HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION

(A BLENDED COMPONENT UNIT OF THE COUNTY OF HERKIMER, NEW YORK)

MANAGEMENT'S DISCUSSION AND ANALYSIS AND BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF HERKIMER, NEW YORK)

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Independent Auditor's Report

Board of Directors
Herkimer Tobacco Asset Securitization Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the Herkimer Tobacco Asset Securitization Corporation (Corporation), a blended component unit of the County of Herkimer, New York, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Corporation 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 an opinion 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.

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 judgment, 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 Corporation'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 Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Herkimer Tobacco Asset Securitization Corporation, as of December 31, 2020, 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 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 March 25, 2021, on our consideration of the Herkimer Tobacco Asset Securitization 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 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 financials reporting and compliance.

D'Arcangelo + Co., LLP

March 25, 2021

Utica, New York

D'Arcangelo & Co., LLP
Certified Public Accountants & Consultants

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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 Members
Herkimer Tobacco Asset Securitization Corporation

We have audited, 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, the financial statements of the Herkimer Tobacco Asset Securitization Corporation (Corporation), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March __, 2021.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 Corporation'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Corporation's financial statements are free of 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 determination of financial statement amounts. 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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

D'Arcangelo + Co., LLP

March 25, 2021

Utica, New York

The following is a discussion and analysis of the Herkimer Tobacco Asset Securitization Corporation (Corporation)'s financial performance for the years ended December 31, 2020 and 2019. This section is a summary of the Corporation's financial activities based on currently known facts, decisions and conditions. This section is only an introduction and should be read in conjunction with the Corporation's financial statements, which immediately follow this section.

1. INTRODUCTION

Herkimer Tobacco Asset Securitization Corporation (Corporation) is a not-for-profit corporation formed exclusively for the purpose of acquiring from the County of Herkimer, New York (County) all or any of the rights, titles, and interest of the County under the Master Settlement Agreement (MSA) with respect to tobacco related litigation among various settling states and participating manufacturers. The Corporation is an instrumentality of, but separate and apart from, the County. In accordance with the Government Accounting Standards Board, financial activity of the Corporation is presented as a blended component unit in the County of Herkimer's Annual Financial Statements.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB). The financial statement presentation consists of the following four basic financial statements:

- Statement of Net Position
- Statement of Activities
- Governmental Fund Balance Sheet and the Reconciliation to the Statement of Net Position
- Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance and the Reconciliation to the Statement of Activities

The Statement of Net Position and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, assets and liabilities resulting from non-exchange transactions are recognized when the amounts to be received are measurable and collection is probable. The Balance Sheet-Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. These policies are more fully described in the accompanying notes to the basic financial statements.

3. SUMMARY OF FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal years 2020 and 2019 are as follows:

- The Corporation's Net Position decreased from a deficit of $22,835,495 to a deficit of $23,447,439.

- The Corporation's Change in Net Position for the years ending December 31, 2020 and 2019 was $(611,944) and $(631,772), respectively.

4. FINANCIAL ANALYSIS

A summary of the Corporation's Statement of Net Position for December 31, 2020 and 2019, is as follows:

Table A-1 Statement of Net Position

	2020	2019	Increase (Decrease)	Percentage Change
Cash and Cash Equivalents	$ 134,609	$ 108,718	$ 25,891	23.8%
Deposits Held With Trustees	1,141,449	1,170,546	(29,097)	(2.5%)
Prepaid Expenditures	3,619	6,369	(2,750)	(43.2%)
Total Assets	1,279,677	1,285,633	(5,956)	(0.5%)
Deferred Outflows of Resources	585,119	606,790	(21,671)	(3.6%)
Total Assets and Deferred Outflows	$ 1,864,796	$ 1,892,423	$ (27,627)	(1.5%)
Current and other Liabilities	$ 69,933	$ 40,063	$ 29,870	74.6%
Non-Current Liabilities	25,242,302	24,687,855	554,447	2.2%
Total Liabilities	25,312,235	24,727,918	584,317	2.4%
Net Position				
Restricted	1,141,449	1,170,546	(29,097)	(2.5%)
Unrestricted (Deficit)	(24,588,888)	(24,006,041)	(582,847)	(2.4%)
Total Liabilities and Net Position	$ 1,864,796	$ 1,892,423	$ (27,627)	(1.5%)

Deposits held with Trustees represent a reserve that has been established pursuant to the Corporation's indenture and was funded from the proceeds of the Series 2005 bonds. The reserve is required to be funded in an amount equal to the maximum annual debt service on the Series 2005 bonds.

Deferred outflows of resources decreased by $21,671 or 3.6% from December 31, 2019 to December 31, 2020. The decrease is related the amortization of Bond Issuance Cost/Discounts related to the Sale of Series 2005 bonds and the refunding of Series 2000 bonds.

Non-Current Liabilities increased by $554,447 due to the accretion of capital appreciation bonds in the amount of $744,447 offset by the payment of principal on bonds outstanding of $190,000.

Unrestricted net position decreased from a deficit of $24,006,041 in 2019 to a deficit of $24,588,888 in 2020 due to expenditures exceeding revenues in the amount of $611,944.

The results of this year's operations as a whole are reported in the Statement of Activities in the accompanying financial statements. A summary of this statement for the year ended December 31, 2020 and 2019 is as follows.

Table A-2 Changes in Net Position

	2020	2019	Increase (Decrease)	Percentage Change
Revenues				
Tobacco Settlement Revenue	$ 1,003,720	$ 874,933	$ 128,787	14.7%
Interest	10,418	18,578	(8,160)	(43.9%)
Total Revenues	1,014,138	893,511	120,627	13.5%
Expenses				
General Government Support	26,109	24,580	1,529	6.2%
Debt Service- Interest	1,599,973	1,500,703	99,270	6.6%
Total Expenses	1,626,082	1,525,283	100,799	6.6%
Change in Net Position	$ (611,944)	$ (631,772)	$ 19,828	

The Corporation's revenues increased by $120,627 or 13.5% between the years ended December 31, 2019 and December 31, 2020. This increase was primarily the result of an increase in Tobacco Settlement Revenue (TSR) payments received during the 2020 year.

The Corporation's expenditures increased by $100,799 or 6.67% between the years ended December 31, 2019 and December 31, 2020. This was primarily due to an increase of $99,270 in debt service interest payment on bonds.

5. FACTORS BEARING ON THE CORPORATION'S FUTURE

Tobacco settlement revenue is the primary revenue source for the Corporation. Tobacco settlement revenue is dependent on future tobacco sales, as well as the participating manufacturers' ability to pay. Increases or decreases in tobacco consumption will result in corresponding increases or decreases in tobacco settlement revenue. The ability of the Corporation to make debt service payments on bonds is contingent upon the receipt of tobacco settlement payments.

6. CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Herkimer County Department of Finance at the Herkimer County Office Building, 109 Mary Street, Suite 1310, Room 314, Herkimer, New York 13350

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF HERKIMER, NEW YORK)

STATEMENT OF NET POSITION

December 31, 2020

Assets	
Cash and Cash Equivalents	$ 134,609
Deposits Held With Trustees	1,141,449
Prepaid Expenditures	3,619
Total Assets	1,279,677
Deferred Outflows of Resources	
Bond Discounts and Escrow Deposits, Net	338,922
Bond Issuance Costs, Net	246,197
Total Deferred Outflows of Resources	585,119
Total Assets and Deferred Outflows of Resources	$ 1,864,796
Liabilities	
Accounts Payable	$ 5,000
Accrued Interest	64,933
Noncurrent Liabilities	
Long-Term Debt	25,242,302
Total Liabilities	25,312,235
Net Position (Deficit)	
Restricted	$ 1,141,449
Unrestricted (Deficit)	(24,588,888)
Net Position (Deficit)	(23,447,439)
Total Liabilities and Net Position (Deficit)	$ 1,864,796

The Accompanying Notes are an Integral Part of These Financial Statements.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF HERKIMER, NEW YORK)

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2020

Functions/Programs	Expenses	Net (Expense) and Changes in Net Position
General Government Support	$ 26,109	$ (26,109)
Debt Service-Interest	1,599,973	(1,599,973)
Total Functions/Programs	$ 1,626,082	(1,626,082)
General Revenues		
Tobacco settlement revenue		1,003,720
Interest		10,418
Total General Revenues		1,014,138
Change in Net Position		(611,944)
Net Position (Deficit), Beginning of Year		(22,835,495)
Net Position (Deficit), End of Year		$ (23,447,439)

The Accompanying Notes are an Integral Part of These Financial Statements.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF HERKIMER, NEW YORK)

BALANCE SHEET- GOVERNMENTAL FUNDS

December 31, 2020

	General	Debt Service	Total
Assets			
Cash and Cash Equivalents	$ 134,609	$ 0	$ 134,609
Deposits Held With Trustees	0	1,141,449	1,141,449
Prepaid Expenditures	3,619	0	3,619
Total Assets	$ 138,228	$ 1,141,449	$ 1,279,677
Liabilities			
Accounts Payable	$ 5,000	$ 0	$ 5,000
Total Liabilties	5,000	0	5,000
Fund Balance			
Nonspendable	3,619	0	3,619
Restricted for Debt Service	0	1,141,449	1,141,449
Unassigned	129,609	0	129,609
Total Fund Balance	133,228	1,141,449	1,274,677
Total Liabilities and Fund Balance	$ 138,228	$ 1,141,449	$ 1,279,677

The Accompanying Notes are an Integral Part of These Financial Statements.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF HERKIMER, NEW YORK)

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCES TO GOVERNMENT-WIDE NET POSITION

December 31, 2020

Total Governmental Fund Balance		$ 1,274,677
Amounts reported for governmental activities in the Statement of Net Position are different because of the following:		
Deferred charges/discounts associated with the refunding of bonds are not reported in the governmental funds. The charge is reported as a deferred outflow of resources on the statement of net position and is recognized as a component of interest expense over the life of the related debt.		585,119
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.		
Accrued interest payable	(64,933)	
Bonds Payable	(25,242,302)	(25,307,235)
Total Net Position (Deficit)		$ (23,447,439)

The Accompanying Notes are an Integral Part of These Financial Statements.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF HERKIMER, NEW YORK)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS

For the Year Ended December 31, 2020

	General	Debt Service	Total
Revenues			
Tobacco Settlement Rights (TSR)	$ 0	$ 1,003,720	$ 1,003,720
Interest	382	10,036	10,418
Total Assets	382	1,013,756	1,014,138
Expenditures			
Professional Fees	16,750	0	16,750
Director Insurance	4,779	0	4,779
Bond Trustee Fee	2,750	0	2,750
Director Fees and Expenditures	500	0	500
Telephone and Rent	1,067	0	1,067
Liability Insurance	263	0	263
Debt Service-Principal	0	190,000	190,000
Debt Service- Interest	0	808,985	808,985
Total Expenditures	26,109	998,985	1,025,094
Excess (Deficit) Revenues Over Expenditures	(25,727)	14,771	(10,956)
Other Financing Sources (Uses)			
Transfers in	43,868	0	43,868
Transfers out	0	(43,868)	(43,868)
Total Other Financing Sources (Uses)	43,868	(43,868)	0
Excess (Deficit) Revenues Over Expenditures and Other Financing Sources (Uses)	18,141	(29,097)	(10,956)
Fund Balance, Beginning of Year	115,087	1,170,546	1,285,633
Fund Balance, End of Year	$ 133,228	$ 1,141,449	$ 1,274,677

The Accompanying Notes are an Integral Part of These Financial Statements.

HERKIMER TOBACCO ASSET SECURITIZATION CORPORATION
(A BLENDED COMPONENT UNIT OF THE COUNTY OF HERKIMER, NEW YORK)

RECONCILIATION OF THE STATEMENT OF REVENUES AND EXPENDITURES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2020

Net Changes in Fund Balance-Total Governmental Funds		$	(10,956)
Amounts reported for governmental activities in the Statement of Activities are different because of the following:			
Repayments of bond principal is an expenditure in governmental funds, but the repayment reduces long term liabilities in the statement of net position.			
Principal Payments			190,000
Proceeds of debt refunding and payments to escrow agents as part of debt refunding are reported as other financing sources (uses) in the governmental funds. However, the amount of the proceeds in excess of the defeasance of old debt is deferred in the Statement of Net Position and amortized as a component of interest expense over the remaining life of the new debt. This is the amount of amortized interest expense on prior year refundings:			
Amortization of Deferred Charges/Discounts on Refunding			(21,671)
Certain expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.			
Change in Accrued Interest Payable	(24,870)		
Accretion of Interest	(744,447)		(769,317)
Change in Net Position Governmental Activities		$	(611,944)

The Accompanying Notes are an Integral Part of These Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background and Operations

Herkimer Tobacco Asset Securitization Corporation (Corporation) is a not-for-profit corporation formed exclusively for the purpose of acquiring from the County of Herkimer, New York (County) all or any of the rights, titles, and interest of the County under the Master Settlement Agreement (MSA) with respect to tobacco related litigation among various settling states and participating manufacturers. The Corporation is an instrumentality of, but separate and apart from, the County. In accordance with the Government Accounting Standards Board, financial activity of the Corporation is presented as a blended component unit in the County of Herkimer's Annual Financial Statements.

In lieu of receiving the Tobacco Settlement Rights (TSR), the Corporation, in conjunction with the New York Counties Tobacco Trust I, Trust IV, and Trust V issued Tobacco Settlement Pass-Through Bonds. The bonds have been issued to the Trust pursuant to an indenture between the Corporation and Manufacturers and Traders Trust Company (the Trustee).

The Corporation is primarily dependent on the future proceeds from the TSR to meet future obligations under the indenture agreement.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America and follows the guidance set forth by the Governmental Accounting Standards Board (GASB).

- ***Government-Wide Financial Statements***

  The Statement of Net Position and the Statement of Activities present financial information about the Corporations governmental activities. These statements include the financial activities of the overall corporation in its entirety.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- ***Fund Financial Statements***

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

  General Fund—The General Fund constitutes the primary operating fund of the Corporation and includes all operations not required to be recorded in another fund.

  Debt Service Fund—The Debt Service Fund is used to account for the accumulation of resources that are restricted for the payment principal and interest on long-term obligations of governmental funds.

Measurement Focus and Basis of Accounting

The Corporation's financial statements are prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB).

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

The Corporation's fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments, are recorded only when payment is due.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

State statues require that collateral be pledged at 100 percent of all deposits not covered by Federal Deposit Insurance Corporation insurance for demand deposits, time deposits, repurchase agreements, and certificates of deposit. Obligations of the United States Treasury and its agencies as well as obligations of New York State and its municipalities and Towns may be pledged. Investments are carried at market value.

The Corporation's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of six months or less from date of acquisition. New York State law governs the Corporation's investment policies. Resources must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and Districts.

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The Corporation has reported deferred outflows of resources of $585,119 for the net deferred bond issuance costs/discounts on refunding bonds in the Statement of Net Position. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Equity Classification

- ***Government-Wide Financial Statements***

  Unrestricted net position is the portion of net position that is not restricted, but which may be internally designated by the Board of Directors. At December 31, 2020, the unrestricted net position deficit was $24,588,888 and none was internally designated.

  Net position is reported as restricted when constraints placed on its use are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At December 31, 2020, the restricted net position was $1,165,534.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- ***Fund Financial Statements***

GASB requires more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable - These are amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - These are amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - These are amounts that can be used only for specific purposes determined by a formal action of the Board of Directors prior to year-end. The Board of Directors is the highest level of decision-making authority for the Corporation. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors.

Assigned - These are amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Board of Directors makes a determination of the assigned amounts of fund balance.

Unassigned - These are all other spendable amounts.

NOTE 2 TAX STATUS

The Corporation is a tax-exempt organization whereby its income is deemed exempt under the provisions of Section 115(1) of the Internal Revenue Code and utilizes December 31 as its fiscal year end.

NOTE 3 BOND ISSUANCE COSTS

The Corporation has incurred costs associated with the Series 2005 and Series 2000 bond issues. Such costs are deferred and amortized using the straight-line method over the remaining life of the related debt. Amortization expense on bond issuance costs was $9,119 for the year ended December 31, 2020. Bond issuance costs net of accumulated amortization at December 31, 2020, were as follows:

Bond Issuance Costs	$ 610,511
Accumulated Amortization	(364,314)
Bond Issuance Costs, Net	$ 246,197

The estimated aggregate amortization expense for each of the five succeeding years is approximately $9,119.

NOTE 4 BOND DISCOUNTS AND ESCROW DEPOSITS

The Corporation recorded unamortized bond discounts and escrow deposits of $338,922 at December 31, 2020 in conjunction with the sale of the Series 2005 and advance refunding of the Series 2000 bonds. These costs have been deferred and are being amortized as interest expense over the remaining life of the bonds. For the year ended December 31, 2020, the Corporation recorded $12,552 as interest expense associated with these costs.

NOTE 5 DEPOSITS HELD WITH TRUSTEES

Deposits Held with Trustees represent a reserve that has been established pursuant to the Corporation's indenture and was funded from the proceeds of the Series 2005 bonds. The reserve is required to be funded in an amount equal to the maximum annual debt service on the Series 2005 Bonds.

Deposits Held with Trustees at December 31, 2020, are comprised of money market funds and invested cash which are considered cash and cash equivalents.

NOTE 6 LONG-TERM DEBT

Advanced Refunding

On December 7, 2000, the New York Counties Tobacco Trust (NYCTT) I, issued $227,130,000 aggregate principal amount of Tobacco Settlement Pass-Through Bonds, Series 2000. These bonds are special obligations of 17 different TASCs participating within the issue. The debt service is payable solely from pledged TSR and investment earnings on amounts on deposit as defined within each TASC's respective indenture. As a result of this borrowing, the Corporation received $14,280,000 net of underwriter

NOTE 6 LONG-TERM DEBT (Continued)

discount fees. According to the terms of the required amortization payments, the Corporation is required to make annual debt service payments through December 31, 2042, with interest ranging from 5.000% to 6.625%.

NYCTT IV - 2005 Series Bonds (Advance Refunding)

Bonds issued to complete the advanced refunding as described above have varying interest rates and maturity dates as follows:

Issue	Maturity	Rate (%)	Outstanding Balance
2005A	6/01/2026	5.00	$ 9,320,000
2005B	6/01/2023	6.00	220,000
2005C	6/01/2035	6.25	4,800,000
Total			$ 14,340,000

At December 31, 2020, the Corporation recorded accrued interest of $64,933 on the outstanding bonds.

The following schedule of projected turbo redemption payments is based upon the Global Insight Base Case Consumption Forecast as defined in New York Counties Tobacco Trust IV and V official statements:

December 31,	Amount
2021	$ 220,000
2022	300,000
2023	300,000
2024	300,000
2025	400,000
Thereafter	12,820,000
Total Minimum Principal Payments	$14,340,000

NOTE 6 LONG-TERM DEBT (Continued)

NYCTT IV - Series 2005D and 2005E Bonds (Subordinate Bonds)

In conjunction with the advance refunding, the Corporation completed the sale of Series 2005D and 2005E capital appreciation bonds carrying varying yields and were sold discounted (zero coupon). As required by generally accepted accounting principles, HTASC accretes the effective interest appreciation over the life of the bonds to maturity. Changes to the bond values during the year are as follows:

Issue	Maturity	Rate	Accreted Balance Outstanding at January 1, 2020	Increase	Accreted Balance Outstanding at December 31, 2020
Series 2005D	06/01/27	5.88%	$ 1,959,385	$ 116,771	$ 2,076,156
Series 2005E	06/01/29	6.38%	1,905,325	123,337	2,028,662
Total			$ 3,864,710	$ 240,108	$ 4,104,818

The Series 2005D and 2005E bonds are subordinate to the Series 2005 bonds in the advance refunding discussed above. No interest or principal will be paid on these bonds until all other series bonds of the corporation are redeemed. Funds expected to be used for redemption of these bonds will come from the Tobacco Settlement Receipts and payments are not anticipated until the year 2026.

Redemption of the bonds based on the turbo redemption schedule is anticipated to mature as follows:

Outstanding Year	Principal
2026	$ 2,365,679
2027	1,671,710
2028	1,692,888
2029	559,445
Total	$ 6,289,722

NYCTT V - Series 2005S4B (Subordinate Bonds)

The Corporation completed a bond issue of $2,224,416 in November 2005. The net proceeds of $2,096,082 (after issuance costs of $128,334) were transferred to the residual trust. These bonds noted as Series 2005S4B carry varying yields and were sold discounted (zero coupon) similar to Series 2005D and Series 2005E. Changes to the bond values are as follows:

Issue	Maturity	Rate	Accreted Balance Outstanding at January 1, 2020	Increase	Accreted Balance Outstanding at December 31, 2020
Series 2005S4B	2029-2040	7.85%	$ 6,293,145	$ 504,339	$ 6,797,484

NOTE 6 LONG-TERM DEBT (Continued)

The Series 2005S4B bonds are subordinate to all of the Series 2005 bonds issued in conjunction with NYCTT IV discussed above. No interest or principal will be paid on these bonds until all other series bonds of the corporation are redeemed. Funds expected to be used for redemption of these bonds will come from the Tobacco Settlement Receipts and payments are not anticipated until the year 2029.

Redemption of the bonds based on the turbo redemption schedule is anticipated to mature as follows:

Year	Total
2029	$ 1,139,560
2030	1,737,050
2031	1,758,244
2032	1,783,166
2033	1,800,720
Thereafter	11,812,222
Total	$ 20,030,962

NOTE 7 RELATED PARTY

The Corporation is a special purpose local development corporation and is considered by legal counsel to be bankruptcy-remote from the County of Herkimer. However, the Corporation's board of directors is comprised of a majority of elected or appointed officials of the County of Herkimer. For financial reporting purposes, the Corporation is considered a blended component unit of the County of Herkimer.

NOTE 8 CONTINGENCIES

Future tobacco settlement revenues are subject to adjustment based upon tobacco consumption, inflation, and other potential reductions. Pursuant to the Purchase and Sale Agreement, these adjustments and other events could trigger additional reserve requirements or could have an impact on the valuation of the Tobacco Settlement Rights.

NOTE 9 NET POSITION DEFICIT

HTASC has a deficit in net position as a result of the outstanding bonds. As these bonds are repaid, this will help to reduce the deficit, along with the future revenue streams.

NOTE 10 SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 25, 2021, the date on which the financial statements were available to be issued.