

**SACRAMENTO COUNTY  
TOBACCO SECURITIZATION CORPORATION**  
(A Component Unit of the Tobacco  
Securitization Authority of Northern California)

Independent Auditor's Reports  
and Basic Financial Statements

For the Year Ended June 30, 2022



Certified  
Public  
Accountants

**SACRAMENTO COUNTY TOBACCO SECURITIZATION CORPORATION**  
(A Component Unit of the Tobacco Securitization Authority of Northern California)  
For the Year Ended June 30, 2022

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## Independent Auditor's Report

Board of Directors  
Sacramento County Tobacco Securitization Corporation  
Sacramento, California

### Report on the Audit of the Financial Statements

#### *Opinion*

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, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Corporation, as of June 30, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

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*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation 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 opinion.

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation'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***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2022, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

*Macias Gini & O'Connell LLP*

Sacramento, California  
August 31, 2022

**SACRAMENTO COUNTY TOBACCO SECURITIZATION CORPORATION**  
(A Component Unit of the Tobacco Securitization Authority of Northern California)  
Statement of Net Position  
June 30, 2022

**ASSETS**

Current assets:

Cash	\$ 60,209
Tobacco settlement revenues receivable	<u>8,521,937</u>

Total assets	<u>8,582,146</u>
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**DEFERRED OUTFLOWS OF RESOURCES**

Tobacco settlement rights (net of accumulated amortization of \$62,637,542)	<u>172,553,624</u>
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**LIABILITIES**

Current liabilities:

Accounts payable	26,834
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Noncurrent liabilities:

Loan from Tobacco Securitization Authority of Northern California	<u>172,553,624</u>
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Total liabilities	<u>172,580,458</u>
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**NET POSITION**

Unrestricted	<u>\$ 8,555,312</u>
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See accompanying notes to the basic financial statements.

**SACRAMENTO COUNTY TOBACCO SECURITIZATION CORPORATION**  
(A Component Unit of the Tobacco Securitization Authority of Northern California)  
Statement of Revenues, Expenses and Change in Net Position  
For the Year Ended June 30, 2022

<b>OPERATING REVENUES</b>	
Tobacco settlement revenues	\$ 17,690,248
<b>OPERATING EXPENSES</b>	
Fiscal charges	<u>92,115</u>
Operating income	<u>17,598,133</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest expense on loan from Tobacco Securitization Authority of Northern California	(16,832,227)
Contribution to Tobacco Securitization Authority of Northern California	(211,647)
Contribution from Tobacco Securitization Authority of Northern California – operating subsidy	<u>75,000</u>
Total nonoperating expenses, net	<u>(16,968,874)</u>
Change in net position	629,259
Net position, beginning of year	<u>7,926,053</u>
Net position, end of year	<u>\$ 8,555,312</u>

See accompanying notes to the basic financial statements.

**SACRAMENTO COUNTY TOBACCO SECURITIZATION CORPORATION**  
(A Component Unit of the Tobacco Securitization Authority of Northern California)  
Statement of Cash Flows  
For the Year Ended June 30, 2022

**CASH FLOW FROM OPERATING ACTIVITIES:**

Tobacco settlement revenues received	\$ 25,818,708
Payments to vendors	<u>(86,615)</u>
Net cash provided by operating activities	<u>25,732,093</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Payment of interest on loan from Tobacco Securitization Authority of Northern California	(16,832,227)
Payment of principal on loan from Tobacco Securitization Authority of Northern California	(8,774,833)
Operating contribution to Tobacco Securitization Authority of Northern California	(211,647)
Operating subsidy from Tobacco Securitization Authority of Northern California	<u>75,000</u>
Net cash used for noncapital financial activities	<u>(25,743,707)</u>

Net decrease in cash	(11,614)
Cash, beginning of year	<u>71,823</u>
Cash, end of year	<u>\$ 60,209</u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 17,598,133
Adjustments to reconcile operating income to net cash provided by operating activities	
Change in:	
Tobacco settlement revenues receivable	(646,374)
Tobacco settlement rights	8,774,833
Accounts payable	<u>5,501</u>
Net cash provided by operating activities	<u>\$ 25,732,093</u>

See accompanying notes to the basic financial statements.



**SACRAMENTO COUNTY TOBACCO SECURITIZATION CORPORATION**  
(A Component Unit of the Tobacco Securitization Authority of Northern California)  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2022

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

Sacramento County Tobacco Securitization Corporation (Corporation) was incorporated August 21, 2001. It is a nonprofit public benefit organization as defined by *Internal Revenue Code* Section 501(c)(3).

The purpose of the Corporation is to purchase from the County of Sacramento (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, incur expenses 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 (GAAP) for inclusion as a blended component unit of the Tobacco Securitization Authority of Northern California (Authority) because of the financial benefit/burden relationship of their activities. The Corporation obtained its funding to purchase from the County its rights to receive tobacco settlement revenues through a loan from the Authority.

Basis of Presentation and Accounting

The Corporation prepares its financial statements on the accrual basis of accounting in accordance with GAAP. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the principal ongoing operations. The principal operating revenues of the Corporation are tobacco settlement revenues. Operating expenses consist of fiscal charges. Contribution from the Authority is reported as a nonoperating revenue and interest expense on the loan from the Authority and contribution to the Authority are reported as nonoperating expenses. Because annual tobacco settlement revenues are based on cigarette sales from the preceding calendar year, the Corporation accrues an estimate of tobacco settlement revenues derived from sales from January 1 to the fiscal year-end.

Deferred Outflows of Resources

In addition to assets, the statement of net 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) until then. The Corporation only has one item that qualifies for reporting in this category, which is the Tobacco Settlement Rights reported in the Statement of Net Position.

**SACRAMENTO COUNTY TOBACCO SECURITIZATION CORPORATION**  
(A Component Unit of the Tobacco Securitization Authority of Northern California)  
Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2022

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported financial statement amounts and disclosures. Actual results could differ from those estimates.

Income Taxes

The Corporation is a tax-exempt corporation under section 501(c)(3) of the *Internal Revenue Code*.

**NOTE 2 – CASH**

Cash in the amount of \$60,209 consists of cash in a separate checking account in the name of the Corporation.

***Deposits***

Custodial credit risk is the risk that, in the event of failure of a depository financial institution, the Corporation will not be able to receive its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Corporation does not have a deposit policy for custodial credit risk. The bank balance for the Corporation's deposit (cash in checking account) was \$60,209 at June 30, 2022 and is covered by federal depository insurance.

**NOTE 3 – 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.

**SACRAMENTO COUNTY TOBACCO SECURITIZATION CORPORATION**  
(A Component Unit of the Tobacco Securitization Authority of Northern California)  
Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2022

**NOTE 3 – TOBACCO SETTLEMENT RIGHTS (Continued)**

During the year ended June 30, 2006, the Corporation was able to borrow an additional \$63,225,245 from the Authority as a result of the issuance of the 2005 Tobacco Securitization Refunding Bonds. These funds were granted by the Corporation to the County in accordance with a grant agreement dated November 15, 2005. The outstanding loan balance is \$172,553,624 at June 30, 2022.

The obligation to the Authority is limited to the Corporation’s interest in the Tobacco Settlement Rights. The unamortized Tobacco Settlement Rights, reported as deferred outflows of resources is \$172,553,624 at June 30, 2022.

**NOTE 4 – LOAN FROM TOBACCO SECURITAZION AUTHORITY OF NORTHERN CALIFORNIA**

The following summarizes the long-term debt activity during the year:

	<u>Balance</u> <u>July 1, 2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2022</u>
Loan from Tobacco Securitization Authority of Northern California	\$ 181,328,457	\$ -	\$ (8,774,833)	\$ 172,553,624

The Corporation has direct borrowings totaling \$172,553,624, which represents all of the Corporation’s long-term debt. The outstanding loan from the Authority is secured by the Corporation’s Tobacco Assets as defined in the secured loan agreement.

**NOTE 5 – CONTINGENCIES AND CONCENTRATION OF RISK**

The Corporation purchased the County’s rights to receive TSRs from the State. 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 future adjustments to the calculation of the TSRs.

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 Authority’s Series 2021 Refunding 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 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 2021 Refunding Bonds. No assurance can be given that these structuring assumptions, upon which the projections of the Series 2021 Refunding Bonds Turbo Redemptions are based, will be realized.

**SACRAMENTO COUNTY TOBACCO SECURITIZATION CORPORATION**  
(A Component Unit of the Tobacco Securitization Authority of Northern California)  
Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2022

**NOTE 6 – RISK MANAGEMENT**

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, for which the Corporation purchases commercial insurance.

During the year ended June 30, 2022, the Corporation did not reduce insurance coverage from coverage levels in place as of June 30, 2021. There have been no insurance settlements or claims during the years ended June 30, 2022, 2021, and 2020.

**NOTE 7 – FUTURE ACCOUNTING PRONOUNCEMENTS**

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

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 Corporation 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 Corporation 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; (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 for reporting periods beginning after June 15, 2022, or the 2022-2023 fiscal year. The Corporation has determined that there is no effect on its financial statements.

GASB Statement No. 98 – In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement is effective for reporting periods ending after December 15, 2021, or the 2022-2023 fiscal year. The Corporation has determined that there is no effect on its financial statements.

**SACRAMENTO COUNTY TOBACCO SECURITIZATION CORPORATION**  
(A Component Unit of the Tobacco Securitization Authority of Northern California)  
Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2022

**NOTE 7 – FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)**

GASB Statement No. 99 – In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. 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 (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of this Statement are effective as follows:

- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, or the 2022-2023 fiscal year.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of GASB Statement 53 are effective for fiscal years beginning after June 15, 2023, or the 2023-2024 fiscal year.

The Corporation has not determined the effect, if any, on the financial statements.

GASB Statement No. 100 – In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. The primary objectives of this Statement are to enhance accounting and financial reporting requirements for accounting changes and error corrections and to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement is effective for reporting periods beginning after June 15, 2023, or the 2023-2024 fiscal year. The Corporation has not determined the effect, if any, on its financial statements.

GASB Statement No. 101 – In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement is effective for reporting periods beginning after December 15, 2023, or the 2024-2025 fiscal year. The Corporation has determined that there is no effect on its financial statements.

**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  
Sacramento County Tobacco Securitization Corporation  
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 Sacramento County Tobacco Securitization Corporation (the Corporation), a component unit of the Tobacco Securitization Authority of Northern California, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Corporation’s basic financial statements, and have issued our report thereon dated August 31, 2022.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation’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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation’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.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation'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 E O'Connell LPA". The signature is written in a cursive style with some capital letters.

Sacramento, California  
August 31, 2022