

**Ulster County Tobacco Asset
Securitization Corporation**

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

Financial Statements

Year Ended December 31, 2023

Ulster County Tobacco Asset Securitization Corporation
(A Blended Component Unit of the County of Ulster, 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>	16



Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Ulster County Tobacco Asset Securitization Corporation ("UTASC"), a blended component unit of the County of Ulster, 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 UTASC, 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 UTASC, 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 UTASC'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 UTASC'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 UTASC'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 27, 2024 on our consideration of the UTASC'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 UTASC'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 UTASC's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

PKF O'Connor Davies, LLP

Harrison, New York

March 27, 2024

Ulster County Tobacco Asset Securitization Corporation

(A Blended Component Unit of the County of Ulster, New York)
Management's Discussion and Analysis ("MD&A")
December 31, 2023

Introduction

As management of the Ulster County Tobacco Asset Securitization Corporation ("UTASC"), we offer readers of the UTASC's financial statements this narrative overview and analysis of the financial activities of the UTASC 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 UTASC's financial performance.

Financial Highlights

- ❖ On the statement of net position, the liabilities and deferred inflows of resources of the UTASC exceeded its assets at the close of the most recent fiscal year, resulting in a deficit of \$34,577,105. The deficit was decreased by \$1,076,089, due to the amount recognized for TSR's of \$2,324,442, less operating expenses of \$44,187 and non-operating net expense of \$1,204,166.
- ❖ 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 UTASC 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 UTASC 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 UTASC'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 UTASC'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	\$ 2,553,529	\$ 2,728,916	\$ (175,387)
Noncurrent Assets	2,386,752	2,294,685	92,067
Total Assets	4,940,281	5,023,601	(83,320)
Current Liabilities	4,359,770	3,808,324	551,446
Noncurrent Liabilities	29,490,129	30,685,758	(1,195,629)
Total Liabilities	33,849,899	34,494,082	(644,183)
Deferred Inflows of Resources	5,667,487	6,182,713	(515,226)
Net Position	\$ (34,577,105)	\$ (35,653,194)	\$ 1,076,089

Noncurrent liabilities decreased by \$1,195,629. The UTASC made principal payments of \$935,000 in 2023, amortized \$83,081 of original issue premium and reclassified an additional \$560,000 of bond principal due in 2024 to current liabilities. These reductions in noncurrent liabilities were partially offset by an increase of \$382,452 from accreted interest on the Series 2005 Capital Appreciation Bonds. Deferred inflows of resources decreased by \$515,226 because of the amortization of the gain on refunding bonds.

Condensed Statements of Activities

	Year Ended December 31,		Total Dollar Change
	2023	2022	
Operating Revenues	\$ 2,324,442	\$ 2,658,593	\$ (334,151)
Operating Expenses	44,187	45,703	1,516
Income from Operations	2,280,255	2,612,890	(332,635)
Total Non-Operating Expenses, Net	(1,204,166)	(1,357,364)	153,198
Change in Net Position	1,076,089	1,255,526	(179,437)
Net Position - Beginning	(35,653,194)	(36,908,720)	1,255,526
Net Position - Ending	\$ (34,577,105)	\$ (35,653,194)	\$ 1,076,089

Net position increased by \$1,076,089 in 2023, compared with an increase of \$1,255,526 in 2022, a difference of \$(179,437). Recognition of tobacco settlement revenues decreased \$334,151. This decrease was partially offset by an increase in interest income of \$114,834 coupled with a decrease in interest expense of \$38,364. Other operating expenses decreased by \$1,516.

Debt Administration

At the end of the current fiscal year, the UTASC had total gross bonded debt for the 2016 Series B and C bonds outstanding of \$26,935,000. UTASC made debt service principal payments during the year of \$935,000. The UTASC also had outstanding Subordinate Turbo Capital Appreciation Bonds, including accreted interest, of \$5,871,247 at December 31, 2023.

Additional information on the UTASC'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 UTASC. UTASC'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 UTASC to pay bondholders may be reduced or eliminated.

Requests for Information

This financial report is designed to provide a general overview of the UTASC's finances for all those with an interest in those finances. Questions and comments concerning any of the information provided in this report should contact the Ulster County Department of Finance at the Ulster County Office Building, 4th Floor, Kingston, New York 12402.

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

Statement of Net Position
December 31, 2023

ASSETS

Current assets

Cash and equivalents	\$ 83,529
Tobacco settlement receivable	<u>2,470,000</u>

Total Current Assets 2,553,529

Noncurrent assets

Restricted cash and equivalents	31,771
Restricted investments	<u>2,354,981</u>

Total Noncurrent Assets 2,386,752

Total Assets 4,940,281

LIABILITIES

Current liabilities

Accrued liabilities	116,968
Due to other governments	12,802
Current maturities of bonds payable	<u>4,230,000</u>

Total Current Liabilities 4,359,770

Noncurrent liabilities

Bonds payable, net of current maturities	23,618,882
Capital appreciation bonds payable	<u>5,871,247</u>

Total Noncurrent Liabilities 29,490,129

Total Liabilities 33,849,899

DEFERRED INFLOWS OF RESOURCES

Deferred gain on refunding bonds	<u>5,667,487</u>
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NET POSITION

Unrestricted	<u><u>\$ (34,577,105)</u></u>
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See notes to financial statements.

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

Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2023

OPERATING REVENUES

Tobacco settlement revenues \$ 2,324,442

OPERATING EXPENSES

Professional fees 44,187

Income from Operations 2,280,255

NON-OPERATING REVENUES (EXPENSES)

Interest income 151,253

Interest expense (1,355,419)

Total Non-Operating Expenses (1,204,166)

Change in Net Position 1,076,089

NET POSITION

Beginning of year (35,653,194)

End of year \$ (34,577,105)

See notes to financial statements.

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

Statement of Cash Flows
Year Ended December 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from tobacco settlement revenues	\$ 2,474,442
Cash paid to vendors	<u>(45,907)</u>
Net Cash from Operating Activities	<u>2,428,535</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	151,253
Purchase of investments	<u>(64,446)</u>
Net Cash from Investing Activities	<u>86,807</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Repayment of bonds payable	(935,000)
Interest paid	<u>(1,578,108)</u>
Net Cash from Non-Capital Financing Activities	<u>(2,513,108)</u>
Net Change in Cash and Equivalents	2,234

CASH AND EQUIVALENTS

Beginning of year	<u>113,066</u>
End of year	<u>\$ 115,300</u>
Cash and equivalents	\$ 83,529
Restricted cash and equivalents	<u>31,771</u>
Total Cash and Equivalents	<u>\$ 115,300</u>

RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES

Income from operations	\$ 2,280,255
Adjustments to reconcile income from operations to net cash from operating activities	
Changes in assets and liabilities	
Tobacco settlement receivable	150,000
Due to other governments	<u>(1,720)</u>
Net Cash from Operating Activities	<u>\$ 2,428,535</u>

NONCASH INVESTING ACTIVITIES

Increase in bonds payable from accreted interest on Series 2005 capital appreciation bonds	\$ 382,452
Decrease in deferred inflows of resources from amortization of gain on refunding bonds	515,226
Decrease in bonds payable from amortization of original issue premium	83,081

See notes to financial statements.

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

Notes to Financial Statements
December 31, 2023

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

Nature of Business

The Ulster County Tobacco Asset Securitization Corporation ("UTASC") is a special purpose, bankruptcy-remote local development corporation. UTASC 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 UTASC consists of nine directors, all but one of whom shall be one or more of the following: an employee of Ulster County ("County"), an elected official of the County or a member of the County Legislature; and one director who shall be independent.

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 0.334% 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 UTASC. On November 29, 2005, the County participated in the New York Counties Tobacco Trust V (NYCTT V); whereby, the County sold all of its future right, title and interest in the Tobacco Settlement Revenues ("TSR") under the MSA.

The purchase price of the County's future right, title and interest in the TSRs was financed by the issuance of serial bonds. Excess TSRs not required by the UTASC to pay various expenses, debt service or required reserves with respect to the bonds are transferred to the Ulster Tobacco Asset Securitization Corporation Residual Trust ("the Trust"), as owner of the Residual Certificate. The County is the beneficial owner of the Trust and thus the funds received by the Trust will ultimately transfer to the County. A Residual Certificate exists which represents 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 are subordinate to payments on the bonds and payment of certain other costs specified in the indenture.

In September 2016, the County and the UTASC participated in New York Counties Tobacco Trust VI (NYCTT VI) whereby the UTASC issued new Series 2016 bonds.

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 UTASC is reported as a blended component unit of the County in its financial statements.

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

Notes to Financial Statements (Continued)
December 31, 2023

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

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 UTASC 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.

The accompanying financial statements present only the activities of the UTASC 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 UTASC 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 UTASC 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 UTASC'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 UTASC's name. The UTASC'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 UTASC 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 UTASC's investment policy limits the amount on deposit at each of its banking institutions.

At December 31, 2023, the UTASC did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

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

Notes to Financial Statements (Continued)
December 31, 2023

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

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 2016 A-1 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 UTASC has reported deferred inflows of resources of \$5,667,487 for a deferred gain 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 UTASC 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 27, 2024.

Ulster County Tobacco Asset Securitization Corporation
(A Blended Component Unit of the County of Ulster, 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	\$ 31,771
US Treasury Bills due May 30, 2024, interest at 5.09%	<u>2,354,981</u>
	<u>\$ 2,386,752</u>

Note 3 - Bonds Payable

The purchase price of the County's future right, title and interest in the TSRs, was financed through the issuance of Series 2001 Bonds in the amount of \$31,330,000 bearing interest ranging from 5.95-6.262%. The Series 2001 Bonds consisted of the Series 2001 Convertible Capital Appreciation Bonds ("CABs") in the amount of \$6,397,000 (with \$2,978,000 in capital appreciation that is recognized by the UTASC over a 10 year period) and the Series 2001 current interest bonds in the amount of \$21,955,000. The UTASC also issued Series 2005 NYCTT V Bonds in the amount of \$15,852,000 bearing interest ranging from 6.00-7.85% and Series 2016 NYCTT VI Bonds in the amount of \$31,060,000 bearing interest ranging from 2.00-6.75%. During 2016, the Series 2001 Tobacco Settlement Asset Backed Bonds in the amount of \$25,280,000 were defeased, redeemed, and/or exchanged with the issuance of the Series 2016 Tobacco Settlement Bonds and additional consideration. Also during 2016, as a result of the refunding transaction, the Series 2005 S2 Subordinate Turbo CABs were canceled, and the Series 2005 S4B Subordinate Turbo CABs were acquired by negotiated purchase price.

As of December 31, 2023 the Series 2016 Tobacco Settlement Bonds totaled \$27,848,882, inclusive of unamortized premium, and the Series 2005 S4B Subordinate Turbo CABs totaled \$5,871,247, net of capital appreciation, as follows:

<u>Description</u>	<u>Balance January 1, 2023</u>	<u>Additions</u>	<u>Redeemed</u>	<u>Balance December 31, 2023</u>
Series 2016 Tobacco Settlement Bonds	\$ 27,870,000	\$ -	\$ 935,000	\$ 26,935,000
Bond Premium	<u>996,963</u>	<u>-</u>	<u>83,081</u>	<u>913,882</u>
	<u>\$ 28,866,963</u>	<u>\$ -</u>	<u>\$ 1,018,081</u>	<u>\$ 27,848,882</u>

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

Notes to Financial Statements (Continued)
December 31, 2023

Note 3 - Bonds Payable (Continued)

A payment schedule, based upon required maturity payments for the Series 2016 Tobacco Settlement Bonds is as follows:

Year Ending December 31,	Principal	Interest	Total
2024	\$ 4,230,000 *	\$ 1,403,620	\$ 5,633,620
2025	1,610,000	1,206,520	2,816,520
2026	1,725,000	1,096,086	2,821,086
2027	1,855,000	980,166	2,835,166
2028	1,980,000	859,671	2,839,671
2029 and thereafter	15,535,000	2,563,800	18,098,800
	26,935,000	<u>\$ 8,109,864</u>	<u>\$ 35,044,864</u>
Unamortized Original Issue Premium	913,882		
	<u>\$ 27,848,882</u>		

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

Interest on the Subordinate Turbo CABs is compounded semiannually on June 1 and December 1 but is not payable until bond maturity. Interest accretes until both principal and accreted interest are paid. The accreted interest on the Subordinate Turbo CABs is reflected within the Capital Appreciation Bonds liability.

A summary of the Subordinate CABs activity for the year ended December 31, 2023 follows:

Description	Balance January 1, 2023	Annual Net Interest Accretion	Balance December 31, 2023
Subordinate Turbo CABs	<u>\$ 5,488,795</u>	<u>\$ 382,452</u>	<u>\$ 5,871,247</u>

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

Notes to Financial Statements (Concluded)
 December 31, 2023

Note 3 - Bonds Payable (Continued)

The remaining projected debt service requirements as of December 31, 2023, including principal of \$5,871,247, capital appreciation and interest for the Series 2005 NYCTT V Bonds are to be paid starting June 1, 2050 and maturing June 1, 2060 totaling \$13,030,250 as follows:

<u>Year Ending December 31,</u>	<u>Principal and Interest</u>
2024	\$ -
2025	-
2026	-
2027	-
2028	-
2029 and thereafter	<u>13,030,250</u>
	<u>\$ 13,030,250</u>

During 2023, there were no payments of principal and accreted interest on the above Bonds.

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 UTASC) 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 UTASC to pay bondholders may be reduced or eliminated.

The bonds are payable only from the assets of UTASC. 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. UTASC's only source of funds for payments on the bonds is the collections and amounts on deposit in pledged accounts pursuant to the indenture. UTASC 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 Ulster 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 Ulster County Tobacco Asset Securitization Corporation ("UTASC") as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the UTASC basic financial statements, and have issued our report thereon dated March 27, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the UTASC'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 UTASC's internal control. Accordingly, we do not express an opinion on the effectiveness of the UTASC'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 UTASC'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 UTASC'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 UTASC'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 UTASC'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 27, 2024