

March 29, 2021

To the Board of Directors of the
Monroe Tobacco Asset Securitization Corporation:

We have audited the financial statements of the governmental activities and major fund of Monroe Tobacco Asset Securitization Corporation (MTASC), a blended component unit of the County of Monroe, New York, for the year ended December 31, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 5, 2020. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by MTASC are described in Note 2 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2020. We noted no transactions entered into by MTASC during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate affecting MTASC's financial statements was management's estimate of the Tobacco Settlement Revenue (TSR) receivable, which is based on the actual TSR revenue received in prior years. We evaluated the key factors and assumptions used to develop the TSR receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

There are no particularly sensitive financial statement disclosures. The financial statement disclosures are neutral, consistent, and clear.

171 Sully's Trail
Pittsford, New York 14534
p (585) 381-1000
f (585) 381-3131

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Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

There were no misstatements identified during our audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of our Independent Auditor's Report.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to MTASC's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as MTASC's auditors.

However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis (MD&A), which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of Board of Directors and management of MTASC and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP

March 10, 2021

Josette Mangieri
Monroe Tobacco Asset Securitization Corporation
400 County Office Building
39 West Main Street
Rochester, New York 14614

Dear Josette:

Public Authorities, which are authorized under the Not-for-Profit Corporation Law fall under the Public Authorities Accountability Act (PAAA) and Public Authorities Reform Act (PARA) definition if they are affiliated with, sponsored by, or created by a municipal government.

One of the specific requirements of the PAL is Section 2925, subdivision 6 that indicates:

"Each corporation shall annually prepare and approve an investment report which shall include the investment guidelines, as specified in subdivision three of this section, amendments to such guidelines since the last investment report, an explanation of the investment guidelines and amendments, the results of the annual independent audit, the investment income record of the corporation and a list of the total fees, commissions, or other charges paid to each investment banker, broker, dealer, agent, dealer and adviser rendering investment associated services to the corporation since the last investment report. Such investment report may be a part of any other annual report that the corporation is required to make."

In discussions with the ABO, they have indicated that the annual financial statement audit does not satisfy the requirement above. Furthermore, the requirement extends to not only investments in the conventional sense, but all funds available for deposit in the organization, except for traditional checking and savings type deposits, or trustee directed investments in association with bond issuances. Certificates of deposits would qualify as investments under the regulations.

The complexity of the audit is based primarily on the nature of the organization's investments. Organizations with certificates of deposit or other non-complex investments may be able satisfy the requirements by having an agreed-upon procedures review of its investment policy performed to ensure that the organization is in compliance with said policy.

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p (585) 381-1000
f (585) 381-3131

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Since the Monroe Tobacco Asset Securitization Corporation does not have investments that meet the criteria as defined above, there is no filing requirement for December 31, 2020.

We can assist you with the requirements of this legislation and provide the reports required to satisfy the objectives, going forward. As necessary, we can perform these concurrently with our annual financial statement audits at an estimated hour basis. Please contact me to discuss the specifics of your needs.

Very truly yours,



Randall Shepard, CPA

**MONROE TOBACCO ASSET
SECURITIZATION CORPORATION
(A Blended Component Unit of the
County of Monroe, New York)**

**Financial Statements as of
December 31, 2020 and 2019
Together with Independent
Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Monroe, New York)

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INDEPENDENT AUDITOR'S REPORT

March 10, 2021

To the Board of Directors of the
Monroe Tobacco Asset Securitization Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Monroe Tobacco Asset Securitization Corporation, (MTASC), a blended component unit of the County of Monroe, New York, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise MTASC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

171 Sully's Trail
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p (585) 381-1000
f (585) 381-3131

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of MTASC, as of December 31, 2020 and 2019, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on 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, 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 10, 2021 on our consideration of the Corporation'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 Corporation'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 Corporation's internal control over financial reporting and compliance.

Bonadio & Co., LLP

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Monroe, New York)

Management's Discussion and Analysis (Unaudited)
December 31, 2020 and 2019

The following Management's Discussion and Analysis (MD&A) provides a comprehensive overview of the Monroe Tobacco Asset Securitization Corporation's (MTASC) financial position as of December 31, 2020, 2019, and 2018 and its changes in financial position for the years then ended. This MD&A should be read in conjunction with the financial statements and related footnotes of MTASC, which directly follow the MD&A.

General Overview

MTASC is a special purpose, bankruptcy remote local development corporation organized under the Not-For-Profit Corporation Laws of the State of New York (the State). MTASC was established on May 11, 2000; however, there were no substantive operations until August 15, 2000. MTASC is an instrumentality of, but separate and apart from the County of Monroe, New York (the County). Pursuant to a Purchase and Sale Agreement with the County, the County sold to MTASC all of its future rights, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgment (the Decree). The MSA resolved cigarette smoking related litigation between the settling states and the Participating Manufacturers (PMs), released the PMs from past and present smoking related claims, and provided for a continuing release from future smoking related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future rights, title and interest of the County's share were sold to MTASC and were financed by the issuance of bonds.

Overview of the Financial Statements

The financial statements of MTASC have been prepared in accordance with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board. The financial statement presentation consists of the following four basic financial statements:

- Statements of Net Position
- Statements of Activities
- Governmental Fund Balance Sheet - Debt Service Fund
- Statement of Governmental Fund Revenues, Expenditures, and Change in Fund Balance - Debt Service Fund

The Statements of Net Position and the Statements of Activities are prepared using the economic resource measurement focus and the accrual basis of accounting. Revenues, expenses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, assets and liabilities resulting from non-exchange transactions are recognized when the amounts to be received are measurable and collection is probable. The Governmental Fund Balance Sheet – Debt Service Fund and the Statement of Governmental Fund Revenues, Expenditures and Change in Fund Balance – Debt Service Fund are presented using the current financial resources measurement focus and the modified accrual basis of accounting. These policies are more fully described in the accompanying notes to the basic financial statements.

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Monroe, New York)

Management's Discussion and Analysis (Unaudited)
December 31, 2020 and 2019

The Statements of Net Position present all of MTASC's asset and liability information, with the difference between the two reported as net position. Restricted net position is based on externally imposed conditions and consists of funds in the debt service and liquidity reserve accounts. These accounts were established to provide for debt service payments for at least one year in the event of insufficient revenues. All other net position is considered unrestricted.

The Statements of Activities present all of MTASC's revenues, both program and general, expenses, and transfers.

The Governmental Fund Balance Sheet – Debt Service Fund presents MTASC's assets, liabilities and fund balance. This statement uses the debt service fund, a governmental fund type, to report its financial position.

The Statements of Governmental Fund Revenues, Expenditures, and Change in Fund Balance – Debt Service Fund present the changes in financial position of the debt service fund.

Financial Highlights

Condensed
Statements of Net Position
(In Millions)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total assets	\$ 22.73	\$ 22.58	\$ 22.39
Bonds payable	286.35	280.06	272.78
Other liabilities	<u>0.75</u>	<u>0.76</u>	<u>0.77</u>
Total liabilities	<u>287.10</u>	<u>280.82</u>	<u>273.54</u>
Net position	<u>\$ (264.37)</u>	<u>\$ (258.24)</u>	<u>\$ (251.15)</u>

Total Assets

The total assets increased from 2019 to 2020 by \$156 thousand due to a \$412 thousand increase in estimated tobacco settlement receivables, offset by a decrease of \$92 thousand in cash and \$148 thousand in restricted cash. Total assets increased from 2018 to 2019 by \$185 thousand due to a \$75 thousand increase in cash and a \$114 thousand increase in estimated tobacco settlement receivables, offset by a decrease of \$6 thousand in accrued interest receivable.

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Monroe, New York)

Management's Discussion and Analysis (Unaudited)
December 31, 2020 and 2019

Total Liabilities

The total liabilities increased by \$6.3 million from 2019 to 2020. This increase is due to the value of the capital appreciation bonds (Series 2006 and Series 2005 D,E & F) increasing by \$8.2 million, offset by a Turbo payment of \$2 million made towards the Series 2005B bonds. The total liabilities increased by \$7.3 million from 2018 to 2019. This increase is due to the value of the capital appreciation bonds (Series 2006 and Series 2005 D,E & F) increasing by \$7.7 million, offset by a Turbo payment of \$470 thousand made towards the Series 2005B bonds.

Condensed Statements of Activities
(In Millions)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total expenses	\$ 17.50	\$ 17.03	\$ 16.56
Program revenues - tobacco settlement	<u>11.27</u>	<u>9.58</u>	<u>9.55</u>
General revenue - investment	<u>0.10</u>	<u>0.36</u>	<u>0.30</u>
Change in net position	(6.13)	(7.09)	(6.71)
Net position - beginning of year	<u>(258.24)</u>	<u>(251.15)</u>	<u>(244.44)</u>
Net position - end of year	<u>\$ (264.37)</u>	<u>\$ (258.24)</u>	<u>\$ (251.15)</u>

Expenses

Expenses incurred in 2020 were comparable to those incurred in 2019. Expenses incurred in 2019 were also comparable to those incurred in 2018.

Revenues

Total revenues increased from 2019 to 2020 by \$1.4 million and from 2018 to 2019 by \$91 thousand. The continuous increases in total revenues are primarily due to higher than actual tobacco settlement revenue received than the estimated accounts receivable from the prior year due to the unpredictable nature of this revenue stream.

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Monroe, New York)

Management's Discussion and Analysis (Unaudited)
December 31, 2020 and 2019

Financial Analysis of the Corporation's Fund Financial Statements

The focus of MTASC's governmental fund reporting is to provide information on near-term inflows, outflows and balances of spendable resources.

As of December 31, 2020, MTASC's debt service fund reported fund balances of \$13.08 million, a slight decrease of \$0.26 million from 2019. The decrease is due to MTASC receiving a higher cash receipt for the tobacco settlement revenue in the current year and while the expenses also increased. The increase in expense outpaced the increase in revenue, causing the overall decrease in the fund balance at year end.

As of December 31, 2019, MTASC's debt service fund reported fund balances of \$13.34 million, a slight increase of \$0.07 million from 2018. The increase is due to MTASC receiving a higher cash receipt for the tobacco settlement revenue in the current year and while the expenses also increased, the increase in revenue outpaced the increase in expense, causing the overall increase in the fund balance at year end.

Debt

Debt obligations of MTASC as of December 31, 2020 and 2019 consist of the MTASC Series 2010 Tobacco Settlement Asset-Backed Bonds (which replaced the Series 2005C as part of a forward purchase contract on June 1, 2010), the MTASC Series 2006 Tobacco Settlement Asset-Backed Bonds and the remaining balance of the MTASC Series 2005 Tobacco Settlement Asset-Backed Bonds.

The total amount of the Series 2010 bonds, Series 2006 and Series 2005 bonds outstanding at December 31, 2020 was \$207.63 million. None of the outstanding Series 2010, Series 2006 or Series 2005 bonds were considered current since none were due within twelve months of year-end.

The 2010 Series and 2005 Series bonds were structured to enable the New York Counties Tobacco Trust IV bonds to attain the following ratings:

<u>Bond Series</u>	<u>Standard & Poor's</u>	<u>Fitch</u>
2005A	BBB	BBB
2005B	BB+	BBB
2005D	Non-rated	BBB -
2005E	Non-rated	BB
2005F	Non-rated	Non-rated
2010A	B-	BBB

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Monroe, New York)

Management's Discussion and Analysis (Unaudited)
December 31, 2020 and 2019

The 2006 Series bonds were not rated as MTASC did not apply for, and the rating agencies have not issued, a rating for the bonds.

All of MTASC's turbo bonds are subject to prepayment from Turbo Redemption Payments. Turbo Redemption Payments are made from collections (other than partial and lump sum payments) in excess of the amount needed to pay certain operating expenses. To the extent possible, the Turbo Redemption Payments will amortize the Series 2005 bonds, Series 2006 bonds and Series 2010 bonds earlier than their maturity dates at their accreted values. Payments of \$2 million and \$.470 million were made in 2020 and 2019, respectively, against the Series 2005 bonds.

Payments on the outstanding capital appreciation bonds are based on the accreted value of the capital appreciation bonds at their stated maturity. The accretion of these capital appreciation bonds over their life results in the recognition of substantial annual costs until the capital appreciation bonds are redeemed. Reference should be made to the Bonds Payable footnote in the financial statements for a summary of the required principal and interest (which includes accretion of the capital appreciation bonds) payments.

Details on the debt outstanding are provided in Note #4 to the financial statements.

Contacting the Corporation

This financial report is designed to provide a general overview of MTASC's finances and to demonstrate MTASC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer, Monroe Tobacco Asset Securitization Corporation, at 39 West Main Street, Room 402, Rochester, New York, 14614.

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Monroe, New York)

Statements of Net Position
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 143,899	\$ 235,788
Accrued interest receivable	616	18,191
Accounts receivable	9,652,570	9,240,073
Deposits held with trustee	12,925,310	13,073,581
Prepaid expenses	10,874	9,918
Total assets	<u>22,733,269</u>	<u>22,577,551</u>
LIABILITIES		
Accrued interest payable	752,788	762,813
Bonds payable, net of bond discount	<u>286,348,767</u>	<u>280,056,805</u>
Total liabilities	<u>287,101,555</u>	<u>280,819,618</u>
NET POSITION		
Restricted for:		
Debt service	12,925,310	13,073,581
Unrestricted	<u>(277,293,596)</u>	<u>(271,315,648)</u>
Total net position	<u>\$ (264,368,286)</u>	<u>\$ (258,242,067)</u>

The accompanying notes are an integral part of these financial statements.

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Monroe, New York)

Statements of Activities
For the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
EXPENSES		
General government -		
Materials and services	\$ 90,932	\$ 90,300
Administrative costs	25,456	25,456
Interest and amortization	<u>17,380,537</u>	<u>16,914,092</u>
 Total expenses	 17,496,925	 17,029,848
PROGRAM REVENUE		
Tobacco settlement	<u>11,269,633</u>	<u>9,578,026</u>
 Net program expenses	 (6,227,292)	 (7,451,822)
 GENERAL REVENUES - INVESTMENT INCOME	 <u>101,073</u>	 <u>360,516</u>
 CHANGE IN NET POSITION	 (6,126,219)	 (7,091,306)
 NET POSITION - beginning of year	 <u>(258,242,067)</u>	 <u>(251,150,761)</u>
 NET POSITION - end of year	 <u>\$ (264,368,286)</u>	 <u>\$ (258,242,067)</u>

The accompanying notes are an integral part of these financial statements.

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Monroe, New York)

Governmental Fund Balance Sheets and Reconciliation to Statements of Net Position - Debt Service Fund
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 143,899	\$ 235,788
Accrued interest receivable	616	18,191
Accounts receivable	9,652,570	9,240,073
Deposits held with trustee	12,925,310	13,073,581
Prepaid expenditures	<u>10,874</u>	<u>9,918</u>
Total assets	<u>\$ 22,733,269</u>	<u>\$ 22,577,551</u>
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
DEFERRED INFLOWS OF RESOURCES -		
Tobacco settlement revenue	<u>\$ 9,652,570</u>	<u>\$ 9,240,073</u>
Total deferred inflows of resources	<u>9,652,570</u>	<u>9,240,073</u>
FUND BALANCES -		
Nonspendable	10,874	9,918
Restricted for -		
Debt service	12,925,310	13,073,581
Assigned	<u>144,515</u>	<u>253,979</u>
Total fund balances	<u>13,080,699</u>	<u>13,337,478</u>
Total deferred inflows of resources and fund balances	<u>\$ 22,733,269</u>	<u>\$ 22,577,551</u>
Amounts reported for governmental activities in the statements of net position are different because:		
Total fund balances	\$ 13,080,699	\$ 13,337,478
Tobacco settlement revenue was not received in the current period and therefore, is not reported as revenues at the fund level	9,652,570	9,240,073
Bonds payable and accrued interest are not due and payable in the current period and therefore, are not reported at the fund level	<u>(287,101,555)</u>	<u>(280,819,618)</u>
Total net position	<u>\$ (264,368,286)</u>	<u>\$ (258,242,067)</u>

The accompanying notes are an integral part of these financial statements.

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Monroe, New York)

**Statements of Governmental Fund Revenues, Expenditures and Change in Fund Balance - Debt Service Fund and
Reconciliation to Statements of Activities - Debt Service Fund
For the years ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
REVENUES		
Tobacco settlement	\$ 10,857,136	\$ 9,464,063
Investment income	<u>101,073</u>	<u>360,516</u>
Total revenues	<u>10,958,209</u>	<u>9,824,579</u>
EXPENDITURES		
General and administrative	90,932	90,300
Administration costs	25,456	25,455
Debt service - principal	2,005,000	470,000
Debt service - interest	<u>9,093,600</u>	<u>9,167,850</u>
Total expenditures	<u>11,214,988</u>	<u>9,753,605</u>
CHANGE IN FUND BALANCE	(256,779)	70,974
FUND BALANCES - beginning of year	<u>13,337,478</u>	<u>13,266,504</u>
FUND BALANCES - end of year	<u>\$ 13,080,699</u>	<u>\$ 13,337,478</u>
Amounts reported for governmental activities in the statements of activities are different because:		
Net change in fund balances	\$ (256,779)	\$ 70,974
Tobacco settlement revenues reported in the statement of activities were not received in time to pay current financial obligations and therefore, have not been reported as revenue in the governmental fund	412,497	113,963
Amortization of bond discounts reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental fund	(45,839)	(45,839)
The net effect of any bond proceeds received and repayments on bonds, as well as accrued interest are activities of the governmental fund but not reported in the statement of activities	<u>(6,236,098)</u>	<u>(7,230,404)</u>
Change in net position	<u>\$ (6,126,219)</u>	<u>\$ (7,091,306)</u>

The accompanying notes are an integral part of these financial statements.

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Monroe, New York)

Notes to Basic Financial Statements
December 31, 2020 and 2019

1. ORGANIZATION

Monroe Tobacco Asset Securitization Corporation (MTASC) is a special purpose, bankruptcy remote local development corporation organized under the Not-For-Profit Corporation Law of the State of New York (the State). MTASC was established on May 11, 2000; however, there were no substantive operations until August 15, 2000 as discussed herein. MTASC is an instrumentality of, but separate and apart from the County of Monroe, New York (the County). MTASC will have not less than three nor more than five directors consisting of two ex-officio positions including the Executive of the County and the Director of Finance - Chief Financial Officer of the County, up to two additional directors and one independent director. Although legally separate from the County, MTASC is a component unit of the County and, accordingly, is included in the County's basic financial statements as a blended component unit.

On August 15, 2000, pursuant to a Purchase and Sale Agreement with the County, the County sold to MTASC all of its future rights, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgment (the Decree). The MSA resolved cigarette smoking related litigation between the settling states and the Participating Manufacturers (PMs), released the PMs from past and present smoking related claims, and provides for a continuing release from future smoking related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future rights, title and interest of the County's share were sold to MTASC.

MTASC's purchase of the County's future rights, title and interest in the TSRs was financed by the issuance of bonds. A Residual Certificate exists that represents the County's entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses, and certain other costs by MTASC as set forth in the Amended and Restated Indenture (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. Excess TSRs not required by MTASC to pay various expenses, debt service or required reserves with respect to the bonds are transferred to the Monroe Tobacco Tax Stabilization 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

MTASC's financial statements are prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB). MTASC's 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 related cash flows.

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MTASC's fund financial 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, MTASC 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 and claims and judgments, are recorded only when payment is due.

The major governmental fund is the Debt Service Fund. The Debt Service Fund accounts for the resources accumulated and payments made for operations and principal debt service on long-term general obligation debt.

Net Position

Net position in government-wide financial statements is classified as net investment in capital assets, restricted and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through State statute or are otherwise unavailable for appropriation by the primary government and component units.

As of December 31, 2020 and 2019, these restrictions included:

- **Debt Service** - represents resources that have been legally restricted for debt service payments that will be made in future periods.

Unrestricted net position is net position that is not restricted, but which may be internally designated by the Board of Directors. At December 31, 2020 and 2019, the amount of unrestricted net position deficit was (\$277.3) million and (\$271.3) million, respectively.

Fund Balance

Fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- **Nonspendable** - amounts that are not in spendable form (such as inventory and prepaid expenditures) or are legally or contractually required to be maintained intact;
- **Restricted** - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- **Committed** - amounts constrained to specific purposes by MTASC itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless MTASC takes the same highest level action to remove or change the constraint;
- **Assigned** - amounts MTASC intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;

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- **Unassigned** - amounts that have not been assigned to another fund or are not restricted, committed, or assigned to specific purposes within the debt service fund.

When fund balance resources are available for a specific purpose in more than one classification, it is MTASC's practice to use the most restrictive funds first in the following order: non-spendable, restricted, committed, assigned, and unassigned as they are needed.

Cash

MTASC considers bank deposit accounts and all highly liquid debt instruments with remaining maturities, when purchased, of 3 months or less to be cash equivalents and these are stated at fair value. MTASC maintains a liquidity reserve account, which was initially funded from the Series 2000 Bond proceeds and has been increased by funds from the Series 2005 Bonds. This account must be maintained at a minimum of \$12,849,750 until such time that all bonds, other than subordinated bonds, are paid. All amounts withdrawn from this account are replenished, as needed, and amounts in excess of the required amount are transferred out. This account is included in restricted cash and cash equivalents on the balance sheet.

Accounts Receivable

MTASC records a receivable for TSRs and does not accrue interest on unpaid amounts. MTASC has not recorded an allowance for doubtful accounts related to the TSRs and does not anticipate future write-offs.

Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, the Balance Sheet and Statements of Net Position will sometimes report a separate section for deferred outflows/inflows of resources. The separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then.

Income Taxes

MTASC is a not-for-profit corporation and is exempt from income taxes as an organization qualified under Section 501(c)(3) of the Internal Revenue Code. MTASC has also been classified by the Internal Revenue Service (IRS) as an entity that is not a private foundation. Based on a determination by the IRS, MTASC is exempt from filing a tax return.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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3. DEPOSITS AND INVESTMENTS

Investment and Deposit Policy

MTASC follows an investment and deposit policy as outlined in the Indenture, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; provide sufficient liquidity of invested funds in order to meet obligations as they become due; and attainment of a market rate of return. Oversight of investment activity is the responsibility of the Treasurer of MTASC.

The Corporation categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Corporation did not have any investments that are measured using Level 2 or Level 3 inputs.

Fair value measurements of the Corporation's investments at December 31, 2020 were comprised U.S. Government Agency Bonds valued at \$12,920,347 and Money Market Funds valued at \$4,963 based on quoted market prices (Level 1 inputs). Investments at December 31, 2019 were comprised U.S. Government Agency Bonds valued at \$13,060,813 and Money Market Funds valued at \$12,768 based on quoted market prices (Level 1 inputs).

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. MTASC does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

MTASC's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. MTASC's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Obligations of the United States of America;
- Obligations guaranteed by the United States of America where payment of principal and interest are guaranteed by the United States of America;
- Obligations of the State of New York;
- Special time deposit accounts;
- Certificates of Deposit;
- Commercial Paper;

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- Repurchase agreements limited to obligations of the United States of America, or obligations whose principal and interest are fully guaranteed, or insured by the United States of America. The term of each agreement shall generally not exceed 180 days. The agreement shall be confirmed in writing by the seller, and each security purchased under the agreement shall be specifically identified; segregated from the assets of the seller and delivered for safekeeping into an account designated and controlled by MTASC. Also, each seller shall enter into a master Repurchase Agreement with MTASC which shall specify the rights and obligations of MTASC and the Seller in all transactions;
- Obligations of public authorities, public housing authorities, urban renewal agencies, and industrial development agencies where the general State statutes governing such entities or whose specific enabling legislation authorizes such investments; and
- Obligations issued pursuant to New York State Local Finance Law Section 24.00 and 25.00 (with approval of the New York State Comptroller) by any municipality, school district or district corporation other than MTASC.

Custodial Credit Risk - Deposits

Custodial credit risk - deposits is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with MTASC's investment and deposit policy, all deposits of MTASC including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIA) shall be secured by a pledge of securities with an aggregate value equal to the aggregate amount of deposits. MTASC restricts the securities to the following eligible items:

- Obligations issued, or fully insured or guaranteed as to the payment of principal and interest, by the United States of America, an agency thereof or a United States government sponsored corporation;
- Obligations issued or fully guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank;
- Obligations partially insured or guaranteed by any agency of the United States of America;
- Obligations issued or fully insured or guaranteed by the State of New York;
- Obligations issued by a municipal corporation, school district or district corporation of New York State;
- Obligations of any public benefit corporation, which under a specific State statute may be accepted as security for deposit of public monies;
- Obligations issued by states (other than the State of New York) of the United States rated in one of the two highest rating categories by at least one Nationally Recognized Statistical Rating Organization (NRSRO);
- Obligations of Puerto Rico rated in the highest rating category by at least one NRSRO;
- Obligations of counties, cities and other governmental entities of a state other than the State of New York having the power to levy taxes that are backed by the full faith and credit of such governmental entity and rated in one of the two highest categories by at least one NRSRO;
- Obligations of domestic corporations rated in one of the two highest rating categories by at least one NRSRO; and
- Zero coupon obligations of the United States of America marketed as "treasury strips."

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Custodial Credit Risk - Investments

Custodial credit risk - investments is the risk that an entity will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails. The Corporation's investment and deposit policy requires that all custodial investments be registered or insured in the Corporation's name and held in the custody of the bank or the bank's trust department. The Corporation requires that all repurchase agreements be limited to obligations of the United States of America or obligations whose principal and interest are fully guaranteed, or insured by the United States of America.

As of December 31, 2020 and 2019, the bank balance and carrying amount of MTASC's cash and cash equivalents was \$143,899 and \$235,788, respectively, and was fully covered by Federal Depository Insurance Corporation limits.

Concentration of Credit Risk

The Corporation places no limit on the amount that may be invested in any one issuer. For the years ended December 31, 2020 and 2019, all amounts were held by one bank.

Funds Held by Trustee

Funds held by trustee refers to cash held by a third party to satisfy the Corporation's debt service requirements. The funds held by trustee are not subject to the Corporation's Investment and Deposit Policy or collateralization requirements. As of December 31, 2020 and 2019 the amounts held with the trustee were \$12,925,310 and \$13,073,581, respectively.

The Corporation had the following reserve funds as of December 31:

	<u>2020</u>	<u>2019</u>
Liquidity reserve	\$ 12,849,800	\$ 12,844,096
Debt service reserve	71,735	217,476
Turbo redemption	3,665	4,724
Collection account	105	7,280
Bonds proceeds	<u>5</u>	<u>5</u>
Total	<u>\$ 12,925,310</u>	<u>\$ 13,073,581</u>

These amounts are restricted by law for debt service.

Total funds held by trustee by type as of December 31, are as follows:

	<u>2020</u>	<u>2019</u>
United States Treasury Obligation	\$ 12,920,347	\$ 13,060,813
Money Market funds	<u>4,963</u>	<u>12,768</u>
Total	<u>\$ 12,925,310</u>	<u>\$ 13,073,581</u>

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4. BONDS PAYABLE

The Series 2005 and Series 2010 Bonds are secured by a perfected security interest in, and pledge of, the Trust Estate, as defined in the Indenture, which includes, among other things, the TSRs and all investment earnings on amounts on deposit in the accounts established under the Indenture (collectively, the Collections). Among the accounts so established are the Liquidity Reserve Account and the Debt Service Account. MTASC retains TSRs in an amount sufficient to service its debt and pay its operating expenses. The Series 2006 Bonds are subordinate to the Series 2005 Bonds and Series 2010 Bonds.

The Series 2006 Bonds are composed of the following:

- \$14,579,370 Tobacco Settlement Asset-Backed Bonds, Series 2006A (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2061, interest rate of 0.00%, with an accreted value at maturity of \$952,900,000.

The Series 2005 Bonds are composed of the following:

- \$91,120,000 Tobacco Settlement Asset-Backed Bonds, Series 2005A (Tax Exempt Turbo Bonds), maturity date is June 1, 2042 and June 1, 2045, interest rate of 5.00%.
- \$36,665,000 Tobacco Settlement Asset-Backed Bonds, Series 2005B (Taxable Turbo Bonds), maturity date is June 1, 2027, interest rate of 6.00% (\$8,895,000 principal amount remains outstanding as of December 31, 2020 as a result of Turbo Redemption payments which have been made since 2006).
- \$5,386,580 Tobacco Settlement Asset-Backed Bonds, Series 2005D (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2050, interest rate of 0.00%, with an accreted value at maturity of \$71,965,000.
- \$8,923,514 Tobacco Settlement Asset-Backed Bonds, Series 2005E (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2055, interest rate of 0.00%, with an accreted value at maturity of \$202,715,000.
- \$15,625,529 Tobacco Settlement Asset-Backed Bonds, Series 2005F (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2060, interest rate of 0.00%, with an accreted value at maturity of \$608,700,000.

The Series 2010 Bonds are composed of the following:

- \$63,100,000 Tobacco Settlement Asset-Backed Bonds, Series 2010A (Tax Exempt Turbo Term Bonds), maturity date is June 1, 2041 with an interest rate of 6.25%.

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Long-term indebtedness for MTASC's bonds payable consisted of the following:

	<u>2020</u>	<u>2019</u>
Balance - beginning of year	\$ 209,634,794	\$ 210,104,794
Repayments of bonds	<u>(2,005,000)</u>	<u>(470,000)</u>
Balance - end of year	207,629,794	209,634,794
Add: Accretion of capital appreciation bonds	80,552,531	72,301,408
Less: Bond discount	<u>(1,833,558)</u>	<u>(1,879,397)</u>
Total	<u>\$ 286,348,767</u>	<u>\$ 280,056,805</u>
Payments due within one year	<u>\$ -</u>	<u>\$ -</u>

Principal and interest payments based upon the required maturities are as follows for the years ended December 31:

	<u>Required Maturities</u>		
	<u>Principal</u>	<u>Interest/ Accretion</u>	<u>Total</u>
2021	\$ -	\$ 9,033,450	\$ 9,033,450
2022	-	9,033,450	9,033,450
2023	-	9,033,450	9,033,450
2024	-	9,033,450	9,033,450
2025	-	9,033,450	9,033,450
2026 - 2030	8,895,000	43,299,300	52,194,300
2031 - 2035	-	42,498,750	42,498,750
2036 - 2040	-	42,498,750	42,498,750
2041 - 2045	154,220,000	14,125,625	168,345,625
2046 - 2050	5,386,580	66,578,420	71,965,000
2051 - 2055	8,923,515	193,791,486	202,715,001
2056 - 2060	15,625,329	593,074,671	608,700,000
2061	<u>14,579,370</u>	<u>938,320,630</u>	<u>952,900,000</u>
	<u>\$ 207,629,794</u>	<u>\$ 1,979,354,882</u>	<u>\$ 2,186,984,676</u>

Required maturities for the Series 2005, Series 2006 and Series 2010 Bonds represent the minimum amount of principal that MTASC must pay as of the specific distribution dates in order to avoid a default. Turbo (accelerated) amortization payments are required to be made against outstanding principal providing that MTASC receives sufficient TSRs to make the Turbo payments.

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Under the terms of the Indenture, MTASC is required to maintain certain deposits to fund debt service payments, if needed. Such deposits are included in restricted cash and cash equivalents in the basic financial statements. In addition, MTASC is subject to various debt covenants, including limitations on expenses/expenditures, and compliance with Trustee indenture agreement requirements. MTASC was in compliance with all covenants and indenture agreement requirements at December 31, 2020 and 2019.

Principal payments in the amount of \$2,005,000 and \$470,000 were made during 2020 and 2019, respectively, in accordance with the Turbo Redemption requirements of the Series 2005B bonds.

Interest

Interest expense on bonds payable was \$17,334,698 and \$16,868,254 in 2020 and 2019, respectively. Cash paid for interest was \$9,093,600 and \$9,167,850 in 2020 and 2019, respectively.

5. TRANSACTIONS WITH MONROE COUNTY

In addition to setting forth the terms and conditions of the sale and purchase of the TSRs, the Purchase and Sale Agreement also provides for separate consideration to retain the County to act as Administrator with respect to the preparation of all reports and other instruments and documents that it is the duty of MTASC to prepare, execute, file or deliver pursuant to the Indenture and the related agreements.

The Purchase and Sale Agreement also contemplates the lease by MTASC of office space and telephone service from the County, and the sharing of overhead and operating services and expenses (including shared employees, consultants and agents and reasonable legal and auditing expenses) on the basis of actual use or value of such services, or otherwise on a basis reasonably related thereto.

The cost to MTASC for the services provided by the County was approximately \$40,000 in each of the years ended December 31, 2020 and 2019.

No residual funds, in accordance with the Amended and Restated Indenture, were transferred to the Trustee and ultimately the County in December 31, 2020 and 2019.

6. NET POSITION DEFICIT

MTASC has a deficit in net position as a result of the outstanding bonds. As these bonds are repaid, this will help to reduce the deficit, along with the future revenue streams.

7. CONTINGENCIES

Future TSRs are subject to adjustment based upon tobacco consumption, inflation and other factors. Pursuant to the Indenture, these adjustments and other events could trigger additional debt service reserve requirements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MTASC'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.

Bonadio & Co., LLP

INDEPENDENT AUDITOR'S 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

March 10, 2021

To the Board of Directors of
Monroe 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 major fund of Monroe Tobacco Asset Securitization Corporation (MTASC), a blended component unit of the County of Monroe, New York, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise MTASC's basic financial statements, and have issued our report thereon dated March 10, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MTASC's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MTASC's internal control. Accordingly, we do not express an opinion on the effectiveness of MTASC'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.

171 Sully's Trail
Pittsford, New York 14534
p (585) 381-1000
f (585) 381-3131

www.bonadio.com