



August 31, 2021

Board of Directors  
Sacramento County Tobacco Securitization Corporation  
Sacramento, California

We have audited the financial statements of the Sacramento County Tobacco Securitization Corporation (Corporation), a component unit of the Tobacco Securitization Authority of Northern California (Authority), as of and for the year ended June 30, 2021, and have issued our report thereon dated August 31, 2021. Professional standards require that we advise you of the following matters relating to our audit.

### **Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated July 13, 2021, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Corporation solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

### **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

### **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Corporation is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2021. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most sensitive accounting estimate affecting the financial statements was:

Management's estimate of the Tobacco Settlement Revenue (TSR) receivable is based on an estimate of cigarette sales for the first six months of the calendar year. We evaluated the key factors and assumptions used to develop this estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of Tobacco Settlement Rights in Note 3 to the financial statements, which describes that during the year ended June 30, 2002, the County of Sacramento (County) entered into a purchase and sales agreement with the Sacramento County Tobacco Securitization Corporation (Corporation) whereby the County sold its rights, title, and interest in, to, and under the Master Settlement Agreement (MSA) and the State Memorandum of Understanding (MOU) with all California counties and certain affected cities, 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 Corporation 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 borrowed an additional \$63,225,245 for a total of \$235,191,167. The unamortized TSRs at June 30, 2020 was \$181,328,457.

The disclosure of Contingencies and Concentration of Risk in Note 5 to the financial statements, which describes that the Corporation's financial existence is contingent upon receiving the TSRs from the State. 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. As a result, no assurance can be given that these structuring assumptions, upon which the projections of the Series 2021 Bonds turbo redemptions are based, will be realized.

### **Difficulties Encountered during the Audit**

We encountered no difficulties in dealing with management relating to the performance of the audit.

### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. No such misstatements were detected as a result of our audit procedures.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Corporation's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

### **Representations Requested from Management**

We have requested certain written representations from management, which are included in the attached letter dated August 31, 2021.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the Corporation, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Corporation's auditors.

**Restriction on Use**

This report is intended solely for the information and use of the Board of Directors and management of the Sacramento County Tobacco Securitization Corporation and is not intended to be and should not be used by anyone other than these specified parties.

*Macias Gini & O'Connell LLP*

Sacramento, California

August 31, 2021

# **Sacramento County Tobacco Securitization Corporation**

**700 H Street, Suite 3650**

**Sacramento, California 95814-1280**

**(916) 874-6744**

**BOARD OF DIRECTORS:**

*SUE FROST, CHAIR*

*DON NOTTOLI, VICE CHAIR*

*PATRICK KENNEDY, DIRECTOR*

*PHIL SERNA, DIRECTOR*

*BETTY WILLIAMS, DIRECTOR*

*RICH DESMOND, DIRECTOR*

*FLORENCE EVANS, SECRETARY*

*AMANDA THOMAS, CHIEF FINANCIAL OFFICER*

August 31, 2021

Macias Gini & O'Connell LLP  
500 Capitol Mall, Suite 2200  
Sacramento, California 95814

This representation letter is provided in connection with your audit of the basic financial statements of Sacramento County Tobacco Securitization Corporation (Corporation) as of June 30, 2021, and for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Corporation in accordance with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information such that, in the light of surrounding circumstances, 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.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of August 31, 2021.

## Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 13, 2021 for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- There is no summary of unrecorded misstatements since there are no adjustments proposed by the auditor.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.

- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
- Deposit and investment risks have been properly and fully disclosed.
- To the extent our normal procedures and controls related to our financial close or other reporting processes were adversely impacted by the COVID-19 outbreak, we took appropriate actions and safeguards to reasonably ensure the fair presentation of the financial statements in accordance with U.S. GAAP.
- Other than as disclosed in Note 7 to the financial statements, no other impacts from the COVID-19 outbreak are necessary to be reflected in those financial statements.
- The disclosure included in the financial statements regarding the relevant significant business, financial, and reporting impacts of the COVID-19 outbreak accurately reflect management's full consideration of such impacts.
- The Tobacco Settlement Rights represent the net present value of the future tobacco settlement revenues estimated to be received over the life of the outstanding bonds. Management believes the future tobacco settlement revenues will be sufficient to pay principal and interest of the outstanding bonds issued by the Authority.

### **Information Provided**

- We have provided you with:
  - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes,<sup>7</sup> and other matters;
  - Additional information that you have requested from us for the purpose of the audit;
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have provided to you our analysis of the entity's ability to continue as a going concern, including significant conditions and events present, and if necessary, our analysis of management's plans, and our ability to achieve those plans.
- We have no knowledge of any or suspected fraud that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.

- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation, claims, or assessments.
- We have disclosed to you the identity of all the entity's related parties and the nature of all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- The Corporation has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which the Corporation is contingently liable.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
  - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
  - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62
  - Continuing disclosure consent decree agreements or filings with the Securities and Exchange Commission and we have filed updates on a timely basis in accordance with the agreements (Rule 240, 15c2-12).
- The Corporation has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.

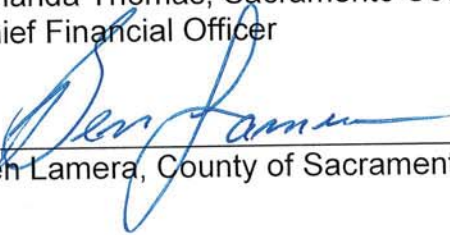


- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- The Corporation has covenanted to transfer to the Authority all Tobacco Settlement Revenues when such are received from the State of California, pledged specifically for the repayment of the Authority's 2021 Tobacco Settlement Asset-Back Bonds, in accordance with the First Supplement to Secured Loan Agreement dated February 1, 2021 by and between the Corporation and the Authority.



---

Amanda Thomas, Sacramento County Tobacco Securitization Corporation,  
Chief Financial Officer



---

Ben Lamera, County of Sacramento, Director of Finance