

**WYOMING TOBACCO ASSET  
SECURITIZATION CORPORATION**

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

*Basic Financial Statements and Required  
Supplementary Information for the  
Year Ended December 31, 2013  
And Independent Auditors' Reports*



**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
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**Year Ended December 31, 2013**

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*Certified Public Accountants*

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Wyoming Tobacco Asset Securitization Corporation

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Wyoming Tobacco Asset Securitization Corporation (the "WTASC"), a component unit of the County of Wyoming, New York, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the WTASC's basic financial statements as listed in the table of contents.

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

WTASC's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and, each major fund of WTASC, as of December 31, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 and the Budgetary Comparison Schedule – General Fund on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2014 on our consideration of WTASC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering WTASC's internal control over financial reporting and compliance.



March 26, 2014

**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2013**

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As management of the Wyoming Tobacco Asset Securitization Corporation ("WTASC"), a blended component unit of the County of Wyoming (the "County"), we offer readers of WTASC's financial statements this narrative overview and analysis of the financial activities of WTASC for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with additional information contained in the financial statements and notes to the financial statements.

**Financial Highlights**

- ◆ Total government-wide liabilities of WTASC exceeded government-wide assets by \$10,190,749 at December 31, 2013. This compares to total government-wide liabilities of WTASC exceeding government-wide assets by \$9,962,573 at December 31, 2012.
- ◆ WTASC's net position deteriorated by \$228,176, which increased its unrestricted deficit, for the year ended December 31, 2013. The increase in WTASC's unrestricted deficit was largely due to accreted interest costs coupled by declining tobacco sales.
- ◆ At the close of the current year, WTASC's governmental funds reported combined fund balances of \$760,754, an increase of \$27,523 in comparison with the prior year. Approximately 18.2% of this amount, \$138,406, is available for spending at WTASC's discretion (unassigned fund balance).

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the WTASC's basic financial statements. WTASC's basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of WTASC's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all WTASC's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of WTASC is improving or deteriorating.

The *statement of activities* presents information showing how 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.

The government-wide financial statements can be found on pages 8-9 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. WTASC, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Both of WTASC’s funds are classified as governmental funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

WTASC maintains two individual governmental funds, the General Fund and the Debt Service Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the both funds.

The basic governmental fund financial statements can be found on pages 10-12 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-22 of this report.

**Government-Wide Overall Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of WTASC, liabilities exceeded assets by \$10,190,749 at December 31, 2013, as compared to \$9,962,573 at December 31, 2012. Table 1, shown below, presents the condensed statements of net position for WTASC at December 31, 2013 and December 31, 2012.

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

	December 31,	
	2013	2012
Current assets	\$ 1,317,199	\$ 1,300,275
Total assets	<u>1,317,199</u>	<u>1,300,275</u>
Current liabilities	30,645	31,349
Noncurrent liabilities	<u>11,477,303</u>	<u>11,231,499</u>
Total liabilities	<u>11,507,948</u>	<u>11,262,848</u>
Net position	<u>\$ (10,190,749)</u>	<u>\$ (9,962,573)</u>

A portion of WTASC's net position, \$622,348, represents resources that are subject to external restrictions on how they may be used. The remaining net position is considered to be an unrestricted deficit.

At December 31, 2013, total WTASC assets were \$1,317,199; and, \$1,300,275 at December 31, 2012. The largest asset held by WTASC for both years was cash and cash equivalents. WTASC had no noncurrent assets at December 31, 2013 and December 31, 2012.

WTASC's liabilities totaled \$11,507,948 at December 31, 2013; and, \$11,262,848 at December 31, 2012. The largest portion of the liabilities is outstanding debt, net of discount, totaling \$11,477,303 and \$11,231,499 at December 31, 2013 and 2012, respectively.

**Governmental Activities.** During the current year, net position for governmental activities decreased \$228,178 from the prior fiscal year for an ending balance of \$(10,190,749). The statement of activities presents revenues received and expenses paid by WTASC. Presented as Table 2, is the condensed statement of activities for the years ended December 31, 2013 and 2012.

**Table 2—Condensed Statements of Activities**

	Year Ended December 31,	
	2013	2012
General revenues	\$ 557,678	\$ 496,253
Expenses—governmental activities	785,854	968,687
Change in net assets	(228,176)	(472,434)
Net position—beginning	(9,962,573)	(9,490,139)
Net position—ending	<u>\$ (10,190,749)</u>	<u>\$ (9,962,573)</u>

General revenues are received from the tobacco settlement and from investments. Expenses—governmental activities are associated with meeting debt service requirements and the administrative and maintenance costs associated with operating WTASC.

A summary of sources of revenues for the years ended December 31, 2013 and December 31, 2012 is presented below in Table 3.

**Table 3—Sources of revenues**

	Year Ended December 31,		Dollar Change	Percentage Change
	2013	2012		
Tobacco settlement revenues	\$ 557,496	\$ 496,053	\$ 61,443	12.4 %
Interest earnings	182	200	(18)	(9.0)%
Total revenues	<u>\$ 557,678</u>	<u>\$ 496,253</u>	<u>\$ 61,425</u>	12.4 %

For the year ended December 31, 2013, overall revenues increased by 12.4%, which was primarily due to an increase of tobacco settlement revenues.

The most significant source of revenue, for both years, was tobacco settlement revenues, which was 99.9% of total revenues for both years ended December 31, 2013 and 2012.

A summary of operating expenses for the years ended December 31, 2013 and December 31, 2012 is presented below in Table 4.

**Table 4—Operating expenses**

	Year Ended December 31,		Dollar	Percentage
	2013	2012	Change	Change
General government support	\$ 28,793	\$ 32,742	\$ (3,949)	(12.1)%
Interest and fiscal charges	757,061	935,945	(178,884)	(19.1)%
Total operating expenses	<u>\$ 785,854</u>	<u>\$ 968,687</u>	<u>\$ (182,833)</u>	(18.9)%

WTASC’s most significant expense items are interest and fiscal charges and general government support, which comprised 96.3% and 3.7%, respectively, of total expenses for the year ended December 31, 2013 and 96.6% and 3.4%, respectively, for the year ended December 31, 2012.

WTASC total operating expenses for the year ended December 31, 2013, decreased by 18.9% from the previous year. The decrease was primarily due to a decrease in interest and fiscal charges.

**Financial Analysis of Governmental Funds**

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

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

At December 31, 2013, WTASC’s governmental funds reported combined fund balances of \$760,754, an increase of \$27,523 in comparison with the prior year. Approximately 18.2% of this amount, \$138,406, constitutes unassigned fund balance, which is available for spending at WTASC’s discretion. The remainder of the fund balance, \$622,348, is restricted for restricted for debt service.

The General Fund is the chief operating fund of WTASC. At the end of the current fiscal year, total fund balance of the General Fund was unassigned fund balance in the amount of \$138,406. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total General Fund expenditures. Both unassigned fund balance and total fund balance represent approximately 400% of total General Fund expenditures.

The Debt Service Fund, the remaining major governmental fund, had an increase in fund balance during the current year of \$2,734 to bring the year end fund balance to \$622,348. The increase results from operating revenues outweighing expenditures during the current year. Tobacco settlement revenue in the

amount of \$568,095 was received and total investment and interest earnings of \$79 were collected. The total increase in fund balance from these two amounts is \$568,174. These revenues were offset by expenditures and transfers out totaling \$565,440.

### **Debt Administration**

**Long-Term Debt.** At the end of the current fiscal year, WTASC had Tobacco Settlement Bonds outstanding of \$5,660,000 and Subordinate Turbo CABs outstanding of \$5,817,303. During the year ended December 31, 2013, WTASC made principal payments of \$140,000 on its Tobacco Settlement Bonds and accreted interest of \$383,440 on its Subordinate Turbo CABs.

### **Request for Information**

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

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# **BASIC FINANCIAL STATEMENTS**



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**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
**Statement of Net Position**  
**December 31, 2013**

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	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 760,754
Due from New York State	<u>556,445</u>
Total assets	<u>1,317,199</u>
<b>LIABILITIES</b>	
Accrued interest payable	30,645
Non-current liabilities:	
Due within one year - bonds	815,000
Due within more than one year - bonds	<u>10,662,303</u>
Total liabilities	<u>11,507,948</u>
<b>NET POSITION</b>	
Restricted for debt service	1,178,793
Unrestricted	<u>(11,369,542)</u>
Total net position	<u><u>\$ (10,190,749)</u></u>

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

**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
**Statement of Activities**  
**Year Ended December 31, 2013**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expenses) and Changes in Net Position</u>
Governmental activities:			
General government support	\$ 28,793	\$ -	\$ (28,793)
Interest and fiscal charges	<u>757,061</u>	<u>-</u>	<u>(757,061)</u>
Total governmental activities	<u>\$ 785,854</u>	<u>\$ -</u>	<u>(785,854)</u>
General revenues:			
Interest earnings			182
Tobacco settlement revenues			<u>557,496</u>
Total general revenues			<u>557,678</u>
Change in net position			(228,176)
Net position—beginning			<u>(9,962,573)</u>
Net position—ending			<u>\$ (10,190,749)</u>

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

**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
**Balance Sheet—Governmental Funds and**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
**December 31, 2013**

	<b>General</b>	<b>Debt Service</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 138,406	\$ 622,348	\$ 760,754
Total assets	\$ 138,406	\$ 622,348	\$ 760,754
 <b>FUND BALANCES</b>			
Restricted for debt	\$ -	\$ 622,348	\$ 622,348
Unassigned	138,406	-	138,406
Total fund balances	138,406	622,348	760,754
Total liabilities and fund balances	\$ 138,406	\$ 622,348	760,754

Amounts reported for governmental activities in the statement of net position (page 8) are different because:

Other long-term assets representing amounts due from New York State, \$556,445, are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	556,445
Long-term liabilities, including bonds payable, accrued interest, and accumulated interest on capital appreciation bonds, are not due and payable in the current period and therefore are not reported in the funds.	(11,507,948)
Total net position—governmental activities	\$ (10,190,749)

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

**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended December 31, 2013**

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
<b>REVENUES</b>			
Tobacco settlement revenue	\$ -	568,095	\$ 568,095
Interest earnings	<u>103</u>	<u>79</u>	<u>182</u>
Total revenues	<u>103</u>	<u>568,174</u>	<u>568,277</u>
<b>EXPENDITURES</b>			
Current:			
General government support	18,927	9,866	28,793
Debt service:			
Principal	-	140,000	140,000
Interest	<u>-</u>	<u>371,961</u>	<u>371,961</u>
Total expenditures	<u>18,927</u>	<u>521,827</u>	<u>540,754</u>
Excess (deficiency) of revenues over expenditures	<u>(18,824)</u>	<u>46,347</u>	<u>27,523</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	43,613	-	43,613
Transfers out	<u>-</u>	<u>(43,613)</u>	<u>(43,613)</u>
Total other financing sources (uses)	<u>43,613</u>	<u>(43,613)</u>	<u>-</u>
Net change in fund balances	24,789	2,734	27,523
Fund balances—beginning	<u>113,617</u>	<u>619,614</u>	<u>733,231</u>
Fund balances—ending	<u>\$ 138,406</u>	<u>\$ 622,348</u>	<u>\$ 760,754</u>

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

**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**Year Ended December 31, 2013**

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Amounts reported for governmental activities in the statement of activities (page 9) are different because:

Net change in fund balances—total governmental funds (page 11)	\$ 27,523
Revenues providing current financial resources exceed the revenues reported in the statement of activities.	(10,599)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>(245,100)</u>
Change in net position of governmental activities	<u>\$ (228,176)</u>

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

**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
**Notes to the Financial Statements**  
**December 31, 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Wyoming Tobacco Asset Securitization Corporation (“WTASC”) have been prepared in conformity with accounting principles generally accepted in the United States of America applied to government units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of WTASC’s accounting policies are described below.

***Description of Government-Wide Financial Statements***

The government-wide financial statements (i.e., statement of net position and the statement of activities) report information on all the nonfiduciary activities of WTASC. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. WTASC reports no business-type activities.

***Reporting Entity***

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

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

The WTASC was incorporated for the purpose of issuing Pass-Through Bonds in order to provide funds to purchase from the County certain of the County’s right, title and interest under the Master Settlement Agreement (the “MSA”) and the Consent Decree and Final Judgment (the “Decree”) as described herein.

The MSA was entered into on November 23, 1998, among the attorneys general of 46 states (including New York), the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Territory of the Northern Marianas and for the four largest United States tobacco manufacturers: Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown and Williamson Tobacco Company and Lorillard Tobacco Company (collectively the “Original Participating Manufacturers” or “OPMs”) in settlement of certain smoking-related litigation and the Decree entered in New York Supreme Court, including the County’s right to receive certain initial and annual payments to be made by the OPMs under the MSA.

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

Subsequent to the initial sale of the bonds, the County has the right to receive net proceeds of future bond issuances and the revenues of WTASC that are in excess of WTASC's expenses, debt service and contractual obligations, pursuant to the Indenture. In the current year, there were no payments to the County resulting from these excess revenues.

In accordance with the Bond Indenture and to the extent contained in the MSA Report, as of the next distribution date, three trapping events have occurred. One is still occurring, while the others, the NPM Trapping Event and the Downgrade Trapping Event as defined in the Bond Indenture and the Official Statement, respectively, are no longer occurring.

A Consumption Decline Trapping Event occurs when shipments of cigarettes in or to the 50 United States, the District of Columbia and Puerto Rico as measured under the MSA, are less in any year preceding a deposit date than the amount opposite such year under the "Consumption Decline Trapping Event" definition, which number for the year 2012 is 292,716,107,931. According to the MSA Report, the amount shown as relevant shipments for the year 2012 was less than the shipment amount specified above, and therefore, a Consumption Decline Trapping Event has occurred.

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

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

### ***Basis of Presentation – Government-Wide Financial Elements***

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds.

### ***Basis of Presentation – Fund Financial Statements***

The fund financial statements provide information about WTASC's funds, and separate statements for governmental funds are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column in the fund financial statements.

WTASC reports the following major governmental funds:

- *General Fund*— This fund is WTASC's primary operating fund. It accounts for all financial resources associated with WTASC except for those accounted for in another fund.
- *Debt Service Fund*— This fund is used to account for the accumulation of resources that are restricted for the payment principal and interest on long-term obligations of governmental funds.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

### ***Measurement Focus and Basis of Accounting***

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Tobacco settlement revenues are exchange transactions, based on the notion that the payments are made to the settling states in exchange for their agreement to release the tobacco companies from present and future litigation. Under the terms of the MSA, the tobacco companies have agreed to make annual payments in perpetuity. The MSA includes a schedule of projected annual base payments, subject to certain adjustments based on future events or circumstances. The most significant factor affecting the annual payments is a *volume adjustment*, which creates a direct relationship between domestic shipments of cigarettes and the annual payments. Based on the MSA, the tobacco companies have no obligation to make settlement payments until cigarettes are shipped.

The event that results in the recognition of an asset and revenue by a settling government is the domestic shipment of cigarettes (sales). Therefore, the County recognizes a receivable and revenue for tobacco settlement revenues when that event occurs. Because annual tobacco settlement revenue

payments are based on cigarette sales from the preceding calendar year, the County estimates accrued tobacco settlement revenues that derive from sales from January 1 to their respective fiscal year ends. Under the modified accrual basis of accounting, revenue should be recognized to the extent that the event occurs and resources become *available*.

The governmental fund statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, WTASC considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when the payment is due. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

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

***Cash and cash equivalents***—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date acquired by WTASC.

***Investments***—Investments for WTASC are reported at fair value (generally based on quoted market prices). At December 31, 2013, WTASC does not report any investments.

***Deferred outflows/inflows of resources***—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

WTASC does not have any deferred outflows or inflows of resources at December 31, 2013.

***Net position flow assumption***—Sometimes WTASC will fund outlays for a particular purpose from both restricted (e.g., restricted bond proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which

the resources are considered to be applied. It is WTASC's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

***Fund balance flow assumption***—Sometimes WTASC will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. If WTASC must use funds for emergency expenditures it shall expend funds first from funds classified under GASB as nonspendable (if funds become available) then restricted funds. The use of committed and assigned funds as classified by GASB will occur after the exhaustion of available restricted funds. Finally, if no other fund balances are available WTASC will use unassigned fund balance.

***Fund balance policies***—Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. WTASC itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of WTASC's highest level of decision-making authority (WTASC Board). The governing board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing board (WTASC Board) has by resolution authorized the President to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

### ***Revenues and Expenditures/Expenses***

***Program and General Revenues***—Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. Items not properly included among program revenues are reported instead as *general revenues*.

***Expenditures/Expenses***—Expenditures are recorded on a modified accrual basis of accounting. Payments to the County are recorded when the obligation is incurred. General administration costs consist of operating expenses for professional service fees and are paid from General Fund revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Indirect expenses have been included as part of the program expenses reported for the various functional activities.

### ***Reconciliation of Government-Wide and Fund Financial Statements***

***Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position***—The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. The one element of that reconciliation explains that “long-term liabilities, including bonds payable, accrued interest, and accumulated interest on capital appreciation bonds, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$11,507,948 difference are as follows:

Tobacco Settlement bonds payable	\$ 5,660,000
Subordinate Turbo CABs payable, net	5,817,303
Accrued interest payable	<u>30,645</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u>\$ 11,507,948</u>

***Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities***—The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. The one element of that reconciliation states that “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statements of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.” The details of this \$245,100 difference are as follows:

Debt issued or incurred:	
Accreted interest on subordinate Turbo CABs	\$ 383,440
Change in accrued interest payable	(704)
Amortization of bond discount	2,364
Principal repayments:	
Tobacco settlement bonds	<u>(140,000)</u>
Net adjustment to decrease <i>changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 245,100</u>

### ***Stewardship, Compliance and Accountability***

***Adoption of New Accounting Pronouncements***—During the year ended December 31, 2013, WTASC implemented GASB Statements No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, and No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. GASB Statement No. 61 clarifies the manner in determining whether or not an organization should be included as a component unit, and GASB Statement No. 66 improves accounting and financial reporting for a governmental entity by resolving conflicting guidance that resulted from the issuance of Statement No. 54, *Fund Balance Reporting*

and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. GASB Statements No. 61 and No. 66 did not have a material impact on WTASC’s financial position or results from operations.

**Future Impacts of Accounting Pronouncements**—WTASC has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*; No. 69, *Government Combinations and Disposals of Government Operations*; and No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the year ending December 31, 2014; and No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*; and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—and amendment of GASB Statement No. 68*, effective for the year ending December 31, 2015. WTASC is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 67, 68, 69, 70 and 71 will have on its financial position and results of operations.

## 2. CASH AND CASH EQUIVALENTS

At December 31, 2013, WTASC’s cash was insured by either the Federal Depository Insurance Corporation (“FDIC”) or collateralized by securities held in the pledging bank’s trust department in WTASC’s name. WTASC’s investment policy provides for eligible investments in defeasance collateral, obligations of FHLMC, FNMA, or the Federal Farm Credit System, demand and time deposit accounts and certificates of deposit, general obligations of states and guaranteed state obligations, commercial or finance company paper, repurchase obligations, corporate securities bearing interest or sold at discount, taxable money market funds, investment agreements or guaranteed investment contracts, and other obligations or securities that are non-callable.

At December 31, 2013, WTASC’s cash and cash equivalents consisted of the following:

Description	Fair Value at 12/31/2013
Cash and cash equivalents:	
Cash on deposit	\$ 138,406
Treasury money market funds	622,348
	<u>\$ 760,754</u>

**Deposits** – All deposits including cash in bank and certain investments (i.e. certificates of deposit) are carried at fair value.

	Carrying Amount	Bank Balance
Insured (FDIC)	<u>\$ 138,406</u>	<u>\$ 138,406</u>
Total	<u>\$ 138,406</u>	<u>\$ 138,406</u>

**Investments** – Investments include money market accounts which are considered to be cash equivalents. Investments are carried at fair value.

**Custodial credit risk – deposits** – Custodial credit risk is the risk that in the event of a bank failure, WTASC’s deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2013, the WTASC’s deposits were FDIC insured or collateralized.

**3. RECEIVABLES**

**Due from New York State** —Represents amounts owed to WTASC for tobacco settlement revenue earned in 2013. WTASC has accrued \$556,445 within governmental activities only, as it is not recognized on the modified accrual basis of accounting.

**4. LONG-TERM LIABILITIES**

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

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

The payment of the Series 2000 and 2005 Bonds is dependent on the receipt of TSRs. The amount of TSRs actually collected is dependent on many factors including cigarette consumption and the continued operations of the OPMs. Such bonds are secured by and payable solely from TSRs and investment earnings pledged under the Bond Indenture and amounts established and held in accordance with the Bond Indenture.

In the event sufficient funds are not available to meet Planned Payment Maturities, Rated Maturity dates will be used.

Changes in bonds payable for the Tobacco Settlement Bonds, Series 2000 for the year ended December 31, 2013 are as follows:

Description	Year of Maturity	Yield	Beginning Balance 1/1/2013	Additions	Deletions	Ending Balance 12/31/2013
Tobacco Settlement Bonds:						
Series 2000	2042	various	\$ 5,800,000	\$ -	\$ 140,000	\$ 5,660,000

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

Year ended December 31,	Principal	Interest	Total
2014	\$ 815,000	\$ 342,111	\$ 1,157,111
2015	310,000	306,646	616,646
2016	335,000	286,003	621,003
2017	345,000	264,073	609,073
2018	445,000	238,648	683,648
2019-2023	2,645,000	710,935	3,355,935
2024-2028	<u>765,000</u>	<u>34,616</u>	<u>799,616</u>
Total	<u>\$ 5,660,000</u>	<u>\$ 2,183,031</u>	<u>\$ 7,843,031</u>

*Subordinate Turbo CABs*—Interest on the Subordinate Turbo CABs is compounded semiannually on June 1 and December 1, but is not payable until bond maturity. Interest accretes until both principal and accreted interest are paid. Future interest accretion has been recorded as bond discount and amortized as the current interest accretes. The accreted interest on the Subordinate Turbo CABs is reflected within the Subordinate Turbo CABs payable liability.

A summary of the Subordinate Turbo CABs net bond balance activity for the year ended December 31, 2013 is presented below:

	Interest Rate	Original Principal	Beginning Balance 1/1/2013	Annual Net Interest Accretion	Turbo Redemption Payments	Ending Balance 12/31/2013
Subordinate	6.00% -					
Turbo CABs	7.85%	\$ 3,524,499	\$ 5,514,752	\$ 383,440	\$ -	\$ 5,898,192
Less:						
Bond discount		<u>(99,804)</u>	<u>(83,253)</u>	<u>-</u>	<u>(2,364)</u>	<u>(80,889)</u>
Net Subordinate Turbo CABs		<u>\$ 3,424,695</u>	<u>\$ 5,431,499</u>	<u>\$ 383,440</u>	<u>\$ (2,364)</u>	<u>\$ 5,817,303</u>

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

Redemption of the Subordinate Turbo CABs as outlined in the original official statement totaled \$17,458,995 and is scheduled to be paid from 2015 through 2039, while early payment is allowed. During the year ended December 31, 2012, WTASC did not make any redemption payments. Any debt service amounts not paid in accordance with the Turbo Redemption Payments schedule will be due and payable on the following maturity dates:

Series 2005 S1	June 1, 2038
Series 2005 S2	June 1, 2050
Series 2005 S3	June 1, 2055
Series 2005 4B	June 1, 2060

## 5. NET POSITION AND FUND BALANCE

The government-wide financial statements utilize a net position presentation. Net position is categorized as restricted and unrestricted components.

- ◆ ***Restricted for Debt Service***—This category restricts a portion of net position for payment of the debt service obligations of WTASC. At December 31, 2013, the balance of this restriction was \$1,178,793.
- ◆ ***Unrestricted Component of Net Position***—This component represents net position of WTASC not restricted for any other purpose.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. At December 31, 2013, WTASC reported \$622,348 of fund balance restricted for debt service that must be used toward the future repayment of bonded debt.

As of December 31, 2013, WTASC reported no nonspendable, committed, or assigned fund balances.

## 6. CONTINGENCIES

The ability of the Corporation to meet debt service payments of bonds is contingent upon the receipt of TSRs. TSRs are principally dependent upon future levels of domestic consumption. A significant decline in the overall consumption of cigarettes could have a material adverse effect on the payments by the OPMs under the MSA and the amounts available to WTASC to make payments of principal and interest on their bonds.

Certain smokers, smokers' rights organizations, consumer groups, cigarette importers, cigarette distributors, cigarette manufacturers, Native American tribes, taxpayers, taxpayers' groups and other parties have filed actions against some, and in certain cases all, of the signatories to the MSA. In the event of an adverse court ruling in such types of litigation, Bondholders could incur a complete loss of their investment.

Additionally, the OPM's are also exposed to liability from various lawsuits including individual lawsuits, class action lawsuits and health care cost recovery litigation. Ultimately, the outcome of these and any other pending or future lawsuits is uncertain. One or more adverse judgment could result in delays in, or reductions of amounts available for, payments on the bonds.

## 7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 26, 2014, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

\* \* \* \*

**WYOMING TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A Component Unit of the County of Wyoming, New York)**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended December 31, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues</b>				
Interest	\$ -	\$ -	\$ 103	\$ 103
Total revenues	<u>-</u>	<u>-</u>	<u>103</u>	<u>103</u>
<b>Expenditures</b>				
General government support	48,961	48,961	18,927	30,034
Total expenditures	<u>48,961</u>	<u>48,961</u>	<u>18,927</u>	<u>30,034</u>
Deficiency of revenues under expenditures	<u>(48,961)</u>	<u>(48,961)</u>	<u>(18,824)</u>	<u>30,137</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	48,961	48,961	43,613	(5,348)
Total other financing sources	<u>48,961</u>	<u>48,961</u>	<u>43,613</u>	<u>(5,348)</u>
Net change in fund balances	-	-	24,789	24,789
Fund balances - beginning	93,302	93,302	113,617	20,315
Fund balances - ending	<u>\$ 93,302</u>	<u>\$ 93,302</u>	<u>\$ 138,406</u>	<u>\$ 45,104</u>

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**INDEPENDENT AUDITORS' 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  
Wyoming 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 governmental activities and each major fund of Wyoming Tobacco Asset Securitization Corporation ("WTASC") as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise WTASC's basic financial statements, and have issued our report thereon dated March 26, 2014.

**Internal Control Over Financial Reporting**

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature of Duesch & Melchior LLP

March 26, 2014