

**WARREN TOBACCO ASSET
SECURITIZATION CORPORATION
(A Blended Component Unit
of the County of Warren, New York)**

**Financial Statements and Independent Auditor's Reports
as of
December 31, 2017**

Bonadio & Co., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

March 22, 2018

To the Board of Directors of the
Warren Tobacco Asset Securitization Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Warren Tobacco Asset Securitization Corporation (Corporation), a blended component unit of County of Warren, New York, as of and for the year ended December 31, 2017 and the related notes to the financial statements, which collectively comprise the Corporation'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 auditing standards generally accepted in the United States of America and 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 of 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.

(Continued)

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INDEPENDENT AUDITOR'S REPORT (Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Warren Tobacco Asset Stabilization Corporation, as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2018 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. The purpose of that report is to solely 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 Corporation's internal control over financial reporting and compliance.

Bonadio & Co., LLP

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Warren, New York)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2017

This discussion and analysis of the Warren Tobacco Asset Securitization Corporation's (Corporation) financial performance provides an overview of the Corporation's financial activities for the year ended December 31, 2017. This document should be read in conjunction with the Corporation's financial statements and related notes to the financial statements.

The Corporation is a component unit of the County of Warren, New York and is blended in the County's financial statements.

Financial Highlights

- The Corporation's net position decreased by approximately \$277,000.
- The Corporation paid \$135,000 of bond principal.
- Tobacco settlement revenue was approximately \$679,000.

Reporting the Corporation as a Whole

One of the most important questions asked about the Corporation's finances is, "Is the Corporation, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Corporation as a whole and about its activities in a manner that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Corporation's net position and changes in it. You can think of the Corporation's net position – the difference between assets and liabilities – as one way to measure the Corporation's financial health, or financial position. Over time, increases or decreases in the Corporation's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the financial capability of the participating cigarette manufacturers to pay and the future cigarette consumption which impacts the tobacco settlement revenue payments, to assess the overall health of the Corporation.

Overview of the Financial Statements

The Corporation's financial statements consist of two parts: Management's Discussion and Analysis, and basic financial statements. The basic financial statements include the government-wide presentation, governmental fund presentation, and notes.

The government-wide financial statements, which include the Statement of Net Position and the Statement of Activities, are presented to display information about the Corporation as a whole and are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) using the accrual basis; similar to the accounting used by most private-sector companies.

The Statement of Net Position answers the question, "How is our financial health at the end of the year?" This statement includes all assets and liabilities. Over time, changes in net position may serve as a useful indicator as to whether the financial position of the Corporation is improving or deteriorating.

Overview of the Financial Statements (Continued)

The Statement of Activities accounts for all revenue and expenses. This statement measures the success of the Corporation's operations over the past year and can be used to determine if the Corporation has successfully recovered all of its costs through revenue sources. This statement helps to answer the question, "Is the Corporation, as a whole, better off or worse off as a result of the year's activities?"

The notes to the financial statements provide additional information essential to understanding the data provided in the basic financial statements.

Below is a summary of the Statement of Net Position and the Statement of Activities for the years ended December 31 respectively:

Condensed Statement of Net Position (Rounded)

	<u>2017</u>	<u>2016</u>
Cash and investments	\$ 466,000	\$ 505,000
Accounts receivable	<u>700,000</u>	<u>850,000</u>
Total assets	<u>1,166,000</u>	<u>1,355,000</u>
Total long-term liabilities	<u>6,613,000</u>	<u>6,524,000</u>
Net position:		
Restricted for debt	432,000	1,355,000
Unrestricted	<u>(5,879,000)</u>	<u>(6,524,000)</u>
Total net position	<u>\$ (5,447,000)</u>	<u>\$ (5,169,000)</u>

Condensed Statement of Activities (Rounded)

	<u>2017</u>	<u>2016</u>
Tobacco settlement revenue	\$ 529,000	\$ 978,000
Interest income	<u>26,000</u>	<u>26,000</u>
Total revenues	<u>555,000</u>	<u>1,004,000</u>
Distribution to County	399,000	775,000
Interest expense	398,000	404,000
General and administrative costs	<u>34,000</u>	<u>25,000</u>
Total expenses	<u>831,000</u>	<u>1,204,000</u>
Change in net position	<u>\$ (276,000)</u>	<u>\$ (200,000)</u>

Overview of the Financial Statements (Continued)

Changes in the Corporation's estimate of tobacco settlement revenue receivables and the decrease in actual receipts resulted in a decrease in tobacco settlement revenue during 2017.

Major Fund

The Corporation's governmental fund financial statements, which include the Governmental Fund Balance Sheet and the Statement of Revenue, Expenditures, and Change in Fund Balance, are presented using the modified accrual basis of accounting for the Debt Service Fund, the only fund the Corporation has. This fund is generally restricted to debt service activities.

For 2017, total fund balance decreased approximately \$39,000. This increase was due to decreased tobacco settlement revenue.

Debt Administration

The Corporation paid \$135,000 in principal and approximately \$175,000 in interest during the year. Currently, there are no plans for the Corporation to issue additional debt.

Economic Factors

Tobacco settlement revenue is the primary revenue source for the Corporation. Tobacco settlement revenue is dependent on future tobacco sales, as well as the participating manufacturers' ability to pay. Increases or decreases in tobacco consumption will result in corresponding increases or decreases in tobacco settlement revenue.

Contacting the Corporation's Financial Management

This financial report is designed to provide investors and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Corporation's Treasurer's Office at 1340 State Route 9, Lake George, NY 12845.

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Warren, New York)

STATEMENT OF NET POSITION
DECEMBER 31, 2017

ASSETS

Cash	\$ 33,085
Accounts receivable	700,000
Investments - restricted	<u>432,525</u>

Total assets 1,165,610

LIABILITIES

CURRENT LIABILITIES:

Bonds payable, current portion	<u>120,000</u>
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Total current liabilities 120,000

NONCURRENT LIABILITIES:

Bonds payable, noncurrent portion	<u>6,492,567</u>
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Total liabilities 6,612,567

NET POSITION

Restricted for debt service	432,525
Unrestricted	<u>(5,879,482)</u>

Total net position \$ (5,446,957)

The accompanying notes are an integral part of these statements.

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Warren, New York)

STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Expenses</u>	<u>Net (Expense) Revenue and Change in Net Position</u>
GOVERNMENTAL ACTIVITIES:		
Distribution to Warren County - Residual share	\$ 399,299	\$ (399,299)
General and administrative costs	34,456	(34,456)
Debt service - Interest	<u>398,092</u>	<u>(398,092)</u>
 Total governmental activities	 <u>\$ 831,847</u>	 <u>\$ (831,847)</u>
 GENERAL REVENUES:		
Tobacco settlement revenue		\$ 528,599
Interest income		<u>25,654</u>
 Total general revenues		 <u>554,253</u>
 CHANGE IN NET POSITION		 <u>(277,594)</u>
 NET POSITION - beginning of year		 <u>(5,169,363)</u>
 NET POSITION - end of year		 <u>\$ (5,446,957)</u>

The accompanying notes are an integral part of these statements.

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Warren, New York)

BALANCE SHEET - GOVERNMENTAL FUND
DECEMBER 31, 2017

	<u>Debt Service</u>
ASSETS	
Cash	\$ 33,085
Investments - restricted	<u>432,525</u>
	<u>465,610</u>
 FUND BALANCE:	
Assigned	33,085
Restricted - debt service reserve	<u>432,525</u>
Total fund balance	<u>\$ 465,610</u>

The accompanying notes are an integral part of these statements.

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Warren, New York)

**STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGE IN FUND BALANCE - GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Debt Service</u>
REVENUES:	
Tobacco settlement revenue	\$ 678,599
Investment income	<u>25,654</u>
Total revenues	<u>704,253</u>
EXPENDITURES:	
General and administrative costs	34,456
Debt service - Principal	135,000
Debt service - Interest	<u>174,916</u>
Total expenditures	<u>344,372</u>
OTHER SOURCES (USES)	
Distribution to County of Warren - Residual share	<u>(399,299)</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER USES	<u>(39,418)</u>
FUND BALANCE - beginning of year	<u>505,028</u>
FUND BALANCE - end of year	<u>\$ 465,610</u>

The accompanying notes are an integral part of these statements.

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Warren, New York)

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017

Fund balance, governmental fund	\$ 465,610
Amounts reported for governmental activities in the statement of net position are different due to the following:	
Tobacco settlement revenue recognized under full accrual accounting	700,000
Bonds payable are not due and payable in the current period and are therefore, not reported in the fund financial statements	<u>(6,612,567)</u>
Net position of governmental activities	<u>\$ (5,446,957)</u>

The accompanying notes are an integral part of these statements.

**WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Warren, New York)**

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGE
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

Net change in fund balance - Total governmental fund	\$ (39,418)
Accrual of accreted interest is interest expense in the statement of activities, but not in the governmental fund financial statements	(223,176)
Accrued revenue recorded in the governmental funds but is not recorded in the statement of net position	(150,000)
Repayments of long-term debt are recorded as expenditures in the governmental funds, but are recorded as payments of liabilities in the statement of net position	<u>135,000</u>
Change in net position - Governmental activities	<u>\$ (277,594)</u>

The accompanying notes are an integral part of these statements.

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Warren, New York)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Warren Tobacco Asset Securitization Corporation (Corporation) is a special purpose, bankruptcy remote, non-profit, local development corporation organized under Section 1411 of the Not-For-Profit Corporation Law of the State of New York. It is a public instrumentality of, but separate and apart from the County of Warren, New York. The Corporation was established on July 3, 2001, and became active August 8, 2001. The Corporation's board of directors is comprised of a majority of elected or appointed officials of the County and one independent director.

The Corporation was formed to acquire from the County of Warren, New York (County) all future rights, title, and interest in 50% of the Tobacco Settlement Revenue (TSR) under the Master Settlement Agreement (MSA) with respect to tobacco related litigation among various states and participating manufacturers. The purchase price of 50% of the County's future rights, title, and interest in the TSR has been financed by the issuance of serial bonds. A residual certificate exists, which represents the entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses, and certain other costs as set forth in the indenture. Payments on the residual certificate from TSR collections are subordinate to payments on bonds and certain other costs specified in the indenture. Excess TSR not required by the Corporation to pay various expenses, debt service, or required reserves with respect to the bonds are transferred to the Warren Tobacco Asset Securitization WTASC Residual Trust (the Trust), as owner of the residual certificate. The County is the beneficial owner of the Trust and, thus, the funds received by the Trust will ultimately transfer to the County.

The future TSR payments are dependent on a variety of factors, some of which are:

- The financial capability of the participating cigarette manufacturers to pay TSR;
- Future cigarette consumption which impacts the TSR payment;
- Future legal and legislative challenges against the tobacco manufacturers and the MSA that provides for the TSR payments.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Corporation's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Corporation's government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Corporation's fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments, are recorded only when payment is due.

The major governmental fund, currently the Corporation's only fund, is the Debt Service Fund. The Debt Service Fund accounts for the resources accumulated and payments made for operations and principal debt service on long-term general obligation debt.

Cash and Investments

Credit Risk

The Corporation's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. The Corporation's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Obligations of the United States of America;
- Obligations guaranteed by the United States of America where payment of principal and interest are guaranteed by the United States of America;
- Obligations of the State of New York;
- Special time deposit accounts;
- Certificates of Deposit;
- Commercial Paper;
- Repurchase agreements limited to obligations of the United States of America, or obligations whose principal and interest are fully guaranteed, or insured by the United States of America. The term of each agreement shall generally not exceed 180 days. The agreement shall be confirmed in writing by the seller, and each security purchased under the agreement shall be specifically identified; segregated from the assets of the seller and delivered for safekeeping into an account designated and controlled by the Corporation. Also, each seller shall enter into a Master Repurchase Agreement with the Corporation which shall specify the rights and obligations of the Corporation and the Seller in all transactions;
- Obligations of public authorities, public housing authorities, urban renewal agencies, and industrial development agencies where the general State statutes governing such entities or whose specific enabling legislation authorizes such investments;
- Obligations issued pursuant to New York State Local Finance Law Section 24.00 and 25.00 (with approval of the New York State Comptroller) by any municipality, school district or district corporation other than the Corporation.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk - deposits is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Corporation's investment policy, all deposits of the Corporation including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIA) shall be secured by a pledge of securities with an aggregate value equal to the aggregate amount of deposits.

Custodial Credit Risk - Investments

Custodial credit risk - investments is the risk that an entity will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails. The Corporation's investment and deposit policy requires that all custodial investments be registered or insured in the Corporation's name and held in the custody of the bank or the bank's trust department. The Corporation requires that all repurchase agreements be limited to obligations of the United States of America or obligations whose principal and interest are fully guaranteed, or insured by the United States of America.

Concentration of Credit Risk

The Corporation places no limit on the amount that may be invested in any one issuer. At December 31, 2017, all cash balances were held in one bank; all investment balances were held in a different bank.

Investments - Restricted

The Corporation maintains a liquidity reserve account, debt service account, and trapping account which was initially funded from the Series 2001 bond proceeds and has been increased by TSR to maintain required levels in these accounts. The liquidity reserve account has a minimum balance requirement of \$406,313. All amounts withdrawn from these accounts are replenished, as needed, and amounts in excess of the required amount are transferred out.

Net Position and Fund Balance Classifications

Government-Wide Statements

In the Government-wide statements, there are three classes of net position:

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The Corporation does not have this classification.

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or the liability will be liquidated with the restricted assets reported.

The unrestricted component of net position is the net amounts of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position and Fund Balance Classifications – Continued

Fund Statements

In the fund basis statements there are five allowable classifications of fund balance:

Non-spendable fund balance – Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The Corporation has no non-spendable fund balances as of December 31, 2017.

Restricted fund balance – Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The Corporation's restricted fund balance consisted of its debt service reserve as of December 31, 2017.

Committed fund balance – Includes amounts that can be used for the specific purposes pursuant to constraints imposed by formal action of the Corporation's highest level of decision making authority, i.e., the Board of Trustees. The Corporation has no committed fund balance as of December 31, 2017.

Assigned fund balance – Includes amounts that are constrained by the Corporation's intent to be used for specific purposes, but are neither restricted nor committed. The Corporation has no assigned fund balance as of December 31, 2017.

Unassigned fund balance - Includes all other fund amounts that do not meet the definition of the above four classifications and are deemed to be available for general use by the Corporation. The Corporation has no unassigned fund balance as of December 31, 2017.

Order of Fund Balance Spending Policy

The Corporation's highest level of decision-making authority is the Board however, the Board does not have the authority to authorize spending from the only form of fund balance the Corporation has, restricted fund balance due to third party restrictions. The Corporation does not have a policy to apply expenditures against the various classifications of fund balance because they are restricted by the laws that established the Corporation the various bond indentures and at the end of any fiscal year, they will only have restricted fund balance related to its debt service reserve.

Deficit Net Position

The Corporation has a deficit unrestricted net position at December 31, 2017. This should eventually reverse through the receipt of TSR and the reduction of the outstanding bonds over time.

Income Taxes

The Corporation is a not-for-profit local development corporation under Section 1411 of New York State not-for-profit corporation law and is exempt from federal income taxes and New York state taxes. Accordingly, no income tax provision has been made.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require the Corporation's management to make estimates and assumptions in determining the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

Credit Risk

As of December 31, 2017, the Corporation had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Years</u>
Commercial paper	\$ 414,102	0.42
Money market funds	<u>18,423</u>	0.104
	<u>\$ 432,525</u>	

Custodial Credit Risk - Deposits

As of December 31, 2017, the carrying amount of the Corporation's cash was \$33,085 and was fully covered by Federal Depository Insurance Coverage (FDIC).

Custodial Credit Risk - Investments

Credit quality distribution for investments, with credit exposure as a percentage of total investments are as follows at December 31, 2017:

<u>Investment Type</u>	<u>Moody's Credit Rating</u>	<u>Fair Value</u>	<u>Percent of Grand Total</u>
Commercial paper:			
Toyota Motor Credit	P-1	\$ 414,102	96%
Money market funds:			
Blackrock Liquidity Fund	AAA-mf	<u>18,423</u>	<u>4%</u>
		<u>\$ 432,525</u>	<u>100%</u>

3. BONDS PAYABLE

On August 8, 2001, the Corporation issued \$5,540,000 of variable rate bonds which consisted of \$415,000 in serial bonds and \$5,125,000 in term bonds. These bonds are part of the \$215,220,000 New York Counties Tobacco Trust II, Tobacco Settlement Pass-Through Bonds, Series 2001.

The debt service payments include serial bond principal and super sinking term bond payments and are payable solely from pledged tobacco settlement revenue and investment earnings on amounts on deposit. The final serial bond principal payment was in 2016.

According to the terms of the required amortization payments, the Corporation is required to make annual debt service payments through 2043, with interest ranging from 5% to 6%. Under the terms of the flexible amortization payments, the Corporation can make debt service payments that allows for increased payments and a final maturity of June 1, 2025 for the Super Sinker Payments. The flexible amortization payments are dependent upon the extent of actual collections from the TSR payments and availability of funds.

The term bond structuring payment due in 2018 is \$120,000. The Corporation is able to make higher super sinker principal payment to the extent TSR funds are available. The Corporation is required to make super sinker principal payments totaling \$1,245,000 by 2025, \$3,005,000 by 2035 and \$5,125,000 by 2043. The Corporation has made \$2,130,000 in super sinker principal payments to date.

The Corporation's estimated super sinker amortization payments at December 31, 2017, on the Series 2001 Bonds are as follows:

	<u>Principal</u>	<u>Interest</u>
2018	\$ 415,000	\$ 171,821
2019	325,000	156,352
2020	340,000	119,803
2021	360,000	99,763
2022-2025	<u>1,555,000</u>	<u>175,519</u>
Total	<u>\$ 2,995,000</u>	<u>\$ 723,258</u>

The Corporation's flexible amortization payments at December 31, 2017 in order to meet the required super sinker principal payment schedule, are as follows:

	<u>Principal</u>	<u>Interest</u>
2018	\$ -	\$ 178,712
2019	-	178,712
2020	-	178,712
2021	-	178,712
2022	-	178,712
2023-2027	-	856,438
2028-2032	335,000	878,093
2033-2037	965,000	632,181
2038-2042	1,365,000	302,306
2043	<u>330,000</u>	<u>9,488</u>
Total	<u>\$ 2,995,000</u>	<u>\$ 3,572,066</u>

3. BONDS PAYABLE (Continued)

On November 29, 2005, the Corporation issued \$37,750,000 capital appreciation bonds. These bonds are the Corporation's portion of the \$199,375,348 New York Counties Tobacco Trust V, Tobacco Settlement Pass-Through Bonds, Series 2005. The debt is payable solely from pledged tobacco settlement revenue and investment earnings on amounts on deposit. This debt is subordinate to bonds the Corporation has previously issued (Series 2001 bonds).

On December 1, 2009 a principal and interest redemption payment of \$221,639 was applied to the capital appreciation bonds Series 2005 S1 bonds as a result of termination of the trapping event which had occurred in a previous year. The maturity value of the \$174,900 principal portion of the redemption payment was \$1,195,000; therefore the maturity value of the Corporation's Series 2005 bonds due is now \$36,555,000.

The Corporation's required amortization payments at December 31, 2017, on the Series 2005 Bonds are as follows:

	Present Value of <u>Principal</u>	Accreted <u>Interest</u>	Face Value of <u>Bond</u>
S1 - final maturity 6/1/2038, int at 6.00%	\$ 529,092	\$ 3,085,908	\$ 3,615,000
S2 - final maturity 6/1/2050, int at 6.10%	466,102	6,293,898	6,760,000
S3 - final maturity 6/1/2055, int at 6.85%	291,453	7,888,547	8,180,000
S4A - final maturity 6/1/2060, int at 7.15%	<u>390,960</u>	<u>17,609,040</u>	<u>18,000,000</u>
Total	<u>\$ 1,677,607</u>	<u>\$ 34,877,393</u>	<u>\$ 36,555,000</u>

Depending on the extent of actual collections from the TSR payments and availability of funds, the Corporation has covenanted to make debt service payments in accordance with a Turbo Redemption Payments schedule that allows for increased payments and a final maturity of June 1, 2031.

The Corporation's future Turbo Redemption Payments on the Series 2005 bonds are as follows:

	Present Value of		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018-2022	\$ 517,383	\$ 808,741	\$ 1,326,124
2023-2027	721,342	1,791,850	2,513,192
2028-2031	<u>438,882</u>	<u>1,892,018</u>	<u>2,330,900</u>
Total	<u>\$ 1,677,607</u>	<u>\$ 4,492,609</u>	<u>\$ 6,170,216</u>

3. BONDS PAYABLE (Continued)

A summary of changes in bonds payable for the year ended December 31, 2017, is as follows:

	Balance at December 31,			Balance at	Due
	<u>2016</u>	<u>Additions</u>	<u>Payments</u>	<u>December 31,</u> <u>2017</u>	<u>Within</u> <u>One Year</u>
Bonds payable - 2001	\$ 3,130,000	\$ -	\$ (135,000)	\$ 2,995,000	\$ 120,000
Bonds payable - 2005	1,677,606	-	-	1,677,606	-
Accreted interest - 2005 bonds	1,716,785	223,176	-	1,939,961	-
Total	<u>\$ 6,524,391</u>	<u>\$ 223,176</u>	<u>\$ (135,000)</u>	<u>\$ 6,612,567</u>	<u>\$ 120,000</u>

4. RELATED PARTY TRANSACTIONS

The Purchase and Sale Agreement between the Corporation and the County sets forth the terms and conditions of the sale and purchase of the TSR. In addition, there is an Administrative Services Agreement that provides for separate consideration to retain the County to act as Administrator to supervise and manage certain aspects of the Corporation. During 2017, the County provided administrative services, but did not seek reimbursement from the Corporation.

5. ECONOMIC DEPENDENCY

The Corporation has purchased the rights to receive TSR from the County. There are a number of risks associated with receipts of such TSR, including litigation affecting participating manufacturers and possible bankruptcy as a result thereof, and future adjustments to the calculation of the TSR. The Corporation's financial existence is contingent upon receiving this revenue stream from the tobacco manufacturers.

6. CONTINGENCY

The assets of the Corporation are not available to pay any creditor of the County. The Series 2001 and Series 2005 bonds issued by the Corporation do not constitute a claim against the full faith, credit and taxing power of the General Fund of the County of Warren, New York. The ability of the Corporation to meet debt service payments of bonds is contingent upon the receipt of TSR. These future revenues are subject to adjustment based on tobacco consumption, inflation, and other factors in accordance with the Master Settlement Agreement.

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

March 22, 2018

To the Board of Directors of the
Warren Tobacco Asset Securitization Corporation:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Warren Tobacco Asset Securitization Corporation (Corporation) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 22, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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.

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(Continued)

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bonadio & Co., LLP

WARREN TOBACCO ASSET SECURITIZATION CORPORATION

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

Section I – Summary of Auditor’s Results

Financial Statements

Type of independent auditor’s report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified not
Considered to be material weaknesses? Yes No

Noncompliance material to the financial
statements noted? Yes No

Section II - Financial Statement Findings

None.