

**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, 2024



Certified
Public
Accountants

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA
(A Component Unit of the County of Sacramento, California)
For the Year Ended June 30, 2024

Table of Contents

	<i>Page</i>
Independent Auditor's Report	1
Management's Discussion and Analysis – Required Supplementary Information (Unaudited)	4
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position – Governmental Activities	9
Statement of Activities – Governmental Activities	10
Governmental Funds Financial Statements:	
Balance Sheet – Governmental Funds.....	11
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	12
Notes to the Basic Financial Statements	13
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund.....	22
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 <i>Government Auditing Standards</i>	23

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited 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, 2024, and the related notes to the financial statements, which collectively comprise the Authority'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 respective financial position of the governmental activities and each major fund of the Authority, as of June 30, 2024, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 Authority'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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *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 Authority'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 Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 September 3, 2024, 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.

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

Sacramento, California
September 3, 2024

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA
(A Component Unit of the County of Sacramento, California)
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2024

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 15, 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 as the Authority provides services solely to 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, 2024.

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 9 and 10 of this report.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other governmental entities, 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 (Unaudited) (Continued)
For the Year Ended June 30, 2024

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 11 and 12 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 21 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 \$41.29 million at the end of current year and was a deficit of approximately \$38.93 million at the end of 2023. The primary asset and deferred outflow of resources of the Authority (87%) 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 \$2,360,697 during the year ended June 30, 2024, compared to a decrease of \$1,648,537 during the year ended June 30, 2023. The decrease in net position is primarily a result of the decrease of Tobacco Settlement Revenues in the amount \$1,718,924 resulting from a decrease in cigarette sales. This was slightly offset by an increase in interest earnings in the amount \$270,916 due to higher interest rates, and a decrease in interest and fiscal charges in the amount of \$735,848.

Net Position – Governmental Activities

	<u>2024</u>	<u>2023</u>
Current assets	\$ 20,291,434	\$ 21,358,518
Deferred outflows of resources	<u>169,325,724</u>	<u>177,299,275</u>
Bonds payable	230,229,238	237,097,309
Other liabilities	<u>673,876</u>	<u>485,744</u>
Total liabilities	<u>230,903,114</u>	<u>237,583,053</u>
Unrestricted net position (deficit)	<u>\$ (41,285,956)</u>	<u>\$ (38,925,260)</u>

TOBACCO SECURITIZATION AUTHORITY OF NORTHERN CALIFORNIA
(A Component Unit of the County of Sacramento, California)
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2024

Change in Net Position – Governmental Activities

	<u>2024</u>	<u>2023</u>
General revenues:		
Interest earnings	\$ 716,820	\$ 445,904
Tobacco settlement revenue	<u>12,953,634</u>	<u>14,672,558</u>
Total general revenues	13,670,454	15,118,462
Program expenses:		
Interest and fiscal charges	<u>16,031,150</u>	<u>16,766,999</u>
Change in net position	(2,360,696)	(1,648,537)
Net position (deficit), beginning of year	<u>(38,925,260)</u>	<u>(37,276,723)</u>
Net position (deficit), end of year	<u>\$ (41,285,956)</u>	<u>\$ (38,925,260)</u>

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, 2024 and 2023, the Authority reported ending fund balances of \$13.4 million and \$13.6 million, respectively. Activities were limited to interfund transfers for payment of principal and interest on the Authority's outstanding debt based on collections from the Tobacco Settlement by the Sacramento County Tobacco Securitization Corporation (Corporation), banking costs, and other administrative expenses.

General Fund Budgetary Highlights

There were no changes to the original budget during the year. Pledged tobacco settlement proceeds and the subsequent transfers out were not budgeted as the amount the Authority eventually receives 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 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.

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 (Unaudited) (Continued)
For the Year Ended June 30, 2024

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.

Tobacco Settlement Asset-Backed Bonds, Series 2005 Bonds were issued on December 6, 2005. The Authority issued a second series of 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 Corporation.

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% and maturities ranging from June 2021 to June 2040. The second was for \$37,505,000 with an interest rate of 4.00%, and a 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. The second for \$27,500,000 with an interest rate of 4.00%, with a maturity in June 2049, and a last expected turbo payment in 2027.
- \$71,081,364 for Series 2021B-2 Class 2 Senior Capital Appreciation (Turbo) Bonds. Face amount of \$305,950,000, with a yield of 3.75%, maturity in June 2060, and a last expected turbo payment in 2043.

During the year, the Authority's bonds payable decreased by a net amount of \$6,868,071 as a result of the current year amortization of the deferred bond premium totaling \$833,251 and principal reduction of \$8,975,000 due to a turbo redemption payment, which was offset by the accretion of interest totaling \$2,940,180. The ending balance of the Authority's bonds payable at June 30, 2024 is \$230,229,239.

The current bond credit ratings issued by Standard & Poor's for the 2021A Class 1 Senior Current Interest Serial Bonds range from A to A-, the 2021A Class 1 Term Bond due on June 1, 2030 is BBB+, the 2021B-1 Turbo Term Bond due June 1, 2049 is BBB+. The 2021B-2 Class 2 Series 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 (Unaudited) (Continued)
For the Year Ended June 30, 2024

Economic Factors and Next Year's Budget

The bond covenants related to the borrowing restrict the Authority's annual administrative budget for fiscal year 2024 to \$227,910. Budgeted expenditures are comprised primarily of bond rating services fees estimated to be \$20,000; \$44,000 for continuing disclosure services from Bond Logistix, LLC and the annual budget of the Corporation (a blended component unit of the Authority) of approximately \$106,000.

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 the 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

For the Year Ended June 30, 2024

ASSETS

Current assets:

Cash and investments	\$ 13,396,390
Tobacco settlement revenues receivable	<u>6,895,044</u>

Total assets	<u>20,291,434</u>
--------------	-------------------

DEFERRED OUTFLOWS OF RESOURCES

Tobacco settlement rights (net of accumulated amortization of \$78,054,236)	157,136,930
Deferred amount on refunding	<u>12,188,794</u>

Total deferred outflows of resources	<u>169,325,724</u>
--------------------------------------	--------------------

LIABILITIES

Current liabilities:

Accounts payable	44,032
Accrued interest	430,692
Bonds payable	<u>3,735,000</u>
Total current liabilities	4,209,724

Noncurrent liabilities:

Arbitrage rebate tax	199,152
Bonds payable	<u>226,494,238</u>

Total liabilities	<u>230,903,114</u>
-------------------	--------------------

NET POSITION (DEFICIT)

Unrestricted	\$ <u>(41,285,956)</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 Activities – Governmental Activities

For the Year Ended June 30, 2024

PROGRAM EXPENSES

Interest and fiscal charges	<u>\$ 16,031,150</u>
-----------------------------	----------------------

GENERAL REVENUES

Interest earnings	716,820
-------------------	---------

Tobacco settlement revenue	<u>12,953,634</u>
----------------------------	-------------------

Total general revenues	<u>13,670,454</u>
------------------------	-------------------

Change in net position	(2,360,696)
------------------------	-------------

Net position (deficit), beginning of year	<u>(38,925,260)</u>
---	---------------------

Net position (deficit), end of year	<u><u>\$ (41,285,956)</u></u>
-------------------------------------	-------------------------------

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

For the Year Ended June 30, 2024

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments	\$ 500,363	\$ 12,896,027	\$ 13,396,390
Tobacco settlement revenues receivable	<u>6,895,044</u>	<u>-</u>	<u>6,895,044</u>
 Total assets	 <u>\$ 7,395,407</u>	 <u>\$ 12,896,027</u>	 <u>\$ 20,291,434</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Account payable	\$ 44,032	\$ -	\$ 44,032
Deferred inflows of resources			
Unavailable tobacco settlement revenue	<u>6,895,044</u>	<u>-</u>	<u>6,895,044</u>
Fund balances:			
Restricted for:			
Debt service reserve	-	10,226,765	10,226,765
Debt service payment	-	2,669,262	2,669,262
Operating expenditures per bond indenture	<u>456,331</u>	<u>-</u>	<u>456,331</u>
Total fund balances	<u>456,331</u>	<u>12,896,027</u>	<u>13,352,358</u>
Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 7,395,407</u>	 <u>\$ 12,896,027</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	\$157,136,930
Deferred amount on refunding	12,188,794

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	6,895,044
----------------------------	-----------

Long-term liabilities, including 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	\$ (190,806,364)	
Bond premium	(29,941,483)	
Accreted interest	(9,481,391)	
Accrued interest payable	(430,692)	
Arbitrage rebate tax	<u>(199,152)</u>	<u>(230,859,082)</u>

TOTAL NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES **\$ (41,285,956)**

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, 2024

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUES			
Use of money and property	\$ 31,173	\$ 685,647	\$ 716,820
Tobacco settlement revenues	<u>13,790,088</u>	<u>-</u>	<u>13,790,088</u>
Total revenues	<u>13,821,261</u>	<u>685,647</u>	<u>14,506,908</u>
EXPENDITURES			
Debt service:			
Principal	-	8,975,000	8,975,000
Interest and fiscal charges	<u>220,568</u>	<u>5,564,000</u>	<u>5,784,568</u>
Total expenditures	<u>220,568</u>	<u>14,539,000</u>	<u>14,759,568</u>
Excess (deficiency) of revenues over (under) expenditures	13,600,693	(13,853,353)	(252,660)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	13,678,072	13,678,072
Transfers out	<u>(13,678,072)</u>	<u>-</u>	<u>(13,678,072)</u>
Total other financing sources (uses)	<u>(13,678,072)</u>	<u>13,678,072</u>	<u>-</u>
Changes in fund balances	(77,379)	(175,281)	(252,660)
Fund balances, beginning of year	<u>533,710</u>	<u>13,071,308</u>	
Fund balances, end of year	<u>\$ 456,331</u>	<u>\$ 12,896,027</u>	
Amounts reported in the statement of activities are different because:			
Tobacco settlement revenues are not considered "available" revenues, and they are reported as deferred inflows of resources in the governmental funds. Unavailable revenues decreased by this amount during the year.			(836,454)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however, this transaction has no effect on net position.			8,975,000
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.			833,251
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		\$ 33,050	
Change in accreted interest		(2,940,180)	
Amortization of deferred amount on refunding		(582,267)	
Arbitrage rebate tax		(199,152)	
Amortization of tobacco settlement rights		<u>(7,391,284)</u>	<u>(11,079,833)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES			<u>\$ (2,360,696)</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, 2024

NOTE 1 – ORGANIZATION AND 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 15, 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 the 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 GAAP for inclusion as a blended component unit of the Authority because of the financial benefit/burden relationship of their activities, and the voting majority of the Authority's board is the same as the Corporation's board. 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 Authority.

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

Tobacco settlement revenue and interest are presented as general revenues.

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, 2024

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 the required debt service payments. The Corporation has been blended with the activities 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 GAAP requires management to make estimates and assumptions that affect certain reported 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, 2024

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, 2024, the Authority's governmental activities had a deficit net position of \$41,285,956. This deficit in net position is primarily the result of the annual accretion of interest on the Class 2 Senior Capital Appreciation (Turbo) Bonds with final maturity dates of June 2060. The deficit in net position will continue to increase annually until the capital appreciation bonds mature in 2060.

NOTE 2 – CASH AND INVESTMENTS

The Authority maintains a separate checking account in the name of the Authority. At June 30, 2024, the reported amount of the Authority's deposits and bank balance is \$210,862 which is entirely covered by federal depository insurance. The Corporation maintains a separate checking account in the name of the Corporation. At June 30, 2024, the reported amount of the Corporation's deposits and bank balance is \$28,768, which is entirely covered by federal depository insurance.

Cash and investments at June 30, 2024, are held by the trustee. Cash and investments are comprised of the following at June 30, 2024:

Deposits held by trustee	\$ 239,630
Investments held by trustee	<u>13,156,760</u>
Total Cash and Investments	<u>\$ 13,396,390</u>

Investments held by trustee as of June 30, 2024, consist of the following:

Money market mutual funds	<u>\$ 13,156,760</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, 2024

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) 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, 2024

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 deposit 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 money market mutual funds have a weighted average to maturity of 38 and 51 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 funds have credit ratings of Aaa-mf and AAAm by Moody's and S&P, respectively.

The valuation of the 2a-7 money market mutual funds held by the Authority is at one-dollar net asset value (NAV) per share. The total value of these at June 30, 2024 is \$13,156,760, 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 Refunding Bonds. The Series 2021 Refunding Bonds are payable solely from pledged tobacco settlement revenues and interest earnings on amounts on deposit.

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.

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, 2024

NOTE 3 – BONDS PAYABLE (Continued)

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 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, 2049.

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, 2024, are as follow:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2025	\$ 3,735,000	\$ 5,168,300
2026	3,855,000	4,981,550
2027	4,050,000	4,788,800
2028	4,220,000	4,586,300
2029	4,310,000	4,375,300
2030-2034	21,995,000	18,590,000
2035-2039	23,970,000	13,665,000
2040-2044	22,350,000	8,847,200
2045-2049	31,240,000	4,598,000
2050-2054	-	-
2055-2059	-	-
2060	71,081,364	234,868,637
Total	<u>\$ 190,806,364</u>	<u>\$ 304,469,087</u>

The following summarizes the bonds payable activity during the year:

	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>July 1, 2023</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2024</u>	<u>One Year</u>
Tobacco bonds payable	\$ 199,781,364	\$ -	\$ (8,975,000)	\$ 190,806,364	\$ 3,735,000
Accreted interest	6,541,211	2,940,180	-	9,481,391	-
Plus deferred amounts:					
Bond premium	<u>30,774,734</u>	<u>-</u>	<u>(833,251)</u>	<u>29,941,483</u>	<u>-</u>
Governmental Activities					
Bonds payable	<u>\$ 237,097,309</u>	<u>\$ 2,940,180</u>	<u>\$ (9,808,251)</u>	<u>\$ 230,229,238</u>	<u>\$ 3,735,000</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, 2024

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, 2024, represents accreted interest on the 2021 B-2 Senior Class 2 Capital Appreciation Bonds, originally issued for \$71,081,364. Unaccreted interest totaled \$225,387,246 at June 30, 2024.

Arbitrage Liability

Arbitrage is earned when the proceeds of a tax-exempt or tax-advantaged bond issue are used to acquire investments that earn a yield in excess of the bond yield (or arbitrage yield), the average yield issuers pay to their bondholders. Liabilities are measured by computing the excess amount earned on investments over the amount that would have been earned if proceeds were invested at the bond yield. Unless the issuer can apply an exception or exemption to the arbitrage rebate and yield restriction requirements, excess earnings must be rebated to the Internal Revenue Service (IRS). At a minimum, the arbitrage rebate and yield restriction liabilities on an issue must be computed at least every five years and on the final redemption or maturity date.

The allowable yield for the Tobacco Settlement Asset-Backed Refunding Bonds, Series 2021 Senior Bonds (Bonds) is 2.448887%. For the period February 18, 2021 through May 31, 2024, the return on investments for the Bonds was 3.221485%, which produced an excess yield of 0.772597% for the period. As of June 30, 2024 the Cumulative Arbitrage Rebate Liability was \$199,152.

NOTE 4 – TOBACCO SETTLEMENT RIGHTS

In November 1998, 46 states (including California), six other United States jurisdictions and participating cigarette manufacturers 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.

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, 2024

NOTE 4 – 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. 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 were \$157,136,930 at June 30, 2024.

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.

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 2021 Bonds. 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.

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

NOTE 6 – RISK MANAGEMENT

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

During the year ended June 30, 2024, the Authority did not reduce insurance coverage from coverage levels in place as of June 30, 2022. There have been no insurance settlements or claims during the years ended June 30, 2024, 2023, and 2022.

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, 2024

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 Authority's financial reporting process. Future new standards which may impact the Authority include the following:

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 period beginning after December 15, 2023, or the 2024-2025 fiscal year. The Authority has determined that there is no effect on its financial statements.

GASB Statement No. 102 – In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement defines a *concentration* as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A *constraint* is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, or the 2024-2025 fiscal year. The Authority has not determined the effect, if any, on the financial statements.

GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues: (1) Management's Discussion and Analysis, (2) Unusual or Infrequent Items, (3) Presentation of the Proprietary Fund Statement of Revenues, (4) Expenses, and Changes in Fund Net Position, (5) Major Component Unit Information, and (6) Budgetary Comparison Information. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, or the 2025-2026 fiscal year. The Authority has not determined the effect, if any, on the financial statements.

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, 2024

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
REVENUES				
Interest earnings	\$ -	\$ -	\$ 31,173	\$ 31,173
Tobacco settlement revenues	-	-	<u>13,790,088</u>	<u>13,790,088</u>
Total revenues	-	-	13,821,261	13,821,261
EXPENDITURES				
Debt service:				
Interest and Fiscal charges	<u>227,910</u>	<u>227,910</u>	<u>220,568</u>	<u>7,342</u>
Excess of revenues (deficiency) over (under) expenditures	(227,910)	(227,910)	13,600,693	13,828,603
OTHER FINANCING USES				
Transfers out	-	-	<u>(13,678,072)</u>	<u>(13,678,072)</u>
Changes in fund balance	<u>\$ (227,910)</u>	<u>\$ (227,910)</u>	(77,379)	<u>\$ 150,531</u>
Fund balance, beginning of year			<u>533,710</u>	
Fund balance, end of year			<u>\$ 456,331</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 (*Government Auditing Standards*), 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, 2024, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 3, 2024.

Report on 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 or significant deficiencies may exist that have not been identified.

Report On 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
September 3, 2024