CAYUGA TOBACCO ASSET SECURITIZATION CORPORATION

(A Component Unit of the County of Cayuga)

Financial Statements

December 31, 2013

(With Independent Auditors' Report Thereon)

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)

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TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
AN EFP ROTENBERG COMPANY

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Cayuga Tobacco Asset Securitization Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Cayuga Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of the County of Cayuga (the County), as of and for the year ended December 31, 2013, and the related notes to the financial statements which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Cayuga Tobacco Asset Securitization Corporation as of December 31, 2013, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 3 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 February 5, 2014, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Corporation's internal control over financial reporting and compliance.

Toski & Co., CPAs, P.C.

Williamsville, New York
February 5, 2014

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
Management's Discussion and Analysis
December 31, 2013

OVERVIEW

The Cayuga Tobacco Asset Securitization Corporation (the Corporation) is a local development corporation created in 2000 by an act of the New York State Legislature. The Corporation's primary purpose is to acquire the securitized tobacco assets from Cayuga County, New York (the County) and issue bonds securitized by a settlement agreement with companies in the tobacco industry. The net proceeds of the borrowing by the Corporation were paid to the County to acquire the rights to future proceeds from the settlement agreement. Under this structure, the borrowings by the Corporation are not debt of the County. The Corporation will remain in existence during the term of the bonds and provide annual reports to bondholders and all other reports required by law..

The Corporation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. The financial statements include the following:

- Governmental Fund Balance Sheet/Statement of Net Position - reports the financial position of the Corporation at year end.

- Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance/Statement of Activities - reports the financial activity of the Corporation for the year ended.

FINANCIAL HIGHLIGHTS

During the year ended December 31, 2013, the net position of the Corporation decreased $509,979 and the cash balance of the Corporation increased $4,369.

The deficit in the statement of net position of $22,002,336 is a result of the Corporation's issuance of long-term debt, secured by a stream of revenue which is dependent upon future tobacco sales in the United States, for which the revenue is not reportable until the sale is made.

REQUEST FOR INFORMATION

This financial report is designated to provide a general overview of the Corporation's finances for all those with an interest in the Cayuga Tobacco Asset Securitization Corporation's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Chief Financial Officer, Cayuga Tobacco Asset Securitization Corporation, 160 Genesee Street, Auburn, New York 13021.

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
Governmental Fund Balance Sheet/Statement of Net Position
December 31, 2013

Assets	Debt Service Fund	Adjustments	Governmental Activities Statement of Net Assets
Current assets:			
Cash and equivalents	$ 106,496	-	106,496
Tobacco settlement proceeds receivable	1,175,000	-	1,175,000
Total current assets	1,281,496	-	1,281,496
Restricted cash and equivalents	1,335,300	-	1,335,300
Total assets	$ 2,616,796	-	2,616,796
Liabilities			
Current liabilities:			
Current portion of long-term debt	-	295,000	295,000
Accrued interest payable	-	68,393	68,393
Total current liabilities	-	363,393	363,393
Long-term liabilities:			
Bonds payable, net of discount	-	19,197,577	19,197,577
Accreted interest payable	-	5,058,162	5,058,162
Total long-term liabilities	-	24,255,739	24,255,739
Total liabilities	-	24,619,132	24,619,132
Fund Balance/Net Position			
Fund balance - restricted for debt service	2,616,796	(2,616,796)	-
Total fund balance	$ 2,616,796		
Net position:			
Restricted for debt service		2,616,796	2,616,796
Unrestricted deficit		(24,619,132)	(24,619,132)
Total net position (deficit)		$ (22,002,336)	(22,002,336)

See accompanying notes to financial statements.

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
Reconciliation of Governmental Fund Balance Sheet
to Statement of Net Position
December 31, 2013

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance - debt service fund	$ 2,616,796
Interest accrued on long-term debt does not require current financial resources and, therefore, is not reported as a liability in the debt service fund.	(68,393)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the debt service fund.	(24,550,739)
Total net position - governmental activities	$ (22,002,336)

See accompanying notes to financial statements.

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
Statement of Governmental Fund Revenue, Expenditures and Changes
in Fund Balance/Statement of Changes in Net Position
Year ended December 31, 2013

	Debt Service Fund	Adjustments	Governmental Activities Statement of Activities
Revenue:			
Tobacco settlements	$ 1,164,245	-	1,164,245
Investment income	200	-	200
Total revenue	1,164,445	-	1,164,445
Expenditures:			
Administration	23,329	-	23,329
Professional fees	26,563	-	26,563
Insurance	289	-	289
Debt service - principal	270,000	(270,000)	-
Debt service - interest	828,835	795,408	1,624,243
Total expenditures	1,149,016	525,408	1,674,424
Excess of revenue over expenditures	15,429	(15,429)	-
Change in net position	-	(509,979)	(509,979)
Fund balance/net position (deficit) at beginning of year	2,601,367	(24,093,724)	(21,492,357)
Fund balance/net position (deficit) at end of year	$ 2,616,796	(24,619,132)	(22,002,336)

See accompanying notes to financial statements.

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
Reconciliation of Statement of Revenue, Expenditures and Changes in
Fund Balance/Governmental Fund to Statement of Net Position
Year ended December 31, 2013

Net change in fund balance - debt service fund	$ 15,429
Amounts reported for governmental activities in the changes in net position are different because:	
Accrued interest on long-term debt and accreted interest on capital appreciation bonds for governmental activities is not a use of current financial resources and, therefore, is not recorded in the debt service fund.	(786,128)
Amortization of the bond issuance discount does not use current spendable resources and therefore is not recorded in the debt service fund	(9,280)
Repayment of bond principal is an expenditure in the debt service fund, but the repayment reduces long-term liabilities in the statement of net position.	270,000
Total change in net position of governmental activities	$ (509,979)

See accompanying notes to financial statements.

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
Notes to Financial Statements
December 31, 2013

(1) Organization and Summary of Significant Accounting Policies

(a) Nature of Organization

Cayuga Tobacco Asset Securitization Corporation (the Corporation) is a bankruptcy-remote local development corporation created in October 2000 under section 1411 of the New York State Not-for-Profit Corporation Law.

The Corporation is an instrumentality of, but separate and apart from Cayuga County, New York (the County). The Corporation has a board of directors that is comprised of a majority of elected or appointed officials of the County and one independent director. Although legally separate from the County, the Corporation is a component unit of the County and, accordingly, is included in the County's financial statements as a blended component unit.

Pursuant to a purchase and sale agreement with the County, the County sold to the Corporation all of its future right, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgment (the Decree). The MSA resolved cigarette smoking-related litigation between the settling states and claims, and provides for a continuing release of future smoking-related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future right, title and interest of the County's share were sold to the Corporation.

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

(1) Organization and Summary of Significant Accounting Policies, Continued

(b) Basis of Accounting

The Corporation follows the modified accrual basis of accounting in its Debt Service Fund, which focuses on changes in available resources, in preparation of the fund financial statements. Under the modified accrual basis of accounting, revenue and related receivables are recorded in the accounting period that they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (ninety days or less). Expenditures and related liabilities are recognized in the accounting period the liability is due and payable.

The Corporation utilizes the full accrual basis of accounting, which focuses on changes in total economic resources, in preparation of the Corporation-wide financial statements. Under the full accrual basis of accounting changes in long-term assets and liabilities are incorporated into the financial statements. Since the fund financial statements are prepared on a different measurement focus and basis of accounting than the entity-wide financial statements, an adjustments column is presented to transform the fund based financial statements into the entity-wide financial statements.

(c) Basis of Presentation

The Corporation has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America. The Corporation has prepared entity-wide financial statements titled "Statement of Net Position" and "Statement of Activities" as well as the required supplementary information titled "Management's Discussion and Analysis" which precedes the financial statements. The Corporation also prepares the fund financial statements, which are the "Governmental Fund Balance Sheet," and "Statement of Revenue, Expenditures and Changes in Fund Balance." The basic financial statements include both the corporation-wide and the fund financial statements in one presentation.

The Corporation follows the principles of fund accounting in that each segment of operations is represented under a discrete fund presentation in the fund financial statements. The Corporation uses one governmental fund type to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions and activities. The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on long-term debt and supports the operations of the Corporation.

(1) Organization and Summary of Significant Accounting Policies, Continued

(c) Basis of Presentation, Continued

The collection account within the Debt Service Fund will be used to deposit all collections (excluding certain investment earnings). Funds on deposit in the collection account will be transferred to various other accounts under the Indenture. The debt service account within the Debt Service Fund will be used to deposit amounts transferred from the collection account in respect of interest and principal payments and from which the Trustee will make payments on the bonds in accordance with the priority of payments. The Corporation is required to maintain a balance of, to the extent of available funds, equal to the lesser of: (i) 125% of the average annual debt service on the bonds of each series of bonds of which one or more bonds remain outstanding bonds, measured as of their respective dates of original issuance; or (ii) the maximum amount that may be held in the liquidity reserve account, in the opinion of counsel, without adversely affecting the tax-exempt status of the series 2001 bonds and any other subsequently issued debt. The extraordinary payment account within the Debt Service Fund will be used to deposit, following the occurrence of any event of default, collections after the payment of certain expenses. The Trustee will make interest payments, extraordinary payments and various other payments related to the bonds.

The trapping account within the Debt Service Fund will be funded from collections at the amount necessary to make the amount in the trapping account equal to the sum, of (i) the trapping requirement during the existence of a trapping event and (ii) the lump sum payment requirement as a result of a lump sum payment event.

For further information regarding the above accounts, events, and requirements refer to the Corporation's tobacco settlement asset-backed bonds, series 2001 resolution dated February 8, 2001.

(d) Concentration of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and equivalent accounts in financial institutions. Although the accounts exceed the federally insured deposit amount, management does not anticipate nonperformance by the financial institution.

(e) Cash and Equivalents

The Corporation considers all short-term highly liquid investments with maturities of three months or less to be cash equivalents.

(f) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(1) Organization and Summary of Significant Accounting Policies, Continued

(g) Revenue Recognition

Future tobacco settlement collections are contingent upon future tobacco products sales subject to various adjustments as outlined in the MSA. The Corporation recognizes revenue from tobacco settlement collections as the collections are received by the Corporation. In addition, an estimated receivable (master settlement agreement receivable) is accrued at year-end for estimated product sales occurring from January 1 through December 31 of each year.

(h) Subsequent Events

The Corporation has evaluated events after December 31, 2013, and through February 5, 2014, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(2) Tobacco Settlement Proceeds Receivable

This asset represents estimated payments to be received under the Master Settlement Agreement (MSA) between various tobacco manufacturers and the County for cigarettes shipped through December 31, 2013. The MSA resolved cigarette smoking-related litigation between the manufacturers and the states, including the County of Cayuga. The right to receive the payments was acquired by the Corporation through a purchase from the County of Cayuga. The estimated tobacco settlement proceeds receivable amounted to $1,175,000 at December 31, 2013.

(3) Restricted Cash and Equivalents

The Corporation is required to place a portion of the bond proceeds in trusts as a reserve to partially secure payments to the bondholders. Tobacco proceeds are held in trust by Manufacturers and Traders Trust (M&T) on behalf of the Corporation. M&T invests the proceeds in highly liquid, interest bearing securities, and performs the transfer of the debt obligations upon the instruction of Bond Logistix, the administrator retained by the Corporation. The restriction on these funds will be released as the bonds mature and are paid. The balance in restricted cash and equivalents amounted to $1,335,300 at December 31, 2013.

(4) Bonds Payable

(a) Overview

The Corporation originally issued bonds as part of New York Counties Tobacco Trust I Tobacco Settlement Pass-Through Bond Series 2000 on December 7, 2000. The Corporation also became part of the New York Counties Tobacco Trust V by issuing capital appreciation bonds on November 5, 2005. A summary of the activity for bonds payable for the year ended December 31, 2012 is as follows:

	Trust I	Trust V	Total Bonds payable
Balance at December 31, 2012	$ 12,785,078	11,238,899	24,023,977
Principal payments	(270,000)	-	(270,000)
Interest accretion	-	787,482	787,482
Amortization	9,280	-	9,280
Balance at December 31, 2013	$ 12,524,358	12,026,381	24,550,739

(b) 2000 Series Bonds - New York Counties Tobacco Trust I

The Corporation issued $16,740,000 in term bonds for total proceeds of $16,498,718, at a discount of $241,282. The discount will be amortized through 2025. A summary of the activity for bonds payable for the year ended December 31, 2013 is as follows:

	Principal	Discount	Total Bonds payable
Balance at December 31, 2012	$ 12,915,000	(129,922)	12,785,078
Principal payments	(270,000)	-	(270,000)
Amortization	-	9,280	9,280
Balance at December 31, 2013	$ 12,645,000	(120,642)	12,524,358

The bonds mature from June 1, 2002 through June 1, 2042, without flexible amortization, and from June 1, 2001 through June 1, 2026 under a flexible amortization payment schedule. Interest on the bonds ranges from 5% to 6.25%. Payments on the term bonds are through 2026. Future principal payments on the bonds payable for the five years following December 31, 2013 and thereafter are as follows:

(4) Bonds Payable, Continued

(b) 2000 Series Bonds - New York Counties Tobacco Trust I, Continued

	Nonflexible	Flexible	Interest	Total
2014	$ 150,000	145,000	811,772	1,106,772
2015	160,000	1,880,000	738,710	2,778,710
2016	180,000	485,000	653,153	1,318,153
2017	185,000	515,000	609,155	1,309,155
2018	350,000	545,000	557,853	1,452,853
2019 to 2023	380,000	4,960,000	1,817,845	7,157,845
2024 to 2028	-	2,710,000	194,775	2,904,775
	$ 1,405,000	11,240,000	5,383,263	18,028,263

(c) 2005 Series Bonds - New York Counties Tobacco Trust V

The Corporation issued $37,338,337 in capital appreciation bonds for proceeds of $7,334,797 on November 29, 2005. These bonds are subordinate to the original Trust I issue and cannot be defeased until the original issue bonds are paid in full. These bonds were issued in different series with different interest rates and maturities. These bonds accrue (accrete) interest compounded semiannually from their 2005 delivery date, until maturity, at which time the appreciated value of the bond, inclusive of all accrued interest, is payable. A summary of the activity for Trust V Capital Appreciation bonds payable for the year ended December 31, 2013 is as follows:

	Series 2005 S1	Series 2005 S2	Series 2005 S3	Series 2005 S4B	Total 2005 Bonds
Interest rate	6.00%	6.10%	6.85%	7.85%	
Final maturity	June 1, 2023	June 1, 2026	June 1, 2029	June 1, 2039	
Principal balance, December 31, 2012	$ 2,043,971	1,207,315	1,163,141	2,553,792	6,968,219
Accreted interest:					
Balance December 31, 2012	1,062,102	641,156	712,206	1,855,216	4,270,680
Current year accretion	189,263	114,477	130,721	353,021	787,482
Balance December 31, 2013	1,251,365	755,633	842,927	2,208,237	5,058,162
Total balance outstanding	$ 3,295,336	1,962,948	2,006,068	4,762,029	12,026,381

(4) Bonds Payable, Continued

(c) 2005 Series Bonds - New York Counties Tobacco Trust V, Continued

Payments on these bonds are scheduled to commence in 2016 and continue through 2039. The total future payments on these bonds inclusive of original principal and accreted interest through maturity, is as follows:

	Series 2005 S1	Series 2005 S2	Series 2005 S3	Series 2005 S4B	Total 2005 Bonds
2014	$ -	-	-	-	-
2015	-	-	-	-	-
2016	339,101	-	-	-	339,101
2017	562,008	-	-	-	562,008
2018	672,877	-	-	-	672,877
2019 to 2023	3,054,794	-	-	-	3,054,794
2024 to 2028	-	4,002,034	4,648,829	-	8,650,863
2029 to 2033	-	-	432,164	9,722,854	10,155,018
2034 to 2038	-	-	-	10,778,627	10,778,627
2039	-	-	-	2,123,843	2,123,843
	$ 4,628,780	4,002,034	5,080,993	22,625,324	36,337,131

(5) Transactions with Cayuga County

In addition to setting forth the terms and conditions of the sale and purchase of the TSR's, the purchase and sale agreement also provides for separate consideration to retain the County to act as administrator with respect to the preparation of all reports and other instruments and documents that are the duty of the Corporation to prepare, execute, file or deliver.

The Corporation uses office space and shares overhead and operating services and expenses with the County (including employees, consultants and agents). Payments made to the County in 2013 totaled $22,231 of which $11,060 related to 2012 payables and $11,171 for 2013 expenses.

(6) Accounting Standards Issued But Not Yet Implemented

- GASB Statement No. 67 - "Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25" replaces existing standards for financial reporting and note disclosure for most pension plans that are administered through trusts or equivalent arrangements. The requirements of this statement are effective for periods beginning after June 15, 2013. This statement is not expected to have a material effect on the financial statements of the Corporation.
- GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27" replaces existing standards of accounting and financial reporting for pension plans that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The requirements of this statement are effective for periods beginning after June 15, 2014. This statement is not expected to have a material effect on the financial statements of the Corporation.
- GASB Statement No. 69 - "Government Combinations and Disposals of Government Operations" establishes accounting and financial reporting standards for government mergers, acquisitions and disposals. The statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effect of those transactions. The requirements of this statement are effective for periods beginning after December 15, 2013. This statement is not expected to have a material effect on the financial statements of the Corporation.
- GASB Statement No. 70 - "Accounting and Financial Reporting for Nonexchange Financial Guarantees" improves the accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The statement also requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The requirements of this statement are effective for periods beginning after June 15, 2013. This statement is not expected to have a material effect on the financial statements of the Corporation.

(7) Significant Contingencies

The enforceability of the rights and remedies of the State (and thus the bondholders) and of the obligations of a participating manufacturer under the MSA are subject to the Bankruptcy Code and the other applicable insolvency, moratorium or similar laws relating to or affecting the enforcement of creditors' rights. Some of the risks include risks of delay in or reduction of amounts of payment or of non-payment under the MSA and the risk that the State (and thus the County and/or the Corporation) may be stayed for an extended time from enforcing any rights under the MSA and the Consent Decree or with respect to the payments owed by the bankrupt participating manufacturer or from commencing legal proceedings against the bankrupt participating manufacturer. As a result, if a participating manufacturer becomes a debtor in a bankruptcy case and defaults in making payment, funds available to the Corporation to pay bondholders may be reduced or eliminated.

The bonds are payable only from the assets of the Corporation. The bonds are neither legal nor moral obligations of the County or the State of New York, and no recourse may be had thereto for payment of amounts owing on the bonds. The Corporation's only source of funds for payments on the bonds is the collections under the MSA and amounts on deposit in pledged accounts pursuant to the indenture. The Corporation has no taxing power and no significant assets other than the rights to receive tobacco settlement revenues.

TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
AN EFP ROTENBERG COMPANY

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

Members of the Board of the
Cayuga Tobacco Asset Securitization Corporation:

We have audited, 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, the financial statements of governmental activities and the major fund of Cayuga Tobacco Asset Securitization Corporation (the Corporation), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic statements, and have issued our report thereon dated February 5, 2014.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Toski & Co., CPAs, P.C.

Williamsville, New York
February 5, 2014