

SENECA TOBACCO ASSET
SECURITIZATION CORPORATION

FINANCIAL STATEMENTS

December 31, 2013

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Dermody, Burke & Brown, CPAs, LLC

INDEPENDENT AUDITORS' REPORT

DIRECTORS

SENECA TOBACCO ASSET SECURITIZATION CORPORATION

Report on the Financial Statements

We have audited the accompanying financial statements of **SENECA TOBACCO ASSET SECURITIZATION CORPORATION** (the Corporation), a component unit of the County of Seneca, New York, which comprise the statement of net position as of December 31, 2013, and the related statements of revenue, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seneca Tobacco Asset Securitization Corporation as of December 31, 2013, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As described in Note 2 to the financial statements, the Corporation adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* in 2013.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 7 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 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.

Dermody, Burke & Brown

DERMODY, BURKE & BROWN, CPAs, LLC

Syracuse, NY

March 31, 2014

SENECA TOBACCO ASSET SECURITIZATION CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2013

Our discussion and analysis of **SENECA TOBACCO ASSET SECURITIZATION CORPORATION'S** (the Corporation) financial performance provides an overview of the Corporation's financial activities during 2013. It should be read in conjunction with the financial statements and their associated notes that follow this section to properly evaluate the Corporation's financial position. The financial statements present only the information for the year ended December 31, 2013. Certain data from prior year has been reclassified to conform with the current year presentation. We encourage readers to consider the information presented here in conjunction with additional information contained in the financial statements and notes to the financial statements.

Financial Highlights

As discussed further in the notes to the financial statements, the Corporation was formed to acquire from the County of Seneca all future right, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) with respect to tobacco related litigation among various states and participating manufacturers. The Corporation is a component unit of Seneca County based on the guidance provided in Technical Bulletin No. 2004-01 and is included as part of the County's financial reporting entity as a blended component unit as of December 31, 2013.

Overview of the Financial Statements

Adoption of New Accounting Pronouncements

During the year ended December 31, 2013, the Corporation adopted the provisions of GASB Statement No. 65. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As a result of the implementation of GASB Statement No. 65, the Corporation's net position at December 31, 2012 has been restated for unamortized bond issuance costs of \$204,865.

SENECA TOBACCO ASSET SECURITIZATION CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2013

Using This Annual Report

Because the Corporation is treated as a proprietary fund for auditing purposes, it has in the past and will continue to use the accrual basis of accounting. The accrual basis of accounting provides both short-term and long-term information about the Corporation's overall financial status. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The remainder of this overview section of MD&A highlights the structure and contents of the statements.

Summary of Statement of Net Position

	2013	Restated 2012
ASSETS		
Cash	\$ 275,334	\$ 249,184
Restricted Deposits Held with Trustee:		
Debt Service Account	41	42
Liquidity Reserve Account	511,292	511,292
Trapping Account	2,926	2,091
Collection Account	1,116	613
	<u>515,375</u>	<u>514,038</u>
Total Restricted Deposits Held with Trustee		
	<u>790,709</u>	<u>763,222</u>
TOTAL ASSETS		
LIABILITIES		
Bonds Payable, Due Within One Year	60,000	50,000
Bonds Payable, Due After One Year	9,507,395	9,304,728
	<u>9,567,395</u>	<u>9,354,728</u>
TOTAL LIABILITIES		
TOTAL UNRESTRICTED NET POSITION (DEFICIT)	<u>\$ (8,776,686)</u>	<u>\$ (8,591,506)</u>

The Corporation's assets increased by approximately \$27,000. This represents the net activity of the operating cash account and deposits held by trustee. The Corporation's liabilities increased approximately \$210,000 which represents the current year accreted interest on the 2005 Series bonds payable of approximately \$328,000 offset by the current year principal payments of \$125,000. The recognition of the bond payable liability in 2000 and 2005 created a deficit in the Corporation's net position. This deficit is expected to be satisfied over time as the tobacco settlement proceeds are received and the debt is paid.

SENECA TOBACCO ASSET SECURITIZATION CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2013

Using This Annual Report – Continued

Summary of Revenue and Expenses

The Corporation showed a decrease in net position in 2013 and 2012. This decrease results from interest earnings and proceeds from the tobacco settlement which do not provide enough revenue to meet the Corporation's current expense for interest and accretion recorded in 2013 and 2012.

	2013	Restated 2012
OPERATING REVENUE		
Administrative Fee Income	\$ 44,328	\$ 42,755
Proceeds from Tobacco Settlement	483,933	387,412
Interest Income	229	280
	<hr/>	<hr/>
Total Operating Revenue	528,490	430,447
OPERATING EXPENSES		
Interest Expense	632,346	617,145
Administrative Agent Fee	56,230	15,679
Liability Insurance	4,243	4,294
Professional Fees	11,350	10,800
Amortization	9,501	9,501
	<hr/>	<hr/>
Total Operating Expenses	713,670	657,419
CHANGE IN UNRESTRICTED		
NET POSITION (DEFICIT)	<u>\$ (185,180)</u>	<u>\$ (226,972)</u>

Analysis of Overall Financial Position

Overall, the Corporation continues to show a decrease in net assets, which meets expectations. Cash received on the tobacco settlement rights receivable has been sufficient to meet the Corporation's current expenditure demands.

SENECA TOBACCO ASSET SECURITIZATION CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2013

Using This Annual Report – Continued

Long-Term Debt Activity

The Corporation issued debt to fund its purchases of the future right, title, and interest in the Tobacco Settlement Revenues. Debt is amortized through 2042 for the 2000 Series Bonds and 2060 for the 2005 Series Bonds.

Serial bond principal payments are due annually and interest semiannually for the 2000 Series Bonds. At December 31, 2013, the Corporation had \$4,620,000 in 2000 serial bonds outstanding. This was a 3% decrease from the previous year due to scheduled principal payments.

The Corporation is required to make annual debt service payments beginning June 2038 for the 2005 Series Bonds. These bonds are Capital Appreciation Bonds and pay interest at maturity, not every year. The series 2005 Bonds are subordinate to the 2000 bonds. In December 2009, \$1,055,000 of the Series 1 Bonds was retired with the monies held in the trapping fund. The bonds mature as follows:

	Principal and Interest Due at Maturity
Series 2005 S1 Payable June 1, 2038	\$ 6,425,000
Series 2005 S2 Payable June 1, 2050	8,605,000
Series 2005 S3 Payable June 1, 2055	10,245,000
Series 2005 S4B Payable June 1, 2060	<u>69,200,000</u>
Total	<u>\$ 94,475,000</u>

More detailed information about the Corporation's long-term liabilities is presented in Note 4 to the financial statements.

SENECA TOBACCO ASSET SECURITIZATION CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2013

Using This Annual Report – Continued

Budget

GASB 34 requires an analysis of significant variations between the original budget and final budget amounts and between final budget amounts and actual budget results. Management has prepared a budget for its operating expenses only, and there were no changes or amendments to the operating budget. Because the budget is not a complete budget, comparison to current operations could be misleading. As such, it has not been presented in this report.

Other Known Facts

Trapping Events

In accordance with Section 6.4(d)(6) of the Indenture and Sections 4.1(iv)(F) and (G), and to the extent contained in the “Calculations for the Tobacco Litigation Master Settlement Agreement” report (the “MSA Report”), as of the Next Distribution Date, three Trapping Events have occurred. One is still occurring.

Consumption Decline Trapping Event

As defined in Exhibit A of the Indenture, a Consumption Decline Trapping Event means that 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 number is 292,716,107,931.

According to the MSA Report, the amount shown as relevant shipments for the year 2012 was less than the shipment amount specified above and therefore, a Consumption Decline Trapping Event has occurred.

Contacting the Corporation's Financial Management

This financial report is designed to provide to the readers of these financial statements an overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Corporation's Treasurer, Nicholas Sciotti at 1 DiPronio Drive, Waterloo, NY 13165.

SENECA TOBACCO ASSET SECURITIZATION CORPORATION

AUDITED FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

December 31, 2013

ASSETS

Cash	\$ 275,334
Restricted Deposits Held with Trustee:	
Debt Service Account	41
Liquidity Reserve Account	511,292
Trapping Account	2,926
Collection Account	<u>1,116</u>
Total Restricted Deposits Held with Trustee	<u>515,375</u>

TOTAL ASSETS 790,709

LIABILITIES

Bonds Payable, Due Within One Year	60,000
Bonds Payable, Due After One Year	<u>9,507,395</u>

TOTAL LIABILITIES 9,567,395

TOTAL UNRESTRICTED NET POSITION (DEFICIT) \$ (8,776,686)

See notes to financial statements.

SENECA TOBACCO ASSET SECURITIZATION CORPORATION

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

Year Ended December 31, 2013

OPERATING REVENUE

Administrative Fee Income	\$ 44,328
Proceeds from Tobacco Settlement	483,933
Interest Income	<u>229</u>
Total Operating Revenue	528,490

OPERATING EXPENSES

Interest Expense	632,346
Administrative Agent Fee	56,230
Liability Insurance	4,243
Professional Fees	11,350
Amortization	<u>9,501</u>
Total Operating Expenses	<u>713,670</u>

CHANGE IN UNRESTRICTED NET POSITION (DEFICIT) (185,180)

NET POSITION (DEFICIT)

Balance, Beginning of Year, as Previously Stated	(18,915,114)
Restatement	<u>10,323,608</u>
Balance, End of Year	<u><u>\$ (8,776,686)</u></u>

See notes to financial statements.

SENECA TOBACCO ASSET SECURITIZATION CORPORATION

STATEMENT OF CASH FLOWS

Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Unrestricted Net Position (Deficit)	\$ (185,180)
Adjustments to Reconcile Change in Unrestricted Net Position (Deficit) to Net Cash Used In Operating Activities:	
Amortization of Bond Discount Costs	9,501
Accreted Interest	<u>328,166</u>
Net Cash Provided By Operating Activities	152,487

CASH FLOWS FROM INVESTING ACTIVITIES

Decrease in Restricted Deposits Held with Trustee	<u>(1,337)</u>
Net Cash Used In Investing Activities	(1,337)

CASH FLOWS FROM FINANCING ACTIVITIES

Principal Payments on Bonds Payable	<u>(125,000)</u>
Net Cash Used In Financing Activities	<u>(125,000)</u>

Net Increase in Cash	26,150
Cash, Beginning of Year	<u>249,184</u>
Cash, End of Year	<u><u>\$ 275,334</u></u>

See notes to financial statements.

SENECA TOBACCO ASSET SECURITIZATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1 – NATURE OF OPERATIONS

The Seneca Tobacco Asset Securitization Corporation (the Corporation), is a Non-Profit Local Development Corporation under Section 1411 of the Not-For-Profit Corporation Law of the State of New York.

The Corporation was formed to acquire from the County of Seneca all future right, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) with respect to tobacco related litigation among various states and participating manufacturers. The purchase price of the County's future right, title and interest in the TSRs has been financed by the issuance of serial bonds. A Residual Certificate exists which represents the entitlement to receive all amounts required to be distributed after 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 bonds and certain other costs specified in the indenture. Excess TSRs not required by the Corporation to pay various expenses, debt service or required reserves with respect to the bonds are transferred to the Trust, as owner of the Residual Certificate. The County is the beneficial owner of the Trust and thus the funds received by the Trust will ultimately transfer to the County.

The Corporation is classified as a special-purpose government under GASB Statement No. 14. A special-purpose government is defined as a legally separate entity that performs only one activity. Although legally separate from the County, the Corporation is a component unit of the County, and accordingly, is included in the County's financial statements as a blended component unit.

The Corporation is primarily dependent on the future proceeds from the Tobacco Settlement Rights to meet future obligations under the indenture agreement.

Basis of Presentation

The financial statements of the Corporation have been prepared in conformity with generally accepted accounting principles (GAAP) as 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 Corporation has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting" and GASB Statement No. 29, "The Use of Not-for-Profit Accounting and Financial Accounting Principles by Governmental Entities." In 2004, the Corporation was required and has implemented GASB Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments."

SENECA TOBACCO ASSET SECURITIZATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Adoption of New Accounting Pronouncements

During the year ended December 31, 2013, the Corporation adopted the provisions of GASB Statement No. 65. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As a result of the implementation of GASB Statement No. 65, the Corporation's net position at December 31, 2012 has been restated for unamortized bond issuance costs of \$204,865.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Corporation uses the indirect method of reporting net cash flows from operating activities, and considers all short-term investments with an original maturity of three months or less to be cash equivalents. At December 31, 2013, there were no cash equivalents.

Income Taxes

The Seneca Tobacco Asset Securitization Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

SENECA TOBACCO ASSET SECURITIZATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Use of 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.

Subsequent Events

Management has evaluated subsequent events through March 31, 2014, which is the date the financial statements were available to be issued.

NOTE 3 – RESTRICTED DEPOSITS HELD WITH TRUSTEE

Restricted deposits held with trustee include the following:

Liquidity Reserve Account – This reserve has been established pursuant to the Corporation's indenture and was initially funded in the amount equal to the maximum annual debt service on the Series 2000 Bonds. At December 31, 2013, these deposits consisted primarily of money market funds.

Debt Service Account – This is the account from which payments to bondholders are made with money transferred in from the collection account. At December 31, 2013, these deposits consisted primarily of money market funds.

Trapping Account – This account has been established pursuant to the Corporation's indenture and is required to be funded when a trapping event has occurred. Following the occurrence of a trapping event, amounts that otherwise would have been paid on the Residual Certificate are deposited into this account to the extent required by the Corporation's indenture until such time that a trapping event is no longer occurring. At December 31, 2013, these deposits consisted primarily of money market funds.

Collection Account – This account has been established to receive the Tobacco Settlement payments under the MSA agreement. The monies received in this account are transferred to the debt service account to pay the Corporation's bondholders. At December 31, 2013, these deposits consisted primarily of money market funds.

SENECA TOBACCO ASSET SECURITIZATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 4 – LONG-TERM DEBT

The Corporation's bond obligations as of December 31, 2013 are as follows:

Tobacco Settlement Asset-Backed Bonds, Series 2000, Net of Discount	\$ 4,515,946
Tobacco Settlement Asset-Backed Bonds, Series 2005, Including Accretion	<u>5,051,899</u>
Total	<u>\$ 9,567,845</u>

Tobacco Settlement Pass-Through Bonds, Series 2000

On December 7, 2000, the Corporation issued \$6,450,000 in variable rate bonds. These bonds were part of the \$227,130,000 New York Counties Tobacco Trust I, Tobacco Settlement Pass-Through Bonds, Series 2000. The debt is payable solely from pledged Tobacco Settlement Rights and investment earnings on amounts on deposit. According to the terms of the required amortization payments, the Corporation is required to make annual debt service payments through 2042 with interest ranging from 5% to 6.3%. The Corporation has incurred discount fees associated with the Series 2000 Bond Issue. Such discount fees have been deferred and are being amortized over the life of Series 2000 Bonds. Amortization expense in 2013 and 2012 was \$9,501 for both years.

Changes in the Tobacco Settlement Pass-Through Bonds, Series 2000 for the year ended December 31, 2013 are as follows:

	Balance at December 31, 2012	Additions	Reductions	Balance at December 31, 2013
Tobacco Settlement Pass-Through Bonds, Series 2000	\$ 4,745,000	\$ 0	\$ 125,000	\$ 4,620,000
Less: Bond Discount	<u>114,005</u>	<u>0</u>	<u>9,501</u>	<u>104,504</u>
Total	<u>\$ 4,630,995</u>	<u>\$ 0</u>	<u>\$ 134,501</u>	<u>\$ 4,515,496</u>

SENECA TOBACCO ASSET SECURITIZATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 4 – LONG-TERM DEBT – Continued

The Corporation's required amortization payments at December 31, 2013, on the above bonds are as follows:

	Principal	Interest
2014	\$ 60,000	\$ 298,636
2015	65,000	294,965
2016	70,000	290,851
2017	75,000	286,283
2018	140,000	279,510
Thereafter	<u>4,210,000</u>	<u>4,465,925</u>
Total	<u>\$ 4,620,000</u>	<u>\$ 5,916,170</u>

The Corporation's flexible amortization payments at December 31, 2013, on the above bonds are as follows:

	Principal	Interest
2014	\$ 720,000	\$ 277,586
2015	275,000	246,040
2016	285,000	228,114
2017	310,000	208,921
2018	390,000	186,385
2019-2024	<u>2,640,000</u>	<u>519,637</u>
Total	<u>\$ 4,620,000</u>	<u>\$ 1,666,683</u>

Depending on the extent of actual collections from TSR payments and availability of funds, the Corporation has agreed to make principal payments in accordance with a flexible amortization payment schedule that allows for increased payments and a final maturity of June 1, 2024 on the Series 2001 Bonds.

Tobacco Settlement Pass-Through Bonds, Series 2005

On November 29, 2005, the Corporation issued variable rate bonds with a face value of \$95,530,000, discount fees totaling \$92,436,115, and bond issuance costs of \$197,730. The bonds bear interest at rates ranging from 6% to 7.85%. These bonds were part of the \$199,375,348 (net of discount) New York Counties Tobacco Trust V., Settlement Pass-Through Bonds, Series 2005. The debt is payable from pledged Tobacco Settlement Rights and investment earnings on deposit. The Corporation is required to make annual debt service payments beginning June 2038 through June 2060. These bonds are Capital Appreciation Bonds and pay interest at maturity, not every year. The series 2005 Bonds are subordinate to the 2000 bonds. In December 2009, Series 1 Bonds with a face value of \$1,055,000 were retired.

SENECA TOBACCO ASSET SECURITIZATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 4 – LONG-TERM DEBT – Continued

Changes in Tobacco Settlement Pass-Through Bonds, Series 2005 for the year ended December 31, 2013 are as follows:

	Balance at December 31, 2012	Additions	Reductions	Balance at December 31, 2013
Tobacco Settlement Asset-Backed Bonds, Series 2005	\$ 3,093,885	\$ 0	\$ 0	\$ 3,093,885
Accreted Interest	<u>1,629,848</u>	<u>328,166</u>	<u>0</u>	<u>1,958,014</u>
Total	<u>\$ 4,723,733</u>	<u>\$ 328,166</u>	<u>\$ 0</u>	<u>\$ 5,051,899</u>

The Corporation's required principal and interest payments at December 31, 2013 on the above bonds are as follows:

	Principal and Interest Due at Maturity
Series 2005 S1 Payable June 1, 2038	\$ 6,425,000
Series 2005 S2 Payable June 1, 2050	8,605,000
Series 2005 S3 Payable June 1, 2055	10,245,000
Series 2005 S4B Payable June 1, 2060	<u>69,200,000</u>
Total	<u>\$ 94,475,000</u>

Cash paid for interest in 2013 was \$304,180.

SENECA TOBACCO ASSET SECURITIZATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 5 – RELATED PARTY

The Corporation is a special-purpose local development corporation and is considered by legal counsel to be bankruptcy-remote from the County of Seneca. However, the Corporation's board of directors is comprised of a majority of elected or appointed officials of the County of Seneca and one independent director.

NOTE 6 – CONTINGENCY AND CONCENTRATION OF CREDIT RISK

During 2000, the Corporation purchased the rights to receive TSRs (Tobacco Settlement Revenues) from the County of Seneca. There are a number of risks associated with receipts of such TSRs, including litigation affecting participating manufacturers and possible bankruptcy as a result thereof, and future adjustments to the calculation of the TSR's. The Corporation's financial existence is contingent upon receiving these TSRs from the tobacco manufacturers. While the risk is considered remote, being of a material nature, it must be disclosed.

NOTE 7 – FINANCIAL INSTRUMENTS

The Corporation maintains its cash account with a local financial institution which at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to cash.

NOTE 8 – NET ASSET POSITION

The Corporation has a deficit in net position of \$8,776,686 at December 31, 2013. This deficit results from operating costs exceeding revenue since the initial period of operation. This deficit will be eliminated through subsequent interest earnings and proceeds from the tobacco settlement.

NOTE 9 – CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT

As discussed in Note 2, the Corporation's net position at December 31, 2012 has been restated to remove unamortized bond issuance costs of \$204,865 as a result of the implementation of GASB Statement No. 65. This resulted in a decrease in bond issuance costs, net of accumulated amortization and a decrease in net position of \$204,865.

In addition, the Corporation's net position at December 31, 2012 has been restated to reflect the change in the amortization method for the 2005 series bond discount from the straight line to the effective interest method. This resulted in an increase in net bond payable of \$10,528,473 and an increase in net position of \$10,528,473.