

**DUTCHESS TOBACCO ASSET  
SECURITIZATION CORPORATION**  
*(A Component Unit of the County of Dutchess, New York)*  
*Basic Financial Statements and Required  
Supplementary Information for the  
Year Ended December 31, 2022  
and Independent Auditors' Reports*



**DUTCHESS TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Dutchess, New York)**  
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**Year Ended December 31, 2022**

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*Certified Public Accountants*

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Dutchess Tobacco Asset Securitization Corporation:

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the financial statements of the governmental activities and each major fund of Dutchess Tobacco Asset Securitization Corporation ("DTASC"), a component unit of the County of Dutchess, New York, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise DTASC's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of DTASC, as of December 31, 2022, and the respective changes in financial position thereof 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of DTASC 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***

DTASC's management is responsible for the preparation and fair presentation of the 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 DTASC'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.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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, 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 DTASC'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about DTASC'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 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 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 3, 2023 on our consideration of DTASC'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 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 DTASC's internal control over financial reporting and compliance.

*Dresscher & Malecki LLP*

March 3, 2023





**DUTCHESS TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Dutchess, New York)**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2022**

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As management of the Dutchess Tobacco Asset Securitization Corporation ("DTASC"), a blended component unit of the County of Dutchess, New York (the "County"), we offer readers of DTASC's financial statements this narrative overview and analysis of the financial activities of DTASC for the fiscal year ended December 31, 2022. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in DTASC's financial statements, which follow this narrative.

**Financial Highlights**

- Total government-wide liabilities and deferred inflows of resources of DTASC exceeded government-wide assets by \$59,931,567 (net position) at December 31, 2022. This compares to DTASC's total government-wide liabilities and deferred inflows of resources exceeding government-wide assets by \$61,646,998 at December 31, 2021.
- DTASC's net position increased by \$1,715,431 during the year ended December 31, 2022.
- At the close of the current fiscal year, DTASC's governmental funds reported combined ending fund balances of \$3,427,277, an increase of \$43,870 in comparison with the prior year. Approximately 2.8 percent of this amount, \$94,845, is available for spending at DTASC's discretion (unassigned fund balance), while the remaining \$3,332,432 is restricted for debt service.
- DTASC's total Tobacco Settlement Bonds decreased by \$1,465,000 as a result of principal payments made during the year, while Subordinate Turbo Capital Appreciation Bonds ("CABs") increased by \$536,389 as a result of annual net interest accretion.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to DTASC's basic financial statements. DTASC's basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

**Government-wide financial statements**—The *government-wide financial statements* are designed to provide readers with a broad overview of DTASC's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of DTASC's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of DTASC is improving or deteriorating.

The *statement of activities* presents information showing how DTASC'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 this 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 9-10 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. DTASC, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds**—*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental 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. Such information may be useful in assessing a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

DTASC maintains two individual governmental funds, the General Fund and the Debt Service Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for both funds.

The basic governmental fund financial statements can be found on pages 11-14 of this report.

**Notes to the 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 financial statements can be found on pages 15-24 of this report.

## Government-Wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government’s financial position. In the case of DTASC, liabilities and deferred inflows of resources exceeded assets by \$59,931,567 at December 31, 2022, as compared to \$61,646,998 at December 31, 2021. Table 1, shown below, presents the condensed statements of net position for DTASC at December 31, 2022 and December 31, 2021.

**Table 1—Condensed Statements of Net Position**

	December 31,	
	2022	2021
Current assets	\$ 7,177,277	\$ 6,883,407
Total assets	7,177,277	6,883,407
Current liabilities	199,402	206,868
Noncurrent liabilities	55,972,686	57,009,652
Total liabilities	56,172,088	57,216,520
Deferred inflows of resources	10,936,756	11,313,885
Net position	\$ (59,931,567)	\$ (61,646,998)

A portion of DTASC's net position, \$7,082,432 and \$6,793,905 at December 31, 2022 and 2021, respectively, represents resources that are subject to external restrictions on how they may be used. Therefore, the unrestricted deficit totals \$67,013,999 and \$68,440,903 at December 31, 2022 and 2021, respectively. The unrestricted net position deficit must be financed from future operations. The deficit results from long-term obligations that are greater than currently available resources.

At December 31, 2022, total assets were \$7,177,277, compared to \$6,883,407 at December 31, 2021. The largest asset held by DTASC at December 31, 2022 and 2021 is amounts due from New York State of \$3,750,000 and \$3,500,000, respectively. DTASC reported no noncurrent assets at December 31, 2022 or December 31, 2021.

Total liabilities at December 31, 2022 were \$56,172,088, compared to \$57,216,520 at December 31, 2021. The largest portion of the liabilities was outstanding debt totaling \$55,972,686 and \$57,009,652 at December 31, 2022 and 2021, respectively.

DTASC's deferred inflows of resources, which resulted from a deferred gain on refunding, totaled \$10,936,756 and \$11,313,885 at December 31, 2022 and 2021, respectively.

During the current year, net position for governmental activities increased \$1,715,431 from the prior fiscal year for an ending net position of \$(59,931,567). The statement of activities presents revenues received and expenses incurred by DTASC. Table 2, shown below, presents the condensed statements of activities for the years ended December 31, 2022 and 2021.

**Table 2—Condensed Statements of Activities**

	Year Ended December 31,	
	2022	2021
General revenues	\$ 4,209,603	\$ 4,023,652
Expenses—governmental activities	2,494,172	2,554,224
Change in net position	1,715,431	1,469,428
Net position—beginning	(61,646,998)	(63,116,426)
Net position—ending	<u>\$ (59,931,567)</u>	<u>\$ (61,646,998)</u>

Total revenues for the years ended December 31, 2022 and 2021 were \$4,209,603 and \$4,023,652, respectively. Revenues for the years ended December 31, 2022 and 2021 consisted of \$4,170,050 (99.06 percent) and \$4,022,094 (99.96 percent), respectively, of tobacco settlement revenues, and \$39,553 (0.94 percent) and \$1,558 (0.04 percent), respectively, of interest earnings.

A summary of sources of revenues for the years ended December 31, 2022 and December 31, 2021 is presented below in Table 3.

**Table 3—Sources of Revenues**

	Year Ended December 31,		Increase/(Decrease)	
	2022	2021	Dollars	Percent (%)
Tobacco settlement revenues	\$ 4,170,050	\$ 4,022,094	\$ 147,956	3.7
Interest earnings	39,553	1,558	37,995	2,438.7
Total revenues	<u>\$ 4,209,603</u>	<u>\$ 4,023,652</u>	<u>\$ 185,951</u>	4.6

Total expenses for the years ended December 31, 2022 and 2021 were \$2,494,172 and \$2,554,224, respectively. Expenses for the years ended December 31, 2022 and 2021 consisted of \$2,435,189 (97.6 percent) and \$2,496,981 (97.8 percent), respectively, of interest and fiscal charges, and \$58,983 (2.4 percent) and \$57,243 (2.2 percent), respectively, of general government support expenses incurred in connection with the operations of the DTASC.

A summary of expenses for the years ended December 31, 2022 and December 31, 2021 is presented below in Table 4.

**Table 4—Expenses**

	Year Ended December 31,		Increase/(Decrease)	
	2022	2021	Dollars	Percent (%)
General government support	\$ 58,983	\$ 57,243	\$ 1,740	3.0
Interest and fiscal charges	2,435,189	2,496,981	(61,792)	(2.5)
Total expenses	<u>\$ 2,494,172</u>	<u>\$ 2,554,224</u>	<u>\$ (60,052)</u>	<u>(2.4)</u>

### **Financial Analysis of Governmental Funds**

As noted earlier, DTASC uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**—The focus of DTASC’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing DTASC’s financing requirements.

At December 31, 2022, DTASC’s governmental funds reported combined fund balances of \$3,427,277, an increase of \$43,870 in comparison with the prior year. Approximately 2.8 percent of this amount, \$94,845, constitutes unassigned fund balance, which is available for spending at DTASC’s discretion, while the remainder, \$3,332,432, is restricted for debt service.

The General Fund is the chief operating fund of DTASC. During the year ended December 31, 2022, the General Fund fund balance increased \$5,343, as a result of revenues and transfers in from the Debt Service Fund exceeding expenditures. At the end of the current fiscal year, total fund balance of the General Fund included unassigned fund balance in the amount of \$94,845.

The Debt Service Fund, the remaining major governmental fund, had an increase in fund balance during the current year of \$38,527 to an ending fund balance of \$3,332,432. The increase resulted from tobacco settlement revenues and interest earnings outpacing expenditures and transfers to the General Fund. Principal and interest in the amount of \$3,856,750 were paid during the year.

### **Debt Administration**

**Long-Term Debt**—At the end of the current fiscal year, DTASC had Tobacco Settlement Bonds outstanding of \$44,450,000 and Subordinate Turbo CABs outstanding of \$8,235,043, which are combined with unamortized premium of \$3,287,643 in the statement of net position. During the year ended December 31, 2022, DTASC made principal payments of \$1,465,000 on its Tobacco Settlement Bonds, while its Subordinate Turbo CABs had annual interest accretion of \$536,389. Additional information on DTASC’s long-term debt can be found in Note 4 to the financial statements.

**Requests for Information**

This financial report is designed to provide a general overview of DTASC's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Dutchess Tobacco Asset Securitization Corporation, c/o Dutchess County, 22 Market Street, Poughkeepsie, New York 12601.

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# BASIC FINANCIAL STATEMENTS





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**DUTCHESS TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Dutchess, New York)**  
**Statement of Net Position**  
**December 31, 2022**

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	<b>Primary Government Governmental Activities</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 94,845
Restricted cash and cash equivalents	3,332,432
Due from New York State	<u>3,750,000</u>
Total assets	<u>7,177,277</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accrued interest payable	199,402
Noncurrent liabilities:	
Tobacco Settlement Bonds payable, net	47,737,643
Subordinate Turbo CABs payable	<u>8,235,043</u>
Total liabilities	<u>56,172,088</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred gain on refunding	<u>10,936,756</u>
Total deferred inflows of resources	<u>10,936,756</u>
<b>NET POSITION</b>	
Restricted for debt service	7,082,432
Unrestricted	<u>(67,013,999)</u>
Total net position	<u>\$ (59,931,567)</u>

The notes to the financial statements are an integral part of this statement.

**DUTCHESS TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Dutchess, New York)**  
**Statement of Activities**  
**Year Ended December 31, 2022**

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<b>Functions/Programs</b>	<b>Expenses</b>	<b>Net (Expenses) and Changes in Net Position</b>
		<b>Primary Government Governmental Activities</b>
<b>Primary government:</b>		
Governmental activities:		
General government support	\$ 58,983	\$ 58,983
Interest and fiscal charges	<u>2,435,189</u>	<u>2,435,189</u>
Total primary government	<u><u>\$ 2,494,172</u></u>	<u><u>2,494,172</u></u>
General revenues:		
Tobacco settlement revenues		4,170,050
Interest earnings		<u>39,553</u>
Total general revenues		<u>4,209,603</u>
Change in net position		1,715,431
Net position—beginning		<u>(61,646,998)</u>
Net position—ending		<u><u>\$ (59,931,567)</u></u>

The notes to the financial statements are an integral part of this statement.

**DUTCHESS TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Dutchess, New York)**  
**Balance Sheet—Governmental Funds**  
**December 31, 2022**

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 94,845	\$ -	\$ 94,845
Restricted cash and cash equivalents	<u>-</u>	<u>3,332,432</u>	<u>3,332,432</u>
Total assets	<u>\$ 94,845</u>	<u>\$ 3,332,432</u>	<u>\$ 3,427,277</u>
<b>FUND BALANCES</b>			
Restricted for debt service	\$ -	\$ 3,332,432	\$ 3,332,432
Unassigned	<u>94,845</u>	<u>-</u>	<u>94,845</u>
Total fund balances	<u>\$ 94,845</u>	<u>\$ 3,332,432</u>	<u>\$ 3,427,277</u>

The notes to the financial statements are an integral part of this statement.

**DUTCHESS TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Dutchess, New York)**  
**Reconciliation of the Balance Sheet—Governmental Funds**  
**to the Government-wide Statement of Net Position**  
**December 31, 2022**

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Amounts reported for governmental activities in the statement of net position (page 9) are different because:

Total fund balances—governmental funds (page 11)	\$ 3,427,277
A long-term asset, due from New York State, \$3,750,000, is not available to pay for current period expenditures and, therefore, is not reported in the funds.	3,750,000
Deferred gains associated with refunding of bonds are not reported in the governmental funds. The gain is reported as a deferred inflow of resources on the statement of net position and is recognized as a component of interest earnings over the life of the related debt.	(10,936,756)
Certain current and long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. The effects of these items are:	
Accrued interest payable	\$ (199,402)
Tobacco Settlement Bonds payable	(44,450,000)
Premium on Tobacco Settlement Bonds payable	(3,287,643)
Subordinate Turbo CABs payable	(8,235,043)
	<u>(56,172,088)</u>
Net position of governmental activities	<u>\$ (59,931,567)</u>

The notes to the financial statements are an integral part of this statement.

**DUTCHESS TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Dutchess, New York)**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds**  
**Year Ended December 31, 2022**

	<b>General</b>	<b>Debt Service</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Tobacco settlement revenues	\$ -	\$ 3,920,050	\$ 3,920,050
Interest earnings	389	39,164	39,553
Total revenues	<u>389</u>	<u>3,959,214</u>	<u>3,959,603</u>
<b>EXPENDITURES</b>			
Current:			
General government support	33,474	25,509	58,983
Debt service:			
Principal	-	1,465,000	1,465,000
Interest	-	2,391,750	2,391,750
Total expenditures	<u>33,474</u>	<u>3,882,259</u>	<u>3,915,733</u>
Excess (deficiency) of revenues over expenditures	<u>(33,085)</u>	<u>76,955</u>	<u>43,870</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	38,428	-	38,428
Transfers out	-	(38,428)	(38,428)
Total other financing sources (uses)	<u>38,428</u>	<u>(38,428)</u>	<u>-</u>
Net change in fund balances	5,343	38,527	43,870
Fund balances—beginning	89,502	3,293,905	3,383,407
Fund balances—ending	<u>\$ 94,845</u>	<u>\$ 3,332,432</u>	<u>\$ 3,427,277</u>

The notes to the financial statements are an integral part of this statement.

**DUTCHESS TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Dutchess, New York)**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances—Governmental Funds to the Government-wide Statement of Activities**  
**Year Ended December 31, 2022**

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Amounts reported for governmental activities in the statement of activities (page 10) are different because:

Net change in fund balances—total governmental funds (page 13)	\$ 43,870
Certain revenues are not recognized in the governmental funds because they are not available soon enough after year-end to pay for the current period's expenditures. On the statement of activities, however, revenue is recognized regardless of when its collected.	250,000
Revenues related to the deferred gain on refunding reported in the statement of activities do not provide current financial resources and, therefore, are not reported in the governmental funds.	377,129
The issuance of long-term debt (i.e., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt and the related items is as follows:	
Change in accrued interest payable	\$ 7,466
Principal repayments on Tobacco Settlement Bonds payable	1,465,000
Amortization of premium on Tobacco Settlement Bonds payable	108,355
Accreted interest on Subordinate Turbo CABs payable	(536,389) 1,044,432
Change in net position of governmental activities	<u>\$ 1,715,431</u>

The notes to the financial statements are an integral part of this statement.

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**DUTCHESS TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Dutchess, New York)**  
**Notes to the Financial Statements**  
**Year Ended December 31, 2022**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Dutchess Tobacco Asset Securitization Corporation (“DTASC”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of DTASC’s accounting policies are described below.

***Description of Government-Wide Financial Statements***

The government-wide financial statements (i.e., statement of net position and the statement of activities) report information on all the nonfiduciary activities of DTASC. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. DTASC reports no fiduciary or business-type activities.

***Reporting Entity***

DTASC is a special purpose, bankruptcy remote, local development corporation organized under the Not-for-Profit Corporation Law of the State of New York. DTASC is an instrumentality of, but separate and apart from, the County of Dutchess, New York (the “County”). Although legally separate from the County, DTASC is a component unit of the County. Based on the nature and significance of DTASC’s relationship with the County and the criteria set forth by GASB, DTASC is included within the County basic financial statements as a blended component unit.

DTASC was incorporated on December 1, 2003 for the purpose of issuing asset backed bonds in order to provide funds to purchase from the County all of the County’s right, title and interest under the Master Settlement Agreement (the “MSA”) and the Consent Decree and Final Judgment (the “Decree”) as described herein. DTASC has issued bonds in three series: 1) the New York Counties Tobacco Trust III issued in 2003, 2) Subordinate Capital Appreciation Bonds issued in 2005, and 3) the New York Counties Tobacco Trust VI issued in 2016.

The Board of Directors of DTASC has three members, one appointed by the County Executive, one appointed by the Chairman of the Dutchess County Legislature, and one jointly appointed by the County Executive and Chairman of the County Legislature.

The MSA was entered into on November 23, 1998, among the attorneys general of 46 states (including New York), the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Territory of the Northern Marianas and for the four largest United States tobacco manufacturers: Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown and Williamson Tobacco Company and Lorillard Tobacco Company (collectively the “Original Participating Manufacturers” or “OPMs”) in settlement of certain smoking-related litigation and the Decree entered in New York Supreme Court, including the County’s right to receive certain initial and annual payments to be made by the OPMs under the MSA.

During the year ended December 31, 2005, DTASC participated in the New York Counties Tobacco Trust V (“NYCTT V”), along with twenty-three other New York County Tobacco Corporations, and issued subordinate Capital Appreciation Bonds (“CABs”) in various series for the purpose of securitizing additional future tobacco settlement revenues. Net proceeds of the 2005 Series, after closing costs, amounted to \$26,236,279. The County set these proceeds, after the deduction of \$736,279 in bond issuance costs and underwriter costs, aside for capital projects. With the issuance of the 2005 CAB, the County is no longer entitled to any residual cash receipts until such time that the 2005 CAB is retired.

Subsequent to the initial sale of the Bonds, the County has the right to receive net proceeds of future bond issuances and the revenues of DTASC that are in excess of DTASC’s expenses, debt service and contractual obligations, pursuant to the Bond Indenture. In the current year, there were no payments to the County resulting from these excess revenues.

In accordance with the Bond Indenture and to the extent contained in the MSA Report, a trapping event has occurred. A Consumption Decline Trapping Event occurs when shipments of cigarettes in or to the 50 United States, the District of Columbia and Puerto Rico as measured under the MSA, are less in any year preceding a deposit date than the amount opposite such year under the “Consumption Decline Trapping Event” definition, which number for the year 2021 is 215,729,944,748. According to the MSA Report, the amount shown as relevant shipments for the year 2021 was less than the shipment amount specified above, and therefore a Consumption Decline Trapping Event has occurred for the year ended December 31, 2022.

#### ***Basis of Presentation – Government-Wide Financial Elements***

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds.

#### ***Basis of Presentation – Fund Financial Statements***

The fund financial statements provide information about DTASC’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.

DTASC reports the following major governmental funds:

- *General Fund*—The General Fund constitutes the primary operating fund of DTASC 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.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

### ***Measurement Focus and Basis of Accounting***

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The 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 the related cash flows.

Tobacco settlement revenues are exchange transactions, based on the notion that the payments are made to the settling states in exchange for their agreement to release the tobacco companies from present and future litigation. Under the terms of the MSA, the tobacco companies have agreed to make annual payments in perpetuity. The MSA includes a schedule of projected annual base payments, subject to certain adjustments based on future events or circumstances. The most significant factor affecting the annual payments is a *volume adjustment*, which creates a direct relationship between domestic shipments of cigarettes and the annual payments. Based on the MSA, the tobacco companies have no obligation to make settlement payments until cigarettes are shipped.

The event that results in the recognition of an asset and revenue by a settling government is the domestic shipment of cigarettes (sales). Therefore, DTASC recognizes a receivable and revenue for tobacco settlement revenues when that event occurs. Because annual tobacco settlement revenue payments are based on cigarette sales from the preceding calendar year, DTASC estimates accrued tobacco settlement revenues that derive from sales from January 1 to their respective fiscal year ends. Under the modified accrual basis of accounting, revenue should be recognized to the extent that the event occurs and resources become *available*.

The governmental 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, DTASC 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 are recorded only when the payment is due. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period of availability. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements are met and amount is received during the period of availability. All other revenue items are considered to be measurable and available only when cash is received by DTASC.

***Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance***

***Cash, Cash Equivalents and Investments***—Cash and cash equivalents consist of cash on hand, demand deposits, time deposits and short-term, highly liquid investments with original maturities of six months or less from the date of acquisition. At December 31, 2022, DTASC does not report any investments; however, when DTASC does have investments they are recorded at fair value in accordance with GASB.

***Restricted Cash and Cash Equivalents***—Restricted cash and cash equivalents represents amounts to support fund balance restricted for debt service.

***Due from New York State***—Represents an estimate of DTASC’s portion of the Master Settlement Agreement and is recorded as revenue in the government-wide financial statements.

***Deferred Outflows/Inflows 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, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. At December 31, 2022, DTASC does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At December 31, 2022, DTASC reports a deferred inflow of resources of \$10,936,756 related to a deferred gain on refunding, which will be amortized over the life of the Tobacco Settlement Asset Backed Refunding Bonds, Series 2016. A deferred gain or loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price.

***Net Position Flow Assumption***—Sometimes DTASC will fund outlays for a particular purpose from both restricted (e.g., restricted bond proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is DTASC’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

***Fund Balance Flow Assumption***—Sometimes DTASC will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. If DTASC must use funds for emergency expenditures it shall expend funds first from funds classified under GASB as nonspendable (if funds become available) then restricted funds. The use of committed and assigned funds as classified by GASB will occur after the exhaustion of available restricted funds. Finally, if no other fund balances are available DTASC will use unassigned fund balance.

***Fund Balance Policies***—Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. DTASC itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of DTASC's highest level of decision-making authority (DTASC Board). The governing board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing board (DTASC Board) has by resolution authorized the sole Member to assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

### ***Revenues and Expenses/Expenditures***

***Program and General Revenues***—Amounts reported as *program revenues* include 1) charges to customers of applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. There are no program revenues in the current year. All tobacco settlement revenue and other internally dedicated resources are reported as *general revenues* rather than as program revenues.

***Tobacco Settlement Revenues***—During the year ended December 31, 2022, DTASC recognized tobacco settlement revenues in accordance with the Master Settlement Agreement. Payments are made according to a set formula based on tobacco sales.

***Expenses/Expenditures***—General administration costs consist of operating expenses for professional service fees and are paid from General Fund revenues. Direct expenses are those that are clearly identifiable with a specific function. Indirect expenses have been included as part of the program expenses reported for the various functional activities. Expenditures are recorded on a modified accrual basis of accounting. Payments to the County are recorded when the obligation is incurred.

***Transfers In/Out***—Transfers are used to move resources from the Debt Service Fund to the General Fund to support operating expenditures.

### ***Other***

***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 revenues, expenses, assets, liabilities, deferred outflows of resources, and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

**Adoption of New Accounting Pronouncements**—During the year ended December 31, 2022, DTASC implemented GASB Statement No. 87, *Leases*. GASB Statement No. 87 better meets the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The implementation of GASB Statement No. 87 did not have a material impact on DTASC’s financial position or results from operations.

**Future Impacts of Accounting Pronouncements**—DTASC has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*; No. 96, *Subscription-Based Information Technology Arrangements*; and No. 99, *Omnibus 2022*, effective for the year ending December 31, 2023, and No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*; and No. 101, *Compensated Absences*, effective for the year ending December 31, 2024. DTASC is, therefore, unable to disclose the impact that adopting GASB Statements No. 94, 96, 99, 100 and 101 will have on its financial position and results of operations when such statements are adopted.

**Deficit Net Position**—At December 31, 2022, DTASC reported a net position deficit of \$59,931,567. The deficit is caused by long-term obligations that are greater than currently available resources.

**Tax Status**—DTASC is exempt from federal income tax under section 501(a) of the Internal Revenue Code (IRC) as an organization described in section 501(c)(3).

## 2. CASH AND CASH EQUIVALENTS

DTASC’s investment policies are governed by New York State statutes. All deposits are carried at fair value. Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit not covered by Federal deposit insurance. DTASC has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligation that may be pledged as collateral. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York.

DTASC’s cash and cash equivalents at December 31, 2022, are as follows:

	General Fund	Debt Service Fund	Total
Deposits	\$ 94,845	\$ -	\$ 94,845
Money market funds	-	40,927	40,927
Discount notes	-	3,291,505	3,291,505
Total	<u>\$ 94,845</u>	<u>\$ 3,332,432</u>	<u>\$ 3,427,277</u>

**Deposits**—All deposits of cash in the bank are carried at fair value, and are classified by custodial credit risk at December 31, 2022 as follows:

	Bank Balance	Carrying Amount
FDIC insured	<u>\$ 94,845</u>	<u>\$ 94,845</u>

**Cash Equivalents**—Cash equivalents held by DTASC include money market accounts and discount notes with maturity dates within six months of year-end. These cash equivalents are carried at amortized cost.

**Restricted Cash and Cash Equivalents**—DTASC reports restricted cash and cash equivalents in the Debt Service Fund of \$3,332,432 to support restricted fund balance.

**Custodial Credit Risk—Deposits**—In the case of deposits, this is the risk that in the event of a bank failure, DTASC’s deposits may not be returned to it. As noted above, by New York State statute all deposits in excess of FDIC insurance coverage must be collateralized. At December 31, 2022, DTASC’s deposits were FDIC insured.

**Custodial Credit Risk—Cash Equivalents**—For cash equivalents, this is the risk that, in the event of the failure of the counterparty, DTASC will not be able to recover the value of its cash equivalents or collateral securities that are in the possession of an outside party. For cash equivalents, this is the risk that in the event of a bank failure, DTASC’s cash equivalents may not be returned to it.

**Interest Rate Risk**—As a means of limiting its exposure to fair value losses arising from fluctuating interest rates, it is DTASC’s practice to generally limit investments to 180 days or less.

### 3. RECEIVABLES

**Due from New York State**—Represents amounts owed to DTASC for tobacco settlement revenue earned in 2022. DTASC has accrued \$3,750,000 within the government-wide statements only, as it is only recognized on the full accrual basis of accounting.

### 4. LONG-TERM DEBT

In 2003, DTASC issued \$47,815,000 of the New York Counties Tobacco Trust III Tobacco Settlement Pass-Through Bonds, Series 2003 (“Series 2003 Term Bonds”) pursuant to an indenture dated as of December 18, 2003. The issue value of the bonds was \$45,912,363, net of a bond discount of \$1,902,637. Net proceeds were paid to the County for deposit to an escrow fund as a purchase from the County of all of the County’s right, title and interest, under the MSA and the Decree, including the Tobacco Settlement Revenues (“TSR”). On September 22, 2016, DTASC issued \$49,520,000 of Tobacco Settlement Asset Backed Refunding Bonds, Series 2016. The Series 2016 bonds and additional consideration received as a result of the refunding transaction were used to redeem or exchange all of DTASC’s Series 2003 Term Bonds outstanding in the aggregate principal amount of \$22,250,000. As a result, the Series 2003 Term Bonds have been removed from the financial statements. Additionally, the Series 2016 Bonds’ proceeds were used to acquire by negotiated purchase the initial principal amount of outstanding NYCTT Subordinate Bonds component S4B attributable to DTASC, to cancel the related NYCTT Subordinate Bonds component S2, and redeem NYCTT Subordinate Bonds component S1 bonds.

On November 15, 2005, DTASC participated in New York Counties Tobacco Trust V (“NYCTT”), along with 23 other New York County Tobacco Corporations, and issued Tobacco Settlement Pass-Through Bonds—Subordinate Turbo Capital Appreciation Bonds (“CABs”) in various series for the purpose of securitizing additional future tobacco settlement revenues. The proceeds of these bonds, \$26,236,279 (after the deduction of \$736,279 in bond issuance and underwriter costs), were used to purchase tobacco settlement rights from the County. The issuance had four components and payments on the Subordinate Turbo CABs were subordinate to the Series 2003 Term Bonds. As a result of the

Tobacco Asset Back Refunding Bonds, Series 2016 transaction as described above, only the Series 2005 S3 Subordinate Turbo CABs remain.

The payment of the Series 2016 Term Bonds and the Subordinate Turbo Bonds is dependent on the receipt of TSRs. The amount of TSRs actually collected is dependent on many factors including cigarette consumption and the continued operations of the OPMs. Such bonds are secured by and payable solely from TSRs and investment earnings pledged under the Bond Indenture and amounts established and held in accordance with the Bond Indenture. In the event sufficient funds are not available to meet planned payment maturities, rated maturity dates will be used.

Changes in bonds payable for the Tobacco Settlement Bonds, Series 2016 Bonds for the year ended December 31, 2022 are as follows:

Description	Year of Maturity	Yield	Beginning Balance 1/1/2022	Additions	Deletions	Ending Balance 12/31/2022	Amounts* Due Within One Year
Series 2016 Tobacco Settlement Bonds	2035	various	\$ 45,915,000	\$ -	\$ 1,465,000	\$ 44,450,000	\$ 5,510,000
Plus:							
Bond premium			3,395,998	-	108,355	3,287,643	407,535
Net Tobacco Settlement Bonds			<u>\$ 49,310,998</u>	<u>\$ -</u>	<u>\$ 1,573,355</u>	<u>\$ 47,737,643</u>	<u>\$ 5,917,535</u>

\*Actual amounts due within one year may vary based on the receipt of TSRs and DTASC's ability to make the payment of principal and interest as referenced in Note 6.

**Amortization of Bond Premium**—Bond premiums are being amortized based on the percentage of principal paid to date. The unamortized bond premium as of December 31, 2022 was \$3,287,643.

DTASC debt service requirements, based upon planned principal payments, for Tobacco Settlement Bonds, Series 2016 are as follows:

Year Ending December 31,	Principal	Interest	Total
2023	\$ 5,510,000	\$ 2,182,500	\$ 7,692,500
2024	2,245,000	1,949,850	4,194,850
2025	2,395,000	1,810,650	4,205,650
2026	2,550,000	1,663,150	4,213,150
2027	2,715,000	1,519,625	4,234,625
2028-2032	16,070,000	5,338,750	21,408,750
2033-2035	12,965,000	1,043,375	14,008,375
Total	<u>\$ 44,450,000</u>	<u>\$ 15,507,900</u>	<u>\$ 59,957,900</u>

**Subordinate Turbo CABs**—Interest on the Subordinate Turbo CABs is compounded semi-annually on June 1 and December 1, but is not payable until bond maturity. Interest accretes until both principal and accreted interest are paid. Future interest accretion has been recorded as bond discount and amortized as the current interest accretes. The accreted interest on the Subordinate Turbo CABs is reflected within the Subordinate Turbo CABs payable liability.



A summary of the Subordinate Turbo CABs net bond balance activity for the year ended December 31, 2022 follows:

	Interest Rate	Original Principal	Beginning Balance 1/1/2022	Annual Net Interest Accretion	Turbo Redemption Payments	Ending Balance 12/31/2022
Subordinate	6.00% -					
Turbo CABs	7.85%	<u>\$ 2,604,375</u>	<u>\$ 7,698,654</u>	<u>\$ 536,389</u>	<u>\$ -</u>	<u>\$ 8,235,043</u>

Redemption of the Subordinate Turbo CABs as outlined in the New York Counties Tobacco Trust VI Tobacco Settlement Pass-Through Bonds, Series 2016 official statement totals \$26,236,279 and is scheduled to be paid from 2035 to 2040, while early payment is allowed. During the year ended December 31, 2022, DTASC did not make any redemption payments. Outstanding Subordinate Turbo CABs consist of one installment, Series 2005 S3. Any debt service amounts not paid in accordance with the Turbo Redemption Payments schedule will be due and payable on the June 1, 2055 maturity date.

## 5. NET POSITION AND FUND BALANCE

The government-wide financial statements utilize a net position presentation. Net position is categorized as restricted and unrestricted components.

- ***Restricted for Debt Service***—This category restricts a portion of net position for payment of the debt service obligations of DTASC. At December 31, 2022, the balance of this restriction was \$7,082,432.
- ***Unrestricted Component of Net Position***—This component represents net position of DTASC not restricted for any other purpose.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. At December 31, 2022, DTASC reported \$3,332,432 of fund balance restricted for debt service that must be used toward the future repayment of bonded debt.

As of December 31, 2022, DTASC reported no nonspendable, committed, or assigned fund balances.

## 6. CONTINGENCIES

The ability of DTASC to meet debt service payments of bonds is contingent upon the receipt of TSRs. TSRs are principally dependent upon future levels of domestic consumption. A significant decline in the overall consumption of cigarettes could have a material adverse effect on the payments by the OPMs under the MSA and the amounts available to DTASC to make payments of principal and interest on their bonds.

Certain smokers, smokers' rights organizations, consumer groups, cigarette importers, cigarette distributors, cigarette manufacturers, Native American tribes, taxpayers, taxpayers' groups and other parties have filed actions against some, and in certain cases all, of the signatories to the MSA. In the event of an adverse court ruling in such types of litigation, Bondholders could incur a complete loss of their investment.

Additionally, the OPMs are also exposed to liability from various lawsuits including individual lawsuits, class action lawsuits and health care cost recovery litigation. Ultimately, the outcome of these and any other pending or future lawsuits is uncertain. One or more adverse judgment could result in delays in, or reductions of amounts available for, payments on the bonds.

## **7. RELATED PARTY TRANSACTIONS**

The County provides DTASC with administrative services. The cost of these services has been included as general government support expenses on DTASC's statement of activities. DTASC paid the County \$10,410 for administrative expenses for the year ended December 31, 2022.

## **8. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through March 3, 2023, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

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*Certified Public Accountants*

**INDEPENDENT AUDITORS' 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**

To the Board of Directors  
Dutchess Tobacco Asset Securitization Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Dutchess Tobacco Asset Securitization Corporation ("DTASC"), a component unit of the County of Dutchess, New York, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise DTASC's basic financial statements, and have issued our report thereon dated March 3, 2023.

***Report on Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered DTASC's internal control over financial reporting ("internal control") as a basis for designing 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 DTASC's internal control. Accordingly, we do not express an opinion on the effectiveness of the DTASC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

As part of obtaining reasonable assurance about whether DTASC'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.

*Drescher & Malecki LLP*

March 3, 2023