# TOMPKINS TOBACCO ASSET SECURITIZATION CORPORATION

**Ithaca, New York**

**FINANCIAL REPORT**

**December 31, 2013**

TOMPKINS TOBACCO ASSET SECURITIZATION CORPORATION
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Tompkins Tobacco Asset
Securitization Corporation
Ithaca, New York

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of the Tompkins Tobacco Asset Securitization Corporation (the Corporation), a component unit of the County of Tompkins, 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 financial position of the governmental activities and the major fund of the Tompkins Tobacco Asset Securitization Corporation as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of a Matter***

During the year ended December 31, 2013, the Corporation adopted Governmental Accounting Standards Board (GASB) Statement Number 65, "Items Previously Reported as Assets and Liabilities."

***Other Matters - Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 3b 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 26, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Cianci, D'Intradona, Little, Middleton, & Company, LLP

February 26, 2014
Ithaca, New York

TOMPKINS TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013

The following is a discussion and analysis of the Tompkins Tobacco Asset Securitization Corporation's (the Corporation) financial performance for fiscal years ended December 31, 2013. This section is a summary of the Corporation's financial activities based on currently known facts, decisions, or conditions. It is also based on both the Government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. The Management's Discussion and Analysis (MD&A) section is only an introduction and should be read in conjunction with the Corporation's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

- Total net position of $(10,712,918) showed a decrease of $(282,022) in 2013, from $(10,430,896) in 2012.
- Total fund balance of $1,358,161 showed an increase of $6,409 in 2013, from $1,351,752 in 2012.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of two parts: MD&A (this section) and the basic financial statements and supplementary information. The basic financial statements present different views of the Corporation.

- The Statement of Net Position and the Statement of Activities columns shown in the financial statements provide both short-term and long-term information about the Corporation's overall financial status.
- The Governmental Fund Type columns are fund financial statements that focus on individual parts of the Corporation.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Statement of Net Position and Statement of Activities Columns

The Statement of Net Position and Statement of Activities columns in the basic financial statements report information about the Corporation as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Corporation's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

These two columns in the basic financial statements report the Corporation's net position and how they have changed. Net position is one way to measure the Corporation's financial health. Over time, increases or decreases in the Corporation's net position is an indicator of whether its financial position is improving or deteriorating, respectively.

Governmental Fund Type Columns

The Governmental Fund type columns are accounting devices the Corporation uses to keep track of specific sources of funding and spending. The Corporation's basic services are included in Governmental Funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the Governmental Funds columns provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the Corporation's programs. Because this information does not encompass the additional long-term focus of the Statement of Net Position and Statement of Activities columns, additional information in the notes to the financial statements explains the relationship (or differences) between them.

## FINANCIAL ANALYSIS OF THE CORPORATION AS A WHOLE

The Corporation's total net position for fiscal years ended December 31, 2013 changed by $(282,022). Our analysis below focuses on the net position (*Figure 1*) and changes in net position *(Figure 2)* of the Corporation's Governmental Activities.

***Figure 1***

***Condensed Statement of Net Position***

| ***Condensed Statement of Net Position*** | ***Governmental Activities and Total Corporation*** | | ***Total Dollar Change*** |
|---|---|---|---|
| | ***Restated 2012*** | ***2013*** | ***2012 - 2013*** |
| *Current assets* | $ 701,967 | $ 708,377 | $ 6,410 |
| *Noncurrent assets* | 649,785 | 649,784 | (1) |
| ***Total Assets*** | **1,351,752** | **1,358,161** | **6,409** |
| *Current liabilities* | 712,110 | 881,342 | 169,232 |
| *Noncurrent liabilities* | 11,070,538 | 11,189,737 | 119,199 |
| ***Total Liabilities*** | **11,782,648** | **12,071,079** | **288,431** |
| *Restricted for debt service* | 652,615 | 654,388 | 1,773 |
| *Unrestricted net (deficit)* | (11,083,511) | (11,367,306) | (283,795) |
| ***Total Net Position*** | **$ (10,430,896)** | **$ (10,712,918)** | **$ (282,022)** |

The current portion of bonds payable increased due to the scheduled debt amortization, and annual shortfalls in debt payments since 2010. The increase in noncurrent liabilities is primarily due to the accretion of interest on 2005 TASC bonds of $425,247 offset by the repayment of bonds totaling $150,000 and the transfer of debt to current liabilities.

Our analysis in *Figure 2* considers the operations of the Corporation's activities.

***Figure 2***

***Changes in Net Position***

| ***Changes in Net Position*** | ***Governmental Activities and Total Corporation*** | | ***Total Dollar Change*** |
|---|---|---|---|
| | ***Restated 2012*** | ***2013*** | ***2012 - 2013*** |
| *Revenues:* | | | |
| *Tobacco settlement receipts* | $ 616,520 | $ 596,150 | $ (20,370) |
| *Interest income* | 214 | 191 | (23) |
| ***Total Revenues*** | **616,734** | **596,341** | **(20,393)** |
| *Expenses:* | | | |
| *Insurance expense* | 4,285 | 4,286 | 1 |
| *Professional fees* | 25,923 | 25,095 | (828) |
| *Interest expense* | 807,990 | 827,397 | 19,407 |
| *Other expenses* | 2,000 | 2,000 | -0- |
| *Transfer to Tompkins County* | 15,000 | 19,585 | 4,585 |
| ***Total Expenses*** | **855,198** | **878,363** | **23,165** |
| | | | |
| ***(DECREASE) IN NET POSITION*** | **$ (238,464)** | **$ (282,022)** | **$ (43,558)** |

Total revenue decreased by 3.3% in 2013 compared to 2012. Total expenses increased 2.7%, due to increases in interest expense and transfers to the County.

## FINANCIAL ANALYSIS OF THE CORPORATION'S FUNDS

*Figure 3* shows the changes in fund balance for the year. As the Corporation completed the year, its Governmental Fund, as presented in the basic financial statements, reported a combined fund balance of $1,358,161 for 2013.

**Figure 3**

***Governmental Fund Balances - Major Funds***

| *Governmental Fund Balance* | *Governmental* | | *Total Dollar Change* |
|---|---|---|---|
| | *2012* | *2013* | *2012 - 2013* |
| *General Fund* | $ 1,351,752 | $ 1,358,161 | $ 6,409 |

## DEBT ADMINISTRATION

Debt, considered a liability of governmental activities, increased by $289,199 in 2013, as shown in Figure 4. This increase was due to the accretion of interest on the 2005 issue, offset by principal payments on the 2000 issue.

***Figure 4***

**TASC Bonds**

| *Outstanding Debt* | *Governmental Activities* | | *Total Dollar Change* |
|---|---|---|---|
| | *2012* | *2013* | *2012 - 2013* |
| *Bonds payable, net* | $ 11,751,586 | $ 12,040,785 | $ 289,199 |

Since 2010, the Corporation has not received adequate tobacco settlement receipts to cover the turbo redemption payment on the serial bonds; in 2013 and 2012, the shortfall was $150,000 and $140,000, respectively. This does not represent a default, as turbo redemption payments are not required payments. The Corporation is allowed to make up the shortfall if funds are available. Therefore, the accumulated $545,000 underpayment is classified as a current liability.

Additional information and the maturities and terms of the Corporation's outstanding debt can be found in the notes to these financial statements.

## FACTORS BEARING ON THE CORPORATION'S FUTURE

- The Corporation does not anticipate any significant changes in funding the Corporation. Annual tobacco settlement receipts are expected to continue to decline at a modest pace. While current receipts are averaging approximately 75% of original projections, the Corporation anticipates sufficient receipts to cover the required fixed amortization payments.

- In 2014, the Corporation has budgeted a transfer of $19,485 to Tompkins County.

## CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Corporation's citizens, customers, investors, and creditors with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tompkins County at 125 East Court Street, Ithaca, NY 14850.

TOMPKINS TOBACCO ASSET SECURITIZATION CORPORATION
GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013

| | Governmental Fund Type General | Adjustments | Statement of Net Position |
|---|---|---|---|
| **ASSETS** | | | |
| Current Assets: | | | |
| Cash and cash equivalents | $ 105,237 | $ | $ 105,237 |
| Restricted cash and cash equivalents, current | 4,604 | | 4,604 |
| Accrued tobacco settlement receipts | 595,000 | | 595,000 |
| Prepaid expenses | 3,536 | | 3,536 |
| Total Current Assets | 708,377 | -0- | 708,377 |
| Restricted cash and cash equivalents, noncurrent | 649,784 | | 649,784 |
| Total Assets | $ 1,358,161 | -0- | 1,358,161 |
| **LIABILITIES** | | | |
| Current Liabilities: | | | |
| Accrued interest payable | $ | 30,294 | 30,294 |
| Current portion of bonds payable, net | | 851,048 | 851,048 |
| Total Current Liabilities | -0- | 881,342 | 881,342 |
| Accreted interest on Series 2005 Bonds | | 2,680,299 | 2,680,299 |
| Bonds payable, net | | 8,509,438 | 8,509,438 |
| Total Liabilities | -0- | 12,071,079 | 12,071,079 |
| **FUND BALANCE/NET POSITION** | | | |
| Fund Balance: | | | |
| Restricted for debt service | 654,388 | (654,388) | |
| Unassigned | 703,773 | (703,773) | |
| Total Fund Balance | 1,358,161 | (1,358,161) | -0- |
| Net position: | | | |
| Restricted for debt service | | 654,388 | 654,388 |
| Unrestricted | | (11,367,306) | (11,367,306) |
| Total Net Position | -0- | (10,712,918) | (10,712,918) |
| Total Fund Balance/Net (Deficit) | $ 1,358,161 | $ (12,071,079) | $ (10,712,918) |

See Independent Auditor's Report and Notes to Financial Statements

TOMPKINS TOBACCO ASSET SECURITIZATION CORPORATION
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

| | Governmental Fund Type General | Adjustments | Statement of Activities |
|---|---|---|---|
| Revenue: | | | |
| Tobacco settlement receipts | $ 596,150 | $ | $ 596,150 |
| Interest income | 191 | | 191 |
| Total Revenues | 596,341 | -0- | 596,341 |
| Expenditures/Expenses: | | | |
| Insurance expense | 4,286 | | 4,286 |
| Professional fees | 25,095 | | 25,095 |
| Debt service | 538,966 | 288,431 | 827,397 |
| Other expenditures/expenses | 2,000 | | 2,000 |
| Transfer to residual trust | 19,585 | | 19,585 |
| Total Expenditures/Expenses | 589,932 | 288,431 | 878,363 |
| Excess of Revenues Over (Expenditures/Expenses) | 6,409 | (288,431) | (282,022) |
| Fund Balance/Net Position, January 1, as restated | 1,351,752 | (11,782,648) | (10,430,896) |
| Fund Balance/Net Position, December 31, | $ 1,358,161 | $ (12,071,079) | $ (10,712,918) |

See Independent Auditor's Report and Notes to Financial Statements

## Note 1 - Summary of Significant Accounting Policies

The financial statements of the Tompkins Tobacco Asset Securitization Corporation (the Corporation) have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant of the Corporation's accounting policies are described below.

### A. Reporting Entity

The Tompkins Tobacco Asset Securitization Corporation (TASC) is a component unit of the County of Tompkins. The Tompkins TASC was organized as a local development corporation pursuant to Section 1411 of the Not-For-Profit Corporation Law of the State of New York. The Tompkins TASC is one of 17 New York County TASC's created in 2000 for the purpose of purchasing the tobacco settlement rights from each respective county with the net proceeds of bonds issued to the New York Counties Tobacco Trust I (NYCTTI). The trust in turn issued $227,130,000 aggregate principal amount Tobacco Settlement Pass-Through Bonds - Series 2000, dated December 7, 2000. The Trust bonds represent a direct, pass-through interest in the corresponding TASC bonds. All payments of the TASC bonds will be made directly by the Trust with the future proceeds of the Tobacco Settlement Revenues (TSRs). Tompkins County securitized 50% of its future TSRs, therefore only 50% of the future TSRs are obligated to the retirement of debt.

The Tompkins TASC, along with 23 other TASCs created a trust known as the New York Counties Tobacco Trust V (NYCTTV) in order to issue $199,375,348 aggregate principal amount of Tobacco Settlement Pass-Through Bonds (Series 2005 NYCTT Bonds). Series 2005 NYCTT Bonds, issued on November 29, 2005, represent a direct, pass-through interest in corresponding TASC bonds held by the trust and are subordinate to the prior bonds issued. The Series 2005 TASC bonds are subject to the rights of holders of the prior bonds, payable solely from, and secured solely by, the Collections and the funds and accounts pledged by the respective TASC Indenture. The Collections of the Tompkins TASC will be comprised of 50% of the TSRs remaining after payment of the prior bonds and investment earnings on funds and accounts established under the TASC's Indenture. The Tompkins TASC Series 2005 TASC Bonds are also payable from certain amounts released from Liquidity Reserve Accounts upon retirement of the prior bonds and amounts released from Trapping Accounts.

There are no scheduled principal and interest payments on the Series 2005 bonds other than on their respective maturity dates. The bonds are subject to redemption prior to maturity through turbo redemption payments made from surplus collections on deposit in the turbo redemption account, as provided in the bond indenture. Redemption of the Series 2005 bonds will be in order of maturity date at a price equal to their accreted value.

The Tompkins TASC membership is comprised of four directors who are appointed by the Chair of the Tompkins County Legislature. At this time, one director is the Chair of the County Legislature, one is the County Administrator, one is the County Finance Director, and one member who has no affiliation with the County serves as an Independent Director. The Corporation is deemed to be a component unit of Tompkins County and is presented in the annual financial statements of Tompkins County as a blended component unit.

### B. Basis of Presentation

The Tompkins Tobacco Asset Securitization Corporation's basic financial statements include columns for Governmental Fund types prepared on the modified accrual basis of accounting (Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance), and columns for Governmental Activities prepared on the accrual basis of accounting (Statement of Net Position and Statement of Activities.)

The Statement of Net Position and the Statement of Activities present summaries of activities for the Corporation. The focus of these columns is more on the sustainability of the Corporation as an entity and the change in the Corporation's net position from the current year's activities.

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The Tompkins Tobacco Asset Securitization Corporation records its transactions in the fund types described below:

Fund Categories

Governmental Fund Types - those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources, and the related liabilities are accounted for through Governmental Funds. The measurement focus of the Governmental Funds is based upon determination of financial position and changes in financial position. The following is the Tompkins Tobacco Asset Securitization Corporation's Governmental Fund Type:

General Fund - the principal operating fund which includes all operations not required to be recorded in other funds.

C. Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and expenditures and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus. Measurement focus is the determination of what is measured, i.e. expenditures or expenses.

The Statement of Net Position and the Statement of Activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the Corporation gives or receives value without directly receiving or giving equal value in exchange, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Governmental Fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Corporation considers all revenues reported in the Governmental Funds to be available if the revenues are collected within six months after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, which are recognized as expenditures to the extent they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

D. Equity Classifications

- Restricted Net Position/Restricted Fund Balance

  Consists of resources with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

- Unrestricted Net Position/Unassigned Fund Balance
  Consists of all other resources that do not meet the definition of "restricted" or "net investment in capital assets."

E. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Note 2 - Explanation of Certain Differences between Governmental Fund Type Columns and the Statement of Net Position and Statement of Activities Columns

Due to the differences in the measurement focus and basis of accounting used in the Governmental Fund column and the Statement of Net Position and Statement of Activities columns, certain financial transactions are treated differently. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the Governmental Funds.

A. Total Fund Balance of Governmental Funds vs. Net Position of Governmental Activities

Total fund balance of the Corporation's Governmental Fund differs from "net position" of Governmental Activities reported in the Statement of Net Position. This difference primarily results from the additional long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the Governmental Fund Balance Sheet.

Total Fund Balance of Governmental Funds vs. Net Position of Governmental Activities:

| | | |
|---|---|---|
| Total fund balance as reported in the Governmental Fund type column | | $ 1,358,161 |
| Long-term liabilities are reported in the Statement of Net Position, but not in the Governmental Funds, because they are not due and payable in the current period. Balances at year end were: | | |
| Bonds payable | $ (9,549,440) | |
| Less unamortized discount | 188,954 | |
| Add accreted amount on Series 2005 Bonds | (2,680,299) | (12,040,785) |
| Interest on long-term debt is accrued in the Statement of Net Position, but not in the Governmental Funds. The balance of accrued interest payable at year end was: | | |
| Accrued interest payable | | (30,294) |
| Total Net (Deficit) as Reported in the Statement of Net Position | | $ (10,712,918) |

B. Explanation of Difference between Governmental Fund Type Column in the Operating Statement and the Statement of Activities Column:

Differences between the Governmental Fund Type column in the Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities column are as follows:

- Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the Governmental Fund statements, whereas interest payments are recorded in the Statements of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

| | |
|---|---|
| Total Expenditures/Expenses and Other Financing Uses as reported in the Governmental Fund Type column | $ 589,932 |
| Interest on long-term debt in the Statement of Activities differs from the amount reported in the Governmental Funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The increase in interest reported in the Statement of Activities is the result of accrued and accreted interest on bonds payable, as well as the amortization of bond discounts. | 438,431 |
| Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position, and does not affect the Statement of Activities. | (150,000) |
| Total Expenses of Governmental Activities in the Statement of Activities | $ 878,363 |

There were no differences in revenue in 2013.

Note 3 - Cash and Investments

Cash and cash equivalents, including restricted amounts, consist of bank deposits and short-term liquid debt instruments. At December 31, 2013, total cash and cash equivalents aggregated $759,625, which is the same as the bank balance.

The Tompkins Tobacco Asset Securitization Corporation's investment policies are governed by state statutes. In addition, the Tompkins Tobacco Asset Securitization Corporation follows its written investment policy. Tompkins Tobacco Asset Securitization Corporation's monies must be deposited in FDIC-insured commercial banks or trust companies located within the state. The Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

The written investment policy requires repurchase agreements to be purchased from banks located within the state and that underlying securities must be obligations of the federal government. Underlying securities must have a market value of at least the cost of the repurchase agreements.

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of three months or less.

Restricted cash and cash equivalents total $654,388 and represent amounts held in a mandated TASC liquidity reserve as required ($649,784), which is held in trust and also amounts in the debt service account ($53) and bond trapping account ($4,551). This reserve is comprised of U.S. Treasury money market funds.

Note 4 - Long-term Debt

The following summary is the Corporation's long-term debt for the year ended December 31, 2013:

| Description of Issue | Issue Date | Final Maturity | Interest Rate | Outstanding December 31, 2013 |
|---|---|---|---|---|
| Series 2000 Tobacco Settlement Pass-through Bonds | 12/00 | 6/25 | 5.25% - 6.30% | $ 5,915,000 |
| Less: Unamortized Bond Discount | | | | (127,625) |
| Carrying Value of Series 2000 Tobacco Settlement Pass-through Bonds | | | | 5,787,375 |
| Series 2005 Tobacco Settlement Pass-through Bonds | 11/05 | 6/60 | 6.0% - 7.85% | 3,634,440 |
| Less: Unamortized Bond Discount | | | | (61,329) |
| Add: Addition to Accreted Value | | | | 2,680,299 |
| Carrying Value of Series 2005 Tobacco Settlement Pass-through Bonds | | | | 6,253,410 |
| Total Carrying Value of Pass-through Bonds | | | | $ 12,040,785 |

Interest on long-term debt paid during the year was:

| | | |
|---|---|---|
| Interest paid | | $ 388,966 |
| Less: | Interest accrued in the prior year | (31,062) |
| Plus: | Interest accrued in the current year | 30,294 |
| | Amortization of bond discount | 13,952 |
| | Addition to accreted value of Series 2005 bonds | 425,247 |
| | Total Expense | $ 827,397 |

Interest paid on the serial bonds varies from year to year, in accordance with the interest rates specified in the bond agreements.

Long-term liability balances and activity for the year are summarized below:

| | Beginning Balance | Issued | Redeemed | Ending Balance | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable | $ 9,699,440 | $ | $ (150,000) | $ 9,549,440 | $ 865,000 |
| Less: Bond discount | (202,906) | | 13,952 | (188,954) | (13,952) |
| Add: Addition to accreted interest | 2,255,052 | 425,247 | | 2,680,299 | |
| Total Bonds Payable | $ 11,751,586 | $ 425,247 | $ (136,048) | $ 12,040,785 | $ 851,048 |

The following is a summary of the maturity of long-term indebtedness on the Series 2000 bonds:

| | Principal | Interest | Total |
|---|---|---|---|
| 2014 | $ 865,000 | $ 340,109 | $ 1,205,109 |
| 2015 | 325,000 | 319,599 | 644,599 |
| 2016 | 355,000 | 297,824 | 652,824 |
| 2017 | 365,000 | 274,604 | 639,604 |
| 2018 | 475,000 | 247,564 | 722,564 |
| 2019-2023 | 2,795,000 | 727,207 | 3,522,207 |
| 2024-2025 | 735,000 | 29,315 | 764,315 |
| Total | $ 5,915,000 | $ 2,236,222 | $ 8,151,222 |

The Series 2005 bonds are as follows:

| Description of Issue | Issue Date | Final Maturity | Interest Rate | Principal |
|---|---|---|---|---|
| Series 2005 S1 Capital Appreciation Bond | 11/05 | 6/38 | 6.00% | $ 1,147,462 |
| Series 2005 S2 Capital Appreciation Bond | 11/05 | 6/50 | 6.10% | 753,624 |
| Series 2005 S3 Capital Appreciation Bond | 11/05 | 6/55 | 6.85% | 448,938 |
| Series 2005 S4B Capital Appreciation Bond | 11/05 | 6/60 | 7.85% | 1,284,416 |
| Total | | | | $ 3,634,440 |

The Series 2005 Bonds are capital appreciation bonds, upon which the investment return on the initial principal amount is reinvested at a compounded rate until maturity. There are no scheduled principal and interest payments on the Series 2005 bonds other than on their respective maturity dates, at which time a single payment is made representing both the initial principal amount and the total investment return.

However, the Series 2005 Bonds are subject to redemption prior to maturity through turbo redemption payments which are to be made from surplus collections on deposit, as provided in the Bond Indenture. The amounts and timing of the turbo redemption payments are based on projections of future tobacco settlement receipts less amounts needed to satisfy debt service on the Series 2000 bonds and to satisfy operating requirements. Failure to make such turbo redemption payments will not, however, constitute an event of default.

The projected turbo redemption payments are presented in the following table. It is expected that the Corporation will make payments based on this amortization.

| | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 53,421 | $ 40,285 | $ 93,706 |
| 2016 | 143,433 | 123,490 | 266,923 |
| 2017 | 146,360 | 142,590 | 288,950 |
| 2018 | 160,996 | 176,209 | 337,205 |
| 2019-2023 | 643,250 | 925,370 | 1,568,620 |
| 2024-2028 | 1,246,177 | 3,399,944 | 4,646,121 |
| 2029-2033 | 705,376 | 4,301,921 | 5,007,297 |
| 2034-2038 | 508,352 | 4,793,841 | 5,302,193 |
| 2039 | 27,075 | 330,210 | 357,285 |
| Expected Total Debt Service | $ 3,634,440 | $ 14,233,860 | $ 17,868,300 |

The following is a summary of the amount of accretion on the Series 2005 capital appreciation bonds if held to maturity:

| | Amount of Yearly Accretion And Amortization of Bond Discount |
|---|---|
| 2014 | $ 433,959 |
| 2015 | 461,448 |
| 2016 | 482,083 |
| 2017 | 499,376 |
| 2018 | 515,594 |
| 2019-2023 | 2,838,485 |
| 2024-2028 | 3,060,483 |
| 2029-2033 | 2,325,053 |
| 2034-2038 | 925,317 |
| 2039 | 11,763 |
| Total Accretion | 11,553,561 |
| Accumulated accretion | 2,680,299 |
| Principal | 3,634,440 |
| Expected Total Debt Service | $ 17,868,300 |

Note 5 - Restatement of Net Position

During the year ended December 31, 2013, the Corporation adopted Governmental Accounting Standards Board (GASB) Statement Number 65, "Items Previously Reported as Assets and Liabilities." This statement requires the bond issue costs, which had previously been recorded as assets, be expensed. As a result of adoption of the statement, beginning net position was reduced by $116,829.

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Debbie Conley Jordan, C.P.A.
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INDEPENDENT AUDITOR'S 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*

Board of Directors
Tompkins Tobacco Asset
Securitization Corporation
Ithaca, New York

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 the major fund, of the Tompkins 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 financial statements, and have issued our report thereon dated February 26, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, 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 opinions 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 result 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.

Ciaschi, Dintenfass, Littler, Middleton, & Company, LLP

February 26, 2014
Ithaca, New York