

**NIAGARA TOBACCO ASSET
SECURITIZATION CORPORATION**

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

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

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Niagara Tobacco Asset Securitization Corporation

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

NTASC'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 NTASC, 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.

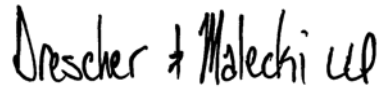
Other Matters

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 28, 2018 on our consideration of NTASC'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 NTASC'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 NTASC's internal control over financial reporting and compliance.



March 28, 2018

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

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

Financial Highlights

- Total government-wide liabilities and deferred inflows of resources of NTASC exceeded government-wide assets by \$56,459,228 at December 31, 2018. This compares to NTASC's total government-wide liabilities and deferred inflows of resources exceeding government-wide assets by \$56,923,597 at December 31, 2017.
- NTASC's net position increased by \$464,369 for the year ended December 31, 2018.
- At the close of the current year, NTASC's governmental funds reported combined fund balances of \$3,701,185, a decrease of \$18,835 in comparison with the prior year. Approximately 3.1 percent of this amount, \$116,427, is available for spending at NTASC's discretion (unassigned fund balance). The remainder is restricted for debt service.
- NTASC's total tobacco settlement bonds decreased \$1,295,000 as a result of principal payments made during the year, while Subordinate Turbo Capital Appreciation Bonds ("CABs") increased by \$1,143,436 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 NTASC's basic financial statements. NTASC's basic financial statements comprise 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 NTASC's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of NTASC'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 NTASC is improving or deteriorating.

The *statement of activities* presents information showing how NTASC'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. NTASC uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Both of NTASC’s funds are classified as governmental funds.

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

NTASC 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 14-24 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 NTASC, liabilities and deferred inflows of resources exceeded assets by \$56,459,228 at December 31, 2018, as compared to \$56,923,597 at December 31, 2017. Table 1, shown on the following page, presents the condensed statements of net position for NTASC at December 31, 2018 and December 31, 2017.

Table 1—Condensed Statements of Net Position

	December 31,	
	2018	2017
Current assets	\$ 6,749,621	\$ 6,796,758
Total assets	<u>6,749,621</u>	<u>6,796,758</u>
Current liabilities	227,732	235,825
Noncurrent liabilities	<u>58,646,073</u>	<u>58,943,055</u>
Total liabilities	<u>58,873,805</u>	<u>59,178,880</u>
Deferred inflows of resources	<u>4,335,044</u>	<u>4,541,475</u>
Net position	<u>\$ (56,459,228)</u>	<u>\$ (56,923,597)</u>

A portion of NTASC's net position, \$3,584,758, represents resources that are subject to external restrictions on how they may be used. Therefore, the unrestricted net position totals \$(60,043,986) at December 31, 2018, which compares to \$(60,520,235) at December 31, 2017. The unrestricted net position deficit must be financed by future operations. The deficit results from long-term obligations that are greater than currently available resources.

At December 31, 2018, total NTASC assets were \$6,749,621 compared to \$6,796,758 at December 31, 2017. The largest asset held by NTASC at December 31, 2018 and December 31, 2017 was restricted cash and cash equivalents totaling \$3,701,194 and \$3,720,028, respectively. NTASC reported no noncurrent assets at December 31, 2018 or December 31, 2017.

Total liabilities at December 31, 2018 were \$58,873,805 compared to \$59,178,880 at December 31, 2017. The largest portion of the liabilities is outstanding debt totaling \$58,646,073 and \$58,943,055 at December 31, 2018 and 2017, respectively.

NTASC's deferred inflows of resources, which resulted from a deferred gain on refunding bonds, totaled \$4,335,044 and \$4,541,475 at December 31, 2018 and 2017, respectively.

During the current year, net position for governmental activities increased \$464,369 from the prior fiscal year for an ending net position of \$(56,459,228). The statement of activities presents revenues received and expenses paid by NTASC. Presented as Table 2, 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,	
	2018	2017
General revenues	\$ 3,214,072	\$ 2,977,300
Expenses—governmental activities	<u>(2,749,703)</u>	<u>(2,745,821)</u>
Change in net position	464,369	231,479
Net position—beginning	<u>(56,923,597)</u>	<u>(57,155,076)</u>
Net position—ending	<u>\$ (56,459,228)</u>	<u>\$ (56,923,597)</u>

Total revenues for the years ended December 31, 2018 and 2017 were \$3,214,072 and \$2,977,300, respectively. The net increase in revenues is primarily due to more tobacco settlement revenue received in December 31, 2018 than December 31, 2017. Revenues for the years ended December 31, 2018 and 2017 consisted of \$3,008,633 (93.6 percent) and \$2,755,163 (92.5 percent), respectively, of tobacco settlement revenues, and \$205,439 and \$222,137, respectively, of interest earnings and other income.

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 revenue	\$ 3,008,633	\$ 2,755,163	\$ 253,470	9.2
Interest earnings	205,439	203,459	1,980	1.0
Miscellaneous	-	18,678	(18,678)	(100.0)
Total revenues	<u>\$ 3,214,072</u>	<u>\$ 2,977,300</u>	<u>\$ 236,772</u>	8.0

Total expenses for the years ended December 31, 2018 and 2017 were \$2,749,703 and \$2,745,821, respectively. The increase in expenses of \$3,882 is primarily due to an increase in interest and fiscal charges. Expenses for the years ended December 31, 2018 and 2017 consisted of \$2,637,656 (96.0 percent) and \$2,630,607 (95.8 percent), respectively, of interest and fiscal charges, and \$112,047 and \$115,214, respectively, of general government support expenses incurred in connection with the operations of the NTASC.

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	\$ 112,047	\$ 115,214	\$ (3,167)	(2.7)
Interest and fiscal charges	2,637,656	2,630,607	7,049	0.3
Total expenses	<u>\$ 2,749,703</u>	<u>\$ 2,745,821</u>	<u>\$ 3,882</u>	0.1

Financial Analysis of Governmental Funds

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

Governmental Funds—The focus of NTASC’s governmental funds is to provide information on near-term infows, outflows, and balances of spendable resources. Such information is useful in assessing NTASC’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, NTASC itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by NTASC’s Board.

At December 31, 2018, NTASC's governmental funds reported combined fund balances of \$3,701,185, a decrease of \$18,835 in comparison with the prior year. Approximately 3.1 percent of this amount, \$116,427, constitutes unassigned fund balance, which is available for spending at NTASC's discretion. The remainder of the fund balance, \$3,584,758, is restricted for debt service.

The General Fund is the chief operating fund of NTASC. At the end of the current fiscal year, total fund balance of the General Fund was unassigned fund balance in the amount of \$116,427. Total fund balance decreased by \$6,955 as a result of expenditures exceeding interest earnings and transfers in from the Debt Service Fund.

The Debt Service Fund, the remaining major governmental fund, had a decrease in fund balance during the current year of \$11,880 to bring the year-end fund balance to \$3,584,758. Principal and interest in the amount of \$3,149,163 and general government expenditures of \$5,000 were paid. Additionally, the Debt Service Fund transferred \$100,000 to the General Fund. These expenditures were partially offset by revenues totaling \$3,242,283.

Debt Administration

Long-Term Debt—As of December 31, 2018, NTASC had \$36,535,000 of tobacco settlement asset-backed 2014 Senior bonds outstanding, which are combined with unamortized premium on the sale of bonds of \$3,053,788 in the statement of net position. Additionally, as of December 31, 2018, NTASC had accreted Subordinate Turbo CABs outstanding of \$19,057,285, which are reported in the statement of net position.

Principal payments of \$1,295,000 and \$1,005,000 were made during 2018 and 2017, respectively. Additional information on NTASC'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 NTASC's finances for all those with an interest in NTASC's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Niagara Tobacco Asset Securitization Corporation, Secretary/Treasurer, 175 Hawley Street, Lockport, New York, 14094.

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BASIC FINANCIAL STATEMENTS

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

	Primary Government
	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 116,436
Restricted cash and cash equivalents	3,584,758
Due from New York State	<u>3,048,427</u>
Total assets	<u>6,749,621</u>
LIABILITIES	
Current liabilities:	
Accounts payable	9
Accrued interest payable	227,723
Noncurrent liabilities:	
Due within one year—net Tobacco Settlement Bonds payable	1,470,418
Due in more than one year—net Tobacco Settlement Bonds payable	38,118,370
Subordinate Turbo CABs payable	<u>19,057,285</u>
Total liabilities	<u>58,873,805</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred gain on refunding	<u>4,335,044</u>
Total deferred inflows of resources	<u>4,335,044</u>
NET POSITION	
Restricted for debt service	3,584,758
Unrestricted	<u>(60,043,986)</u>
Total net position	<u>\$ (56,459,228)</u>

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

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Net (Expenses) and Changes in Net Position</u> <u>Primary Government Governmental Activities</u>
Primary government:		
Governmental activities:		
General government support	\$ 112,047	\$ (112,047)
Interest and fiscal charges	<u>2,637,656</u>	<u>(2,637,656)</u>
Total primary government	<u>\$ 2,749,703</u>	<u>(2,749,703)</u>
General revenues:		
Tobacco settlement revenues		3,008,633
Interest earnings		<u>205,439</u>
Total general revenues		<u>3,214,072</u>
Change in net position		<u>464,369</u>
Net position—beginning		<u>(56,923,597)</u>
Net position—ending		<u>\$ (56,459,228)</u>

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

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

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 116,436	\$ -	\$ 116,436
Restricted cash and cash equivalents	<u>-</u>	<u>3,584,758</u>	<u>3,584,758</u>
Total assets	<u>\$ 116,436</u>	<u>\$ 3,584,758</u>	<u>\$ 3,701,194</u>
LIABILITIES			
Accounts payable	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ 9</u>
Total liabilities	<u>9</u>	<u>-</u>	<u>9</u>
FUND BALANCES			
Restricted for debt service	-	3,584,758	3,584,758
Unassigned	<u>116,427</u>	<u>-</u>	<u>116,427</u>
Total fund balances	<u>116,427</u>	<u>3,584,758</u>	<u>3,701,185</u>
 Total liabilities and fund balances	 <u>\$ 116,436</u>	 <u>\$ 3,584,758</u>	 <u>\$ 3,701,194</u>

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

NIAGARA TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Niagara, 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)	\$ 3,701,185
A long-term asset, due from New York State, \$3,048,427, is not available to pay for current period expenditures and, therefore, is not reported as revenue in the funds.	3,048,427
Deferred gains associated with refunding of bonds are not reported in the governmental funds. The gain is reported as 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.	(4,335,044)
Certain current and long-term liabilities are not due and payable in the current period and, therefore, are not reported as revenue in the funds. The effects of these items are:	
Accrued interest payable	\$ (227,723)
Due within one year—net Tobacco Settlement Bonds payable	(1,470,418)
Due in more than one year—net Tobacco Settlement Bonds payable	(38,118,370)
Subordinate Turbo CABs payable	<u>(19,057,285)</u> <u>(58,873,796)</u>
Net position of governmental activities	<u>\$ (56,459,228)</u>

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

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

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
REVENUES			
Tobacco settlement revenues	\$ -	\$ 3,036,936	\$ 3,036,936
Interest earnings	<u>92</u>	<u>205,347</u>	<u>205,439</u>
Total revenues	<u>92</u>	<u>3,242,283</u>	<u>3,242,375</u>
EXPENDITURES			
Current:			
General government support	107,047	5,000	112,047
Debt service:			
Principal	-	1,295,000	1,295,000
Interest	<u>-</u>	<u>1,854,163</u>	<u>1,854,163</u>
Total expenditures	<u>107,047</u>	<u>3,154,163</u>	<u>3,261,210</u>
Excess (deficiency) of revenues over expenditures	<u>(106,955)</u>	<u>88,120</u>	<u>(18,835)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	100,000	-	100,000
Transfers out	<u>-</u>	<u>(100,000)</u>	<u>(100,000)</u>
Total other financing sources (uses)	<u>100,000</u>	<u>(100,000)</u>	<u>-</u>
Net change in fund balances	(6,955)	(11,880)	(18,835)
Fund balances—beginning	<u>123,382</u>	<u>3,596,638</u>	<u>3,720,020</u>
Fund balances—ending	<u>\$ 116,427</u>	<u>\$ 3,584,758</u>	<u>\$ 3,701,185</u>

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

NIAGARA TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Niagara, 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)	\$	(18,835)
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Certain revenues are not recognized in the 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, revenue is recognized regardless of when it's collected.		(28,303)
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Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported in the governmental funds.		206,431
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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	\$	8,094	
Principal repayments on Tobacco Settlement Bonds payable		1,295,000	
Amortization of premium on Tobacco Settlement Bonds payable		145,418	
Accreted interest on Subordinate Turbo CABs		<u>(1,143,436)</u>	<u>305,076</u>
Change in net position of governmental activities	\$		<u><u>464,369</u></u>

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Niagara Tobacco Asset Securitization Corporation (“NTASC”) have been prepared in conformity with accounting principles generally accepted in the United States of America 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 NTASC’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 NTASC. 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. NTASC reports no business-type activities.

Reporting Entity

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

NTASC was incorporated on October 6, 2000 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. NTASC has issued bonds in two series: 1) Subordinate Turbo CABs issued in 2005, and 2) Tobacco Settlement Asset Backed Refunding Bonds, Series 2014 Senior issued in 2014.

The sole Member of NTASC is the Chairman of the Board of Legislators of the County of Niagara, New York. The Member is also a member of the Board of Directors of NTASC. The Board of Directors of NTASC has seven members, one of which must meet certain requirements of independence, hence, the Independent Director. All members of the Board of Directors shall be appointed by the Member of NTASC.

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.

The County dedicated the discounted net proceeds of the sale of the bonds first to the payment of certain currently outstanding County bonds and to the extent available to finance certain capital projects identified in the County capital program. NTASC disbursed the net proceeds of the sale of bonds on behalf of the County as follows: \$23,076,566 to Escrow Agent to defease certain County bonds; \$19,077,644 to the County to finance certain capital projects, and; \$3,973,906 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 NTASC that are in excess of NTASC’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 is occurring. A Consumption Decline Trapping Event occurs when shipments of cigarettes in or to the 50 United States, the District of Columbia and Puerto Rico as measured under the MSA, are less in any year preceding a deposit date than the amount opposite such year under the “Consumption Decline Trapping Event” definition, which for the year 2017 is 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.

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

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

Basis of Presentation – Government-wide Financial

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 NTASC's funds. 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.

NTASC reports the following major governmental funds:

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

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 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, NTASC 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, NTASC 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, NTASC 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 have 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 cash is received by NTASC.

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, time deposits and short-term, highly liquid investments with original maturities of three months or less from the date acquired by NTASC. At December 31, 2018, NTASC does not report any investments; however, when NTASC 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 restricted for debt service.

Due from New York State—Represents an estimate of NTASC's portion of the Master Settlement Agreement and is recorded as 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, NTASC does not report 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, NTASC

reports a deferred inflow of resources of \$4,335,044 related to a gain on refunding bonds that is being amortized over the life of the bonds. 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 NTASC 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 NTASC’s policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

Fund Balance Flow Assumption—Sometimes NTASC 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 NTASC 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 NTASC 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. NTASC 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 NTASC’s highest level of decision-making authority (NTASC 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 (NTASC Board) has by resolution authorized the sole Member to assign 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. There are no program revenues in the current year. Items not properly included among program revenues are reported instead as *general revenues*.

Tobacco Settlement Revenues—During the fiscal year ended December 31, 2018, NTASC 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.

Transfers In/Out—Transfers are used to move resources from the Debt Service Fund to the General Fund to support operating expenditures.

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

Adoption of New Accounting Pronouncements—During the year ended December 31, 2018, NTASC 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 NTASC’s financial position or results from operations.

Future Impacts of Accounting Pronouncements—NTASC 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. NTASC is, therefore, unable to disclose the impact of 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, NTASC reported a net position of \$(56,459,228). 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

NTASC'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"). NTASC 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 NTASC's cash and cash equivalents consisted of the following:

	General Fund	Debt Service Fund	Total
Deposits	\$ 40,023	\$ -	\$ 40,023
Money market funds	76,413	213,531	289,944
Discount notes	-	3,371,227	3,371,227
Total	<u>\$ 116,436</u>	<u>\$ 3,584,758</u>	<u>\$ 3,701,194</u>

Deposits—All deposits of cash in the bank and money market funds are carried at fair value, and are classified by custodial credit risk at December 31, 2018 as follows:

	Carrying Amount	Bank Balance
FDIC insured	<u>\$ 40,023</u>	<u>\$ 40,023</u>

Cash Equivalents—Cash equivalents held by NTASC include money market accounts and discount notes. These cash equivalents are carried at amortized cost and include an accrued income component representing income payments accumulated with a security since the last payment date but not yet received.

Restricted Cash and Cash Equivalents—NTASC reports restricted cash and cash equivalents in the Debt Service Fund of \$3,584,758 to support restricted fund balance.

Custodial Credit Risk—Deposits—Custodial credit risk is the risk that in the event of a bank failure, NTASC'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, NTASC'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, NTASC 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 deposits, this is the risk that in the event of a bank failure, NTASC's deposits may not be returned to it.

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

3. RECEIVABLES

Due from New York State—Represents amounts owed to NTASC for tobacco settlement revenue earned in 2018. NTASC has accrued \$3,048,427 within government-wide statements only, as it is only recognized on the full accrual basis of accounting.

4. LONG-TERM DEBT

In 2000, NTASC issued \$47,920,000 of Tobacco Settlement Asset Backed Bonds, Series A pursuant to an indenture dated as of November 1, 2000. The net proceeds of Series A 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").

The payment of the Series A Bonds is dependent on the receipt of TSRs. The amount of TSRs actually collected is dependent on many factors including cigarette consumption and the continued operations of the OPMs. Such bonds are secured by and payable solely from TSRs and investment earnings pledged under the Bond Indenture and amounts established and held in accordance with the Bond Indenture. In the event sufficient funds are not available to meet Planned Payment Maturities, Rated Maturity dates will be used.

Each Series A Bond has a Rated Maturity Date and a Planned Principal Payment Date. Planned Principal Payment Dates are based upon a maturity of debt that began May 15, 2002 extending through 2030 at variable rates. Interest is payable May 15 and November 15 of each year. Planned Principal Payments and Rate Maturities are scheduled only on May 15 of each year although principal could be paid semiannually if actual principal payments are slower than Planned Principal Payments. Failure to pay interest on the Series A Bonds when due or principal of the Series A Bonds when due on a Rated Maturity Date will constitute a default.

On November 15, 2005, NTASC participated in New York Counties Tobacco Trust V ("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 proceeds of these bonds, \$17,408,824 (after the deduction of \$345,732 in bond issuance and underwriter costs), were transferred to the County for the partial defeasance of various bond issuances. The County has deposited \$17,189,240 in an irrevocable trust to pay future debt payments on the partially defeased issuances. The issuance has four components and payments on the Subordinate Turbo CABs are subordinate to the Series A bonds.

On September 24, 2014, NTASC issued \$44,295,000 of Tobacco Settlement Asset Backed Refunding Bonds, Series 2014 Senior ("2014 Senior"). The 2014 Senior bonds and the release of certain reserve funds were used to advanced refund all of NTASC's Tobacco Settlement Asset Back Bonds Series 2000, outstanding in the aggregate principal amount of \$38,690,000, to acquire by negotiated purchase \$6,572,480 of the initial principal amount of outstanding NYCTT bonds, Series 2005 S4B attributable to NTASC, to cancel the related bond RS4B-1 of NTASC's Series 2005 Subordinate Bonds, to fund a payment of \$2,000,000 to provide Niagara County with funds for capital purposes, and, after a premium of \$3,780,877, to pay the cost of issuance of the 2014 Senior bonds.

Changes in Tobacco Settlement Bonds, Series 2014 Senior, for the year ended December 31, 2018 are as follows:

Description	Year of Maturity	Yield	Beginning Balance 1/1/2018	Additions	Deletions	Ending Balance 12/31/2018	Amount Due Within One Year
Series 2014 Senior Tobacco Settlement Bonds	2040	various	\$ 37,830,000	\$ -	\$ 1,295,000	\$ 36,535,000	\$ 1,325,000
Plus:							
Bond premium			3,199,206	-	145,418	3,053,788	145,418
Net Tobacco Settlement Bonds			<u>\$ 41,029,206</u>	<u>\$ -</u>	<u>\$ 1,440,418</u>	<u>\$ 39,588,788</u>	<u>\$ 1,470,418</u>

NTASC debt service requirements based upon planned principal payments for Tobacco Settlement Bonds, Series 2014 Senior are as follows:

Year ending December 31,	Principal	Interest	Total
2019	\$ 1,325,000	\$ 1,788,663	\$ 3,113,663
2020	1,400,000	1,720,538	3,120,538
2021	1,480,000	1,648,538	3,128,538
2022	1,570,000	1,572,288	3,142,288
2023	1,660,000	1,491,538	3,151,538
2024-2028	5,425,000	6,715,090	12,140,090
2029-2033	9,940,000	4,880,301	14,820,301
2034-2038	9,775,000	2,309,606	12,084,606
2039-2040	3,960,000	207,376	4,167,376
Total	<u>\$ 36,535,000</u>	<u>\$ 22,333,938</u>	<u>\$ 58,868,938</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	6.00% - 7.85%	<u>\$ 17,754,556</u>	<u>\$ 17,913,849</u>	<u>\$ 1,143,436</u>	<u>\$ -</u>	<u>\$ 19,057,285</u>

Redemption of the Subordinate Turbo CABs as outlined in the original official statement totaled \$89,094,053 and is scheduled to be paid from 2015 through 2038, while early payment is allowed. During the year ended December 31, 2018, NTASC did not make any redemption payments. Any debt service amounts not paid in accordance with the Turbo Redemption Payments schedule will be due and payable on the maturity dates as listed below:

Series 2005 S1	June 1, 2038
Series 2005 S2	June 1, 2050
Series 2005 S3	June 1, 2055

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 NTASC. At December 31, 2018, the balance of this restriction was \$3,584,758.
- ***Unrestricted Component of Net Position***—This component represents net position of NTASC 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, NTASC reported \$3,584,758 of fund balance restricted for debt service that must be used toward the future repayment of bonded debt.

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

6. RELATED PARTY TRANSACTIONS

In accordance with an agreement between the County and NTASC, the County provides NTASC with administrative services. The cost of these services has been included as general government support on NTASC's statement of activities. NTASC paid the County \$60,000 for administrative expenses for both of the years ended December 31, 2018 and 2017.

7. CONTINGENCIES

The ability of NTASC 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 NTASC 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, taxpayers, 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.

8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 28, 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
Niagara 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 Niagara Tobacco Asset Securitization Corporation ("NTASC") as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise NTASC's basic financial statements, and have issued our report thereon dated March 28, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NTASC'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 NTASC's internal control. Accordingly, we do not express an opinion on the effectiveness of the NTASC'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.

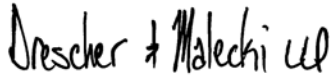
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during 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 NTASC'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.



March 28, 2019