

**TOBACCO SECURITIZATION AUTHORITY
OF NORTHERN CALIFORNIA**

(A Component Unit of the
County of Sacramento, California)

Independent Auditor's Reports,
Basic Financial Statements, and
Required Supplementary Information

For the Year Ended June 30, 2021



Certified
Public
Accountants

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA
(A Component Unit of the County of Sacramento, California)
For the Year Ended June 30, 2021

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Independent Auditor's Report

Board of Directors
Tobacco Securitization Authority of Northern California
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Tobacco Securitization Authority of Northern California (Authority), a component unit of the County of Sacramento, California, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority, as of June 30, 2021, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Sacramento, California
August 31, 2021

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA

(A Component Unit of the County of Sacramento, California)

Management's Discussion and Analysis

For the Year Ended June 30, 2021

The Tobacco Securitization Authority of Northern California (Authority) is a public entity created by a Joint Exercise of Powers Agreement (Agreement) effective as of July 16, 2001, between Sacramento County (County) and San Diego County. The Authority is governed by a three-member board of directors (Board) made up of two members of the Sacramento County Board of Supervisors and one member from San Diego County. The Authority was created for the purpose of empowering the Authority to finance the payments to be received by the County from the nation-wide Tobacco Settlement Agreement (Payments) for such purposes, but not limited to, issuance, sale, execution and delivery of Bonds secured by those Payments or the lending of money based on thereof, or to securitize, sell, purchase or otherwise dispose of some or all of such Payments of the County.

The Authority is legally separate and apart from the County, and is considered a blended component unit of the County due to the operational relationship between the Authority and the County. The debts and liabilities of the Authority belong solely to it, and neither the counties of Sacramento nor San Diego are in any way responsible for those liabilities.

As management of the Authority, we offer readers of our financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2021.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private sector business.

The *Statement of Net Position* presents information on all of the Authority's assets, deferred outflows of resources, and liabilities with the difference reported as *net position*.

The *Statement of Activities* presents information showing how the Authority'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 the statement for some items that will only result in cash flows in future fiscal periods.

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

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, 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.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and government wide statements.

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA

(A Component Unit of the County of Sacramento, California)

Management's Discussion and Analysis (Continued)

For the Year Ended June 30, 2021

The Authority adopts an annual appropriated budget for its General Fund. There is no annual appropriated budget for its Debt Service Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

The fund financial statements can be found on pages 10 and 11 of this report.

Notes to the Basic 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 basic financial statements can be found on pages 13 through 22 of this report.

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. Net position of the Authority is a deficit of approximately \$37.20 million at the end of current year and was a deficit of approximately \$32.28 million at the end of 2020. The primary asset and deferred outflow of resources of the Authority (84%) is the receivable for future tobacco settlement revenues and the tobacco settlement rights. The majority of the Authority's liabilities (99.8%) are the outstanding bonds. Both amounts will decrease in tandem as Tobacco Settlement collections are received and the bonds are paid. However, a portion of the debt consists of capital appreciation bonds, and will increase in amount until maturity, increasing the outstanding bonds payable during that time. Net position decreased by \$4,927,671 during the year ended June 30, 2021, compared to a decrease of \$3,991,692 during the year ended June 30, 2020. The decrease in net position is primarily the result of an increase in accreted interest related to the capital appreciation bonds.

Net Position – Governmental Activities

	<u>2021</u>	<u>2020</u>
Current assets	\$ 21,710,594	\$ 28,779,584
Deferred outflows of resources	<u>195,264,052</u>	<u>198,964,722</u>
Bonds payable	253,605,719	259,052,428
Other liabilities	<u>573,535</u>	<u>968,815</u>
Total liabilities	<u>254,179,254</u>	<u>260,021,243</u>
Unrestricted net position (deficit)	<u>\$ (37,204,608)</u>	<u>\$ (32,276,937)</u>

Changes in Net Position – Governmental Activities

	<u>2021</u>	<u>2020</u>
General revenues:		
Use of money and property	\$ 4,793	\$ 292,412
Tobacco settlement revenues	<u>16,649,636</u>	<u>13,654,018</u>
Total general revenues	16,654,429	13,946,430
Program expenses:		
Interest and fiscal charges	<u>21,582,100</u>	<u>17,938,122</u>
Changes in net position	(4,927,671)	(3,991,692)
Net position (deficit), beginning of year	<u>(32,276,937)</u>	<u>(28,285,245)</u>
Net position (deficit), end of year	<u>\$ (37,204,608)</u>	<u>\$ (32,276,937)</u>

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA

(A Component Unit of the County of Sacramento, California)

Management's Discussion and Analysis (Continued)

For the Year Ended June 30, 2021

Governmental Activities

The Authority does not have business-type activities and so the analysis presented above for the government-wide financial statements also represents an analysis of the Authority's governmental activities.

Financial Analysis of the Authority's Governmental Funds

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

For the years-ended June 30, 2021 and 2020, the Authority reported ending fund balances of \$13.8 million and \$21.7 million, respectively. Activities were limited to interfund transfers on the Authority's outstanding debt (based on collections from the Tobacco Settlement by the Sacramento County Tobacco Securitization Corporation), payment of principal and interest, banking costs, and other administrative expenses.

General Fund Budgetary Highlights

There were no changes in the original budget during the year. Pledged tobacco settlement proceeds and the subsequent transfers out were not budgeted as the amount the Authority eventually received is not known until actually received.

Debt Administration

Tobacco Settlement Asset-Backed Bonds, Series 2001 Bonds were originally issued on August 16, 2001, for the purpose of allowing the Authority to finance and secure a specific level of receipts in lieu of the actual payments to be received by the County of Sacramento from the nation-wide Tobacco Settlement Agreement (Payments). The settlement was based on a number of lawsuits by states and local governments against the various tobacco corporations to recover the cost of health and related other costs attributed to smoking. A Master Settlement Agreement was created among the impacted parties, which delineated the receipts the County would be entitled to receive from the settlement.

On December 6, 2005, the Authority issued a second series of Tobacco Settlement Asset-Backed bonds totaling \$255,486,288. Proceeds of the financing, after issue discount and underwriter's discount, were \$248,983,008. From those proceeds, \$168,639,395 was placed in escrow to refund the outstanding Series 2001 indentured debt, \$15,750,128 was used to fund a liquidity reserve account, \$1,368,240 was used to pay for cost of issuance, and the remaining proceeds of \$63,225,245 was transferred to the Sacramento County Tobacco Securitization Corporation (Corporation).

The Series 2005 Bonds are all issued as turbo term bonds and are subject to payment from Sinking Fund Installments, if applicable. Turbo redemptions occur when all excess revenues after the payment of operating expenses, interest, and rated principal are used to retire term bonds early in order of maturity. The principal or accreted value of a Series 2005 Senior Bond must be paid by its stated maturity date to avoid an event of default under the indenture. Under the indenture, 100% of all collections which are in excess of the requirements for, among other things, the periodic funding of operating expenses, sinking fund installments, turbo term bond maturities, and replenishment of the Senior Liquidity Reserve Account are applied to the mandatory redemption of the Series 2005 Bonds at the principal amount or accreted value thereof on each distribution date in accordance with the payment priorities.

The proceeds were used for two purposes: 1) the first series of bonds were for certain construction projects, and to purchase clean air refuse vehicles; and 2) the second series is an endowment to fund various county and community primarily health related activities.

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA

(A Component Unit of the County of Sacramento, California)

Management's Discussion and Analysis (Continued)

For the Year Ended June 30, 2021

The proceeds received by the Authority were loaned to the Corporation. The Corporation in turn agreed to make a grant of the funds to the County for one or more specific construction projects of benefit to the County or its residents.

- \$219,685,000 for three issues of Senior Current Interest (Turbo) Bonds. The first for \$45,825,000, issued at 97.107% of par with an interest rate of 4.75% with maturities in June 2023 and the last expected turbo payment in 2015. The second was for \$87,290,000 issued at 98.116% of par with an interest rate of 5.375% with maturity in June 2038 and last expected Turbo payment in 2024. The third issue was for \$86,570,000 issued at 98.025% of par with an interest rate of 5.5% with a maturity of June 2045 and a last expected turbo payment in 2028.
- \$12,468,721 for Senior Convertible Capital Appreciation (Turbo) Bonds. Face amount \$14,235,000 yield of 5.4% maturity in June 2027 with a last expected turbo payment in 2017.
- \$11,674,044 for First Subordinate Capital Appreciation (Turbo) Bonds. Face amount \$115,975,000 yield of 5.9% maturity in June 2045 and last expected turbo payment in 2030.
- \$11,658,523 for Second Subordinate Capital Appreciation (Turbo) Bonds. Face amount \$157,335,000 yield of 6.7%, maturity June 2045 and last expected turbo payment in 2033.

On February 18, 2021, the Authority issued a third series of Tobacco Settlement Asset-Backed bonds totaling \$230,706,364. Proceeds of the financing, after issue premium and underwriter's discount, were \$262,057,863. The proceeds, along with \$4,927,995 from the Series 2005 Bonds reserve fund, were placed in escrow to refund the outstanding Series 2005 indentured debt.

- \$124,625,000 for two issues of Series 2021A Class 1 Senior Current Interest Bonds. The first for \$87,120,000 of Series 2021A Serial Bonds, with interest rates ranging from 3.00% to 5.00% with maturities ranging from June 2021 to June 2040. The second was for \$37,505,000 with an interest rate of 4.00% with maturity in June 2049.
- \$35,000,000 for Series 2021B-1 Class 2 Senior Current Interest (Turbo) Bonds. The first for \$7,500,000 with an interest rate of 0.45% with maturity in June 2030 with a last expected turbo payment in 2022. The second for \$27,500,000 with an interest rate of 4.00% with maturity in June 2049 with a last expected turbo payment in 2027.
- \$71,081,364 for Series 2021B-2 Class 2 Senior Capital Appreciation (Turbo) Bonds. Face amount \$305,950,000 yield of 3.75% maturity in June 2060 and last expected turbo payment in 2043.

During the year, the Authority's bonds payable decreased by a net amount of \$5,446,709 as a result of issuance of Series 2021 bonds totaling \$263,453,125, current year amortization of the Series 2005 deferred bond discount totaling \$2,952,166, accretion of interest totaling \$983,119, offset by a full refunding of the outstanding Series 2005 bonds in the amount of \$264,390,516, principal reduction of \$10,535,000, and current year amortization of the Series 2021 deferred premium totaling \$3,379,041. The ending balance of the Authority's bonds payable at June 30, 2021 is \$253,605,719.

The current bond credit ratings issued by Standard & Poor's for the 2021A Class 1 Senior Current Interest Serial Bonds range from A to BBB, the 2021B-1 Turbo Term Bond due June 1, 2030 is BBB+, the 2021B-1 Turbo Term Bond due June 1, 2049 is BBB-. The 2021B-2 Capital Appreciation Turbo Term Bonds are not rated.

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA

(A Component Unit of the County of Sacramento, California)

Management's Discussion and Analysis (Continued)

For the Year Ended June 30, 2021

Economic Factors and Next Year's Budget

The bond covenants relating to the borrowing restrict the Authority's annual administrative budget to approximately \$429,000 per year. Bond rating services fees are estimated to be \$160,000. The other significant fee is \$40,000 for continuing disclosure services from Bond Logistix, LLC. Along with the annual budget of the Corporation (a blended component unit of the Authority) of approximately \$117,000, the total annual budget of the Authority is approximately \$429,000.

The bond repayment is subject to a debt repayment schedule and can be accelerated, dependent upon greater than expected receipts from the nation-wide Tobacco Settlement Lawsuit pool. The actual receipts are predicated upon U.S. cigarette sales (for the annual gross amount available for distribution) and certain demographic factors (which determine the amount any litigant receives). The current year receipts of settlement proceeds were adequate to allow for accelerated repayment of principal.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Tobacco Securitization Authority of Northern California
Attention: Colin Bettis, County Debt Officer
700 H Street
Sacramento, California, 95814

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA
(A Component Unit of the County of Sacramento, California)
Statement of Net Position – Governmental Activities
June 30, 2021

ASSETS

Current assets:

Cash and investments	\$ 13,835,031
Tobacco settlement revenues receivable	<u>7,875,563</u>

Total assets	<u>21,710,594</u>
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DEFERRED OUTFLOWS OF RESOURCES

Tobacco settlement rights (net of accumulated amortization of \$53,862,709)	181,328,457
Deferred amount on refunding	<u>13,935,595</u>

Total deferred outflows of resources	<u>195,264,052</u>
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LIABILITIES

Current liabilities:

Accounts payable	43,181
Accrued interest	530,354
Bonds payable	<u>3,825,000</u>
Total current liabilities	4,398,535

Noncurrent liabilities:

Bonds payable	<u>249,780,719</u>
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Total liabilities	<u>254,179,254</u>
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NET POSITION (DEFICIT)

Unrestricted	<u>\$ (37,204,608)</u>
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See accompanying notes to the basic financial statements.

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA

(A Component Unit of the County of Sacramento, California)

Statement of Activities – Governmental Activities

For the Year Ended June 30, 2021

PROGRAM EXPENSES

Interest and fiscal charges \$ 21,582,100

GENERAL REVENUES

Use of money and property 4,793

Tobacco settlement revenue 16,649,636

Total general revenues 16,654,429

Change in net position (4,927,671)

Net position (deficit), beginning of year (32,276,937)

Net position (deficit), end of year \$ (37,204,608)

See accompanying notes to the basic financial statements.

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA

(A Component Unit of the County of Sacramento, California)

Balance Sheet – Governmental Funds

June 30, 2021

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments	\$ 510,890	\$ 13,324,141	\$ 13,835,031
Tobacco settlement revenues receivable	<u>7,875,563</u>	<u>-</u>	<u>7,875,563</u>
Total assets	<u>\$ 8,386,453</u>	<u>\$ 13,324,141</u>	<u>\$ 21,710,594</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Account payable	\$ 43,181	\$ -	\$ 43,181
Deferred inflows of resources			
Unavailable tobacco settlement revenue	<u>7,875,563</u>	<u>-</u>	<u>7,875,163</u>
Fund balances:			
Restricted for:			
Debt service reserve	-	10,139,957	10,139,957
Debt service payment	-	3,184,184	3,184,184
Operating expenditures per bond indenture	<u>467,709</u>	<u>-</u>	<u>467,709</u>
Total fund balances	<u>467,709</u>	<u>13,324,141</u>	<u>13,791,850</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 8,386,453</u>	<u>\$ 13,324,141</u>	
Amounts reported in the statement of net position are different because:			
Deferred outflows of resources, such as tobacco settlement rights, and deferred amounts on refunding are not current financial resources and therefore are not reported in the governmental funds:			
Tobacco settlement rights			\$181,328,457
Deferred amount on refunding			13,935,595
Unavailable revenue is classified as deferred inflows of resources in the governmental funds when it is not received within the Authority's period of availability and considered to be available. The availability criteria does not apply to the government-wide statements and therefore, the revenue is recognized.			
Tobacco settlement revenue			7,875,563
Bonds payable and related premium are not due and payable in the current period and therefore are not reported in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when it is due. Accrued interest is reported in the statement of net position:			
Bonds payable		\$ (220,181,364)	
Bond premium		(32,441,236)	
Accreted interest		(983,119)	
Accrued interest payable		<u>(530,354)</u>	<u>(254,136,073)</u>
TOTAL NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES			<u>\$ (37,204,608)</u>

See accompanying notes to the basic financial statements.

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA
(A Component Unit of the County of Sacramento, California)
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2021

	General	Debt Service	Total Governmental Funds
REVENUES			
Use of money and property	\$ 225	\$ 4,567	\$ 4,793
Tobacco settlement revenues	15,751,127	-	15,751,127
Total revenues	15,751,352	4,567	15,755,920
EXPENDITURES			
Debt service:			
Principal	-	10,535,000	10,535,000
Refunding Escrow	-	4,927,895	4,927,895
Bond issuance costs	-	2,081,039	2,081,039
Interest and fiscal charges	201,531	7,363,493	7,565,024
Total expenditures	201,531	24,907,427	25,108,958
Excess (deficiency) of revenues over (under) expenditures	15,549,821	(24,902,860)	(9,353,038)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	15,576,600	15,576,600
Transfers out	(15,576,600)	-	(15,576,600)
Refunding bonds issued	-	230,706,364	230,706,364
Original issue premium	-	32,746,761	32,746,761
Payment to refunded bond escrow agent	-	(262,057,863)	(262,057,863)
Total other financing sources (uses)	(15,576,600)	16,971,862	1,395,262
Changes in fund balances	(26,779)	(7,930,998)	(7,957,777)
Fund balances, beginning of year	494,488	21,255,139	
Fund balances, end of year	\$ 467,709	\$ 13,324,141	

Amounts reported in the statement of activities are different because:

Tobacco settlement revenues are not considered "available" revenues, they are reported as deferred inflows of resources in the governmental funds. Unavailable revenues increased by this amount during the year. 898,413

The issuance of long-term debt provided financial resources to governmental fund, 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 discounts, premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities

Payment to escrow agent for refunding	266,985,854
Debt issued	(230,706,364)
Bond premium	(32,746,761)
Principal repayments	10,535,000

See accompanying notes to the basic financial statements.

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA
(A Component Unit of the County of Sacramento, California)
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds (Continued)
For the Year Ended June 30, 2021

Bond premiums in governmental funds are recognized in the period issued. In the statement of activities bond premiums are amortized on a straight-line basis over the life of the related debt.		\$305,525
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in accrued interest	\$ 385,654	
Change in accreted interest	(3,379,041)	
Amortization of deferred amount on refunding	(494,319)	
Amortization of bond discount	(77,671)	
Amortization of tobacco settlement rights	<u>(8,676,185)</u>	<u>(12,241,562)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ (4,927,671)</u>

See accompanying notes to the basic financial statements.

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA
(A Component Unit of the County of Sacramento, California)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Tobacco Securitization Authority of Northern California (Authority) was created by a Joint Exercise of Powers Agreement (Agreement) effective as of July 16, 2001, between Sacramento County (County) and San Diego County. A three-member board of directors, made up of two members of the Sacramento County Board of Supervisors and one member from San Diego County Board of Supervisors, governs the Authority. The Authority was created for the purpose of empowering the Authority to finance the payments to be received by the County of Sacramento from the nation-wide Tobacco Settlement Agreement (Payments) for such purposes, but not limited to, issuance, sale, execution and delivery of Bonds secured by those Payments or the lending of money based on thereof, or to securitize, sell, purchase, or otherwise dispose of some or all of such Payments of the County. The Authority meets the criteria set forth in accounting principles generally accepted in the United States of America (GAAP) as a blended component unit of the County because the Authority is providing services solely to the County.

The Sacramento County Tobacco Securitization Corporation (Corporation), a nonprofit public benefit organization as defined by Internal Revenue Code Section 501(c)(3), was incorporated August 21, 2001, and is a blended component unit of the Authority. The purpose of the Corporation is to purchase from the County its rights to receive tobacco settlement revenues, borrow monies necessary to pay the purchase price for such tobacco settlement revenues, secure such borrowing with the tobacco settlement revenues, receive tobacco settlement revenues and residual payments regarding tobacco settlement revenues of the County, and invest monies, make expenditures and otherwise distribute money for the benefit of the County and its residents. The Corporation meets the criteria set forth in accounting principles generally accepted in the United States of America for inclusion as a blended component unit of the Authority because of the financial benefit/burden relationship of their activities. Audited financial statements of the Corporation may be obtained by writing to the County of Sacramento, 700 H Street, Sacramento, California 95814.

Basis of Presentation and Accounting

Government-Wide and Fund Financial Statements

The Statement of Net Position and Statement of Activities display information about the overall Authority. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Net Position is designed to display the financial position of the government.

The Statement of Activities presents a comparison between direct expenses, which are offset by general revenues for the Authority's governmental activity. Direct expenses are those that are specifically associated with the Authority.

Tobacco settlement revenue and interest are presented as general revenue.

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses when the liability is incurred. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA
(A Component Unit of the County of Sacramento, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources concept, sources, and uses of financial resources, including capital outlays, bond proceeds, and debt retirements are reflected in operations. Resources not available to finance expenditures and commitments of the current period are recognized as a deferred inflow of resources or a restriction of fund balance. Revenues are recognized in the accounting period in which they become measurable and available. Because annual tobacco settlement revenues are based on cigarette sales from the preceding calendar year, the Authority accrues an estimate of tobacco settlement revenues derived from sales from January 1 to June 30. Tobacco settlement revenues not received within sixty days after the end of the year are reported as deferred inflows of resources as they are not available.

The Authority reports the following major governmental funds:

- The *General Fund* is used to account for all revenues and expenditures necessary to carry out the basic governmental activities of the Authority that are not accounted through the Debt Service Fund. For the Authority, the General Fund includes such activities as the collection of tobacco settlement revenues, the administration of the bond debt and proceeds, and the transferring of funds to the Debt Service Fund necessary to make required debt service payments. The Corporation has been blended with the activity of the General Fund.
- The *Debt Service Fund* is used to account for the principal and interest payments on the Authority's Tobacco Settlement Asset Backed Bonds and the receipt of funds from the General Fund necessary to meet annual debt service requirements.

Use of 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 certain financial statement amounts and disclosures. Actual results could differ from those estimates.

Deferred Outflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an expense until then.

Fund Balance Reporting

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the Authority's policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the Authority's policy is to first apply committed fund balance, then assigned fund balance, and finally unassigned fund balance.

Only the Board of Directors (Board) has the authority to assign unrestricted fund balance amounts where the Authority's intent is for those amounts to be used for specific purposes.

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA
 (A Component Unit of the County of Sacramento, California)
 Notes to the Basic Financial Statements (Continued)
 For the Year Ended June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Board, as the highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as a resolution. These committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use through the same type of formal action taken to establish the commitment. Board action to commit fund balance needs to occur within the fiscal reporting period; but the amount, if any, which will be subject to the constraint, may be determined at a subsequent period.

Deficit Net Position

As of June 30, 2021, the Authority’s governmental activities had deficit net position of \$37,204,608. This deficit in net position is the result of the annual accretion of interest on the First and Second Subordinate Capital Appreciation (Turbo) Bonds with final maturity dates of June 2045. The deficit in net position will continue to increase annually until the capital appreciation bonds mature in 2045.

NOTE 2 – CASH AND INVESTMENTS

The Authority maintains a separate checking account in the name of the Authority. At June 30, 2021, the reported amount of the Authority's deposits and bank balance is \$171,279 which is entirely covered by federal depository insurance. The Corporation maintains a separate checking account in the name of the Corporation. At June 30, 2021, the reported amount of the Corporation's deposits and bank balance is \$71,823, which is entirely covered by federal depository insurance.

Cash and investments at June 30, 2021, are held by the trustee. Cash and investments are comprised of the following at June 30, 2021:

Deposits held by trustee	\$ 243,102
Investments held by trustee	<u>13,591,929</u>
Total Cash and Investments	<u>\$ 13,835,031</u>

Investments held by trustee as of June 30, 2021, consist of the following:

Money market mutual fund	<u>\$ 13,591,929</u>
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TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA

(A Component Unit of the County of Sacramento, California)

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2021

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investments

Money held by the indenture trustee may be invested in eligible investments as directed by the bond indenture. Eligible investments mean any of the following:

- a) bonds, notes, and other evidences of indebtedness of the State, and securities unconditionally guaranteed as to the payment of principal and interest by the State;
- b) revenue bonds, revenue notes, or other evidences of indebtedness issued by agencies or authorities of the State;
- c) bonds, notes, and other evidences of indebtedness of any county, city, district, authority or other public body in the State;
- d) bonds, notes, and other obligations of the United States, and securities unconditionally guaranteed as to the payment of principal and interest by the United States with a remaining maturity not greater than five years, except in the case of savings bonds, which may have a longer maturity;
- e) savings accounts, time deposits, or certificates of deposit in any bank, savings bank, trust company, savings and loan association, or credit union authorized to do business as such in the State;
- f) defeasance collateral;
- g) direct obligations of, or obligations guaranteed as to timely payment of principal and interest by, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Federal Home Loan Bank, the Federal Farm Credit System, or the Tennessee Valley Authority;
- h) demand and time deposits in or certificates of deposit of, or bankers' acceptances issued by, any bank or trust company, savings and loan association, or savings bank, payable on demand or on a specified date no more than three months after the date of issuance thereof, if such deposits or instruments are rated at least A-1+ by S&P, P-1 by Moody's and F1 by Fitch;
- i) certificates, notes, warrants, bonds, obligations, or other evidences of indebtedness of a State or a political subdivision thereof, rated by each rating agency maintaining a rating thereon, in one of its three highest ratings categories;
- j) commercial, or finance company paper that is rated A-1 by S&P, P-1 by Moody's and F1 by Fitch, if rated by Fitch;
- k) repurchase obligations rated at least A-1+ by S&P, P-1 by Moody's and F1 by Fitch (if payable on demand or on a specified date no more than three months after the date of issuance), or rated by each rating agency maintaining a rating thereon in one of its two highest long term rating categories;
- l) corporate securities rated at least A-1+ by S&P, P-1 by Moody's and F1 by Fitch, if rated by Fitch;
- m) taxable or tax-exempt money market funds which funds are regulated investment companies;
- n) investment agreements or guaranteed investment contracts rated, or with any financial institution or corporation whose senior long-term debt obligations are rated, or guaranteed by a financial institution whose senior long-term debt obligations are rated, at the time such agreement or contract is entered into, by each rating agency maintaining a rating thereon in one of its three highest rating categories;
- o) that certain investment agreement for funds held in the senior liquidity reserve account, dated the closing date, among Bayerische Landesbank, acting through its New York branch, the issuer and the trustee; and
- p) other obligations or securities that are non-callable and that are acceptable to each rating agency.

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA
(A Component Unit of the County of Sacramento, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2021

NOTE 2 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

This is the risk that in the event a financial institution or counterparty fails, the Authority would not be able to recover the value of its deposits and investments. The California Government Code requires that a financial institution secure deposits made by state and local governments by pledging securities in an undivided collateral pool held by a depository regulated by the public agencies. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure state and local government deposits by pledging first trust deed mortgage notes having a value of 150% of the secured deposits. Accordingly, the Authority's deposits are not exposed to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity fair value is to changes in market interest rates. The policy, per the bond indenture, is that investments shall mature or are so redeemable in an amount sufficient to make payments as required by the indenture. The Authority's investment in the money market mutual fund has a weighted average to maturity of 28 days.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Authority's policy is dictated by the bond indenture. The Authority's investment in the money market mutual fund has credit ratings of Aaa-mf and AAAm by Moody's and S&P, respectively.

The valuation of the 2a-7 money market mutual fund held by the Authority is at one-dollar net asset value (NAV) per share. The total value of these at June 30, 2021 is \$13,591,929, with zero unfunded commitments. The redemption frequency is daily and redemption notice period of intra-daily. This type of investment primarily invests in short-term U.S. Treasury and government securities (including repurchase agreements collateralized by U.S. Treasury and government agency securities).

NOTE 3 – BONDS PAYABLE

On February 18, 2021, the Authority issued \$230,706,364 of Series 2021 Refunding bonds. The Authority used the proceeds from the issuance of the Series 2021 Refunding Bonds, together with other available funds, to refund on a current basis \$264,390,516 of the Authority's outstanding Tobacco Settlement Asset-Backed Series 2005 Bonds through defeasance and redemption, and fund a deposit to the Senior Liquidity Reserve Account held under the Indenture and pay costs of issuance in connection with the issuance of the Series 2021 Bonds. The Series 2021 Bonds are payable solely from pledged tobacco settlement revenues and interest earnings on amounts on deposit.

The refunding was undertaken to reduce total debt service payments and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$79.32 million and cash flow savings of \$579.22 million. The refunding resulted in a deferred outflow of resources of \$14.15 million and will be amortized through June 2045.

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA

(A Component Unit of the County of Sacramento, California)

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2021

NOTE 3 – BONDS PAYABLE (Continued)

The Authority issued \$87,120,000 of Series 2021A Class 1 Senior Current Interest Serial Bonds with interest rates ranging from 3.00% to 5.00% and a final maturity date of June 1, 2040.

The Authority issued \$37,505,000 of Series 2021A Class 1 Senior Current Interest Term Bonds with an interest rate of 4.00% and a due date of June 1, 2049.

The Authority issued \$35,000,000 of Series 2021B-1 Class 2 Current Interest Bonds. The first Series 2021B-1 Turbo Term Bonds are for \$7,500,000 with an interest rate of 0.45% with an expected final turbo redemption date of June 1, 2022, with a due date of June 1, 2030. The second Series 2021B-1 Turbo Term Bonds are for \$27,500,000 with an interest rate of 4.00% with an expected final turbo redemption date of June 1, 2027, with a due date of June 1, 2030.

The Authority issued \$71,081,364 of Series 2021B-2 Class 2 Senior Capital Appreciation Bonds with an interest rate of 3.75% with an expected final turbo redemption date of June 1, 2043, with a due date of June 1, 2060.

Future debt service requirements at June 30, 2021, are as follow:

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 3,825,000	\$ 6,364,250
2023	3,660,000	6,238,250
2024	3,760,000	6,055,250
2025	3,735,000	5,867,250
2026	3,855,000	5,680,000
2027-2031	22,890,000	25,312,500
2032-2036	22,220,000	19,842,900
2037-2041	24,495,000	15,041,600
2042-2046	21,090,000	10,426,800
2047-2051	39,570,000	4,261,400
2052-2056	-	-
2057-2060	71,081,364	234,868,637
Total	<u>\$ 220,181,364</u>	<u>\$ 339,959,337</u>

The following summarizes the bonds payable activity during the year:

	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>July 1, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2021</u>	<u>One Year</u>
Tobacco bonds payable	\$ 225,876,288	230,706,364	(236,401,288)	\$ 220,181,364	\$ 3,825,000
Accreted interest	36,128,306	3,379,041	(38,524,228)	983,119	-
Less Deferred Amounts:					
Bond discount	<u>(2,952,166)</u>	<u>-</u>	<u>2,952,166</u>	<u>-</u>	<u>-</u>
Plus Deferred Amounts:					
Bond Premium	<u>-</u>	<u>32,746,761</u>	<u>(305,525)</u>	<u>32,441,236</u>	<u>-</u>
Governmental Activities					
Bonds Payable	<u>\$ 259,052,428</u>	<u>\$266,832,166</u>	<u>\$(272,278,875)</u>	<u>\$ 253,605,719</u>	<u>\$ 3,825,000</u>

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA

(A Component Unit of the County of Sacramento, California)

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2021

NOTE 3 – BONDS PAYABLE (Continued)

The Authority's outstanding bonds are secured by: (i) the Authority's rights with respect to the Loan Agreement to receive Loan Payments; (ii) the Corporation Tobacco Assets; and (iii) all money, instruments, investment property, and other property credited to or on deposit in the Pledged Accounts. The bonds contain a provision that in an event of default, the timing of repayment of outstanding amounts become immediately due if the Authority is unable to make payment.

Accreted Interest

The accreted interest balance at June 30, 2021, represents accreted interest on the 2021 B-2 Senior Class 2 Capital Appreciation Bonds, originally issued for \$71,081,364. Unaccreted interest totaled \$233,885,517 at June 30, 2021.

NOTE 4 – TOBACCO SETTLEMENT RIGHTS

In November 1998, 46 states (including California), six other United States jurisdictions and participating cigarette manufactures entered into a Master Settlement Agreement (MSA) in settlement of certain cigarette smoking litigation. The MSA calls for the cigarette manufacturers to make annual payments to the settling states, beginning in 2000, and continuing in perpetuity. The State of California (State) entered into a separate Memorandum of Understanding (MOU) with all California counties and certain affected cities regarding the distribution and use of the State's share of Tobacco Settlement Revenues (TSRs). The MOU calls for 45% of the State's allocation to be distributed to the counties and certain affected cities based on population.

During the year ended June 30, 2002, the County entered into a purchase and sales agreement with the Corporation, a separate legal entity, whereby the County sold its rights, title, and interest in, to, and under the MSA and the MOU to the Corporation in exchange for cash consideration of \$171,965,922. At the same time, the Corporation also entered into a loan agreement, with the Authority, to borrow the funds necessary to purchase those rights from the County. In return, the Corporation is obligated to pay all TSRs it receives to the Authority. The obligation to the Authority is limited to the Corporation's interest in the tobacco settlement rights.

During the year ended June 30, 2006, the Corporation was able to borrow an additional \$63,225,245 from the Authority. These funds were granted by the Corporation to the County in accordance with a grant agreement dated November 15, 2005. The amortized tobacco settlement rights was \$181,328,457 at June 30, 2021.

NOTE 5 – CONTINGENCIES AND CONCENTRATION OF RISK

The Corporation purchased the County's rights, title, and interest in future TSRs. The Corporation financed the purchase of future TSRs through a loan agreement with the Authority. In return, the Corporation is obligated to pay all TSRs it receives to the Authority. The Authority has issued bonds payable primarily from pledged TSRs to be received from the Corporation. There are a number of risks associated with receipts of such TSRs, including litigation affecting the participating manufacturers and possible bankruptcy as a result thereof, increased growth of non-participating manufacturer's market share, a decline in cigarette consumption materially beyond forecasted levels, reduction in investment earnings due to unforeseen market conditions, and other future adjustments to the calculation of the TSRs.

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA
(A Component Unit of the County of Sacramento, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2021

NOTE 5 – CONTINGENCIES AND CONCENTRATION OF RISK (Continued)

The Authority's financial existence is contingent upon receiving the TSRs from the Corporation. The risk of non-collection of the TSRs is considered remote; however, no assurance can be given as to the timing of

the collections of TSRs. No assurance can be given that actual cigarette consumption in the United States during the term of the Series 2021 Bonds will be as assumed, or that the other assumptions underlying the bond structuring assumptions, including that certain adjustments and offsets will not apply to payments due under the MSA, will be consistent with future events. If actual events deviate from one or more of the assumptions underlying the bond structuring assumptions, the amount of TSRs available to make turbo redemption payments will be affected and the resulting weighted average lives of the Turbo Term Bonds will vary. Any reinvestment risks from faster amortization or extension risks from slower amortization of the Series 2021 Term Bonds and Capital Appreciation Bonds than anticipated will be borne entirely by the holders of the Turbo Term Bonds. In addition, future increases in the rate of inflation above 3% per annum in the absence of other factors would materially shorten the life of the Series 2005 Bonds. No assurance can be given that these structuring assumptions, upon which the projections of the Series 2005 Bonds turbo redemptions are based, will be realized.

The current bond credit ratings issued by Standard & Poor's for the 2021A Class 1 Senior Current Interest Serial Bonds range from A to BBB, the 2021B-1 Turbo Term Bond due June 1, 2030 is BBB+, the 2021B-1 Turbo Term Bond due June 1, 2049 is BBB-. The 2021B-2 Capital Appreciation Turbo Term Bonds are not rated.

NOTE 6 – FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the Authority's financial reporting process. Future new standards which may impact the Authority include the following:

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after June 15, 2021, or the 2021-2022 fiscal year, as postponed by GASB Statement No. 95. The Authority has determined that there is no effect on its financial statements.

GASB Statement No. 91 – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement is effective for reporting periods beginning after December 15, 2021, or the 2022-2023 fiscal year, as postponed by GASB Statement No. 95. The Authority has determined that there is no effect on its financial statements.

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA

(A Component Unit of the County of Sacramento, California)

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2021

NOTE 6 – FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

GASB Statement No. 92 – In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: (1) The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports; (2) reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; (3) the applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits; (4) the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; (5) measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; (6) reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; (7) reference to nonrecurring fair value measurements of

assets or liabilities in authoritative literature; and (8) terminology used to refer to derivative instruments. This Statement is effective for reporting periods beginning after June 15, 2021, or the 2021–2022 fiscal year, as postponed by GASB Statement No. 95. The Authority has determined that there is no effect on its financial statements.

GASB Statement No. 93 – In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objectives of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR (Interbank Offered Rate). The removal of London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021, or the 2022-2023 fiscal year. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021, or the 2021-2022 fiscal year, as postponed by GASB Statement No. 95. The Authority has determined that there is no effect on its financial statements.

GASB Statement No. 94 – In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset, for a period of time in an exchange or exchange-like transaction. This Statement is effective for reporting periods beginning after June 15, 2022, or the 2022-2023 fiscal year. The Authority has determined that there is no effect on its financial statements.

GASB Statement No. 96 – In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The primary objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability;

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA
(A Component Unit of the County of Sacramento, California)
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2021

NOTE 6 – FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

(3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. This Statement is effective June 15, 2022 or the 2022-2023 fiscal year. The Authority has determined that there is no effect on its financial statements.

GASB Statement No. 97 – In June 2020, GASB issued statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans- An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. This Statement is effective for reporting periods beginning after June 15, 2021, or the 2021-2022 fiscal year. The Authority has determined that there is no effect on its financial statements.

NOTE 7 – COVID-19

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally. Due to the nature of the Authority’s operation, there was no impact of COVID-19 on the Authority’s financial statements, nor is it anticipated to impact the Authority in the future.

REQUIRED SUPPLEMENTARY INFORMATION

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA
(A Component Unit of the County of Sacramento, California)
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget
and Actual – General Fund
For the Year Ended June 30, 2021

	Original Budget	Final Budget	Actual Amount	Variance Final Budget Positive (Negative)
REVENUES				
Use of money and property	\$ -	\$ -	\$ 225	\$ 225
Tobacco settlement revenues	<u>-</u>	<u>-</u>	<u>15,751,127</u>	<u>15,751,127</u>
Total revenues	-	-	15,751,352	15,751,352
EXPENDITURES				
Debt service:				
Fiscal charges	<u>429,000</u>	<u>429,000</u>	<u>351,531</u>	<u>77,469</u>
Excess of revenues (deficiency) over (under) expenditures	(429,000)	(429,000)	15,399,821	15,399,821
OTHER FINANCING USES				
Transfer out	<u>-</u>	<u>-</u>	<u>(15,576,600)</u>	<u>(15,576,600)</u>
Changes in fund balance	<u>\$ (429,000)</u>	<u>\$ (429,000)</u>	(176,779)	<u>\$ 252,221</u>
Fund balance, beginning of year			<u>494,488</u>	
Fund balance, end of year			<u>\$ 317,709</u>	

Note to Required Supplementary Information:

The Authority is required to prepare a budget each year for its general fund based on estimates of revenues and expected expenditures. The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America. All changes to the budget during the year are reflected in these financial statements and require the approval of the Authority's Board of Directors. All unencumbered annual appropriations lapse at the end of each fiscal year.

The Authority does not budget for Tobacco Settlement Revenues (TSRs) and principal and interest payments because no assurance can be given as to the timing of the collections of TSRs and that actual cigarette consumption in the United States will be as projected. Additionally, no assurance can be given that the assumptions underlying the bond structuring assumptions, including adjustments and offsets, will not apply to payments due under the Master Settlement Agreement, will be consistent with future events.

OTHER REPORT



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*

Board of Directors
Tobacco Securitization Authority of Northern California
Sacramento, California

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 the Tobacco Securitization Authority of Northern California (Authority), a component unit of the County of Sacramento, California, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 31, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Sacramento, California
August 31, 2021