

SCHEDULE OF INVESTMENTS

Tobacco Settlement Financing Corporation

October 31, 2021

With Reports of Independent Auditors

Ernst & Young LLP



Tobacco Settlement Financing Corporation  
(A Component Unit of the State of New York)

Schedule of Investments

October 31, 2021

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## Report of Independent Auditors

Management and Members of the Board  
Tobacco Settlement Financing Corporation  
New York, New York

### **Report on the Schedule**

We have audited the accompanying Schedule of Investments (the Schedule) for the Tobacco Settlement Financing Corporation (the Corporation), a component unit of the State of New York, as of October 31, 2021 and the related notes to the Schedule.

### ***Management's Responsibility for the Schedule***

Management is responsible for the preparation and fair presentation of the Schedule in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free of material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the Schedule 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 Schedule is free of material misstatement.

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



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 Schedule referred to above presents fairly, in all material respects, the investments of the Corporation as of October 31, 2021, in conformity with U.S. generally accepted accounting principles.

### **Report on the Financial Statements as of October 31, 2021**

We have audited, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, the financial statements of the Corporation as of and for the year ended October 31, 2021, and our report thereon dated February 1, 2022, expressed an unmodified opinion on those financial statements.

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

In accordance with *Government Auditing Standards*, we also have issued our report dated February 1, 2022, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters with respect to the Schedule. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance with respect to the Schedule. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance with respect to the Schedule.

*Ernst + Young LLP*

February 1, 2022



## Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Schedule of Investments Performed in Accordance with *Government Auditing Standards*

Management and Members of the Board  
Tobacco Settlement Financing Corporation  
New York, New York

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 Schedule of Investments (the Schedule) of the Tobacco Settlement Financing Corporation (the Corporation), a component unit of the State of New York, as of October 31, 2021, and the related notes to the Schedule, and have issued our report thereon dated February 1, 2022.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the Schedule, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control with respect to the Schedule. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control with respect to the Schedule.

*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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation’s Schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, investment policies established by the Corporation and the New York State Comptroller’s investment guideline requirements as presented in Section 201.3(c) of the *Accounting, Reporting and Supervision Requirements for Public Authorities*, noncompliance with which could have a direct and material effect on the Schedule 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 entity’s internal control or on compliance with respect to the Schedule. 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 with respect to the Schedule. Accordingly, this communication is not suitable for any other purpose.

*Ernst + Young LLP*

February 1, 2022

Tobacco Settlement Financing Corporation  
(A Component Unit of the State of New York)

Schedule of Investments  
*(In Thousands of Dollars)*

October 31, 2021

Cash equivalents	\$ 5,114
Investments	<u>457,654</u>
Total investments	<u>\$ 462,768</u>

*The accompanying notes are an integral part of this schedule.*

Tobacco Settlement Financing Corporation  
(A Component Unit of the State of New York)

Notes to Schedule of Investments

October 31, 2021

**1. Background and Organization**

The Tobacco Settlement Financing Corporation (the Corporation) is a public benefit corporation of the State of New York (the State) created as a subsidiary of the State of New York Municipal Bond Bank Agency (the Agency) and created pursuant to the Tobacco Settlement Financing Corporation Act (the Act), Part D3 of Chapter 62 of the Laws of the State of New York of 2003. By the terms of the Act, the Corporation shall be treated and accounted for as a legal entity separate from the State and the Agency with its separate corporate purposes set forth in the Act. The directors of the Agency are the members of the Corporation. The Corporation is governed by a seven-member board: the Chairman of the Agency, the Secretary of State, the Director of the Budget of the State, three directors appointed by the Governor of the State and the State Comptroller or his appointee. Although legally separate from the State, the Corporation is a component unit of the State and, accordingly, is included in the State's financial statements.

The Corporation does not have financial accountability to the Agency; accordingly, the Corporation is not a component unit of the Agency in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*. Therefore, the financial activities of the Corporation are not included in the Agency's financial statements.

**2. Summary of Significant Accounting Policies**

**Cash Equivalents**

All highly liquid investments with a maturity when purchased of 90 days or less are considered to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value.

**Investments**

Investments are recorded at fair value.



Tobacco Settlement Financing Corporation  
(A Component Unit of the State of New York)

Notes to Schedule of Investments (continued)

**3. Investments**

All of the Corporation's funds are held in trust accounts. All of the Corporation's investments that are securities are in registered form, and are held by agents of the Corporation or by the trustee in the Corporation's name. The agents or their custodians take possession of the securities. For the fiscal year ended October 31, 2021, all the Corporation funds were invested in accordance with the applicable policy (described below) or resolution. There was no uncollateralized cash on deposit for the fiscal year ended October 31, 2021.

**Credit Risk**

The Corporation has a formal investment policy which is approved annually by the Corporation's board. The investment policy is in compliance with the New York State Comptroller's Investment Guidelines and governs the investment of all the Corporation's monies. These guidelines and policies are designed to protect principal by limiting credit risk. A summary of permitted investment policies and procedures is as follows:

- General obligations of, or obligations guaranteed by any state of the United States of America or political subdivision thereof, or the District of Columbia or any agency or instrumentality of any of them (excluding FNMA and FHLMC obligations as defeasance collateral);
- Certificates of deposit, savings accounts, demand and time deposits or other obligations or accounts of banks or trust companies in the State, secured as required by the Corporation;
- Obligations in which the State Comptroller is authorized to invest pursuant to Section 98 or 98-a of the State Finance Law;
- Commercial or finance company paper payable not more than 190 days after the date of issuance;
- Units of taxable money market funds which funds are regulated investment companies and seek to maintain a constant net asset value per share;
- Repurchase obligations, investment agreements or guaranteed investment contracts;
- Non-AMT Tax-Exempt obligation (Supplemental Account only).

There are minimum ratings requirements associated with the authorized investments described above.

Tobacco Settlement Financing Corporation  
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Notes to Schedule of Investments (continued)

**3. Investments (continued)**

**Custodial Credit Risk**

The Corporation manages custodial credit risk by limiting its investments to highly rated institutions and/ or requiring high quality collateral be held by the counterparty in the name of the Corporation.

**Interest Rate Risk**

Interest rate risk is minimal due to the short term duration of the Corporation's investments.

The Corporation had the following investments and maturities:

	<b>Investment Maturities (In Years)</b>		
	<b>Fair Value</b>	<b>Less Than One</b>	<b>More Than One</b>
	<i>(In Thousands)</i>		
Investment type:			
Money Market	\$ 914	\$ 914	\$ —
U.S. Treasury Bills	461,854	461,854	—
	462,768	462,768	—
Less: amounts reported as cash equivalents	5,114	5,114	—
Total investments	\$ 457,654	\$ 457,654	\$ —

**4. Fair Value Measurements**

The Corporation categorizes its fair value measurements within the fair value hierarchy established by U.S. generally accepted accounting principles. The hierarchy is based on the evaluation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of October 31, 2021, U.S. Treasury Bills held by the Corporation are measured at fair value at \$461.9 million and are within the Level 2 inputs category of fair value hierarchy. These financial instruments are valued using matrix pricing.

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