

Ulster County Tobacco Asset Securitization Corporation

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

Schedule of Cash and Investments

Year Ended December 31, 2023

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

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Independent Auditors' Report

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

Report on the Audit of the Schedule of Cash and Investments

Opinion

We have audited the Schedule of Cash and Investments ("Schedule") of the Ulster County Tobacco Asset Securitization Corporation ("UTASC"), a blended component unit of the County of Ulster, New York as of December 31, 2023, and the related notes to the Schedule.

In our opinion, the accompanying Schedule and related notes referred to above presents fairly, in all material respects, the cash and investments of the UTASC as of December 31, 2023, 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 Schedule. 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 Schedule

Management is responsible for the preparation and fair presentation of the Schedule 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 the Schedule that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Schedule

Our objectives are to obtain reasonable assurance about whether the Schedule is 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 Schedule.

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 Schedule, 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 Schedule.
- 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 Schedule.

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.

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 with respect to the Schedule. 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 with respect to the Schedule.

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)

Schedule of Cash and Investments
December 31, 2023

Cash and equivalents	<u>\$ 83,529</u>
Restricted:	
Cash and equivalents	31,771
Investments	<u>2,354,981</u>
Total Restricted	<u>2,386,752</u>
Total Cash and Equivalents and Investments	<u><u>\$ 2,470,281</u></u>

See accompanying notes.

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

Notes to Schedule of Cash and Investments
Year Ended December 31, 2023

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

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 Schedule of Cash and Investments (Continued)
Year Ended December 31, 2023

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

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.

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.

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

Notes to Schedule of Cash and Investments (Concluded)
Year Ended December 31, 2023

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

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.

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>

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Schedule of Cash and Investments 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 Schedule of Cash and Investments ("Schedule") of the Ulster County Tobacco Asset Securitization Corporation ("UTASC") as of December 31, 2023, and the related notes to the Schedule 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 Schedule, 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 Schedule, 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 Schedule 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 Schedule is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, investment policies established by the UTASC and the New York State Comptroller investment guideline requirements as presented in Section 201.3(c) of the *Accounting, Reporting and Supervision Requirements for Public Authorities*, noncompliance with which could have a direct and material effect on the Schedule. 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