

**COUNTY OF SULLIVAN TOBACCO ASSET SECURITIZATION CORPORATION**

**Meeting Agenda**

**April 16, 2021 at 8:55 am**

15

**DISCUSSIONS:**

**None**

**RESOLUTIONS:**

- 1.) Resolution to approve the 2020 annual audit.
- 2.) Resolution to approve the 2020 annual report.
- 3.) Resolution to adopt the 2022 annual budget.
- 4.) Resolution to approve the 2021 Mission Statement and Performance Measures.
- 5.) Resolution to appoint officers of the Sullivan County Tobacco Asset Securitization Corporation.

**PUBLIC COMMENT:**

**RESOLUTION TO APPROVE THE 2020 ANNUAL INDEPENDENT AUDIT OF THE CORPORATION**

**WHEREAS**, it is required that the Sullivan County Tobacco Asset Securitization Corporation (the “Corporation”) have an annual independent audit of its financial records on a yearly basis, and

**WHEREAS**, O’Connor Davies LLP has performed the 2020 audit for the Corporation.

**NOW, THEREFORE, BE IT RESOLVED**, that the attached Independent Auditor’s Report as prepared by O’Connor Davies LLP is hereby approved.

**Sullivan County Tobacco Asset  
Securitization Corporation**

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

Financial Statements

Year Ended December 31, 2020



## Independent Auditors' Report

The Board of Directors of the Sullivan County  
Tobacco Asset Securitization Corporation

### Report on the Financial Statements

We have audited the accompanying financial statements of the Sullivan County Tobacco Asset Securitization Corporation ("STASC"), a blended component unit of the County of Sullivan, New York, as of and for the year ended December 31, 2020, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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

#### *Opinion*

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

### ***Emphasis of Matters***

We draw attention to Note 1 in the notes to financial statements that indicates that these financial statements present only the STASC and do not purport to, and do not present fairly the financial position of the County of Sullivan, New York as of December 31, 2020 and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

We further draw attention to Note 4 in the notes to financial statements which discusses that the only significant resource of the STASC is the right to receive tobacco revenues. A reduction in these revenues would affect debt service coverage on the bonds. If the reduction were material, it could impair the ability of the STASC to make turbo redemption payments or even its ability to pay required principal payments as they are due. As a result, actual payments may not conform to either the turbo redemption maturities or the required principal payments schedules. Our opinion is not modified with respect to this matter.

As discussed in Note 4 in the notes to financial statements, on March 11, 2020, the World Health Organization declared a global pandemic as a result of the spread of COVID-19 ("Coronavirus"). Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audit of the 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 1, 2021 on our consideration of the STASC'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 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 STASC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the STASC's internal control over financial reporting and compliance.

*PKF O'Connor Davies, LLP*  
**PKF O'Connor Davies, LLP**  
Harrison, New York  
March 1, 2021

**Sullivan County Tobacco Asset  
Securitization Corporation**  
(A Blended Component Unit of the County of Sullivan, New York)  
Management's Discussion and Analysis ("MD&A")  
December 31, 2020

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### Introduction

As management of the Sullivan County Tobacco Asset Securitization Corporation ("STASC"), we offer readers of the STASC's financial statements this narrative overview and analysis of the financial activities of the STASC for the fiscal year ended December 31, 2020. It should be read in conjunction with the financial statements, which immediately follow this section, to enhance understanding of the STASC's financial performance.

### Financial Highlights

- ❖ The Governmental Accounting Standards Board ("GASB") issued Technical Bulletin 2004-1, "*Tobacco Settlement Recognition and Financial Reporting Entity Issues*", as amended and/or superseded by GASB Statement No. 48, "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*", which clarified certain asset and revenue recognition criteria. Prior to the issuance of this guidance, the STASC had recognized as a receivable/revenue the present value of the future tobacco revenue stream. The new guidance required a reversal of this position, in that it promulgated that Tobacco Settlement Revenues ("TSR") and the related asset only be recognized when the event giving rise to recognition (i.e. the shipment of cigarettes) occurs. Because annual TSR payments are based on cigarette sales from the preceding calendar year, the STASC was prohibited from recognizing this future revenue stream as a receivable. Accordingly, the only revenue recognition allowed was for TSR payments to be received in the immediately succeeding fiscal year, as these payments were based on cigarette shipments in the year under audit. This had the effect of deferring revenue recognition, which results in the deficit position reflected on the statement of net position. Over time, as TSR payments are received and the bonded indebtedness is retired, the deficit will be reduced.
- ❖ On the statement of net position, the liabilities of the STASC exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year, resulting in a deficit of \$14,092,028. The deficit was decreased by \$496,511, due to the amount recognized for TSR's of \$1,145,371, less operating expenses of \$34,846 and non-operating net interest expense of \$614,014.

### Financial Statements

The *statement of net position* presents information on the STASC's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as *net position*. The *statement of revenues, expenses and changes in net position* presents information showing how the STASC's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, accounts receivable and accrued interest payable).

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the statement of net position and the statement of revenues, expenses and changes in net position. The notes to financial statements are located beginning on page 8 of this report.

### **Financial Analysis**

Net position increased by \$496,511 in 2020, compared with an increase of \$221,437 in 2019, a difference of \$275,074. Recognition of tobacco settlement revenues increased \$290,592. Non-operating costs increased \$15,077 as compared to 2019.

### **Debt Administration**

At the end of the current fiscal year, the STASC had total gross bonded debt for the 2016 Series B and C bonds outstanding of \$15,350,000. STASC made debt service payments during the year of \$420,000.

Additional information on the STASC's long-term debt can be found in Note 3 in the notes to financial statements.

### **Economic Factors**

The bonds are payable only from the assets of the STASC. STASC's only source of funds for payments on the bonds is the collections of TSR's and amounts on deposit in pledged accounts (i.e. liquidity and debt service reserve accounts) pursuant to the indenture. If a participating manufacturer becomes a debtor in a bankruptcy case and defaults in making payments or cigarette consumption declines, funds available to STASC to pay bondholders may be reduced or eliminated.

### **Requests for Information**

This financial report is designed to provide a general overview of the STASC's finances for all those with an interest in those finances. Questions and comments concerning any of the information provided in this report should be addressed to Ms. Janet Young, President of the STASC, 100 North Street, Monticello, New York 12701.

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

Statement of Net Position  
December 31, 2020

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**ASSETS**

Current assets

|                               |              |
|-------------------------------|--------------|
| Cash and equivalents          | \$ 207,168   |
| Tobacco settlement receivable | 1,019,539    |
| Prepaid expenses              | <u>3,357</u> |
| Total Current Assets          | 1,230,064    |

Noncurrent assets

|                                 |                  |
|---------------------------------|------------------|
| Restricted cash and equivalents | <u>1,103,883</u> |
|---------------------------------|------------------|

|              |                  |
|--------------|------------------|
| Total Assets | <u>2,333,947</u> |
|--------------|------------------|

**DEFERRED OUTFLOWS OF RESOURCES**

|                                  |                |
|----------------------------------|----------------|
| Deferred loss on refunding bonds | <u>198,249</u> |
|----------------------------------|----------------|

**LIABILITIES**

Current liabilities

|                                     |                |
|-------------------------------------|----------------|
| Accrued liabilities                 | 57,654         |
| Current maturities of bonds payable | <u>280,000</u> |

|                           |         |
|---------------------------|---------|
| Total Current Liabilities | 337,654 |
|---------------------------|---------|

Noncurrent liabilities

|  |                   |
|--|-------------------|
| Bonds payable, net of current maturities | <u>16,286,570</u> |
|--|-------------------|

|                   |                   |
|-------------------|-------------------|
| Total Liabilities | <u>16,624,224</u> |
|-------------------|-------------------|

**NET POSITION**

|              |                               |
|--------------|-------------------------------|
| Unrestricted | <u><u>\$ (14,092,028)</u></u> |
|--------------|-------------------------------|

See notes to financial statements.



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

Statement of Revenues, Expenses and Changes in Net Position  
Year Ended December 31, 2020

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**OPERATING REVENUES**

Tobacco settlement revenues \$ 1,145,371

**OPERATING EXPENSES**

Professional fees 30,067  
Insurance expense 4,779

Total Operating Expenses 34,846

Income from Operations 1,110,525

**NON-OPERATING REVENUES (EXPENSES)**

Interest income 8,946  
Interest expense (622,960)

Total Non-Operating Expenses (614,014)

Change in Net Position 496,511

**NET POSITION**

Beginning of year (14,588,539)

End of year \$ (14,092,028)

See notes to financial statements.

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

Statement of Cash Flows  
Year Ended December 31, 2020

**CASH FLOWS FROM OPERATING ACTIVITIES**

|  |                  |
|--|------------------|
| Cash received from tobacco settlement revenues | \$ 1,095,609     |
| Cash paid to vendors                           | <u>(34,846)</u>  |
| Net Cash from Operating Activities             | <u>1,060,763</u> |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|                 |              |
|-----------------|--------------|
| Interest income | <u>8,946</u> |
|-----------------|--------------|

**CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES**

|  |                    |
|--|--------------------|
| Repayment of bonds payable                     | (420,000)          |
| Interest paid                                  | <u>(670,251)</u>   |
| Net Cash from Non-Capital Financing Activities | <u>(1,090,251)</u> |

|                                    |          |
|------------------------------------|----------|
| Net Change in Cash and Equivalents | (20,542) |
|------------------------------------|----------|

**CASH AND EQUIVALENTS**

|                                 |                            |
|---------------------------------|----------------------------|
| Beginning of year               | <u>1,331,593</u>           |
| End of year                     | <u><u>\$ 1,311,051</u></u> |
| Cash and equivalents            | \$ 207,168                 |
| Restricted cash and equivalents | <u>1,103,883</u>           |
| Total Cash and Equivalents      | <u><u>\$ 1,311,051</u></u> |

**RECONCILIATION OF INCOME FROM OPERATIONS TO  
NET CASH FROM OPERATING ACTIVITIES**

|  |                            |
|--|----------------------------|
| Income from operations   | \$ 1,110,525               |
| Adjustments to reconcile income from operations to<br>net cash from operating activities |                            |
| Changes in assets and liabilities  |                            |
| Tobacco settlement receivable  | <u>(49,762)</u>            |
| Net Cash from Operating Activities   | <u><u>\$ 1,060,763</u></u> |

**NON-CASH INVESTING ACTIVITIES**

|  |           |
|--|-----------|
| Decrease in bonds payable from amortization of<br>original issue premium                   | \$ 57,931 |
| Decrease in deferred outflows of resources from<br>amortization of loss on refunding bonds | 9,440     |

See notes to financial statements.

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

Notes to Financial Statements  
December 31, 2020

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**Note 1 - Nature of Business and Summary of Significant Accounting Principles**

**Nature of Business**

The Sullivan County Tobacco Asset Securitization Corporation ("STASC") is a special purpose, bankruptcy-remote local development corporation. STASC was organized under the provisions of Section 1411 of the New York State Not-For-Profit Corporation Law and pursuant to the Public Authorities Law of the State of New York. The Board of Directors of STASC consists of five members; the County of Sullivan, New York's ("County") County Manager, the County's Commissioner of Financial Management, the Chairman of the County's Board of Legislators, the Majority Leader of the County's Board of Legislators and the Minority Leader of the County's Board of Legislators.

An agreement among the attorneys general of 46 states and various territories ("Settling States") and the four largest United States tobacco manufacturers was entered into on November 23, 1998. The agreement, known as the Master Settlement Agreement ("MSA"), resolved cigarette smoking-related litigation between the Settling States and U.S. Tobacco manufacturers. Pursuant to the MSA, the Settling States and the participating manufacturers agreed to settle all past, present and future smoking related claims in exchange for an agreement by the participating manufacturers to make certain payments. Under the MSA, the State of New York is entitled to receive approximately 12.76% of the initial and annual payments. The New York Consent Decree, which was entered into in the Supreme Court of the State of New York for the County of New York in December 1998, allocated 0.155% of this State-wide share of the initial and annual payments to the County and the remainder among the State, the City of New York and all other counties within the State.

During 2001, the County sold all of its future rights, title and interest to receive payments under the MSA and the Consent Decree to STASC for \$15,047,000. During 2016, STASC issued \$16,685,000 of Tobacco Settlement Pass-Through Bonds, Series 2016B Serial/Term Bonds and 2016C Turbo Term Bonds (collectively "Series 2016"), the proceeds of which were used to 1) refund the outstanding Series 2001 bonds, 2) fund the Liquidity Reserve Account at its required level, 3) pay certain costs of issuance related to the Series 2016 bonds and 4) provide the County with funds to pay off the current portion of outstanding Capital Bond Anticipation Notes and for future capital projects. The Series 2016 bonds are payable from and secured solely from pledged Tobacco Settlement Revenues ("TSR's"). The debt issued by STASC to securitize these revenues is not considered debt of the County and is secured only by future tobacco settlement payments.

**Entity Definition**

Based on the guidance provided by Governmental Accounting Standards Board ("GASB") Technical Bulletin No. 2004-1, *"Tobacco Settlement Recognition and Financial Reporting Entity Issues"*, as amended and/or superseded by GASB Statement No. 48, *"Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues"*, the STASC is reported as a blended component unit of the County in its financial statements.

**Basis of Presentation**

A fund is an independent fiscal and accounting entity with a self-balancing set of accounts which comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses. The accounts of the STASC are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

Notes to Financial Statements (Continued)  
December 31, 2020

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**Note 1 - Nature of Business and Summary of Significant Accounting Principles (Continued)**

The accompanying financial statements present only the activities of the STASC and do not purport to, and do not, present fairly the financial position of the County as of December 31, 2020 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Cash and Equivalents and Risk Disclosure**

**Cash and Equivalents** - Cash and equivalents consist of funds deposited in demand deposit accounts, time deposit accounts and short-term investments with original maturities of less than three months from the date of acquisition.

**Risk Disclosure**

**Interest Rate Risk** - Interest rate risk is the risk that the government will incur losses in fair value caused by changing interest rates. The STASC does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. Generally, the STASC does not invest in any long-term investment obligations.

**Custodial Credit Risk** - Custodial credit risk is the risk that in the event of a bank failure, the STASC's deposits may not be returned to it. GASB Statement No. 40, "*Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*", directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either uncollateralized, collateralized by securities held by the pledging financial institution or collateralized by securities held by the pledging financial institution's trust department but not in the STASC's name. The STASC's aggregate bank balances that were not covered by depository insurance were not exposed to custodial credit risk at December 31, 2020.

**Credit Risk** - Credit risk is the risk that an issuer or other counterparty will not fulfill its specific obligation even without the entity's complete failure. The STASC does not have a formal credit risk policy other than restrictions to obligations allowable under General Municipal Law of the State of New York.

**Concentration of Credit Risk** - Concentration of credit risk is the risk attributed to the magnitude of a government's investments in a single issuer. The STASC's investment policy limits the amount on deposit at each of its banking institutions.

At December 31, 2020, the STASC did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

**Restricted Cash and Equivalents**

The terms of the bond indenture provide for the establishment of a liquidity reserve. The reserve has been established at the maximum annual debt service requirements for Series 2016B Serial/Term Bonds and interest on 2016C Turbo Term Bonds in the current and any future fiscal year, assuming principal is paid in accordance with the requirements of the indenture.

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

Notes to Financial Statements (Continued)  
December 31, 2020

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**Note 1 - Nature of Business and Summary of Significant Accounting Principles (Continued)**

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net assets that applies to a future period and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The STASC has reported deferred outflows of resources of \$198,249 for a deferred loss on refunding bonds in the Statement of Net Position. This amount results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**Tax Status**

The STASC is exempt from federal income tax under Section 501 (a) of the Internal Revenue Code as a 501(c)(3) organization.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, particularly given the significant social and economic disruptions and uncertainties associated with the ongoing COVID-19 (“Coronavirus”) pandemic and the mitigation responses, and such differences may be material (see Note 4).

**Subsequent Events Evaluation by Management**

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is March 1, 2021.

**Note 2 - Restricted Cash and Equivalents**

Restricted cash and equivalents at December 31, 2020 consisted of the following:

|                              |                     |
|------------------------------|---------------------|
| United States Treasury Bills | \$ 1,102,046        |
| Money Market Funds           | <u>1,837</u>        |
|                              | <u>\$ 1,103,883</u> |

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

Notes to Financial Statements (Continued)  
December 31, 2020

**Note 3 - Bonds Payable**

Bonds payable consisted of the following at December 31, 2020:

| <u>Description</u> | <u>Interest Rates</u> | <u>Original Issue Amount</u> | <u>Balance January 1, 2020</u> | <u>Redeemed</u>   | <u>Balance December 31, 2020</u> |
|--------------------|-----------------------|------------------------------|--------------------------------|-------------------|----------------------------------|
| Series 2016B       | 5%                    | \$ 8,100,000                 | \$ 7,745,000                   | \$ 265,000        | \$ 7,480,000                     |
| Series 2016C       | 2.45% - 4%            | 8,585,000                    | 8,025,000                      | 155,000           | 7,870,000                        |
|                    |                       | <u>\$ 16,685,000</u>         | <u>\$ 15,770,000</u>           | <u>\$ 420,000</u> | <u>\$ 15,350,000</u>             |

A payment schedule, based upon planned maturities for the Series 2016B Serial/Term bonds and Turbo Redemption maturities for the Series 2016C Turbo Term bonds, is as follows:

| <u>Year Ending December 31,</u>    | <u>Principal</u>     | <u>Interest</u>     | <u>Total</u>         |
|------------------------------------|----------------------|---------------------|----------------------|
| 2021                               | \$ 1,270,000         | \$ 643,925          | \$ 1,913,925         |
| 2022                               | 675,000              | 611,955             | 1,286,955            |
| 2023                               | 700,000              | 584,050             | 1,284,050            |
| 2024                               | 730,000              | 553,269             | 1,283,269            |
| 2025                               | 770,000              | 520,988             | 1,290,988            |
| 2026 and thereafter                | 11,205,000           | 3,377,801           | 14,582,801           |
|                                    | 15,350,000           | <u>\$ 6,291,988</u> | <u>\$ 21,641,988</u> |
| Unamortized Original Issue Premium | 1,216,570            |                     |                      |
|                                    | <u>\$ 16,566,570</u> |                     |                      |

The required principal payments on the Series 2016 B Serial/Term bonds and Series C Turbo Term bonds, is as follows:

| <u>Year Ending December 31,</u> | <u>Amount</u>        |
|---------------------------------|----------------------|
| 2021                            | \$ 280,000           |
| 2022                            | 295,000              |
| 2023                            | 310,000              |
| 2024                            | 325,000              |
| 2025                            | 340,000              |
| 2026 and thereafter             | 13,800,000           |
|                                 | <u>\$ 15,350,000</u> |

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

Notes to Financial Statements (Concluded)  
December 31, 2020

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**Note 4 - Significant Contingencies**

*Repayment of Outstanding Debt*

The enforceability of the rights and remedies of the State (and thus the bondholders) and of the obligations of a participating manufacturer under the MSA are subject to the Bankruptcy Code and the other applicable insolvency, moratorium or similar laws relating to or affecting the enforcement of creditors' rights. Some of the risks include risks of delay in or reduction of amounts of payment or of non-payment under the MSA and the risk that the State (and thus the County and/or STASC) may be stayed for an extended time from enforcing any rights under the MSA and the Consent Decree or with respect to the payments owed by the bankrupt participating manufacturer or from commencing legal proceedings against the bankrupt participating manufacturer. As a result, if a participating manufacturer becomes a debtor in a bankruptcy case and defaults in making payment, funds available to STASC to pay bondholders may be reduced or eliminated.

The bonds are payable only from the assets of STASC. The bonds are neither legal nor moral obligations of the County or the State of New York, and no recourse may be had thereto for payment of amounts owing on the bonds. STASC's only source of funds for payments on the bonds is the collections and amounts on deposit in pledged accounts pursuant to the indenture. STASC has no taxing power and no significant assets other than the rights to receive tobacco settlement revenues.

*Coronavirus*

On March 11, 2020, the World Health Organization declared a global pandemic as a result of the spread of the Coronavirus. STASC's operations and financial performance may be affected by the recent coronavirus outbreak which has spread globally and is expected to adversely affect economic conditions throughout the world. If the outbreak continues and conditions worsen, STASC may experience reduction in tobacco settlement payments.

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## **Compliance and Other Matters**

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

*PKF O'Connor Davies, LLP*

**PKF O'Connor Davies, LLP**

Harrison, New York

March 1, 2021

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**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**

**Independent Auditors' Report**

**The Board of Directors of the Sullivan County  
Tobacco Asset Securitization Corporation**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Sullivan County Tobacco Asset Securitization Corporation ("STASC") as of and for the year ended December 31, 2020, and the related notes to the financial statements and have issued our report thereon dated March 1, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the STASC'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 STASC's internal control. Accordingly, we do not express an opinion on the effectiveness of the STASC'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 STASC'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.

**RESOLUTION TO APPROVE THE 2020 ANNUAL REPORT OF THE CORPORATION**

**WHEREAS**, it is required that the Sullivan County Tobacco Asset Securitization Corporation (the "Corporation") annual approve an annual report, and

**WHEREAS**, it is required that the President and Treasurer of the Corporation certify the report and the report is required to be filed with the New York State Authority Budget Office via the Public Authorities Reporting Information System and with the appropriate local officials.

**NOW, THEREFORE, BE IT RESOLVED**, that the attached 2020 Annual Report of the Corporation is hereby approved.

# COUNTY OF SULLIVAN TOBACCO ASSET SECURITIZATION CORPORATION

## 2020 Annual Report

### **Operations and Accomplishments**

Successful audit with no findings

Paid off all debt on time

### **Compensation Schedule**

The officers of the corporation are not compensated.

### **Projects undertaken during the past fiscal year**

There were no projects undertaken during the past fiscal year.

### **Listing of real property owned**

There is no real property owned by the Corporation.

### **Authority's code of ethics**

Policy in place with no known violations of the code of ethics policy.

### **An assessment of the effectiveness of internal controls**

This statement certifies that management has assessed the internal control structure and procedures of the Sullivan Tobacco Asset Securitization Corporation for the year ending December 31<sup>st</sup>, 2020. This assessment found the authority's internal controls to be adequate, and to the extent that deficiencies were identified, the authority has developed corrective action plans to reduce any corresponding risk.

### **Receipts and disbursements**

See financial statements

### **Assets and Liabilities**

See financial statements

### **Schedule of Bond and Notes Outstanding**

See financial statements

## **Procurement Report**

There were no procurement transactions during the reporting period.

## **Investment Report**

Restricted cash and equivalents at December 31, 2019 consisted of the following:

|                   |               |
|-------------------|---------------|
| US Treasury Bills | \$1,102,046   |
| Money Market      | <u>\$1837</u> |
| Total             | \$1,103,883   |

## **Mission Statement and Performance Goals**

### **Authority Mission Statement and Performance Measurements**

**Name of Public Authority:** SULLIVAN TOBACCO ASSET SECURITIZATION CORPORATION

**Public Authority's Mission Statement:** To collect receipts from the tobacco master settlement agreement and service debt in connection with the issuance of tobacco settlement bonds.

**Date First Adopted:** September 28, 2010

**List of Performance Goals (If additional space is needed, please attach):**

On time payment of the tobacco settlement bonds

**RESOLUTION TO APPROVE THE SULLIVAN COUNTY TOBACCO ASSET  
SECURITIZATION CORPORATION 2022 BUDGET**

**WHEREAS**, it is required that the Sullivan County Tobacco Asset Securitization Corporation (the “Corporation”) adopt a budget for fiscal year 2022; and

**WHEREAS**, the Corporation’s board of directors has reviewed the 2022 budget.

**NOW, THEREFORE, BE IT RESOLVED**, that the 2022 Budget is hereby approved as the budget for the Sullivan County Tobacco Asset Securitization Corporation for the fiscal year 2021.

Sullivan County Tobacco Asset Securitization Corporation

2022 Budget

| <u>Revenue &amp; Financial Sources</u>            | 2020 Actual         | 2021 Est.           | 2022 Adopted        |
|---|---------------------|---------------------|---------------------|
| <b>Operating Revenues</b>                         |                     |                     |                     |
| Other Operating Revenue                           | \$ 1,145,371        | \$ 1,290,000        | \$ 1,290,000        |
| <b>Nonoperating Revenues</b>                      |                     |                     |                     |
| Investment Earnings                               | \$ 8,946            | \$ 85,000           | \$ 85,000           |
| <b>Total Revenues &amp; Financing Sources</b>     | <b>\$ 1,154,317</b> | <b>\$ 1,375,000</b> | <b>\$ 1,375,000</b> |
| <br>  |                     |                     |                     |
| <u>Expenditures</u>                               |                     |                     |                     |
| <b>Operating Revenues</b>                         |                     |                     |                     |
| Professional Service Contracts                    | \$ 30,067           | \$ 32,500           | \$ 32,500           |
| Other Operating Expenditures                      | \$ 4,779            | \$ 5,000            | \$ 5,000            |
| <b>Nonoperating Expenditures</b>                  |                     |                     |                     |
| Interest and other financing charges              | \$ 622,960          | \$ 750,000          | \$ 750,000          |
| <b>Total Expenditures</b>                         | <b>\$ 657,806</b>   | <b>\$ 787,500</b>   | <b>\$ 787,500</b>   |
| Excess (deficiency) of revenues over expenditures | \$ 496,511          | \$ 587,500          | \$ 587,500          |



**RESOLUTION TO APPROVE THE 2021 MISSION STATEMENT AND PERFORMANCE MEASURES**

**WHEREAS**, it is required by sections 2824-a and 2800 of the Public Authorities Law that the Sullivan County Tobacco Asset Securitization Corporation (the “Corporation”) formally adopt a mission statement and performance measurers, and

**WHEREAS**, it is required that the Corporation submit the required information by March 31<sup>st</sup>, 2021 to the New York State Authorities Budget Office, with the exception of 2020 due to the pandemic.

**NOW, THEREFORE, BE IT RESOLVED**, that the attached mission statement, performance goals, and responses to additional questions is hereby approved and authorized to be sent to the New York State Authorities Budget Office.

## **Sullivan County Tobacco Asset Securitization**

### **Mission Statement**

To collect receipts from the tobacco master settlement agreement and service debt in connection with the issuance of tobacco settlement bonds.

### **Performance Goals**

Collection of receipts from the tobacco master settlement agreement

On time payment of the tobacco settlement bonds

**RESOLUTION TO APPOINT OFFICERS OF THE SULLIVAN COUNTY TOBACCO ASSET SECURITIZATION CORPORATION**

**WHEREAS**, the by-laws of the Sullivan County Tobacco Asset Securitization Corporation (the “Corporation”) require that there be a President, a Vice President, a Secretary, and a Treasurer, and

**WHEREAS**, pursuant to subdivision 3 of section 2824 of the Public Authorities Law, no Board member, including the Chairperson, shall serve as the Corporation’s chief executive officer, executive director, chief financial officer, comptroller, or hold any other equivalent position while also service as a member of the Board, and

**WHEREAS**, pursuant to the by-laws of the “Corporation”, any two or more offices may be held by the same person, except the offices of President and Secretary.

**NOW, THEREFORE, BE IT RESOLVED**, that the following persons are elected to serve in the offices set forth next to their names until their respective successors are elected and shall qualify or until their earlier resignations:

| <u>NAME:</u>       | <u>TITLE:</u>    |
|--------------------|------------------|
| Janet Young        | President        |
| John Liddle        | Vice-President   |
| Kristen Kitson     | Contract Officer |
| Michelle Huck      | Treasurer        |
| Rosemarie Savaglio | Secretary        |