225,000 on outstanding bonds.
- Paid \$591,056 of interest related to the outstanding bonds.
- Received \$958,788 in tobacco settlement revenue.

### **USING THIS ANNUAL REPORT**

The financial statements consists of two parts: management's discussion and analysis and the financial statements, which include the notes to financial statements. 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 reported as 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**

A governmental fund is 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 the 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>2021</u>	<u>2020</u>
Current assets	\$ 969,013	846,373
Other assets	<u>892,852</u>	<u>894,779</u>
Total assets	<u>1,861,865</u>	<u>1,741,152</u>
Current liabilities	6,618,810	5,824,700
Long-term debt outstanding	<u>5,190,000</u>	<u>6,210,000</u>
Total liabilities	<u>11,808,810</u>	<u>12,034,700</u>
Unrestricted net position (deficit)	\$ <u>(9,946,945)</u>	<u>(10,293,548)</u>

Net position for the years ended December 31, 2021 and 2020, increased by \$346,603 and \$59,236, respectively.

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

**Condensed Statements of Activities**

	<u>2021</u>	<u>2020</u>
Revenue:		
Tobacco settlement revenue	\$ 958,788	675,207
Interest income	<u>109</u>	<u>7,953</u>
Total revenue	<u>958,897</u>	<u>683,160</u>
Expenses:		
General government support	22,128	24,159
Interest on long-term debt	<u>590,166</u>	<u>599,765</u>
Total expenses	<u>612,294</u>	<u>623,924</u>
Change in net position	\$ <u>346,603</u>	<u>59,236</u>

Total revenue increased by \$275,737 in 2021. Tobacco settlement revenue increased by \$283,581 and interest income decreased by \$7,844.

**GOVERNMENTAL FUND ANALYSIS**

At December 31, 2021 and 2020, the Corporation’s governmental funds reported ending fund balance of \$1,861,865, and \$1,741,152, respectively. Of these totals, \$969,013 and \$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, 2021 and 2020, the Corporation had \$11,760,000 and \$11,985,000, respectively, of outstanding bonds payable. In 2021 and 2020, the Corporation paid \$225,000 and \$170,000, respectively, in principal, and \$591,056 and \$600,438, 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 revenue 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 on a national, regional and local level are unknown, but have 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, 2021

<u>Assets</u>	
Cash - unrestricted	\$ 199,013
Investments - restricted	892,852
Tobacco settlement proceeds receivable	<u>770,000</u>
Total assets	<u>1,861,865</u>
<u>Liabilities</u>	
Current liabilities:	
Accrued interest	48,810
Current portion of bonds payable	<u>6,570,000</u>
Total current liabilities	6,618,810
Bonds payable, excluding current portion	<u>5,190,000</u>
Total liabilities	<u>11,808,810</u>
<u>Net Position (Deficit)</u>	
Unrestricted net position (deficit)	<u><u>\$ (9,946,945)</u></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, 2021

Revenue:	
Tobacco settlement revenue	\$ 958,788
Interest income	<u>109</u>
Total revenue	<u>958,897</u>
Expenses:	
General government support	22,128
Interest on long-term debt	<u>590,166</u>
Total expenses	<u>612,294</u>
Change in net position	346,603
Net position (deficit) at beginning of year	<u>(10,293,548)</u>
Net position (deficit) at end of year	<u>\$ (9,946,945)</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, 2021

Assets:	
Cash - unrestricted	\$ 199,013
Investments - restricted	892,852
Tobacco settlement proceeds receivable	<u>770,000</u>
Total assets	<u>\$ 1,861,865</u>
Fund balance:	
Restricted for debt service	892,852
Unassigned	<u>969,013</u>
Total fund balance	<u>\$ 1,861,865</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, 2021

Total fund balance - governmental fund	\$ 1,861,865
Amounts reported for governmental activities in the statement of net position are different because:	
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	(11,760,000)
Accrued interest	<u>(48,810)</u>
Net position (deficit) of governmental activities	<u>\$ (9,946,945)</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, 2021

Revenue:	
Tobacco settlement revenue	\$ 958,788
Interest income	<u>109</u>
Total revenue	<u>958,897</u>
Expenditures:	
General government support	22,128
Debt service - principal	225,000
Debt service - interest	<u>591,056</u>
Total expenditures	<u>838,184</u>
Change in fund balance	120,713
Fund balance at beginning of year	<u>1,741,152</u>
Fund balance at end of year	<u><u>\$ 1,861,865</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, 2021

Net change in fund balance	\$ 120,713
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.	225,000
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>890</u>
Changes in net position for governmental activities	<u><u>\$ 346,603</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, 2021

(1) 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 (GAAP) 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) 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, 2021.

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 one year after 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 spendable form such as inventory, prepaid expenditures or long-term portions of loans receivable. The Corporation had no nonspendable fund balance as of December 31, 2021.

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) 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, 2021.

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, 2021.

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 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;
  - 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) 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 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 \$199,013 at December 31, 2021. 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 GAAP 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. Accordingly, 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, 2021, these accounts are invested in U.S. Treasury Bonds (level 1) with a fair value of \$892,852.

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, 2021, the annual tobacco settlement proceeds receivable amounted to \$770,000.

(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 term bonds payable for the year ended December 31, 2021:

	Balance at December 31, <u>2020</u>	Issued/ <u>Redeemed</u>	<u>Payments</u>	Balance at December 31, <u>2021</u>	Due Within <u>One year</u>	Due After <u>One Year</u>
Term bonds	\$ <u>11,985,000</u>	<u>      -</u>	<u>(225,000)</u>	<u>11,760,000</u>	<u>6,570,000</u>	<u>5,190,000</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, 2021, sufficient funds were not available to meet maturities, therefore, principal payments amounted to \$225,000. The unpaid principal amounts on the flexible amortization will be added to the flexible maturities for the year ending December 31, 2022. A summary of the future debt maturities follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 6,570,000	422,606	6,992,606
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	1,290,000	54,000	1,344,000
2027	<u>435,000</u>	<u>10,875</u>	<u>445,875</u>
	\$ <u>11,760,000</u>	<u>1,013,606</u>	<u>12,773,606</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.

(7) Risks and Uncertainties

The United States is presently in the midst of a national health emergency related to the COVID-19 virus. The overall consequences on a national, regional and local level are unknown, but have 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

(8) 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.

**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, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic statements, and have issued our report thereon dated March 25, 2022.

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 25, 2022