

**WYOMING TOBACCO ASSET  
SECURITIZATION CORPORATION**  
*(A Component Unit of the County of Wyoming, New York)*  
*Basic Financial Statements and Required  
Supplementary Information for the  
Year Ended December 31, 2017  
and Independent Auditors' Reports*



**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
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**Year Ended December 31, 2017**

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Certified Public Accountants

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Wyoming Tobacco Asset Securitization Corporation:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Wyoming Tobacco Asset Securitization Corporation ("WTASC"), a component unit of the County of Wyoming, New York, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise WTASC's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

WTASC's 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 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 activities and each major fund of WTASC, as of December 31, 2017, and the respective changes in its financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise WTASC's basis financial statements. The Budgetary Comparison Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Budgetary Comparison Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2018 on our consideration of WTASC'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 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 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 WTASC's internal control over financial reporting and compliance.



March 23, 2018





**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2017**

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As management of the Wyoming Tobacco Asset Securitization Corporation (“WTASC”), a blended component unit of the County of Wyoming, New York (the “County”), we offer readers of WTASC’s financial statements this narrative overview and analysis of the financial activities of WTASC for the fiscal year ended December 31, 2017. This document should be read in conjunction with additional information that we have furnished in WTASC’s financial statements, which follow this narrative. For comparative purposes, certain data from the prior year has been reclassified to conform with the current year presentation.

**Financial Highlights**

- Total government-wide liabilities of WTASC exceeded government-wide assets by \$10,759,681 at December 31, 2017. This consists of \$626,774 restricted for debt service, offset by an unrestricted net position of \$(11,386,455).
- WTASC’s net position decreased by \$370,189 for the year ended December 31, 2017.
- At the close of the current year, WTASC’s governmental funds reported combined fund balances of \$807,264, an increase of \$8,985 in comparison with the prior year. Approximately 22.4% of this amount, \$180,490, is available for spending at WTASC’s discretion (unassigned fund balance).
- WTASC’s total Tobacco Settlement Bonds decreased \$135,000 as a result of principal payments made during the year, while Subordinate Turbo Capital Appreciation Bonds (“CABs”) increased by \$503,976 as a result of annual net interest accretion.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to WTASC’s basic financial statements. WTASC’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 WTASC’s finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of WTASC’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 WTASC is improving or deteriorating.

The *statement of activities* presents information showing how WTASC’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. WTASC, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Both of WTASC’s funds are classified as governmental funds.

**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*.

WTASC 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.

**Other information**—In addition to the basic financial statements and accompanying notes, this report also presents supplementary information concerning WTASC’s budgetary comparison for the General Fund. This schedule can be found on page 25 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 WTASC, liabilities exceeded assets by \$10,759,681 at December 31, 2017, as compared to \$10,389,492 at December 31, 2016. Table 1, shown on the following page, presents the condensed statements of net position for WTASC at December 31, 2017 and December 31, 2016.

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

	December 31,	
	2017	2016
Current assets	\$ 1,340,915	\$ 1,340,483
Total assets	<u>1,340,915</u>	<u>1,340,483</u>
Current liabilities	24,165	24,884
Noncurrent liabilities	<u>12,076,431</u>	<u>11,705,091</u>
Total liabilities	<u>12,100,596</u>	<u>11,729,975</u>
Net position	<u>\$ (10,759,681)</u>	<u>\$ (10,389,492)</u>

A portion of WTASC's net position, \$626,774, represents resources that are subject to external restrictions on how they may be used. Therefore, the unrestricted deficit totals \$11,386,455 at December 31, 2017, as compared to \$11,014,598 at December 31, 2016.

At December 31, 2017, total assets were \$1,340,915 compared to \$1,340,483 at December 31, 2016. The largest asset held by WTASC at December 31, 2017 and December 31, 2016 represents restricted cash and cash equivalents of \$626,774 and \$625,106, respectively. WTASC had no noncurrent assets at December 31, 2017 or December 31, 2016.

Total liabilities at December 31, 2017 were \$12,100,596 compared to \$11,729,975 at December 31, 2016. The largest portion of the liabilities is outstanding debt, net of discount, totaling \$12,076,431 and \$11,705,091 at December 31, 2017 and December 31, 2016, respectively.

During the current year, net position for governmental activities decreased \$370,189 from the prior fiscal year for an ending net position deficit of \$(10,759,681). The statement of activities presents revenues received and expenses paid by WTASC. Presented as Table 2 below, are the condensed statements of activities for the years ended December 31, 2017 and 2016.

**Table 2—Condensed Statements of Activities**

	Year Ended December 31,	
	2017	2016
General revenues	\$ 497,991	\$ 566,683
Expenses—governmental activities	<u>868,180</u>	<u>848,024</u>
Change in net position	<u>(370,189)</u>	<u>(281,341)</u>
Net position—beginning	<u>(10,389,492)</u>	<u>(10,108,151)</u>
Net position—ending	<u>\$ (10,759,681)</u>	<u>\$ (10,389,492)</u>

Total revenues for the years ended December 31, 2017 and December 31, 2016 were \$497,991 and \$566,683, respectively. Revenues for the years ended December 31, 2017 and December 31, 2016 consisted of \$491,589 (98.7%) and \$564,905 (99.7%), respectively, of tobacco settlement revenue, and \$6,402 and \$1,778, respectively, of interest earnings and other income.

A summary of sources of revenues for the years ended December 31, 2017 and December 31, 2016 is presented below in Table 3.

**Table 3—Sources of revenues**

	Year Ended December 31,		Increase/(Decrease)	
	2017	2016	Dollars	Percent (%)
Tobacco settlement revenues	\$ 491,589	\$ 564,905	\$ (73,316)	(13.0)
Interest earnings	6,402	1,778	4,624	260.1
Total revenues	<u>\$ 497,991</u>	<u>\$ 566,683</u>	<u>\$ (68,692)</u>	(12.1)

Total expenses for the years ended December 31, 2017 and 2016 were \$868,180 and \$848,024, respectively. Expenses for the years ended December 31, 2017 and December 31, 2016 primarily consisted of \$799,919 (92.1%) and \$792,397 (93.4%), respectively, of interest and fiscal charges, and \$68,261 and \$55,627, respectively, of general government support expenses incurred in connection with the operations of the WTASC.

A summary of operating expenses for the years ended December 31, 2017 and December 31, 2016 is presented below in Table 4.

**Table 4—Operating expenses**

	Year Ended December 31,		Increase/(Decrease)	
	2017	2016	Dollars	Percent (%)
General government support	\$ 68,261	\$ 55,627	\$ 12,634	22.7
Interest and fiscal charges	799,919	792,397	7,522	0.9
Total operating expenses	<u>\$ 868,180</u>	<u>\$ 848,024</u>	<u>\$ 20,156</u>	2.4

### Financial Analysis of Governmental Funds

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

**Governmental Funds**—The focus of WTASC’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing WTASC’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, WTASC itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by WTASC’s Board.

At December 31, 2017, WTASC’s governmental funds reported combined fund balances of \$807,264, an increase of \$8,985 in comparison with the prior year. Approximately 22.4% of this amount, \$180,490, constitutes unassigned fund balance, which is available for spending at WTASC’s discretion. The remainder of the fund balance, \$626,774, is restricted for debt service.

The General Fund is the chief operating fund of WTASC. During the year ended December 31, 2017, General Fund fund balance increased \$7,317. This increase is due to the transfer in from the Debt Service Fund of \$50,916 which was in excess of the cost of normal operations of the fund. At the end of the current fiscal year, all General Fund fund balance, \$180,490, was classified as unassigned.

During the year ended December 31, 2017, the Debt Service Fund fund balance increased \$1,668. The increase is a result of tobacco settlement revenues and interest earnings outweighing the cost of debt service payments and the transfers to the General Fund. At the end of the current fiscal year, all Debt Service Fund fund balance, \$626,774, was restricted for debt service.

### **Debt Administration**

**Long-Term Debt**—At the end of the current fiscal year, WTASC had Tobacco Settlement Bonds outstanding of \$4,425,000 and net Subordinate Turbo CABs outstanding of \$7,651,431. During the year ended December 31, 2017, WTASC made principal payments of \$135,000 on its Tobacco Settlement Bonds, while its Subordinate Turbo CABs had annual interest accretion of \$503,976.

### **Request for Information**

This financial report is designed to provide a general overview of WTASC's finances for all those with an interest in WTASC's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Wyoming Tobacco Asset Securitization Corporation Treasurer, c/o Wyoming County, 143 North Main Street, Warsaw, New York, 14569.

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# BASIC FINANCIAL STATEMENTS





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**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
**Statement of Net Position**  
**December 31, 2017**

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	<b>Primary Government</b>
	<b>Governmental Activities</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 174,393
Restricted cash and cash equivalents	626,774
Due from New York State	533,651
Prepaid items	6,097
Total assets	1,340,915
<b>LIABILITIES</b>	
Current liabilities:	
Accrued interest payable	24,165
Noncurrent liabilities:	
Due within one year—Tobacco Settlement Bonds	1,015,000
Due in more than one year—Tobacco Settlement Bonds	3,410,000
Subordinate Turbo CABs payable, net	7,651,431
Total liabilities	12,100,596
<b>NET POSITION</b>	
Restricted for debt service	626,774
Unrestricted	(11,386,455)
Total net position	\$ (10,759,681)

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

**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
**Statement of Activities**  
**Year Ended December 31, 2017**

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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	\$ 68,261	\$ (68,261)
Interest and fiscal charges	799,919	(799,919)
Total governmental activities	\$ 868,180	(868,180)
General revenues:		
Tobacco settlement revenues		491,589
Interest earnings		6,402
Total general revenues		497,991
Change in net position		(370,189)
Net position—beginning		(10,389,492)
Net position—ending		\$ (10,759,681)

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

**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
**Balance Sheet—Governmental Funds**  
**December 31, 2017**

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	<b>General</b>	<b>Debt Service</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 174,393	\$ -	\$ 174,393
Restricted cash and cash equivalents	-	626,774	626,774
Prepaid items	6,097	-	6,097
Total assets	\$ 180,490	\$ 626,774	\$ 807,264
<b>FUND BALANCES</b>			
Restricted for debt service	\$ -	\$ 626,774	\$ 626,774
Unassigned	180,490	-	180,490
Total fund balances	\$ 180,490	\$ 626,774	\$ 807,264

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

**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
**Reconciliation of the Balance Sheet—Governmental Funds**  
**to the Government-wide Statement of Net Position**  
**December 31, 2017**

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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)	\$	807,264
A long-term asset, due from New York State, \$533,651, is not available to pay for current period expenditures and, therefore, is not reported in the funds.		
		533,651
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	\$	(24,165)
Due within one year—Tobacco Settlement Bonds		(1,015,000)
Due in more than one year—Tobacco Settlement Bonds		(3,410,000)
Subordinate Turbo CABs payable		(7,722,862)
Discount on Subordinate Turbo CABs		71,431
		<u>(12,100,596)</u>
Net position of governmental activities	\$	<u>(10,759,681)</u>

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

**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds**  
**Year Ended December 31, 2017**

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
<b>REVENUES</b>			
Tobacco settlement revenues	\$ -	\$ 500,142	\$ 500,142
Interest earnings	37	6,365	6,402
Total revenues	<u>37</u>	<u>506,507</u>	<u>506,544</u>
<b>EXPENDITURES</b>			
Current:			
General government support	43,636	24,625	68,261
Debt service:			
Principal	-	135,000	135,000
Interest	<u>-</u>	<u>294,298</u>	<u>294,298</u>
Total expenditures	<u>43,636</u>	<u>453,923</u>	<u>497,559</u>
Excess (deficiency) of revenues over expenditures	<u>(43,599)</u>	<u>52,584</u>	<u>8,985</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	50,916	-	50,916
Transfers out	<u>-</u>	<u>(50,916)</u>	<u>(50,916)</u>
Total other financing sources (uses)	<u>50,916</u>	<u>(50,916)</u>	<u>-</u>
Net change in fund balances	7,317	1,668	8,985
Fund balances—beginning	<u>173,173</u>	<u>625,106</u>	<u>798,279</u>
Fund balances—ending	<u>\$ 180,490</u>	<u>\$ 626,774</u>	<u>\$ 807,264</u>

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

**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in**  
**Fund Balance—Governmental Funds to the Government-wide Statement of Activities**  
**Year Ended December 31, 2017**

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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)	\$	8,985
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(8,553)
<p>The issuance of long-term debt (e.g., 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:</p>		
Change in accrued interest payable	\$	719
Principal repayments on Tobacco Settlement Bonds		135,000
Accreted interest on Subordinate Turbo CABs		(503,976)
Amortization of Subordinate Turbo CABs discount		<u>(2,364)</u>
		<u>(370,621)</u>
Change in net position of governmental activities	\$	<u><u>(370,189)</u></u>

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

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**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
**Notes to the Financial Statements**  
**Year Ended December 31, 2017**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Wyoming Tobacco Asset Securitization Corporation (“WTASC”) have been prepared in conformity with accounting principles generally accepted in the United States of America applied to governmental units. The Governmental Accounting Standards Board (the “GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of WTASC’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 changes in net position) report information on all the nonfiduciary activities of WTASC. 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. WTASC reports no business-type activities.

***Reporting Entity***

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

The WTASC was incorporated for the purpose of issuing Pass-Through Bonds in order to provide funds to purchase from the County certain 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.

The sole Member of WTASC is the Chairman of the Board of Supervisors of the County of Wyoming, New York. The Member is also a member of the Board of Directors of WTASC. The Board of Directors of WTASC has three members, one of which must meet certain requirements of independence, hence, the Independent Director.

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 2000, the County sold its right to receive payments under the MSA to the WTASC for \$6,699,185 for the Series 2000 bonds. These amounts were used to defease bonds held by the County. The County is the sole beneficial interest in WTASC Residual trust (the Trust). The Trust is a Delaware business trust to which WTASC has conveyed to the County a residual interest in all the Tobacco Settlement revenues annually received in excess of those required to pay debt service on Series 2000 Bonds. WTASC's right to receive Tobacco Settlement Revenues is its most significant asset, and is expected to produce cash flow to fund its obligations.

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 WTASC that are in excess of WTASC'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 Master Settlement Agreement ("MSA") Report, a trapping event is occurring. 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 2016 is 261,174,858,073. According to the MSA Report, the amount shown as relevant shipments for the year 2016 was less than the shipment amount specified above. Therefore, a Consumption Decline Trapping Event has occurred.

The following *acronyms* that have been used throughout this report:

"Decree"	Consent Decree and Final Judgment
CAB	Capital Appreciation Bond
FDIC	Federal Depository Insurance Corporation
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association
GASB	Governmental Accounting Standards Board
MSA	Master Settlement Agreement
NPM	Non-Participating Manufacturers
WTASC	Wyoming Tobacco Asset Securitization Corporation
NYCTT	New York Counties Tobacco Trust
OPMs	Original Participating Manufacturers
TSR	Tobacco Settlement Revenues

#### ***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 WTASC'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.

WTASC reports the following major governmental funds:

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

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

***Cash, Cash Equivalents and Investments***—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date acquired by WTASC. At December 31, 2017, WTASC does not report any investments; however, when WTASC does have investments they are recorded at fair value in accordance with GASB.

***Restricted Cash and Cash Equivalents***—Restricted cash and cash equivalents represent amounts to support fund balance restrictions and unspent proceeds of debt.

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

***Prepaid Items***—Certain payments reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed rather than when purchased.

***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, 2017, WTASC reported no deferred outflows of resources.

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, 2017, WTASC reported no deferred inflows of resources.

***Net Position Flow Assumption***—Sometimes WTASC 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 WTASC’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

***Fund Balance Flow Assumption***—Sometimes WTASC 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 WTASC 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 WTASC 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. WTASC 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 WTASC’s highest level of decision-making authority (WTASC 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 (WTASC Board) has by resolution authorized the sole Member to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. 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 or 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. Items not properly included among program revenues are reported instead as *general revenues*.

***Tobacco Settlement Revenues***—During the fiscal year ended December 31, 2017, WTASC recognized tobacco settlement revenues as a result of a New York State settlement agreement. Payments are made according to a set formula based on tobacco sales.

**Expenditures/Expenses**—Expenditures are recorded on a modified accrual basis of accounting. Payments to the County are recorded when the obligation is incurred. 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.

**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 and expenses during the reporting period and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**Adoption of New Accounting Pronouncements**—During the year ended December 31, 2017, WTASC implemented GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*; No. 81, *Irrevocable Split-Interest Agreements*; and No. 82, *Pension Issues; an amendment of GASB Statements No. 67, No. 68, and No. 73*. GASB Statement No. 73 improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. GASB Statement No. 74 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. GASB Statement No. 80 improves financial reporting by clarifying the financial statement presentation requirements for certain component units. GASB Statement No. 81 improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. GASB Statements No. 73, 74, 80, 81, and 82 did not have a material impact on WTASC’s financial position or results from operations.

**Future Impacts of Accounting Pronouncements**—WTASC has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*; No. 85, *Omnibus 2017*; and No. 86, *Certain Debt Extinguishment Issues*, effective for the year ending December 31, 2018, No. 83, *Certain Asset Retirement Obligations*; and No. 84, *Fiduciary Activities*, effective for the year ending December 31, 2019, and No. 87, *Leases*, effective for the year ending December 31, 2020. WTASC is, therefore, unable to disclose the impact that adopting GASB Statements No. 75, 83, 84, 85, 86, and 87 will have on its financial position and results of operations when such statements are adopted.

**Deficit Net Position**—At December 31, 2017, WTASC reported a net position deficit of \$10,759,681. The deficit is caused by long-term obligations that are greater than currently available resources.

**Tax Status**—WTASC is exempt from Federal income taxation under Section 501(c)(3) of the Internal Revenue Code.

## 2. CASH AND CASH EQUIVALENTS

WTASC'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. WTASC 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.

Cash and cash equivalents at December 31, 2017, are presented below:

	General Fund	Debt Service Fund	Total
Deposits	\$ 174,393	\$ -	\$ 174,393
Money market funds	-	9,506	9,506
Discount notes	-	617,268	617,268
Total	<u>\$ 174,393</u>	<u>\$ 626,774</u>	<u>\$ 801,167</u>

**Deposits**—All deposits are carried at fair value and are classified by custodial credit risk at December 31, 2017 as follows:

	Bank Balance	Carrying Amount
FDIC insured	<u>\$ 177,143</u>	<u>\$ 174,393</u>

**Cash Equivalents**—Cash equivalents held by WTASC include money market accounts and discount notes. These cash equivalents are carried at amortized cost.

**Restricted Cash and Cash Equivalents**—WTASC reports restricted cash and cash equivalents in the Debt Service Fund of \$626,774 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, WTASC'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, 2017, WTASC'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, WTASC 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, WTASC's cash equivalents may not be returned to it.

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

## 3. RECEIVABLES

**Due from New York State**—Represents amounts owed to WTASC for tobacco settlement revenue earned in 2017. WTASC has accrued \$533,651 within the government-wide statements only, as it is not recognized on the modified accrual basis of accounting.

#### 4. LONG-TERM DEBT

In 2000, WTASC issued \$7,740,000 of Tobacco Settlement Pass-Through Bonds, Series 2000 pursuant to an indenture dated as of December 7, 2000. The net proceeds of Series 2000 Bonds were used to fund an initial debt service fund in the amount of \$617,430, and to purchase from the County all of the County's right, title and interest, under the MSA and the Decree, including the Tobacco Settlement Revenues ("TSR"), in the amount of \$6,699,185.

On November 15, 2005, WTASC issued \$3,524,499 of Tobacco Settlement Pass-Through Bonds-Subordinate Turbo CABS in various series; the proceeds of which were used to pay down a portion of the County's debt. The WTASC's Series 2005 bonds are subordinate to the bonds previously issued and subject to the rights of the holders of all prior bonds and any bonds issued on parity with the prior bonds to refund the prior bonds under the WTASC indenture.

The payment of the Series 2000 and 2005 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 2000 for the year ended December 31, 2017 are as follows:

Description	Year of Maturity	Yield	Beginning Balance 1/1/2017	Additions	Deletions	Ending Balance 12/31/2017	Amount Due Within One Year
Tobacco Settlement Bonds: Series 2000	2025	various	<u>\$ 4,560,000</u>	<u>\$ -</u>	<u>\$ 135,000</u>	<u>\$ 4,425,000</u>	<u>\$ 1,015,000</u>

WTASC debt service requirements based upon planned principal payments for Tobacco Settlement Bonds, Series 2000 are currently estimated as follows:

Year ending December 31,	Principal	Interest	Total
2018	\$ 1,015,000	\$ 257,173	\$ 1,272,173
2019	465,000	209,413	674,413
2020	500,000	178,225	678,225
2021	525,000	144,588	669,588
2022	565,000	108,484	673,484
2023-2025	<u>1,355,000</u>	<u>104,841</u>	<u>1,459,841</u>
Total	<u>\$ 4,425,000</u>	<u>\$ 1,002,724</u>	<u>\$ 5,427,724</u>

**Subordinate Turbo CABS**—Interest on the Subordinate Turbo CABS is compounded semiannually 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, 2017 is as follows:

	Interest Rate	Original Principal	Beginning Balance 1/1/2017	Annual Net Interest Accretion	Deletions	Ending Balance 12/31/2017
Subordinate	6.00% -					
Turbo CABS	7.85%	\$ 3,624,303	\$ 7,218,886	\$ 503,976	\$ -	\$ 7,722,862
Less:						
Bond discount		(99,804)	(73,795)	-	2,364	(71,431)
Net Subordinate Turbo CABS		<u>\$ 3,524,499</u>	<u>\$ 7,145,091</u>	<u>\$ 503,976</u>	<u>\$ 2,364</u>	<u>\$ 7,651,431</u>

The discount received upon issuance of the Series 2005 (TASC V) bonds is amortized over the life of the refunding bonds on a straight-line basis. Subordinate Turbo CABS payable are reported net of related discount.

Redemption of the Subordinate Turbo CABS as outlined in the original official statement totaled \$17,458,995 and is scheduled to be paid from 2015 through 2038, while early payment is allowed. During the year ended December 31, 2017, WTASC did not make any redemption payments. Any debt service amounts not paid in accordance with the Turbo Redemption Payments schedule will be due and payable on the following maturity dates:

Series 2005 S1	June 1, 2038
Series 2005 S2	June 1, 2050
Series 2005 S3	June 1, 2055
Series 2005 S4B	June 1, 2060

## 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 WTASC. At December 31, 2017, the balance of this restriction was \$626,774.
- **Unrestricted Component of Net Position**—This component represents net position of WTASC 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, 2017, WTASC reported \$626,774 of fund balance restricted for debt service that must be used toward the future repayment of bonded debt.

As of December 31, 2017, WTASC reported no nonspendable, committed, or assigned fund balances.

## **6. RELATED PARTY TRANSACTIONS**

The County provides WTASC with administrative services. The cost of these services has been included as expenses on WTASC's statements of activities. WTASC paid the County \$25,000 for administrative expenses for both years ended December 31, 2017 and 2016.

## **7. CONTINGENCIES**

The ability of WTASC 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 WTASC 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.

## **8. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through March 23, 2018, 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.

\* \* \* \* \*

## SUPPLEMENTARY INFORMATION

**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
**Budgetary Comparison Schedule—General Fund**  
**Year Ended December 31, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES</b>				
Interest earnings	\$ -	\$ -	\$ 37	\$ 37
Total revenues	<u>-</u>	<u>-</u>	<u>37</u>	<u>37</u>
<b>EXPENDITURES</b>				
General government support	<u>48,620</u>	<u>48,620</u>	<u>43,636</u>	<u>4,984</u>
Total expenditures	<u>48,620</u>	<u>48,620</u>	<u>43,636</u>	<u>4,984</u>
Excess (deficiency) of revenues over expenditures	<u>(48,620)</u>	<u>(48,620)</u>	<u>(43,599)</u>	<u>5,021</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	<u>48,620</u>	<u>48,620</u>	<u>50,916</u>	<u>2,296</u>
Total other financing sources	<u>48,620</u>	<u>48,620</u>	<u>50,916</u>	<u>2,296</u>
Net change in fund balances	-	-	7,317	7,317
Fund balances—beginning	<u>173,173</u>	<u>173,173</u>	<u>173,173</u>	<u>-</u>
Fund balances—ending	<u>\$ 173,173</u>	<u>\$ 173,173</u>	<u>\$ 180,490</u>	<u>\$ 7,317</u>

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