

**Putnam County Tobacco Asset
Securitization Corporation**
(A Blended Component Unit of the
County of Putnam, New York)

Financial Statements

Year Ended December 31, 2014

Independent Auditors' Report

**The Board of Directors of the Putnam County
Tobacco Asset Securitization Corporation**

Report on the Financial Statements

We have audited the accompanying financial statements of the Putnam County Tobacco Asset Securitization Corporation ("PTASC"), a blended component unit of the County of Putnam, New York, as of and for the year ended December 31, 2014, and the related notes to the financial statements.

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.

Auditors' 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 auditors' 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 PTASC'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 PTASC'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 financial position of the PTASC as of December 31, 2014, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

O'CONNOR DAVIES, LLP

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Emphasis of Matters

We draw attention to Note 1 in the notes to financial statements that indicates that these financial statements present only the PTASC and do not purport to, and do not present fairly the financial position of the County of Putnam, New York as of December 31, 2014 and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We further draw attention to Note 4 in the notes to financial statements which discusses that the only significant resource of the PTASC is the right to receive tobacco revenues. A reduction in these revenues would affect debt service coverage on the bonds. If the reduction were material, it could impair the ability of the PTASC to make turbo redemption payments or even its ability to make planned structured principal payments as they are due. As a result, actual payments may not conform to either the turbo redemption maturities or the planned structured principal payments.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audit of the 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 4, 2015 on our consideration of the PTASC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 PTASC's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

We have also issued our report dated March 4, 2015 on our consideration of the PTASC's compliance with Section 2925(3)(f) of the New York State Public Authorities Law ("Law"). The purpose of that report is to describe the scope and results of our tests of compliance with the Law.

O'Connor Davies, LLP

O'Connor Davies, LLP
Harrison, New York
March 4, 2015

**Putnam County Tobacco Asset
Securitization Corporation**
(A Blended Component Unit of the County of Putnam, New York)
Management's Discussion and Analysis (MD&A)
December 31, 2014

Introduction

As management of the Putnam Tobacco Asset Securitization Corporation ("PTASC"), we offer readers of the PTASC's financial statements this narrative overview and analysis of the financial activities of the PTASC for the fiscal year ended December 31, 2014. It should be read in conjunction with the financial statements, which immediately follow this section, to enhance understanding of the PTASC's financial performance.

Financial Highlights

- ❖ On the statement of net position, the liabilities of the PTASC exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year, resulting in a deficit of \$16,363,877. The deficit was increased by \$10,300, due to the amount recognized for Tobacco Settlement Revenues ("TSR's") of \$1,259,418 less operating expenses of \$46,574 and non-operating net interest expense of \$1,223,144.
- ❖ The Governmental Accounting Standards Board ("GASB") issued Technical Bulletin 2004-1, "*Tobacco Settlement Recognition and Financial Reporting Entity Issues*", as amended and/or superseded by GASB Statement No. 48, "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*", which clarified certain asset and revenue recognition criteria. Prior to the issuance of this guidance, the PTASC had recognized as a receivable/revenue the present value of the future tobacco revenue stream. The new guidance required a reversal of this position, in that it promulgated that TSR's and the related asset only be recognized when the event giving rise to recognition (i.e. the shipment of cigarettes) occurs. Because annual TSR payments are based on cigarette sales from the preceding calendar year, the PTASC was prohibited from recognizing this future revenue stream as a receivable. Accordingly, the only revenue recognition allowed was for TSR payments to be received in the immediately succeeding fiscal year, as these payments were based on cigarette shipments in the year under audit. This had the effect of deferring revenue recognition, which results in the deficit position reflected on the statement of net position. Over time, as TSR payments are received and the bonded indebtedness is retired, the deficit will be reduced.

Financial Statements

The *statement of net position* presents information on the PTASC's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as *net position*. The *statement of revenues, expenses and changes in net position* presents information showing how the PTASC'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 (for example, accounts receivable and accrued interest payable).

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the statement of net position and the statement of revenues, expenses and changes in net position. The notes to financial statements are located beginning on page 8 of this report.

Financial Analysis

Net position decreased by \$10,300 in 2014, compared with a decrease of \$202,406 in 2013, a difference of \$192,106. Tobacco settlement receipts increased \$189,774 in 2014 and interest expense increased \$494 while operating expenses decreased \$2,977.

Debt Administration

At the end of the current fiscal year, the PTASC had total gross bonded debt outstanding of \$23,905,423. PTASC was able to make a principal payment of \$230,000, and to date has made principal payments of \$1,530,000.

Additional information on the PTASC's long-term debt can be found in Note 3 in the notes to financial statements.

Economic Factors

The bonds are payable only from the assets of the PTASC. PTASC's only source of funds for payments on the bonds is the collections of TSR's and amounts on deposit in pledged accounts (i.e. liquidity and debt service reserve accounts) pursuant to the indenture. If a participating manufacturer becomes a debtor in a bankruptcy case and defaults in making payments or cigarette consumption declines, funds available to PTASC to pay bondholders may be reduced or eliminated.

Requests for Information

This financial report is designed to provide a general overview of the PTASC's finances for all those with an interest in those finances. Questions and comments concerning any of the information provided in this report should be addressed to William J. Carlin, Treasurer, Putnam County, Carmel, New York 10512.

Putnam County Tobacco Asset Securitization Corporation
(A Blended Component Unit of the County of Putnam, New York)

Statement of Net Position
December 31, 2014

ASSETS

Current assets

Cash and equivalents	\$ 48,702
Tobacco settlement receivable	1,112,945
Prepaid expenses	<u>7,871</u>

Total Current Assets 1,169,518

Noncurrent assets

Restricted cash and equivalents	<u>1,209,192</u>
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Total Assets 2,378,710

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on refunding bonds	<u>1,327,628</u>
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LIABILITIES

Current liabilities

Accrued liabilities	76,675
Current maturities of bonds payable	<u>165,000</u>

Total Current Liabilities 241,675

Noncurrent liabilities

Bonds payable, net of current maturities	<u>19,828,540</u>
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Total Liabilities 20,070,215

NET POSITION

Unrestricted	<u>\$ (16,363,877)</u>
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See notes to financial statements.

Putnam County Tobacco Asset Securitization Corporation
(A Blended Component Unit of the County of Putnam, New York)

Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2014

OPERATING REVENUES

Tobacco settlement revenues \$ 1,259,418

OPERATING EXPENSES

Professional fees 13,571

Insurance expense 8,003

Administrative charges 25,000

Total Operating Expenses 46,574

Income from Operations 1,212,844

NON-OPERATING REVENUES (EXPENSES)

Interest income 10

Interest expense (1,223,154)

Total Non-Operating Expenses (1,223,144)

Change in Net Position (10,300)

NET POSITION

Beginning of year (16,353,577)

End of year \$ (16,363,877)

See notes to financial statements.

Putnam County Tobacco Asset Securitization Corporation
(A Blended Component Unit of the County of Putnam, New York)

Statement of Cash Flows
Year Ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from tobacco settlement revenues	\$ 1,206,061
Cash paid to vendors	(47,157)
	<u>1,158,904</u>
Net Cash from Operating Activities	<u>1,158,904</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in restricted cash and equivalents	(8)
Interest income	10
	<u>2</u>
Net Cash from Investing Activities	<u>2</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Repayment of bonds payable	(230,000)
Interest paid	(927,000)
	<u>(1,157,000)</u>
Net Cash from Non-Capital Financing Activities	<u>(1,157,000)</u>
Net Change in Cash and Equivalents	1,906
CASH AND EQUIVALENTS	
Beginning of Year	<u>46,796</u>
End of Year	<u>\$ 48,702</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES	
Income from operations	\$ 1,212,844
Adjustments to reconcile income from operations to net cash from operating activities	
Changes in assets and liabilities	
Tobacco settlement receivable	(53,357)
Prepaid expenses	(583)
	<u>(53,940)</u>
Net Cash from Operating Activities	<u>\$ 1,158,904</u>
NONCASH INVESTING ACTIVITIES	
Increase in bonds payable from amortization of original issue and underwriters discounts	\$ 25,565
Increase in bonds payable from accreted interest on Series 2005 capital appreciation bonds	181,082
Decrease in deferred outflows of resources from amortization of loss on refunding bonds	90,657

See notes to financial statements.

Putnam County Tobacco Asset Securitization Corporation
(A Blended Component Unit of the County of Sullivan, New York)

Notes to Financial Statements
December 31, 2014

Note 1 - Nature of Business and Summary of Significant Accounting Policies

Nature of Business

The Putnam County Tobacco Asset Securitization Corporation ("PTASC") is a special purpose, bankruptcy-remote local development corporation. PTASC was organized under the provisions of Section 1411 of the New York State Not-For-Profit Corporation Law and pursuant to the Public Authorities Law of the State of New York. The Board of Directors of PTASC consists of five members; the County of Putnam, New York's ("County") County Executive, the County's Director of Finance, the Chairman of the County's Board of Legislators, the Chairman of the Audit and Administration Committee of the County's Board of Legislators and a fifth director who meets certain requirements of independence and shall be designated by the other four members.

An agreement among the attorneys general of 46 states and various territories ("Settling States") and the four largest United States tobacco manufacturers was entered into on November 23, 1998. The agreement, known as the Master Settlement Agreement ("MSA"), resolved cigarette smoking-related litigation between the Settling States and U.S. Tobacco manufacturers. Pursuant to the MSA, the Settling States and the participating manufacturers agreed to settle all past, present and future smoking related claims in exchange for an agreement by the participating manufacturers to make certain payments. Under the MSA, the State of New York is entitled to receive approximately 12.76% of the initial and annual payments. The New York Consent Decree, which was entered into in the Supreme Court of the State of New York for the County of New York in December 1998, allocated 0.152% of this State-wide share of the initial and annual payments to the County and the remainder among the State, the City of New York and all other counties within the State.

During 2001, the County sold all of its future rights, title and interest to receive payments under the MSA and the Consent Decree to PTASC, which issued \$15,280,000 in Tobacco Settlement Asset-Backed Bonds, Series 2000 ("Series 2000"). During 2005, PTASC issued \$20,565,798 of Tobacco Settlement Asset-Backed Bonds, Series 2005 A, B and C Term Bonds and Series 2005 D and E Capital Appreciation Bonds (collectively "Series 2005"), the proceeds of which were used to 1) refund the outstanding Series 2000 bonds, 2) fund the Liquidity Reserve Account at its required level, 3) pay certain costs of issuance related to the Series 2005 bonds and 4) provide the County with funds for working capital purposes. During 2010, PTASC issued \$3,400,000 of Tobacco Settlement Asset-Backed Bonds, Series 2010A Term Bonds, the proceeds of which were used to refund the outstanding Series 2005C Term Bonds of an equal amount. The remaining Series 2005 and 2010A bonds are payable from and secured solely from pledged Tobacco Settlement Revenues ("TSR's"). The County, as owner of the beneficial interest in the Residual Trust which holds the Residual Certificate, will not be entitled to receive payments on such certificate while PTASC bonds remain outstanding. The debt issued by PTASC to securitize these revenues is not considered debt of the County and is secured only by future tobacco settlement payments.

Entity Definition

Based on the guidance provided by Governmental Accounting Standards Board ("GASB") Technical Bulletin No. 2004-1, *"Tobacco Settlement Recognition and Financial Reporting Entity Issues"*, as amended and/or superseded by GASB Statement No. 48, *"Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues"*, the PTASC is reported as a blended component unit of the County in its financial statements.

Putnam County Tobacco Asset Securitization Corporation
(A Blended Component Unit of the County of Sullivan, New York)

Notes to Financial Statements (Continued)
December 31, 2014

Note 1 - Nature of Business and Summary of Significant Accounting Policies (Continued)

Basis of Presentation

A fund is an independent fiscal and accounting entity with a self-balancing set of accounts which comprise its assets, liabilities, net position, revenues and expenses. The accounts of the PTASC are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The PTASC applies all applicable Financial Accounting Standards Board guidance issued after November 30, 1989 in accounting for and reporting on its operations.

The accompanying financial statements present only the activities of the PTASC and do not purport to, and do not, present fairly the financial position of the County as of December 31, 2014 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Cash and Equivalents

Cash and equivalents consist of demand deposit accounts, time deposit accounts, money market accounts and certificates of deposit with original maturities of three months or less.

Restricted Cash and Equivalents

The terms of the bond indenture provide for the establishment of a liquidity reserve. The reserve has been established at the maximum annual debt service requirements in the current and any future fiscal year, assuming principal is paid in accordance with the requirements of the indenture.

The terms of the bond indenture also provide for the establishment of a trapping account. Following the occurrence of a trapping event, amounts that otherwise would have been paid on the residual certificate to the County will be deposited in the trapping account and will be restricted to pay interest, required amortization payments and flexible amortization payments, in such order, to the extent collections or other available amounts are insufficient for such purposes.

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 represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then.

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 represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Putnam County Tobacco Asset Securitization Corporation
(A Blended Component Unit of the County of Sullivan, New York)

Notes to Financial Statements (Continued)
December 31, 2014

Note 1 - Nature of Business and Summary of Significant Accounting Policies (Continued)

The PTASC has reported deferred outflows of resources of \$1,327,628 for a deferred loss on refunding bonds in the Statement of Net Position. This amount results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Tax Status

The PTASC is exempt from federal income tax under Section 501 (a) of the Internal Revenue Code as a 501(c)(3) organization.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is March 4, 2015.

Note 2 - Restricted Cash and Equivalents

Restricted cash and equivalents at December 31, 2014 consisted of the following -

US Treasury Money Market	<u>\$ 1,209,192</u>
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Note 3 - Bonds Payable

PTASC issued bonds on August 25, 2005 and June 1, 2010 as follows:

\$2,915,000 - Turbo Term Bonds due June 1, 2027 with interest at 6.0% and a projected final Turbo Redemption date of June 1, 2015.* Balance due at December 31, 2014 is \$1,385,000.

\$3,400,000 - Turbo Term Bonds due June 1, 2041 with interest at 6.25% and projected final turbo redemption date of June 1, 2017.* Balance due at December 31, 2014 is \$3,400,000.

\$9,165,000 - Turbo Term Bonds due June 1, 2042 with interest at 5.0% and a projected final Turbo Redemption date of June 1, 2024.* Balance due at December 31, 2014 is \$9,165,000.

Putnam County Tobacco Asset Securitization Corporation
(A Blended Component Unit of the County of Sullivan, New York)

Notes to Financial Statements (Continued)
December 31, 2014

Note 3 - Bonds Payable (Continued)

\$3,325,000 - Turbo Term Bonds due June 1, 2045 with interest at 5.0% and a projected final Turbo Redemption date of June 1, 2026.* Balance due at December 31, 2014 is \$3,325,000.

\$1,577,587 (net of unaccreted amounts of \$1,533,408) - Turbo Capital Appreciation Bonds due June 1, 2050 with a yield of 5.875% and a projected final Turbo Redemption date of June 1, 2027.*

\$1,515,328 (net of unaccreted amounts of \$2,004,100) - Turbo Capital Appreciation Bonds due June 1, 2055 with a yield of 6.375% and a projected final Turbo Redemption date of June 1, 2029.*

*Assumes Turbo Redemption payments are made based on the receipt of surplus pledged TSR's in accordance with the Global Insight Base Case Forecast of future tobacco consumption.

Year Ending December 31,	Principal	Interest	Total
2015	\$ 3,385,000 *	\$ 816,050	\$ 4,201,050
2016	800,000	687,000	1,487,000
2017	960,000	634,250	1,594,250
2018	1,115,000	578,625	1,693,625
2019	1,190,000	521,000	1,711,000
2020-2029	16,455,423	1,707,875	18,163,298
	23,905,423	<u>\$ 4,944,800</u>	<u>\$ 28,850,223</u>
Unamortized Original Issue Discount on Term Bonds	(200,208)		
Unamortized Underwriters Discount	(174,167)		
Unaccreted Amounts on Capital Appreciation Bonds	<u>(3,537,508)</u>		
	<u>\$ 19,993,540</u>		

*Principal payment assumes "catch up" payment is made June 1, 2015.

**Independent Accountants' Report on Compliance with Section 2925(3)(f)
of the New York State Public Authorities Law**

**The Board of Directors of the
Putnam County Tobacco Asset Securitization Corporation**

We have examined the Putnam County Tobacco Asset Securitization Corporation's ("PTASC") compliance with Section 2925(3)(f) of the New York State Public Authorities Law during the year ended December 31, 2014. Management is responsible for the PTASC's compliance with those requirements. Our responsibility is to express an opinion on the PTASC's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining on a test basis evidence supporting the PTASC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the PTASC's compliance with specified requirements.

In our opinion, the PTASC complied, in all material respects, with the aforementioned requirements during the year ended December 31, 2014.

This report is intended solely for the information and use of management and the Board of Directors. It is not intended to be and should not be used by anyone other than these specified parties.

O'Connor Davies, LLP

O'Connor Davies, LLP
Harrison, New York
March 4, 2015