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Ciaschi • Dietershagen • Little • Mickelson & Company, LLP

Certified Public Accountants and Consultants

Frederick J. Ciaschi, C.P.A.

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AT THE CONCLUSION OF THE AUDIT

Board of Directors
Schuyler Tobacco Asset
Securitization Corporation
Watkins Glen, New York

We have audited the financial statements of the governmental activities and the major fund of the Schuyler Tobacco Asset Securitization Corporation (the Corporation), a component unit of the County of Schuyler, State of New York, for the year ended December 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 29, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Schuyler Tobacco Asset Securitization Corporation are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Corporation's financial statements were the accretion of interest and the calculation of tobacco settlement receivables.

Management's estimate of the accretion of interest is based on the debt service schedule. Management's estimate of the calculation of tobacco settlement receivables is based on the expectation of tobacco settlement receipts. We evaluated the key factors and assumptions used to develop the accretion of interest, the amortization of bond issue costs, and the discount on bonds payable in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were cash and investments and long-term debt, the disclosure of which is presented in Notes 3 and 4 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

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Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 23, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the County of Schuyler, New York State, and Board of Directors and management of the Schuyler Tobacco Asset Securitization Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.



February 23, 2015
Ithaca, New York

**SCHUYLER TOBACCO ASSET
SECURITIZATION CORPORATION**

Watkins Glen, New York

FINANCIAL REPORT

December 31, 2014

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Schuyler Tobacco Asset
Securitization Corporation
Watkins Glen, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Schuyler Tobacco Asset Securitization Corporation (the Corporation), a component unit of the County of Schuyler, State of New York, as of and for the year ended December 31, 2014, 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 Corporation'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 Corporation'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 Schuyler Tobacco Asset Securitization Corporation as of December 31, 2014, 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.

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 3-3c 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 23, 2015 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.



February 23, 2015
Ithaca, New York

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

The following is a discussion and analysis of the Schuyler Tobacco Asset Securitization Corporation's (the Corporation) financial performance for fiscal years ended December 31, 2014. 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.

The Corporation is a component unit of the County of Schuyler, State of New York. The Corporation was organized as a local development corporation pursuant to Section 1411 of the Not-For-Profit Corporation Law of the State of New York.

FINANCIAL HIGHLIGHTS

- Net deficit for the year ended December 31, 2014 amounted to \$(4,262,988), reflecting a deficit increase of \$(68,090) from a net deficit of \$(4,194,898) at December 31, 2013.
- Total fund balance of \$632,273 showed an increase of \$21,351 in 2014, from \$610,922 in 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts: MD&A (this section) and the basic financial statements. 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 it has changed. Net position - the difference between the Corporation's assets and liabilities - is one way to measure the Corporation's financial health or position. Over time, increases or decreases in the Corporation's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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) 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 year ended December 31, 2014 decreased by \$(68,090). 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	Governmental Activities and Total Corporation		Total Dollar Change
	2013	2014	2013 - 2014
<i>Current assets</i>	\$ 611,093	\$ 632,273	\$ 21,180
Total Assets	611,093	632,273	21,180
<i>Current liabilities</i>	409,932	454,394	44,462
<i>Noncurrent liabilities</i>	4,396,059	4,440,867	44,808
Total Liabilities	4,805,991	4,895,261	89,270
<i>Restricted for debt service</i>	271,229	270,634	(595)
<i>Unrestricted</i>	(4,466,127)	(4,533,622)	(67,495)
Total Net Position	\$ (4,194,898)	\$ (4,262,988)	\$ (68,090)

The increase in current assets stems primarily from an increase in unrestricted cash of \$11,718 and an increase in the tobacco settlement receivable of \$10,000. The increase in current liabilities is primarily due to the timing of debt payments; as turbo redemption payments are not fully made, the unpaid amounts are added to current liabilities. The increase in noncurrent liabilities is due to the annual increase of accreted interest attributable to the Series 2005 bond issue, offset by principal and interest payments made during the year. See Note 4 of the financial statements for more information about debt transactions during the year.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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

Figure 2

Changes in Net Position	Governmental Activities and Total Corporation		Total Dollar Change
	2013	2014	2013 - 2014
<i>Revenues:</i>			
<i>Tobacco settlement proceeds</i>	\$ 271,514	\$ 311,515	\$ 40,001
<i>Interest income</i>	219	72	(147)
Total Revenues	271,733	311,587	39,854
<i>Expenses:</i>			
<i>Insurance expense</i>	2,525	2,786	261
<i>Professional fees</i>	22,597	22,597	-0-
<i>Interest expense</i>	332,567	339,374	6,807
<i>Other expenses</i>	2,515	2,515	-0-
<i>Transfer to Schuyler County</i>	11,635	12,405	770
Total Expenses	371,839	379,677	7,838
(INCREASE) IN NET (DEFICIT)	\$ (100,106)	\$ (68,090)	\$ 32,016

Total revenues increased 14.7% due to increased tobacco settlement proceeds. Total expenses increased by 2.1%, primarily due to increased interest expense.

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 Funds, as presented in the basic financial statements, reported a combined fund balance of \$632,273, which is 3.5% above last year's total of \$610,922.

Figure 3

Governmental Fund Balances			Total Dollar Change
	2013	2014	2013 - 2014
<i>General Fund</i>	\$ 610,922	\$ 632,273	\$ 21,351

DEBT ADMINISTRATION

Debt, considered a liability of Governmental Activities, increased by \$89,808 in 2014, as shown in *Figure 4*, mainly due to the annual increase of accreted interest of \$188,063 attributable to the Series 2005 issue, offset by principal payments made of \$105,000.

Figure 4

Outstanding Debt	Governmental Activities		Total Dollar Change
	2013	2014	2013 - 2014
<i>Bonds payable</i>	\$ 4,794,314	\$ 4,884,122	\$ 89,808

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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 tobacco settlement receipts for the year ending December 31, 2015.
- In 2014, the Corporation anticipates a transfer of up to \$13,935 to Schuyler 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 Schuyler County, at 105 9th Street, Watkins Glen, NY 14891.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET POSITION
DECEMBER 31, 2014

	Governmental Fund Type <u>General</u>	<u>Adjustments</u>	Statement of Net Position
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 38,589	\$	\$ 38,589
Restricted cash and cash equivalents	270,634		270,634
Temporary investments - unrestricted	45,728		45,728
Tobacco settlement receivable	275,000		275,000
Prepaid expenses	<u>2,322</u>		<u>2,322</u>
Total Current Assets	<u>\$ 632,273</u>	<u>-0-</u>	<u>632,273</u>
<u>LIABILITIES</u>			
Current Liabilities:			
Accrued interest payable	\$	11,139	11,139
Current portion of bonds payable, net		<u>443,255</u>	<u>443,255</u>
Total Current Liabilities	<u>-0-</u>	<u>454,394</u>	<u>454,394</u>
Long-term Liabilities:			
Bonds payable, net		3,143,503	3,143,503
Accreted interest		<u>1,297,364</u>	<u>1,297,364</u>
Total Long-term Liabilities	<u>-0-</u>	<u>4,440,867</u>	<u>4,440,867</u>
Total Liabilities	<u>-0-</u>	<u>4,895,261</u>	<u>4,895,261</u>
<u>FUND BALANCE/NET DEFICIT</u>			
Fund Balance:			
Restricted for debt service	270,634	(270,634)	-0-
Unassigned	<u>361,639</u>	<u>(361,639)</u>	<u>-0-</u>
Total Fund Balance	<u>632,273</u>	<u>(632,273)</u>	<u>-0-</u>
Net Position:			
Restricted for debt service		270,634	270,634
Unrestricted		<u>(4,533,622)</u>	<u>(4,533,622)</u>
Total Net (Deficit)	<u>-0-</u>	<u>(4,262,988)</u>	<u>(4,262,988)</u>
Total Fund Balance/Net (Deficit)	<u>\$ 632,273</u>	<u>\$ (4,895,261)</u>	<u>\$ (4,262,988)</u>

See Independent Auditor's Report and Notes to Financial Statements

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>REVENUE</u>	Governmental <u>Fund Type</u> <u>General</u>	Adjustments	Statement of <u>Activities</u>
Tobacco settlement proceeds	\$ 311,515	\$	\$ 311,515
Interest income	<u>243</u>	<u>(171)</u>	<u>72</u>
Total Revenues	<u>311,758</u>	<u>(171)</u>	<u>311,587</u>
 <u>EXPENDITURES/EXPENSES</u>			
Insurance expense	2,786		2,786
Professional fees	22,597		22,597
Debt service	250,104	89,270	339,374
Other expenditures/expenses	<u>2,515</u>		<u>2,515</u>
Total Expenditures/Expenses	<u>278,002</u>	<u>89,270</u>	<u>367,272</u>
EXCESS OF REVENUES OVER (EXPENDITURES/EXPENSES)	<u>33,756</u>	<u>(89,441)</u>	<u>(55,685)</u>
Other Financing (Uses):			
Transfers (out)	<u>(12,405)</u>		<u>(12,405)</u>
Total Other Financing (Uses)	<u>(12,405)</u>	<u>-0-</u>	<u>(12,405)</u>
Excess of Revenues and Other Financing Sources	21,351	(89,441)	(68,090)
Fund Balance/Net (Deficit), January 1,	<u>610,922</u>	<u>(4,805,820)</u>	<u>(4,194,898)</u>
Fund Balance/Net (Deficit), December 31,	<u>\$ 632,273</u>	<u>\$ (4,895,261)</u>	<u>\$ (4,262,988)</u>

See Independent Auditor's Report and Notes to Financial Statements

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Schuyler 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 Corporation is a component unit of the County of Schuyler, State of New York. The Corporation 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 Corporation is one of 17 New York County Tobacco Asset Securitization Corporations (TASC) created in 2000 for the purpose of purchasing the tobacco settlement rights from each respective county, then issuing the net proceeds of bonds to the New York Counties Tobacco Trust I (NYCTT). 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.

The Corporation, along with 23 other counties, 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 Schuyler TASC will be comprised of the TSRs remaining after payment of the prior bonds and investment earnings on funds and accounts established under the TASC's Indenture. The Corporation 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. However, 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 Corporation is controlled by a group of four directors who are appointed by the Chair of the Schuyler County Legislature. At this time, two directors are members of the County Legislature, one is a member of the management team of the County, and one is an elected official of the County. The Corporation is deemed to be a component unit of Schuyler County and is presented in the annual financial statements of Schuyler County as a blended component unit.

B. Basis of Presentation

The 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).

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2014

The Statement of Net Position and the Statement of Activities present summaries of activities for the Corporation. The focus of these columns is 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 governmental functions or activities.

The Corporation records its transactions in the fund types described below:

Fund Categories

Governmental Fund Types - funds 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 Corporation's Governmental Fund Type:

General Fund - the principal operating fund.

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 financial 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, which are recognized as expenditures to the extent they have matured. Proceeds of general long-term debt are reported as other financing sources.

D. Equity Classifications

1. Statement of Net Position

- Restricted Net Position

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.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2014

- Unrestricted Net Position
Consists of all other resources that do not meet the definition of “restricted.”

E. Estimates

Management uses estimates and assumptions in preparing financial statements. These 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 these estimates.

F. Annual Budget

While the Board approves an annual budget, it is not considered a legally adopted budget and, therefore, is not required to be reported under generally accepted accounting principles.

Note 2 - Explanation of Certain Differences between Governmental Fund 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 Type columns 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 Fund 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 Fund vs. Net Position of Governmental Activities:

Total fund balance as reported in the Governmental Fund Type column	\$	632,273
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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	\$ (3,672,013)	
Less: unamortized discount	85,255	(3,586,758)

Interest on long-term debt is accrued in the Statement of Net Position, but not in the Governmental Fund. The balance of accrued interest payable at year end was:

Accrued interest payable		(11,139)
Accreted interest on Series 2005 Bonds		(1,297,364)

Total Net (Deficit) as Reported in the Statement of Net Position	\$	(4,262,988)
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SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2014

B. Governmental Fund Type Operating Statement vs. the Statement of Activities:

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 financial 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 and Other Financing Uses as reported in the Governmental Fund Type column	\$ 290,407
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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 decrease in interest reported in the Statement of Activities is the result of a decrease in accrued interest on bonds payable.	(538)
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Amortization of the bond discount is recorded as an expense in the Statement of Activities. However, this expenditure is recorded when incurred, rather than amortized, in the Governmental Fund.	6,745
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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.	(105,000)
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Interest is accreted on 2005 series bonds but is not paid until maturity.	<u>188,063</u>
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Total Expenses and other Financing Uses of Governmental Activities in the Statement of Activities	<u>\$ 379,677</u>
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There were no differences in revenue in 2014, other than the recording of accrued interest receivable.

Note 3 - Detail Notes

A. Assets

1. Cash and Investments

The Corporation's investment policies are governed by state statutes. In addition, the Corporation follows its written investment policy. The 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 underlying securities to be obligations of the federal government. Underlying securities must have a market value of at least the cost of the repurchase agreements.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2014

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

Total financial institution (bank) balances at December 31, 2014, per the bank, were \$309,223. Restricted cash and cash equivalents of \$270,634 represent amounts held in a mandated TASC liquidity reserve, in the amount of \$267,810, comprised of US Treasury money market funds, and a mandated bond trapping account in the amount of \$2,824. The average yield on these accounts is 0.01%. Net position and fund balance have been restricted for this amount.

Temporary investments are as follows at December 31, 2013:

Certificate of Deposit - Matures June 2014, with interest accrued at .5%: \$ 45,728

Note 4 - Long-term Debt

The following is a summary of the Corporation's long-term debt for the year ended December 31, 2014:

Description of Issue	Issue Date	Final Maturity	Interest Rate	Outstanding December 31, 2014
Tobacco Settlement Pass-through Bonds 2000	12/00	6/23	5.25%-6.30%	\$ 2,175,000
Less: Unamortized bond discount				(55,943)
Carrying Value of Series 2000 Bonds				<u>2,119,057</u>
Tobacco Settlement Pass-through Bonds 2005	11/05	6/60	6.00%-7.85%	1,497,013
Less: Unamortized bond discount				(29,312)
Add: Interest accretion				<u>1,297,364</u>
Carrying Value of Series 2005 Bonds				<u>2,765,065</u>
Total Pass-through Bonds				<u>\$ 4,884,122</u>

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

Interest paid	\$ 145,104
Less: Interest accrued in the prior year	(11,677)
Plus: Interest accrued in the current year	11,139
Change in accreted interest	188,063
Amortization of bond discount	<u>6,745</u>
Total Expense	<u>\$ 339,374</u>

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	\$ 3,777,013	\$	\$ (105,000)	\$ 3,672,013	\$ 450,000
Less: Bond discount	(92,000)		6,745	(85,255)	(6,745)
Add: Interest accretion	<u>1,109,301</u>	<u>188,063</u>		<u>1,297,364</u>	
Total Bonds Payable and Accreted Interest	<u>\$ 4,794,314</u>	<u>\$ 188,063</u>	<u>\$ (98,255)</u>	<u>\$ 4,884,122</u>	<u>\$ 443,255</u>

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2014

A. Series 2000 Bonds

The following is a summary of the debt service for the Series 2000 bond issue.

	Principal	Interest	Total
2015	\$ 450,000	\$ 117,726	\$ 567,726
2016	160,000	107,795	267,795
2017	160,000	97,465	257,465
2018	210,000	85,545	295,545
2019	225,000	71,526	296,526
2020-2023	970,000	126,538	1,096,538
Total	\$ 2,175,000	\$ 606,595	\$ 2,781,595

Since 2010, the Corporation has not received adequate tobacco settlement receipts to cover the turbo redemption payment on the serial bonds; the shortfalls were \$35,000 and \$70,000 in 2014 and 2013, 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 the funds are available. Therefore, the cumulative \$300,000 underpayment is classified as a current liability.

B. Series 2005 Bonds

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.

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 table below. It is expected that the Corporation will make payments based on this amortization. The table entitled "Accreted Interest" represents the compounded interest that will be expended each year and added to the carrying value of the bonds.

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%	\$ 455,180
Series 2005 S2 Capital Appreciation Bond	11/05	6/50	6.10%	282,005
Series 2005 S3 Capital Appreciation Bond	11/05	6/55	6.85%	201,844
Series 2005 S4B Capital Appreciation Bond	11/05	6/60	7.85%	557,984
Total				\$ 1,497,013

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2014

The following is the projected debt service for the Series 2005 bonds from TASC turbo redemption payments, which is based on a forecast of future tobacco settlement receipts available after payment of the Series 2000 bonds:

	Projected Principal	Projected Interest	Total Debt Service
2015	\$ 49,031	\$ 36,974	\$ 86,005
2016	60,008	51,664	111,672
2017	62,203	60,601	122,804
2018	68,058	74,488	142,546
2019	66,594	81,381	147,975
2020-2024	409,917	725,468	1,135,385
2025-2029	412,722	1,522,021	1,934,743
2030-2034	266,208	1,772,124	2,038,332
2035-2037	<u>102,272</u>	<u>950,357</u>	<u>1,052,629</u>
Estimated Amount Due at Maturity	<u>\$ 1,497,013</u>	<u>\$ 5,275,078</u>	<u>\$ 6,772,091</u>

The following is a summary of the amount of accretion on the Series 2005 capital appreciation bonds assuming the projected debt service amortization:

	Amount of Yearly Accretion
2015	\$ 190,377
2016	197,715
2017	204,730
2018	211,237
2019	217,908
2020-2024	1,184,896
2025-2029	1,065,656
2030-2034	645,926
2035-2037	<u>59,269</u>
Future Total Accretion	3,977,714
Cumulative Accreted Interest 12/31/14	1,297,364
Principal	<u>1,497,013</u>
Estimated Total Debt Service	<u>\$ 6,772,091</u>

John H. Dietershagen, C.P.A.
Jerry E. Mickelson, C.P.A.
Thomas K. Van Derzee, C.P.A.
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& Company, LLP**

Certified Public Accountants and Consultants

Frederick J. Ciaschi, C.P.A.

**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
Schuyler Tobacco Asset Securitization Corporation
Watkins Glen, 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 Schuyler Tobacco Asset Securitization Corporation (the Corporation), a component unit of the County of Schuyler, State of New York, as of and for the year ended December 31, 2014, 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 23, 2015.

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 Corporation'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, reading "Cianchi, D'Andrea, Little, Michelson, & Company, LLP". The signature is written in a cursive, flowing style.

February 23, 2015
Ithaca, New York