

**Sullivan County Tobacco Asset
Securitization Corporation**

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

Financial Statements

Year Ended December 31, 2023

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

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Net Position	8
Statement of Cash Flows	9
Notes to Financial Statements	10
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15



Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the 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, 2023, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the STASC, as of December 31, 2023, and the respective 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the STASC, 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 opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the STASC'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 opinion. 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 STASC'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the STASC's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the financial statements. Such information is the responsibility of management and, 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 18, 2024 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 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 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 18, 2024

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, 2023

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, 2023. 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

- ❖ 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 \$12,139,720. The deficit was decreased by \$622,251, due to the amount recognized for TSR's of \$1,146,319, less operating expenses of \$35,204 and non-operating net expenses of \$488,864.
- ❖ 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.

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 10 of this report.

Financial Analysis

Condensed Statements of Net Position

	December 31,		Total Dollar Change
	2023	2022	
Current Assets	\$ 1,434,322	\$ 1,408,247	\$ 26,075
Noncurrent Assets	1,108,933	1,108,020	913
Total Assets	2,543,255	2,516,267	26,988
Deferred Outflows of Resources	169,929	179,369	(9,440)
Current Liabilities	375,127	361,899	13,228
Noncurrent Liabilities	14,477,777	15,095,708	(617,931)
Total Liabilities	14,852,904	15,457,607	(604,703)
Net Position	\$ (12,139,720)	\$ (12,761,971)	\$ 622,251

Noncurrent liabilities decreased by \$617,931. The STASC made principal payments of \$545,000 in 2023, amortized \$57,931 of original issue premium and reclassified an additional \$15,000 of bond principal due in 2024 to current liabilities.

Condensed Statements of Activities

	Year Ended December 31,		Total Dollar Change
	2023	2022	
Operating Revenues	\$ 1,146,319	\$ 1,321,721	\$ (175,402)
Operating Expenses	35,204	35,025	179
Income from Operations	1,111,115	1,286,696	(175,581)
Total Non-Operating Expenses, Net	(488,864)	(565,410)	76,546
Change in Net Position	622,251	721,286	(99,035)
Net Position - Beginning	(12,761,971)	(13,483,257)	721,286
Net Position - Ending	\$ (12,139,720)	\$ (12,761,971)	\$ 622,251

Net position increased by \$622,251 in 2023, compared with an increase of \$721,286 in 2022, a difference of \$(99,035). This was mainly due to a decrease in tobacco settlement revenues of \$175,402. This decrease was partially offset by an increase in interest income of \$55,448 coupled with a decrease in interest expense of \$21,098. Other operating expenses increased by \$179.

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 \$13,760,000. STASC made debt service principal payments during the year of \$545,000.

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, 2023

ASSETS

Current assets

Cash and equivalents	\$ 167,754
Investments	79,283
Tobacco settlement receivable	1,183,000
Prepaid expenses	4,285

Total Current Assets 1,434,322

Noncurrent assets

Restricted cash and equivalents	1,916
Restricted investments	1,107,017

Total Noncurrent Assets 1,108,933

Total Assets 2,543,255

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on refunding bonds 169,929

LIABILITIES

Current liabilities

Accrued liabilities	50,127
Current maturities of bonds payable	325,000

Total Current Liabilities 375,127

Noncurrent liabilities

Bonds payable, net of current maturities 14,477,777

Total Liabilities 14,852,904

NET POSITION

Unrestricted \$ (12,139,720)

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, 2023

OPERATING REVENUES

Tobacco settlement revenues \$ 1,146,319

OPERATING EXPENSES

Professional fees 30,062

Insurance expense 5,142

Total Operating Expenses 35,204

Income from Operations 1,111,115

NON-OPERATING REVENUES (EXPENSES)

Interest income 73,032

Interest expense (561,896)

Total Non-Operating Expenses (488,864)

Change in Net Position 622,251

NET POSITION

Beginning of year (12,761,971)

End of year \$ (12,139,720)

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, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from tobacco settlement revenues	\$ 1,148,319
Cash paid to vendors	<u>(35,204)</u>
Net Cash from Operating Activities	<u>1,113,115</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	73,032
Sale of investments	<u>(79,778)</u>
Net Cash from Investing Activities	<u>(6,746)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Repayment of bonds payable	(545,000)
Interest paid	<u>(612,159)</u>
Net Cash from Non-Capital Financing Activities	<u>(1,157,159)</u>

Net Change in Cash and Equivalents (50,790)

CASH AND EQUIVALENTS

Beginning of year	<u>220,460</u>
End of year	<u><u>\$ 169,670</u></u>

Cash and equivalents	\$ 167,754
Restricted cash and equivalents	<u>1,916</u>

Total Cash and Equivalents \$ 169,670

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

Income from operations	\$ 1,111,115
Adjustments to reconcile income from operations to net cash from operating activities	
Changes in assets and liabilities	
Tobacco settlement receivable	<u>2,000</u>
Net Cash from Operating Activities	<u><u>\$ 1,113,115</u></u>

NON-CASH INVESTING ACTIVITIES

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

See notes to financial statements.

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

Notes to Financial Statements
December 31, 2023

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, 2023

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, 2023 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, 2023.

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, 2023, the STASC did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

Investments

Investments are recorded at fair value. Investments consist of U.S. Treasury Bills of \$79,283 due May 30, 2024 with interest at 5.09% held in the 2016 B/C Debt Service and Operating Expense accounts.

Restricted Cash and Equivalents and Investments

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

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

Notes to Financial Statements (Continued)
December 31, 2023

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

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.

The terms of the bond indenture also provide for the establishment of a trapping account. Following the occurrence of a trapping event, amounts that otherwise would have been paid on the residual certificate to the County will be deposited in the trapping account and will be restricted to pay interest, required planned structured principal payments and turbo redemption payments, in such order, to the extent collections or other available amounts are insufficient for such purposes.

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 \$169,929 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.

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 18, 2024.

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

Notes to Financial Statements (Continued)
December 31, 2023

Note 2 - Restricted Cash and Equivalents and Investments

Restricted cash and equivalents and investments at December 31, 2023 consisted of the following:

Money Market Funds	\$ 1,916
US Treasury Bills due May 30, 2024, interest at 5.09%	649,920
US Treasury Bills due May 30, 2024, interest at 5.09%	457,097
	<u>\$ 1,108,933</u>

Note 3 - Bonds Payable

Bonds payable consisted of the following at December 31, 2023:

<u>Description</u>	<u>Interest Rates</u>	<u>Original Issue Amount</u>	<u>Balance January 1, 2023</u>	<u>Redeemed</u>	<u>Balance December 31, 2023</u>
Series 2016B	5%	\$ 8,100,000	\$ 6,905,000	\$ 310,000	\$ 6,595,000
Series 2016C	2.45% - 4%	<u>8,585,000</u>	<u>7,400,000</u>	<u>235,000</u>	<u>7,165,000</u>
		<u>\$ 16,685,000</u>	<u>\$ 14,305,000</u>	<u>\$ 545,000</u>	<u>\$ 13,760,000</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>
2024	\$ 1,785,000 *	\$ 569,540	\$ 2,354,540
2025	770,000	520,988	1,290,988
2026	800,000	487,175	1,287,175
2027	845,000	451,988	1,296,988
2028	885,000	414,925	1,299,925
2029 and thereafter	<u>8,675,000</u>	<u>2,048,950</u>	<u>10,723,950</u>
	13,760,000	<u>\$ 4,493,566</u>	<u>\$ 18,253,566</u>
Unamortized Original Issue Premium	<u>1,042,777</u>		
	<u>\$ 14,802,777</u>		

*Principal payment assumes "catchup" payment is made June 1, 2024.

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

Notes to Financial Statements (Concluded)
December 31, 2023

Note 3 - Bonds Payable (Continued)

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2024	\$ 325,000
2025	340,000
2026	360,000
2027	335,000
2028	355,000
2029 and thereafter	<u>12,045,000</u>
	<u>\$ 13,760,000</u>

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.



**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, 2023, and the related notes to the financial statements, and have issued our report thereon dated March 18, 2024.

Report on 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 opinions 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 or significant deficiencies may exist that were not identified.

Report on 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 18, 2024