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Certified Public Accountant

TIOGA TOBACCO ASSET
SECURITIZATION CORPORATION

(A Blended Component Unit of the
County of Tioga, New York)

Basic Financial Statements

As of December 31, 2023 and 2022

Together with Independent Auditor's Report

TIOGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Blended Component Unit of the
County of Tioga, New York)

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Tioga Tobacco Asset
Securitization Corporation
Owego, New York

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 Tioga Tobacco Asset Securitization Corporation (the TTASC), a blended component unit of the County of Tioga, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the TTASC'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 TTASC, as of December 31, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 (*Government Auditing Standards*). 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 TTASC 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.

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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 TTASC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 TTASC'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 TTASC'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.



INDEPENDENT AUDITORS' REPORT

Board of Directors
Tioga Tobacco Asset
Securitization Corporation
Owego, New York

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 Tioga Tobacco Asset Securitization Corporation (the TTASC), a blended component unit of the County of Tioga, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the TTASC'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 TTASC, as of December 31, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 (*Government Auditing Standards*). 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 TTASC 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.

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Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 July 10, 2024 on our consideration of the TTASC'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 TTASC'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 TTASC's internal control over financial reporting and compliance.

Respectfully submitted,



Insero & Co. CPAs, LLP
Certified Public Accountants

Ithaca, New York
July 10, 2024

Tioga Tobacco Asset
Securitization Corporation
(A Blended Component Unit of the
County of Tioga, New York)

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) provides a comprehensive overview of the Tioga Tobacco Asset Securitization Corporation's (TTASC) financial position as of December 31, 2023, and 2022, and its changes in financial position for the years then ended. The MD&A should be read in conjunction with the financial statements and related footnotes of the TTASC, which directly follow the MD&A.

The financial statements of TTASC have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The financial statement presentation consists of four statements. This includes the Statement of Net Position, the Statement of Activities, Governmental Fund Balance Sheet, and the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance. The Statement of Net Position and the Statement of Activities are prepared using the economic resource measurement focus and the accrual basis of accounting. Revenues, expenses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Statement No. 33. The Governmental Fund Balance Sheet and the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance are presented using the current financial resources measurement focus and the modified accrual basis of accounting.

The Statement of Net Position presents all of Tioga Tobacco Asset Securitization Corporation's asset and liability information, with the difference between the two reported as net position. Fluctuations in net position can be a useful indicator of TTASC's financial position. TTASC's net position consists of restricted and unrestricted net position. Restricted net position of TTASC, net position that is restricted based on externally imposed conditions and consists of funds in the debt service, turbo redemption and liquidity reserve accounts. These accounts were established to maintain funds to provide for debt service payments for at least one year in the event of insufficient revenues. Unrestricted net position is considered all other net position.

Tioga Tobacco Asset
Securitization Corporation
(A Blended Component Unit of the
County of Tioga, New York)

Management's Discussion and Analysis (continued)

The Statement of Activities presents all TTASC's revenues, both program and general, expenses, and transfers.

The Statement of Governmental Fund Balance Sheet categorizes assets, liabilities, deferred inflows of resources and fund balance. This statement includes the governmental fund type debt service to report its financial position.

The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance presents the changes in financial position for the Debt Service Fund for the years ended December 31, 2023 and 2022.

Statement of Net Position

Total Assets - Total assets decreased by \$71,471 during the year 2023. This change is primarily related to the decrease in TSR's recorded as accounts receivable during the year and increase in cash as a result of investment income. These estimated funds were received on or about April of 2024.

Total Liabilities - Total liabilities increased by \$388,775, during the year 2023, and is the result of increasing the principal balance on the bonds by the accreted interest in the amount of \$588,775 and reducing the principal balance by the payment made of \$200,000.

Net Position - The decrease in net position of \$460,246, is the result of excess program expenses over program revenues. Those expenses include the provision for accreted interest in the amount of \$588,775, which is not a cash expenditure.

Total Revenues - Revenues are made up of interest income and tobacco settlement revenues reported on the accrual basis. In 2023, the settlement revenue decreased by \$101,895. Interest income increased by \$41,716.

Total Expenses - Expenses are made up of administrative expenses of the Corporation, the annual transfer to the residual trust and interest on the outstanding bonds. In 2023 and 2022, the amount transferred to the trust was \$40,000 and \$33,000 respectively.

Tioga Tobacco Asset
Securitization Corporation
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County of Tioga, New York)

Management's Discussion and Analysis (continued)

Actual interest paid during 2023 and 2022 was \$500,550 and \$510,288, respectively.

Financial Analysis of the Corporation's Fund

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

The focus of the Corporation's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Corporation's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the Corporation's net resources available for spending at the end of the year.

As of December 31, 2023 and 2022, the Corporation's governmental fund reported ending fund equity balances in the amount of \$919,624 and \$889,228, respectively. The unreserved fund balances in the amount of \$143,537 for 2023 and \$113,259 for 2022, are available for future needs. The remainder of the fund is reserved to pay future debt service and is not available for new spending.

Debt Service

The obligations of TTASC in 2023 consist of the Tioga Tobacco Settlement Asset-Backed and Pass-Through Bonds Series 2005, the proceeds of which were used to advance refund/defease the remaining outstanding Series 2000 Bonds, make a payment to the Trust, and to pay related costs of issuance of the Series 2005 Bonds. The total amount of the Series 2005 bonds outstanding at December 31, 2023 was \$18.426 million. The bonds began to retire starting in 2006, with final maturity payments on the Capital Appreciation Bonds due in 2060. Bond principal retirements are made from the TSRs based upon required amortization payments. Turbo bonds are subject to repayment from Turbo Redemption Payments. Turbo Redemption Payments are made from collections (other than partial and lump sum payments) in excess of the amount needed to pay certain operating expenses.

Tioga Tobacco Asset
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Management's Discussion and Analysis (continued)

The Turbo Redemption Payments were to amortize the Series 2005 bonds earlier than their maturity date at their accreted values. However, the current amount available through regular TSR receipts is significantly less than originally provided for in the repayment schedule. The shortfall in bond principal being paid each year causes additional interest to be paid, and a longer amortization period. The exact date of the final payment cannot be determined at this time.

The Series 2005 bonds are comprised of the following:

\$12,840,000 Tobacco Settlement Asset-Backed Bonds, Series 2005A (Tax Exempt Turbo Bonds), maturity date is June 1, 2042, interest rate 5.00%. The unpaid principal balance on the bonds is \$9.940 million.

\$354,415 Tobacco Settlement Asset-Backed Bonds, Series 2005D (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2050, interest rate 0.00%. The accreted value as of December 31, 2023, is \$1,020,724.

\$527,140 Tobacco Settlement Asset-Backed Bonds, Series 2005E (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2055, interest rate 0.00%. The accreted value as of December 31, 2023, is \$1,658,657.

\$1,451,360 Tobacco Settlement Pass-Through Bonds, Series 2005SB4 (Subordinate Turbo Capital Appreciation Bonds), maturity date is June 1, 2060, interest rate 0.00%. The accreted value as of December 31, 2023, is \$5,806,405.

On October 16, 2016, the New York State Tobacco Settlement Agreement was signed settling years of claims over amounts set aside annually in a disputed payment account by the Participating Tobacco Manufacturers. TTASC was awarded their share of the funds and in April of 2016 \$1,371,514 was deposited into the Collection Account representing the annual TSR and the litigation settlement. On June 1, 2023 and 2022 principal payments were made in the amount of \$200,000 and \$210,000. Very little guidance is available to predict future TSRs. All the outstanding claims between the State and OPMs have been settled for the periods from 2004-2014.

Tioga Tobacco Asset
Securitization Corporation
(A Blended Component Unit of the
County of Tioga, New York)
Statement of Net Position
December 31, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|---|---------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$ 143,537 | \$ 113,259 |
| Accounts receivable - TSRs | 638,984 | 740,851 |
| Restricted cash and cash equivalents | 776,087 | 775,969 |
| | <u>1,558,608</u> | <u>1,630,079</u> |
| Liabilities and Net Assets (Deficit) | | |
| Current portion of bonds payable | 12,687,754 | 11,283,979 |
| Long-term liabilities | | |
| Accrued interest payable | 43,000 | 43,000 |
| Bonds payable | 5,738,032 | 6,753,032 |
| | <u>18,468,786</u> | <u>18,080,011</u> |
| Total liabilities | | |
| Net Position: | | |
| Unrestricted | <u>(16,910,178)</u> | <u>(16,449,932)</u> |

See accompanying notes to
basic financial statements.

Tioga Tobacco Asset
Securitization Corporation
(A Blended Component Unit of the
County of Tioga, New York)
Statement of Activities and Change in Net Position
For the Years ended December 31, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|--------------------------------|-------------------------------|-------------------------------|
| Expenses | | |
| Administrative and general | \$ 20,589 | \$ 22,761 |
| Transfer to residual trust | 40,000 | 33,000 |
| Interest | <u>1,089,325</u> | <u>1,057,115</u> |
| Total program expenses | 1,149,914 | 1,112,876 |
| Program revenues: | | |
| Tobacco settlement | <u>638,984</u> | <u>740,879</u> |
| Net program revenue | (510,930) | (371,997) |
| General revenues: | | |
| Interest | <u>50,684</u> | <u>8,968</u> |
| Change in net position | <u>(460,246)</u> | <u>(363,029)</u> |
| Net position beginning of year | <u>(16,449,932)</u> | <u>(16,086,903)</u> |
| Net position end of year | \$ <u><u>(16,910,178)</u></u> | \$ <u><u>(16,449,932)</u></u> |

See accompanying notes to
basic financial statements.

Tioga Tobacco Asset
Securitization Corporation
(A Blended Component Unit of the
County of Tioga, New York)
Governmental Fund Balance Sheets
and Reconciliation to Statements of Net Position
December 31, 2023 and 2022

| | 2023 <u>Debt Service</u> | 2022 <u>Debt Service</u> |
|--|-----------------------------|-----------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 143,537 | \$ 113,259 |
| Accounts receivable- TSRs | 638,984 | 740,851 |
| Restricted cash and cash equivalents | 776,087 | 775,969 |
| | <u> </u> | <u> </u> |
| Total assets | \$ <u>1,558,608</u> | \$ <u>1,630,079</u> |
| Deferred inflows of resources | | |
| Unavailable revenues - TSRs | 638,984 | 740,851 |
| Fund balances | | |
| Restricted - debt service | 776,087 | 775,969 |
| Unassigned | <u>143,537</u> | <u>113,259</u> |
| Total Fund Balances | <u>919,624</u> | <u>889,228</u> |
| Total deferred inflows of resources and fund balances | \$ <u>1,558,608</u> | \$ <u>1,630,079</u> |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Total fund balance | \$ 919,624 | \$ 889,228 |
| Tobacco settlement revenue was not received in the current period and is not reported as income at the fund level | 638,984 | 740,851 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds | <u>(18,468,786)</u> | <u>(18,080,011)</u> |
| Net position | \$ <u>(16,910,178)</u> | \$ <u>(16,449,932)</u> |

See accompanying notes to
basic financial statements.

Tioga Tobacco Asset
Securitization Corporation
(A Blended Component Unit of the
County of Tioga, New York)
Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balance and Reconciliation to
Statements of Activities and Change in Net Position
Year ended December 31, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| | <u>Debt Service</u> | <u>Debt Service</u> |
| Revenues: | | |
| Tobacco settlement | \$ 740,851 | \$ 784,038 |
| Interest and investment income | <u>50,684</u> | <u>8,968</u> |
| Total revenues | <u>791,535</u> | <u>793,006</u> |
| Expenditures: | | |
| General and administrative | 20,589 | 22,761 |
| Debt service - principal | 200,000 | 210,000 |
| Debt service - interest & fees | 500,550 | 510,288 |
| Transfer to Residual Trustee | <u>40,000</u> | <u>33,000</u> |
| Total expenditures | <u>761,139</u> | <u>776,049</u> |
| Excess of revenues over (under) expenditures | 30,396 | 16,957 |
| Fund balance at beginning of year | <u>889,228</u> | <u>872,271</u> |
| Fund balance at end of year | <u>\$ 919,624</u> | <u>\$ 889,228</u> |
| Net change in fund balance | \$ 30,396 | \$ 16,957 |
| Amounts reported in the statement of activities are different because: | | |
| The net effect of bond repayments and interest expense are activities of the governmental fund but not reported in the statement of activities | (388,775) | (423,145) |
| Differences in the timing of recognition of tobacco settlement revenues | (101,867) | 43,159 |
| Change in net position | <u>\$ (460,246)</u> | <u>\$ (363,029)</u> |

See accompanying notes to
basic financial statements.

Tioga Tobacco Asset
Securitization Corporation
(A Blended Component Unit of the
County of Tioga, New York)
Notes to Financial Statements

(1) Organization

Tioga Tobacco Asset Securitization Corporation ("the Corporation") is a special purpose, bankruptcy-remote local development corporation organized under the Not-For-Profit Corporation Law of the State of New York ("the State"). The Corporation was established on October 11, 2000, however there were no substantive operations until December 7, 2000 as discussed herein. The Corporation is an instrumentality of, but separate and apart from the County of Tioga, New York ("the County"). The Corporation will have not less than three or more than five directors, consisting of one ex-officio position being the chairperson of the County Legislature, up to four additional directors and one independent director. Although legally separate from the County, the Corporation is a component unit of the County and, accordingly, is included in the County's financial statements as a blended component unit.

On December 7, 2000, pursuant to a Purchase and Sale Agreement with the County, the County sold to the Corporation all of its future right, title and interest in the Tobacco Settlement Revenues ("TSRs") under the Master Settlement Agreement ("MSA") and the Decree and Final Judgment (the "Decree"). The MSA resolved the cigarette smoking-related litigation between the settling states and the Participating Manufacturers ("PMS"), released the PMS from past and present smoking-related claims, and provides for a continuing release of future smoking-related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future rights, title and interest of the County's share were sold to the Corporation.

The purchase price of the County's future right, title and interest in the TSRs was financed by the issuance of serial pass-through bonds (series 2000). A Residual Certificate existed which represented the entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses and certain other costs as set forth in the indenture. Payments on the Residual Certificate from TSR collections were subordinate to payments on the bonds and payment of certain other costs specified in the indenture.

Tioga Tobacco Asset
Securitization Corporation
(A Blended Component Unit of the
County of Tioga, New York)
Notes to Financial Statements

(1) Organization (continued)

Excess TSRs not required by the Corporation to pay various expenses, debt service or required reserves with respect to the bonds were transferred to the Tioga Tobacco Asset Stabilization Trust (the "Trust"), as owner of the Residual Certificate. The County was the beneficial owner of the Trust and thus the excess funds received by the Trust ultimately transfer to the County.

During 2005, and as a result of favorable tobacco market conditions and the cooperation of multiple municipalities to participate on a pooled basis, the Corporation participated in two restructuring transactions whereby additional proceeds became available to the beneficial owner of the tobacco trust. The series 2000 bonds were refunded/defeased and the corporation became obligated on several other bond issues under the same operating structure.

During 2016 an agreement was reached between New York State, the Original Participating Manufacturers and the Subsequent Participating Manufacturers to release monies being disputed by all parties related to the formula used for Non-Participating Manufacturer Adjustment to the annual MSA payment. These claims have been at issue and in arbitration for several years. The terms of the NY NPM Settlement Agreement release 90% of the previously-withheld Disputed Payment Funds for distribution to NY, and future MSA Payments will be made according to a set formula that cannot be disputed by either party. Going forward there will be no disputed withholdings and no drawn-out arbitration proceeding and no risk that NY will lose one or more of its entire annual MSA payments as a result of those proceedings.

(2) Summary of Significant Accounting Policies

(a) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Corporation's government-wide financial statements are prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB).

Tioga Tobacco Asset
Securitization Corporation
(A Blended Component Unit of the
County of Tioga, New York)
Notes to Financial Statements

(2) Summary of Significant Accounting Policies (continued)

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

The Corporation's fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 120 days of the end of the current fiscal period. Revenue that is not yet available is recorded as deferred inflows of resources on the balance sheet. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

However, debt service expenditures, claims, and judgments, are recorded only when payment is due.

The major governmental fund is the Debt Service Fund. The Debt Service Fund accounts for the resources accumulated and payments made for operations and principal debt service on long-term general obligation debt.

Net Position

Net position in government-wide financial statements is classified as net investment in capital assets; restricted and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through State statute or are otherwise unavailable for appropriation by the primary government and component units.

Tioga Tobacco Asset
Securitization Corporation
(A Blended Component Unit of the
County of Tioga, New York)
Notes to Financial Statements

(2) Summary of Significant Accounting Policies (continued)

As of December 31, 2023 and 2022, restrictions include:

Debt Service - represents resources that have been legally restricted for debt service payments that will be made in future periods.

Unrestricted net position is net position that is not restricted, but which may be internally designated by the Board of Directors. At December 31, 2023 and 2022, the amount of unrestricted net position was (\$16,910,178) and (\$16,449,932) respectively.

Fund Balance

Fund balance is composed of two classifications.

Restricted -amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Unassigned -amounts that have not been assigned to another fund or are not restricted, committed, or assigned to specific purposes within the debt service fund.

(b) Cash & Cash Equivalents

The Corporation considers bank deposit accounts and all highly liquid debt instruments with remaining maturities, when purchased, of three months or less to be cash equivalents and these are stated at fair value. TTASC maintains a liquidity reserve account, which was initially funded from the Series 2000 Bond proceeds. This account must be maintained until such time that all bonds, other than subordinated bonds, are paid. This account is included in restricted cash and cash equivalents on the balance sheet in the amount of \$776,087 and \$775,969 as of December 31, 2023 and 2022 respectively.

(c) Tax Status

The Corporation, as a not-for-profit organization, is exempt from income taxes under section 501 C (3) of the Internal Revenue Code. The Corporation is not a private foundation.

Tioga Tobacco Asset
Securitization Corporation
(A Blended Component Unit of the
County of Tioga, New York)
Notes to Financial Statements

(2) Summary of Significant Accounting Policies (continued)

(d) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America require the Corporation's management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

(e) Interest Expense/Expenditure

The Corporation recognizes interest paid as interest expenditures on a modified accrual basis for the Statement of Revenues, Expenditures and Changes in Fund Balance and as expenses on the full accrual basis for the government-wide financial statements. Interest expense includes a current provision for accreted interest on the Capital Appreciation Bonds in the amount of \$588,775 and \$547,435, respectively. Interest paid during the year ended December 31, 2023, and 2022 was \$500,550 and \$510,288, respectively.

(f) Risk

Numerous lawsuits have been filed challenging the enforceability of the MSA and related statutes, including two cases pending in the United States District Court for the Southern District of New York wherein plaintiffs seek a determination that the MSA, the State's Qualifying Statute and the State's Complementary Legislation (each as described herein) violate the United States Constitution and/or federal antitrust laws. A final ruling adverse to the State in either case or in a future case could result in a material adverse effect on the amount of TSRs available to pay back bondholders and the complete cessation of TSRs for an indeterminate period. It could also result in the complete loss of an owner's investment.

Tioga Tobacco Asset
Securitization Corporation
(A Blended Component Unit of the
County of Tioga, New York)
Notes to Financial Statements

(3) Accounts receivable - TSRs

The Corporation reports tobacco settlement revenues received by April 16-20th of the following year as a receivable.

(4) Contingency and concentration of credit risk

The Corporation's financial existence is contingent upon receiving TSR's from the tobacco manufacturers. In May of 2017, Fitch Ratings announced its intent to withdraw ratings on US Tobacco Asset-Backed Securities. For a variety of reasons, the material calculations originally part of the base MSA have eroded confidence that ratings can be consistently maintained.

(5) Investment and deposit policy

The Corporation follows an investment and deposit policy as outlined in the Indenture, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; provide sufficient liquidity of invested funds in order to meet obligations as they become due; and attainment of a market rate of return. Oversight of investment activity is the responsibility of the Treasurer of the Corporation.

In accordance with the Corporation's investment and deposit policy, all deposits of the Corporation including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIC) shall be secured by a pledge of securities with an aggregate value equal to the aggregate amount of deposits.

Tioga Tobacco Asset
Securitization Corporation
(A Blended Component Unit of the
County of Tioga, New York)
Notes to Financial Statements

(5) Investment and deposit policy (continued)

As of December 31, 2023, and 2022, the carrying amount of the Corporation's cash and cash equivalents was \$143,537 and \$113,259, respectively. The amounts exposed to Custodial Credit Risk and secured by collateral held by a bank are \$-0- and \$-0-, respectively.

(6) Bonds Payable

The Series 2005 bonds bear interest at rates ranging from 0.00% to 5.00%. These bonds are secured by a perfected security interest in, and pledge of, the Trust Estate, as defined in the Indenture, which includes, the TSRs and all investment earnings on amounts on deposit. Among the accounts established are the liquidity reserve account, the turbo redemption account and the debt service account. The Corporation retains TSRs in an amount sufficient to service its debt and pay its operating expenses for one year.

Long-term indebtedness consisted of the following:

| | <u>2023</u> | <u>2022</u> |
|---------------------------------------|---------------------|---------------------|
| Balance - beginning of year | \$18,037,011 | \$17,699,576 |
| Repayments of bonds | (200,000) | (210,000) |
| Accreted interest | <u>\$ 588,775</u> | <u>\$ 547,435</u> |
| Balance - end of year | <u>\$18,425,786</u> | <u>\$18,037,011</u> |
| Required payments due within one year | <u>\$12,687,754</u> | <u>\$11,283,979</u> |

Tioga Tobacco Asset
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Notes to Financial Statements

(6) Bonds Payable (continued)

Scheduled Turbo redemption repayments are as follows:

| Year ended | Principal | Interest | Accreted Int |
|------------|----------------------|----------------------|---------------------|
| 2024 | 12,687,754 | 156,625 | 633,391 |
| 2025 | 1,070,000 | 104,750 | 680,651 |
| 2026 | 1,125,000 | 49,875 | 732,442 |
| 2027 | 957,866 | 1,008,921 | 742,464 |
| 2028 | 440,870 | 723,851 | 714,956 |
| 2029-2033 | 1,421,848 | 4,608,074 | 3,055,417 |
| 2034-2038 | 613,632 | 5,785,791 | 1,579,271 |
| 2039-2043 | 118,816 | 1,468,323 | 78,239 |
| Thereafter | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| Total | \$ <u>18,425,786</u> | \$ <u>13,906,210</u> | \$ <u>8,216,831</u> |

Required maturities for the Series 2005 bonds represent the minimum amount of principal that the Corporation must pay as of the specific distribution dates in order to avoid a default. Turbo (accelerated) amortization payments are required to be made against outstanding principal providing that the Corporation receives sufficient TSRs to make the Turbo payments. There are no assurances that TSRs will materialize and/or be sufficient to make the projected Turbo payment. The interest payment requirements shown above are based on the required principal maturity schedule and include the accreted value portion of capital appreciation bonds in the year in which they are required to be redeemed.

Tioga Tobacco Asset
Securitization Corporation
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Notes to Financial Statements

(6) Bonds Payable (continued)

Under the terms of the debt agreement, the Corporation is required to maintain certain deposits to fund debt service payments, if needed. Such deposits are included in restricted cash and cash equivalents in the basic financial statements. In addition, the Corporation is subject to various debt covenants, including limitations on expenses/expenditures, and compliance with Trustee indenture agreement requirements. The Corporation was in compliance with all covenants and indenture agreement requirements as of December 31, 2023 and 2022.

The corporation had liquidity reserves in the amount of \$776,087 and \$775,969, at December 31, 2023, and 2022, respectively, to fund debt payments on its bonds. Principal payments in the amounts of \$200,000 and \$210,000 were made in 2023 and 2022, respectively, in accordance with the flexible amortization payment schedule for the Series 2005 bonds. If required principal payments are not made on the bonds, the unpaid principal is added to the end of the term, and final maturity is extended.

(7) Administrative Reimbursement to Tioga County

In addition to setting forth the terms and conditions of the sale and purchase of TSRs, the Purchase and Sale Agreement provides for separate consideration to retain the County to act as Administrator with respect to the preparation of reports and other instruments and documents that it is the duty of the Corporation to prepare, execute, file or deliver pursuant to the Indenture and the related agreements. The Agreement also contemplates the lease of office space, telephone, overhead and operating services and expenses (including shared employees, consultants, and reasonable legal and auditing expenses) based on actual use, value of such services, or on a basis reasonably related thereto.

(8) Subsequent Events

Events and transactions that occurred from the period from December 31, 2023, to July 10, 2024, have been evaluated for disclosure and inclusion in the financial statements.



**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***

Board of Directors
Tioga Tobacco Asset
Securitization Corporation
Owego, New York

We have audited, in accordance with the 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 (*Government Auditing Standards*), the financial statements of the governmental activities and the major fund of the Tioga Tobacco Asset Securitization Corporation (the TTASC), a blended component unit of the County of Tioga, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the TTASC's basic financial statements, and have issued our report thereon dated July 10, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the TTASC'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the TTASC's internal control. Accordingly, we do not express an opinion on the effectiveness of the TTASC'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 TTASC'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.

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Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 July 10, 2024 on our consideration of the TTASC'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 TTASC'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 TTASC's internal control over financial reporting and compliance.

Respectfully submitted,



Insero & Co. CPAs, LLP
Certified Public Accountants

Ithaca, New York
July 10, 2024

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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the TTASC'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 TTASC'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 TTASC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Insero & Co. CPAs, LLP
Certified Public Accountants

Ithaca, New York
July 10, 2024



Certified Public Accountants | Business Advisors

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
AT THE CONCLUSION OF THE AUDIT**

Board of Directors
Tioga Tobacco Asset
Securitization Corporation
Owego, New York

We have audited the financial statements of the governmental activities and the major fund of the Tioga Tobacco Asset Securitization Corporation (TTASC), a component unit of the County of Tioga, for the year ended December 31, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 18, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Tioga Tobacco Asset Securitization Corporation are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2023. We noted no transactions entered into by TTASC 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 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. The most sensitive estimates affecting TTASC's financial statements were the calculation of tobacco settlement receivables and accreted interest.

Management's estimate of the calculation of tobacco settlement receivables is based on historical trends and expected revenue. Management's estimate of the accreted interest is based on the bond repayment schedule and agreement. We evaluated the key factors and assumptions used to develop the calculation of tobacco settlement receivables and accreted interest in determining that they are reasonable in relation to the financial statements taken as a whole.

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Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The most sensitive disclosure affecting the financial statements was bonds payable, the disclosure of which is presented in Note 6 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant 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 clearly trivial, and communicate them to the appropriate level of management. There were no such misstatements detected as the result of audit procedures.

Disagreements With Management

For purposes of this letter, a disagreement with management is 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 our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 10, 2024.

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



**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
AT THE CONCLUSION OF THE AUDIT**

Board of Directors
Tioga Tobacco Asset
Securitization Corporation
Owego, New York

We have audited the financial statements of the governmental activities and the major fund of the Tioga Tobacco Asset Securitization Corporation (TTASC), a component unit of the County of Tioga, for the year ended December 31, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 18, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Tioga Tobacco Asset Securitization Corporation are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2023. We noted no transactions entered into by TTASC 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 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. The most sensitive estimates affecting TTASC's financial statements were the calculation of tobacco settlement receivables and accreted interest.

Management's estimate of the calculation of tobacco settlement receivables is based on historical trends and expected revenue. Management's estimate of the accreted interest is based on the bond repayment schedule and agreement. We evaluated the key factors and assumptions used to develop the calculation of tobacco settlement receivables and accreted interest in determining that they are reasonable in relation to the financial statements taken as a whole.

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Tioga Tobacco Asset Securitization Corporation

July 10, 2024

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Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries 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 of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

Respectfully submitted,

A handwritten signature in black ink that reads "Insero & Co. CPAs, LLP". The signature is written in a cursive, slightly slanted style.

Insero & Co. CPAs, LLP
Certified Public Accountants

Ithaca, New York

July 10, 2024