# ONEIDA TOBACCO ASSET SECURITIZATION CORPORATION
# FINANCIAL STATEMENTS
# DECEMBER 31, 2014 & 2013

2014

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors
Oneida Tobacco Asset Securitization Corporation

I have audited the accompanying statements of financial position of the Oneida Tobacco Asset Securitization Corporation, (a non-profit corporation) as of December 31, 2014 and 2013, and the related statements of activities, and cashflows for the years then ended. These financial statements are the responsibility of the Corporation's management. My repsonsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oneida Tobacco Asset Securitiztion Corporation, as of December 31, 2014 and 2013, and the changes in its net assets and cashflows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Patrick M. Tyksinski, CPA PC
February 11, 2015
New Hartford, New York

## STATEMENT OF FINANCIAL POSITION

**December 31,**

| | 2014 | 2013 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 20,201 | $ 9,560 |
| Deposits held by trustee | 4,661,190 | 4,685,043 |
| Prepaid trustee fees | 2,750 | 2,750 |
| Prepaid Insurance | 3,043 | 8,100 |
| Original issue discount, Net of accumulated amortization | 464,223 | 479,402 |
| TOTAL ASSETS | $ 5,151,407 | $ 5,184,855 |
| **LIABILITIES AND NET ASSETS (DEFICIT)** | | |
| Accounts payable | $ 7,000 | $ 7,000 |
| Interest Payable | 248,938 | 260,917 |
| Bonds Payable Series 2005 | 61,555,000 | 62,220,000 |
| Bonds Payable NYCTT V | 27,109,497 | 25,223,624 |
| TOTAL LIABILITIES | 88,920,435 | 87,711,541 |
| Net Assets (Deficit) | (83,769,028) | (82,526,686) |
| TOTAL LIABILITIES AND NET ASSETS (DEFICIT) | $ 5,151,407 | $ 5,184,855 |

## STATEMENT OF ACTIVITIES

**December 31,**

| | 2014 | 2013 |
|---|---|---|
| **Revenue** | | |
| Tobacco revenue | $ 4,316,427 | $ 3,815,357 |
| Investment income | 49 | 634 |
| Total Revenue | 4,316,476 | 3,815,991 |
| **Expenses** | | |
| Amortization expense | 15,179 | 15,179 |
| Administrative agent fee | 9,860 | 9,860 |
| Audit Fees | 7,000 | 7,000 |
| Bond Rating Fees | 3,573 | 3,573 |
| Bond Interest Expense | 5,490,693 | 5,387,982 |
| Insurance | 8,100 | 8,100 |
| Office and administrative expenses | 2 | 0 |
| Trustee fees | 4,411 | 4,411 |
| Total Expenses | 5,538,818 | 5,436,105 |
| Other Expenditures | | |
| Transfer to County | 20,000 | 20,000 |
| Total Expenses and Other Expenditures | 5,558,818 | 5,456,105 |
| Revenues over (under) expenses and other expenditures | (1,242,342) | (1,640,114) |
| **Change in Net Assets** | | |
| Net assets (deficit) - beginning of year | (82,526,686) | (80,886,572) |
| Net assets (deficit) - end of year | $ (83,769,028) | $ (82,526,686) |

See accountant's report and notes to financial statements

ONEIDA TOBACCO ASSET SECURITIZATION CORP.

STATEMENT OF CASHFLOWS
**December 31,**

| | 2014 | 2013 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Revenues over (under) expenditures | $ (1,242,342) | $ (1,640,114) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization | 15,179 | 15,179 |
| (Increase) decrease in prepaid expenses | 5,057 | (600) |
| (Increase) decrease in deposits held by trustee | 23,853 | (40,517) |
| Increase (decrease) in Interest Payable | (11,979) | (10,937) |
| Total adjustments | 32,110 | (36,875) |
| Net cash provided (used) by operating activities | (1,210,232) | (1,676,989) |
| **Cash flow from financing activities:** | | |
| Payments on bonds | (665,000) | (120,000) |
| Increase in bonds do to accreted interest | 1,885,873 | 1,759,169 |
| Net cash provided (used) by financing activities | 1,220,873 | 1,639,169 |
| Net increase (decrease) in cash and equivalents | 10,641 | (37,820) |
| Cash and equivalents, beginning of year | 9,560 | 47,380 |
| Cash and equivalents, end of year | $ 20,201 | $ 9,560 |
| **Supplemental disclosures of cash flow information:** | | |
| Cash paid during the year for: | | |
| Interest expense | $ 5,490,693 | $ 5,387,982 |

See accountant's report and notes to financial statements

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Financial Reporting Entity*

The Oneida Tobacco Asset Securitization Corporation (OTASC) is a special purpose, bankruptcy-remote local development corporation incorporated under the provisions of section 1411 of the State's Not-For-Profit Corporation Law. The Corporation was established in December 2000 for the exclusive purpose of acquiring all rights, titles and interest the County of Oneida is due under the Master Settlement Agreement (MSA), the result of tobacco industry litigation. OTASC acquired the rights to receive all future Tobacco Settlement Receipts (TSR's). The acquisition price of the County's future right, title and interest in the TSR's has been financed by the issuance of serial bonds, as part of the New York Counties Tobacco Trust I, Trust IV and Trust V, which issued Tobacco Settlement Pass-Through Bonds. TSR'S which exceed various expenses of OTASC, debt service and required reserves are transferred to a Residual Trust, under the entitlement of Residual Certificate. The County has a beneficial interest in the Trust and ultimately receives funds held by the Trust. The County has no legal obligation for any of the liabilities or debt which may exist in OTASC.

In order to meet payments on debt service and other obligations the OTASC is dependent upon the receipt of future TSR's.

### *Basis of Accounting*

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

### *Deposits held by Trustee*

Funds under control of the Trustee are funds held in various types of investment accounts. These funds are held by the Trust and are invested in money market accounts and US Treasury obligations. These investments are recorded at cost which approximates fair market value as of December 31, 2014 and 2013

### *Income Taxes*

The Oneida Tobacco Asset Securitization Corporation is a not-for-profit organization and exempt from income taxes under section 115(1) of the Internal Revenue Code.

***Management's Use of Estimates***
OTASC prepares its financial statements in conformity with accounting principles generally accepted in the United States which require management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates. Estimates are used when accounting for certain items such as future collections on receivables, liquidity reserves, and contingencies.

## NOTE 2 - INTANGIBLE ASSETS

Original issue discount of the Tobacco Settlement Pass-Through Bonds, Series 2005 & 2010, have been capitalized and are being amortized over the life of the bonds, (5 - 40 years). As of December 31, 2014 intangible assets were as follows for the 2005 & 2010 bonds:

| | |
|---|---|
| Original Issue Discount | $ 607,158 |
| Accumulated Amortization | - 142,935 |
| **NET OID** | **$ 464,223** |

In 2012 a change in accounting principle, under GASB statement # 65, required that issuance costs of bonds would no longer be capitalized and amortized. Due to this in 2012 the outstanding net balance of the issuance costs were reclassified as an expenditure and the net position reduced by the outstanding balance. The net effect of this change amounted to a $1,454,121 reduction in the net position of OTASC.

Amortization expense for the years 2014 and 2013 was $15,179 and $15,179 respectively.

## NOTE 3 - LONG-TERM DEBT
***Advance Refunding***

On August 18, 2005 Oneida Tobacco Asset Securitization Corporation refunded and defeased in substance its outstanding 2000 Series bonds of $54,420,000, carrying variable interest rates of 5.25% to 6.625%, with new 2005A, 2005B, 2005C/2010A Series bonds of $65,630,000, issued at rates varying from 4.25% to 6.25%. All series have varied maturities with the final

payment due December 31, 2045.

All issuance costs of the transaction ($1,394,824) were paid from bond proceeds. Reserve amounts required under the agreement ($5,330,009) were also funded from the bond proceeds. The net proceeds of $58,575,167 were used to redeem the 2000 bonds and cover expenses incurred in connection with the refunding.

***2005 Series Bonds (Advance Refunding)***

Bonds issued to complete the advanced refunding as described above have varying interest rates and maturity dates as follows:

| Issue | Maturity | Rate | Amount |
|---|---|---|---|
| 2005A | 6/01/2021 | 4.25 | 689,532 |
| 2005A | 6/01/2026 | 4.75 | 447,478 |
| 2005A | 6/01/2038 | 5.00 | 1,641,908 |
| 2005A | 6/01/2042 | 5.00 | 8,412,490 |
| 2005A | 6/01/2045 | 5.00 | 8,303,592 |
| 2005A | 6/01/2027 | 6.00 | 6,735,000 |
| 2005C/2010A | 6/01/2041 | 6.25 | 39,400,000 |
| TOTAL ORIGINAL | | | $ 65,630,000 |

Future debt service requirements for the 2005 Series bonds is as follows:

| YEAR | PRINCIPAL | INTEREST |
|---|---|---|
| 2015 | 475,000 | 2,909,125 |
| 2016 | 450,000 | 2,746,625 |
| 2017 | 455,000 | 2,571,625 |
| 2018 | 865,000 | 2,362,250 |
| 2019 | 925,000 | 2,112,250 |
| THEREAFTER | 58,385,000 | 6,548,600 |
| TOTAL | $ 61,555,000 | $ 19,250,475 |

***New Bond Issue NYCTT V***

The Oneida Tobacco Asset Securitization Corporation completed a new bond issue in November 2005. These bonds, noted as Series 2005S2, 2005S3 and 2005S4B, carry varying yields and were sold discounted (zero coupon), the par value of these bonds totals $721,365,000. The maturity dates of the bonds are June 1, 2050 for the 2005S2 series; June 1, 2055 for the 2005S3 series; and June 1,2060 for the 2005S4B series. The discounted amount of these bonds (present value) at time of sale was $14,684,111. The proposed repayment of the bonds would be on an accelerated basis, known as The Turbo Redemption. The yields and maturities, based on the Turbo Redemption Plan, are as follows:

| ISSUE | MATURITY | YIELD | PROCEEDS |
|---|---|---|---|
| 2005S2 | 2025-2040 | 6.10 | $ 2,853,841 |
| 2005S3 | 2025-2040 | 6.85 | 2,774,686 |
| 2005S4B | 2025-2040 | 7.85 | 9,055,584 |
| | TOTAL | | $14,684,111 |

The 2005S Series bonds are subordinate to the 2005A, 2005/2010 bonds issued in 2005 in the advance refunding discussed above. No interest or principal will be paid on these bonds until all other series bonds of the corporation are redeemed. Funds expected to be used for redemption of these bonds will come from the Tobacco Settlement Receipts. Interest will begin to accrete in 2006, payments are not anticipated until the year 2025.

Redemption of the bonds based on the Turbo Redemption schedule is anticipated as follows:

| YEAR | PRINCIPAL | INTEREST | TOTAL |
|---|---|---|---|
| 2025 | $ 467,481 | $ 1,041,950 | $ 1,509,431 |
| 2026 | 1,889,575 | 4,589,515 | 6,479,090 |
| 2027 | 1,613,607 | 4,950,003 | 6,563,610 |
| 2028 | 1,460,117 | 5,189,297 | 6,649,415 |
| 2029 | 1,142,259 | 5,592,320 | 6,734,578 |
| Thereafter | 8,111,072 | 67,546,019 | 75,657,091 |
| TOTAL | $14,684,111 | $ 88,909,104 | $103,593,215 |

The projected accreted balances for the NYCTT V bonds are as follows:

| YEAR | SERIES 2005S2 | SERIES 2005S3 | SERIES 2005S4B |
|---|---|---|---|
| 2013 | 4,480,468 | 4,600,855 | 16,142,301 |
| 2014 | 4,757,781 | 4,920,921 | 17,430,795 |
| 2015 | 5,052,477 | 5,264,350 | 18,827,667 |
| 2016 | 5,365,386 | 5,631,141 | 20,332,917 |
| 2017 | 5,697,747 | 6,022,853 | 21,964,608 |
| 2018 | 6,050,804 | 6,442,599 | 23,722,740 |
| 2019 | 6,425,384 | 6,891,938 | 25,619,355 |
| 2020 | 6,823,555 | 7,372,426 | 27,672,516 |
| 2021 | 7,246,147 | 7,885,623 | 29,888,244 |
| 2022 | 7,694,815 | 8,435,420 | 32,278,581 |
| 2023 | 8,171,214 | 9,022,598 | 34,861,590 |
| 2024 | 8,677,414 | 9,651,828 | 37,649,313 |
| 2025 | 7,705,224 | 10,323,889 | 40,665,834 |
| 2026 | 1,703,406 | 11,043,454 | 43,923,195 |
| 2027 | | 7,058,136 | 47,439,459 |
| 2028 | | 900,543 | 51,232,689 |
| 2029 | | | 49,561,670 |
| 2030 | | | 46,711,756 |
| 2031 | | | 43,537,981 |
| 2032 | | | 40,017,024 |
| 2033 | | | 36,114,440 |
| 2034 | | | 31,820,136 |
| 2035 | | | 27,089,916 |
| 2036 | | | 21,899,450 |
| 2037 | | | 16,199,232 |
| 2038 | | | 9,942,498 |
| 2039 | | | 3,096,444 |

## NOTE 4 - DEPOSITS HELD IN TRUST

Under the terms of the bond indenture agreement certain accounts were to be maintained by a Trust Company to provide for various functions of the bond repayments. The Liquidity Reserve Account, established with proceeds from

the bond sales is required to maintain on deposit $4,574,750, at December 31, 2014 the balance was $4,576,047. This is adequate to service one year's required debt service. Other accounts serve to act as a conduit for debt service repayment and collection of the TSR's.

## NOTE 6 - RELATED PARTY

OTASC is a special purpose local development corporation and is considered by legal counsel to be bankruptcy-remote from the County of Oneida. However, OTASC's board of directors is comprised of a majority of elected or appointed officials of the County of Oneida. For financial statement purposes, OTASC is considered a component unit of the County of Oneida.

## NOTE 7 CONTINGENCIES

The primary revenue of OTASC is the receipt of future tobacco payments in accordance with the Master Settlement Agreement between 46 States (including New York) and members of the tobacco industry. The collection of future tobacco payments have many risks associated with it. These risks include, smoking trends, regulatory restrictions and legislative iniatives, potential adjustments to MSA payments, bankruptcy by member(s) of the tobacco industry which are part of the MSA, and lawsuits against these members. The occurence of any of these risks could have an affect upon the amount of payments received by OTASC, and this affect could be significant. The OTASC's financial existence relies upon the collection of the future tobacco payments.