

**Westchester Tobacco Asset  
Securitization Corporation**

**(A Blended Component Unit of the  
County of Westchester, New York)**

Financial Statements

Years Ended December 31, 2012 and 2011



## Independent Auditors' Report

### The Board of Directors of the Westchester Tobacco Asset Securitization Corporation

We have audited the accompanying financial statements of the Westchester Tobacco Asset Securitization Corporation ("WTASC"), a blended component unit of the County of Westchester, New York, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the WTASC's financial statements.

### 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.

### Auditors' 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 auditors' 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.

O'CONNOR DAVIES, LLP

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## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the WTASC as of December 31, 2012 and 2011, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of a Matter

We draw attention to Note 1 in the notes to financial statements that indicates that these financial statements present only the WTASC and do not purport to, and do not present fairly the financial position of the County of Westchester, New York as of December 31, 2012 and 2011 and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We further draw attention to Note 6 in the notes to financial statements which discusses that the only significant resource of the WTASC is the right to receive tobacco revenues. A reduction in these revenues would affect debt service coverage on the bonds. If the reduction were material, it could impair the ability of the WTASC to make Turbo Redemption payments or even its ability to pay required bond structuring amounts as they are due. As a result, actual payments may not conform to either the Turbo Redemption maturities or the required bond structuring amounts.

## 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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audit of the 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 May 7, 2013 on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the WTASC's internal control over financial reporting and compliance.

*O'Connor Davies, LLP*

**O'Connor Davies, LLP**

Harrison, New York

May 7, 2013

**Westchester Tobacco  
Asset Securitization Corporation**  
(A Blended Component Unit of the County of Westchester, New York)

Management's Discussion and Analysis (MD&A)  
December 31, 2012

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### Introduction

As management of the Westchester Tobacco Asset Securitization Corporation ("WTASC"), we offer readers of the WTASC's financial statements this narrative overview and analysis of the financial activities of the WTASC for the fiscal year ended December 31, 2012. It should be read in conjunction with the financial statements, which immediately follow this section, to enhance understanding of the WTASC's financial performance.

### Financial Highlights

- ❖ On the statement of net position, the liabilities of the WTASC exceeded its assets at the close of the most recent fiscal year, resulting in a deficit of \$134,460,513. The deficit was decreased by \$887,819, primarily due to the amount recognized for Tobacco Settlement Revenues ("TSR's") of \$13,499,271 less operating expenses of \$213,660, non operating net interest expense of \$10,545,455 and TSR's residual payment to Westchester County of \$ 1,852,337.
- ❖ The Governmental Accounting Standards Board ("GASB") issued Technical Bulletin 2004-1, which clarified certain asset and revenue recognition criteria. Prior to the issuance of this bulletin, the WTASC had recognized as a receivable/revenue the present value of the future tobacco revenue stream. This bulletin required a reversal of this position, in that it promulgated that TSR's and the related asset only be recognized when the event giving rise to recognition (i.e. the shipment of cigarettes) occurs. Because annual TSR payments are based on cigarette sales from the preceding calendar year, the WTASC was prohibited from recognizing this future revenue stream as a receivable. Accordingly, the only revenue recognition allowed was for TSR payments to be received in the immediately succeeding fiscal year, as these payments were based on cigarette shipments in the year under audit. This had the effect of deferring revenue recognition, which results in the deficit position reflected on the statement of net position. Over time, as TSR payments are received and the bonded indebtedness is retired, the deficit will be reduced.

### Financial Statements

The *statement of net position* presents information on the WTASC's assets and liabilities, with the difference between the two reported as *net position*. The *statement of revenues, expenses and changes in net position* presents information showing how the 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 (for example, accounts receivable, amounts due to County of Westchester and accrued interest payable).

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the statement of net position and the statement of revenues, expenses and changes in net position. The notes to financial statements are located beginning on page 8 of this report.

### **Financial Analysis**

Net position increased by \$887,819 in 2012, compared with an increase of \$818,815 in 2011, a difference of \$69,004. This increase from the prior year is primarily due to reduced interest expense of \$86,569, an increase in the amount of interest income of \$666, a decrease in the residual payment due to Westchester County from the prior year of \$2,378, partially offset by the decrease in the recognition of tobacco settlement revenues of \$17,170 and an increase in operating expenses of \$3,439.

### **Debt Administration**

At the end of the current fiscal year, the WTASC had total gross bonded debt outstanding of \$197,285,000. Although no planned structured principal payments were required to be made, the WTASC was able to make an additional "Turbo Redemption" payment of \$2,055,000, and to date has made principal payments of \$19,315,000.

Additional information on the WTASC's long-term debt can be found in Note 4 in the notes to financial statements.

### **Economic Factors**

The bonds are payable only from the assets of the WTASC. WTASC's only source of funds for payments on the bonds is the collections of TSR's and amounts on deposit in pledged accounts (i.e. liquidity and debt service reserves and Turbo Redemption accounts) pursuant to the indenture. If a participating manufacturer becomes a debtor in a bankruptcy case and defaults in making payments or cigarette consumption declines, funds available to WTASC to pay bondholders may be reduced or eliminated.

### **Requests for Information**

This financial report is designed to provide a general overview of the WTASC's finances for all those with an interest in those finances. Questions and comments concerning any of the information provided in this report should be addressed to Dennis C. Kelly, Deputy Commissioner of Finance, County of Westchester, 148 Martine Avenue, White Plains, New York 10601.

**Westchester Tobacco Asset Securitization Corporation**  
 (A Blended Component Unit of the County of Westchester, New York)

Comparative Statement of Net Position  
 December 31,

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current assets		
Cash and equivalents	\$ 110,988	\$ 108,444
Receivables		
Tobacco settlement revenues	13,499,271	13,516,441
Interest	<u>123,018</u>	<u>119,115</u>
Total Current Assets	<u>13,733,277</u>	<u>13,744,000</u>
Noncurrent assets		
Restricted cash and equivalents	1,596	6,298
Restricted investments	14,133,625	14,133,625
Costs of issuance, net of accumulated amortization of \$690,228 and \$599,209	<u>2,950,546</u>	<u>3,041,565</u>
Total Noncurrent Assets	<u>17,085,767</u>	<u>17,181,488</u>
Total Assets	<u>30,819,044</u>	<u>30,925,488</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	20,000	20,000
Due to County of Westchester	1,852,337	1,854,715
Accrued interest payable	<u>834,704</u>	<u>842,410</u>
Total Current Liabilities	2,707,041	2,717,125
Noncurrent liabilities		
Bonds payable	<u>162,572,516</u>	<u>163,556,695</u>
Total Liabilities	<u>165,279,557</u>	<u>166,273,820</u>
<b>NET POSITION</b>		
Unrestricted	<u>\$ (134,460,513)</u>	<u>\$ (135,348,332)</u>

See notes to financial statements.

**Westchester Tobacco Asset Securitization Corporation**  
 (A Blended Component Unit of the County of Westchester, New York)

Comparative Statement of Revenues, Expenses and Changes in Net Position  
 Years Ended December 31,

	2012	2011
<b>OPERATING REVENUES</b>		
Tobacco settlement revenues	\$ 13,499,271	\$ 13,516,441
<b>OPERATING EXPENSES</b>		
Professional fees	80,440	75,440
Insurance expense	42,201	43,762
Amortization	91,019	91,019
Total Operating Expenses	213,660	210,221
Income from Operations	13,285,611	13,306,220
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest income	580,347	579,681
Interest expense	(11,125,802)	(11,212,371)
Residual payment to County of Westchester	(1,852,337)	(1,854,715)
Total Non-Operating Expenses	(12,397,792)	(12,487,405)
Change in Net Position	887,819	818,815
<b>NET POSITION</b>		
Beginning of Year	(135,348,332)	(136,167,147)
End of Year	\$ (134,460,513)	\$ (135,348,332)

See notes to financial statements.

**Westchester Tobacco Asset Securitization Corporation**  
 (A Blended Component Unit of the County of Westchester, New York)

Comparative Statement of Cash Flows  
 Years Ended December 31,

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from tobacco settlement revenues	\$ 13,516,441	\$ 13,253,785
Cash paid to vendors	(122,641)	(144,202)
Net Cash from Operating Activities	<u>13,393,800</u>	<u>13,109,583</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (Increase) in restricted cash and equivalents	4,702	(5,082)
Interest income	576,444	582,912
Net Cash from Investing Activities	<u>581,146</u>	<u>577,830</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Repayment of bonds payable	(2,055,000)	(1,740,000)
Interest paid	(10,062,687)	(10,148,076)
Residual payment to County of Westchester	(1,854,715)	(1,818,337)
Net Cash from Non-Capital Financing Activities	<u>(13,972,402)</u>	<u>(13,706,413)</u>
Net Change in Cash and Equivalents	2,544	(19,000)
<b>CASH AND EQUIVALENTS</b>		
Beginning of Year	<u>108,444</u>	<u>127,444</u>
End of Year	<u>\$ 110,988</u>	<u>\$ 108,444</u>
<b>RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES</b>		
Income from operations	\$ 13,285,611	\$ 13,306,220
Adjustments to reconcile income from operations to net cash from operating activities		
Amortization	91,019	91,019
Changes in assets and liabilities		
Tobacco receivable	17,170	(262,656)
Accounts payable	-	(25,000)
Net Cash from Operating Activities	<u>\$ 13,393,800</u>	<u>\$ 13,109,583</u>
<b>NONCASH NON-CAPITAL FINANCING ACTIVITIES</b>		
Increase in bonds payable from amortization of original issue discount	\$ 118,939	\$ 118,939
Increase in bonds payable from amortization of loss on refunding	951,882	951,882

See notes to financial statements.

**Westchester Tobacco Asset Securitization Corporation**  
(A Blended Component Unit of the County of Westchester, New York)

Notes to Financial Statements  
December 31, 2012 and 2011

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**Note 1 - Nature of Business and Summary of Significant Accounting Principles**

**Nature of Business**

The Westchester Tobacco Asset Securitization Corporation ("WTASC") is a special purpose corporation and a subsidiary corporation of the Westchester County Health Care Corporation ("WCHCC"). WTASC was organized under the provisions of Section 1411 of the New York State Not-For-Profit Corporation Law and pursuant to Section 3306(7) of the Public Authorities Law of the State of New York. The Board of Directors of WTASC consists of three members; one director designated by WCHCC to be the Commissioner of Finance of the County of Westchester, New York ("County"), one director designated by WCHCC to be the WCHCC board representative, selected by the Majority Leader of the County Board of Legislators and a third director who meets certain requirements of independence and shall be designated by the other two members.

An agreement among the attorneys general of 46 states and various territories ("Settling States") and the four largest United States tobacco manufacturers was entered into on November 23, 1998. The agreement, known as the Master Settlement Agreement ("MSA"), resolved cigarette smoking-related litigation between the Settling States and U.S. Tobacco manufacturers. Pursuant to the MSA, the Settling States and the participating manufacturers agreed to settle all past, present and future smoking related claims in exchange for an agreement by the participating manufacturers to make certain payments. Under the MSA, the State of New York is entitled to receive approximately 12.76% of the initial and annual payments. The New York Consent Decree, which was entered into in the Supreme Court of the State of New York for the County of New York in December 1998, allocated 1.926% of this State-wide share of the initial and annual payments to the County and the remainder among the State, the City of New York and all other counties within the State.

During 1999, the County sold all of its future rights, title and interest to receive payments under the MSA and the Consent Decree to WTASC, which issued \$103,504,558 in Tobacco Settlement Asset-Backed Bonds, Series 1999 ("Series 1999"). During 2005, WTASC issued \$216,600,000 of Tobacco Settlement Asset-Backed Bonds Series 2005 ("Series 2005"), the proceeds of which were used to 1) refund the outstanding Series 1999 bonds, 2) fund the Liquidity Reserve Account at its required level, 3) pay certain costs of issuance related to the Series 2005 bonds and 4) provide the County with funds for working capital purposes. The Series 2005 bonds are payable from and secured solely from the pledged Tobacco Settlement Revenues ("TSR's"), which consists of investment earnings and the annual total TSR payments, less the portion thereof that constitutes unencumbered revenues. Unencumbered revenues consist of 13.85% of each payment of TSR's. The County, as owner of the beneficial interest in the Residual Trust which holds the Residual Certificate, will be entitled to receive these unencumbered revenues free and clear of the lien of the indenture. Bondholders will have no claim on the unencumbered revenues if pledged revenues are insufficient to pay principal and/or interest on the Series 2005 bonds.

The debt issued by WTASC to securitize these revenues is not considered debt of the County or the WCHCC.

**Entity Definition**

Based on the guidance provided by Governmental Accounting Standards Board Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the WTASC is reported as a blended component unit of the County in its financial statements.

**Westchester Tobacco Asset Securitization Corporation**  
(A Blended Component Unit of the County of Westchester, New York)

Notes to Financial Statements (Continued)  
December 31, 2012 and 2011

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**Note 1 - Nature of Business and Summary of Significant Accounting Principles** (Continued)

**Basis of Presentation**

A fund is an independent fiscal and accounting entity with a self-balancing set of accounts which comprise its assets, liabilities, net position, revenues and expenses. The accounts of the WTASC are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The WTASC applies all applicable Financial Accounting Standards Board pronouncements in accounting for and reporting on its operations.

The accompanying financial statements present only the activities of the WTASC and do not purport to, and do not, present fairly the financial position of the County or the WCHCC as of December 31, 2012 and 2011 and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Equivalents**

Cash and equivalents consist of demand deposit accounts, time deposit accounts, money market accounts and certificates of deposit with original maturities of three months or less.

**Restricted Cash and Equivalents and Investments**

The terms of the bond indenture provide for the establishment of a liquidity reserve. The reserve will be initially funded from the proceeds of the issuance of the Series 2005 bonds in an amount equal to \$14,133,625, the maximum annual debt service requirement based on planned structured principal payments.

Restricted cash and equivalents consists of funds held in the Debt Service and Turbo Redemption accounts whose use is restricted to the payment of debt obligations on the WTASC bonds.

**Costs of Issuance**

The costs of issuance of the Series 2005 bonds are being amortized over the planned structured maturities of the bonds, which is forty years.

**Subsequent Events Evaluation by Management**

Management has evaluated subsequent events for disclosure and /or recognition in the financial statements through the date that the financial statements were available to be issued, which date is May 7, 2013.

**Westchester Tobacco Asset Securitization Corporation**  
 (A Blended Component Unit of the County of Westchester, New York)

Notes to Financial Statements (Continued)  
 December 31, 2012 and 2011

**Note 2 - Application of Accounting Standards**

For the year ended December 31, 2012, WTASC implemented GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" ("GASB 63"). GASB 63 provides financial reporting guidance for reporting deferred inflow and outflows of resources and net position. No amounts were required to be reported in these categories for the year ended December 31, 2012.

**Note 3 - Restricted Investments**

Restricted investments at December 31, 2012 and 2011 consisted of the following -

Security Benefit Life Insurance Company fixed annuity due April 2045, interest at 4.1% \$ 14,133,625

**Note 4 - Bonds Payable**

WTASC issued bonds on June 15, 2005 as follows:

\$29,600,000 of Turbo Term Bonds due June 1, 2021 with interest at 4.5% and a projected final Turbo Redemption date of June 1, 2012.\* Balance due at December 31<sup>st</sup> 2012 is \$10,285,000.

\$24,100,000 of Turbo Term Bonds due June 1, 2026 with interest at 5.0% and a projected final Turbo Redemption date of June 1, 2016.\* Balance due at December 31<sup>st</sup> 2012 is \$24,100,000.

\$81,200,000 of Turbo Term Bonds due June 1, 2038 with interest at 5.125% and a projected final Turbo Redemption date of June 1, 2023.\* Balance due at December 31<sup>st</sup> 2012 is \$81,200,000.

\$81,700,000 of Turbo Term Bonds due June 1, 2045 with interest at 5.125% and a projected final Turbo Redemption date of June 1, 2026.\* Balance due at December 31<sup>st</sup> 2012 is \$81,700,000.

\*Assumes Turbo Redemption payments are made based on the receipt of surplus pledged TSR's in accordance with the Global Insight Base Case Forecast of future tobacco consumption.

A schedule of planned structured principal maturities as of December 31, 2012 is as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -	\$ 10,016,450	\$ 10,016,450
2014	-	10,016,450	10,016,450
2015	-	10,016,450	10,016,450
2016	-	10,016,450	10,016,450
2017	-	10,016,450	10,016,450
2018-2045	<u>197,285,000</u>	<u>177,823,675</u>	<u>375,108,675</u>
	197,285,000	<u>\$ 227,905,925</u>	<u>\$ 425,190,925</u>
Unamortized Original Issue Discount	(3,855,624)		
Deferred Amounts on Refunding	<u>(30,856,860)</u>		
	<u>\$ 162,572,516</u>		

**Westchester Tobacco Asset Securitization Corporation**  
 (A Blended Component Unit of the County of Westchester, New York)

Notes to Financial Statements (Concluded)  
 December 31, 2012 and 2011

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**Note 5 - Prior Year Defeasance**

In 2005, the WTASC defeased the 1999 bonds by placing a portion of the proceeds of the new bonds in an irrevocable trust to provide for all debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the WTASC's financial statements. At December 31, 2012, \$97,575,000 of the remaining 1999 bonds outstanding are considered defeased.

**Note 6 - Significant Contingencies**

**Contingencies**

The enforceability of the rights and remedies of the State (and thus the bondholders) and of the obligations of a participating manufacturer under the MSA are subject to the Bankruptcy Code and the other applicable insolvency, moratorium or similar laws relating to or affecting the enforcement of creditors' rights. Some of the risks include risks of delay in or reduction of amounts of payment or of non-payment under the MSA and the risk that the State (and thus the County and/or WTASC) may be stayed for an extended time from enforcing any rights under the MSA and the Consent Decree or with respect to the payments owed by the bankrupt participating manufacturer or from commencing legal proceedings against the bankrupt participating manufacturer. As a result, if a participating manufacturer becomes a debtor in a bankruptcy case and defaults in making payment, funds available to WTASC to pay bondholders may be reduced or eliminated.

The bonds are payable only from the assets of WTASC. The bonds are neither legal nor moral obligations of WCHCC, the County or the State of New York, and no recourse may be had thereto for payment of amounts owing on the bonds. WTASC's only source of funds for payments on the bonds is the collections and amounts on deposit in pledged accounts pursuant to the indenture. WTASC has no taxing power and no significant assets other than the rights to receive tobacco settlement revenues and amounts on deposit in a pledged account amounting to \$14,133,625.

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**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**

**Independent Auditors' Report**

**The Board of Directors of the  
Westchester Tobacco Asset Securitization Corporation**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Westchester Tobacco Asset Securitization Corporation, New York ("WTASC") as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements and have issued our report thereon dated May 7, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the WTASC'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 WTASC's internal control. Accordingly, we do not express an opinion on the effectiveness of the WTASC'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 WTASC's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the WTASC'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 WTASC'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 WTASC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*O'Connor Davies, LLP*

**O'Connor Davies, LLP**  
Harrison, New York  
May 7, 2013



**Independent Accountants' Report on Compliance with Section 2925(3)(1)  
of the New York State Public Authorities Law**

**The Board of Directors of the  
Westchester Tobacco Asset Securitization Corporation**

We have examined the Westchester Tobacco Asset Securitization Corporation, New York's ("WTASC") compliance with Section 2925(3)(1) of the New York State Public Authorities Law and Part 201 of Title Two of the New York Code of Rules and Regulations during the years ended December 31, 2012 and 2011. Management is responsible for the WTASC's compliance with those requirements. Our responsibility is to express an opinion on the WTASC's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining on a test basis evidence supporting the WTASC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the WTASC's compliance with specified requirements.

In our opinion, the WTASC complied, in all material respects, with the aforementioned requirements during the years ended December 31, 2012 and 2011.

This report is intended solely for the information and use of management and the Board of Directors. It is not intended to be and should not be used by anyone other than these specified parties.

*O'Connor Davies, LLP*

**O'Connor Davies, LLP**  
Harrison, New York  
May 7, 2013