

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

**Financial Statements as of
December 31, 2023 and 2022
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 15, 2024

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

Report on the Audit of the Financial Statements

Opinions

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, 2023 and 2022, and the related notes to the financial statements, which collectively comprise MTASC’s basic financial statements as listed in the table of contents.

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, 2023 and 2022, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MTASC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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

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

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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 MTASC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's 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 auditor's 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 generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MTASC'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 MTASC'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 15, 2024 on our consideration of the MTASC’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 MTASC’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 MTASC’s internal control over financial reporting and compliance.

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

Management's Discussion and Analysis (Unaudited)
December 31, 2023 and 2022

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, 2023, 2022, and 2021 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 Sheets - Debt Service Fund
- Statements 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 Sheets – Debt Service Fund and the Statements 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
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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>2023</u>	<u>2022</u>	<u>2021</u>
Total assets	\$ 24.67	\$ 24.57	\$ 23.75
Bonds payable	305.95	298.95	292.50
Other liabilities	<u>0.71</u>	<u>0.72</u>	<u>0.74</u>
Total liabilities	<u>306.66</u>	<u>299.67</u>	<u>293.24</u>
Net position	<u>\$ (281.99)</u>	<u>\$ (275.09)</u>	<u>\$ (269.49)</u>

Total Assets

The total assets increased from 2022 to 2023 by \$100 thousand due mainly to a \$347 thousand increase in deposits held with trustee as a result of additional investment income offset by a decrease of \$172 thousand in estimated TSR receivable. The total assets increased from 2021 to 2022 by \$827 thousand due mainly to a \$563 thousand increase in estimated tobacco settlement receivables, along with an increase of \$148 thousand in deposits held with trustee.

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
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Management's Discussion and Analysis (Unaudited)
December 31, 2023 and 2022

Total Liabilities

The total liabilities increased by \$7.0 million from 2022 to 2023. This increase is due to the value of the capital appreciation bonds (Series 2006 and Series 2005 D, E & F) increasing by \$10.1 million, offset by Turbo payments totaling \$3.2 million made towards the Series 2005B and Series 2010A bonds. The total liabilities increased by \$6.4 million from 2021 to 2022. This increase is due to the value of the capital appreciation bonds (Series 2006 and Series 2005 D, E & F) increasing by \$9.5 million, offset by a Turbo payment of \$3.1 million made towards the Series 2005B bonds.

Condensed Statements of Activities
(In Millions)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total expenses	\$ 18.88	\$ 18.40	\$ 17.95
Program revenues - tobacco settlement	11.21	12.61	12.82
General revenue - investment	<u>0.78</u>	<u>0.20</u>	<u>-</u>
Change in net position	(6.89)	(5.60)	(5.13)
Net position - beginning of year	<u>(275.10)</u>	<u>(269.50)</u>	<u>(264.37)</u>
Net position - end of year	<u>\$ (281.99)</u>	<u>\$ (275.10)</u>	<u>\$ (269.50)</u>

Expenses

Expenses incurred in 2023 were comparable to those incurred in 2022. Expenses incurred in 2022 were also comparable to those incurred in 2021.

Revenues

Total revenues in 2023 decreased \$810 thousand primarily due to an decrease of \$1.4 million in TSR offset by an increase of \$589 thousand in investment income. Total revenues in 2022 were consistent with 2021, decreasing only \$23 thousand, less than 1% of total revenue.

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
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Management’s Discussion and Analysis (Unaudited)
December 31, 2023 and 2022

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, 2023, MTASC’s debt service fund reported fund balance of \$13.5 million, a 2% increase of approximately \$272 thousand from 2022. TSR decreased approximately \$663 thousand and investment income increased approximately \$589 thousand while expenditures remained relatively consistent, decreasing only \$82 thousand, or 0.7%.

As of December 31, 2022, MTASC’s debt service fund reported fund balance of \$13.28 million, a less than 2% increase of approximately \$264 thousand from 2021. Tobacco settlement revenues increased approximately \$301 thousand and interest income increased approximately \$195 thousand while expenditures remained relatively consistent, increasing only \$165 thousand, or 1.4%.

Debt

Debt obligations of MTASC as of December 31, 2023 and 2022 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, 2023 was \$201.82 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

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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 \$3.2 million and \$3.1 million were made in 2023 and 2022, 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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 149,221	\$ 227,338
Accrued interest receivable	2,600	13
Accounts receivable	11,125,385	11,297,299
Deposits held with trustee	13,384,533	13,037,866
Prepaid expenses	<u>12,949</u>	<u>12,190</u>
 Total assets	 <u>24,674,688</u>	 <u>24,574,706</u>
LIABILITIES		
Accrued interest payable	707,792	723,738
Bonds payable, net of bond discount	<u>305,952,966</u>	<u>298,945,654</u>
 Total liabilities	 <u>306,660,758</u>	 <u>299,669,392</u>
NET POSITION		
Restricted for -		
Debt service	13,384,533	13,037,866
Unrestricted	<u>(295,370,603)</u>	<u>(288,132,552)</u>
 Total net position	 <u>\$ (281,986,070)</u>	 <u>\$ (275,094,686)</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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
EXPENSES		
General government -		
Professional services	\$ 97,835	\$ 96,497
Administrative costs	20,410	25,457
Interest and amortization	<u>18,765,541</u>	<u>18,279,788</u>
 Total expenses	 18,883,786	 18,401,742
PROGRAM REVENUE		
Tobacco settlement	<u>11,207,553</u>	<u>12,605,388</u>
 Net program expenses	 (7,676,233)	 (5,796,354)
 GENERAL REVENUES - INVESTMENT INCOME	 <u>784,849</u>	 <u>195,391</u>
 CHANGE IN NET POSITION	 (6,891,384)	 (5,600,963)
 NET POSITION - beginning of year	 <u>(275,094,686)</u>	 <u>(269,493,723)</u>
 NET POSITION - end of year	 <u>\$ (281,986,070)</u>	 <u>\$ (275,094,686)</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 - Debt Service Fund and Reconciliation to Statements of Net Position
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 149,221	\$ 227,338
Accrued interest receivable	2,600	13
Accounts receivable	11,125,385	11,297,299
Deposits held with trustee	13,384,533	13,037,866
Prepaid expenditures	<u>12,949</u>	<u>12,190</u>
Total assets	<u>\$ 24,674,688</u>	<u>\$ 24,574,706</u>
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
DEFERRED INFLOWS OF RESOURCES -		
Tobacco settlement revenue	<u>\$ 11,125,385</u>	<u>\$ 11,297,299</u>
Total deferred inflows of resources	<u>11,125,385</u>	<u>11,297,299</u>
FUND BALANCES -		
Nonspendable	12,949	12,190
Restricted for -		
Debt service	13,384,533	13,037,866
Assigned	<u>151,821</u>	<u>227,351</u>
Total fund balances	<u>13,549,303</u>	<u>13,277,407</u>
Total deferred inflows of resources and fund balances	<u>\$ 24,674,688</u>	<u>\$ 24,574,706</u>
Amounts reported for governmental activities in the statements of net position are different because:		
Total fund balances	\$ 13,549,303	\$ 13,277,407
Tobacco settlement revenues were not received in the current period and therefore, are not reported as revenues at the fund level	11,125,385	11,297,299
Bonds payable and accrued interest are not due and payable in the current period and therefore, are not reported at the fund level	<u>(306,660,758)</u>	<u>(299,669,392)</u>
Total net position	<u>\$ (281,986,070)</u>	<u>\$ (275,094,686)</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
For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
REVENUES		
Tobacco settlement	\$ 11,379,467	\$ 12,042,392
Investment income	<u>784,849</u>	<u>195,391</u>
Total revenues	<u>12,164,316</u>	<u>12,237,783</u>
EXPENDITURES		
Professional services	97,835	96,497
Administration costs	20,410	25,457
Debt service - principal	3,185,000	3,075,000
Debt service - interest	<u>8,589,175</u>	<u>8,777,100</u>
Total expenditures	<u>11,892,420</u>	<u>11,974,054</u>
CHANGE IN FUND BALANCE	271,896	263,729
FUND BALANCES - beginning of year	<u>13,277,407</u>	<u>13,013,678</u>
FUND BALANCES - end of year	<u>\$ 13,549,303</u>	<u>\$ 13,277,407</u>
Amounts reported for governmental activities in the statements of activities are different because:		
Net change in fund balances	\$ 271,896	\$ 263,729
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.	(171,914)	562,997
Certain expenses 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:		
Amortization of bond discount	(45,839)	(45,839)
Accretion	(10,146,473)	(9,472,225)
Interest expensed but not yet paid	15,946	15,375
Bond repayments are expenditures of the governmental fund but are not reported in the statement of activities, as they reduce bonds payable on the full accrual basis of accounting.	<u>3,185,000</u>	<u>3,075,000</u>
Change in net position	<u>\$ (6,891,384)</u>	<u>\$ (5,600,963)</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, 2023 and 2022

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, the Corporation is organized as a nonprofit corporation with the County listed as its sole corporate member in the Corporation's by laws. As such, the Corporation 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.

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
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Notes to Basic Financial Statements
December 31, 2023 and 2022

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, 2023 and 2022, 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, 2023 and 2022, the amount of unrestricted net position deficit was (\$295.4) million and (\$288.1) 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;

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
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Notes to Basic Financial Statements
December 31, 2023 and 2022

- 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;
- Unassigned - all other spendable amounts that remain in a General Fund and therefore is not applicable to the Corporation.

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: nonspendable, restricted, committed, assigned, and unassigned as they are needed.

Cash

Cash for the Corporation consists of demand and non-demand deposits.

Deposits Held by Trustee

Deposits 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. 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.

Bond Discount

The Corporation recognizes discounts fully in the year of issuance for the governmental fund statements. These costs are amortized over the term of the related bonds for the government-wide financial statements as additional interest expense. The Corporation recognizes all interest paid as interest expenditures on the modified accrual basis for the governmental fund statements and all interest incurred as expenses on the full accrual basis for the government-wide financial statements.

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. This receivable is an estimate based historical TSR receipts which management has deemed to be an appropriate method of determining the subsequent year's receivable.

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.

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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.

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 3 inputs.

Governmental bonds and other fixed income instruments classified in Level 2 of the fair value hierarchy are valued based on significant other observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates), or other market corroborated inputs.

Fair value measurements of the Corporation's investments at December 31, 2023 were comprised of U.S. Treasury Bills valued at \$13,372,791 and Money Market Funds valued at \$11,742 based on quoted market prices (Level 1 inputs). Investments at December 31, 2022 were comprised of U.S. Government Agency Bonds valued at \$13,032,998 based on Level 2 inputs and Money Market Funds valued at \$4,868 based on quoted market prices (Level 1 inputs).

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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;
- 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 - 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.

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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."

As of December 31, 2023 and 2022, the bank balance and carrying amount of MTASC's cash was \$149,221 and \$227,338, 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, 2023 and 2022, all amounts were held by one bank.

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Deposits Held by Trustee

Deposits 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, 2023 and 2022 the amounts held with the trustee were \$13,384,533 and \$13,037,866, respectively.

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

	<u>2023</u>	<u>2022</u>
Liquidity reserve	\$ 12,851,666	\$ 12,891,187
Debt service reserve	482,850	142,756
Turbo redemption	8,396	2,807
Collection account	41,616	1,111
Bonds proceeds	<u>5</u>	<u>5</u>
Total	<u>\$ 13,384,533</u>	<u>\$ 13,037,866</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>2023</u>	<u>2022</u>
United States Government Agency Bonds	\$ -	\$ 13,032,998
United States Treasury Bills	13,372,791	-
Money Market funds	<u>11,742</u>	<u>4,868</u>
Total	<u>\$ 13,384,533</u>	<u>\$ 13,037,866</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 dates are 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% (\$0 principal amount remains outstanding as of December 31, 2023 as a result of Turbo Redemption payments which have been made since 2006 as the last principal payment of \$3,085,000 was made in 2023).
- \$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% (\$63,000,000 principal amount remains outstanding as of December 31, 2023 as a result of Turbo Redemption payments which were first made in 2023).

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

	<u>2023</u>	<u>2022</u>
Balance - beginning of year	\$ 201,819,794	\$ 204,894,794
Repayments of bonds	<u>(3,185,000)</u>	<u>(3,075,000)</u>
Balance - end of year	198,634,794	201,819,794
Add: Accretion of capital appreciation bonds	109,014,213	98,867,740
Less: Bond discount	<u>(1,696,041)</u>	<u>(1,741,880)</u>
Total	<u>\$ 305,952,966</u>	<u>\$ 298,945,654</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>
2024	\$ -	\$ 8,493,500	\$ 8,493,500
2025	-	8,493,500	8,493,500
2026	-	8,493,500	8,493,500
2027	-	8,493,500	8,493,500
2028	-	8,493,500	8,493,500
2029-2033	-	42,467,500	42,467,500
2034-2038	-	42,467,500	42,467,500
2039-2043	118,655,000	28,449,625	147,104,625
2044-2048	35,465,001	2,659,875	38,124,876
2049-2053	5,386,580	66,578,420	71,965,000
2054-2058	8,923,514	193,791,486	202,715,000
2059-2061	<u>30,204,699</u>	<u>1,531,395,301</u>	<u>1,561,600,000</u>
	<u>\$ 198,634,794</u>	<u>\$ 1,950,277,207</u>	<u>\$ 2,148,912,001</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 deposits held by trustee 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, 2023 and 2022.

Principal payments in the amount of \$3,085,000 and \$3,075,000 were made during 2023 and 2022, respectively, in accordance with the Turbo Redemption requirements of the Series 2005B bonds. No principal remains outstanding on the Series 2005B bonds as of December 31, 2023. A principal payment in the amount of \$100,000 was made during 2023 in accordance with the Turbo Redemption requirements of the Series 2010A bonds.

Interest

Interest expense on bonds payable was \$18,719,702 and \$18,233,949 in 2023 and 2022, respectively. Cash paid for interest was \$8,589,175 and \$8,777,100 in 2023 and 2022, 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 use 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, 2023 and 2022.

No residual funds, in accordance with the Amended and Restated Indenture, were transferred to the Trustee and ultimately the County in December 31, 2023 and 2022.

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 reduce the deficit, along with the future revenue streams.

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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.

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 15, 2024

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, 2023, and the related notes to the financial statements, which collectively comprise MTASC's basic financial statements, and have issued our report thereon dated March 15, 2024.

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

Report on 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.