



**WASHINGTON TOBACCO ASSET
SECURITIZATION CORPORATION (WTASC)**

Independent Auditors' Report

Financial Statements

Year Ended December 31, 2010



**Whittemore, Downen & Ricciardelli, LLP
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WASHINGTON TOBACCO ASSET
SECURITIZATION CORPORATION (WTASC)

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Washington Tobacco Asset
Securitization Corporation

We have audited the accompanying statement of financial position of Washington Tobacco Asset Securitization Corporation (WTASC), a component unit of Washington County, as of December 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the WTASC's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WTASC as of December 31, 2010, and the changes in its fund equity and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2011 on our consideration of WTASC's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

Whittemore, Downen & Ricciardelli, LLP

Whittemore, Downen & Ricciardelli, LLP

April 20, 2011

WASHINGTON TOBACCO ASSET
SECURITIZATION CORPORATION (WTASC)

Statement of Financial Position

December 31, 2010

| ASSETS | |
|-------------------------------------------------------------------|----------------------|
| Cash, checking | \$ 84,471 |
| Cash, restricted | 907,009 |
| Tobacco settlements receivable | 22,704,524 |
| Bond issuance costs (net of accumulated amortization of \$87,737) | <u>568,162</u> |
| Total Assets | <u>\$ 24,264,166</u> |
| LIABILITIES AND FUND EQUITY | |
| Accrued interest payable | \$ 57,953 |
| Other accrued expenses | 181 |
| Bonds payable - due in one year | 120,000 |
| Bonds payable - due in more than one year | 13,625,000 |
| Deferred revenue | <u>22,704,524</u> |
| Total Liabilities | <u>36,507,658</u> |
| Fund Equity (Deficit): | |
| Undesignated fund balance (deficit) | (13,150,501) |
| Reserved for debt | <u>907,009</u> |
| Total Fund Equity (Deficit) | <u>(12,243,492)</u> |
| Total Liabilities and Fund Equity | <u>\$ 24,264,166</u> |

See Auditors' Report and Notes

WASHINGTON TOBACCO ASSET
SECURITIZATION CORPORATION (WTASC)

Statement of Activities

Year Ended December 31, 2010

| | |
|--------------------------------------------|------------------------------|
| Revenues: | |
| Tobacco settlement revenues | \$ 820,193 |
| Interest income | <u>1,519</u> |
| Total Revenues | <u>821,712</u> |
| Expenses: | |
| Bond interest | 675,055 |
| Professional fees | 12,887 |
| Amortization of bond issuance costs | 16,397 |
| Insurance | <u>4,390</u> |
| Total Expenses | <u>708,729</u> |
| Excess of Revenues Over Expenses | 112,983 |
| Fund Equity (Deficit) at Beginning of Year | <u>(12,356,475)</u> |
| Fund Equity (Deficit) at End of Year | <u><u>\$(12,243,492)</u></u> |

See Auditors' Report and Notes

WASHINGTON TOBACCO ASSET
SECURITIZATION CORPORATION (WTASC)

Statement of Cash Flows

Year Ended December 31, 2010

| | |
|-------------------------------------------------------------------------------------------------------------------|-------------------|
| Cash Flows From Operating Activities: | |
| Excess of Revenues Over Expenses | \$ 112,983 |
| Adjustments to Reconcile Excess of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities: | |
| Amortization | 16,397 |
| Increase (Decrease) in Current Liabilities: | |
| Accrued interest payable | (407) |
| Other accrued expenses | <u>181</u> |
| Net Cash Provided (Used) by Operating Activities | <u>129,154</u> |
| Cash Flows From Financing Activities: | |
| Bond principal payments | <u>(110,000)</u> |
| Net Cash Provided (Used) by Financing Activities | <u>(110,000)</u> |
| Net Increase in Cash | 19,154 |
| Cash and Cash Equivalents at Beginning of Year | <u>972,326</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 991,480</u> |

See Auditors' Report and Notes

WASHINGTON TOBACCO ASSET
SECURITIZATION CORPORATION (WTASC)

Notes to Financial Statements

December 31, 2010

Summary of Significant Accounting Policies

Organization

Washington Tobacco Asset Securitization Corporation (WTASC) was incorporated in 2000 under the Not-for-Profit Law of the State of New York for the purpose of bonding the value of future receipts due Washington County, New York under the New York State Tobacco Settlement Agreement. WTASC sold bonds on December 7, 2000 and paid over the proceeds net of issuance costs to Washington County who used the funds to build a county jail. WTASC will pay off the bonds with future settlement payments and any residual amounts received under the settlement agreement. WTASC is a component unit of Washington County and is included as such in the County's general purpose financial statements.

Revenue Recognition

WTASC's primary source of revenue is from tobacco settlement receipts and investment income. They are recognized as revenue when such amounts are received or accruable. In accordance with Government Accounting Standards Board Statement #48, an estimate of the present value of the future tobacco settlement receipts has been recorded as a receivable with a corresponding deferred revenue.

Accounting Method

WTASC accounts for its transactions on the accrual method of accounting.

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

Income Taxes

WTASC is exempt from income taxes as a not-for-profit corporation under Tax Section 115 as determined by the Internal Revenue Service. Accordingly, these financial statements do not reflect a provision for income taxes.

Concentrations of Credit Risk

Financial instruments which potentially expose the organization to concentrations of credit risk consist primarily of short-term government securities. Management considers the credit risk to be immaterial to its operations.

WTASC had funds on deposit at local banks totaling \$84,471 at December 31, 2010. These deposits are fully insured by Federal Deposit Insurance Coverage.

Bond Issuance Costs

Bond issuance costs are being amortized over the maturity schedule of the bonds (40 years) beginning in 2005.

Cash Equivalents

For purposes of the statement of cash flows, WTASC considers all highly liquid debt instruments purchased with a maturity of 90 days or less to be cash equivalents.

WASHINGTON TOBACCO ASSET
SECURITIZATION CORPORATION (WTASC)

Notes to Financial Statements

December 31, 2010

Restricted Cash

A provision of the bonds issued by WTASC requires that an initial portion of the bond proceeds be set aside in a "Liquidity Reserve" account. A "Collections" account will receive the tobacco settlements. A "Debt Service Reserve" account will receive debt service deposits plus earnings on the liquidity reserve and other accounts.

The required amortization payments on the term bonds are made from the "Debt Service Reserve" account. As of December 31, 2010, these accounts are invested as follows:

| | Fair Market Value | Cost |
|---------------------------------|-------------------------|------------|
| U.S. Treasury Money Market Fund | \$ 907,009 | \$ 907,009 |

As the tobacco settlements are received, the bonds will be paid off and the unrestricted fund deficit will be eliminated.

Bonds Payable

In December 2000, WTASC issued \$11,160,000 in serial and term bonds for the purpose of funding the building of a county jail. These bonds would have been paid off with receipts from the New York Tobacco Settlement Agreement. On August 25, 2005, WTASC issued \$14,690,000 in bonds to refund the balance of the 2000 bonds. In June 2010, the remaining balance of \$9,050,000 on the defeased 2000 bonds was paid in full, leaving the outstanding balance as of December 31, 2010 at \$0.

Term bonds totaling \$14,690,000 were issued on August 25, 2005. The interest rates vary from 4.25% to 5%. The total debt service has been projected assuming that the tobacco settlement revenues will be at a level that allows the flexible amortization term bonds to be repaid by June 1, 2045. A summary of the future debt maturities follows:

| | Term Bonds | Interest | Total Debt Service |
|-----------|---------------|--------------|-----------------------|
| 2011 | \$ 120,000 | \$ 695,438 | \$ 815,438 |
| 2012 | 125,000 | 690,231 | 815,231 |
| 2013 | 135,000 | 684,706 | 819,706 |
| 2014 | 145,000 | 678,756 | 823,756 |
| 2015-2019 | 920,000 | 3,292,525 | 4,212,525 |
| 2020-2024 | 1,385,000 | 3,034,845 | 4,419,845 |
| 2025-2029 | 1,765,000 | 2,661,469 | 4,426,469 |
| 2030-2034 | 2,265,000 | 2,161,875 | 4,426,875 |
| 2035-2039 | 2,905,000 | 1,518,875 | 4,423,875 |
| 2040-2044 | 3,725,000 | 693,125 | 4,418,125 |
| 2045 | 255,000 | 21,000 | 276,000 |
| | \$13,745,000 | \$16,132,845 | \$29,877,845 |

WASHINGTON TOBACCO ASSET
SECURITIZATION CORPORATION (WTASC)

Notes to Financial Statements

December 31, 2010

Revenues Pledged in Connection With Debt

WTASC has pledged, as security for the above bonds, its future tobacco settlement revenues pursuant to the New York State Tobacco Settlement Agreement. For the current year, principal and interest paid by WTASC totaled \$785,055 as compared to its tobacco settlement revenues of \$820,193. To estimate the present value of the receivable for future tobacco settlement revenues, an average bond interest rate of 4.625% was used, compounded annually through the year 2042.

Subsequent Events

WTASC has evaluated all events through April 20, 2011, the date which these financial statements were available to be issued, and determined that there are no subsequent events which require disclosure.



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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*

To The Board of Directors
Washington Tobacco Asset
Securitization Corporation

We have audited the financial statements of Washington Tobacco Asset Securitization Corporation (WTASC), a component unit of Washington County, as of and for the year ended December 31, 2010, and have issued our report thereon dated April 20, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered WTASC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WTASC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the WTASC's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether WTASC's financial statements are free of 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*.

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

Whittemore, Downen & Ricciardelli, LLP

Whittemore, Downen & Ricciardelli, LLP

April 20, 2011