

**BROOME TOBACCO ASSET  
SECURITIZATION COPORATION  
(A COMPONENT UNIT OF  
THE COUNTY OF BROOME, NEW YORK)**

**Financial Statements as of  
December 31, 2017  
Together with  
Independent Auditor's Report**

**BROOME TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A COMPONENT UNIT OF THE COUNTY OF BROOME, NEW YORK)**

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## INDEPENDENT AUDITOR'S REPORT

March 22, 2018

To the Board of Directors  
Broome Tobacco Asset Securitization Corporation:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of Broome Tobacco Asset Securitization Corporation (the Corporation), a component unit of the County of Broome, New York, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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## **INDEPENDENT AUDITOR'S REPORT (Continued)**

### ***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 the major fund of Broome Tobacco Asset Securitization Corporation, as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on 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 22, 2018 on our consideration of the Corporation's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to solely 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

**BROOME TOBACCO ASSET SECURITIZATION CORPORATION  
(A COMPONENT UNIT OF THE COUNTY OF BROOME, NEW YORK)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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Our discussion and analysis of Broome Tobacco Asset Securitization Corporation's (the Corporation) financial performance provides an overview of the Corporation's financial activities during 2017. It should be read in conjunction with the financial statements and their associated notes that follow this section to properly evaluate the Corporation's financial position. The financial statements present only the information for the year ended December 31, 2017.

**FINANCIAL HIGHLIGHTS**

As discussed further in the notes to the financial statements, the Corporation was formed to acquire from the County of Broome, New York (the County), all future right, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) with respect to tobacco related litigation among various states and participating manufacturers. The Corporation is a component unit of Broome County and, accordingly, is included in the County's financial statements as a blended component unit. The Corporation is classified as a special-purpose government under the Government Accounting Standards Board and consists of one governmental fund. The fund and government-wide financial statements are presented together and include a reconciliation of the individual line items between the two statement types in a separate column.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements and notes to those statements. The statement of net position and statement of activities provide information about the Corporation's activity and present a long-term view of the Corporation's finances. The fund financial statements tell how the governmental activity's services were financed in the short term as well as what remains for future spending.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

**Government-wide Financial Statements**

The Corporation presents its government-wide financial statements as the statement of net position and the statement of activities. These include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Corporation's net position and changes in them. You can think of the Corporation's net position, the difference between assets and liabilities, as one way to measure the Corporation's financial health or financial position. Over time, increases or decreases in the Corporation's net position is one indicator of whether its financial health is improving or deteriorating.

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

### Government-wide Financial Statements (Continued)

Below is a condensed version of the government-wide financial statements for the years ended December 31,

#### Condensed Statement of Net Position

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 63,156	\$ 61,128	\$ 2,028	3%
Other current assets	3,530	4,170	(640)	-15%
Non-current - restricted assets	<u>5,726,570</u>	<u>6,124,745</u>	<u>(398,175)</u>	-7%
Total assets	<u>5,793,256</u>	<u>6,190,043</u>	<u>(396,787)</u>	-6%
<b>Liabilities</b>				
Accounts and accrued expenses	196,290	361,892	(165,602)	-46%
Bonds payable - due within one year	455,000	185,000	270,000	146%
Bonds payable - due after one year	<u>53,249,510</u>	<u>53,508,474</u>	<u>(258,964)</u>	0%
Total liabilities	<u>53,900,800</u>	<u>54,055,366</u>	<u>(154,566)</u>	0%
<b>Deferred Inflows of resources</b>				
Deferred gain on defeasance	<u>11,062,994</u>	<u>11,394,056</u>	<u>(331,062)</u>	100%
<b>Net Position</b>				
Restricted for debt service	5,726,570	6,124,745	(398,175)	-7%
Unrestricted net deficit	<u>(64,897,336)</u>	<u>(65,384,124)</u>	<u>486,788</u>	-1%
Total net position	<u>\$ (59,170,766)</u>	<u>\$ (59,259,379)</u>	<u>\$ 88,613</u>	0%

#### Condensed Statement of Activities

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
GENERAL REVENUES	<u>2,371,486</u>	<u>6,575,039</u>	<u>(4,203,553)</u>	-64%
EXPENSES:				
General and administrative costs	40,773	49,440	(8,667)	-18%
Bond issuance costs	-	723,151	(723,151)	100%
Debt service - Interest	<u>2,242,100</u>	<u>3,996,377</u>	<u>(1,754,277)</u>	-44%
Total Expenses	<u>2,282,873</u>	<u>4,768,968</u>	<u>(2,486,095)</u>	-52%
PAYMENT TO COUNTY	-	1,000,000	(1,000,000)	100%
Change in net position	88,613	806,071	(717,458)	-89%
Net position - beginning of year	<u>(59,259,379)</u>	<u>(60,065,450)</u>	<u>806,071</u>	-1%
Net Position - end of year	<u>(59,170,766)</u>	<u>(59,259,379)</u>	<u>88,613</u>	0%

## **OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

### **Condensed Statement of Activities (Continued)**

The Corporation's assets decreased by approximately \$400 thousand and the Corporation's liabilities decreased by approximately \$150 thousand. Deferred inflows of resources decreased by \$330 thousand. Net position increased by approximately \$85 thousand.

Assets decreased for two primary reasons. The tobacco settlement receivable decreased due to the \$400 thousand due to the estimate for the April 2018 TSR collection decreased as a result of decreasing payments.

Liabilities decreased by approximately \$150 thousand due to the decrease in the accrued interest expense.

As a result of the issuance of debt to retire existing debt in 2016, this transaction created a gain of \$11.4 million that is accounted for as a deferred inflow of resources. This gain will be amortized into interest expense over the life of the new debt and the annual amortization of \$331 thousand decreased the deferred inflow by a corresponding amount.

There was an increase between years in general revenues of over \$4 million. Under the Master Settlement Agreement, the tobacco companies are required to make annual payments to the Corporation. As part of the 2016 debt refunding transaction the Corporation received a termination payment of \$2.9 million from a 2001 forward delivery agreement on the 2001 liquidity reserve account.

Expenses, including transfers to the County, decreased approximately \$3.5 million primarily due to the issuance of the 2016 bonds. The issuance result in issuance costs of .7 million and provided for a \$1 million distribution to the County. Further, with the retirement of the 2005 S1, S2, and S4 bonds, accreted interest decreased \$1.6 million

The recognition of the bonds payable liability has created a deficit in the Corporation's net assets. The deficit is expected to be satisfied over time as the tobacco settlement proceeds are received and the Corporation's outstanding bonds are retired.

### **Fund Financial Statements**

A governmental entity can have various types of funds such as governmental and proprietary. The Corporation only has one fund, the debt service fund, which is a governmental fund.

Governmental funds focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Corporation's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Corporation's programs.

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

### Fund Financial Statements (Continued)

Below is a summarized version of the fund financial statement for the years ended December 31:

#### Condensed Governmental Funds Balance Sheet

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>%Change</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 63,156	\$ 61,128	\$ 2,028	3%
Interest receivable	-	640	(640)	100%
Prepaid expenses	3,530	3,530	-	0%
Restricted assets	<u>3,026,570</u>	<u>6,124,745</u>	<u>(3,098,175)</u>	-51%
Total assets	<u>\$ 3,093,256</u>	<u>\$ 6,190,043</u>	<u>\$ (3,096,787)</u>	-50%
<b>Liabilities</b>				
	<u>\$ 228</u>	<u>\$ -</u>	<u>\$ 228</u>	0%
<b>Fund Balance</b>				
Restricted for debt service	3,026,570	6,124,745	(3,098,175)	-51%
Assigned	<u>66,458</u>	<u>65,298</u>	<u>1,160</u>	2%
Total fund balance	<u>3,093,028</u>	<u>6,190,043</u>	<u>(3,097,015)</u>	-50%
Total liabilities and fund balance	<u>\$ 3,093,256</u>	<u>\$ 6,190,043</u>	<u>\$ (3,096,787)</u>	-50%

#### Condensed Statement of Revenues, Expenditures and Changes in Fund Balance

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>%Change</u>
REVENUES:	<u>\$ 2,711,076</u>	<u>\$ 6,252,539</u>	<u>\$ (3,541,463)</u>	-57%
EXPENDITURES				
General and administrative costs	40,773	49,440	(8,667)	-18%
Bond issuance costs	-	723,151	(723,151)	100%
Debt service	<u>2,727,728</u>	<u>5,981,947</u>	<u>(3,254,219)</u>	-54%
Total expenditures	<u>2,768,501</u>	<u>6,754,538</u>	<u>(3,986,037)</u>	-59%
OTHER FINANCING SOURCES AND (USES)				
Payment to County	-	(1,000,000)	1,000,000	100%
Proceeds from issuance of refunding bonds	-	44,190,000	(44,190,000)	100%
Payments to escrow agent	-	(51,256,345)	51,256,345	100%
other sources	3,010	-	3,010	100%
Termination payment	57,400	2,850,500	(2,793,100)	-98%
Premiums received from refunding bonds	<u>-</u>	<u>4,733,642</u>	<u>(4,733,642)</u>	100%
Total other financing sources and (uses)	<u>60,410</u>	<u>(482,203)</u>	<u>542,613</u>	100%
CHANGE IN FUND BALANCE	2,985	(19,796)	22,781	-115%
FUND BALANCE				
beginning of year	<u>3,090,043</u>	<u>4,074,245</u>	<u>(984,202)</u>	-24%
end of year	<u>\$ 3,093,028</u>	<u>\$ 4,054,449</u>	<u>\$ (961,421)</u>	-24%



## **OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

### **Condensed Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)**

The debt service fund has two distinct fund balances: restricted for debt service and assigned. Assigned fund balance is generated from general operations and is the residual amount of fund balance. Fund balance restricted for debt service results from monies set aside for future payment of the bond principal and interest.

The variance between years in revenues is due to the \$2.9 million settlement between the New York State and Non-Participating Tobacco Manufacturers that was recorded in the debt service fund in 2016.

The \$3.2 million decrease in debt service is due to a decrease in principal payments of approximately \$4.0 million.

The decrease in the other financing sources and uses is solely related to the issuance of the 2016 bonds which defeased the 2001 Bonds and a portion of the 2005 Bonds. See the long-term debt activity section below for further information.

Unlike the government-wide financial statements, in the fund financial statements, the bond payable is not recognized as a liability as it is long-term in nature. Because of this, there is not the issue of the large fund balance deficit under this methodology that is present in the government-wide presentation.

### **Long-Term Debt Activity**

The Corporation issued debt will be repaid by its purchases from the County of the future right, title and interest in the Tobacco Settlement Revenues. Serial Bonds principal payments are due annually and interest semiannually. At December 31, 2017, the Corporation had approximately \$53.7 million in bonds outstanding, a decrease of \$9 thousand from the prior year. In the prior year, the Corporation participated in the \$250,885,000 Series 2016A bond issuance by the New York Counties Tobacco Trust VI and issued \$44,190,000 in bonds whose proceeds were used to defease the 2001 Bonds and certain 2005 Bonds. See note 5 for further details on the 2016 debt issuance.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide to the readers of these financial statements an overview of the Corporation's finances and to show the Corporation's accountability for the money it received. For questions about this report and requests for additional information, contact the Broome Tobacco Asset Securitization Corporation at the Edwin L. Crawford Office Building, P.O. Box 1766, Binghamton, New York, 13902. The Corporation also has a website at [www.BroomeTASC.com](http://www.BroomeTASC.com).

**BROOME TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A COMPONENT UNIT OF THE COUNTY OF BROOME, NEW YORK)**

**GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET POSITION**  
**DECEMBER 31, 2017**

	Debt Service Fund	Adjustments (Note 3)	Statement of Net Position
<b>ASSETS</b>			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 63,156	\$ -	\$ 63,156
Interest receivable	0	-	0
Prepaid expenses	<u>3,530</u>	-	<u>3,530</u>
Total current assets	<u>66,686</u>	-	<u>66,686</u>
RESTRICTED ASSETS:			
Tobacco settlement receivable	-	2,700,000	2,700,000
Restricted cash and cash equivalents	23,727	-	23,727
Restricted investments	<u>3,002,843</u>	-	<u>3,002,843</u>
Total restricted assets	<u>3,026,570</u>	<u>2,700,000</u>	<u>5,726,570</u>
Total assets	<u>\$ 3,093,256</u>	<u>2,700,000</u>	<u>5,793,256</u>
<b>LIABILITIES</b>			
CURRENT LIABILITIES:			
Due to County	\$ 228	-	228
Accrued interest payable	-	196,290	196,290
Bonds payable - due within one year	-	<u>455,000</u>	<u>455,000</u>
Total current liabilities	<u>228</u>	<u>651,290</u>	<u>651,518</u>
LONG-TERM LIABILITIES:			
Bonds payable - due after one year	-	<u>53,249,510</u>	<u>53,249,510</u>
Total liabilities	<u>228</u>	<u>53,900,800</u>	<u>53,901,028</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred gain on refunding	-	<u>11,062,994</u>	<u>11,062,994</u>
<b>FUND BALANCE:</b>			
Restricted for debt service	3,026,570	(3,026,570)	-
Assigned	<u>66,458</u>	<u>(66,458)</u>	-
Total fund balance	<u>3,093,028</u>	<u>(3,093,028)</u>	-
Total liabilities and fund balance	<u>\$ 3,093,256</u>		
<b>NET POSITION:</b>			
Restricted for debt service		5,726,570	5,726,570
Unrestricted net deficit		<u>(64,897,336)</u>	<u>(64,897,336)</u>
Total net position		<u>\$ (59,170,766)</u>	<u>\$ (59,170,766)</u>

The accompanying notes are an integral part of these statements.

**BROOME TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A COMPONENT UNIT OF THE COUNTY OF BROOME, NEW YORK)**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN  
FUND BALANCE/STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Debt Service Fund	Adjustments (Note 3)	Statement of Activities
<b>GENERAL REVENUES:</b>			
Tobacco settlement proceeds	\$ 2,678,363	\$ (400,000)	\$ 2,278,363
Termination payment	-	57,400	57,400
other revenue	-	3,010	3,010
Interest income	<u>32,713</u>	<u>-</u>	<u>32,713</u>
Total general revenues	<u>2,711,076</u>	<u>(339,590)</u>	<u>2,371,486</u>
<b>EXPENDITURES/EXPENSES:</b>			
General and administrative costs	40,773	-	40,773
Debt service:			
Principal	165,000	(165,000)	-
Interest	<u>2,562,728</u>	<u>(320,628)</u>	<u>2,242,100</u>
Total expenditures/expenses	<u>2,768,501</u>	<u>(485,628)</u>	<u>2,282,873</u>
<b>OTHER FINANCING SOURCES AND USES</b>			
Other revenue	3,010	(3,010)	-
Termination payment	<u>57,400</u>	<u>(57,400)</u>	<u>-</u>
Total other financing sources and uses	<u>60,410</u>	<u>(60,410)</u>	<u>-</u>
CHANGE IN FUND BALANCE	2,985	(10)	2,975
CHANGE IN NET POSITION		88,613	88,613
<b>FUND BALANCE / NET POSITION -</b>			
beginning of year	<u>3,090,043</u>	<u>(62,349,422)</u>	<u>(59,259,379)</u>
end of year	<u>\$ 3,093,028</u>	<u>\$ (62,263,794)</u>	<u>\$ (59,170,766)</u>

The accompanying notes are an integral part of these statements.

**BROOME TOBACCO ASSET SECURITIZATION CORPORATION  
(A BLENDED COMPONENT UNIT OF THE COUNTY OF BROOME, NEW YORK)**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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**1. ORGANIZATION**

Broome Tobacco Asset Securitization Corporation ("the Corporation") is a special purpose, bankruptcy-remote local development corporation organized under Section 1411 of the Not-For-Profit Corporation Law of the State of New York (the "State"). The Corporation was established on June 21, 2001, however there were no substantive operations until July 15, 2001 as discussed herein. The Corporation is an instrumentality of, but separate and apart from the County of Broome, New York (the "County"). The Corporation has five directors, including the County Executive, the County Director of the Office of Management and Budget, the Chairman of the County Legislature, the Minority Leader of the County Legislature and one independent director.

The Corporation is classified as a special purpose government under the Government Accounting Standards Board (GASB). A special purpose government is defined as a legally separate entity that performs only one activity. Although legally separate from the County, the Corporation is a component unit of the County, and accordingly, is included in the County's financial statements as a blended component unit.

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

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

The Corporation is primarily dependent on the future proceeds from the Tobacco Settlement Revenues (TSRs) to meet future obligations under the Indenture agreement. The collections of the Corporation will be comprised of TSRs remaining after payment on prior bonds and earnings on funds held by the Trust.

**BROOME TOBACCO ASSET SECURITIZATION CORPORATION  
(A BLENDED COMPONENT UNIT OF THE COUNTY OF BROOME, NEW YORK)**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America. Those principles are prescribed by the GASB, which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Corporation is classified as a single-program special-purpose government. Consistent with governmental accounting and financial reporting principles, the fund and government-wide financial statements are presented together and include a reconciliation of the individual line items between the two statement types in a separate column.

**Fund Financial Statements**

The fund financial statements provide information about the Corporation's fund. The emphasis of fund financial statements is on major governmental funds.

**Government-wide Statements**

The statement of net position and statement of activities present financial information about the Corporation's governmental activities. These statements include the financial activities of the Corporation.

The Corporation reports the debt service fund as its major governmental fund. This fund is used to account for and report on the accumulation of resources to be used for redemption of general long-term indebtedness and supports the operations of the Corporation.

**Measurement Focus and Basis of Accounting**

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Corporation considers all revenues reported in the governmental fund to be available if the revenues are collected within 60 days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recognized as expenditures to the extent they have matured. Proceeds of general long-term debt are reported as other financing resources.

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 at the time liabilities are incurred, regardless of when the related cash transaction takes place.

**Estimates**

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

**BROOME TOBACCO ASSET SECURITIZATION CORPORATION  
(A BLENDED COMPONENT UNIT OF THE COUNTY OF BROOME, NEW YORK)**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Equity Classifications**

*Government-wide Statements*

Equity is classified as net position and displayed in two components:

- Restricted net position - net position with constraints placed on the use either by (1) external groups such as creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net deficit - net position that does not meet the definition of "restricted" are deemed to be available for general use by the Corporation. The Corporation has a deficit in net position as a result of the outstanding bonds, including the accretion on capital appreciation bonds.

*Fund Financial Statements*

Fund balance can be classified into five components; nonspendable, restricted, committed, assigned, and unassigned. The debt service fund has restricted and assigned fund balance. Restricted fund balance represents monies set aside for future payment of bond principal and interest and equals the restricted assets of \$3,024,745. Assigned fund balance represents amounts generated from debt service activities that will be utilized by the Corporation for those activities.

*Order of Use of Fund Balance/Net Position*

The Corporation's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance in that order. For the debt service fund, nonspendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts are classified as assigned fund balance.

The Corporation's policy is to apply expenses against restricted net position and then unrestricted net position as needed.

**Cash and Cash Equivalents**

The Corporation considers all short-term instruments purchased with original maturities of three months or less to be cash equivalents.

The Corporation maintains its cash and cash equivalents accounts with various banks. As of December 31, 2017, the bank balance and carrying amount of the Corporation's cash and cash equivalents (both restricted and unrestricted) was \$86,883 and the Corporation did not have deposit amounts in excess of the insurance limit established by the Federal Deposit Insurance Corporation (FDIC).

**Investments**

The Corporation carries its investments at fair value, except for participating interest-earning investment contracts with maturities less than a year from purchase which are carried at amortized cost.

**BROOME TOBACCO ASSET SECURITIZATION CORPORATION  
(A BLENDED COMPONENT UNIT OF THE COUNTY OF BROOME, NEW YORK)**

**NOTES TO FINANCIAL STATEMENTS  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Tobacco Settlement Revenues and Accounts Receivable**

Per the Purchase and Sale Agreement with the County, TSRs shall be transferred directly to the Corporation. Under the MSA, amounts shall be paid by the participating manufacturers to the escrow agent for sales occurring in the previous calendar year on or before April 15 of each year. As revenues are not available within the Corporation's measurement period (60 days after year end), TSRs are recorded when received in the governmental fund financial statements and are accrued in the government-wide financial statements.

**Deferred Gains on Refunding**

Gains in connection with debt refundings are recorded as a deferred inflow of resources on the government-wide financial statements and amortized as an adjustment to interest expense over the original life of the refunded debt or the life of the new debt whichever is shorter.

**Bond Premiums**

Bond premiums are capitalized and amortized over the lives of the related debt in the government-wide statements. Bond premiums are amortized using the straight-line method. The governmental fund's financial statements recognize premiums during the current period.

**3. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN FUND STATEMENT AND GOVERNMENT-WIDE STATEMENT**

Due to the differences in the measurement focus and basis of accounting used in the fund financial statement and the government-wide statement, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus on the statement of activities, compared with the current financial resources focus on the statement of governmental fund revenues, expenditures and change in fund balance.

**Governmental Fund Balance Sheet vs. Statement of Net Position**

Total fund balance of the Corporation's fund statement differs from net position of the government-wide statement of net position. This difference primarily results from the additional long-term economic focus on the statement of net position versus the solely current financial resources focus on the fund balance sheet.

**BROOME TOBACCO ASSET SECURITIZATION CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
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**3. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN FUND STATEMENT AND GOVERNMENT-WIDE STATEMENT (Continued)**

Explanation of differences between the governmental fund balance sheet and the statement of net position:

Fund balance	\$ 3,093,028
Accounts receivable that are not available within the measurement period in the governmental fund balance sheet.	2,700,000
Bonds payable and related premiums are reported in the statement of net position, but not in the governmental fund balance sheet because they are not due and payable in the current period.	(53,704,510)
Deferred gain on refunding is reported in the statement of net position, but not in the governmental fund balance sheet because it is not recognized in the current period.	(11,062,994)
Accrued interest payable is reported in the statement of net position, but not in the governmental fund balance sheet because it is not due and payable in the current period.	<u>(196,290)</u>
Total net position	<u>\$ (59,170,766)</u>

**Statement of Governmental Fund Revenues, Expenditures and Change in Fund Balance vs. Statement of Activities**

Differences between the statement of revenues, expenditures and change in fund balance and the statement of activities fall into the categories below and represent:

Change in fund balance	\$ 2,985
Revenues that are not available within the measurement period in the statement of revenues, expenditures and change in fund balance.	(400,000)
Payment of bond principal is an expenditure in the governmental fund financial statements, but it reduces long-term liabilities in the statement of net position.	165,000
In the statement of activities, interest is accrued on outstanding bonds and premiums and deferred gains on refunding are amortized, whereas, in governmental fund financial statements, interest expenditures are reported when paid.	<u>320,628</u>
Change in net position - Statement of Activities	<u>\$ 88,613</u>



**BROOME TOBACCO ASSET SECURITIZATION CORPORATION  
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**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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**4. INVESTMENTS AND DEPOSITS**

**Cash, Cash Equivalents and Investments**

The Corporation's cash and cash equivalents including restricted amounts, consist of bank deposits and short term liquid debt instruments held by the Corporation's agent in the Corporation's name.

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

Custodial Credit Risk – Deposits - All deposits of the Corporation, including money market deposits, are insured under the provisions of the Federal Deposit Insurance Act. Excess deposits are not secured.

Credit Risk – The Corporation's investment policy, described above, addresses credit risk. As the Corporation only investment is U.S. Treasury Bills and is not exposed to credit risk.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Corporation investment in U.S. Treasury Bills (\$3,002,843) is held by the counter party in the Corporation's name and is not insured.

Concentration of Credit Risk - The Corporation places no limit on the amount that it may invest in any one issuer. The entire amount of the Corporation's investments is in a U.S. Treasury Bill.

Interest Rate Risk - The Corporation does not have a formal investment policy limiting investment maturities as a means of managing its exposure to fair value losses arising from interest rates. The maturity of the Corporation's U.S. Treasury Bill is shown in the chart below.

As of December 31, 2016 the Corporation's investments were as follows:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Maturity</u>
U.S. Treasury Bills	<u>\$ 3,002,843</u>	May 31, 2018

**BROOME TOBACCO ASSET SECURITIZATION CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

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**4. INVESTMENTS AND DEPOSITS (Continued)**

In accordance with the Bond Indenture, a trustee holds the Corporation's restricted investments and cash and cash equivalents in the following accounts:

**Debt Service Account** - This is the account from which payments to bondholders are made with money transferred in from the collection account.

**Liquidity Reserve Account** - This reserve has been established pursuant to the Corporation's Bond Indenture for the 2016 A Bonds and initially funded in an amount equal to \$2,875,834.

**Collection Account** - This account has been established to receive the TSRs under the MSA agreement. The monies received in this account will be transferred to other accounts under the Bond Indenture and applied to certain other purposes as described in the Indenture.

**Extraordinary Payment Account** - This account has been established to deposits amounts following the occurrence of a failure to pay interest on or maturing principal of any of the 2016 A Bonds.

**Operating Expense Reserve Account** - This reserve has been established pursuant to the Corporation's Bond Indenture for the 2016 A Bonds and initially funded in an amount equal to \$46,000. The Corporation may withdraw funds from the Operating Expense Reserve Account to pay for any operating expense not otherwise paid from the operation expense account.

**Cost of Issuance Account** - This account has been established to receive bond proceeds to be used to pay for the cost of issuance of the 2016 A Bonds.

**Lump Sum Redemption Account** - This account has been established to the extent funds are available to make lump sum redemptions of the 2016 bonds in accordance with the Bond Indenture

**Turbo Redemption Account** - This account has been established to the extent funds are available to make turbo redemptions of the 2016 bonds in accordance with the Bond Indenture

Amounts held in each of restricted accounts at December 31, 2017 is as follows:

Debt service account	\$	83,262
Liquidity reserve account		2,878,296
Collection account		53
Extraordinary payment account		-
Operating expense reserve account		46,047
Cost of issuance account		14,683
Lump sum redemption account		-
Turbo redemption account		4,229
	\$	<u>3,026,570</u>

**BROOME TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A BLENDED COMPONENT UNIT OF THE COUNTY OF BROOME, NEW YORK)**

**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

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**5. LONG-TERM LIABILITIES**

Long-term liability balances and activity for the year are summarized below:

	December 31, 2016	Additions	Reductions	December 31, 2017	Due Within One Year
2005 Bonds	2,276,579	-	-	2,276,579	-
Accreted interest - 2005 bonds	2,532,960	334,863		2,867,823	-
2016 Bonds - Series A1	24,555,000	-	(185,000)	24,370,000	455,000
2016 Bonds - Series A2	19,635,000	-	-	19,635,000	-
Series A1 Premium	2,550,366	-	(96,544)	2,453,822	-
Series A2 Premium	2,143,569	-	(62,283)	2,081,286	-
Total	<u>\$ 53,693,474</u>	<u>\$ 334,863</u>	<u>\$ (343,827)</u>	<u>\$ 53,684,510</u>	<u>\$ 455,000</u>

**2005 Bonds**

On November 29, 2005, the Corporation, along with twenty-three other counties, created a New York Counties Tobacco Trust V (NYCTT V) to issue \$199,375,348 in aggregate principal Tobacco Settlement Pass-Through Bond-Series 2005 with a final maturity value of \$700,630,000. The Series 2005 NYCTT Bonds represent a direct, pass-through interest in corresponding Tobacco Asset Securitization Corporation (TASC) bonds held by NYCTT V and were subordinate to the 2001 Series bonds. The debt is payable from pledged Tobacco Settlement Rights and investment earnings on amounts on deposit. The Series 2005 Bonds are also payable from certain amounts released from Reserve Accounts upon retirement of the prior bonds. The bonds bear interest at rates ranging from 6.00% to 7.15%. The Corporation's issued \$16,240,482 in four series (S1, S2, S3, and S4) with a final maturity value of \$62,952,634. During 2017, interest of \$334,863 accreted on these bonds. There are no scheduled principal or interest payments on the Series 2005 bonds outside of their final maturity dates. The 2005 Bonds are subordinate to the 2016 Bonds. During fiscal year 2016, the S-1, S-2 and S-4 series were defeased by the 2016 Bonds.

**BROOME TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A BLENDED COMPONENT UNIT OF THE COUNTY OF BROOME, NEW YORK)**

**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

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**5. LONG-TERM LIABILITIES (Continued)**

**2016 Bonds**

On September 22, 2016 (closing), the Corporation, along with seven other counties, created a trust known as the New York Counties Tobacco Trust VI (Trust VI). Trust VI issued \$293,255,000 in aggregate principal Tobacco Settlement Pass-Through Bonds Series 2016. The Corporation participated in the \$250,885,000 Series 2016A through the issuance of \$44,190,000 in bonds whose proceeds were used to currently refund the 2001 Bonds and certain 2005 Bonds as follows:

- The proceeds of the \$24,555,000 Series A-1 bonds were used to currently refund \$24,555,000 in 2001 Bonds. Pursuant to the Purchase and Exchange agreement between the Corporation and the 2001 Bond Holders, at closing, the Bond Holders tendered \$24,555,000 in 2001 Bonds in exchange for \$24,555,000 in Series A-1 bonds. The Series A-1 interest rates and final maturity dates were the same as the tendered 2001 Bonds.
- The proceeds of the \$19,635,000 Series A-2 bonds, in addition to certain other funds as described below, were used to currently refund \$8,845,000 in 2001 Bonds and currently refund \$43,411,883 in principal and accreted interest of the 2005 bonds.

The Corporation deposited \$9,043,873 in an irrevocable escrow account to redeem, on October 24, 2016, \$8,845,000 in 2001 Bonds plus accrued interest due thereon.

Additionally, \$17,658,127 of bond proceeds and other funds noted below, were used to completely defease the S1, S2, and S4 series of the 2015 Bonds. At closing, \$5,488,881 was used to redeem at 101% the accreted value of \$5,431,887 (\$2,853,273 in principal and \$2,578,613 in accreted interest) of the S1 series. The Corporation used \$12,685,591 of bond proceeds and other funds noted below, to purchase at negotiated prices pursuant to a Purchase and Exchange Agreement between the bond holders and the Corporation, all of the S2 and S4 Bonds. The Corporation was able to defease at closing \$24,016,093 of accreted value (\$11,110,630 in principal and \$12,905,463 in accreted interest) of the S2 and S3 bonds.

In addition to the bond proceeds, the Corporation received an exchange premium on the series A-1 Bonds of \$2,574,502, a premium of \$2,159,140 on the A-2 Bonds, a termination payment of \$2,850,500 from a 2001 forward delivery agreement on the 2001 liquidity reserve account and was able to release \$4,927,367 from 2001 Bond reserve accounts. \$7,067,000 of these amounts was used in the Series A-2 defeasance transaction. The remainder was used to establish a liquidity reserve account for the Series A-1 Bonds, establish an operating expense reserve account, pay for the cost of issuance, and distribute \$1 million to the County.

The refunding transaction resulted in a gain in fiscal year 2016 equivalent to the difference between the carrying amount of the bonds refunded (\$62.5 million) and the amount deposited into the irrevocable escrow account (\$51.0 million). This accounting gain on refunding of \$11,476,822 has been recorded as a deferred inflow of resources and will be amortized on a straight-line basis over the life of the 2016 Series A-2 bonds. Amortization for the year ended December 31, 2017 was \$331,062 and is included as a component of interest expense.

**BROOME TOBACCO ASSET SECURITIZATION CORPORATION**  
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**5. LONG-TERM LIABILITIES (Continued)**

The premiums received on the issuance of the 2016 bonds are included as a component of long-term debt and are amortized on a straight-line basis over the life of the respective debt. Amortization expense for the year ended December 31, 2017 was \$158,827 and is included as a component of interest expense.

The following is a summary of the Corporation's bonds payable for the year ended December 31, 2016:

	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Balance</u>
2005 Bonds - S3 Series (including accreted interest)	11/2005	6/1/2055	6.850%	\$ 5,144,402
2016 Series A-1 Bonds	9/2016	6/1/2035	5.625%	\$ 11,385,000
2016 Series A-1 Bonds	9/2016	6/1/2043	5.750%	\$ 12,985,000
2016 Series A-2 Bonds	9/2016	6/1/2045	5.000%	\$ 6,560,000
2016 Series A-2 Bonds	9/2016	6/1/2051	5.000%	\$ 13,075,000

The Series 2005 Bonds are capital appreciation bonds, upon which the investment return on the investment principal is reinvested at a compounded rate until maturity. There are no scheduled principal and interest payments on these bonds other than their respective maturity dates, at which time a single payment is made representing principal and investment return. The following is a summary of the amount of accretion on the Series 2005 capital appreciation bonds assuming the projected debt service amortization:

	<u>Present Value of Principal</u>	<u>Accreted Interest</u>	<u>Face Value of Bond</u>
2015 Bonds S3 Series	<u>\$ 2,276,579</u>	<u>\$ 2,867,823</u>	<u>\$ 5,144,402</u>

Depending on the extent of actual collections from the TSR payments and availability of funds, the Corporation has covenanted to make debt service payments on the Series 2005 Bonds in accordance with a Turbo Redemption Payments schedule that allows for increased payments and a final maturity of June 1, 2029. The Corporation's future Turbo Redemption Payments on the Series 2005 Bonds – S3 Series are as follows:

	<u>Present Value of Principal</u>	<u>Interest</u>	<u>Total</u>
2028	\$ 1,292,656	\$ 4,594,137	\$ 5,886,793
2029	<u>983,923</u>	<u>3,808,936</u>	<u>4,792,859</u>
Total	<u>\$ 2,276,579</u>	<u>\$ 8,403,073</u>	<u>\$ 10,679,652</u>

**BROOME TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A BLENDED COMPONENT UNIT OF THE COUNTY OF BROOME, NEW YORK)**

**NOTES TO FINANCIAL STATEMENTS**  
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**5. LONG-TERM LIABILITIES (Continued)**

The Corporation's required principal and interest payments at December 31, 2017, on the Series 2016 bonds are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 455,000	\$ 2,355,481
2019	440,000	2,329,750
2020	575,000	2,300,569
2021	605,000	2,266,644
2022	645,000	2,230,706
2023-2027	3,825,000	10,542,822
2028-2032	5,020,000	9,300,782
2033-2037	6,220,000	7,719,142
2038-2042	7,670,000	5,734,206
2043-2047	9,475,000	3,488,125
2048-2051	<u>9,075,000</u>	<u>933,123</u>
	<u>\$ 44,005,000</u>	<u>\$ 49,201,350</u>

Depending on the extent of actual collections from TSR payments and availability of funds, the Corporation has agreed to make principal payments in accordance with a Turbo Redemption payment schedule that allows for increased payments and a final maturity of June 1, 2035 on the Series 2016 Bonds as follows.

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 1,005,000	\$ 2,324,497
2019	1,065,000	2,266,278
2020	1,585,000	2,191,747
2021	1,680,000	2,099,919
2022	1,765,000	2,003,028
2023-2027	10,585,000	8,338,607
2028-2032	14,405,000	4,854,125
2033-2035	<u>11,630,000</u>	<u>933,749</u>
	<u>\$ 43,720,000</u>	<u>\$ 25,011,950</u>

**BROOME TOBACCO ASSET SECURITIZATION CORPORATION  
(A BLENDED COMPONENT UNIT OF THE COUNTY OF BROOME, NEW YORK)**

**NOTES TO FINANCIAL STATEMENTS  
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**6. TRANACTIONS WITH THE COUNTY OF BROOME**

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

The Purchase and Sale Agreement also contemplates the lease by the Corporation of office space from the County, and the sharing of overhead and operating services and expenses (including shared employees, consultants and agents and reasonable legal and auditing expenses) on the basis of actual use or value of such services, or otherwise on a basis reasonably related thereto. The cost to the Corporation for these County-provided services was \$2,732 for the year ended December 31, 2017.

**7. CONTINGENCIES**

During 2001, the Corporation purchased the rights to receive TSRs from the County. There are a number of risks associated with receipts of such TSRs, including litigation affecting participating manufacturers, and possible bankruptcy as a result thereof, the decline in cigarette consumption, and future adjustments to the calculation of the TSRs. The Corporation's financial existence is contingent upon receiving TSRs from the tobacco manufacturers.

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

March 22, 2018

To the Board of Directors  
Broome Tobacco Asset Securitization Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major governmental fund of Broome Tobacco Asset Securitization Corporation (the Corporation), a component unit of the County of Broome, New York, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 22, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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(Continued)



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

(Continued)

**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.