

**SILICON VALLEY TOBACCO
SECURITIZATION AUTHORITY**

(A Component Unit of the
County of Santa Clara, California)

Independent Auditor's Reports
and Basic Financial Statements

For the Year Ended June 30, 2021



Certified
Public
Accountants

SILICON VALLEY TOBACCO SECURITIZATION AUTHORITY
(A Component Unit of the County of Santa Clara, California)
For the Year Ended June 30, 2021

Table of Contents

	<i>Page</i>
Independent Auditor’s Report	1
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position – Governmental Activity.....	3
Statement of Activities – Governmental Activity.....	4
Governmental Fund Financial Statements:	
Balance Sheet – General Fund.....	5
Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund.....	6
Notes to Basic Financial Statements	7
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>	11



Independent Auditor's Report

Board of Directors of the
Silicon Valley Tobacco Securitization Authority
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activity and major fund of the Silicon Valley Tobacco Securitization Authority (Authority), a component unit of the County of Santa Clara (County), California, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity and major fund of the Authority as of June 30, 2021, 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.

Emphasis of Matter

Withdrawal of Rating of Tobacco Settlement Asset-Backed Bonds by Fitch Ratings

As described in Note 4 to the basic financial statements, during the year ended June 30, 2016, Fitch Ratings withdrew all ratings assigned to U.S. tobacco settlement asset-backed securities including the Authority's Tobacco Settlement Asset-Backed Bonds. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2021, 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.



Walnut Creek, California
November 5, 2021

SILICON VALLEY TOBACCO SECURITIZATION AUTHORITY

(A Component Unit of the County of Santa Clara, California)

Statement of Net Position - Governmental Activity

June 30, 2021

Assets

Loan receivable from the Corporation	\$ 102,030,012
Interest receivable from the Corporation	134,242,726
	<hr/>
Total assets	236,272,738
	<hr/>

Liabilities

Noncurrent liabilities:	
Bonds payable	102,030,012
Accreted interest payable	134,242,726
	<hr/>
Total liabilities	236,272,738
	<hr/>

Net Position

\$ -

See accompanying notes to basic financial statements.

SILICON VALLEY TOBACCO SECURITIZATION AUTHORITY

(A Component Unit of the County of Santa Clara, California)

Statement of Activities - Governmental Activity

For the Year Ended June 30, 2021

Program Expenses

Interest on long-term liabilities	\$ (13,373,019)
Payment to the Corporation	<u>(146,853)</u>
Total program expenses	<u>(13,519,872)</u>

General Revenues

Loan interest income	13,373,019
Sold tobacco assets revenues from the County	<u>146,853</u>
Total general revenues	<u>13,519,872</u>

Change in net position -

Net position, beginning of year -

Net position, end of year \$ -

See accompanying notes to basic financial statements.

SILICON VALLEY TOBACCO SECURITIZATION AUTHORITY

(A Component Unit of the County of Santa Clara, California)

Balance Sheet - General Fund

June 30, 2021

Assets

Loan receivable from the Corporation	\$ 102,030,012
Interest receivable from the Corporation	<u>134,242,726</u>
Total assets	<u><u>\$ 236,272,738</u></u>

Deferred Inflows of Resources

Unavailable revenue	\$ 236,272,738
---------------------	----------------

Fund Balance

Restricted for debt service	<u>-</u>
Total deferred inflows of resources and fund balance	<u><u>\$ 236,272,738</u></u>

Reconciliation of the Governmental Fund Balance Sheet
to the Government-Wide Statement of Net Position - Governmental Activity

Fund Balance	\$ -
Amounts reported for governmental activity in the statement of net position are different because:	
Long-term receivables are not available to pay for current period expenditures and therefore are recorded as deferred inflows of resources in the funds.	236,272,738
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	
Bonds payable	(102,030,012)
Accreted interest payable	<u>(134,242,726)</u>
Net position of governmental activity	<u><u>\$ -</u></u>

See accompanying notes to basic financial statements.

SILICON VALLEY TOBACCO SECURITIZATION AUTHORITY

(A Component Unit of the County of Santa Clara, California)

Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund

For the Year Ended June 30, 2021

Revenues

Sold tobacco assets revenues from the County \$ 146,853

Expenditures

Payment to the Corporation 146,853

Net change in fund balance -

Fund Balance, beginning of year -

Fund Balance, end of year \$ -

Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Government-Wide Statement of Activities - Governmental Activity

Net change in fund balance \$ -

Amounts reported for governmental activity in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. 13,373,019

Changes in accreted interest for the bonds do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (13,373,019)

Change in net position of governmental activity \$ -

See accompanying notes to basic financial statements.

SILICON VALLEY TOBACCO SECURITIZATION AUTHORITY

(A Component Unit of the County of Santa Clara, California)

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

NOTE 1 – REPORTING ENTITY

The Silicon Valley Tobacco Securitization Authority (Authority) is a public entity created by a Joint Exercise of Powers Agreement, dated December 1, 2006 by and between the County of Santa Clara (County) and the El Camino Hospital District (District) pursuant to Article 1 of Chapter 5 of Division 7 of Title 1 of the State of California Government Code Section 6500 and following.

In November 1998, the Attorney General of 46 states, including the State of California, signed a master settlement agreement (Agreement) with four major tobacco companies. The Agreement is the largest civil settlement in U.S. history, which is estimated to provide \$206 billion in tobacco settlement payments in exchange for the release of all past, present, and future claims related to the use of tobacco products. Pursuant to a Memorandum of Understanding (MOU) and an Agreement Regarding Interpretation of Memorandum of Understanding (ARIMOU), the State of California agreed to distribute a portion of its share of the settlement to its counties based on population. Under the formula the County will receive approximately \$1.3 billion over fifty years starting with the fiscal year ended June 30, 2007.

The Authority was formed for the purposes of financing a loan to the Santa Clara County Tobacco Securitization Corporation (Corporation). With this loan, the Corporation has purchased the County's future Tobacco Settlement Revenues (TSRs) under the Agreement. Under its agreement with the County, the Corporation has title to all payments to be received by the County under the Agreement noted above, the MOU, the ARIMOU and the Consent Decree and all other agreements and understandings that are due the County, including any interest thereon, between the State of California and the tobacco companies. With these funds, the Corporation will provide payments to the Authority to meet its obligations under the Tobacco Settlement Asset-Backed Bonds, as further discussed below.

The Authority is a separate legal entity that is an integral part of the County. The Authority is administered by its Board of Directors consisting of three directors, of which two of them are designated by the Board of Supervisors of the County and one is designated by the governing body of the District. The County exercises significant financial and management control over the Authority. The Authority provides services entirely to the County. The Authority and the County have a financial and operational relationship which requires that the Authority's financial statements be blended into the County's financial statements. Therefore, the Authority is considered a blended component unit of the County, and its financial activities are included into the County's basic financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

SILICON VALLEY TOBACCO SECURITIZATION AUTHORITY

(A Component Unit of the County of Santa Clara, California)

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Authority’s fund financial statements are prepared using the current financial resources focus and the modified accrual basis of accounting. Revenues are recorded when “susceptible to accrual” (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means that revenues are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 120 days of the end of the current year. Revenues not considered available are recorded as deferred inflows of resources. Expenditures are generally recorded when the fund liability is incurred. Liabilities expected to be paid after one year are recorded in the government-wide financial statements as a noncurrent liability due more than one year.

The Authority reports only one fund, which is the Authority’s operating fund that accounts for all of its financial resources and activities.

When restricted program expenses are incurred, it is the Authority’s policy to first apply revenues from the restricted sources to these programs and then apply unrestricted general revenues.

Deferred Inflows of Resources

The Authority reports deferred inflows of resources in the governmental fund balance sheet when revenues are not available. These amounts are deferred and recognized as revenues in the period when the amounts become available.

Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 – LOAN AND INTEREST RECEIVABLE FROM CORPORATION

In accordance with the Loan Agreement, the Corporation has granted to the Authority a security interest in all right, title, and interest of the Corporation in, to and under the following property: 1) the Sold County Tobacco Assets as defined in the indenture purchased from the County; 2) to the extent permitted by law, corresponding present or future rights, if any, of the Corporation to enforce or cause the enforcement of payment of purchased Sold County Tobacco Assets pursuant to the MOU and the ARIMOU; 3) corresponding rights of the Corporation under the Purchase and Sale Agreement dated January 1, 2007; and 4) all proceeds of any and all of the foregoing.

At June 30, 2021, the loan and interest receivable to be received from the Corporation was \$102,030,012 and \$134,242,726, respectively, which represents payments to be received from the Corporation for debt service payments of the Tobacco Settlement Asset-Backed Bonds. The loan repayment schedule matches the annual future principal and interest payments schedule of the Tobacco Settlement Asset-Backed Bonds.

SILICON VALLEY TOBACCO SECURITIZATION AUTHORITY

(A Component Unit of the County of Santa Clara, California)

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

NOTE 4 – BONDS AND ACCRETED INTEREST PAYABLE

On January 17, 2007, the Authority issued Tobacco Settlement Asset-Backed Bonds, which totaled \$102,030,012. The Series 2007 Tobacco Settlement Asset-Backed Bonds are primarily secured by a portion of TSRs that are payable to the County and sold to the Corporation pursuant to the sale agreement.

The first Series A Capital Appreciation Bonds (CABs) were issued for \$43,604,066 with an interest rate of 5.63%, final turbo redemption date on June 1, 2031 and due date of June 1, 2036. The second Series A CABs were issued for \$11,339,136 with an interest rate 5.68%, final turbo redemption date on June 1, 2033 and due date on June 1, 2041. The third Series A CABs were issued for \$13,617,538 with an interest rate of 5.70%, final turbo redemption date on June 1, 2036 and due date on June 1, 2047.

Series B CABs were issued for \$4,407,580 with an interest rate of 5.85%, final turbo redemption date on June 1, 2036 and due date of June 1, 2047. Series C CABs were issued for \$20,160,692 with an interest rate of 6.30%, final turbo redemption date on June 1, 2042 and due date of June 1, 2056. Series D CABs were issued for \$8,901,000 with an interest rate of 6.85%, final turbo redemption date on June 1, 2046 and due date of June 1, 2056.

A summary of the changes in bonds and accreted interest payable during the fiscal year ended June 30, 2021 is as follows:

	Balance June 30, 2020	Addition	Balance June 30, 2021	Balance due within one year
Bonds Payable				
Series 2007 A CABs	\$ 68,560,740	\$ -	\$ 68,560,740	\$ -
Series 2007 B CABs	4,407,580	-	4,407,580	-
Series 2007 C CABs	20,160,692	-	20,160,692	-
Series 2007 D CABs	8,901,000	-	8,901,000	-
Total bonds payable	<u>102,030,012</u>	<u>-</u>	<u>102,030,012</u>	<u>-</u>
Accreted Interest Payable				
Series 2007 A CABs	76,370,687	8,302,995	84,673,682	-
Series 2007 B CABs	5,157,570	567,745	5,725,315	-
Series 2007 C CABs	26,237,179	2,969,104	29,206,283	-
Series 2007 D CABs	13,104,271	1,533,175	14,637,446	-
Total accreted interest payable	<u>120,869,707</u>	<u>13,373,019</u>	<u>134,242,726</u>	<u>-</u>
Total	<u>\$ 222,899,719</u>	<u>\$ 13,373,019</u>	<u>\$ 236,272,738</u>	<u>\$ -</u>

SILICON VALLEY TOBACCO SECURITIZATION AUTHORITY

(A Component Unit of the County of Santa Clara, California)

Notes to Basic Financial Statements

For the Year Ended June 30, 2021

NOTE 4 – BONDS AND ACCRETED INTEREST PAYABLE (Continued)

Annual future bond principal and interest payments as of June 30, 2021, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ -	\$ -	\$ -
2023	-	-	-
2024	-	-	-
2025	-	-	-
2026	-	-	-
2027-2031	-	-	-
2032-2036	43,604,066	178,570,934	222,175,000
2037-2041	11,339,137	66,320,863	77,660,000
2042-2046	-	-	-
2047-2051	18,025,118	158,674,882	176,700,000
2052-2056	29,061,691	648,788,309	677,850,000
	<u>\$ 102,030,012</u>	<u>\$ 1,052,354,988</u>	<u>\$ 1,154,385,000</u>

The Authority is considered to be in default if the Authority fails to pay the current interest on any bonds when due, or the principal or the accreted value of any bonds when due at maturity or upon prior redemption in accordance with the terms of the bond indenture. If an event of default has occurred and is continuing, the trustee may, upon written request of the bondholders of at least 25% of bonds outstanding, declare the accreted value of outstanding bonds to be due and payable immediately and be paid from all available funds in the debt service account and the extraordinary prepayment account.

During the year ended June 30, 2016, Fitch Ratings withdrew all ratings assigned to U.S. tobacco settlement asset-backed securities including the Authority's Tobacco Settlement Asset-Backed Bonds.



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
Silicon Valley Tobacco Securitization Authority
San Jose, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activity and the major fund of the Silicon Valley Tobacco Securitization Authority (Authority), a component unit of the County of Santa Clara (County), California, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated November 5, 2021.

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 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 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 5, 2021