

## WESTCHESTER TOBACCO ASSET SECURITIZATION CORPORATION

### Minutes of the May 28, 2014 Board of Directors meeting (page 1 of 2)

Noting that the position of Chairman of the Board of Directors is vacant and in accordance with Article II-Section 3 of the Corporation's By-Laws that a Chairman to preside over this meeting can be chosen by the majority of the directors present, the Chairman for this meeting selected was Ann Marie Berg

Noting a quorum was present; the Westchester Tobacco Asset Securitization Corporation's board meeting was called to order at 11:20 a.m. by Ann Marie Berg, the Chairman for this meeting.

The following items from the agenda were reviewed on an individual basis by the Board members present and were motioned for approval on an individual basis by Ann Marie Berg and seconded by Peter P. Pucillo:

- 1) Approval of the June 17, 2013 Board of Directors minutes and approval of the September 30, 2013 e-mail approving and authorizing filing of the 2014 budget,
- 2) Election of Ann Marie Berg as Treasurer and Dennis C. Kelly as Secretary.  
Note: As defined in Article III of the Corporation's By-Laws, the Treasurer shall at all times be the individual from time to time exercising the powers and duties of the Commissioner of Finance of Westchester County.
- 3) Approval of O'Connor Davies, LLP fee payment of \$20,000 for the year ended 2013 audit of the financials of Westchester Tobacco Asset Securitization Corporation ("WTASC"),
- 4) Approval of WTASC Financials for 2013 – **attached**. Dennis C. Kelly (preparer of the WTASC financials) discussed the adoption of GASBS #65 and the restatement of prior year financials. He also explained the increases and decreases in revenue and expense items in the Comparative Statement of Revenues, Expenses and Changes in Net Position; noting the increase in Tobacco settlement revenues of approximately \$1.8 million was due to the release of monies previously withheld by the Participating Manufacturers based on a claim to a 2003 Non-Participating Manufacturers adjustment-funds to which the State was now entitled to as a result of its successful arbitration.,

**WESTCHESTER TOBACCO ASSET SECURITIZATION CORPORATION**

**Minutes of the May 28, 2014 Board of Directors meeting (page 2 of 2)**

- 5) Approval of Annual Report for 2013, inclusive of the List of Additional Questions & Answers – **attached (The board members present have acknowledged that they have read and understood the mission of WTASC and also acknowledged that they have read and understood the responses to the “list of additional questions & answers” included in the 2013 Annual Report),**
- 6) Approval of Investment Guidelines- Policies and Procedures regarding cash flows and investments for Westchester Tobacco Asset Securitization Corporation – **attached,**
- 7) Approval of Internal Controls- Policies & Procedures – **attached (The board members present continue to be satisfied with internal controls of WTASC),**
- 8) Approval of Travel & Discretionary Funds Policy – **attached,**
- 9) Approval of Code of Ethics
- 10) EMMA’s (Electronic Municipal Market Access) “Continuing Disclosure Submission” will be published soon after receiving the final audited financial statements from the outside auditing firm.

The following item from the agenda was reviewed by the Board members present and was motioned for approval by Peter P. Pucillo and seconded by Ann Marie Berg:

- 1) Approval of Westchester County finance department fees of \$35,000.

Having no other business to attend to, a motion to adjourn the meeting at 11:55p.m. was made by Ann Marie Berg and seconded by Peter P. Pucillo.

**WESTCHESTER TOBACCO ASSET SECURITIZATION CORPORATION**

**Board of Directors meeting MAY 28, 2014**

**Contents:**

Agenda for Board Meeting

Attendance

Minutes –Approval of the June 17, 2013 Board of Directors meeting minutes and E-mail approval of the 2014 Budget (2014 Budget attached) on September 30, 2013 by Board of Directors.

**Attachments:**

2013 Financial Statements

Annual Report for 2013

Investment Guidelines- Policies and Procedures Regarding Cash Flows and Investments for WTASC

Internal Controls – Policies & Procedures

Travel & Discretionary Funds Policy

Code of Ethics

## **WESTCHESTER TOBACCO ASSET SECURITIZATION CORPORATION**

### **Agenda for Board Meeting**

Wednesday – May 28, 2014 at 11:00 a.m.

Conference Room 718

148 Martine Avenue

White Plains, New York 10601

Motion to begin meeting

Business:

- 1) Approval of the June 17, 2013 Board of Directors minutes and approval of the e-mail authorizing filing of 2014 budget.
- 2) Election of Officers-as per Article III of By-Laws
- 3) Approval of O'Connor Davies, LLP audit fee payment
- 4) Approval of Financials for 2013
- 5) Approval Annual Report for 2013, inclusive of the List of Additional Questions & Answers
- 6) Review and approval of previously adopted Investment Guidelines- Policies and Procedures regarding cash flows and investments for Westchester Tobacco Asset Securitization Corporation
- 7) Review and approval of previously adopted Internal Controls- Policies & Procedures
- 8) Review and approval of previously adopted Travel & Discretionary Funds Policy
- 9) Approval of Code of Ethics
- 10) EMMA filing of 2013 information

11) Westchester County finance department fees approval for 2014

Adjourn the meeting

Next Board meeting will be set when 2015 Budget has been prepared.

Motion to end the Board of Directors meeting.

**WESTCHESTER TOBACCO ASSET SECURITIZATION CORPORATION**

**Attendance**

Wednesday May 28, 2014 at 11:00 a.m.

Conference Room 718

148 Martine Avenue

White Plains, New York 10601

Board Members - Present

Ann Marie Berg

Peter P. Pucillo

Board Member – Absent

Vacant position

Guest

Dennis C. Kelly

Heather Lischinsky

## WESTCHESTER TOBACCO ASSET SECURITIZATION CORPORATION

### Minutes of the June 17, 2013 Board of Directors meeting (page 1 of 2)

Noting a quorum was present the Westchester Tobacco Asset Securitization Corporation's board meeting was called to order at 11:38 a.m. by Ann Marie Berg.

The following items from the agenda were reviewed on an individual basis by the Board members present and were motioned for approval on an individual basis by Ann Marie Berg and seconded by Peter P. Pucillo:

- 1) Approval of O'Connor Davies, LLP fee payment of \$20,000 for the year ended 2012 audit of the financials of Westchester Tobacco Asset Securitization Corporation ("WTASC"),
- 2) Approval of WTASC Financials for 2012 – **attached,**
- 3) Approval of 2012 Annual Report for 2012, inclusive of the List of Additional Questions & Answers – **attached (The board members present have acknowledged that they have read and understood the mission of WTASC and also acknowledged that they have read and understood the responses to the "list of additional questions & answers" included in the 2012 Annual Report),**
- 4) Approval of Investment Guidelines- Policies and Procedures regarding cash flows and investments for Westchester Tobacco Asset Securitization Corporation – **attached,**
- 5) Approval of Internal Controls- Policies & Procedures – **attached (The board members present continue to be satisfied with internal controls of WTASC),**
- 6) Approval of Travel & Discretionary Funds Policy – **attached,**
- 7) EMMA's (Electronic Municipal Market Access) "Continuing Disclosure Submission" has been published on May 30, 2013.

**WESTCHESTER TOBACCO ASSET SECURITIZATION CORPORATION**

**Minutes of the June 17, 2013 Board of Directors meeting (page 2 of 2)**

The following item from the agenda was reviewed by the Board members present and was motioned for approval by Peter P. Pucillo and seconded by Ann Marie Berg:

- 1) Approval of Westchester County finance department fees of \$35,000.

Having no other business to address, a motion to adjourn the meeting at 12:05 p.m. was made by Ann Marie Berg and seconded by Peter P. Pucillo.

**Kelly, Dennis**

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**From:** Kelly, Dennis  
**Sent:** Monday, September 30, 2013 3:03 PM  
**To:** 'Peter Pucillo'  
**Subject:** RE: WTASC budget filing for 2014

Thank you.

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**From:** Peter Pucillo [<mailto:Petealta@verizon.net>]  
**Sent:** Monday, September 30, 2013 3:02 PM  
**To:** Kelly, Dennis  
**Subject:** RE: WTASC budget filing for 2014

OK to send

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**From:** Kelly, Dennis [<mailto:dck1@westchestergov.com>]  
**Sent:** Monday, September 30, 2013 1:40 PM  
**To:** 'Peter Pucillo'  
**Subject:** RE: WTASC budget filing for 2014

Peter,  
There is a new GASB (#65) that requires the write off of this type of Bond issuance cost (as a period cost). I checked with Scott Oling to confirm write off for this year's financials. He said I was correct in doing so. The other cost associated with the Bond Issuance- Loss on Refunding of approximately \$30 million will be reclassified as "Deferred Outflows of Resources". The OID amount of approximately \$3. 8 million will most likely remain as a "contra account" to Debt. Scott is not definite about the OID as far as classification yet.

Den

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**From:** Peter Pucillo [<mailto:Petealta@verizon.net>]  
**Sent:** Monday, September 30, 2013 1:00 PM  
**To:** Kelly, Dennis  
**Subject:** RE: WTASC budget filing for 2014

Why the write off of the issuance costs?

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**From:** Kelly, Dennis [<mailto:dck1@westchestergov.com>]  
**Sent:** Monday, September 30, 2013 12:20 PM  
**To:** 'Peter Pucillo'  
**Subject:** FW: WTASC budget filing for 2014

Peter,  
Ann Marie reviewed attached WTASC budget for 2014.  
If you are okay with it, I will file today. See foot note on attached.  
Thanks,  
Den

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**From:** Kelly, Dennis  
**Sent:** Monday, September 30, 2013 11:30 AM

**To:** Berg, Ann Marie

**Subject:** WTASC budget filing for 2014

Ann Marie,

Attached is WTASC 2014 budget for PARIS filing.

If you are okay with it ,I will forward to Peter for his approval and then file it.

I put note on attached to explain increase in "Other Operating Expenditures" due to adoption of GASB # 65.

Den

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

Financial Statements

Years Ended December 31, 2013 and 2012



## Independent Auditors' Report

The Board of Directors of the  
Westchester Tobacco Asset Securitization Corporation

### Report on the Financial Statements

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, 2013 and 2012, and the related notes to the 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.

### *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, 2013 and 2012, 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.

O'CONNOR DAVIES, LLP  
500 Mamaroneck Avenue, Suite 301, Harrison, NY 10528 | Tel: 914.381.8900 | Fax: 914.381.8910 | [www.odpkf.com](http://www.odpkf.com)

O'Connor Davies, LLP is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

***Emphasis of Matters***

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, 2013 and 2012 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 16, 2014 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.

***Report on Other Legal and Regulatory Requirements***

We have also issued our report dated May 16, 2014 on our consideration of the WTASC's compliance with Section 2925(3)(1) of the New York State Public Authorities Law ("Law"). The purpose of that report is to describe the scope and results of our tests of compliance with the Law.

*O'Connor Davies, LLP*

O'Connor Davies, LLP  
Harrison, New York  
May 16, 2014

**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, 2013

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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, 2013. 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 and deferred outflows of resources at the close of the most recent fiscal year, resulting in a deficit of \$134,803,650. The deficit was decreased by \$2,607,409 due to the amount recognized for Tobacco Settlement Revenues ("TSR's") of \$15,290,831 less operating expenses of \$129,917, non-operating net interest expense of \$10,454,253 and TSR's residual payment to Westchester County of \$2,099,252.
- ❖ 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 assets. Over time, as TSR payments are received and the bonded indebtedness is retired, the deficit will be reduced.
- ❖ For the year ended December 31, 2013, the WTASC implemented the following GASB statements:

*GASB Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* which improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on an entity's net position; and

*GASB Statement No. 65 Items Previously Reported as Assets and Liabilities* which improves financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

## Financial Statements

The *statement of net position* presents information on the WTASC's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference 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 \$2,607,409 in 2013, compared with an increase of \$978,838 in 2012, a difference of \$1,628,571. This increase from the prior year is due to an increase in the recognition of tobacco settlement revenues of \$1,791,560 and reduced net interest expense of \$91,202, partially offset by an increase in the residual payment of \$246,915 due Westchester County and an increase in operating expenses of \$7,276.

## Debt Administration

At the end of the current fiscal year, the WTASC had total gross bonded debt outstanding of \$195,250,000. Although no planned structured principal payments were required to be made, the WTASC was able to make an additional "Turbo Redemption" payment of \$2,035,000, and to date has made principal payments of \$21,350,000.

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,

	2013	2012 (Restated)
<b>ASSETS</b>		
Current assets		
Cash and equivalents	\$ 106,192	\$ 110,988
Receivables		
Tobacco settlement	15,282,056	13,499,271
Interest	123,018	123,018
Total Current Assets	<u>15,511,266</u>	<u>13,733,277</u>
Noncurrent assets		
Restricted cash and equivalents	106,121	1,596
Restricted investments	14,133,625	14,133,625
Total Noncurrent Assets	<u>14,239,746</u>	<u>14,135,221</u>
Total Assets	<u>29,751,012</u>	<u>27,868,498</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amounts on refunding bonds	<u>29,904,978</u>	<u>30,856,860</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	20,000	20,000
Due to County of Westchester	2,099,252	1,852,337
Accrued interest payable	827,073	834,704
Total Current Liabilities	<u>2,946,325</u>	<u>2,707,041</u>
Noncurrent liabilities		
Bonds payable	<u>191,513,315</u>	<u>193,429,376</u>
Total Liabilities	<u>194,459,640</u>	<u>196,136,417</u>
<b>NET POSITION</b>		
Unrestricted	<u>\$ (134,803,650)</u>	<u>\$ (137,411,059)</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,

	2013	2012 (Restated)
<b>OPERATING REVENUES</b>		
Tobacco settlement revenues	\$ 15,290,831	\$ 13,499,271
<b>OPERATING EXPENSES</b>		
Professional fees	85,419	80,440
Insurance expense	44,498	42,201
Total Operating Expenses	129,917	122,641
Income from Operations	15,160,914	13,376,630
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest income	579,599	580,347
Interest expense	(11,033,852)	(11,125,802)
Residual payment to County of Westchester	(2,099,252)	(1,852,337)
Total Non-Operating Expenses	(12,553,505)	(12,397,792)
Change in Net Position	2,607,409	978,838
<b>NET POSITION</b>		
Beginning of Year, as reported	(137,411,059)	(135,348,332)
Change in Accounting Principle	-	(3,041,565)
Beginning of Year, as restated	(137,411,059)	(138,389,897)
End of Year	\$ (134,803,650)	\$ (137,411,059)

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,

	2013	2012 (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from tobacco settlement revenues	\$ 13,508,046	\$ 13,516,441
Cash paid to vendors	(129,917)	(122,641)
Net Cash from Operating Activities	<u>13,378,129</u>	<u>13,393,800</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) Decrease in restricted cash and equivalents	(104,525)	4,702
Interest income	579,599	576,444
Net Cash from Investing Activities	<u>475,074</u>	<u>581,146</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Repayment of bonds payable	(2,035,000)	(2,055,000)
Interest paid	(9,970,662)	(10,062,687)
Residual payment to County of Westchester	(1,852,337)	(1,854,715)
Net Cash from Non-Capital Financing Activities	<u>(13,857,999)</u>	<u>(13,972,402)</u>
Net Change in Cash and Equivalents	(4,796)	2,544
<b>CASH AND EQUIVALENTS</b>		
Beginning of Year	<u>110,988</u>	<u>108,444</u>
End of Year	<u>\$ 106,192</u>	<u>\$ 110,988</u>
<b>RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES</b>		
Income from operations	\$ 15,160,914	\$ 13,376,630
Adjustments to reconcile income from operations to net cash from operating activities		
Changes in assets and liabilities		
Tobacco settlement receivable	(1,782,785)	17,170
Net Cash from Operating Activities	<u>\$ 13,378,129</u>	<u>\$ 13,393,800</u>
<b>NONCASH NON-CAPITAL FINANCING ACTIVITIES</b>		
Increase in bonds payable from amortization of original issue discount	\$ 118,939	\$ 118,939
Decrease in deferred outflows of resources 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, 2013 and 2012

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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 ("GASB") Technical Bulletin No. 2004-1, "Tobacco Settlement Recognition and Financial Reporting Entity Issues", as amended and/or superseded by GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", 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, 2013 and 2012

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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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 guidance issued after November 30, 1989 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, 2013 and 2012 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.

**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, Liquidity Reserve and Collection Fund accounts whose use is restricted to the payment of debt obligations on the WTASC bonds.

**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 represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then.

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 represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

As of December 31, 2013 and 2012, the WTASC reported deferred outflows of resources of \$29,904,978 and \$30,856,860, respectively. The deferred outflow of resources amount is the result of the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and is being amortized over the life of the refunded debt.

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

Notes to Financial Statements (Continued)  
 December 31, 2013 and 2012

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

**Tax Status**

The WTASC is exempt from Federal income tax under Section 501(a) of the Internal Revenue Code and is a 501(c)(3) organization.

**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, deferred outflows of resources, liabilities and deferred inflows of resources 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.

**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 16, 2014.

**Reclassification**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**Note 2 - Application of Accounting Standards/Changes in Accounting Principle**

For the year ended December 31, 2013, the WTASC implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". This statement establishes accounting and financial reporting standards that reclassify as deferred outflows/inflows of resources, certain items that were previously reported as assets and liabilities. This statement also recognizes as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities.

In accordance with the provisions of GASB Statement No. 65, bond issuance costs are to be expensed when incurred, rather than amortized over the life of the bonds. Accordingly, the net position as of January 1, 2012 has been restated to remove \$3,041,565 of previously unamortized bond issuance costs.

**Note 3 - Restricted Investments**

Restricted investments at December 31, 2013 and 2012 consisted of the following -

Security Benefit Life Insurance Company fixed annuity due April 2045, interest at 4.1%	<u>\$ 14,133,625</u>
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**Westchester Tobacco Asset Securitization Corporation**  
 (A Blended Component Unit of the County of Westchester, New York)

Notes to Financial Statements (Continued)  
 December 31, 2013 and 2012

**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 an initial projected final Turbo Redemption date of June 1, 2012.\* Balance due at December 31<sup>st</sup> 2013 is \$8,250,000.

\$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> 2013 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> 2013 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> 2013 is \$81,700,000.

\*Assumes Turbo Redemption payments are made based on the receipt of surplus pledged TSR's in accordance with the 2005 Indenture Global Insight Base Case Forecast of future tobacco consumption.

A schedule of planned structured principal maturities as of December 31, 2013 is as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ -	\$ 9,924,875	\$ 9,924,875
2015	-	9,924,875	9,924,875
2016	-	9,924,875	9,924,875
2017	-	9,924,875	9,924,875
2018	-	9,924,875	9,924,875
2019-2045	<u>195,250,000</u>	<u>168,429,688</u>	<u>363,679,688</u>
	195,250,000	<u>\$ 218,054,063</u>	<u>\$ 413,304,063</u>
Unamortized Original Issue Discount	<u>(3,736,685)</u>		
	<u>\$ 191,513,315</u>		

**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, 2013, \$97,575,000 of the remaining 1999 bonds outstanding are considered defeased.

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

Notes to Financial Statements (Concluded)  
December 31, 2013 and 2012

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**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.

\*\*\*\*\*



**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, 2013 and 2012, and the related notes to the financial statements and have issued our report thereon dated May 16, 2014.

**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.

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O' Connor Davies, LLP is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

## 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  
Harrison, New York  
May 16, 2014



**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 during the years ended December 31, 2013 and 2012. 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, 2013 and 2012.

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 16, 2014

## WESTCHESTER TOBACCO ASSET SECURITIZATION CORPORATION

### ANNUAL REPORT FOR 2013

This annual report is prepared in compliance with the New York State Public Authorities Reform Act of 2009. For additional information on Westchester Tobacco Asset Securitization Corporation (WTASC) and WTASC's December 31 yearend financial statements, please refer to WTASC's website at <http://www.westchestertasc.com>.

#### **NATURE OF WESTCHESTER TOBACCO ASSET SECURITIZATION CORPORATION 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. See section *Bonds Payable included in this Annual Report*.

## **MISSION STATEMENT, PERFORMANCE GOALS, and PERFORMANCE ACCOMPLISHMENTS**

### **for 2013 and PERFORMANCE GOALS FORECAST for 2014**

#### **MISSION STATEMENT BACKGROUND**

Chapter 506 of the Public Authorities Reform Act of 2009 ("PARA"), which also added a new section 2824-a in Public Authorities Law ("PAL") for State and Local Public Authorities, requires the development and adoption of a Mission Statement and related Performance Measures to assist the authority in determining how well it is carrying out its Mission.

#### **MISSION STATEMENT**

To administer and account for the receipt of Tobacco Settlement Revenues generated from the Master Settlement Agreement among the attorneys general of 46 states and various territories and the four largest United States tobacco manufacturers entered into on November 23, 1998.

Also, as part of this administration and accounting, WTASC has debt outstanding (further described in the "Nature of Westchester Tobacco Asset Securitization Corporation Business" above) which, in accordance with debt instruments, requires debt service for principal and interest in a timely fashion. 1999 and 2005 Net bond proceeds for this debt provided the County of Westchester with funds for working capital purposes.

Excess tobacco settlement revenues and interest earnings over debt service, the residual amount due the County of Westchester, and operating costs are also monitored and utilized for prepayment of WTASC debt.

WTASC's continuing public purpose and mission is to satisfy its obligations under the Trust Indentures associated with the Tobacco Settlement Asset-Backed Bonds, Series 2005 and compliance with other Trust Indenture requirements as well as articles of the By-Laws of the Corporation.

### ANNUAL PERFORMANCE REVIEW MEASURES

WTASC shall *annually review* this Mission statement to determine whether or not WTASC has continued to meet its stated mission.

In addition to the abovementioned annual Mission statement review, WTASC shall further measure the performance of the following items:

- 1) Assure that all members of the Board have *acknowledged the Mission* of WTASC.
- 2) The Financial Statements of WTASC continue to be *audited* by a competent professional accounting firm, preferably having as clients other Tobacco entities receiving Master Settlement Agreement funds.
- 3) Assure that WTASC *accounting* continues to comply with current Governmental Accounting Standards Board ("GASB") accounting requirements.
- 4) Assure that *debt obligations are paid* in accordance with the 2005 Bond indenture.
- 5) Assure that the WTASC *expenditures are only for requirements* of the operations of WTASC and are being incurred on a consistent basis.
- 6) Assure *timely transfers* of Tobacco Settlement Revenues when received to maximize asset investment, payment of debt obligations and, if funds are available, prepayment of Bonds.
- 7) The Board of Directors of the WTASC *continues to be satisfied with internal controls* of the WTASC.
- 8) Financials of the WTASC are posted annually to EMMA (*Electronic Municipal Market Access*).
- 9) Key New York State PARIS filings for the WTASC are made.

### PERFORMANCE MEASUREMENTS for 2013

Tobacco Settlement Revenues received on April 15th and 17th of 2013 amounting to \$13,499,270.75 were timely invested. An additional Tobacco amount of \$8,775.18 was received on April 24, 2013. Subsequently, the interest payments due on June 3, 2013 of \$5,008,225.00 and on December 2, 2013 of \$4,962,437.50 were timely paid.

In addition, due to excess tobacco settlement revenues and interest earnings over debt service, the residual amount due the County of Westchester, and operating costs, the WTASC was able to prepay on June 3, 2013 \$2,035,000 of future principal payment requirements.

### PERFORMANCE MEASUREMENTS FORECASTED for 2014

Tobacco Settlement Revenues received on April 16th and 17th of 2014 amounting to \$15,282,055.51 were timely invested, and are available for the scheduled interest payments due on June 1, 2014 of \$4,962,437.50 and on December 1, 2014 estimated to be \$4,881,437.50.

**Note:** Interest payments continue to decrease in amount due to the continued prepayment of Bonds (\$24,950,000 accumulated total estimated as of June 1, 2014) as indicated by the 2013 and 2014 activity mentioned for 2013 above and 2014 below.

Due to excess tobacco settlement revenues and interest earnings over debt service, the residual amount due the County of Westchester, and operating costs, it is estimated the WTASC will also be able to prepay on June 1, 2014 \$3,600,000 of future principal payment requirements.

**LIST OF ADDITIONAL QUESTIONS**

- 1) Have the board members acknowledged that they have read and understood the mission of the Public Authority?  
*The members of the WTASC Board of Directors acknowledged that they have read and understood the mission of the WTASC.*
- 2) Who has the power to appoint the management of the Public Authority?  
*The Board of Directors appoints the officers of the WTASC. However, per Article III (Officers) section 1 of the WTASC by-laws, the Treasurer shall at all times be the individual from time to time exercising the powers and duties of the Commissioner of Finance of Westchester County.*
- 3) If the Board appoints management, do you have a policy to follow when appointing management of the Public Authority?  
*The Board of Directors follows the by-laws and reviews the qualifications of the proposed candidate when appointing officers and management.*
- 4) Briefly describe the role of the Board of Directors and the role of Management in implementation of the Mission.  
*In implementing the Mission of the WTASC, the Board of Directors approves all policies, financial statements including budgets, contracts and purchases, election of officers, and oversees corporate management. Management oversees and fulfills the requirements of the WTASC's day to day operations.*
- 5) Has the Board of Directors acknowledged that they have read and understood the responses to each of these questions?  
*The Board of Directors acknowledged that they have read and understood the responses to these questions and approved their submission.*

**COMPARATIVE FINANCIAL STATEMENTS for 2013 and 2012**

The *statement of net position* presents information on the WTASC's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference 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 are located beginning on page 8 of the financial statements report and should be read to have a full understanding of the data provided in the statements of net position and revenues ,expenses and changes in net position. <http://www.westchestertasc.com>

**COMPARATIVE STATEMENT OF NET POSITION**

	12/31/2013	12/31/2012 (Restated)
<b>ASSETS</b>		
<i>Current Assets:</i>		
Cash and equivalents	\$ 106,192	\$ 110,988
Tobacco receivable	15,282,056	13,499,271
Interest receivable	123,018	123,018
<i>Total Current Assets</i>	<u>15,511,266</u>	<u>13,733,277</u>
<i>Noncurrent Assets:</i>		
Restricted cash and equivalents	106,121	1,596
Restricted investments	14,133,625	14,133,625
<i>Total Noncurrent Assets</i>	<u>14,239,746</u>	<u>14,135,221</u>
<i>Total Assets</i>	<u>29,751,012</u>	<u>27,868,498</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred charges on refunding	<u>29,904,978</u>	<u>30,856,860</u>
<b>LIABILITIES</b>		
<i>Current Liabilities:</i>		
Accounts payable	20,000	20,000
Due to County of Westchester	2,099,252	1,852,337
Accrued interest payable	827,073	834,704
<i>Total Current Liabilities</i>	<u>2,946,325</u>	<u>2,707,041</u>
<i>Noncurrent Liabilities -Bonds payable</i>	<u>191,513,315</u>	<u>193,429,376</u>
<i>Total Liabilities</i>	<u>194,459,640</u>	<u>196,136,417</u>
<b>NET POSITION</b>		
<i>Unrestricted</i>	<u>\$ (134,803,650)</u>	<u>\$ (137,411,059)</u>

**Financial Highlights**

**2013**

For the year ended December 31, 2013, the WTASC implemented the following GASB statements:  
 GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* which improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on an entity's net position; and  
 GASB Statement No.65 *Items Previously Reported as Assets and Liabilities* which improves financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of

resources and deferred inflows of resources to ensure consistency in financial reporting. Due to the adoption of this new accounting principle, the 2012 opening unamortized balance of \$3,041,565 for the Cost of Issuance was expensed to the 2012 Beginning Net Position.

At the close of 2013, the liabilities of the WTASC exceeded its assets and deferred outflows of resources, resulting in a deficit of \$134,803,650. The deficit was decreased by \$2,607,409, due to the amount recognized for Tobacco Settlement Revenues ("TSR's") of \$15,290,831 less operating expenses of \$129,917, non-operating net interest expense of \$10,454,253 and TSR's residual payment to Westchester County of \$ 2,099,252.

**2012**

At the close of 2012, the liabilities of the WTASC exceeded its assets and deferred outflows of resources, resulting in a deficit of \$137,411,059. The deficit was decreased in 2012 by \$978,838, due to the amount recognized for TSR's of \$13,499,271 less operating expenses of \$122,641, non-operating net interest expense of \$10,545,455 and TSR's residual payment to Westchester County of \$ 1,852,337.

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

	<u>12/31/2013</u>	<u>12/31/2012</u> (Restated)
<i>Operating Revenues - Tobacco settlement revenues</i>	\$ 15,290,831	\$ 13,499,271
<i>Operating Expenses:</i>		
Professional fees	85,419	80,440
Insurance expense	44,498	42,201
Total Operating Expenses	<u>129,917</u>	<u>122,641</u>
Income from Operations	<u>15,160,914</u>	<u>13,376,630</u>
<i>Non-Operating Revenues (Expenses):</i>		
Interest income	579,599	580,347
Interest expense	(11,033,852)	(11,125,802)
Residual payment to County of Westchester	(2,099,252)	(1,852,337)
Total Non-Operating Expenses	<u>(12,553,505)</u>	<u>(12,397,792)</u>
Change in Net Position	2,607,409	978,838
<i>Net Position</i>		
Beginning of Year-as previously reported	(134,460,513)	(135,348,332)
Prior-period adjustment: Change in accounting principle		(3,041,565)
Beginning of Year-adjusted	<u>(137,411,059)</u>	<u>(138,389,897)</u>
End of Year	<u>\$ (134,803,650)</u>	<u>\$ (137,411,059)</u>

**Financial Analysis**

**2013**

The Change in Net Position was an increase of \$2,607,409 in 2013, compared with an increase of \$978,838 in 2012, a difference of \$1,628,571. This increase from the prior year is due to an increase in the recognition of tobacco settlement revenues of \$1,791,560 and reduced net interest expense of \$91,202, partially offset by an increase in the residual payment of \$246,915 due Westchester County and an increase in operating expenses of \$7,276.

**2012**

For 2012, the Change in Net Position was an increase of \$978,838, compared with an increase of \$909,834 in 2011, a difference of \$69,004. This increase from the prior year is due to reduced net interest expense of \$87,235, a decrease in the residual payment due Westchester County 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.

**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 as at December 31, 2013 is \$8,250,000.*

\$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 as at December 31, 2013 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 as at December 31, 2013 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 as at December 31, 2013 is \$81,700,000.*

\*Assumes Turbo Redemption payments are made based on the receipt of surplus pledged TSR's in accordance with the 2005 Indenture's Global Insight Base Case Forecast of future tobacco consumption.

A schedule of planned structured principal maturities as of December 31, 2013 is as follows:

Year Ending December 31,	Principal	Interest	Total
2014	\$	\$ 9,924,875	\$ 9,924,875
2015		9,924,875	9,924,875
2016		9,924,875	9,924,875
2017		9,924,875	9,924,875
2018		9,924,875	9,924,875
2019-2045	<u>195,250,000</u>	<u>168,429,688</u>	<u>363,679,688</u>
	195,250,000	\$ <u>218,054,063</u>	\$ <u>413,304,063</u>
Unamortized Original Issue Discount	<u>(3,736,685)</u>		
	<u>\$ 191,513,315</u>		

#### **DEBT ADMINISTRATION**

At the end of 2013, the WTASC had total gross bonded debt outstanding of \$195,250,000. Although no planned structured principal payments were required to be made, the WTASC was able to make an additional "Turbo Redemption" payment of \$2,035,000, and as of yearend 2013 has made principal payments of \$21,350,000.

#### **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.

#### **INVESTMENTS**

The terms of the bond indenture provide for the establishment of a liquidity reserve. The reserve was 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. This amount is invested in a fixed annuity at Security Benefit Life Insurance Company due April 2045 with an interest rate of 4.1% per annum, and is collateralized at a minimum of 102%. Restricted cash and equivalents consists of funds held in the Debt Service, Liquidity Reserve and Collection Fund accounts whose use is restricted to the payment of debt obligations on the WTASC bonds.

WTASC's investment policy can be accessed via its website at <http://www.westchestertasc.com>

#### **COMPENSATION**

There are no employees of the WTASC, therefore there is no disclosure of compensation as required by section 2806 (1) of the Public Authorities Law of New York State.

#### **PROJECTS**

WTASC has not undertaken any projects or issue any new bonds since June of 2005.

#### **REAL PROPERTY**

WTASC historically has never owned any real property.

## WESTCHESTER TOBACCO ASSET SECURITIZATION CORPORATION

### INVESTMENT GUIDELINES –POLICIES AND PROCEDURES REGARDING CASH FLOWS AND INVESTMENTS FOR WTASC

#### FLOW OF FUNDS:

##### Tobacco Settlement Revenues:

Upon receipt of the Tobacco Settlement Revenues (TSR's) from the New York State Master Settlement Agreement Escrow Agent by WTASC's trustee –Bank of New York Mellon-( usually mid April of each year), an allocation of the TSR's is made by WTASC management as follows:

- 1) To WTASC operating bank account in the range of \$100,000 to \$150,000 per annum (depending on estimated year's expenses to be paid from April to March of each year).
- 2) The remaining balance, after establishing the annual funding of the operating bank account, is allocated as follows per the Series 2005 Bonds official statement:
  - a) 86.15% to the Debt Service account to pay the interest due on June 1<sup>st</sup> and December 1<sup>st</sup> of each year, and if there is available excess funds from this allocation a prepayment of Bonds can also be made –usually on June 1<sup>st</sup> as well.
  - b) 13.85% to the County of Westchester which represents the “unencumbered revenues” of each payment of the TSRs. *Note: 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.*

*Management is responsible for monitoring the receipt of the TSR and also timely allocating the receipt amongst the operating bank account, the Debt Service account, and the County of Westchester unencumbered amount.*

##### Liquidity Reserve:

The terms of the bond indenture provide for the establishment of a Liquidity Reserve which was funded initially by the proceeds of the Series 2005 bond offering.

The amount established was \$14,133,625, the maximum annual debt service requirement based on planned structured principal payments. A fixed annuity due in April 2045 from Security Benefit Life Insurance Company, at a rate of 4.10% per annum, was obtained for this amount and is collateralized at a minimum of 102%.

*Management is responsible for monitoring the interest received in Mid April and Mid October of each year. The annual amount is \$579,478.63. Management ensures that this amount is also transferred to the Debt Service account to be available for service of debt (interest and principal) as required.*

*Management also is responsible for monitoring on a monthly basis the collateralization of this Liquidity Reserve balance which is maintained at a minimum of 102%.*

Restricted Cash and Equivalents:

Any excess funds held in the Debt Service or Turbo Redemption are invested in short term instruments (currently Blackrock Liquidity Temporary Fund #20) and is restricted to the payment of the WTASC debt obligations.

*Management is responsible for monitoring the investment of these excess funds on a monthly basis.*

Cash

The operating cash account is funded from the annual TSR's based on the estimated expenses for the ensuing yearly period. The account balance has historically been below the amount of \$250,000, the current amount of the Federal Deposit Insurance Corporation's insured amount.

*Management is responsible for estimating the amount funded each year to cover necessary operating costs of the WTASC. Management is also responsible for proper internal controls over the receipts and disbursements of this operating cash account.*

## WESTCHESTER TOBACCO ASSET SECURITIZATION CORPORATION

### INTERNAL CONTROLS- POLICIES & PROCEDURES

#### INTERNAL CONTROLS

The Treasurer of the WTASC is responsible for establishing and maintaining internal control policies and procedures which provide the following:

- 1) Reasonable assurance that deposits and investments are safeguarded against loss from unauthorized use or disposition,
- 2) That transactions are executed in accordance with authorization established by the Board of the WTASC,
- 3) Transactions are properly recorded,
- 4) Transactions are managed in compliance with the WTASC's Investment policies and/or in compliance with federal, state, and local applicable laws and regulations.

#### Procedures:

Due to the limited number of personnel being utilized by the WTASC for its cash transactions and record keeping, management felt it prudent to at least annually prepare a "Proof of Cash" of the WTASC operating cash account for the Treasurer's review and approval. This provides the Treasurer additional comfort that all activity per the bank account has been recorded in the WTASC general ledger. This proof of cash is also checked and verified as part of the financial annual audit by the external auditors of the WTASC.

As part of the preparation for the annual audit of the WTASC financial statements, an audit binder is prepared supporting all the financial data and disclosures included in its financial statements. This audit binder is reviewed and approved by the Treasurer of the WTASC prior to submission to the external auditors for further checking and verification.

In addition, the external auditors issue a report on their consideration of the WTASC's internal control over financial reporting and their tests of the WTASC's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. Please refer to the "Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*" included with the *Financial Statements* on the WTASC website- <http://www.westchestertasc.com>.

## **WESTCHESTER TOBACCO ASSET SECURITIZATION CORPORATION**

### **TRAVEL & DISCRETIONARY FUNDS POLICY**

#### **Section 1. PURPOSE**

The purpose of this policy is to implement a provision of the Public Authorities Accountability Act requiring the adoption of certain policies and to adhere to the recommended practices of the NYS Authorities Budget Office (the "ABO") to protect against the use of discretionary funds for purposes that do not advance the Westchester Tobacco Asset Securitization Corporation's (the "WTASC") mission and public purpose. Public Authorities Law §2824 requires the Agency to adopt a policy to govern business travel and ABO Recommended Practice entitled, Written Policies Governing the Use of Authority Discretionary Funds, specifically recommends adoption by the Agency of a policy on the proper use of discretionary funds that incorporates the legal principals set forth in NYS Attorney General in opinion #2007-F4.

#### **Section 2. APPLICABILITY**

This policy shall apply to every member of the board (the "Board") of the WTASC and all officers.

#### **Section 3. TRAVEL**

##### **A. APPROVAL of TRAVEL**

All official travel for which a reimbursement will be sought must be approved by the Treasurer prior to such travel. Provided, however, in the instance where the Treasurer will seek reimbursement for official travel, such travel must be pre- authorized by the Chairman of WTASC.

##### **B. PAYMENT of TRAVEL**

The WTASC will reimburse all reasonable expenses related to meals, travel and lodging that were incurred by any director and officer as a result of the performance of their official duties. All official travel shall be properly authorized, reported and reimbursed. Under no circumstances shall expenses for personal travel be charged to, or temporarily funded by the WTASC. It is the traveler's responsibility to report his or her travel expenses in a responsible and ethical manner, in accordance with this policy.

## **C. TRAVEL EXPENSES**

Travelers may use their private vehicle for business purposes if it is less expensive than renting a car, taking a taxi, or using alternative transportation, or if it saves time. The private vehicle usage will be reimbursed at a standard mileage reimbursement rate using the current established IRS rates at the time of travel.

Meals will be reimbursed at actual expense or a per diem rate as determined from time-to-time. Lodging will be reimbursed at actual expense.

Reimbursement for miscellaneous expenses shall be determined on a case-by-case basis. All expense reimbursement determinations made pursuant to this paragraph C shall be made by the Treasurer. In the instance where such determinations regard the travel of the Treasurer, the Chairman shall make such determinations.

In all instances reimbursement for travel expenses may be approved only if such travel expenses and related costs and expenses are incurred in furtherance of the adopted Mission Statement.

## **Section 4. DISCRETIONARY FUNDS**

### **A. USE OF DISCRETIONARY FUNDS**

The expenditure of WTASC funds must relate to an enumerated power, duty or purpose of the WTASC. Therefore, the use of discretionary funds shall be limited to expenditures that benefit the WTASC in advancing its mission and public purpose. Discretionary funds shall not be used in a manner that primarily benefits the individual board member or officer.

### **B. PRIOR APPROVAL**

All expenditures of discretionary funds shall be approved by the Treasurer prior to such expenditure and fall within Annual Budget. Provided, however, in the instance where the Treasurer will seek an expenditure of discretionary funds, such expenditure shall be pre-authorized by the majority of the WTASC board of directors. The Board of Directors shall review the proposed use of funds and reasonably determine whether such use (i) primarily benefits the WTASC as opposed to an individual board member or officer and (ii) advances the mission and public purpose of the WTASC. Scrutiny of all expenses will be guided by judgment relating to the relevance of such costs and the benefits which may accrue from such activities.

### **C. APPROPRIATE EXPENDITURE GUIDANCE**

(i) Membership Dues — None allowed.

(ii) Charitable Contributions & Sponsorships – The appropriateness of such sponsorship or charitable contribution will depend on whether it relates to the powers, duty and purposes of the WTASC, and whether such expenditure will advance the WTASC's core mission and public

purposes.

(iii) Food & Beverages – With the exception of food and beverages purchased during business travel as provided herein, expenditures of food and beverages for the personal consumption of board members and officers is not considered an appropriate use of the WTASC discretionary funds. Provided, however, expenditures for food and beverages purchased for or during the conduct of WTASC business with persons that do business with the WTASC may be an appropriate expenditure of the WTASC discretionary funds, provided that the expense is reasonable in light of the circumstances surrounding the WTASC activity and is pre-approved as set forth herein.

(iv) Professional Training, Certification and Licensing- Paying the costs to attend training to maintain certifications or licenses or to attend professional conferences is **not** deemed an appropriate expenditure of WTASC discretionary funds.

#### **D. INAPPROPRIATE USE OF DISCRETIONARY FUNDS**

Examples of inappropriate use of discretionary funds would include, but need not be limited to:

- Food, beverages and other refreshments purchased for the personal use of directors and officers, or by persons with whom the authority conducts business (unless prior authorization is received);
- Flowers and gifts for directors, officers or family members;
- Subsidized or free use of authority services for the personal use of current or former board members, officers, or family members of;
- Celebrations for special occasions that do not directly relate to the purpose of the authority, such as catering or decorations for summer picnics, office parties or holiday or retirement parties;
- Charitable contributions or sponsorships of events not associated with the authority's mission;
- Purchase of alcohol or tobacco products;
- Membership dues in professional organizations on behalf of directors or officers;
- Renewal of professional licenses;
- Personal use of authority vehicles, unless properly documented for tax purposes;
- Costs to purchase or mail holiday cards, invitations or expressions of sympathy; or
- Assignment of cell phones or vehicles to non-authority personnel.

Absent specific statutory power, public authorities may not use public funds to purchase

items considered personal expenses or that are intended to personally benefit an officer or director. Expenses such as those listed above do not advance a public purpose and should be considered personal in nature.

Approved and adopted this 17th day of June, 2013.

## WESTCHESTER TOBACCO ASSET SECURITIZATION CORPORATION CODE OF ETHICS

This Code of Ethics shall apply to all directors, officers and employees of the Westchester Tobacco Asset Securitization Corporation (WTASC) and County Employees assigned to administrative duties for the WTASC. These policies shall serve as a guide of official conduct and are intended to enhance the ethical and professional performance of the WTASC's mission.

### **Responsibility of Directors, Officers, and Employees of WTASC and County Employees assigned to administrative duties for the WTASC (herein after referred to as the "responsible parties")**

1. The *responsible parties* shall perform their duties with transparency, without favor and refrain from engaging in outside matters of financial or personal interest that could impair independence or judgment, or prevent the proper exercise of one's official duties.
2. The *responsible parties* shall not directly or indirectly, make, advise, or assist any person to make any financial investment based upon information available through the affected parties positions that could create any conflict between their public duties and interests and their private interests.
3. The *responsible parties* shall not accept or receive any gift or gratuities where the circumstances would permit the inference that (a) the gift is intended to influence the individual in the performance of official businesses or (b) the gift constitutes a tip, reward or sign of appreciation for any official act by the individual. This prohibition extends to any form of financial payments, services, loans, travel reimbursement, entertainment, hospitality, thing or promise from any entity doing business with or before the WTASC.
4. The *responsible parties* shall not use or attempt to use their official position with the WTASC to secure unwarranted privileges for themselves, members of their family or others, including employment with the WTASC or contracts for materials or services with the WTASC.
5. The *responsible parties* must conduct themselves at all times in a manner that avoids any appearance that they can be improperly or unduly influenced, that they could be affected by the position of or relationship with any third party, or that they are acting in violation of their public trust.

6. The *responsible parties* may not engage in any official transaction with an outside entity in which they have a direct or indirect financial interest that may reasonably conflict with the proper discharge of their official duties.

7. The *responsible parties* shall manage all matters within the scope of the Authority's mission independent of any other affiliations or employment. Directors, including ex officio board members, and employees employed by more than one government shall strive to fulfill their professional responsibility to the WTASC without bias and shall support the WTASC's mission to the fullest.

8. The *responsible parties* shall not use WTASC property, including equipment, telephones, vehicles, computers, or other resources, or disclose information acquired in the course of their official duties in a manner inconsistent with State or local law or policy and the WTASC's mission and goals.

9. The *responsible parties* are prohibited from appearing or practicing before the WTASC for two (2) years following employment with the WTASC, consistent with the provisions of Public Officers Law.

### **Implementation of the Code of Ethics**

This Code of Ethics shall be provided to all *responsible parties* upon commencement of performing their duties and shall be reviewed annually by the Board of Directors.

The board may designate an Ethics Officer, who shall report to the board and shall have the following duties:

Provide counseling in confidence to WTASC *responsible parties* who seek advice about ethical behavior.

Receive and investigate complaints about possible ethics violations.

Dismiss complaints found to be without substance.

Prepare an investigative report of the Ethics Officer findings for action by the board.

Record the receipt of gifts or gratuities of any kind received by the *responsible parties*, who shall notify the Board with 48 hours of receipt of such gifts and gratuities.

### **Penalties**

In addition to any penalty contained in any other provision of law, a *responsible party* who knowingly and intentionally violates any of the provisions of this code may be removed in the manner provided for in law, rules or regulations.

### **Reporting Unethical Behavior**

*Responsible parties* are required to report possible unethical behavior by a *responsible party* of the WTASC to the Ethics Officer. *Responsible parties* may file ethic complaints anonymously and are protected from retaliation by the WTASC.