

**WYOMING TOBACCO ASSET
SECURITIZATION CORPORATION**

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

*Basic Financial Statements and Required
Supplementary Information for the
Year Ended December 31, 2011
And Independent Auditors' Reports*

WYOMING TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Wyoming, New York)
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Wyoming Tobacco Asset Securitization Corporation

We have audited the accompanying financial statements of the governmental activities and each major fund of the Wyoming Tobacco Asset Securitization Corporation (the "WTASC"), a component unit of the County of Wyoming, New York, as of and for the year ended December 31, 2011, which collectively comprise WTASC's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the WTASC's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of WTASC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of WTASC, at December 31, 2011, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2012, on our consideration of the WTASC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 and Budgetary Comparison Schedule on page 21 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.

Dawson & Malin LLP

March 28, 2012

WYOMING TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Wyoming, New York)
Management's Discussion and Analysis
Year Ended December 31, 2011

As management of the Wyoming Tobacco Asset Securitization Corporation ("WTASC"), a blended component unit of the County of Wyoming (the "County"), we offer readers of WTASC's financial statements this narrative overview and analysis of the financial activities of WTASC for the fiscal year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with additional information contained in the financial statements and notes to the financial statements. All amounts, unless otherwise indicated, are expressed in dollars. For comparative purposes, certain items related to the year ended December 31, 2010 presentation have been reclassified.

Financial Highlights

- ◆ Total government-wide liabilities of WTASC exceeded government-wide assets by \$9,490,139 at December 31, 2011. This compares to total government-wide liabilities of WTASC exceeding government-wide assets by \$9,380,238 at December 31, 2010.
- ◆ WTASC's net assets decreased by \$109,901, which increased its net deficit, for the year ended December 31, 2011. The increase in WTASC's net deficit was largely due to accreted interest costs coupled by the declining cigarette sales which may be attributed to recent increases in cigarette taxes.

Overview of the Financial Statements

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

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

The *statement of net assets* presents information on all WTASC's assets and liabilities, assets denote resources available to continue the operations of WTASC, while liabilities indicate how much WTASC owes lending institutions. The difference between the two is reported as *net assets (deficit)*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of WTASC is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found on pages 7-8 of this report.

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

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

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

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

The basic governmental fund financial statements can be found on pages 9-11 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12-20 of this report.

Financial Analysis

As noted earlier, net assets (deficit) may serve over time as a useful indicator of a government’s financial position. In the case of WTASC, liabilities exceeded assets by \$9,490,139 at December 31, 2011, as compared to \$9,380,238 at December 31, 2010. Table 1, shown below, presents the condensed statements of net assets (deficit) for WTASC at December 31, 2011 and December 31, 2010.

Table 1—Condensed statements of net assets (deficit)

	December 31,	
	2011	2010
Current assets	\$ 1,352,032	\$ 1,247,467
Total assets	<u>1,352,032</u>	<u>1,247,467</u>
Current liabilities	32,029	32,627
Noncurrent liabilities	<u>10,810,142</u>	<u>10,595,078</u>
Total liabilities	<u>10,842,171</u>	<u>10,627,705</u>
Net assets (deficit)	<u>\$ (9,490,139)</u>	<u>\$ (9,380,238)</u>

At December 31, 2011, total WTASC assets were \$1,352,032; and, \$1,247,467 at December 31, 2010. The largest asset held by WTASC for both years was cash and cash equivalents. WTASC had no noncurrent assets at December 31, 2011 and December 31, 2010.

WTASC's liabilities totaled \$10,842,171 at December 31, 2011; and, \$10,627,705 at December 31, 2010. The largest portion of the liabilities is outstanding debt, net of discount, totaling \$8,769,759 and \$9,037,395 at December 31, 2011 and 2010, respectively.

The statement of revenues, expenses and changes in net assets (deficit) presents revenues received and expenses paid by WTASC. Presented as Table 2, is the condensed statement of revenues, expenses and changes in net assets for the years ended December 31, 2011 and 2010.

Table 2—Condensed statements of revenues, expenses and changes in net assets (deficit)

	Year Ended December 31,	
	2011	2010
General revenues	\$ 685,625	\$ 470,283
Expenses and transfers	<u>795,526</u>	<u>817,025</u>
Change in net assets	(109,901)	(346,742)
Net assets (deficit)—beginning	<u>(9,380,238)</u>	<u>(9,033,496)</u>
Net assets (deficit)—ending	<u>\$ (9,490,139)</u>	<u>\$ (9,380,238)</u>

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

A summary of sources of revenues for the years ended December 31, 2011 and December 31, 2010 is presented below in Table 3.

Table 3—Sources of revenues

	2011	2010	Increase/(Decrease)	
			\$	%
Tobacco settlement revenues	\$ 638,741	\$ 430,893	\$ 207,848	48.2
Interest earnings	185	360	(175)	(48.6)
Miscellaneous income	<u>46,699</u>	<u>39,030</u>	<u>7,669</u>	19.6
Total revenues	<u>\$ 685,625</u>	<u>\$ 470,283</u>	<u>\$ 207,673</u>	44.2

For the year ended December 31, 2011, overall revenues increased by 44.2%, which was due to an unanticipated increase of tobacco settlement revenues.

The most significant source of revenue, for both years, was tobacco settlement revenues, which was 93.2% and 91.6% of total revenues for the years ended December 31, 2011 and 2010, respectively. The next largest source of revenue each year was miscellaneous income which comprised 6.8% and 8.3% of total revenues in the years ended December 31, 2011 and December 31, 2010, respectively.

A summary of operating expenses for the years ended December 31, 2011 and December 31, 2010 is presented below in Table 4.

Table 4—Operating expenses

	<u>2011</u>	<u>2010</u>	Increase/(Decrease)	
			<u>\$</u>	<u>%</u>
Expenses:				
General government support	\$ 73,130	\$ 109,407	\$ (36,277)	(33.2)
Interest and fiscal charges	<u>722,396</u>	<u>707,618</u>	<u>14,778</u>	2.1
Total expenses	<u>\$ 795,526</u>	<u>\$ 817,025</u>	<u>\$ (21,499)</u>	(2.6)

WTASC's most significant expense items are interest and fiscal charges and general government, which comprised 90.8% and 9.2%, respectively, of total expenses for the year ended December 31, 2011 and 86.6% and 13.4% respectively, for the year ended December 31, 2010.

WTASC total operating expenses for the year ended December 31, 2011, decreased by 2.6% from the previous year. The decrease was primarily due to a decrease in expenditures related to general government support.

Request for Information

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

BASIC FINANCIAL STATEMENTS

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WYOMING TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Wyoming, New York)
Statement of Net Assets (Deficit)
December 31, 2011

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 712,593
Accounts receivable	639,439
Total assets	1,352,032
LIABILITIES	
Accrued interest payable	32,029
Non-current liabilities:	
Due within one year - bonds	510,000
Due within more than one year - bonds	10,300,142
Total liabilities	10,842,171
NET ASSETS (DEFICIT)	
Restricted for:	
Debt service	619,291
Unrestricted	(10,109,430)
Total net assets (deficit)	\$ (9,490,139)

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

WYOMING TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Wyoming, New York)
Statement of Activities
Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues	Revenue and Changes in Net Assets
Functions/Programs	Expenses	Program Revenues	Governmental Activities
Primary Government:			
Governmental activities:			
General government support	\$ 73,130	\$ -	\$ (73,130)
Interest and fiscal charges	<u>722,396</u>	<u>-</u>	<u>(722,396)</u>
Total governmental activities	<u>\$ 795,526</u>	<u>\$ -</u>	<u>(795,526)</u>
General revenues:			
Interest earnings			185
Tobacco settlement revenues			638,741
Miscellaneous income			<u>46,699</u>
Total general revenues			<u>685,625</u>
Change in net assets			(109,901)
Net assets—beginning			<u>(9,380,238)</u>
Net assets—ending			<u>\$ (9,490,139)</u>

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

WYOMING TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Wyoming, New York)
Balance Sheet—Governmental Funds and
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets (Deficit)
December 31, 2011

	General	Debt Service	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 93,302	\$ 619,291	\$ 712,593
Total assets	<u>\$ 93,302</u>	<u>\$ 619,291</u>	<u>\$ 712,593</u>
LIABILITIES AND FUND BALANCES			
Fund balances:			
Restricted for:			
Debt	-	619,291	619,291
Unassigned	<u>93,302</u>	<u>-</u>	<u>93,302</u>
Total fund balances	<u>93,302</u>	<u>619,291</u>	<u>712,593</u>
Total liabilities and fund balances	<u>\$ 93,302</u>	<u>\$ 619,291</u>	712,593

Amounts reported for governmental activities in the statement of net assets (deficit) are different from those reported in the balance sheet for governmental funds because:

Long-term liabilities, including bonds payable and accumulated interest on capital appreciation bonds, are not due and payable in the current period and, therefore, are not reported in the funds. (10,810,142)

To recognize interest accrual on long term debt, which, for fund reporting purposes, is not recognized as a liability until due. (32,029)

Revenue is recognized when available in the governmental funds. Revenue earned during 2011 but not available until 2012 and recorded as a receivable in the government-wide statements. 639,439

Total net assets (deficit)—governmental activities \$ (9,490,139)

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

WYOMING TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Wyoming, New York)
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUES			
Tobacco settlement revenue	\$ -	557,402	\$ 557,402
Interest earnings	107	78	185
Miscellaneous income	<u>46,699</u>	<u>-</u>	<u>46,699</u>
Total revenues	<u>46,806</u>	<u>557,480</u>	<u>604,286</u>
EXPENDITURES			
Current:			
General government support	22,237	50,893	73,130
Debt service:			
Principal	-	120,000	120,000
Interest	<u>-</u>	<u>387,930</u>	<u>387,930</u>
Total expenditures	<u>22,237</u>	<u>558,823</u>	<u>581,060</u>
Net change in fund balances	24,569	(1,343)	23,226
Fund balances—beginning	<u>68,733</u>	<u>620,634</u>	<u>689,367</u>
Fund balances—ending	<u>\$ 93,302</u>	<u>\$ 619,291</u>	<u>\$ 712,593</u>

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

WYOMING TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Wyoming, New York)
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended December 31, 2011

Amounts reported for governmental activities in the statement of activities are different from those reported in the statement of revenues, expenditures and changes in fund balances of governmental funds because:

Net change in fund balances—total governmental funds	\$	23,226
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The repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, this has no effect on net assets. The total of principal payments for the year ended December 31, 2011 is:		120,000
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Certain charges (bond issuance costs) are deferred and amortized over the term of the related debt in the government-wide statements. In the fund financial statements, such charges were recognized during prior periods as debt service expenditures. The net effect of these differences is:		(2,364)
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In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of the difference in accrued interest on outstanding bonds and accreted interest for Subordinate Turbo CAB's between the beginning of the year and the end of the year is:		(332,102)
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Revenue is recognized when earned in the government-wide statements. The change in the accrual of tobacco settlement revenue is:		81,339
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Change in net assets of governmental activities	\$	<u>(109,901)</u>
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The notes to the financial statements are an integral part of this statement

WYOMING TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Wyoming, New York)
Notes to the Financial Statements
December 31, 2011

1. ORGANIZATION

The Wyoming Tobacco Asset Securitization Corporation (“WTASC”) is a special purpose, bankruptcy remote, local development corporation organized under the Not-for-Profit Corporation Law of the State of New York. WTASC is an instrumentality of, but separate, and apart from the County of Wyoming, New York (the “County”). Although legally separate from the County, WTASC is a component unit of the County. Based on the nature and significance of WTASC’s relationship with the County and the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, WTASC is included within the County basic financial statements as a blended component unit.

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

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

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

In November 2005, New York Counties Tobacco Trust V (“NYCTT V”) issued Tobacco Settlement Pass-Through Bonds, subordinate to the original bonds, whose proceeds were shared by the twenty-four TASCs participating in the issuance. Each TASC’s Series 2005 bonds are payable from and secured by all Tobacco Settlement Revenues (TSRs) allocated to the related County under the MSA; investment earnings on amounts in certain funds and accounts established under the Indenture; any amounts on deposits in such funds and accounts held as security for the TASC’s Series 2005 bonds; and certain amounts expected to become available from funds and accounts created under the TASC Indenture as security for prior bonds upon their retirement.

During 2000, Wyoming County (the “County”) sold its right to receive payments under the MSA to the Wyoming Tobacco Asset Securitization Corporation (WTASC) for \$6,699,185 for the Series 2000 bonds and \$3,524,499 for the Series 2005 bonds. These amounts were used to defease bonds held by the County. The County is the sole beneficial interest in WTASC Residual trust (the Trust). The Trust is a Delaware business trust to which WTASC has conveyed to the County a residual

interest in all the Tobacco Settlement revenues annually received in excess of those required to pay debt service on Series 2000 Bonds. WTASC's right to receive Tobacco Settlement Revenues is its most significant asset, and is expected to produce cash flow to fund its obligations.

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

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

A Consumption Decline Trapping Event occurs when shipments of cigarettes in or to the 50 United States, the District of Columbia and Puerto Rico as measured under the MSA, are less in any year preceding a deposit date than the amount opposite such year under the "Consumption Decline Trapping Event" definition, which number for the year 2010 is 305,664,161,271. According to the MSA Report, the amount shown as relevant shipments for the year 2010 was less than the shipment amount specified above, and therefore, a Consumption Decline Trapping Event has occurred.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General—In its accounting and financial reporting in conformity with accounting principles generally accepted in the United States of America, WTASC follows all applicable GASB pronouncements.

Government-wide and fund financial statement—The government-wide financial statements (i.e., statement of net and the statement of changes in net assets) report information on all the nonfiduciary activities of WTASC. Interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of governmental activities demonstrates the degree to which the direct expenses of a given function is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Indirect expenses have been included as part of the program expenses reported for the various functional activities. *Program revenues* include 1) charges to those who

purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

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

General Fund—The General Fund is used for all financial resources associated with WTASC except for those required to be accounted for in another fund. Revenue is recognized when received.

Debt Service Fund—The Debt Service Fund is used to account for the accumulation of resources for, and for the payment of long-term bond principal, interest and related costs.

Cash and cash equivalents—Cash includes amounts in demand deposits as well as short-term investments with original maturities of three months or less from the date acquired by WTASC. Cash and cash equivalents are stated at fair value based on quoted market prices.

Investments – Investments are recorded on the balance sheet at fair value and all investment income, including changes in the fair value of investments, is reported as revenue in the statement of revenues, expenditures and changes in fund balance.

Expenditures—Expenditures are recorded on a modified accrual basis of accounting. Payments to the County are recorded when the obligation is incurred. General administration costs consist of operating expenses for professional service fees and paid from General Fund revenues.

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

Tax status—WTASC is a local development corporation organized pursuant to Section 1411 of the Not-for-Profit Corporation Law of the State of New York and is exempt from Federal income taxes and New York State taxes. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Adoption of New Accounting Pronouncements—During the year ended December 31, 2011, the WTASC adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the WTASC to change its fund balance classifications for governmental funds. The new classifications are explained below:

Nonspendable fund balance—Amounts that are not in a spendable form (such as inventory or prepaids) or are required to be maintained intact (such as the corpus of an endowment fund).

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.

Committed fund balance—Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority (WTASC Board); to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.

Assigned fund balance—Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance—Amounts that are available for any purpose; these amounts are reported only in the general fund.

Additionally, during the year ended December 31, 2011, WTASC completed the process of evaluating the impact that will result from adopting GASB Statement No. 59, *Financial Instruments Omnibus* effective for the year ending December 31, 2011. GASB Statement No. 59 did not have a material impact on WTASC’s financial position or results from operations.

Future impacts of accounting pronouncements—WTASC has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*; No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, effective for the year ending December 31, 2012; and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, effective for the year ending December 31, 2013. WTASC is therefore unable to disclose the impact that adopting GASB Statements No. 57, 60, 61, 62, 63 and 64 will have on its financial position and results of operations when such statements are adopted.

3. CASH AND CASH EQUIVALENTS

At December 31, 2011, WTASC’s cash was insured by either the Federal Depository Insurance Corporation (“FDIC”) or collateralized by securities held in the pledging bank’s trust department in WTASC’s name. WTASC’s investment policy provides for eligible investments in defeasance collateral, obligations of FHLMC, FNMA, or the Federal Farm Credit System, demand and time deposit accounts and certificates of deposit, general obligations of states and guaranteed state obligations, commercial or finance company paper, repurchase obligations, corporate securities

bearing interest or sold at discount, taxable money market funds, investment agreements or guaranteed investment contracts, and other obligations or securities that are non-callable.

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

Investments – Investments include money market accounts and a discount note with a maturity date within three months of year end and are, therefore, considered to be cash equivalents. These investments are carried at fair value.

Custodial credit risk—deposits—Custodial credit risk is the risk that in the event of a bank failure, the WTASC's deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2011, the WTASC's deposits were FDIC insured or collateralized by securities held by the pledging institution's trust department or agent in WTASC's name.

4. LONG-TERM DEBT

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

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

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

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

Bonds payable – TASC I consist of the following at December 31, 2011:

Serial Bonds - Redeemable in annual installments of various amounts beginning June 1, 2002 through June 1, 2015. Interest is payable in semi-annual intallments at rates ranging from 5.250% to 6.300%.	\$ 255,000
Term Bonds - Redeemable in annual isntallments of various amounts beginning June 1, 2016 through June 1, 2019. Interest is payable in semi-annual installments at 6.300%.	510,000
Flexible Amortization Bonds - Redeemable in annual installments of various amounts beginning June 1, 2024 through June 1, 2028. Interest is payable in semi-annual installments at 6.250%.	680,000
Flexible Amortization Bonds - Redeemable in annual installments of various amounts beginning June 1, 2029 through June 1, 2035. Interest is payable in semi-annual installments at 6.500%.	2,050,000
Flexible Amortization Bonds - Redeemable in annual installments of various amounts beginning June 1, 2036 through June 1, 2042. Interest is payable in semi-annual installments at 6.625%.	<u>2,440,000</u>
Total	<u>5,935,000</u>
Less, current portion	<u>(510,000)</u>
Long-term portion	<u>\$ 5,425,000</u>

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

<u>Year ended</u>				
December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2012	\$ 510,000	\$ 368,549	\$ 878,549	
2013	285,000	343,986	628,986	
2014	295,000	325,855	620,855	
2015	310,000	306,646	616,646	
2016	335,000	286,003	621,003	
2017-2021	2,280,000	1,034,945	3,314,945	
2022-2026	<u>1,920,000</u>	<u>213,325</u>	<u>2,133,325</u>	
Total	<u>\$ 5,935,000</u>	<u>\$ 2,879,309</u>	<u>\$ 8,814,309</u>	

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

Bonds payable – TASC V consist of the following at December 31, 2011:

Subordinate Turbo CABs - Redeemable in installments of estimated amounts to begin on June 1, 2015 based upon the estimated collections of the payments under the MSA. Interest is accrued at 6.000%. Final payment of principal and accrued interest is due June 1, 2038.	\$ 1,063,305
Subordinate Turbo CABs - Redeemable in installments of estimated amounts to begin on June 1, 2024 based upon the estimated collections of the payments under the MSA. Interest is accrued at 6.100%. Final payment of principal and accrued interest is due June 1, 2050.	716,046
Subordinate Turbo CABs - Redeemable in installments of estimated amounts to begin on June 1, 2026 based upon the estimated collections of the payments under the MSA. Interest is accrued at 6.850%. Final payment of principal and accrued interest is due June 1, 2055.	428,273
Subordinate Turbo CABs - Redeemable in installments of estimated amounts to begin on June 1, 2028 based upon the estimated collections of the payments under the MSA. Interest is accrued at 7.850%. Final payment of principal and accrued interest is due June 1, 2060.	<u>1,222,752</u>
Sub-total	3,430,376
Less, bond discount	<u>(85,617)</u>
Total	3,344,759
Less, current portion	-
Long-term portion	<u>\$ 3,344,759</u>

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

Redemption of the Subordinate Turbo CABs as outlined in the original official statement totaled \$17,458,995 and is scheduled to be paid from 2015 through 2039, while early payment is allowed. During the year ended December 31, 2011, WTASC did not make any redemption payments.

A summary of the Subordinate Turbo CABs net bond balance activity for the year ended December 31, 2011 follows:

	Interest Rate	Original Principal	Beginning Balance 1/1/2011	Annual Net Interest Accretion	Turbo Redemption Payments	Ending Balance 12/31/2011
Subordinate	6.00% -					
Turbo CABs	7.85%	<u>\$ 3,524,499</u>	<u>\$ 4,628,059</u>	<u>\$ 332,700</u>	<u>\$ -</u>	<u>\$ 4,960,759</u>

This bond shall not be a debt of either the State or the County and neither the State nor the County shall be liable hereon, nor shall it be payable out of any funds other than those of WTASC pledged therefore.

5. FUND BALANCE

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. At December 31, 2011, WTASC reported \$619,298 of fund balance restricted for debt service that must be used toward the future repayment of bonded debt.

If WTASC must use funds for emergency expenditures it shall expend funds first from funds classified under GASB 54 as nonspendable (if funds become available) then restricted funds. The use of committed and assigned funds as classified by GASB 54 will occur after the exhaustion of available restricted funds. Finally, if no other fund balances are available WTASC will use unassigned fund balance.

6. CONTINGENCIES

Certain smokers, consumer groups, cigarette importers, cigarette wholesalers, cigarette distributors, cigarette manufacturers, Native American tribes, taxpayers, taxpayers' groups and other parties have instituted lawsuits against various tobacco manufacturers, including the participating manufacturers, as well as against certain of the settling States and other public entities. The lawsuits allege, among other things, that the MSA violates certain provisions of the United States Constitution, state constitutions, the federal antitrust laws, federal civil rights laws, state consumer protection laws and unfair competition laws, some of which actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek, among other things, an injunction against one or more of the settling States from collecting any monies under the MSA and barring the participating manufacturers from collecting cigarette price increases related to the MSA and/or a determination that the MSA is void or unenforceable. In addition, class action lawsuits have been filed in several federal and state courts alleging that under the federal Medicaid law, any amount tobacco settlement funds that the settling State receive in excess of what they paid through the Medicaid program to treat tobacco-related diseases should be paid directly to Medicaid recipients.

With respect to all matters of litigation that have been brought and may in the future be brought against the OPMs, or involving the enforceability of the MSA or constitutionality of the Model Statute or the enforcement of the right to the annual payments or otherwise filed in connection with the tobacco industry, the outcome of such litigation, in general, cannot be determined with certainty and depends, among other things, on (i) the issues being appropriately presented and argued before the courts (including the applicable appellate courts) and (ii) on the courts, having been presented with such issues, correctly applying applicable legal principles in reaching appropriate decisions regarding the merits. In addition, the courts may, in their exercise of equitable jurisdiction, reach judgments based not upon the legal merits but upon a balancing of the equities among the parties. Accordingly, no assurance can be given as to the outcome of any such litigation and any such adverse outcome could have a material adverse effect on the amount of TSRs available to the TASCs to pay the Series 2005 Bonds which could adversely affect the amount of pass-through funds available to pay Turbo redemptions, principal of and interest on the Series 2005 NYCTT Bonds and could result in the complete loss of an owner's investment.

7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 28, 2012, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

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WYOMING TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Wyoming, New York)
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenues				
Interest	\$ 100	\$ 100	\$ 107	\$ 7
Miscellaneous income	<u>39,029</u>	<u>39,029</u>	<u>46,699</u>	<u>7,670</u>
Total revenues	<u>39,129</u>	<u>39,129</u>	<u>46,806</u>	<u>7,677</u>
Expenditures				
General administrative expenditures	<u>39,129</u>	<u>39,129</u>	<u>22,237</u>	<u>16,892</u>
Total expenditures	<u>39,129</u>	<u>39,129</u>	<u>22,237</u>	<u>16,892</u>
Excess of revenues over expenditures	-	-	24,569	24,569
Fund balances - beginning	<u>68,733</u>	<u>68,733</u>	<u>68,733</u>	<u>-</u>
Fund balances - ending	<u>\$ 68,733</u>	<u>\$ 68,733</u>	<u>\$ 93,302</u>	<u>\$ 24,569</u>

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

To the Board of Directors
Wyoming Tobacco Asset Securitization Corporation

We have audited the financial statements of Wyoming Tobacco Asset Securitization Corporation ("WTASC"), a component unit of the County of Wyoming, New York, as of and for the year ended December 31, 2011, and have issued our report thereon dated March 28, 2012. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the WTASC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the WTASC's Board of Directors and others within the WTASC, the Wyoming County Legislators, the Office of the State Comptroller of New York, and the Authority Budget Office of New York State and is not intended to be and should not be used by anyone other than these specified parties.

 Drexler & Malach LLP

March 28, 2012