

BROOME TOBACCO ASSET
SECURITIZATION CORPORATION

(A Component Unit of the
County of Broome, New York)

Basic Financial Statements

December 31, 2014

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Broome Tobacco Asset Securitization Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund information of Broome Tobacco Asset Securitization Corporation (the Corporation), a component unit of the County of Broome, as of and for the year ended December 31, 2014, and the related notes to financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

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.

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 fund information of the Broome Tobacco Asset Securitization Corporation as of December 31, 2014 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 16, 2015, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the Corporation's internal control over financial reporting and compliance.

Toski & Co., CPAs, P.C.

Williamsville, New York
March 16, 2015

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)

Management's Discussion and Analysis

December 31, 2014

This section of Broome Tobacco Asset Securitization Corporation's (the Corporation) basic financial statements presents the discussion and analysis of the Corporation's financial performance during 2014. It should be read in conjunction with the financial statements and their associated notes which follow this section to properly evaluate the Corporation's financial position. The financial statements present only the information for the year ended December 31, 2014.

The Basic Financial Statements

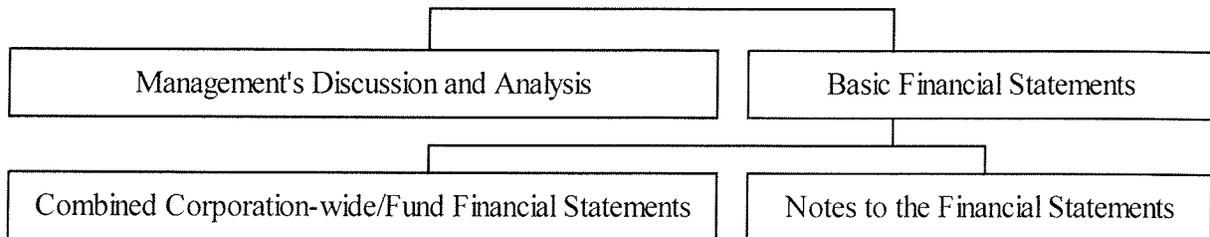
This Financial Report consists of two parts, Management's Discussion and Analysis and the basic financial statements with accompanying notes. The basic financial statements of the Corporation are presented as a special purpose corporation engaged in a single governmental program. The Corporation-wide and fund financial statements are presented in a combined format. Although combined, the basic financial statements present two different views of the Corporation.

The first column of each statement presents the fund financial statement view. This shows how the Corporation's activities were financed in 2014, as well as what resources remain to fund future activities. Its presentation uses the accounting methods traditionally associated with Governmental Fund, the current resource measurement focus and modified accrual basis of accounting.

The third column of each of the statements presents the Corporation-wide statement view. It provides both short-term and long-term information about the Corporation's overall financial position. This presentation uses accounting methods similar to those employed by for-profit companies in the private sector, the economic resource measurement focus and full accrual.

The second column of each of the statements presents adjustments necessary to reconcile the differences between the two statement views. The notes to the basic financial statements are referenced to provide further explanation of adjustments, when appropriate.

Components of the Corporation's Annual Financial Report



BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Management's Discussion and Analysis, Continued

	Corporation-wide Statement Column	Fund Financial Statement Column
Scope	Entire Corporation	Corporation activities that are not proprietary or fiduciary
Required financial statements	<ul style="list-style-type: none"> ◆ Statement of net position ◆ Statement of activities 	<ul style="list-style-type: none"> ◆ Balance sheet ◆ Statement of revenue, expenses, and changes in fund balances
Accounting basis	Accrual	Modified Accrual
Measurement focus	Economic resources	Current financial resources
Asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Assets expected to be used and liabilities due during the year or soon thereafter, no capital assets are included
Inflow/outflow information	All revenue and expenses during the year, regardless of when cash is received or disbursed	Revenue for which cash is received during the year or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter

Fund Financial Statement Column

The fund financial statement column provides more information about the Corporation's major fund. Funds are self-balancing groups of accounts used to keep track of specific sources of funds and spending for particular purposes.

The Corporation is presented as a Governmental Fund, which focuses on how money flows into and out of the fund. Fund balance remaining at the end of the year is available to be spent in subsequent fiscal years. The fund is reported using the modified accrual method of accounting. This method, emphasizing sources and uses of resources, measures cash and other financial assets that can be converted to cash. The fund financial statement column therefore provides a detailed short-term view of the Corporation.

Because this information does not include the long-term focus of the Corporation-wide statements, an adjustment column is provided reconciling and explaining the relationship and differences between them.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Management's Discussion and Analysis, Continued

Corporation-wide Statement Column

The Corporation-wide statement column reports information about the Corporation as a whole. The column includes all of the Corporation's assets and liabilities. All of the current year's revenue and expenses are reported, regardless of when the cash itself is actually received or paid.

The Corporation-wide statement column reports the Corporation's net position and how they have changed. Net position, the difference between the assets and liabilities, provide a way to assess the Corporation's financial health or position. Over time, increases or decreases in net position are an indicator of whether the Corporation's financial position is either improving or deteriorating, respectively.

Financial Analysis of the Corporation as a Whole

Prior year data on the Corporation-wide level is presented in the Management's Discussion and Analysis only, for a comparative analysis of the data.

The focus of our analysis will be the net position and related changes as presented in the following tables.

Condensed Schedule of Net Position
(in millions)

	<u>Governmental Activities and Total Corporation</u>		<u>Percent Change</u>
	<u>2013</u>	<u>2014</u>	<u>2013-2014</u>
Cash, cash equivalents, and investments	\$ 4.0	4.0	0.0%
Other assets	<u>3.1</u>	<u>3.2</u>	3.2%
Total assets	<u>7.1</u>	<u>7.2</u>	1.4%
Long-term debt outstanding	67.7	68.4	1.0%
Other liabilities	<u>0.2</u>	<u>0.2</u>	0.0%
Total liabilities	<u>67.9</u>	<u>68.6</u>	1.0%
Restricted	7.1	7.2	1.4%
Unrestricted (deficit)	<u>(67.9)</u>	<u>(68.6)</u>	1.0%
Total net position (deficit)	<u>(60.8)</u>	<u>(61.4)</u>	1.0%

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Management's Discussion and Analysis, Continued

The deficit in net position increased from \$(60.8) million at the end of 2013 to \$(61.4) million at the end of 2014. This 1.0% deterioration resulted from an increase in long-term liabilities due to accreted interest being more than the amount of principal paid in the year.

The increase in the long-term liabilities substantially accounts for the increase in the deficit. This increase is due to accreted interest exceeding the amount of debt principal paid in 2014. Other assets increased slightly due to an increase in anticipated tobacco revenue receipts to be received under the Master Settlement Agreement.

Condensed Changes in Net Position
(in millions)

	<u>Governmental Activities and Total Corporation</u>		<u>Percent Change</u>
	<u>2013</u>	<u>2014</u>	<u>2013-2014</u>
Revenue:			
Tobacco settlement	\$ 3.1	3.7	19.4%
Interest income	<u>0.2</u>	<u>0.2</u>	0.0%
Total revenue	<u>3.3</u>	<u>3.9</u>	18.2%
Expenses:			
Debt service	4.2	4.4	4.8%
Other	<u>-</u>	<u>0.1</u>	N/A
Total expenses	<u>4.2</u>	<u>4.5</u>	7.1%
Decrease in net position	<u>(0.9)</u>	<u>(0.6)</u>	-33.3%
Beginning of the period net position	<u>(59.9)</u>	<u>(60.8)</u>	1.5%
End of period net position	<u><u>\$ (60.8)</u></u>	<u><u>(61.4)</u></u>	1.0%

Net position decreased due to interest accretion exceeding the reduced interest on bonds being paid. The position decrease was less than last year due to increased tobacco settlement revenues.

Financial Analysis of the Corporation's Funds

Fund Balances

Total net fund balance remained constant increasing only \$455.

Long-Term Debt Activity

The corporation paid \$3.718 million in total debt service in 2014 consisting of principal of \$1.485 million and interest of \$2.233 million. The balance at the end of 2014 was \$68.4 million with the increase being due to accreted interest.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Management's Discussion and Analysis, Continued

Contacting the Corporation's Financial Management

This financial report is designed to provide our citizens and investors with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the monies it administers. For questions about this report and requests for additional information, contact the Broome Tobacco Asset Securitization Corporation at the Edwin L. Crawford Office Building, P.O. Box 1766, Binghamton, New York, 13902. The Corporation also has a website at www.BroomeTASC.com.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Governmental Fund Balance Sheet/Statement of Net Position
December 31, 2014

	<u>Debt Service Fund</u>	<u>Adjustments (note 5)</u>	<u>Governmental Activities Statement of Net Position</u>
<u>Assets</u>			
Current assets:			
Cash and equivalents	\$ 69,533	-	69,533
Prepaid expense	3,358	-	3,358
Total current assets	72,891	-	72,891
Restricted assets:			
Cash and equivalents	735,558	-	735,558
Investments	3,234,022	-	3,234,022
Tobacco settlement receivable	-	3,200,000	3,200,000
Total restricted assets	3,969,580	3,200,000	7,169,580
Total assets	<u>\$4,042,471</u>	<u>3,200,000</u>	<u>7,242,471</u>
<u>Liabilities</u>			
Liabilities:			
Accrued interest	-	175,879	175,879
Long-term liabilities:			
Due within one year	-	3,441,199	3,441,199
Due after one year	-	65,003,805	65,003,805
Total liabilities	-	68,620,883	68,620,883
<u>Fund Balance/Net Position</u>			
Reserved for debt service	3,969,580	(3,969,580)	-
Unreserved - undesignated	72,891	(72,891)	-
Total fund balance	4,042,471	(4,042,471)	-
Total liabilities and fund balances	<u>\$4,042,471</u>	<u>64,578,412</u>	
Net position (deficit):			
Restricted for debt service		7,169,580	7,169,580
Unrestricted (deficit)		(68,547,992)	(68,547,992)
Total net position (deficit)		<u>\$(61,378,412)</u>	<u>(61,378,412)</u>

See accompanying notes to financial statements.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Statement of Governmental Fund Revenue, Expenditures,
and Changes in Fund Balance/Statement of Changes in Net Position
Year ended December 31, 2014

	Debt Service Fund	Adjustments (note 6)	Governmental Activities Statement of Changes in Net Position
General revenues:			
Tobacco settlement revenues	\$ 3,538,835	100,000	3,638,835
Interest income	<u>221,717</u>	<u>-</u>	<u>221,717</u>
Total general revenues	<u>3,760,552</u>	<u>100,000</u>	<u>3,860,552</u>
Expenditures/expenses:			
General and administrative	42,022	-	42,022
Amortization of bond discount	-	13,801	13,801
Debt service:			
Principal	1,485,000	(1,485,000)	-
Interest	<u>2,233,075</u>	<u>2,164,499</u>	<u>4,397,574</u>
Total expenditures/expenses	<u>3,760,097</u>	<u>693,300</u>	<u>4,453,397</u>
Change in net position	455	(593,300)	(592,845)
Fund balances/net position (deficit):			
Beginning of year	<u>4,042,016</u>	<u>(64,827,583)</u>	<u>(60,785,567)</u>
End of year	<u>\$ 4,042,471</u>	<u>(65,420,883)</u>	<u>(61,378,412)</u>

See accompanying notes to financial statements.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)

Notes to Financial Statements

December 31, 2014

(1) Summary of Significant Accounting Policies

(a) Financial Reporting Entity

Broome Tobacco Asset Securitization Corporation (“the Corporation”) is a special purpose, bankruptcy-remote local development corporation organized under the Not-For-Profit Corporation Law of the State of New York (the “State”). The Corporation was established on June 21, 2001, however there were no substantive operations until July 15, 2001 as discussed herein. The Corporation is an instrumentality of, but separate and apart from the County of Broome, New York (the “County”). The Corporation has five directors, including the County Executive, the County Director of the Office of Management and Budget, the Chairman of the County Legislature, the Minority Leader of the County Legislature and one independent director. Although legally separate from the County, the Corporation is a component unit of the County, and accordingly, is included in the County’s financial statements as a component unit.

On July 15, 2001, pursuant to a Purchase and Sale Agreement with the County, the County sold to the Corporation all of its future right, title and interest in the Tobacco Settlement Revenues (the “TSRs”) under the Master Settlement Agreement (the “MSA”) and the Decree and Final Judgment (the “Decree”). The MSA resolved cigarette smoking related litigation between the settling states and the Participating Manufacturers (the “PMs”), released the PMs from past and present smoking-related claims, and provides for a continuing release of future smoking-related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future rights, title and interest of the County’s share were sold to the Corporation.

The purchase price of the County’s future right, title and interest in the TSRs has been financed by the issuance of serial bonds. A Residual Certificate exists which represents the entitlement to receive all amounts required to be distributed after the payment of debt service, operating expenses and certain other costs as set forth in the indenture. Payments on the Residual Certificate from TSR collections are subordinate to payments on the bonds and payment of certain other costs specified in the indenture. Excess TSRs not required by the Corporation to pay various expenses, debt service or required reserves with respect to the bonds are transferred to the Broome County Tax Stabilization Trust (the “Trust”), as owner of the Residual Certificate. The County is the beneficial owner of the Trust and thus the funds received by the Trust will ultimately transfer to the County.

In 2005 subordinate serial bonds were issued. No payments will be made with respect to principal or interest of the series 2005 bonds until amounts currently due on the Senior Bonds (series 2001) have been paid and Senior Indenture Requirements have been satisfied.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(b) Basis of Presentation

The Corporation operates as an instrumentality of, but separate from the County. The Corporation is included in the County's reporting entity because four of its five directors are officials of the County and because it exists solely for the benefit of the County. The Corporation is a component unit presented as the County's Debt Service Fund.

The Corporation uses one Governmental Fund to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and aid financial management by segregating transactions related to certain functions and activities. The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on long-term debt and supports the operations of the Corporation.

(c) Basis of Accounting

The Corporation follows the modified accrual basis of accounting in its Debt Service Fund, which focuses on changes in available resources, in preparation of the fund financial statements. Under the modified accrual basis of accounting, revenue and related receivables are recorded in the accounting period that they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay the liabilities of the current period (ninety days or less). Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recognized as expenditures to the extent they have matured.

General administration expenditures are direct costs incurred by the Corporation, such as legal and auditing fees, financial advisory fees, printing costs, trustee fees and other related costs. General administration expenditures are paid either from TSR's.

The Corporation utilizes the full accrual basis of accounting, which focuses on changes in total economic resources, in preparation of the Corporation-wide financial statements. Under the full accrual basis of accounting, changes in long-term assets and liabilities are incorporated into the financial statements and revenues and expenses are recorded based on the timing of the underlying transaction without regard for the timing of cash flows. Because the fund financial statements are prepared on a different measurement focus and basis of accounting than the Corporation-wide financial statements, an adjustments column is presented to transform the fund based financial statements into the Corporation-wide financial statements.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Net Position

Resources are classified for accounting purposes into applicable net position categories. The Corporation has both restricted and unrestricted net position.

Net position is reported as restricted when constraints placed on asset use are either externally imposed by creditors, grantors, contributions, or law or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. Restricted net position of the Corporation is those assets that are restricted based on externally imposed conditions.

Unrestricted net position is considered all other assets that are not restricted and may be internally designated.

The Corporation has adopted a practice of generally utilizing their restricted net position when available, prior to unrestricted net position.

(e) Cash, Cash Equivalents, and Investments

The Corporation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(f) Interest Expenditures/Expense

The Corporation recognizes all interest paid as interest expenditures for the statement of Governmental Fund revenue, expenditures and changes in fund balance, and as expenses as incurred on the full accrual basis for the statement of activities.

(g) Amortized Bond Discounts

The Corporation recognizes bond discounts fully in the year of issuance for the Governmental Fund statements. Bond discounts are deferred and amortized over the life of the related bonds for the Corporation-wide statements.

(h) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America require the Corporation's management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

(i) Tax Status

The Corporation received a letter of opinion from its counsel dated August 8, 2001, stating that the Corporation is exempt from federal income tax under section 115(1) of the Internal Revenue Code.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)

Notes to Financial Statements, Continued

(2) Cash, Cash Equivalents and Investments

The Corporation's cash and cash equivalents, including restricted amounts, consist of bank deposits and short term liquid debt instruments held by the Corporation's agent in the Corporation's name. At December 31, 2014, total cash and equivalents aggregated \$805,091, and the Corporation's bank balance totaled \$805,091.

The Corporation's trustee holds investments for the funds included in the basic financial statements. The Corporation invests in authorized investments as described in the bond resolution including: commercial paper or finance company paper rated "P-1" by Moody's; special time deposit accounts; certificates of deposit; obligations of the United States of America; obligations guaranteed by agencies of the United States of America; obligations of the State of New York; obligations issued pursuant to Local Finance Law Sect. 24.00 or 25.00 (with approval of the State Comptroller) by any municipality, school district or district corporation other than the County of Broome, obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where general State statutes governing such entities or whose specific enabling legislation authorizes such investments; and repurchase agreements limited to obligations of the United States of America and obligations guaranteed by agencies of the United States of America.

All deposits of the Corporation, including money market deposits, are insured under the provisions of the Federal Deposit Insurance Act. Excess deposits are not secured.

Credit Risk - The General Electric commercial paper has an original maturity of six months.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Corporation investment in commercial paper (\$3,234,022) is held by the counter party in the Corporation's name and is not insured.

Concentration of Credit Risk - The Corporation places no limit on the amount that it may invest in any one issuer. The entire amount of the Corporation's investments is in General Electric commercial paper. This investment has an original maturity of six months.

Interest Rate Risk - The Corporation does not have a formal investment policy limiting investment maturities as a means of managing its exposure to fair value losses arising from interest rates.

As of December 31, 2014 the Corporation's investments were as follows:

<u>Investment</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Fair Value</u>
General Electric - Commercial Paper	06/01/15	5.57%	\$ <u>3,234,022</u>

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Notes to Financial Statements, Continued

(3) Long-Term Liabilities

As discussed in note 1, the purchase price of the County's future right, title and interest in the TSRs was financed through the issuance of Series 2001 Bonds in the amount of \$50,620,000, bearing interest rates ranging from 5.00% to 6.00% and Series 2005 Bonds in the amount of \$17,654,335, bearing interest rates from 6.00% to 7.85% with a final maturity date of June 1, 2060. The Bonds are secured by a perfected security interest in, and pledge of, the Trust Estate, as defined in the Indenture, which includes, among other things, the TSRs and all investment earnings on amounts on deposit in the accounts established under the Indenture (collectively, the Collections). Among the accounts so established are the Liquidity Reserve Account and the Trapping Account. The Corporation retains TSRs in an amount sufficient to service its debt not otherwise provided for from bond proceeds, and pay its operating expenses, and remits the remaining balance to the Trust (note 1).

Bonds payable activity for the year ended December 31, 2014 was as follows:

	Balance at December 31, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance at December 31, <u>2014</u>	Due Within <u>One Year</u>
Bonds payable	\$ 56,345,482	-	(1,485,000)	54,860,482	3,455,000
Accreted interest	11,804,036	2,166,911	-	13,970,947	-
Unamortized bond discount	<u>(400,226)</u>	<u>-</u>	<u>13,801</u>	<u>(386,425)</u>	<u>(13,801)</u>
Total	\$ <u>67,749,292</u>	<u>2,166,911</u>	<u>(1,471,199)</u>	<u>68,445,004</u>	<u>3,441,199</u>

The Corporation's various long-term debt obligations payable at December 31, 2014 are comprised of the following individual issues:

Series 2001 Bonds

<u>Year Ended December 31,</u>	<u>Nonflexible Principal</u>	<u>Flexible Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 500,000	2,955,000	2,098,738	5,553,738
2016	570,000	1,195,000	1,953,809	3,718,809
2017	-	1,855,000	1,850,928	3,705,928
2018	-	2,355,000	1,732,522	4,087,522
2019	-	2,480,000	1,596,538	4,076,538
2020 - 2024	-	14,795,000	5,636,125	20,431,125
2025 - 2028	<u>-</u>	<u>11,915,000</u>	<u>1,159,056</u>	<u>13,074,056</u>
Total	<u>\$ 1,070,000</u>	<u>37,550,000</u>	<u>16,027,716</u>	<u>54,647,716</u>

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)

Notes to Financial Statements, Continued

(3) Long-Term Liabilities, Continued

Nonflexible maturities for these bonds represent the minimum amount of principal the Corporation must pay as of the specific dates in order to avoid a default. The flexible amortization payments represent the additional amount of principal and interest the Corporation has covenanted to pay to the extent of available TSRs collected. The Corporation is currently making all nonflexible payments and a portion of the flexible principal payment to the extent of the TRSs collected. That unpaid portion of the flexible principal payment is able to be paid from subsequent TSRs as has is added to the following year's scheduled flexible principal payment amount.

The Series 2005 Bonds are capital appreciation bonds, upon which the investment return on the initial principal amount is reinvested at a compounded rate until maturity. There are no scheduled principal and interest payments on the Series 2005 bonds other than on their respective maturity dates, at which time a single payment is made representing both the initial principal amount and the total investment return.

The Series 2005 Bonds are subject to redemption prior to maturity through turbo redemption payments which can be made from surplus collections on deposit, as provided in the Bond Indenture. The amounts and timing of the turbo redemption payments are based on projections of future tobacco settlement receipts less amounts needed to satisfy debt service on the Series 2001 bonds and to satisfy operating requirements. Failure to make such turbo redemption payments will not, however, constitute an event of default.

The projected turbo redemption payments are presented in the following table. It is expected that the Corporation will make payments based on this amortization. The column entitled, "Accreted Interest," represents the compounded interest that is expensed each year and added to the carrying value of the bonds.

Series 2005 Bonds

Year Ended December 31,	<u>Projected Debt Service</u>			Accreted
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Interest</u>
2015	\$ -	-	-	2,145,575
2016	-	-	-	2,297,364
2017	332,969	324,392	657,361	2,439,259
2018	839,374	918,690	1,758,064	2,538,729
2019	825,470	1,008,771	1,834,241	2,615,782
2020 - 2024	2,427,174	4,211,794	6,638,968	15,026,765
2025 - 2029	5,169,318	15,997,389	21,166,707	17,249,852
2030 - 2034	3,710,368	24,740,756	28,451,124	13,545,257
2035 - 2039	2,687,648	27,596,532	30,284,180	6,135,543
2040	248,161	3,289,110	3,537,271	122,361
Total	<u>\$ 16,240,482</u>	<u>78,087,434</u>	<u>94,327,916</u>	64,116,487
Accreted interest at December 31, 2014				<u>13,970,947</u>
Total				<u>\$ 78,087,434</u>

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Notes to Financial Statements, Continued

(3) Long-Term Liabilities, Continued

At December 31, 2014, the Corporation had \$735,558 reserved for principal and interest on its bonds, and a liquidity reserve in the amount of \$3,234,022 to fund debt service payments if needed, thus providing a total of \$3,969,580 reserved for debt service payments in the Governmental Fund Balance Sheet. Including the tobacco settlement receivable of \$3,200,000 on the Corporation-wide financial statements, \$7,169,580 is restricted for debt service in the Statement of Net Position.

The aggregated required amortization of all the serial bonds, assuming flexible payments on the Series 2001 Bonds, of the Corporation is as follows:

Year Ended			
<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 3,455,000	2,098,738	5,553,738
2016	1,765,000	1,953,809	3,718,809
2017	2,187,969	2,175,320	4,363,289
2018	3,194,374	2,651,212	5,845,586
2019	3,305,470	2,605,309	5,910,779
2020 - 2024	17,222,174	9,847,919	27,070,093
2025 - 2029	17,084,318	17,156,445	34,240,763
2030 - 2034	3,710,368	24,740,756	28,451,124
2035 - 2039	2,687,648	27,596,532	30,284,180
2040	248,161	3,289,110	3,537,271
Total	<u>\$ 54,860,482</u>	<u>94,115,150</u>	<u>148,975,632</u>

(4) Transactions with the County of Broome

In addition to setting forth the terms and conditions of the sale and purchase of the TSRs, the Purchase and Sale Agreement also provides for separate consideration to retain the County to act as Administrator with respect to the preparation of all reports and other instruments and documents that are the duty of the Corporation to prepare, execute, file or deliver pursuant to the Indenture and the related agreements.

The Purchase and Sale Agreement also contemplates the lease by the Corporation of office space and telephone service from the County, and the sharing of overhead and operating services and expenses (including shared employees, consultants and agents and reasonable legal and auditing expenses) on the basis of actual use or value of such services, or otherwise on a basis reasonably related thereto. The cost to the Corporation for these County-provided services was \$3,506 for the year ended December 31, 2014.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Notes to Financial Statements, Continued

(5) Explanation of Certain Differences between the Governmental Fund Balance Sheet/the Statement of Net Position (Deficit)

The receivable related to tobacco settlement revenue is not an available financial resource and, therefore, is not reported in the Governmental Fund.

Long-term liabilities applicable to the Corporation's activities are not due and payable in the current period and, therefore, are not reported as fund liabilities. In addition, certain items are fully expensed in the Governmental Fund statements, but amortized over a period of time in the Corporation-wide statements. All assets and liabilities - both current and long-term - are reported in the statement of net position (deficit).

The adjustments required to the reported Governmental Fund assets and liabilities to arrive at the statement of net position are as follows:

Adjustments to assets - tobacco settlement receivable	\$ 3,200,000
Adjustments to liabilities:	
Accrued interest	(175,879)
Accreted interest	(13,970,947)
Bonds payable	(54,474,057)
Total adjustments to liabilities	(68,620,883)
Net adjustments	\$ (65,420,883)

(6) Explanation of Certain Differences between the Statement of Governmental Fund Revenue, Expenditures/Changes in Fund Balances and the Statement of Activities

Certain items reported in the reported in the Corporation-wide statements do not provide or consume current financial resources and are therefore not reported in the Governmental Fund.

Proceeds of bond issuances are revenue in the Governmental Fund, however, in the Corporation-wide statements, the issuance of bonds increases long-term liabilities and does not affect the statement of activities. Repayment of bond principal is an expenditure in the Governmental Fund and therefore contributes to the change in fund balance, however, in the Corporation-wide statements, repaying bond principal decreases long-term liabilities and does not affect the statement of activities. In addition, bond discounts are fully recognized in the year of issuance for the Governmental Fund statements while they are deferred and are amortized over the life of the related bonds for the Corporation-wide statements. The statement of activities, prepared on the full accrual basis, reports bond interest expense in the year incurred regardless of when it is paid, whereas, the fund financial statements report interest expenditures in the current year when they are due and payable. These differences in measurement recognition affect the amounts reported on the statement of revenue, expenditures and changes in fund balances and the statement of activities.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Broome, New York)
Notes to Financial Statements, Continued

(6) Explanation of Certain Differences between the Statement of Governmental Fund Revenue, Expenditures/Changes in Fund Balances and the Statement of Activities, Continued

The adjustments to the reported Governmental Fund revenue and expenditures to arrive at the statement of activities are as follows:

Adjustments to revenue - Tobacco Settlement	\$ 100,000
Adjustments to expenditures:	
Amortization of bond discount	(13,801)
Principal payments made	1,485,000
Interest	<u>(2,164,499)</u>
Net adjustments	\$ <u>(593,300)</u>

(7) Contingencies

Future Tobacco Settlement Revenue is subject to adjustment based upon tobacco consumption, inflation and other potential reductions. Pursuant to the Purchase and Sale Agreement these adjustments, and other events, could trigger additional debt service reserve requirements.

(8) Subsequent Events

The Corporation has evaluated subsequent events through the date of the report which is the date the financial statements were available to be issued.

(9) Accounting Standards Issued But Not Yet Implemented

- GASB Statement No. 68 - “Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27” replaces existing standards of accounting and financial reporting for pension plans that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The requirements of this statement are effective for periods beginning after June 15, 2014. This statement is not expected to have a material effect on the financial statements of the Corporation.
- GASB Statement No. 71 - “Pension Transition for Contributions Made Subsequent to the Measurement Date” addresses an issue regarding application of the transition provisions of GASB Statement No. 68 - “Accounting and Financial Reporting for Pensions.” This Statement amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The requirements of this statement are effective for the same period that the entity implements GASB Statement No. 68. This statement is not expected to have a material effect on the financial statements of the Corporation.

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

The Board of Directors
Broome 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 fund information of Broome Tobacco Asset Securitization Corporation (the "Corporation"), a blended component unit of the County of Broome as of and for the year ended December 31, 2014, and the related notes to financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 16, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Corporation'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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Corporation'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 Corporation'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 Corporation'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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Toski & Co., CPAs, P.C.

Williamsville, New York
March 16, 2015