

**BROOME TOBACCO ASSET
SECURITIZATION CORPORATION**
(A Component Unit of the County of Broome, New York)
*Basic Financial Statements and Required
Supplementary Information for the
Year Ended December 31, 2021
and Independent Auditors' Reports*

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF BROOME, NEW YORK)
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Year Ended December 31, 2021

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Broome Tobacco Asset Securitization Corporation:

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and the major fund of Broome Tobacco Asset Securitization Corporation ("BTASC"), a component unit of the County of Broome, New York, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise BTASC's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of BTASC, as of December 31, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 BTASC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

BTASC's 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; 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.

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 BTASC's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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, 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 BTASC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about BTASC'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 the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2022 on our consideration of BTASC'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 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 BTASC's internal control over financial reporting and compliance.

Handwritten signature in black ink that reads "Drescher & Malecki LLP".

March 9, 2022

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Management’s Discussion and Analysis
Year Ended December 31, 2021

As management of the Broome Tobacco Asset Securitization Corporation (“BTASC”), a blended component unit of the County of Broome, New York (the “County”), we offer readers of BTASC’s financial statements this narrative overview and analysis of the financial activities of BTASC for the fiscal year ended December 31, 2021. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in BTASC’s financial statements, which follow this narrative.

Financial Highlights

- Total liabilities and deferred inflows of resources of BTASC’s primary government exceeded its assets by \$55,644,475 (net position) at December 31, 2021. This compares to BTASC’s total liabilities and deferred inflows of resources exceeding assets by \$56,845,368 at December 31, 2020.
- BTASC’s net position increased by \$1,200,893 during the year ended December 31, 2021.
- At the close of the current year, BTASC’s governmental fund reported fund balance of \$2,990,312, a decrease of \$1,655 in comparison with the prior year. All of the fund balance is restricted for debt service.
- BTASC’s total Tobacco Settlement Bonds decreased by \$1,145,000 as a result of principal payments made during the year, while Subordinate Turbo Capital Appreciation Bonds (“CABs”) increased by \$438,319 as a result of annual net interest accretion.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the BTASC’s basic financial statements. BTASC’s basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

Government-wide financial statements—The *government-wide financial statements* are designed to provide readers with a broad overview of BTASC’s finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all BTASC’s assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of BTASC is improving or deteriorating.

The *statement of activities* presents information showing how BTASC’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.

The government-wide financial statements can be found on pages 8-9 of this report.

Fund financial statements—A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. BTASC, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds—*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

BTASC maintains one individual governmental fund, the Debt Service Fund.

The basic governmental fund financial statements can be found on pages 10-13 of this report.

Notes to the financial statements—The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-23 of this report.

Government-Wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government’s financial position. In the case of BTASC, liabilities and deferred inflows of resources exceeded assets by \$55,644,475 at December 31, 2021, as compared to \$56,845,368 at December 31, 2020. Table 1, shown below, presents the condensed statements of net position for BTASC at December 31, 2021 and December 31, 2020.

Table 1—Condensed Statements of Net Position

	December 31,	
	2021	2020
Current assets	<u>\$ 5,792,956</u>	<u>\$ 5,791,967</u>
Total assets	<u>5,792,956</u>	<u>5,791,967</u>
Current liabilities	184,562	187,896
Noncurrent liabilities	<u>51,514,123</u>	<u>52,379,631</u>
Total liabilities	<u>51,698,685</u>	<u>52,567,527</u>
Deferred inflows of resources	<u>9,738,746</u>	<u>10,069,808</u>
Net position	<u><u>\$ (55,644,475)</u></u>	<u><u>\$ (56,845,368)</u></u>

A portion of BTASC's net position, \$2,990,312, represents resources that are subject to external restrictions on how they may be used. Therefore, the unrestricted deficit totals \$(58,634,787) at December 31, 2021, which compares to \$(59,837,335) at December 31, 2020. The unrestricted net position deficit must be financed by future operations. The deficit results from long-term operations that are greater than currently available resources.

At December 31, 2021, total assets were \$5,792,956 compared to \$5,791,967 at December 31, 2020. The largest asset held by BTASC represents restricted cash and cash equivalents which was \$2,988,840 and \$2,987,984 at December 31, 2021 and December 31, 2020, respectively. BTASC has no noncurrent assets at December 31, 2021 or December 31, 2020.

Total liabilities at December 31, 2021 were \$51,698,685 compared to \$52,567,527 at December 31, 2020. The largest portion of the liabilities was outstanding debt totaling \$51,514,123 and \$52,379,631 at December 31, 2021 and 2020, respectively.

BTASC's deferred inflows of resources, which resulted from a deferred gain on refunding, totaled \$9,738,746 and \$10,069,808 at December 31, 2021 and 2020, respectively.

During the current year, net position for governmental activities increased \$1,200,893 from the prior fiscal year for an ending net position balance of \$(55,644,475). The statement of activities presents revenues received and expenses paid by BTASC. Presented as Table 2, below, are the condensed statements of activities for the years ended December 31, 2021 and 2020.

Table 2—Condensed Statements of Activities

	Year Ended December 31,	
	2021	2020
General revenues	\$ 3,409,515	\$ 3,278,480
Expenses—governmental activities	<u>2,208,622</u>	<u>2,240,694</u>
Change in net position	1,200,893	1,037,786
Net position—beginning	<u>(56,845,368)</u>	<u>(57,883,154)</u>
Net position—ending	<u>\$ (55,644,475)</u>	<u>\$ (56,845,368)</u>

Total revenues for the years ended December 31, 2021 and 2020 were \$3,409,515 and \$3,278,480, respectively. Revenues for the years ended December 31, 2021 and 2020 consisted of \$3,409,285 (99.99 percent) and \$3,252,528 (99.2 percent), respectively, of tobacco settlement revenues and \$230 and \$25,952, respectively, of interest earnings.

A summary of sources of revenues for the years ended December 31, 2021 and December 31, 2020 is presented below in Table 3.

Table 3—Sources of Revenues

	Year Ended December 31,		Increase/(Decrease)	
	2021	2020	Dollars	Percent (%)
Tobacco settlement revenues	\$ 3,409,285	\$ 3,252,528	\$ 156,757	4.8
Interest earnings	230	25,952	(25,722)	(99.1)
Total revenues	<u>\$ 3,409,515</u>	<u>\$ 3,278,480</u>	<u>\$ 131,035</u>	4.0

Total expenses for the years ended December 31, 2021 and 2020 were \$2,208,622 and \$2,240,694, respectively. Expenses for the years ended December 31, 2021 and 2020 primarily consisted of \$2,167,668 (98.1%) and \$2,198,512 (98.1%), respectively, of interest and fiscal charges, and \$40,954 and \$42,182 respectively, of general government support expenses incurred in connection with the operations of the BTASC.

A summary of expenses for the years ended December 31, 2021 and 2020 is presented below in Table 4.

Table 4—Expenses

	Year Ended December 31,		Increase/(Decrease)	
	2021	2020	Dollars	Percent (%)
General government support	\$ 40,954	\$ 42,182	\$ (1,228)	(2.9)
Interest and fiscal charges	2,167,668	2,198,512	(30,844)	(1.4)
Total expenses	<u>\$ 2,208,622</u>	<u>\$ 2,240,694</u>	<u>\$ (32,072)</u>	(1.4)

Financial Analysis of Governmental Funds

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

Governmental Funds—The focus of BTASC’s governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing BTASC’s financing requirements.

At December 31, 2021, BTASC’s Debt Service Fund reported fund balance of \$2,990,312, a decrease of \$1,655 in comparison with the prior year. All of the fund balance is restricted for debt service. The decrease in fund balance of \$1,655 is a result of general government support and debt service costs exceeding tobacco settlement revenues and interest earnings. Principal and interest in the total amount of \$3,370,216 were paid during the year.

Debt Administration

Long-Term Debt—At the end of the current fiscal year, BTASC had net Tobacco Settlement Bonds outstanding of \$44,779,800 and Subordinate Turbo CABs outstanding of \$6,734,323. During the year ended December 31, 2021, BTASC made principal payments of \$1,145,000 on its Tobacco Settlement Bonds, while interest accreted \$438,319 on its Subordinate Turbo CABs, as compared to principal payments made in the amount of \$905,000 on its Tobacco Settlement Bonds and interest accretion of \$409,993 on its Subordinate Turbo CABs during the year ended December 31, 2020. Additional information on BTASC’s long-term debt can be found in Note 4 to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of BTASC’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Broome Tobacco Asset Securitization Corporation, Secretary/Treasurer and Director, 60 Hawley Street, 4th Floor, Binghamton, New York, 13901.

BASIC FINANCIAL STATEMENTS

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BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Statement of Net Position
December 31, 2021

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current assets:	
Restricted cash and cash equivalents	\$ 2,988,840
Interest receivable	10
Prepaid expenses	4,106
Due from New York State	<u>2,800,000</u>
Total assets	<u>5,792,956</u>
LIABILITIES	
Current liabilities:	
Accounts payable	2,644
Accrued interest payable	181,918
Noncurrent liabilities:	
Due within one year—net Tobacco Settlement Bonds payable	4,418,827
Due within more than one year—net Tobacco Settlement Bonds payable	40,360,973
Subordinate Turbo CABs payable	<u>6,734,323</u>
Total liabilities	<u>51,698,685</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred gain on refunding	<u>9,738,746</u>
Total deferred inflows of resources	<u>9,738,746</u>
NET POSITION	
Restricted for debt service	2,990,312
Unrestricted	<u>(58,634,787)</u>
Total net position	<u>\$ (55,644,475)</u>

The notes to the financial statements are an integral part of this statement.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Statement of Activities
Year Ended December 31, 2021

Functions/Programs	Expenses	Net (Expenses) and Changes in Net Position
		Primary Government Governmental Activities
Primary government:		
Governmental activities:		
General government support	\$ 40,954	\$ (40,954)
Interest and fiscal charges	2,167,668	(2,167,668)
Total primary government	\$ 2,208,622	(2,208,622)
General revenues:		
Tobacco settlement revenues		3,409,285
Interest earnings		230
Total general revenues		3,409,515
Change in net position		1,200,893
Net position—beginning		(56,845,368)
Net position—ending		\$ (55,644,475)

The notes to the financial statements are an integral part of this statement.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Balance Sheet—Governmental Funds
December 31, 2021

	<u>Debt Service</u>
ASSETS	
Restricted cash and cash equivalents	\$ 2,988,840
Interest receivable	10
Prepaid expenses	<u>4,106</u>
Total assets	<u>\$ 2,992,956</u>
LIABILITIES	
Accounts payable	<u>2,644</u>
Total liabilities	<u>2,644</u>
FUND BALANCE	
Restricted for debt service	<u>\$ 2,990,312</u>
Total fund balance	<u>\$ 2,990,312</u>

The notes to the financial statements are an integral part of this statement.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Reconciliation of the Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
December 31, 2021

Amounts reported for governmental activities in the statement of net position (page 8) are different because:

Total fund balance—governmental funds (page 10)	\$	2,990,312
A long-term asset, due from New York State, \$2,800,000, is not available to pay for current period expenditures and, therefore, is not reported in the funds.		2,800,000
Deferred gains associated with refunding of bonds are not reported in the governmental funds. The gain is reported as a deferred inflow of resources on the statement of net position and is recognized as a component of interest earnings over the life of the related debt.		(9,738,746)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. The effects of these items are:		
Accrued interest payable	\$	(181,918)
Tobacco Settlement Bonds payable		(40,880,000)
Premium on Tobacco Settlement Bonds payable		(3,899,800)
Subordinate Turbo CABs payable		(6,734,323)
		(51,696,041)
Net position of governmental activities	\$	(55,644,475)

The notes to the financial statements are an integral part of this statement.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Statement of Revenues, Expenditures, and Changes in Fund Balance—
Governmental Funds
Year Ended December 31, 2021

	Debt Service
REVENUES	
Tobacco settlement revenue	\$ 3,409,285
Interest earnings	230
Total revenues	3,409,515
EXPENDITURES	
Current:	
General government support	40,954
Debt service:	
Principal	1,145,000
Interest	2,225,216
Total expenditures	3,411,170
Net change in fund balance	(1,655)
Fund balance—beginning	2,991,967
Fund balance—ending	\$ 2,990,312

The notes to the financial statements are an integral part of this statement.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance—
Governmental Funds to the Government-wide Statement of Activities
Year Ended December 31, 2021

Amounts reported for governmental activities in the statement of activities (page 9) are different because:

Net change in fund balance—total governmental funds (page 12)	\$	(1,655)
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Revenues related to the deferred gain on refunding reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.		331,062
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The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long term debt and the related items is as follows:

Change in accrued interest payable	\$	5,978	
Principal repayments on Tobacco Settlement Bonds payable		1,145,000	
Amortization of premium on Tobacco Settlement Bonds payable		158,827	
Accreted interest on Subordinate Turbo CABs payable		(438,319)	871,486
Change in net position of governmental activities			\$ 1,200,893

The notes to the financial statements are an integral part of this statement.

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BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Notes to the Financial Statements
Year Ended December 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Broome Tobacco Asset Securitization Corporation (“BTASC”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of BTASC’s accounting policies are described below.

Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., statement of net position and the statement of changes in net position) report information on all the nonfiduciary activities of BTASC. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. BTASC reports no fiduciary or business-type activities.

Reporting Entity

BTASC is a special purpose, bankruptcy remote, local development corporation organized under the Not-for-Profit Corporation Law of the State of New York. BTASC is an instrumentality of, but separate and apart from, the County of Broome, New York (the “County”). Although legally separate from the County, BTASC is a component unit of the County. Based on the nature and significance of BTASC’s relationship with the County and the criteria set forth by GASB, BTASC is included within the County basic financial statements as a blended component unit.

The BTASC was incorporated on June 21, 2001 for the purpose of issuing asset backed bonds in order to provide funds to purchase from the County all of the County’s right, title and interest under the Master Settlement Agreement (the “MSA”) and the Consent Decree and Final Judgment (the “Decree”) as described herein.

The BTASC board of directors consists of five directors, consisting of the County Executive, the County Director of the Office of Management and Budget, the Chairman of the County Legislature, the Minority Leader of the County Legislature and one Independent Director.

The MSA was entered into on November 23, 1998, among the attorneys general of 46 states (including New York), the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Territory of the Northern Marianas and for the four largest United States tobacco manufacturers: Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown and Williamson Tobacco Company and Lorillard Tobacco Company (collectively the “Original Participating Manufacturers” or “OPMs”) in settlement of certain smoking-related litigation and the Decree entered in New York Supreme Court, including the County’s right to receive certain initial and annual payments to be made by the OPMs under the MSA.

On July 15, 2001, pursuant to a Purchase and Sale Agreement with the County, the County sold to BTASC all of its future rights, title and interest in Tobacco Settlement Revenues (“TSRs”) under the MSA and the Decree.

Subsequent to the initial sale of the bonds, the County has the right to receive net proceeds of future bond issuances and the revenues of BTASC that are in excess of BTASC’s expenses, debt service and contractual obligations, pursuant to the Bond Indenture. In the current year, there were no payments to the County resulting from these excess revenues.

In accordance with the Bond Indenture and to the extent contained in the MSA Report, a trapping event has occurred. A Consumption Decline Trapping Event occurs when shipments of cigarettes in or to the 50 United States, the District of Columbia and Puerto Rico as measured under the MSA, are less in any year preceding a deposit date than the amount opposite such year under the “Consumption Decline Trapping Event” definition, which number for the year 2020 is 229,730,257,477. According to the MSA Report, the amount shown as relevant shipments for the year 2020 was less than the shipment amount specified above, and therefore a Consumption Decline Trapping Event has occurred for the year ended December 31, 2021.

Basis of Presentation – Government-Wide Financial Elements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental fund. Separate financial statements are provided for the governmental fund.

Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about BTASC’s fund. The emphasis of fund financial statements is on the major governmental fund.

BTASC reports the following major governmental fund:

- *Debt Service Fund*—The Debt Service Fund is used to account for the accumulation of resources that are restricted for the payment of principal and interest on long-term obligations of governmental funds as well as the administration of such debt services.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

Tobacco settlement revenues are exchange transactions, based on the notion that the payments are made to the settling states in exchange for their agreement to release the tobacco companies from present and future litigation. Under the terms of the MSA, the tobacco companies have agreed to make annual payments in perpetuity. The MSA includes a schedule of projected annual base payments, subject to certain adjustments based on future events or circumstances. The most significant factor affecting the annual payments is a *volume adjustment*, which creates a direct relationship between domestic shipments of cigarettes and the annual payments. Based on the MSA, the tobacco companies have no obligation to make settlement payments until cigarettes are shipped.

The event that results in the recognition of an asset and revenue by a settling government is the domestic shipment of cigarettes (sales). Therefore, BTASC recognizes a receivable and revenue for tobacco settlement revenues when that event occurs. Because annual tobacco settlement revenue payments are based on cigarette sales from the preceding calendar year, BTASC estimates accrued tobacco settlement revenues that derive from sales from January 1 to their respective fiscal year ends. Under the modified accrual basis of accounting, revenue should be recognized to the extent that the event occurs and resources become *available*.

The governmental fund statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, BTASC considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when the payment is due. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source. All other revenue items are considered to be measurable and available only when case is received by BTASC.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Restricted Cash and Cash Equivalents—Restricted cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date acquired by BTASC. Restricted cash and cash equivalents represent amounts to support fund balance restrictions.

Due from New York State—Represents an estimate of BTASC's portion of the Master Settlement Agreement and is recorded as a revenue in the government-wide financial statements.

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. At December 31, 2021, BTASC does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At December 31, 2021, BTASC reports a deferred inflow of resources of \$9,738,746 related to a deferred gain on refunding bonds that is being amortized over the life of the bond. A deferred gain or loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price.

Net Position Flow Assumption—Sometimes BTASC will fund outlays for a particular purpose from both restricted (e.g., restricted bond proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is BTASC’s policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

Fund Balance Flow Assumption—Sometimes BTASC will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. If BTASC must use funds for emergency expenditures it shall expend funds first from funds classified under GASB as nonspendable (if funds become available) then restricted funds. The use of committed and assigned funds as classified by GASB will occur after the exhaustion of available restricted funds. Finally, if no other fund balances are available BTASC will use unassigned fund balance.

Fund Balance Policies—Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. BTASC itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of BTASC’s highest level of decision-making authority (BTASC Board). The governing board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing board (BTASC Board) has by resolution authorized the sole Member to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does

not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenses/Expenditures

Program and General Revenues—Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. There are no program revenues in the current year. All tobacco settlement revenue and other internally dedicated revenues are reported as general revenues rather than as program revenues.

Tobacco Settlement Revenues—During the fiscal year ended December 31, 2021, BTASC recognized tobacco settlement revenues in accordance with the Master Settlement Agreement. Payments are made according to a set formula based on tobacco sales.

Expenses/Expenditures—General administration costs consist of operating expenses for professional service fees and are paid from revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Indirect expenses have been included as part of the program expenses reported for the various functional activities. Expenditures are recorded on a modified accrual basis of accounting. Payments to the County are recorded when the obligation is incurred.

Other

Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, deferred outflows of resources, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncements—During the year ended December 31, 2021, BTASC implemented GASB Statements No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*; No. 91, *Conduit Debt Obligations*, No. 92, *Omnibus 2020*; No. 93, *Replacement of Interbank Offered Rates*; No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a suppression of GASB Statement No. 32*; and No. 98, *The Annual Comprehensive Financial Report*. GASB Statement No. 89 enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for certain interest costs. GASB Statement No. 91 provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. GASB Statement No. 92 enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB Statement No. 93 addresses those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate (“IBOR”). GASB Statement No. 97 increases the consistency and comparability related to the reporting of fiduciary units, mitigates costs associated with the reporting of certain defined contribution plans and enhances the relevance, consistency and comparability of the accounting and

reporting for Internal Revenue Code Section 457 deferred compensation plans. GASB Statement No. 98 establishes the term annual comprehensive financial report and its acronym ACFR, which replaces the acronym for comprehensive annual financial report. The implementation of GASB Statements No. 89, 91, 92, 93, 97, and 98 did not have a material impact on BTASC’s financial position or results from operations.

Future Impacts of Accounting Pronouncements—BTASC has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 87, *Leases*, effective for the year ending December 31, 2022, and No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*; and No. 96, *Subscription-Based Information Technology Arrangements*, effective for the year ending December 31, 2023. BTASC is, therefore, unable to disclose the impact that adopting GASB Statements No. 87, 94, and 96 will have on its financial position and results of operations when such statements are adopted.

Deficit Net Position—At December 31, 2021, BTASC reported a net position deficit of \$55,644,475. The deficit is caused by long-term obligations that are greater than currently available resources.

Tax Status—BTASC is exempt from federal income tax under section 501(a) of the Internal Revenue Code (IRC) as an organization described in section 501(c)(3).

2. CASH AND CASH EQUIVALENTS

BTASC’s investment policies are governed by New York State statutes. All deposits are carried at fair value. Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit not covered by Federal deposit insurance. BTASC has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligation that may be pledged as collateral. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York.

At December 31, 2021, BTASC’s cash and cash equivalents consisted of the following:

	Debt Service Fund
Cash on deposit	\$ 65,709
Money market funds	4,267
Discount notes	2,918,864
Total	<u>\$ 2,988,840</u>

Deposits—All deposits and money market funds are carried at fair value, and are classified by custodial credit risk at December 31, 2021 as follows:

	Bank Balance	Carrying Amount
FDIC insured	<u>\$ 65,709</u>	<u>\$ 65,709</u>

Restricted Cash and Cash Equivalents—BTASC reports restricted cash and cash equivalents in the Debt Service Fund of \$2,988,840 to support restricted fund balance.

Custodial Credit Risk—Deposits—In the case of deposits, this is the risk that in the event of a bank failure, BTASC’s deposits may not be returned to it. As noted above, by New York State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2021, BTASC’s deposits were FDIC insured.

Custodial Credit Risk—Cash Equivalents—For cash equivalents, this is the risk that, in the event of the failure of the counterparty, BTASC will not be able to recover the value of its cash equivalents or collateral securities that are in the possession of an outside party. For cash equivalents, this is the risk that in the event of a bank failure, BTASC’s cash equivalents may not be returned to it.

Interest Rate Risk—As a means of limiting its exposure to fair value losses arising from fluctuating interest rates, it is BTASC’s practice to generally limit investments to 180 days or less.

3. RECEIVABLES

Due from New York State—Represents amounts owed to BTASC for tobacco settlement revenue earned in 2021. BTASC has accrued \$2,800,000 within the government-wide statements only, as it is only recognized on the full accrual basis of accounting.

4. LONG-TERM DEBT

On August 8, 2001, BTASC along with six other counties, created a trust known as the New York Counties Tobacco Trust II (NYCTT II). The trust issued \$215,220,000 in aggregate principal Tobacco Settlement Pass-Through Bonds Series 2001. BTASC issued \$50,620,000 bearing interest rates ranging from 5% to 6%. The debt was payable solely from and secured by pledged Tobacco Settlement Rights and investment earnings on amounts on deposit. On September 22, 2016, BTASC issued \$44,190,000 of Tobacco Settlement Asset Backed Refunding Bonds, Series 2016. The proceeds of the \$24,555,000 Series A1 bonds were used to currently refund \$24,555,000 in 2001 Bonds. Pursuant to the Purchase and Exchange agreement between BTASC and the 2001 Bond Holders, at closing, the Bond Holders tendered \$24,555,000 in 2001 Bonds in exchange for \$24,555,000 in Series A1 bonds. The Series A1 interest rates and final maturity dates were the same as the tendered 2001 Bonds. The proceeds of the \$19,635,000 Series A2 bonds, in addition to certain other funds as described below, were used to currently refund \$8,845,000 in 2001 Bonds and currently refund \$43,411,883 in principal and accreted interest of the 2005 bonds. BTASC deposited \$9,043,873 in an irrevocable escrow account to redeem, on October 24, 2016, \$8,845,000 in 2001 Bonds plus accrued interest due thereon. Additionally, \$17,658,127 of bond proceeds and other funds noted below, were used to completely defease the S1, S2, and S4 series of the 2015 Bonds. At closing, \$5,488,881 was used to redeem at 101% the accreted value of \$5,431,887 (\$2,853,273 in principal and \$2,578,613 in accreted interest) of the S1 series. BTASC used \$12,685,591 of bond proceeds and other funds noted below, to purchase at negotiated prices pursuant to a Purchase and Exchange Agreement between the bond holders and BTASC, all of the S2 and S4 Bonds. BTASC was able to defease at closing \$24,016,093 of accreted value (\$11,110,630 in principal and \$12,905,463 in accreted interest) of the S2 and S3 bonds.

The Series 2016 bonds and additional consideration received as a result of the refunding transaction were used to redeem or exchange all of BTASC’s Series 2001 Term Bonds outstanding in the aggregate principal amount of \$76,811,883. As a result, the Series 2001 Bonds have been removed from the financial statements. Additionally, the Series 2016 Bonds’ proceeds were used to cancel the related NYCTT Subordinate Bonds component S1, S2 and S4 of the 2015 bonds.

On November 29, 2005, BTASC participated in New York Counties Tobacco Trust V (“NYCTT”), along with 23 other New York County Tobacco Corporations, and issued Tobacco Settlement Pass-Through Bonds—Subordinate Turbo Capital Appreciation Bonds (“CABs”) in various series for the purpose of securitizing additional future tobacco settlement revenues. The net proceeds of the 2005 series amounted to \$2,276,579, and were used to purchase tobacco settlement rights from the County. The issuance has three components and payments on the Subordinate Turbo CABs are subordinate to the Series 2005 S-3 Bonds.

The payment of Series 2016 A1 and A2 and Subordinate Turbo Bonds is dependent on the receipt of TSRs. The amount of TSRs actually collected is dependent on many factors including cigarette consumption and the continued operations of the OPMs. Such bonds are secured by and payable solely from TSRs and investment earnings pledged under the Bond Indenture and amounts established and held in accordance with Bond Indenture.

In the event sufficient funds are not available to meet planned payment maturities, rated maturity dates will be used.

Changes in Tobacco Settlement Bonds for the year ended December 31, 2021 are as follows:

Description	Year of Maturity	Yield	Beginning Balance 1/1/2021	Additions	Deletions	Ending Balance 12/31/2021	Amounts Due Within One Year
Tobacco Settlement Bonds:							
Series 2016 A-1	2035	various	\$ 22,390,000	\$ -	\$ 1,145,000	\$ 21,245,000	\$ 4,260,000
Series 2016 A-2	2035	various	19,635,000	-	-	19,635,000	-
Total Tobacco Settlement Bonds			42,025,000	-	1,145,000	40,880,000	4,260,000
Plus: Bond premium			4,058,627	-	158,827	3,899,800	158,827
Net Tobacco Settlement Bonds			<u>\$ 46,083,627</u>	<u>\$ -</u>	<u>\$ 1,303,827</u>	<u>\$ 44,779,800</u>	<u>\$ 4,418,827</u>

Amortization of Bond Premium—Bond premiums are being amortized on a straight-line method over the life of the bonds. The unamortized bond premium as of December 31, 2021 was \$3,899,800.

BTASC debt service requirements based upon planned principal payments for Tobacco Settlement Bonds, Series 2016 A-1 and A-2 are presented below.

Year ending December 31,	Principal	Interest	Total
2022	4,260,000	2,073,200	6,333,200
2023	1,875,000	1,900,653	3,775,653
2024	1,980,000	1,792,231	3,772,231
2025	2,105,000	1,676,116	3,781,116
2026	2,240,000	1,551,288	3,791,288
2027-2031	13,570,000	5,610,444	19,180,444
2032-2035	14,850,000	1,595,750	16,445,750
Total	<u>\$ 40,880,000</u>	<u>\$ 16,199,682</u>	<u>\$ 57,079,682</u>

Subordinate Turbo CABs—Interest on the Subordinate Turbo CABs is compounded semi-annually on June 1 and December 1, but is not payable until bond maturity. Interest accretes until both

principal and accreted interest are paid. Future interest accretion has been recorded as bond discount and amortized as the current interest accretes. The accrued interest on the Subordinate CABs is reflected within the Subordinate CABs payable liability.

A summary of the Subordinate Turbo CABs net bond balance activity for the year ended December 31, 2021 follows:

	Interest Rate	Original Principal	Beginning Balance 1/1/2021	Annual Net Interest Accretion	Turbo Redemption Payments	Ending Balance 12/31/2021
Subordinate Turbo CABs						
2005 Bonds S-3 Series	6.00 - 7.15%	<u>\$ 2,276,579</u>	<u>\$ 6,296,004</u>	<u>\$ 438,319</u>	<u>\$ -</u>	<u>\$ 6,734,323</u>

Redemption of the Subordinate CABs as outlined in the original official statement totals \$2,276,579 with interest ranging from 6.00% to 7.15%. During the year ended December 31, 2021 funds were not available to make redemption payments. Any debt service amounts not paid in accordance with the Subordinate Turbo CABs redemption payments schedule will be due and payable on the June 1, 2055 maturity date.

5. NET POSITION AND FUND BALANCE

The government-wide financial statements utilize a net position presentation. Net position is categorized as restricted and unrestricted components.

- **Restricted for Debt Service**—This category restricts a portion of net position for payment of the debt service obligations of BTASC. At December 31, 2021, the balance of this restriction was \$2,990,312.
- **Unrestricted Component of Net Position**—This component represents net position of BTASC not restricted for any other purpose.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. At December 31, 2021, BTASC reported \$2,990,312 of fund balance restricted for debt service that must be used toward the future repayment of bonded debt.

As of December 31, 2021, BTASC reported no nonspendable, committed, assigned or unassigned fund balances.

6. CONTINGENCIES

The ability of BTASC to meet debt service payments of bonds is contingent upon the receipt of TSRs. TSRs are principally dependent upon future levels of domestic consumption. A significant decline in the overall consumption of cigarettes could have a material adverse effect on the payments by the OPMs under the MSA and the amounts available to BTASC to make payments of principal and interest on their bonds.

Certain smokers, smokers' rights organizations, consumer groups, cigarette importers, cigarette distributors, cigarette manufacturers, Native American tribes, taxpayer, taxpayers' groups and other parties have filed actions against some, and in certain cases all, of the signatories to the MSA. In the

event of an adverse court ruling in such types of litigation, Bondholders could incur a complete loss of their investment.

Additionally, the OPMs are also exposed to liability from various lawsuits including individual lawsuits, class action lawsuits and health care cost recovery litigation. Ultimately, the outcome of these and any other pending or future lawsuits is uncertain. One or more adverse judgment could result in delays in, or reductions of amounts available for, payments on the bonds.

7. RELATED PARTY TRANSACTIONS

The County provides BTASC with administrative services. The cost of these services has been included as expenses on BTASC's statements of activities. BTASC paid the County \$2,644 for the year ended December 31, 2021.

8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 9, 2022, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

* * * * *

Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Broome 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 governmental activities and the major fund of Broome Tobacco Asset Securitization Corporation ("BTASC"), a component unit of the County of Broome, New York, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise BTASC's basic financial statements, and have issued our report thereon dated March 9, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered BTASC's internal control over financial reporting ("internal control") as a basis for designing 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 BTASC's internal control. Accordingly, we do not express an opinion on the effectiveness of the BTASC'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 entity'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.

Compliance and Other Matters

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

Handwritten signature in black ink that reads "Drescher & Malecki LLP".

March 9, 2022