

**RENSELAER TOBACCO ASSET
SECURITIZATION CORPORATION**

*(A Component Unit of the County of Rensselaer, New York)
Basic Financial Statements and Required
Supplementary Information for the
Year Ended December 31, 2018
and Independent Auditors' Reports*

RENSSELAER TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Rensselaer, New York)
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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rensselaer Tobacco Asset Securitization Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the Rensselaer Tobacco Asset Securitization Corporation ("RTASC"), a component unit of the County of Rensselaer, New York, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise RTASC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of RTASC, as of December 31, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 25, 2019 on our consideration of RTASC'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 solely 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 RTASC'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 RTASC's internal control over financial reporting and compliance.

Drescher & Malecki LLP

March 25, 2019

RENSSELAER TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Rensselaer, New York)
Management's Discussion and Analysis
Year Ended December 31, 2018

As management of the Rensselaer Tobacco Asset Securitization Corporation ("RTASC"), a blended component unit of the County of Rensselaer, New York (the "County"), we offer readers of RTASC's financial statements this narrative overview and analysis of the financial activities of RTASC for the fiscal year ended December 31, 2018. This document should be read in conjunction with additional information that we have furnished in RTASC's financial statements, which follow this narrative.

Financial Highlights

- Total government-wide liabilities and deferred inflows of resources of RTASC exceeded government-wide assets by \$39,177,473 at December 31, 2018. This compares to RTASC's total government-wide liabilities and deferred inflows of resources exceeding government-wide assets by \$39,380,384 at December 31, 2017.
- RTASC's net position increased by \$202,911 for the year ended December 31, 2018.
- At the close of the current year, RTASC's governmental funds reported combined fund balances of \$2,172,579, a decrease of \$29,825 in comparison with the prior year. Approximately 2.8 percent of this amount, \$61,597 is available for spending at RTASC's discretion (unassigned fund balance). The remainder is reserved for debt service.
- RTASC's total Tobacco Settlement Bonds payable decreased by \$450,000 as a result of principal payments made during the year, while Subordinate Turbo Capital Appreciation Bonds ("CABs") increased by \$255,987 as a result of annual net interest accretion.

Overview of the Financial Statements

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

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

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

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

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

Fund financial statements—A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. RTASC, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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*.

RTASC 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 both funds.

The basic governmental fund financial statements can be found on pages 10-13 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 14-22 of this report.

Government-Wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government’s financial position. In the case of RTASC, liabilities and deferred inflows of resources exceeded assets by \$39,177,473 at December 31, 2018, as compared to \$39,380,384 at December 31, 2017. Table 1, shown on the following page, presents the condensed statements of net position for RTASC at December 31, 2018 and December 31, 2017.

Table 1—Condensed Statements of Net Position

	December 31,	
	2018	2017
Current assets	\$ 4,157,161	\$ 4,290,891
Total assets	<u>4,157,161</u>	<u>4,290,891</u>
Current liabilities	134,976	137,085
Noncurrent liabilities	<u>35,175,719</u>	<u>35,389,590</u>
Total liabilities	<u>35,310,695</u>	<u>35,526,675</u>
Deferred inflows of resources	<u>8,023,939</u>	<u>8,144,600</u>
Net position	<u>\$ (39,177,473)</u>	<u>\$ (39,380,384)</u>

A portion of RTASC’s net position, \$2,110,982 and \$2,103,889 at December 31, 2018 and 2017, respectively, represents resources that are subject to external restrictions on how they may be used. Therefore, the unrestricted deficit totals \$(41,288,455) and \$(41,484,273) at December 31, 2018 and December 31, 2017, respectively. The unrestricted net position deficit must be financed by future operations. The deficit results from long-term operations that are greater than currently available resources.

At December 31, 2018, total RTASC assets were \$4,157,161 compared to \$4,290,891 at December 31, 2017. The largest asset held by RTASC at December 31, 2018 and December 31, 2017 represents restricted cash and cash equivalents. RTASC had no noncurrent assets at December 31, 2018 and December 31, 2017.

Total liabilities at December 31, 2018 were \$35,310,695 compared to \$35,526,675 at December 31, 2017. The largest portion of the liabilities is outstanding debt totaling \$35,175,719 and \$35,389,590 at December 31, 2018 and 2017, respectively.

RTASC’s deferred inflows of resources, which resulted from a deferred gain on refunding bonds, totaled \$8,023,939 and \$8,144,600 at December 31, 2018 and 2017, respectively.

During the current year, net position for governmental activities increased \$202,911 from the prior fiscal year for an ending net position of \$(39,177,473). The statement of activities presents revenues received and expenses paid by RTASC. Presented as Table 2, shown below, are the condensed statements of activities for the years ended December 31, 2018 and 2017.

Table 2—Condensed Statements of Activities

	Year Ended December 31,	
	2017	2016
General revenues	\$ 2,005,916	\$ 1,892,113
Expenses—governmental activities	<u>(1,803,005)</u>	<u>(1,977,749)</u>
Change in net position	202,911	(85,636)
Net position—beginning	<u>(39,380,384)</u>	<u>(39,294,748)</u>
Net position—ending	<u>\$ (39,177,473)</u>	<u>\$ (39,380,384)</u>

Total revenues for the years ended December 31, 2018 and 2017 were \$2,005,916 and \$1,892,113, respectively. Revenues for the years ended December 31, 2018 and 2017 consisted of \$1,957,570 (97.6 percent) and \$1,870,207 (98.8 percent), respectively, of tobacco settlement revenues, and \$48,346 and \$21,906, respectively, of interest earnings.

A summary of sources of revenues for the years ended December 31, 2018 and December 31, 2017 is presented below in Table 3.

Table 3—Sources of Revenues

	Year Ended December 31,		Increase/(Decrease)	
	2018	2017	Dollars	Percent (%)
Tobacco settlement revenues	\$ 1,957,570	\$ 1,870,207	\$ 87,363	0.0
Interest earnings	48,346	21,906	26,440	120.7
Total revenues	<u>\$ 2,005,916</u>	<u>\$ 1,892,113</u>	<u>\$ 113,803</u>	6.0

Total expenses for the years ended December 31, 2018 and 2017 were \$1,803,005 and \$1,977,749, respectively. Expenses for the years ended December 31, 2018 and 2017 primarily consisted of \$1,745,721 (96.8 percent) and \$1,959,804 (99.1 percent), respectively, of interest and fiscal charges, and \$57,284 and \$17,945, respectively, of general government support expenses incurred in connection with the operations of RTASC.

A summary of expenses for the years ended December 31, 2018 and December 31, 2017 is presented below in Table 4.

Table 4—Expenses

	Year Ended December 31,		Increase/(Decrease)	
	2018	2017	Dollars	Percent (%)
General government support	\$ 57,284	\$ 17,945	\$ 39,339	219.2
Interest and fiscal charges	1,745,721	1,959,804	(214,083)	(10.9)
Total expenses	<u>\$ 1,803,005</u>	<u>\$ 1,977,749</u>	<u>\$ (174,744)</u>	(8.8)

Financial Analysis of Governmental Funds

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

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

At December 31, 2018, RTASC's governmental funds reported combined fund balances of \$2,172,579, a decrease of \$29,825 in comparison with the prior year. Approximately 2.8 percent of this amount, \$61,597, constitutes unassigned fund balance, which is available for spending at RTASC's discretion. The remainder of the fund balance, \$2,110,982, is restricted for debt service.

The General Fund is the chief operating fund of RTASC. During the year ended December 31, 2018, the General Fund fund balance decreased \$36,918 due to normal operations of the fund. At the end of the current fiscal year, total fund balance of the General Fund was unassigned fund balance in the amount of \$61,597.

The Debt Service Fund, the remaining major governmental fund, had an increase in fund balance during the current year of \$7,093 to increase year-end fund balance to \$2,110,982. The increase is a result of tobacco settlement revenues and interest earnings slightly outpacing expenditures. Principal, interest, and fiscal charges in the amount of \$2,102,689 were paid during the year ended December 31, 2018.

Debt Administration

Long-Term Debt—As of December 31, 2018, RTASC had net Tobacco Settlement Bonds outstanding of \$31,245,607, which are net of unamortized premium of \$1,320,607, and Subordinate Turbo CABs outstanding of \$3,930,112. During the year ended December 31, 2018, RTASC made principal payments of \$450,000 on its Tobacco Settlement Bonds, while interest accreted \$255,987 on its Subordinate Turbo CABs, as compared to principal payments made in the amount of \$150,000 and interest accretion of \$239,314 during the year ended December 31, 2017. Additional information on RTASC's long-term debt can be found in Note 4 to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of RTASC's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Rensselaer Tobacco Asset Securitization Corporation, c/o Rensselaer County Bureau of Finance, 1600 Seventh Avenue, Troy, New York, 12180.

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BASIC FINANCIAL STATEMENTS

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RENSSELAER TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Rensselaer, New York)
Statement of Net Position
December 31, 2018

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 61,597
Restricted cash and cash equivalents	2,110,982
Due from New York State	<u>1,984,582</u>
Total assets	<u>4,157,161</u>
LIABILITIES	
Current liabilities:	
Accrued interest payable	134,976
Noncurrent liabilities:	
Due within one year—net Tobacco Settlement Bonds payable	1,232,074
Due within more than one year—net Tobacco Settlement Bonds payable	30,013,533
Subordinate Turbo CABs payable	<u>3,930,112</u>
Total liabilities	<u>35,310,695</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred gain on refunding	<u>8,023,939</u>
Total deferred inflows of resources	<u>8,023,939</u>
NET POSITION	
Restricted for debt service	2,110,982
Unrestricted	<u>(41,288,455)</u>
Total net position	<u>\$ (39,177,473)</u>

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

RENSSELAER TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Rensselaer, New York)
Statement of Activities
Year Ended December 31, 2018

Functions/Programs	Expenses	Net (Expenses) and Changes in Net Position
		Primary Government Governmental Activities
Primary government:		
Governmental activities:		
General government support	\$ 57,284	\$ (57,284)
Interest and fiscal charges	1,745,721	(1,745,721)
Total primary government	\$ 1,803,005	(1,803,005)
General revenues:		
Tobacco settlement revenues		1,957,570
Interest earnings		48,346
Total general revenues		2,005,916
Change in net position		202,911
Net position—beginning		(39,380,384)
Net position—ending		\$ (39,177,473)

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

RENSSELAER TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Rensselaer, New York)
Balance Sheet—Governmental Funds
December 31, 2018

	General	Debt Service	Total
ASSETS			
Cash and cash equivalents	\$ 61,597	\$ -	\$ 61,597
Restricted cash and cash equivalents	-	<u>2,110,982</u>	<u>2,110,982</u>
Total assets	<u>\$ 61,597</u>	<u>\$ 2,110,982</u>	<u>\$ 2,172,579</u>
FUND BALANCES			
Restricted for debt service	\$ -	\$ 2,110,982	\$ 2,110,982
Unassigned	<u>61,597</u>	<u>-</u>	<u>61,597</u>
Total fund balances	<u>\$ 61,597</u>	<u>\$ 2,110,982</u>	<u>\$ 2,172,579</u>

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

RENSSELAER TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Rensselaer, New York)
Reconciliation of the Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
December 31, 2018

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

Total fund balances—governmental funds (page 10)	\$	2,172,579
A long-term asset, due from New York State, \$1,984,582 is not available to pay for current period expenditures and, therefore, is not reported in the funds.		1,984,582
Deferred gains associated with refunding of bonds are not reported in the governmental funds. The gain is reported as a deferred inflow of resources on the statement of net position and is recognized as a component of interest earnings over the life of the related debt.		(8,023,939)
Certain current liabilities and long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. The effects of these items are:		
Accrued interest payable	\$	(134,976)
Due within one year—net Tobacco Settlement Bonds payable		(1,232,074)
Due within more than one year—net Tobacco Settlement Bonds payable		(30,013,533)
Subordinate Turbo CABs payable		(3,930,112)
		(35,310,695)
Net position of governmental activities	\$	(39,177,473)

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

RENSSELAER TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Rensselaer, New York)
Statement of Revenues, Expenditures, and Changes in Fund Balances—
Governmental Funds
Year Ended December 31, 2018

	General	Debt Service	Total
REVENUES			
Tobacco settlement revenue	\$ -	\$ 2,061,475	\$ 2,061,475
Interest earnings	39	48,307	48,346
Total revenues	39	2,109,782	2,109,821
EXPENDITURES			
Current:			
General government support	36,957	20,327	57,284
Debt service:			
Principal	-	450,000	450,000
Interest and fiscal charges	-	1,632,362	1,632,362
Total expenditures	36,957	2,102,689	2,139,646
Net change in fund balances	(36,918)	7,093	(29,825)
Fund balances—beginning	98,515	2,103,889	2,202,404
Fund balances—ending	\$ 61,597	\$ 2,110,982	\$ 2,172,579

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

RENSSELAER TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Rensselaer, New York)
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances—
Governmental Funds to the Government-wide Statement of Activities
Year Ended December 31, 2018

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

Net change in fund balances—total governmental funds (page 12)	\$	(29,825)
Certain revenues are not recognized in governmental funds because they are not available soon enough after year end to pay for the current period's expenditures. On the Statement of Activities, however, revenues are recognized regardless of when its collected.		(103,905)
Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the governmental funds.		120,661
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 of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt and the related items is as follows:		
Change in accrued interest payable	\$	2,109
Principal repayments on Tobacco Settlement Bonds payable		450,000
Amortization of premium on Tobacco Settlement Bonds payable		19,858
Accreted interest on Subordinate Turbo CABs		(255,987)
		215,980
Change in net position of governmental activities	\$	202,911

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

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RENSELAER TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Rensselaer, New York)
Notes to the Financial Statements
Year Ended December 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Description of Government-Wide Financial Statements

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

Reporting Entity

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

RTASC was incorporated on November 27, 2001 for the purpose of issuing Asset Backed 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 board of directors of RTASC has five members, one of which must meet certain requirements of independence: (i) one who must be the Chief Fiscal Officer of the County, *ex official*; (ii) one as nominated by the Majority of the County Legislature of the County; (iii) one as nominated by the Minority of the County Legislature of the County; (iv) one Independent Director as recommended by the County Executive; and, (v) one additional Director as recommended by the County Executive.

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 2001, the County dedicated the net proceeds of the sale of the bonds as a source of funds for certain capital expenditures and the defeasance of debt. RTASC disbursed the net proceeds of the sale of bonds on behalf of the County as follows: \$27,520,954 to the Escrow Agent to defease certain County general obligation bonds; \$3,004,413 to the County to finance certain capital projects, and \$2,518,565 to the Liquidity Reserve Account held by the Indenture Trustee.

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 RTASC that are in excess of RTASC's expenses, debt service and contractual obligations, pursuant to the Bond 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, a trapping event has occurred. 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 2017 was 248,544,765,996. According to the MSA Report, the amount shown as relevant shipments for the year 2017 was less than the shipment amount specified above, and therefore a Consumption Decline Trapping Event has occurred.

Basis of Presentation – Government-Wide Financial Elements

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

Basis of Presentation – Fund Financial Statements

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

RTASC reports the following major governmental funds:

- *General Fund*—The General Fund constitutes the primary operating fund of RTASC and includes all operations not required to be recorded in another fund.
- *Debt Service Fund*—The Debt Service Fund is used to account for the accumulation of resources that are restricted for the payment of principal and interest on long-term obligations of governmental funds as well as the administration of such debt services.

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

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the

government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Measurement Focus and Basis of Accounting

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

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

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

The event that results in the recognition of an asset and revenue by a settling government is the domestic shipment of cigarettes (sales). Therefore, RTASC recognizes a receivable and revenue for tobacco settlement revenues when that event occurs. Because annual tobacco settlement revenue payments are based on cigarette sales from the preceding calendar year, RTASC estimates accrued tobacco settlement revenues that derive from sales from January 1 to their respective fiscal year ends. Under the modified accrual basis of accounting, revenue should be recognized to the extent that the event occurs and resources become *available*.

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

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

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

Cash, Cash Equivalents and Investments—Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date acquired by RTASC. At December 31, 2018, RTASC does not report any investments; however, when RTASC does have investments they are recorded at fair value in accordance with GASB.

Restricted Cash and Cash Equivalents—Restricted cash and cash equivalents represent amounts to support fund balance restrictions and unspent debt proceeds.

Due from New York State—Represents an estimate of RTASC’s portion of the Master Settlement Agreement and is recorded as a revenue in the government-wide financial statements.

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. At December 31, 2018, RTASC does not have any deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At December 31, 2018, RTASC reports a deferred inflow of resources of \$8,023,939 related to a deferred gain on refunding, which will be amortized over the life of the Tobacco Settlement Bonds, Series 2016. A deferred gain or loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price.

Net Position Flow Assumption—Sometimes RTASC will fund outlays for a particular purpose from both restricted (e.g., restricted bond proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is RTASC’s policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

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

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of RTASC’s highest level of decision-making authority

(RTASC Board). The governing board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

Revenues and Expenses/Expenditures

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

Tobacco Settlement Revenues—During the year ended December 31, 2018, RTASC recognized tobacco settlement revenues in accordance with the Master Settlement Agreement. Payments are made according to a set formula based on tobacco sales.

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

Other

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 revenues, expenses, assets, liabilities, deferred outflows of resources, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncements—During the year ended December 31, 2018, RTASC implemented GASB Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*; No. 85, *Omnibus 2017*; and No. 86, *Certain Debt Extinguishment Issues*. GASB Statement No. 75 improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). GASB Statement No. 85 addressed practice issues that have been identified during implementation and application of certain GASB Statements. GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for

the sole purpose of extinguishing debt. GASB Statements No. 75, 85, and 86 did not have a material impact on RTASC’s financial position or results from operations.

Future Impacts of Accounting Pronouncements—RTASC has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 83, *Certain Asset Retirement Obligations*; No. 84, *Fiduciary Activities*; No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*; and No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*, effective for the year ending December 31, 2019, and No. 87, *Leases*; and No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for the year ending December 31, 2020. RTASC is, therefore, unable to disclose the impact that adopting GASB Statements No. 83, 84, 87, 88, 89 and 90 will have on its financial position and results of operations when such statements are adopted.

Deficit Net Position—At December 31, 2018, RTASC reported a net position of \$(39,177,473). The deficit is caused by long-term obligations that are greater than currently available resources.

Tax Status—The Corporation is exempt from federal income tax under section 501(a) of the Internal Revenue Code (IRC) as an organization described in section 501 (c)(3).

2. CASH AND CASH EQUIVALENTS

RTASC’s investment policies are governed by New York State statutes. All deposits are carried at fair value. Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit not covered by Federal deposit insurance (FDIC). RTASC has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligation that may be pledged as collateral. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York.

At December 31, 2018, RTASC’s cash and cash equivalents consisted of the following:

	General Fund	Debt Service Fund	Total
Deposits	\$ 61,597	\$ -	\$ 61,597
Money market funds	-	7,281	7,281
Discount notes	-	2,103,701	2,103,701
Total cash and cash equivalents	<u>\$ 61,597</u>	<u>\$ 2,110,982</u>	<u>\$2,172,579</u>

Deposits—All deposits are carried at fair value and are classified by custodial credit risk at December 31, 2017 as follows:

	Bank Balance	Carrying Amount
FDIC insured	<u>\$ 61,597</u>	<u>\$ 61,597</u>

Cash Equivalents—Cash equivalents held by RTASC include money market accounts and discount notes. These cash equivalents are carried at amortized cost.

Restricted Cash and Cash Equivalents—RTASC reports restricted cash and cash equivalents in the Debt Service Fund of \$2,110,982 to support restricted fund balance.

Custodial Credit Risk—Deposits—Custodial credit risk is the risk that in the event of a bank failure, RTASC’s deposits may not be returned to it. As noted above, by New York State statute all deposits in excess of FDIC insurance coverage must be collateralized. At December 31, 2018, RTASC’s deposits were FDIC insured.

Custodial Credit Risk—Cash Equivalents—For cash equivalents, this is the risk that, in the event of the failure of the counterparty, RTASC will not be able to recover the value of its cash equivalents or collateral securities that are in the possession of an outside party. For cash equivalents, this is the risk that in the event of a bank failure, RTASC’s cash equivalents may not be returned to it.

Interest Rate Risk—As a means of limiting its exposure to fair value losses arising from fluctuating interest rates, it is RTASC’s practice to generally limit investments to 180 days or less.

3. RECEIVABLES

Due from New York State—Represents amounts owed to RTASC for tobacco settlement revenue earned in 2018. RTASC has accrued \$1,984,582 within the government activities only, as it is only recognized on the full accrual basis of accounting.

4. LONG-TERM DEBT

In 2001, the RTASC issued \$34,555,000 of Tobacco Settlement Asset Backed Bonds, Series 2001A pursuant to an indenture dated as of December 1, 2001. The net proceeds of the Series 2001A Bonds were used 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”). On September 22, 2016, RTASC issued \$30,525,000 of Tobacco Settlement Asset Backed Refunding Bonds, Series 2016. The Series 2016 bonds and additional consideration received as a result of the refunding transaction were used to redeem or exchange all of RTASC’s Tobacco Settlement Asset Backed Bonds Series 2001A outstanding in the aggregate principal amount of \$22,225,000, to acquire by negotiated purchase the initial principal amount of outstanding New York Counties Tobacco Trust V (“NYCTT”) Subordinate Bonds component S4B attributable to RTASC, to cancel the related NYCTT Subordinate Bonds component S2, and redeem NYCTT Subordinate Bonds component S1 bonds. In addition, as a result of the refunding RTASC made a payment of \$1,000,000 to provide Rensselaer County with funds for capital purposes.

In the event sufficient funds are not available to meet planned payment maturities, rated maturity dates will be used.

On November 15, 2005, RTASC participated in NYCTT, along with 23 other New York County Tobacco Corporations, and issued Tobacco Settlement Pass-Through Bonds—Subordinate Turbo CABs in various series for the purpose of securitizing additional future tobacco settlement revenues. The net proceeds of the 2005 series, after closing costs, amounted to \$12,225,328, and were used to purchase tobacco settlement rights from the County. The issuance had four components and payments on the Subordinate Turbo CABs were subordinate to the Series 2001 Bonds. As a result of the Tobacco Settlement Asset Backed Refunding Bonds, Series 2016 transaction described above, only the Series 2005 S3 Subordinate Turbo CABs remain.

Changes in Series 2016 Tobacco Settlement Bonds, for the year ended December 31, 2018 are as follows:

Description	Beginning Balance 1/1/2018	Additions	Deletions	Ending Balance 12/31/2018	Amounts Due Within One Year
Series 2016 Tobacco Settlement Bonds	\$ 30,375,000	\$ -	\$ 450,000	\$ 29,925,000	\$ 1,180,000
Plus:					
Bond premium	1,340,465	-	19,858	1,320,607	52,074
Net Tobacco Settlement Bonds	<u>\$ 31,715,465</u>	<u>\$ -</u>	<u>\$ 469,858</u>	<u>\$ 31,245,607</u>	<u>\$ 1,232,074</u>

RTASC debt service requirements based upon planned principal payments for Tobacco Settlement Bonds, Series 2016 are presented below:

Year ending December 31,	Principal	Interest	Total
2019	\$ 1,180,000	\$ 1,586,519	\$ 2,766,519
2020	1,120,000	1,521,832	2,641,832
2021	1,190,000	1,456,863	2,646,863
2022	1,250,000	1,388,238	2,638,238
2023	1,325,000	1,315,816	2,640,816
2024-2028	7,945,000	5,312,032	13,257,032
2029-2033	10,780,000	2,717,970	13,497,970
2034-2035	5,135,000	258,371	5,393,371
Total	<u>\$ 29,925,000</u>	<u>\$ 15,557,641</u>	<u>\$ 45,482,641</u>

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

A summary of the Subordinate Turbo CABs net bond balance activity for the year ended December 31, 2018 follows:

	Interest Rate	Original Principal	Beginning Balance 1/1/2018	Annual Net Interest Accretion	Reductions	Ending Balance 12/31/2018
Subordinate Turbo CABs	6.85%	<u>\$ 13,736,443</u>	<u>\$ 3,674,125</u>	<u>\$ 255,987</u>	<u>\$ -</u>	<u>\$ 3,930,112</u>

Redemption of the Subordinate Turbo CABs as outlined in the original official statement totals \$13,736,443 and is scheduled to be paid from 2035 to 2040, while early payment is allowed. During the year ended December 31, 2018, RTASC did not make any redemption payments. Outstanding Subordinate Turbo CABs consist of one installment, Series 2005 S3.

5. NET POSITION AND FUND BALANCE

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

- ◆ ***Restricted for Debt Service***—This category restricts a portion of net position for payment of the debt service obligations of RTASC. At December 31, 2018, the balance of this restriction was \$2,110,982.
- ◆ ***Unrestricted Component of Net Position***—This component represents net position of RTASC not restricted for any other purpose.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. At December 31, 2018, RTASC reported \$2,110,982 of fund balance restricted for debt service that must be used toward the future repayment of bonded debt.

As of December 31, 2018, RTASC reported no nonspendable, committed, or assigned fund balances.

6. CONTINGENCIES

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

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

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

7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 25, 2019, 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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Certified Public Accountants

**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
Rensselaer Tobacco Asset Securitization Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Rensselaer Tobacco Asset Securitization Corporation ("RTASC") as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise RTASC's basic financial statements, and have issued our report thereon dated March 25, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered RTASC's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RTASC's internal control. Accordingly, we do not express an opinion on the effectiveness of the RTASC'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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 RTASC'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.

Drescher & Malecki LLP

March 25, 2019