WASHINGTON TOBACCO ASSET SECURITIZATION CORPORATION (WTASC)

(A Blended Component Unit of Washington County, New York)

Independent Auditor's Report

Financial Statements

Year Ended December 31, 2019

WDR
CPAs & Business Advisors
WHITTEMORE, DOWEN & RICCIARDELLI, LLP

WASHINGTON TOBACCO ASSET
SECURITIZATION CORPORATION (WTASC)
(A Blended Component Unit of Washington County, New York)

Table of Contents

	Page
Independent Auditor's Report	1-2
Management Discussion and Analysis	3-6
Financial Statements	
Statement of Net Position (Deficit)	7
Statement of Activities	8
Balance Sheet – Governmental Fund	9
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund	10
Notes to Financial Statements	11-14
Independent Auditor's 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*	15-16

WDR
CPAs & Business Advisors
WHITTEMORE, DOWEN & RICCIARDELLI, LLP

333 Aviation Road, Bldg B
Queensbury, NY 12804
Ph: (518)792-0918
Fax: (518)743-0882
www.wdrcpa.com

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Washington Tobacco Asset
Securitization Corporation

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of Washington Tobacco Asset Securitization Corporation, a blended component unit of Washington County, New York, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Washington Tobacco Asset Securitization 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Washington Tobacco Asset Securitization Corporation as of December 31, 2019, and the respective changes in its 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 3-6 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 inquires 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 February 14, 2020, on our consideration of Washington Tobacco Asset Securitization Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of Washington Tobacco Asset Securitization Corporation's 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 Washington Tobacco Asset Securitization Corporation's internal control over financial reporting and compliance.

Whittemore, Dowen & Ricciardelli, LLP

Whittemore, Dowen & Ricciardelli, LLP
Queensbury, New York

February 14, 2020

Our discussion and analysis of the Washington Tobacco Asset Securitization Corporation's (WTASC or Corporation) financial performance provides an overview of the Corporation's financial activities for the year ended December 31, 2019. This document should be read in conjunction with the Corporation's financial statements.

The Corporation is a component unit of the County of Washington and is blended in the County's financial statements.

Financial Highlights

- WTASC paid $70,000 down on outstanding bonds in 2019 and $105,000 in 2018.
- WTASC received $696,249 from the Tobacco Asset Securitization in 2019 and $734,847 for 2018.
- WTASC received $28,420 in interest income in 2019 and $20,168 in 2018.

USING THIS ANNUAL REPORT

WTASC's financial statements consists of three parts: Management's Discussion and Analysis, Financial Statements and footnotes. The notes explain in more detail some of the information in the Financial Statements.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the WTASC's financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

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

The Statement of Net Position (Deficit) presents information on the Corporation's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the net difference being net position. Over time, changes in net position may serve as a useful indicator as to whether the financial position of WTASC is improving or deteriorating.

The Statement of Activities accounts for all revenues and expenses. This statement measures the success of the Corporation's operations over the past year and can be used to determine if the Corporation has successfully recovered all of its costs through revenue sources.

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 the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

The focus of governmental funds is narrower than that of the government-wide financial statements so it is useful to compare the information presented for governmental funds with similar information presented

for governmental activities in the government-wide financial statements. 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.

The notes to the financial statements provide additional information essential to understanding the data provided in the basic financial statements.

Government-Wide Financial Analysis

Condensed Statement of Net Position (Deficit)

	2018	2019
Current assets	$ 120,858	$ 146,229
Other assets	907,941	907,832
Total assets	1,028,799	1,054,061
Deferred outflows of resources	21,908,577	21,586,737
Long-term debt outstanding	12,225,000	12,155,000
Other liabilities	50,650	50,373
Total liabilities	12,275,650	12,205,373
Deferred inflows of resources	21,908,577	21,586,737
Net position (deficit):		
Restricted for debt	907,941	907,832
Unrestricted (deficit)	(12,154,792)	(12,059,144)
Total net position (deficit)	$ (11,246,851)	$ (11,151,312)

Net position for the year ended December 31, 2019, increased by $95,539 and increased by $91,952 for 2018.

Condensed Statement of Activities

	2018	2019
General Revenues:		
Tobacco settlement revenue	$ 734,847	$ 696,249
Interest income	20,168	28,420
Total general revenue	755,015	724,669
Expenses:		
Interest on long-term debt	609,878	605,860
General government support	53,185	23,270
Total expenses	663,063	629,130
Change in net position (deficit)	$ 91,952	$ 95,539

Total general revenue decreased by $30,346 in 2019. Tobacco settlement revenue decreased by $38,598 and interest income increased by $8,252. Tobacco settlement revenue declined because as smoking rates decline, tobacco company revenue and related tobacco settlement revenue will also decline.

Governmental Funds

At December 31, 2019, WTASC's governmental funds reported ending fund balances of $1,054,061, an increase of $25,262 in comparison with prior year. Of this total, $146,229 constitutes unassigned fund balance, which is available for spending at WTASC's discretion. The remainder of fund balance is restricted to indicate that it is not available for new spending.

Long-Term Debt Activities

As of December 31, 2019, and 2018, WTASC had $12,155,000 and $12,225,000 (par value), respectively, of outstanding bonds payable. In 2019 and 2018, the WTASC paid $70,000 and $105,000, respectively, in principal, and $606,137 and $610,294, respectively, in interest during the year. Currently, there are no plans for WTASC to issue additional debt.

Economic Factors

Tobacco settlement revenue is the primary revenue source for WTASC. Tobacco settlement revenue is dependent on future tobacco sales, as well as the participating manufacturers' ability to pay. Increases or decreases in tobacco consumption will result in corresponding increases or decreases in tobacco settlement revenue.

The ability of the Corporation to make debt service payments on bonds is contingent upon the receipt of tobacco settlement payments.

Contacting the Corporation's Financial Management

This financial report is designed to provide investors and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have questions about this report or need additional information, contact the Corporation's Treasurer's Office at 383 Broadway, Fort Edward, NY 12828.

WASHINGTON TOBACCO ASSET
SECURITIZATION CORPORATION (WTASC)
(A Blended Component Unit of Washington County, New York)

Statement of Net Position (Deficit)

December 31, 2019

ASSETS	
Cash	$ 146,229
Cash, restricted	907,832
Total Assets	1,054,061
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount from tobacco settlement receivable	21,586,737
LIABILITIES	
Accrued interest payable	50,373
Noncurrent Liabilities:	
Due within one year	250,000
Due in more than one year	11,905,000
Total Liabilities	12,205,373
DEFERRED INFLOWS OF RESOURCES	
Deferred revenue	21,586,737
NET POSITION (DEFICIT)	
Restricted for debt service	907,832
Unrestricted (deficit)	(12,059,144)
Total Net Position (Deficit)	$ (11,151,312)

See Independent Auditor's Report and Notes

WASHINGTON TOBACCO ASSET
SECURITIZATION CORPORATION (WTASC)
(A Blended Component Unit of Washington County, New York)

Statement of Activities

Year Ended December 31, 2019

Expenses:		
General government support	$	23,270
Interest on long-term debt		605,860
Total Expenses		629,130
General Revenues:		
Tobacco settlement revenues		696,249
Interest income		28,420
Total Revenues		724,669
Excess of Revenues Over Expenses		95,539
Net Position (Deficit) - Beginning of Year		(11,246,851)
Net Position (Deficit) - End of Year	$	(11,151,312)

See Independent Auditor's Report and Notes

WASHINGTON TOBACCO ASSET
SECURITIZATION CORPORATION (WTASC)
(A Blended Component Unit of Washington County, New York)

Balance Sheet
Governmental Fund

December 31, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Assets:		
Cash	$	146,229
Cash, restricted		907,832
Total Assets		1,054,061
Deferred Outflows of Resources:		
Deferred amount from tobacco settlement receivable		21,586,737
Total Assets and Deferred Outflows of Resources	$	22,640,798

DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

Deferred Inflows of Resources:		
Deferred inflows from future revenues	$	21,586,737
Fund Balances:		
Restricted for debt service		907,832
Unassigned		146,229
Total Fund Balances		1,054,061
Total Deferred Inflows of Resources and Fund Balances	$	22,640,798

Amounts reported for governmental activities in the balance sheet are different because:

Total fund balances - governmental fund	$	1,054,061
Noncurrent liabilities applicable to the Corporation's governmental activities are not due and payable in the current period and, accordingly, are not reported in the funds. However these liabilities are included in the statement of net position (deficit):		
Bonds payable		(12,155,000)
Accrued interest payable applicable to the Corporation's governmental activities is not due and payable in the current period and, accordingly, is not reported in the funds. However this liability is included in the statement of net position (deficit).		(50,373)
Net Position (Deficit) of Governmental Activities	$	(11,151,312)

See Independent Auditor's Report and Notes

WASHINGTON TOBACCO ASSET
SECURITIZATION CORPORATION (WTASC)
(A Blended Component Unit of Washington County, New York)

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund

Year Ended December 31, 2019

Revenues:		
Tobacco settlement revenues	$	696,249
Interest income		28,420
Total Revenues		724,669
Expenditures:		
General government support		23,270
Debt service, principal		70,000
Debt service, interest		606,137
Total Expenditures		699,407
Excess of Revenues Over Expenditures		25,262
Fund Balances - Beginning of Year		1,028,799
Fund Balances - End of Year	$	1,054,061
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances	$	25,262
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources:		
Repayment of bond principal		70,000
Bond interest is recorded as an expenditure on the fund statement when it is paid, and on the statement of activities when it is incurred.		277
Changes in Net Position of Governmental Activities	$	95,539

See Independent Auditor's Report and Notes

Summary of Significant Accounting Policies

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
The financial statements of WTASC are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). 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.

Government-Wide 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.

The government-wide financial statements (statement of net position (deficit) and the statement of activities) report information on all activities of the WTASC. All of the activities of the WTASC are considered governmental activities.

In the government-wide statement of net position (deficit), the WTASC's governmental activities are presented on a consolidated basis and reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt obligations. The WTASC's net position (deficit) is reported in two parts – restricted and unrestricted net position (deficit).

The government-wide statement of activities reports the gross expense of each of the WTASC's functional categories which are supported by general revenues.

Governmental Fund Financial Statements
Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

WTASC's primary source of revenue is from tobacco settlement receipts and investment income. They are recognized as revenue when such amounts are received or accruable. In accordance with GASB Statement No. 48, an estimate of the present value of the future tobacco settlement receipts has been recorded as a deferred receivable with a corresponding deferred revenue.

Fund Balance Classifications
Fund balance is divided into five classifications based primarily on the extent to which WTASC is bound to observe constraints imposed upon the use of the resources in the governmental fund. The classifications are as follows:

Summary of Significant Accounting Policies – Continued

Fund Balance Classifications – Continued

Nonspendable fund balance – Amounts that are not in a spendable form such as inventory, prepaid expenses or long-term portions of loans receivable.

Restricted fund balance – Amounts subject to a constraint imposed by providers such as creditors, grantors, contributors or higher levels of government or through constitutional provisions or enabling legislation.

Committed fund balance – Amounts subject to a purpose imposed by a formal action of the government's highest level of decision-making authority before the end of the fiscal year and that require the same level of formal action to remove the constraint.

Assigned fund balance – Amounts subject to a constraint that represents an intended use established by the government's highest level of decision-making authority or by their designated body or official, which is the Board of Directors.

Unassigned fund balance – Amounts available for any purpose, which are only found in the general fund or as a deficit balance in any other fund.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

WTASC had funds on deposit at local banks totaling $18,786 at December 31, 2019. These deposits are fully insured by the Federal Deposit Insurance Corporation.

Cash Equivalents
WTASC considers all highly liquid debt instruments purchased with a maturity of 90 days or less to be cash equivalents.

Summary of Significant Accounting Policies – Continued

Adoption of New Accounting Pronouncements
During the year ended December 31, 2019, WTASC adopted the provisions of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.* This pronouncement affects disclosures related to direct borrowings and bonds, including the disclosure of collateral for both types of debt.

Restricted Assets

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

The required amortization payments on the term bonds are made from the "Debt Service Reserve" account. As of December 31, 2019, these accounts are invested as follows:

	Fair Market Value	Cost
U.S. Treasury Money Market Fund	$ 907,832	$ 907,832

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

WTASC uses any restricted assets available for a specific purpose before using unrestricted assets.

Bonds Payable

In December 2000, WTASC issued $11,160,000 in serial and term bonds for the purpose of funding the building of a county jail. These bonds would have been paid off with receipts from the New York Tobacco Settlement Agreement. On August 25, 2005, WTASC issued $14,690,000 in bonds to refund the balance of the 2000 bonds.

The following is a summary of changes in bonds payable for the year ended December 31, 2019:

	Payable at December 31, 2018	Redeemed	Other Increase (Decrease)	Payable at December 31, 2019	Due Within One Year	Due Beyond One Year
Serial Bonds	$ 12,225,000	$ (70,000)	$ -	$12,155,000	$ 250,000	$11,905,000

Bonds Payable – Continued

The interest rates for the term bonds issued in 2005 vary from 4.25% to 5%. The total debt service has been projected assuming that the tobacco settlement revenues will be at a level that allows the flexible amortization term bonds to be repaid by June 1, 2045. A summary of the future debt maturities follows:

	Term Bonds	Interest	Total Debt Service
2020	$ 250,000	$ 631,263	$ 881,263
2021	265,000	620,319	885,319
2022	275,000	608,156	883,156
2023	295,000	594,619	889,619
2024	300,000	580,488	880,488
2025-2029	1,765,000	2,661,469	4,426,469
2030-2034	2,265,000	2,161,875	4,426,875
2035-2039	2,905,000	1,518,875	4,423,875
2040-2044	3,725,000	693,125	4,418,125
2045	110,000	21,000	131,000
	$12,155,000	$10,091,189	$ 22,246,189

WTASC has prepaid bond principal when funds were available; therefore, interest may not be due as set forth above.

Revenues Pledged in Connection With Debt

WTASC has pledged, as security for the above bonds, its future tobacco settlement revenues pursuant to the New York State Tobacco Settlement Agreement. For the current year, principal and interest paid by WTASC totaled $70,000 and $606,137, respectively, as compared to its tobacco settlement revenues of $696,249. To estimate the present value of the receivable for future tobacco settlement revenues, an average bond interest rate of 4.625% was used, compounded annually through the year 2042.

Contingency

The ability of the WTASC to meet the debt service payments is contingent upon receipt of tobacco settlement revenues from tobacco manufacturers.

Subsequent Events

WTASC has evaluated all events through February 14, 2020, the date which these financial statements were available to be issued and determined that there are no subsequent events which require disclosure.

WDR
CPAs & Business Advisors
WHITTEMORE, DOWEN & RICCIARDELLI, LLP

333 Aviation Road, Bldg B
Queensbury, NY 12804
Ph: (518)792-0918
Fax: (518)743-0882
www.wdrcpa.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To The Board of Directors
Washington Tobacco Asset
Securitization Corporation

We have audited, 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 of Washington Tobacco Asset Securitization Corporation (WTASC), a blended component unit of Washington County, New York, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise WTASC's basic financial statements and have issued our report thereon dated February 14, 2020.

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 opinion 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 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.

Whittemore, Dowen & Ricciardelli, LLP

Whittemore, Dowen & Ricciardelli, LLP
Queensbury, New York

February 14, 2020

WDR
CPAs & Business Advisors
WHITTEMORE, DOWEN & RICCIARDELLI, LLP

333 Aviation Road, Bldg B
Queensbury, NY 12804
Ph: (518)792-0918
Fax: (518)743-0882
www.wdrcpa.com

February 14, 2020

Board of Directors
Washington Tobacco Asset Securitization Corporation

We have audited the financial statements of the governmental activities of Washington Tobacco Asset Securitization Corporation, a blended component unit of Washington County, New York, for the year ended December 31, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards,* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 20, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Washington Tobacco Asset Securitization Corporation are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2019, except for the implementation of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.* This pronouncement affects the disclosures required related to direct borrowings, and bonds, including the disclosure of collateral for both types of debt. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

> Management's estimate of the deferred amount from tobacco settlement receivable is based on the present value of the projected collections from 2020 through 2042 using a discount rate of 4.625% which approximates the average interest rate being paid on the bonds being repaid. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

> The disclosure of future debt maturities in the notes to the financial statements that shows the annual principal and interest payments according to the original bond amortization schedule. However, because the terms of the bonds allow for flexible principal and interest payments, the actual annual debt service payments are usually different from the schedule.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached misstatements detected as a result of audit procedures were corrected by management. We are also attaching "reclassifying journal entries" which adjust the full accrual financial statements to the modified accrual governmental fund statements.

Disagreements With Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 14, 2020.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of Washington Tobacco Asset Securitization Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Whittemore, Dowen & Ricciardelli, LLP

Whittemore, Dowen & Ricciardelli, LLP

Client: *23006 - WASHINGTON TOBACCO ASSET*
Engagement: *AUD 12/19 - Washington Tobacco asset securitization corp*
Trial Balance: *TB*
Workpaper: *3700.01 - Adjusting Journal Entries Report*

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 5		**5305**		
To reclass current portion of long-term debt				
210	Bonds Payable		250,000.00	
215	Current Portion of Bonds Payable			250,000.00
Total			**250,000.00**	**250,000.00**
Adjusting Journal Entries JE # 6		**4202**		
To record tobacco settlement receivable				
195	pv settle receivable		21,586,737.00	
240	Deferred Income			21,586,737.00
Total			**21,586,737.00**	**21,586,737.00**
Adjusting Journal Entries JE # 7		**4150.10 Tab1**		
To correct debt reserve acct				
310	reserve for debt		2.00	
300	unrestricted fund balance			2.00
Total			**2.00**	**2.00**

Client: *23006 - WASHINGTON TOBACCO ASSET*
Engagement: *AUD 12/19 - Washington Tobacco asset securitization corp*
Trial Balance: *TB*
Workpaper: *3700.05 - Reclassifying Journal Entries Report*

Account	Description	W/P Ref	Debit	Credit
Reclassifying Journal Entries JE # 1				
To adust for py accrued interest				
(50,650 py-50,373 cy= 277				
590	Bond interest		277.00	
220	accrued interest payable			277.00
Total			**277.00**	**277.00**
Reclassifying Journal Entries JE # 2				
To convert accured interest from Govt wide to fund balance statements				
220	accrued interest payable		50,650.00	
300	unrestricted fund balance			50,650.00
Total			**50,650.00**	**50,650.00**
Reclassifying Journal Entries JE # 3				
To adjust for the effect of bond payment for fund statements				
591	Bond principle payments		70,000.00	
210	Bonds Payable			70,000.00
Total			**70,000.00**	**70,000.00**
Reclassifying Journal Entries JE # 4				
To remove bonds payable for fund statements				
210	Bonds Payable		11,975,000.00	
215	Current Portion of Bonds Payable		250,000.00	
300	unrestricted fund balance			12,225,000.00
Total			**12,225,000.00**	**12,225,000.00**