

**ERIE TOBACCO ASSET
SECURITIZATION CORPORATION**

(A Component Unit of the County of Erie, New York)

Basic Financial Statements and Required

Supplementary Information for the

Year Ended December 31, 2023

and Independent Auditors' Reports

ERIE TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Erie, New York)
Table of Contents
Year Ended December 31, 2023

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet—Governmental Funds	11
Reconciliation of the Balance Sheet—Governmental Funds to the Government-wide Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds to the Government-wide Statement of Activities	14
Notes to the Financial Statements	15
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Erie Tobacco Asset Securitization Corporation:

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major fund of Erie Tobacco Asset Securitization Corporation ("ETASC"), a component unit of the County of Erie, New York, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise ETASC's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of ETASC, as of December 31, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards* ("GAS"), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ETASC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ETASC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, 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 ETASC'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 ETASC'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 13, 2024 on our consideration of ETASC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ETASC's internal control over financial reporting and compliance.

Drescher & Malecki LLP

March 13, 2024

ERIE TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Erie, New York)
Management's Discussion and Analysis
Year Ended December 31, 2023

As management of the Erie Tobacco Asset Securitization Corporation ("ETASC"), a blended component unit of the County of Erie, New York (the "County"), we offer readers of ETASC's financial statements this narrative overview and analysis of the financial activities of ETASC for the fiscal year ended December 31, 2023. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in ETASC's financial statements, which follow this narrative.

Financial Highlights

- Total government-wide liabilities of ETASC exceeded total government-wide assets and deferred outflows of resources by \$317,977,345 (net position) at December 31, 2023. This consists of \$19,828,914 restricted for debt service, offset by an unrestricted net position of \$(337,806,259).
- ETASC's net position decreased by \$5,608,391 for the year ended December 31, 2023.
- At the close of the current year, ETASC's governmental funds reported combined ending fund balances of \$20,018,470, a decrease of \$948,883 in comparison with the prior year. Governmental fund balance consists of \$19,828,914 restricted for debt service, \$15,000 reported as nonspendable for prepaid items, and the remaining fund balance of \$174,556 is available for spending at ETASC's discretion (unassigned fund balance).
- ETASC's total Tobacco Settlement Bonds decreased by \$7,165,000 as a result of principal payments made during the year, while its Subordinate Turbo Capital Appreciation Bonds ("CABs") increased by \$11,041,200 as a result of annual net interest accretion.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to ETASC's basic financial statements. ETASC's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

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

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

The *statement of activities* presents information showing how ETASC's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found on pages 9-10 of this report.

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

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

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

ETASC maintains two individual governmental funds, the General Fund and the Debt Service Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for both funds.

The basic governmental fund financial statements can be found on pages 11-14 of this report.

Notes to the financial statements—The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-28 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of ETASC, liabilities exceeded assets and deferred outflows of resources by \$317,977,345 at December 31, 2023, as compared to \$312,368,954 at December 31, 2022. Table 1, shown on the following page, presents the condensed statements of net position for ETASC at December 31, 2023 and December 31, 2022.

Table 1—Condensed Statements of Net Position

	December 31,	
	2023	2022
Current assets	<u>\$ 36,168,537</u>	<u>\$ 37,063,593</u>
Total assets	<u>36,168,537</u>	<u>37,063,593</u>
Deferred outflows of resources	<u>15,111,786</u>	<u>16,559,061</u>
Current liabilities	857,000	909,600
Noncurrent liabilities	<u>368,400,668</u>	<u>365,082,008</u>
Total liabilities	<u>369,257,668</u>	<u>365,991,608</u>
Net position	<u>\$ (317,977,345)</u>	<u>\$ (312,368,954)</u>

A portion of ETASC's net position, \$19,828,914 and \$20,768,815 at December 31, 2023 and 2022, respectively, represents resources that are subject to external restrictions on how they may be used. Therefore, the unrestricted net position totals \$(337,806,259) and \$(333,137,769) at December 31, 2023 and 2022, respectively. The unrestricted deficit net position must be financed by future operations. The deficit net position results from long-term obligations that are greater than currently available resources.

At December 31, 2023, total assets were \$36,168,537 compared to \$37,063,593 at December 31, 2022. The largest asset held by ETASC at December 31, 2023 and December 31, 2022 represents restricted investments of \$19,156,898 and \$19,285,458, respectively. ETASC reports no noncurrent assets at December 31, 2023 or December 31, 2022.

ETASC's deferred outflows of resources, which resulted from a deferred loss on defeasance and a forward purchase agreement swap, totaled \$15,111,786 and \$16,559,061 at December 31, 2023 and 2022, respectively.

Total liabilities at December 31, 2023 were \$369,257,668 compared to \$365,991,608 at December 31, 2022. The largest portion of the liabilities was net outstanding debt totaling \$365,219,018 and \$361,216,283 at December 31, 2023 and 2022, respectively.

During the current year, net position for governmental activities decreased \$5,608,391 from the prior fiscal year to an ending net position of \$(317,977,345). The statement of activities presents revenues earned and expenses incurred by ETASC. Table 2, shown on the following page, presents the condensed statements of activities for the years ended December 31, 2023 and 2022.

Table 2—Condensed Statements of Activities

	Year Ended December 31,	
	2023	2022
General revenues	\$ 17,002,818	\$ 19,308,287
Expenses—governmental activities	22,611,209	21,675,405
Change in net position	(5,608,391)	(2,367,118)
Net position—beginning	(312,368,954)	(310,001,836)
Net position—ending	<u>\$ (317,977,345)</u>	<u>\$ (312,368,954)</u>

Total revenues for the years ended December 31, 2023 and 2022 were \$17,002,818 and \$19,308,287, respectively. The net decrease of \$2,305,469 is primarily due to the decrease in tobacco settlement revenues. Revenues for the years ended December 31, 2023 and 2022 consisted of \$16,330,693 (96.1 percent) and \$19,016,229 (98.5 percent), respectively, of tobacco settlement revenues, and \$672,125 (3.9 percent) and \$292,058 (1.5 percent), respectively, of interest and net earnings from investments.

A summary of sources of revenues for the years ended December 31, 2023 and December 31, 2022 is presented below in Table 3.

Table 3—Sources of Revenues

	Year Ended December 31,		Increase/(Decrease)	
	2023	2022	Dollars	Percent (%)
Tobacco settlement revenues	\$ 16,330,693	\$ 19,016,229	\$ (2,685,536)	(14.1)
Interest and net earnings from investments	672,125	292,058	380,067	130.1
Total revenues	<u>\$ 17,002,818</u>	<u>\$ 19,308,287</u>	<u>\$ (2,305,469)</u>	(11.9)

Total expenses for the years ended December 31, 2023 and 2022 were \$22,611,209 and \$21,675,405, respectively. Expenses for the years ended December 31, 2023 and 2022 primarily consisted of \$22,502,060 (99.5 percent) and \$21,581,166 (99.6 percent), respectively, of interest and fiscal charges, and \$109,149 (0.5 percent) and \$94,239 (0.4 percent) respectively, of general government support expenses incurred in connection with the operations of ETASC.

A summary of expenses for the years ended December 31, 2023 and December 31, 2022 is presented below in Table 4.

Table 4—Expenses

	Year Ended December 31,		Increase/(Decrease)	
	2023	2022	Dollars	Percent (%)
General government support	\$ 109,149	\$ 94,239	\$ 14,910	15.8
Interest and fiscal charges	22,502,060	21,581,166	920,894	4.3
Total expenses	<u>\$ 22,611,209</u>	<u>\$ 21,675,405</u>	<u>\$ 935,804</u>	4.3

Financial Analysis of Governmental Funds

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

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

At December 31, 2023, ETASC’s governmental funds reported combined fund balances of \$20,018,470, a decrease of \$948,883 in comparison with the prior year. Approximately 0.9 percent of this amount, \$174,556, constitutes unassigned fund balance, which is available for spending at ETASC’s discretion. The remainder of the fund balance is either nonspendable or restricted to indicate that it is not in spendable form, \$15,000, or restricted for debt service, \$19,828,914.

The General Fund is the chief operating fund of ETASC. During the year ended December 31, 2023, the General Fund fund balance decreased \$8,982, primarily due to a decrease in other financing sources. At the end of the current fiscal year, total fund balance of the General Fund was \$189,556, of which \$174,556 was considered to be unassigned.

The Debt Service Fund had a decrease in fund balance during the current year of \$939,901, resulting in an ending fund balance of \$19,828,914. The decrease in fund balance is a result of the decrease in tobacco settlement revenue and increase in debt payments, which was partially offset by net earnings on investments exceeding debt service expenditures.

Debt Administration

Long-Term Debt—As of December 31, 2023, ETASC had \$205,780,000 of tobacco settlement asset-backed bonds outstanding, which are reported in the statement of net position net of unamortized discount on the sale of bonds of \$8,785,644. Additionally, as of December 31, 2023, ETASC had accreted subordinate capital appreciation bonds (“CABs”) of \$169,563,478, which are reported in the statement of net position net of unamortized discount on the sale of bonds of \$1,338,816. At December 31, 2023, ETASC’s net tobacco settlement asset-backed bonds outstanding and net Subordinate Turbo CABs were \$196,994,356 and \$168,224,662, respectively, while at December 31, 2022, ETASC’s net tobacco settlement asset-backed bonds outstanding and net Subordinate Turbo CABs were \$204,053,683 and \$157,162,600, respectively.

Principal payments of \$7,165,000 and \$6,640,000 were made during the years ended December 31, 2023 and 2022, respectively. Additional information on ETASC’s long-term debt can be found in Note 6 to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of ETASC’s finances for all those with an interest in ETASC’s finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Erie Tobacco Asset Securitization Corporation, President, 95 Franklin Street, Room 1600, Buffalo, NY 14202.

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BASIC FINANCIAL STATEMENTS

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ERIE TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Erie, New York)
Statement of Net Position
December 31, 2023

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 174,556
Restricted cash and cash equivalents	672,016
Restricted investments	19,156,898
Due from New York State	16,150,067
Prepaid items	<u>15,000</u>
Total assets	<u>36,168,537</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows on forward purchase agreement swap	3,181,650
Deferred outflows on loss on defeasance	<u>11,930,136</u>
Total deferred outflows of resources	<u>15,111,786</u>
 LIABILITIES	
Current liabilities:	
Accrued interest payable	857,000
Noncurrent liabilities:	
Tobacco Settlement Bonds payable, net	196,994,356
Derivative instruments	3,181,650
Subordinate Turbo CABs payable, net	<u>168,224,662</u>
Total liabilities	<u>369,257,668</u>
 NET POSITION	
Restricted for debt service	19,828,914
Unrestricted	<u>(337,806,259)</u>
Total net position	<u>\$ (317,977,345)</u>

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

ERIE TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Erie, New York)
Statement of Activities
Year Ended December 31, 2023

Functions/Programs	Expenses	Net (Expenses) and Changes in Net Position
		Primary Government Governmental Activities
Primary government:		
Governmental activities:		
General government support	\$ 109,149	\$ (109,149)
Interest and fiscal charges	<u>22,502,060</u>	<u>(22,502,060)</u>
Total governmental activities	<u><u>\$ 22,611,209</u></u>	<u><u>(22,611,209)</u></u>
General revenues:		
Tobacco settlement revenue		16,330,693
Interest earnings		167
Net earnings on investments		<u>671,958</u>
Total general revenues		<u>17,002,818</u>
Change in net position		(5,608,391)
Net position—beginning		<u>(312,368,954)</u>
Net position—ending		<u><u>\$ (317,977,345)</u></u>

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

ERIE TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Erie, New York)
Balance Sheet—Governmental Funds
December 31, 2023

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 174,556	\$ -	\$ 174,556
Restricted cash and cash equivalents	-	672,016	672,016
Restricted investments	-	19,156,898	19,156,898
Prepaid items	15,000	-	15,000
Total assets	<u>\$ 189,556</u>	<u>\$ 19,828,914</u>	<u>\$ 20,018,470</u>
FUND BALANCES			
Nonspendable	15,000	-	15,000
Restricted for debt service	-	19,828,914	19,828,914
Unassigned	174,556	-	174,556
Total fund balances	<u>\$ 189,556</u>	<u>\$ 19,828,914</u>	<u>\$ 20,018,470</u>

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

ERIE TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Erie, New York)
Reconciliation of the Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
December 31, 2023

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

Total fund balances—governmental funds (page 11)	\$	20,018,470
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A long-term asset, due from New York State, \$16,150,067, is not available to pay for current period expenditures and, therefore, is not reported as revenue in the fund statements.		16,150,067
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Deferred charges associated with refunding of bonds are not reported in the governmental funds. The charge is reported as a deferred outflow of resources on the statement of net position and is recognized as a component of interest expense over the life of the related debt.		11,930,136
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund statements. The effects of these items are:

Accrued interest payable	\$	(857,000)	
Tobacco Settlement Bonds payable		(205,780,000)	
Discount on Tobacco Settlement Bonds payable		8,785,644	
Subordinate Turbo CABs payable		(169,563,478)	
Discount on Subordinate Turbo CABs payable		1,338,816	(366,076,018)

Net position of governmental activities	\$	(317,977,345)
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The notes to the financial statements are an integral part of this statement.

ERIE TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Erie, New York)
Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds
Year Ended December 31, 2023

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUES			
Tobacco settlement revenue	\$ -	\$ 16,254,266	\$ 16,254,266
Interest earnings	167	-	167
Realized gains	<u>-</u>	<u>671,958</u>	<u>671,958</u>
Total revenues	<u>167</u>	<u>16,926,224</u>	<u>16,926,391</u>
EXPENDITURES			
Current:			
General government support	109,149	-	109,149
Debt service:			
Principal	-	7,165,000	7,165,000
Interest	<u>-</u>	<u>10,601,125</u>	<u>10,601,125</u>
Total expenditures	<u>109,149</u>	<u>17,766,125</u>	<u>17,875,274</u>
(Deficiency) of revenues over expenditures	<u>(108,982)</u>	<u>(839,901)</u>	<u>(948,883)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	100,000	-	100,000
Transfers out	<u>-</u>	<u>(100,000)</u>	<u>(100,000)</u>
Total other financing sources (uses)	<u>100,000</u>	<u>(100,000)</u>	<u>-</u>
Net change in fund balances	(8,982)	(939,901)	(948,883)
Fund balances—beginning	<u>198,538</u>	<u>20,768,815</u>	<u>20,967,353</u>
Fund balances—ending	<u>\$ 189,556</u>	<u>\$ 19,828,914</u>	<u>\$ 20,018,470</u>

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

ERIE TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Erie, New York)
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balance—Governmental Funds to the Government-wide Statement of Activities
Year Ended December 31, 2023

Amounts reported for governmental activities in the statement of activities (page 10) are different because:

Net change in fund balances—total governmental funds (page 13)	\$ (948,883)
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Certain revenues are not recognized in governmental funds because they are not available soon enough after year end to pay for the current period's expenditures. On the statement of activities, however, revenues are recognized regardless of when collected.	76,427
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Expenses related to the deferred charge on refunding (i.e. loss on defeasance) in the statement of activities do not require the use of certain financial resources and, therefore, are not reported as expenditures in the governmental funds.	(763,200)
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The issuance of long-term debt (i.e., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt and related items is as follows:

Change in accrued interest payable	\$ 30,000		
Principal repayments on Tobacco Settlement Bonds payable	7,165,000		
Amortization of discount on Tobacco Settlement Bonds payable	(105,673)		
Accreted interest on Subordinate Turbo CABs payable	(11,041,200)		
Amortization of discount on Subordinate Turbo CABs payable	(20,862)		(3,972,735)
Change in net position of governmental activities			\$ (5,608,391)

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

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ERIE TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Erie, New York)
Notes to the Financial Statements
Year Ended December 31, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Description of Government-Wide Financial Statements

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

Reporting Entity

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

ETASC was incorporated on August 15, 2000, for the purpose of issuing tobacco settlement asset-backed bonds (the “2000 Series Bonds”) in order to provide funds to purchase from the County all of the County’s right, title, and interest under the Master Settlement Agreement (“MSA”) and the Consent Decree and Final Judgment (the “Decree”) as described herein.

The sole member of ETASC is the County Executive of the County. The Board of Directors of ETASC has five Directors. One Director shall be the County Executive, one Director shall be the County Comptroller, and one Director (the “Designated Director”) shall be designated jointly by the Chairperson of the County Legislature and the Minority Leader of the County Legislature; two independent Directors shall be designated jointly by a majority of the other three Directors in accordance with the provisions of the by-laws of the Corporation.

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

In conjunction with the sale of the 2000 Series Bonds, the County had dedicated the discounted net proceeds of the sale as a source of funds for certain capital expenditures and the defeasance of debt. ETASC allocated the net proceeds of the sale of bonds on behalf of the County as follows: \$211,722,302 was allocated to the County to finance certain capital projects and \$25,046,347 was disbursed to the Liquidity Reserve Accounts and Debt Service Accounts held by the Indenture Trustee. Tobacco proceeds of \$151,722,302 allocated to the County were disbursed to the County in 2000. The remaining \$60,000,000 was deposited by ETASC in eligible investments on behalf of the County. All cash and investments remaining of the original \$60,000,000 had been remitted to the County in 2005.

In August 2005, ETASC entered into an agreement (the “2005 Bonds”) to defease the original 2000 Series Bonds and to securitize additional proceeds to be received under the MSA for years subsequent to 2016. The total debt issued in 2005 amounted to \$318,834,680. Net proceeds after issuance cost and discounts amounted to \$305,330,026, with \$265,013,936 used to fund a defeasance escrow account and enable the ETASC to release previously restricted funds for debt service and trapping events to the County. Trapping events are defined economic circumstances that trigger a mandatory deposit of all residual payments into a trapping account.

In January 2006, ETASC issued \$17,694,720 Tobacco Settlement Asset-Backed Bonds, Series 2006A, subordinate to the 2005 Bonds. These bonds are payable from and secured by all Tobacco Settlement Revenues (“TSRs”) allocated to the County under the MSA; investment earnings on amounts in certain funds and accounts established under the ETASC Indenture; any amounts on deposit in such funds and accounts held as security for the ETASC’s Series 2006A bonds; and certain amounts expected to become available from funds and accounts created under the ETASC Indenture as security for prior bonds upon their retirement. The Series 2006A bonds are subject to mandatory redemption from amounts on deposit in the Turbo Redemption Account and ETASC with 100% of all surplus revenues, if any. A turbo redemption occurs when all excess revenues, after the payment of operation expenses, interest and rated principal, are used to retire term bonds early in order of maturity. Disbursements to the County from 2006 bond proceeds totaled \$15,673,077 for the year ended December 31, 2006. See Note 6 for additional information related to long-term debt.

Payments for principal and interest on the bonds (Series 2005 and Series 2006A) are contingent upon the receipt of TSRs which are driven by the consumption levels of the OPMs tobacco products. Additionally, as disclosed with the issuances, the bonds shall not be a debt of either the State of New York or the County, and neither the State of New York nor the County shall be liable thereon, nor shall they be payable out of any funds other than those of ETASC pledged therefor.

In accordance with the Bond Indenture and to the extent contained in the MSA Report, a trapping event is occurring. A Consumption Decline Trapping Event occurs when shipments of cigarettes in or to the 50 United States, the District of Columbia and Puerto Rico as measured under the MSA, are less in any year preceding a deposit date than the amount opposite such year under the “Consumption Decline Trapping Event” definition, which for the year 2022 was 195,545,237,871. According to the MSA Report, the amount shown as relevant shipments for the year 2022 was less than the shipment amount specified above, and therefore a Consumption Decline Trapping Event has occurred for the year ended December 31, 2023.

Basis of Presentation—Government-wide Financial Statements

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about ETASC's funds. Separate statements for governmental funds are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column in the fund financial statements.

ETASC reports the following major governmental funds:

- *General Fund*—The General Fund constitutes the primary operating fund of ETASC and includes all operations not required to be recorded in other funds.
- *Debt Service Fund*—The Debt Service Fund is used to account for the accumulation of resources that are restricted for the payment of principal and interest on long-term obligations of governmental funds.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Measurement Focus and Basis of Accounting

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

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

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

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

The governmental fund 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, ETASC considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when the payment is due. Issuance of long-term debt and acquisitions under leases are reported as other financing sources.

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

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

Cash and Cash Equivalents—ETASC’s cash and cash equivalents consist of cash on hand, demand deposits, time deposits, and short-term, highly liquid investments with original maturities of three months or less from the date of acquisition.

Restricted Cash and Cash Equivalents—Restricted cash and cash equivalents represents amounts to support fund balance restricted for debt service.

Restricted Investments—Investments for ETASC are reported at fair value in accordance with GASB.

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

Prepaid Items—Certain payments reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed rather than when purchased.

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. At December 31, 2023, ETASC reported deferred outflows of resources in the amounts of \$3,181,650 and \$11,930,136 on the government-wide financial statements, relating to the accumulated change in fair value of its forward purchase agreement swap and deferred losses on the defeasance of debt, respectively.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At December 31, 2023, ETASC reported no deferred inflows of resources.

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

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

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

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

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

Revenues and Expenses/Expenditures

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

Tobacco Settlement Revenues—During the year ended December 31, 2023, ETASC recognized tobacco settlement revenues in accordance with the Master Settlement Agreement. Payments are made according to a set formula based on tobacco sales.

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

Transfers In/Out—Transfers are used to move resources from the Debt Service Fund to the General Fund to support operating expenditures.

Other

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

Adoption of New Accounting Pronouncements—During the year ended December 31, 2023, ETASC implemented GASB Statements No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*; No. 96, *Subscription-Based Information Technology Arrangements*; and a portion of No. 99, *Omnibus 2022*. GASB Statement No. 94 improves financial reporting by addressing issues related to public-private and public-public partnerships arrangements (“PPPs”). GASB Statement No. 96 improves financial reporting by establishing a definition for Subscription-Based Information Technology Arrangements (“SBITAs”) and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. A portion of GASB Statement No. 99 enhances comparability in the application of accounting and financial reporting requirements and improves the consistency of authoritative literature related to GASB Statements No. 94 and 96. The implementation of GASB Statements No. 94, 96, and a portion of 99 did not have a material impact on ETASC’s financial position or results from operations.

Future Impacts of Accounting Pronouncements—ETASC has not completed the process of evaluating the impact that will result from adopting the remainder of GASB Statement No. 99, *Omnibus 2022*; No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*; and No. 101, *Compensated Absences*, effective for the year ending December 31, 2024; and No. 102, *Certain Risk Disclosures*, effective for the year ending December 31, 2025. ETASC is, therefore, unable to disclose the impact that adopting GASB Statements No. 99, 100, 101, and 102 will have on its financial position and results of operations when such statements are adopted.

Deficit Net Position—At December 31, 2023, ETASC reported a net position deficit of \$317,977,345. The deficit is caused by long-term obligations that are greater than currently available resources.

2. CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents at December 31, 2023 are as follows:

	General Fund	Debt Service Fund	Total
Deposits	<u>\$ 174,556</u>	<u>\$ 672,016</u>	<u>\$ 846,572</u>

Deposits—All deposits are carried at fair value, and are classified by custodial credit risk at December 31, 2023 as shown below:

	Bank Balance	Carrying Amount
FDIC insured	\$ 175,906	\$ 174,556
Cash held by investment bank's agent in ETASC's name	672,016	672,016
Total	<u>\$ 847,922</u>	<u>\$ 846,572</u>

Cash Equivalents—Cash equivalents held by ETASC include money market accounts and discount notes with original maturities of three months or less from the date acquired by ETASC. These cash equivalents are carried at amortized cost and include an accrued income component representing income payments accumulated with a security since the last payment date but not yet received.

Restricted Cash and Cash Equivalents—ETASC reports restricted cash and cash equivalents of \$672,016 to support restricted fund balance.

Custodial Credit Risk—Deposits—In the case of deposits, this is the risk that in the event of a bank failure, ETASC's deposits may not be returned to it. As noted above, by New York State statute all deposits in excess of FDIC insurance coverage must be collateralized. At December 31, 2023, ETASC's deposits were either FDIC insured or collateralized with securities held by the pledging bank's agent in ETASC's name.

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

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

3. INVESTMENTS

Investments are carried at fair value on a recurring basis as determined by quoted prices in active markets and held by a third party in ETASC's name.

Fair Value Measurements—ETASC reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

Level 1. Quoted prices for identical assets or liabilities in active markets to which ETASC has access at the measurement date.

Level 2. Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in markets that are not active;

- Observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
- Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

Level 3. Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure fair value to the extent that observable inputs are not available.

ETASC has the following fair value measurements as of December 31, 2023:

- Corporate commercial paper of \$19,156,898 is valued using quoted prices for identical assets in active markets (level 1 input).
- Forward purchase agreement of \$3,181,650 is valued using quoted prices for similar assets or liabilities in active markets (level 2 input). Additional information regarding the forward purchase agreement can be found within Note 5 to the financial statements.

Investments at December 31, 2023 are as follows:

Description	12/31/2023	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Debt securities:				
Corporate commercial paper	\$ 19,156,898	\$ 19,156,898	\$ -	\$ -
Investment derivative instruments:				
Forward purchase agreement	3,181,650	-	3,181,650	-
Total	\$ 22,338,548	\$ 19,156,898	\$ 3,181,650	\$ -

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

4. RECEIVABLES

Due from New York State—Represents amounts owed to ETASC for tobacco settlement revenue earned in 2023. ETASC has accrued \$16,150,067 within the government-wide statements only, as it is only recognized on the full accrual basis of accounting.

5. DERIVATIVE INSTRUMENT

In connection with the \$318,834,680 Series 2005 Bonds, ETASC entered into a forward purchase agreement and an effective swap of variable market rate returns with a fixed rate return with Merrill Lynch Capital Services, Inc. (MLCS) and The Bank of New York (the “Trustee”). Under the terms of such agreement, MLCS shall deliver to the Trustee qualified securities selected by MLCS or any dealer in eligible securities selected by MLCS (the “Qualified Dealer”). At the time of such delivery, the Trustee shall, out of the funds provided by ETASC, purchase such qualified security and pay to the Qualified Dealer or MLCS, an amount equal to the price which will produce a rate of return equal to a

fixed rate of 4.168% for the period commencing on either June 1 or December 1 and terminating on the following June 1 or December 1, respectively.

Concurrently with the delivery of any qualified securities, the Trustee shall pay the Qualified Dealer or MLCS the market value thereof. If the Qualified Dealer requires that the Trustee purchase qualified securities at a price higher than the fixed rate, MLCS shall pay to the Trustee an amount equal to the excess of the price at which the Qualified Dealer requires the Trustee to purchase such qualified securities over the fixed rate of such qualified securities.

The forward purchase agreement will expire by its terms on the final maturity of the asset-backed bonds on June 1, 2055. ETASC entered into this forward purchase agreement to facilitate investment of the monies in the Debt Service Reserve Fund while the 2005 ETASC bonds are outstanding.

From ETASC's perspective, the relevant risks associated with the forward purchase agreement are credit risks, termination risk, and market risk. The credit risks to ETASC, i.e., the risk that MLCS will not fulfill its obligations, will occur if MLCS becomes insolvent or fails to deliver qualified securities to the trustee as required. The credit rating for Bank of America Corporation, the parent company of MLCS at December 31, 2023 was A- as issued by Standard and Poor's. The termination risk to ETASC will occur if the agreement is terminated at a point of the securities purchase and sale process at which ETASC would be required to make a termination payment to MLCS. The market risk to ETASC will occur given the market gains or losses of the securities purchased under the agreement, resulting in a required forward purchase agreement fair value disclosure of the asset or liability position of the agreement at each period end date. These risks are mitigated by the credit rating of the counterparty and the level of eligible securities and guarantees contained in the agreement.

ETASC has evaluated the forward purchase agreement using the consistent critical terms method and deemed it to be effective. As of December 31, 2023, the notional amount of the agreement totals \$19,218,750, the fair value is \$3,181,650, and net cash flows during the year totaled \$0.

6. LONG-TERM DEBT

In 2000, ETASC issued \$246,325,000 of tobacco settlement asset-backed bonds, Series 2000, pursuant to an indenture dated as of September 1, 2000. The \$246,325,000 bond issuance was comprised of \$196,985,000 tobacco settlement asset-backed bonds Series 2000A and \$49,340,000 tobacco settlement asset-backed bonds Series 2000B. The net proceeds of the Series 2000 Bonds were used to purchase from the County all of the County's right, title, and interest to TSR to which the County would otherwise be entitled under the MSA and the Decree.

On August 15, 2005, ETASC issued \$318,834,680 in tobacco settlement asset-backed bonds (Series 2005A, E) and capital appreciation bonds ("CABs") (Series 2005B, C, D), with interest rates ranging from 5.00% to 6.75% to advance refund \$239,060,000 of outstanding Series 2000 Bonds bearing interest rates ranging from 5.0% to 6.5% originally issued in 2000. The net proceeds amounted to \$305,330,026 after original issuance discount and payment of \$13,504,654 for underwriting fees, insurance, and other issuance costs, of which \$267,037,311 was used to fund an irrevocable trust to defease the remaining original bonds. This transaction enabled ETASC to release \$55,231,709 in previously restricted funds for debt service and trapping events to the County. Series 2005E Taxable Bonds were redeemed in June 2022.

On September 15, 2005, ETASC entered into an agreement with the bondholders to replace the government securities in the irrevocable trust with government agency securities. This transaction generated a savings of \$2,802,806. Of this, \$1,331,893 was transferred to the County and the remainder less costs of sale was paid to the bondholders for their concessions. During 2010, the bonds were called and the balance in the irrevocable trust was used to satisfy all required debt payments.

On January 5, 2006, ETASC issued \$17,694,720 of tobacco settlement asset-backed CABs, Series 2006A, with an interest rate of 7.65%. ETASC entered into a purchase and sale agreement with the County on January 1, 2006, in which ETASC purchased the County's sole undivided beneficial interest in and to the trust established by ETASC pursuant to the Declaration and Agreement of Trust dated September 1, 2000, between ETASC and the Wilmington Trust Company ("2000 Residential Trust"), in its capacity as trustee, including the County's right to receive residual tobacco settlement revenues payable to the County, as sole beneficiary of the 2000 Residential Trust. The net proceeds of \$15,638,465 were transferred to the County.

The payment of the Series 2005 and Series 2006 Bonds is dependent on the receipt of TSRs. The amount of TSRs actually collected is dependent on many factors, including cigarette consumption and the continued operations of the OPMs. Such bonds are secured by and payable solely from TSRs and investment earnings pledged under the Indenture and amounts established and held in accordance with the Indenture. ETASC has no financial assets other than the collections and reserves and amounts held in the other funds and accounts established under the Bond Indenture.

ETASC has covenanted to apply 100% of funds not used to make principal and interest payments, if any, in the turbo redemption account to the special mandatory redemption ("Turbo Redemption") of the authorized denominations of the Series 2005 Bonds in order of maturity and then to the Series 2006A Bonds to the extent that there exists excess funds. Any such surplus revenues shall be applied on each distribution date beginning on June 1, 2006.

Interest on the Series 2005A bonds are payable each June 1 and December 1. The 2005 Series B, C, and D and the Series 2006A are subordinate CABs and accrete interest throughout the life of the bonds but is payable at redemption. Series 2005B, C, and D CABs were subject to redemption at the option of ETASC beginning in years after 2016. The Series 2006A CABs were subject to redemption after May 31, 2017.

Details of long-term debt as of December 31, 2023 are as follows:

Series 2005 \$318,834,680 Term Bond			
Issue Amount	Rate	Description	Final Redemption Date
\$ 30,330,000	5.000 %	Series 2005A Bonds due June 1, 2031, semiannual interest-only payments through maturity, may be redeemed at the option of ETASC at anytime in whole or in part after June 1, 2015.	June 1, 2031
74,685,000	5.000	Series 2005A Bonds due June 1, 2038, semiannual interest-only payments through maturity, may be redeemed at the option of ETASC at anytime in whole or in part after June 1, 2015.	June 1, 2038
111,480,000	5.000	Series 2005A Bonds due June 1, 2045, semiannual interest-only payments through maturity, may be redeemed at the option of ETASC at anytime in whole or in part after June 1, 2015.	June 1, 2045

(continued)

9,163,000	5.750	Series 2005B Bonds due June 1, 2047, semiannual interest accrued but not payable until maturity, subject to redemption at the option of ETASC anytime after June 1, 2015 at accreted values as follows: June 1, 2015 through May 31, 2016, 102%; June 1, 2016 through May 31, 2017, 101%; and June 1, 2017 and thereafter, 100%.	June 1, 2047
12,565,080	6.250	Series 2005C Bonds due June 1, 2050, semiannual interest accrued but not payable until maturity, subject to redemption at the option of ETASC anytime after June 1, 2015 at accreted values as follows: June 1, 2015 through May 31, 2016, 102%; June 1, 2016 through May 31, 2017, 101%; and June 1, 2017 and thereafter, 100%.	June 1, 2050
11,141,600	6.750	Series 2005D Bonds due June 1, 2055, semiannual interest accrued but not payable until maturity, subject to redemption at the option of ETASC anytime after June 1, 2015 at accreted values as follows: June 1, 2015 through May 31, 2016, 102%; June 1, 2016 through May 31, 2017, 101%; and June 1, 2017 and thereafter, 100%.	June 1, 2055
69,470,000	6.000	Series 2005E Taxable Bonds due June 1, 2028, semiannual interest only payments through maturity, fully redeemed in June 2022.	Fully redeemed June 2022
<p style="text-align: center;">Series 2006 \$17,694,720 Term Bond</p>			
<u>Issue Amount</u>	<u>Rate</u>	<u>Description</u>	<u>Final Turbo Redemption Date</u>
\$ 17,694,720	7.650 %	Series 2006A Taxable Bonds due June 1, 2060, semiannual interest accrued but not payable until maturity, subordinate to the Series 2005A-E Bonds, subject to redemption at the option of ETASC anytime after June 1, 2016 at accreted values as follows: June 1, 2016 through May 31, 2017, 102%; June 1, 2017 through May 31, 2018, 101%; and June 1, 2018 and thereafter, 100%.	June 1, 2060

Changes in bonds payable for the year ended December 31, 2023 are as follows:

Description	Balance 1/1/2023	Additions	Deletions	Balance 12/31/2023
Tobacco Settlement Bonds:				
2005A	\$ 212,945,000	\$ -	\$ 7,165,000	\$ 205,780,000
Less: Bond discount	(8,891,317)	-	(105,673)	(8,785,644)
Net Tobacco Settlement Bonds	<u>\$ 204,053,683</u>	<u>\$ -</u>	<u>\$ 7,059,327</u>	<u>\$ 196,994,356</u>

The ETASC's debt service requirements for the Series 2005A as of December 31, 2023 are as follows:

Year Ending December 31,	Principal	Interest	Total
2024	\$ -	\$ 10,289,000	\$ 10,289,000
2025	-	10,289,000	10,289,000
2026	-	10,289,000	10,289,000
2027	-	10,289,000	10,289,000
2028	-	10,289,000	10,289,000
2029-2033	19,615,000	48,993,125	68,608,125
2034-2038	74,685,000	44,674,125	119,359,125
2039-2043	-	27,870,000	27,870,000
2044-2045	<u>111,480,000</u>	<u>8,361,000</u>	<u>119,841,000</u>
Total	<u>\$ 205,780,000</u>	<u>\$ 181,343,250</u>	<u>\$ 387,123,250</u>

Subordinate Turbo CABs—Series 2005B, 2005C, 2005D and 2006A—Interest on the Subordinate Turbo CABs is compounded semiannually on June 1 and December 1, but is not payable until bond maturity. Interest accretes until both principal and accreted interest are paid. Future interest accretion has been recorded as bond discount and amortized as the current interest accretes. The accreted interest on the Subordinate Turbo CABs is reflected within the Subordinate Turbo CABs payable liability.

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

	Balance 1/1/2023	Additions	Deletions	Balance 12/31/2023
Subordinate Turbo CABs	\$ 158,522,278	\$ 11,041,200	\$ -	\$ 169,563,478
Less: Bond discount	<u>(1,359,678)</u>	<u>-</u>	<u>(20,862)</u>	<u>(1,338,816)</u>
Net Subordinate Turbo CABs	<u>\$ 157,162,600</u>	<u>\$ 11,041,200</u>	<u>\$ (20,862)</u>	<u>\$ 168,224,662</u>

Amortization of Bond Discounts—ETASC issued serial bonds and CABs which included a bond discount. The discounts are being amortized using the effective interest rate and straight-line methods over the life of the bonds, with maturity dates ranging from 2028 to 2060. The total unamortized discount as of December 31, 2023 was \$10,124,460.

7. NET POSITION AND FUND BALANCE

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

- ***Restricted for Debt Service***—This category restricts a portion of net position for payment of the debt service obligations of ETASC. At December 31, 2023, the balance of this restriction was \$19,828,914.
- ***Unrestricted Component of Net Position***—This component represents net position of ETASC not restricted for any other purpose.

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance maintained by ETASC at December 31, 2023 includes:

- ***Prepaid Items***—Represents amounts prepaid to the trustee for administration fees that are applicable to future accounting periods. The General Fund reported a nonspendable fund balance in the amount of \$15,000.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. At December 31, 2023, ETASC reported \$19,828,914 of fund balance restricted for debt service that must be used toward the future repayment of bonded debt. Under the Bond Indenture, the trustee will hold a segregated Liquidity Reserve Account totaling \$19,156,898 at December 31, 2023. The Liquidity Reserve Account will be terminated when no current interest bonds remain outstanding. Such amounts are not available to make turbo redemption payments.

As of December 31, 2023, ETASC reported no committed or assigned fund balances.

8. CONTINGENCIES

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

Certain smokers, smokers' rights organizations, consumer groups, cigarette importers, cigarette distributors, cigarette manufacturers, Native American tribes, taxpayers, taxpayers' groups, and other parties have filed actions against some, and in certain cases all, of the signatories to the MSA. In the event of an adverse court ruling in such types of litigation, Bondholders could incur a complete loss of their investment.

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

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 13, 2024, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

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

To the Board of Directors
Erie 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 each major fund of Erie Tobacco Asset Securitization Corporation ("ETASC"), a component unit of the County of Erie, New York, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise ETASC's basic financial statements, and have issued our report thereon dated March 13, 2024.

Report on Internal Control Over Financial Reporting

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

Drescher & Malecki LLP

March 13, 2024