

**YATES TOBACCO ASSET SECURITIZATION CORPORATION  
A COMPONENT UNIT OF YATES COUNTY, NEW YORK**

**BASIC FINANCIAL STATEMENTS**

**For The Years Ended December 31, 2015 and 2014**

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**Certified Public Accountants**

**Shareholders:**

**Raymond F. Wager, CPA**  
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Members of  
American Institute of  
Certified Public Accountants  
and  
New York State Society of  
Certified Public Accountants

**Independent Auditors' Report**

To the Board of Directors  
Yates Tobacco Asset Securitization Corporation  
A Component Unit of Yates County, New York

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Yates Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of Yates County, New York, as of and for the years ended December 31, 2015 and 2014, and the related notes to the 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 Corporation'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 Corporation'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 opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2015 and 2014, and the changes in its financial position for the years 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 3–5 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 9, 2016 on our consideration of the Yates Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of Yates County, New York'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 the Yates Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of Yates County, New York's internal control over financial reporting and compliance.



March 9, 2016

**YATES TOBACCO ASSET SECURITIZATION CORPORATION**

**A COMPONENT UNIT OF YATES COUNTY, NEW YORK**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**DECEMBER 31, 2015**

**INTRODUCTION**

This discussion and analysis of the Yates Tobacco Asset Securitization Corporation (TASC), a component unit of Yates County, New York's, financial performance provides an overview of the financial activities for the year ended December 31, 2015. It should be read in conjunction with the basic financial statements which immediately follow this section, and it is intended to enhance understanding of the TASC's financial performance.

**THE STATEMENT OF NET POSITION AND THE STATEMENT OF ACTIVITIES**

The Statement of Net Position includes all assets and liabilities of the Yates TASC, with the difference between assets and liabilities reported as net position. The Statement of Activities presents financial information as to how the TASC's net position changed during the year, with all of the changes being reported. Over time, increases or decreases in the TASC's net position is one indicator of whether its "financial health" is strengthening or deteriorating. Both statements utilize the full accrual basis of accounting.

The total net position at the close of the 2015 year was (\$5,130,781). Of this amount, (\$6,115,494) is unrestricted net position.

Net position increased by \$126,750 from the previous year as illustrated below:

	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
	<b><u>Total</u></b>	<b><u>Total</u></b>	<b><u>Total</u></b>
Operating Revenues	\$ 547,973	\$ 348,034	\$ 343,589
Operating Expenses	<u>421,265</u>	<u>411,651</u>	<u>405,445</u>
<b>Operating Income (Loss)</b>	<b>\$ 126,708</b>	<b>\$ (63,617)</b>	<b>\$ (61,856)</b>
Non-Operating Revenues	<u>42</u>	<u>42</u>	<u>79</u>
<b>Increase (Decrease) in Net Position</b>	<b><u>\$ 126,750</u></b>	<b><u>\$ (63,575)</u></b>	<b><u>\$ (61,777)</u></b>

The decrease in net position in 2015 is explained in the following operating revenue and operating expense summaries.

**OPERATING REVENUES**

The Yates TASC's operating revenues increased \$199,939 or 27% in 2015 and increased by \$4,445 or 1% in 2014. The increase in revenues was driven from a one time settlement of disputed funds totaling \$305,020.

**OPERATING EXPENSES**

The Yates TASC's operating expenses increased by \$9,614 or 2% in 2015 and increased by \$6,206 or 1.5% in 2014.

## NOTES TO THE FINANCIAL STATEMENTS

The Notes to the Basic Financial Statements provide additional information considered essential to a clear understanding of the financial information provided in the TASC's financial statements.

### 2015 FINANCIAL ACTIVITIES

Of the \$393,578 year end cash balance, all is reserved to pay for future operating and contingency costs of the TASC as outlined in Note VI of the attached Notes to the Financial Statements.

While the TASC has \$393,578 in cash and cash equivalents on hand at December 31, 2015, the Statement of Net Position indicates that the TASC has outstanding debt for the Series 2005 New York Counties Tobacco Trust IV and Trust V of \$4,166,782 and \$2,190,742 at year end, respectively. These debt instruments have varying principal payment terms. For the Trust IV bonds, annual interest payments are required and the first principal payment of \$325,000 is due June 1, 2021. The Trust V bonds are Capital Appreciation Bonds and do not pay current interest. The first principal payment of \$159,334 is expected to be paid June 1, 2024. Additional liabilities of \$32,450 consist of accrued interest due June 1, 2015.

Because of the outstanding debt and accrued liabilities, the TASC had a deficit net position balance at December 31, 2015 of (\$5,130,781) which is the difference between the total liabilities at December 31, 2015 of \$6,392,724 less the sum of cash currently on hand to pay those bondholders of \$393,578, accounts receivable of \$591,135, and a deferred charge for refunding bonds of \$277,230. The following is a summary of the Yates TASC's net position as of December 31, 2015, December 31, 2014, and December 31, 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b><u>ASSETS:</u></b>			
Current Assets	\$ 984,713	\$ 758,004	\$ 741,176
<b>Total Assets</b>	<b>\$ 984,713</b>	<b>\$ 758,004</b>	<b>\$ 741,176</b>
<b><u>DEFERRED OUTFLOWS:</u></b>	<b>\$ 277,230</b>	<b>\$ 289,283</b>	<b>\$ 301,336</b>
<b><u>LIABILITIES:</u></b>			
Current Liabilities	\$ 35,200	\$ 55,874	\$ 35,075
Noncurrent Liabilities	6,357,524	6,248,944	6,201,393
<b>Total Liabilities</b>	<b>\$ 6,392,724</b>	<b>\$ 6,304,818</b>	<b>\$ 6,236,468</b>
<b><u>NET POSITION:</u></b>			
Restricted for Debt	\$ 984,713	\$ 734,924	\$ 741,176
Unrestricted	(6,115,494)	(5,992,455)	(5,935,132)
<b>Total Net Position</b>	<b>\$ (5,130,781)</b>	<b>\$ (5,257,531)</b>	<b>\$ (5,193,956)</b>

The deficit net position is a result of the issuance of the debt to be repaid with future revenues which can not be recorded as a receivable until it is due and payable.

## **FACTORS BEARING ON THE CORPORATION'S FUTURE**

The ability of tobacco companies to make annual tobacco settlement payments to Yates TASC is a risk that affects the TASC's ability to repay the bondholders.

The original bonding agreements also contained a provision for an alternate debt repayment schedule in the event that tobacco settlement revenue is not sufficient to meet the original repayment schedule.

## **CONTACTING THE TASC FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the TASC's finances for anyone having an interest and should be considered along with the Basic Financial Statements and related notes.

Questions concerning any of the information provided in this report should be addressed to Ms. Winona Flynn, Yates County, 417 Liberty Street, Suite 1081, Penn Yan, New York 14527-1122.

**YATES TOBACCO ASSET SECURITIZATION CORPORATION**  
**A COMPONENT UNIT OF YATES COUNTY, NEW YORK**

**STATEMENT OF NET POSITION**

**December 31, 2015 and 2014**

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
<b><u>ASSETS:</u></b>		
<b><u>Current Assets -</u></b>		
Restricted cash	\$ 393,578	\$ 416,075
Tobacco settlement receivable	591,135	341,929
<b>Total Current Assets</b>	<b>\$ 984,713</b>	<b>\$ 758,004</b>
<b>TOTAL ASSETS</b>	<b>\$ 984,713</b>	<b>\$ 758,004</b>
<b><u>DEFERRED OUTFLOWS:</u></b>		
Deferred charge - refunding bonds	<b>\$ 277,230</b>	<b>\$ 289,283</b>
<b><u>LIABILITIES:</u></b>		
<b><u>Current Liabilities -</u></b>		
Accounts payable	\$ 2,750	\$ 24,169
Accrued liabilities	32,450	31,705
<b><u>Non-current Liabilities -</u></b>		
Bonds payable - net of discount	6,357,524	6,248,944
<b>TOTAL LIABILITIES</b>	<b>\$ 6,392,724</b>	<b>\$ 6,304,818</b>
<b><u>NET POSITION:</u></b>		
Restricted for debt	\$ 984,713	\$ 734,924
Unrestricted	(6,115,494)	(5,992,455)
<b>TOTAL NET POSITION</b>	<b>\$ (5,130,781)</b>	<b>\$ (5,257,531)</b>

**YATES TOBACCO ASSET SECURITIZATION CORPORATION**  
**A COMPONENT UNIT OF YATES COUNTY, NEW YORK**  
**STATEMENT OF ACTIVITIES**

**For the Years Ended December 31, 2015 and 2014**

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
<b><u>OPERATING REVENUES:</u></b>		
Tobacco settlement revenues	\$ 547,973	\$ 348,034
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 547,973</b>	<b>\$ 348,034</b>
<b><u>OPERATING EXPENSES:</u></b>		
Debt service - interest	\$ 376,784	\$ 368,736
Insurance	5,406	5,400
Professional fees	29,075	27,515
Rent	10,000	10,000
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 421,265</b>	<b>\$ 411,651</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 126,708</b>	<b>\$ (63,617)</b>
<b><u>NON-OPERATING REVENUES (EXPENSES):</u></b>		
Interest	\$ 42	\$ 42
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>\$ 42</b>	<b>\$ 42</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ 126,750</b>	<b>\$ (63,575)</b>
<b>NET POSITION - BEGINNING OF YEAR</b>	<b>(5,257,531)</b>	<b>(5,193,956)</b>
<b>NET POSITION - END OF YEAR</b>	<b>\$ (5,130,781)</b>	<b>\$ (5,257,531)</b>

**YATES TOBACCO ASSET SECURITIZATION CORPORATION  
A COMPONENT UNIT OF YATES COUNTY, NEW YORK**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**December 31, 2015 and 2014**

	<u>Debt Service Fund</u>	
	<u>2015</u>	<u>2014</u>
<b><u>ASSETS:</u></b>		
Cash and cash equivalents	\$ 393,578	\$ 416,075
<b>TOTAL ASSETS</b>	<b>\$ 393,578</b>	<b>\$ 416,075</b>
<b><u>LIABILITIES:</u></b>		
Accounts Payable	\$ 2,750	\$ 24,169
<b>TOTAL LIABILITIES</b>	<b>\$ 2,750</b>	<b>\$ 24,169</b>
<b><u>FUND BALANCES:</u></b>		
Restricted fund balance	\$ 390,828	\$ 391,906
<b>TOTAL FUND BALANCES</b>	<b>\$ 390,828</b>	<b>\$ 391,906</b>
 <b>Amounts reported in the statement of net position are different because:</b>		
Receivables related to tobacco settlement revenues are not available financial resources and therefore, are not reported in the governmental funds.	591,135	341,929
Deferred charge for refunding bonds (to be amortized over the life of the bond).	277,230	289,283
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds balance sheet.	(32,450)	(31,705)
Long-term liabilities, including bonds payable, are not due in the current period and therefore, are not reported in the fund.	<u>(6,357,524)</u>	<u>(6,248,944)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ (5,130,781)</u></b>	<b><u>\$ (5,257,531)</u></b>

**YATES TOBACCO ASSET SECURITIZATION CORPORATION**  
**A COMPONENT UNIT OF YATES COUNTY, NEW YORK**

**STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

**For the Years Ended December 31, 2015 and 2014**

	<u>Debt Service Fund</u>	
<u>REVENUES:</u>	<u>2015</u>	<u>2014</u>
Tobacco settlement revenues	\$ 298,767	\$ 349,123
Interest income	42	42
<b>TOTAL REVENUES</b>	<u>\$ 298,809</u>	<u>\$ 349,165</u>
<u>EXPENDITURES:</u>		
<u>Current -</u>		
General government support	\$ 44,481	\$ 42,915
<u>Debt Service -</u>		
Principal	45,000	95,000
Interest	210,406	213,381
<b>TOTAL EXPENDITURES</b>	<u>\$ 299,887</u>	<u>\$ 351,296</u>
 <b>NET CHANGE IN FUND BALANCE</b>	 \$ (1,078)	 \$ (2,131)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>391,906</u>	<u>394,037</u>
<b>FUND BALANCE - END OF YEAR</b>	<u><u>\$ 390,828</u></u>	<u><u>\$ 391,906</u></u>

**YATES TOBACCO ASSET SECURITIZATION CORPORATION**  
**A COMPONENT UNIT OF YATES COUNTY, NEW YORK**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**TO THE STATEMENT OF ACTIVITIES**

**For the Years Ended December 31, 2015 and 2014**

	<u>Debt Service Fund</u>	
	<u>2015</u>	<u>2014</u>
<b>NET CHANGE IN FUND BALANCE -</b>		
<b>DEBT SERVICE FUND</b>	\$ (1,078)	\$ (2,131)
<b>Amounts reported in the Statement of Activities are different because:</b>		
The issuance of long-term debt, including 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 assets. Also, governmental funds report the effect of issuance costs, 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.	(120,633)	(59,604)
Receivables related to tobacco settlement revenues are not available financial resources and therefore, are not reported in the governmental funds.	249,206	(1,089)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	<u>(745)</u>	<u>(751)</u>
<b>CHANGE IN NET POSITION OF</b>		
<b>GOVERNMENTAL ACTIVITIES</b>	<u>\$ 126,750</u>	<u>\$ (63,575)</u>

# YATES TOBACCO ASSET SECURITIZATION CORPORATION

## A COMPONENT UNIT OF YATES COUNTY, NEW YORK

### Notes to Financial Statements

December 31, 2015

#### I. Organization:

The Yates Tobacco Asset Securitization Corporation (The Corporation), a component unit of Yates County, New York 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 October 11, 2000. The Corporation is an instrumentality of, but separate and apart from the County of Yates, New York (the County). The Corporation will have not less than three or more than five directors, consisting of two ex-officio positions including the Chairman of the County Legislature and the County Administrator, up to two additional directors and one independent director. The Corporation is a related organization as described in Governmental Accounting Standards Board Statement 14, because while the County appoints the governing board of the Corporation, the County is not responsible for the operations of the Corporation.

On October 15, 2000, pursuant to a Purchase and Sale Agreement with the County, the County sold to the Corporation all of its future rights, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgment (the Decree). The MSA resolved cigarette smoking-related litigation between the settling states and the Participating Manufacturers (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 rights, 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 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 Yates Tobacco Asset Securitization Corporation Residual 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.

#### II. Summary of Significant Accounting Policies:

##### A. Adoption of Accounting Principles

The Governmental Accounting Standards Board (GASB) promulgates accounting principles and guidelines for financial reporting for use by state and local governments throughout the United States. Effective January 1, 2004, the following governmental Accounting Standards Board's (GASB) Statements became applicable: Statement No. 46 – *Net Assets Restricted by Enabling Legislation, an Amendment of GASB No. 34* and GASB Technical Bulletin No. 2004-1 – *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. Technical Bulletin No. 2004-1 had an impact on the Corporation's basic financial statements. As a result, the Corporation began recognizing tobacco settlement revenues based on the date of domestic shipment of cigarettes.

( II ) ( Continued )

**B. Basis of Presentation**

The Corporation uses one governmental fund (Debt Service 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/Measurement Focus**

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, revenues 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 bond proceeds or 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. Since 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.

**D. 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.

**E. Interest Expenditures/Expense**

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

**F. Amortized Bond Discounts**

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

**G. Equity Classifications**

**1. Government-Wide Statements**

Equity is classified for accounting purposes into applicable net position categories. The Corporation has the following:

( II ) ( Continued )

- a. **Restricted Net Position** - Net Position is reported as restricted when constraints placed on net position 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. The restricted net position of the Corporation are those net positions that are restricted based on externally imposed conditions.
- b. **Unrestricted Net Position** - any remaining net position that does not meet the definition of “restricted” and can be internally designated.

2. **Financial Statements – Fund Balance**

The Corporation implemented GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

- a. **Restricted fund balance** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- b. **Unassigned fund balance** – Amounts that are available for Corporation purposes pursuant to any Law restrictions.

3. The following policies relate to GASB No. 54:

- a. **Spending policy** – Resources will generally be spent from Budgetary Appropriations first. Utilization of reserve funds will be determined based on the legal appropriation of such funds which require Board approval.
- b. **Order of fund balance** – The County’s policy is to apply expenditures against restricted fund balance and unassigned fund balance at the end of the year.

It is possible for the fund to have negative unassigned fund balance when the restricted fund balances for specific purposes amounts exceed the positive fund balance.

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 revenues and expenditures during the reporting period. Actual results could differ from those estimates.

I. **Tax Status**

The Corporation is exempt from federal income tax under Section 115 of the Internal Revenue Code.

( II ) ( Continued )

**J. Comparative Data**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the government's financial position and operations.

**III. 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, 2015, total cash and cash equivalents aggregated \$393,578.

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 Yates, New York, 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.

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.

Concentration of Credit Risk – The Corporation places no limit on the amount that it may invest with in any one issuer.

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

**IV. Long-Term Liabilities:**

Interest on long-term debt is composed of:

	<u>2015</u>	<u>2014</u>
Interest paid	\$ 210,406	\$ 213,381
<u>Less:</u> interest accrued in the prior year	(31,705)	(30,954)
<u>Plus:</u> current amortization of bond discount/accreted interest	153,580	142,551
<u>Plus:</u> current amortization of deferred charges-refunding bonds	12,053	12,053
<u>Plus:</u> interest accrued in the current year	32,450	31,705
<b>Total Interest Expense</b>	<b>\$ 376,784</b>	<b>\$ 368,736</b>

(IV) (Continued)

Bond payable activity for the year ended December 31, 2015 is summarized below:

	Balance <u>12/31/2014</u>	Redeemed	Change in <u>Discount</u>	Balance <u>12/31/2015</u>	<u>Classified As</u>	
					<u>Current</u>	<u>Non-Current</u>
<b>Governmental Activities:</b>						
<b><u>Bonds and Notes Payable -</u></b>						
Series 2005A Turbo Term NY Counties Trust IV Tobacco Settlement Pass-Through Bonds	\$ 4,209,798	\$ 45,000	\$ 1,984	\$ 4,166,782	\$ -	\$ 4,166,782
Series 2005 S2, S3, & S4B Subordinate Turbo Capital Appreciation NY Counties Trust V Tobacco Settlement Pass- Through Bonds	2,039,146	-	151,596	2,190,742	-	2,190,742
<b>Total Long-Term Obligations</b>	<b>\$ 6,248,944</b>	<b>\$ 45,000</b>	<b>\$ 153,580</b>	<b>\$ 6,357,524</b>	<b>\$ -</b>	<b>\$ 6,357,524</b>

**Series 2005A NY County Trust IV Turbo Term Bonds**

On August 19, 2005, the Corporation issued \$4,950,000 in Series 2006A Turbo Term Tax-Exempt NY Counties Trust IV Tobacco Settlement Pass-Through Bonds bearing interest ranging from 4.25% to 5.00%, collateralized by future TSR revenues, to advance refund \$3,445,000 of outstanding Series 2000 NY Counties Trust I Tobacco Settlement Pass-Through Bonds bearing interest ranging from 5.25% to 6.625%. The net proceeds of \$3,842,760 (after payment of \$1,107,240 in underwriting fees, insurance, other issuance costs, and distributions to the County) were used to purchase United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2000 bonds. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the Corporation's financial statements. The Corporation advance refunded the bonds to revise its payment schedules due to changes in TSR earnings and related trapping events. The economic gain (loss) on the transaction (the difference between the present values of the debt service payments on the old and new debt) was approximately (\$397,760) and is being amortized over the life of the new bonds.

( IV ) ( Continued )

At December 31, 2015, the outstanding principal, net of discount, totaled \$4,166,782. The amortization schedule for required payments is as follows:

Year Ended December 31,	Amortization Schedule Assuming Planned Required Amortization Payments					
	Principal	Interest	Total Payments	Gross Bond Balance	Remaining Discount	Net Bond Balance
2015	\$ -	\$ 211,434	\$ 211,434	\$ 4,230,000	\$ (63,218)	\$ 4,166,782
2016	-	211,419	211,419	4,230,000	(61,249)	4,168,751
2017	-	211,404	211,404	4,230,000	(59,295)	4,170,705
2018	-	211,669	211,669	4,230,000	(57,076)	4,172,924
2019	-	211,642	211,642	4,230,000	(54,884)	4,175,116
2020-24	640,000	1,060,212	1,700,212	3,590,000	(43,926)	3,546,074
2025-29	-	947,371	947,371	3,590,000	(33,243)	3,556,757
2030-34	-	908,168	908,168	3,590,000	(22,575)	3,567,425
2035-39	1,915,000	764,311	2,679,311	1,675,000	(12,139)	1,662,861
2040-44	-	428,906	428,906	1,675,000	(1,983)	1,673,017
2045	1,675,000	36,879	1,711,879	-	-	-
<b>Total</b>	<b>\$ 4,230,000</b>	<b>\$ 5,203,415</b>	<b>\$ 9,433,415</b>			

**Series 2005 S2, S3, and S4B Subordinate Turbo Capital Appreciation Bonds**

On November 15, 2005, the Corporation issued \$1,111,025 in Series 2005 S2, S3, and S4B Subordinate Turbo Term NY Counties Trust IV Tobacco Settlement Pass-Through Capital Appreciation Bonds bearing interest ranging from 6.10% to 7.85%, collateralized by future TSR revenues. Capital Appreciation Bonds do not pay current interest. Interest accretes until both principal and accreted interest are paid. Future interest accretion has been recorded as a bond discount, amortized as the current interest accretes.

( IV ) ( Continued )

At December 31, 2015, the outstanding principal, net of discount, totaled \$2,190,742. The amortization schedule for required payments is as follows:

<b>Amortization Schedule Assuming Planned Turbo Amortization Payments</b>					
<b>Year Ended December 31,</b>	<b>Total Payments</b>	<b>Gross Bond Balance</b>	<b>Remaining Discount</b>	<b>Net Bond Balance</b>	
2015	\$ -	\$ 6,965,112	\$ (4,774,370)	\$ 2,190,742	
2016	-	6,965,112	(4,611,686)	2,353,426	
2017	-	6,965,112	(4,436,412)	2,528,700	
2018	-	6,965,112	(4,248,195)	2,716,917	
2019	-	6,965,112	(4,045,995)	2,919,117	
2020-24	159,334	6,805,778	(2,781,675)	4,024,103	
2025-29	2,361,058	4,444,720	(1,347,690)	3,097,030	
2030-34	2,500,791	1,943,929	(323,209)	1,620,720	
2035-38	1,943,929	-	-	-	
<b>Total</b>	<b>\$ 6,965,112</b>				

Any debt service amounts not paid in accordance with the above turbo amortization schedule will be due and payable on the following final maturity dates:

Series 2005 S2	June 1, 2050
Series 2005 S3	June 1, 2055
Series 2005 S4B	June 1, 2060

**V. Reserves:**

As required by the Corporation Indenture, the Corporation has the following reserves at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Liquidity reserves	\$ 309,733	\$ 309,733
Restricted fund balance	81,095	82,173
<b>Total Restricted Funds</b>	<b><u>\$ 390,828</u></b>	<b><u>\$ 391,906</u></b>

**Liquidity Reserve** – to fund future debt service payments, if needed.

**Restricted Fund Balance** – to fund future costs of the TASC.

Upon retirement of the outstanding bonds payable, any funds available in any of these reserves will be distributed to Yates County, New York.

**VI. Contingencies:**

Future tobacco settlement revenues are subject to adjustment based upon tobacco consumption, inflation and other potential reductions. Pursuant to the Purchase and Sale Agreements these adjustments and other events could trigger additional debt service reserve requirements.

**VII. Unrestricted Net Position – Deficit:**

The deficit unrestricted net position balance primarily represents the outstanding bond liabilities to be paid off with future rights to receive tobacco revenues.

**VIII. Settlement Revenues:**

The Agency accrued their estimated portion of the disputed funds settlement which was finalized in 2015 and will be distributed in April 2016.

**Raymond F. Wager, CPA, P.C.**  
**Certified Public Accountants**

**Shareholders:**

**Raymond F. Wager, CPA**  
**Thomas J. Lauffer, CPA**  
**Thomas C. Zuber, CPA**

Members of  
American Institute of  
Certified Public Accountants  
and  
New York State Society of  
Certified Public Accountants

**Report on Internal Control Over Financial Reporting  
And on Compliance and Other Matters Based on an Audit  
of Financial Statements Performed in Accordance  
With *Government Auditing Standards***

**Independent Auditors' Report**

To the Board of Directors  
Yates Tobacco Asset Securitization Corporation  
A Component Unit of Yates County, New York

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 Yates Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of Yates County, New York, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise Yates Tobacco Asset Securitization Corporation, a blended component unit of Yates County, New York's basic financial statements, and have issued our report thereon dated March 9, 2016.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Yates Tobacco Asset Securitization Corporation, a blended component unit of Yates County, New York's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Yates Tobacco Asset Securitization Corporation, a blended component unit of Yates County, New York's internal control. Accordingly, we do not express an opinion on the effectiveness of Yates Tobacco Asset Securitization Corporation, a blended component unit of Yates County, New York'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 Yates Tobacco Asset Securitization Corporation, a blended component unit of Yates County, New York'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.

March 9, 2016

A handwritten signature in black ink that reads "Raymond F. Wager, CPA, P.C." The signature is written in a cursive style.