

Erie Tobacco Asset Securitization Corporation
Audit Committee

Minutes of Meeting
Thursday, March 10, 2016

Budget Conference Room

Corporation Committee Members present: Peter Zaleski, Bryan Bingel and Gerard Mazurkiewicz.

Also present: Robert Keating, Timothy Callan, Mark Cornell, Martin Polowy, Frederick Wolf, Danette Drennen, Luke Malecki and Thomas Malecki.

I. CALL TO ORDER

Bryan Bingel called the Meeting of the Audit Committee to order at 2:09 p.m.
Quorum present.

II. MINUTES FROM PRIOR MEETING

None.

III. ACTION ITEMS

A) Luke Malecki reviewed Drescher & Malecki, LLP's Audit Summary, a copy of which is attached hereto, during and after which the following comments were made regarding Drescher & Malecki, LLP's 2015 Independent Audit Report and accompanying Independent Auditor's Communications.

- Luke Malecki provided an overview of the Auditor Communications Audit performed in accordance with Generally Accepted Auditing Standards (i.e., look, assess and review internal controls).
- Luke Malecki advised of no change in significant accounting policies from the prior year.
- Luke Malecki advised that the only unique event that happened last year was the MSA settlement that hits the government wide financial statements but is not recognized in the fund statements until next year because of the 60-day accrual period.
- Luke Malecki advised it was mostly a standard year, with no changes from the prior year in significant accounting policies. GASB 68 and GASB 71

came into play, which deal with pensions, and there are no pensions in the Corporation. Thus, there is no impact of GASB 68 and GASB 71 on the financial statements.


- Luke Malecki advised that the significant accounting estimates are similar to years past, specifically, the TSR revenues, the SWAP agreement and the turbo CABs
- Luke Malecki advised that there were no alternative accounting treatments; there were no difficulties or disagreements. There was nothing to impair independence in the auditor's relationship with the Corporation.
- Luke Malecki indicated Drescher & Malecki offers an unmodified opinion (the cleanest available) FYE 2015.
- A discussion was held on the timeline for reviews and approvals of the audit documents.
- Luke Malecki discussed the trends and risks attributable to payments available to the Corporation under the existing Master Settlement Agreement.
- A discussion was held concerning the terms of the recent litigation settlement which indicated there is going to be a discount for any tobacco products sold in Native American Territories.
- A discussion was held regarding the trends of the net position and that there is zero gain except for incursion of the CABs.
- A discussion was held concerning cigarette shipment trends, e-cigarettes and their exclusion from the MSA, and cigarette sales volume for the two largest U.S. tobacco sellers.
- Luke Malecki and Fred Wolf advised on trapping events, how they work and holding/releasing of funds.
- A discussion was held about the RFP that needs to be issued this year for the financial statements audit. A request was made for ETASC to piggyback off of the RFP that the Comptroller's Office must issue for the County's financial statements audit; however, the Comptroller's Office denied that request. Therefore, Tim Callan will write the necessary RFP later this year.
- Luke Malecki advised that the RFP issue came up at the Audit Committee meeting for the County. The Comptroller's office indicated that they do not have authority over the auditors and they felt it would be more appropriate for this Board to select the auditors. Scott Kroll was present at the Audit Committee meeting for the Comptroller's office.
- A discussion was held concerning the meeting last year with Raymond James and Todd Miles. Tim Callan prepared minutes of this meeting (Governance Committee). These minutes will be presented to the Committee for approval. Once approved, the minutes will be posted on the website by Mark Cornell.
- Tim Callan advised on the timing of the required ABO filings.
- Tim Callan advised on the proposed Local Law prohibiting pharmacies from selling tobacco products and how that may reduce revenues to ETASC.
- A discussion was held concerning the confidential assessments by individual Board members of the Board's activities during the 2015 calendar year.

- Tim Callan advised the Committee of a telephone call he received from Steve Kantor concerning Fitch Ratings, the agency that rates ETASC and TASCs throughout the country. A discussion was held about Fitch Ratings downgrading ETASC to non-investment status and the implications of such a rating. Luke Malecki advised it is just an additional disclosure and not anything out of the ordinary.
- Tim Callan advised that, depending on the series of bonds, ETASC's bonds are rated B, BB, BB+, BB- and BB. Fitch and S&P assign these ratings.
- Luke Malecki inquired if anyone had any changes/corrections to the report before it is submitted to the full Board next week and none were proposed.

B) Resolution #1 authorization the submission of the Corporations' Independent Audit Report and accompanying Independent Auditor's Communications for the calendar year ended December 31, 2015 (as presented in draft form, subject to nonmaterial modifications as discussed and agreed upon by the Committee) to the Corporation Board of Directors for review and acceptance. Moved by Gerald Mazurkiewicz and seconded by Peter Zaleski. Motion unanimously approved.

IV. ADJOURNMENT

Moved by Bryan Bingel and seconded by Peter Zaleski to adjourn the meeting of the Audit Committee at 2:58 p.m. Motion unanimously approved.



Martin A. Polowy
Corporation Assistant Secretary