

# SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

Watkins Glen, New York

FINANCIAL REPORT

December 31, 2015



# ***SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION***

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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, 2015, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

**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, 2015, 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 29, 2016 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.

Respectfully Submitted,



Insero & Co. CPAs, LLP  
Certified Public Accountants

Ithaca, New York  
February 29, 2016

# ***SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION***

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2015**

The following is a discussion and analysis of the Schuyler Tobacco Asset Securitization Corporation's (the Corporation) financial performance for fiscal year ended December 31, 2015. 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, 2015 amounted to \$(4,199,369), reflecting a deficit decrease of \$63,619 from a net deficit of \$(4,262,988) at December 31, 2014.
- Total fund balance of \$840,717 showed an increase of \$208,444 in 2015, from \$632,273 in 2014.

### **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.

**SCHUYLER TOBACCO ASSET  
SECURITIZATION CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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.

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 (deficit) for fiscal year ended December 31, 2015 decreased by \$63,619. 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*

<i>Condensed Statement of Net Position</i>	<i>Governmental Activities and Total Corporation</i>		<i>Total Dollar Change</i>
	<i>2014</i>	<i>2015</i>	<i>2014 - 2015</i>
<i>Current assets</i>	\$ 632,273	\$ 840,717	\$ 208,444
<b><i>Total Assets</i></b>	<b>632,273</b>	<b>840,717</b>	<b>208,444</b>
<i>Current liabilities</i>	454,394	554,087	99,693
<i>Noncurrent liabilities</i>	4,440,867	4,485,999	45,132
<b><i>Total Liabilities</i></b>	<b>4,895,261</b>	<b>5,040,086</b>	<b>144,825</b>
<i>Restricted for debt service</i>	270,634	274,805	4,171
<i>Unrestricted</i>	(4,533,622)	(4,474,174)	59,448
<b><i>Total Net (Deficit)</i></b>	<b>\$ (4,262,988)</b>	<b>\$ (4,199,369)</b>	<b>\$ 63,619</b>

**SCHUYLER TOBACCO ASSET  
SECURITIZATION CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

The increase in current assets stems primarily from an increase in unrestricted cash of \$4,185 and an increase in the tobacco settlement receivable of \$199,000. Litigation brought by several tobacco companies was settled at the State level during 2015, and the Corporation will receive a portion of the proceeds of the settlement amount. The tobacco settlement receivable, and settlement proceeds, are significantly higher reflecting this additional amount.

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.

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

*Figure 2*

<i>Changes in Net Position</i>	<i>Governmental Activities and Total Corporation</i>		<i>Total Dollar Change</i>
	<i>2014</i>	<i>2015</i>	<i>2014 - 2015</i>
<i>Revenues:</i>			
<i>Tobacco settlement proceeds</i>	\$ 311,515	\$ 457,026	\$ 145,511
<i>Interest income</i>	72	893	821
<b><i>Total Revenues</i></b>	<b>311,587</b>	<b>457,919</b>	<b>146,332</b>
<i>Expenses:</i>			
<i>Insurance expense</i>	2,786	2,827	41
<i>Professional fees</i>	22,597	23,898	1,301
<i>Interest expense</i>	339,374	344,895	5,521
<i>Other expenses</i>	2,515	2,515	-0-
<i>Transfer to Schuylers County</i>	12,405	20,165	7,760
<b><i>Total Expenses</i></b>	<b>379,677</b>	<b>394,300</b>	<b>14,623</b>
<b><i>(INCREASE) IN NET (DEFICIT)</i></b>	<b>\$ (68,090)</b>	<b>\$ 63,619</b>	<b>\$ 131,709</b>

Total revenues increased 47.0% due to increased tobacco settlement proceeds. Total expenses increased by 3.9%, primarily due to increased 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 Funds, as presented in the basic financial statements, reported a fund balance of \$840,717, which is 33.0% above last year's total of \$632,273.

**SCHUYLER TOBACCO ASSET  
SECURITIZATION CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

*Figure 3*

<i>Governmental Fund Balances</i>			<i>Total Dollar Change</i>
	<i>2014</i>	<i>2015</i>	<i>2014 - 2015</i>
<i>General Fund</i>	\$ 632,273	\$ 840,717	\$ 208,444

**DEBT ADMINISTRATION**

Debt, considered a liability of Governmental Activities, increased by \$145,132 in 2015, as shown in *Figure 4*, mainly due to the annual increase of accreted interest of \$198,387 attributable to the Series 2005 issue, offset by principal payments made of \$60,000.

*Figure 4*

<i>Outstanding Debt</i>	<i>Governmental Activities</i>		<i>Total Dollar Change</i>
	<i>2014</i>	<i>2015</i>	<i>2014 - 2015</i>
<i>Bonds payable</i>	\$ 4,884,122	\$ 5,029,254	\$ 145,132

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 anticipates that tobacco settlement receipts for the year ending December 31, 2016 will be lower than the 2015 proceeds; as noted above, the 2015 proceeds were higher than normal due to the settlement of litigation.
- In 2016, the Corporation anticipates a transfer of up to \$19,915 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, 2015**

	<u>Governmental Fund Type General</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 42,774	\$	\$ 42,774
Restricted cash and cash equivalents	274,805		274,805
Temporary investments - unrestricted	46,605		46,605
Tobacco settlement receivable	474,000		474,000
Prepaid expenses	2,533		2,533
<b>Total Current Assets</b>	<u>\$ 840,717</u>	<u>-0-</u>	<u>840,717</u>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accrued interest payable	\$	10,832	10,832
Current portion of bonds payable, net		543,255	543,255
<b>Total Current Liabilities</b>	<u>-0-</u>	<u>554,087</u>	<u>554,087</u>
<b>Long-term Liabilities:</b>			
Bonds payable, net		2,990,248	2,990,248
Accreted interest		1,495,751	1,495,751
<b>Total Long-term Liabilities</b>	<u>-0-</u>	<u>4,485,999</u>	<u>4,485,999</u>
<b>Total Liabilities</b>	<u>-0-</u>	<u>5,040,086</u>	<u>5,040,086</u>
<b>FUND BALANCE/NET DEFICIT</b>			
<b>Fund Balance:</b>			
Restricted for debt service	274,805	(274,805)	-0-
Unassigned	565,912	(565,912)	-0-
<b>Total Fund Balance</b>	<u>840,717</u>	<u>(840,717)</u>	<u>-0-</u>
<b>Net Position:</b>			
Restricted for debt service		274,805	274,805
Unrestricted		(4,474,174)	(4,474,174)
<b>Total Net (Deficit)</b>	<u>-0-</u>	<u>(4,199,369)</u>	<u>(4,199,369)</u>
<b>Total Fund Balance/Net (Deficit)</b>	<u>\$ 840,717</u>	<u>\$ (5,040,086)</u>	<u>\$ (4,199,369)</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, 2015**

<b>REVENUE</b>	<b>Governmental Fund Type</b>		<b>Statement of</b>
	<b>General</b>	<b>Adjustments</b>	<b>Activities</b>
Tobacco settlement proceeds	\$ 457,026	\$	\$ 457,026
Interest income	893		893
<b>Total Revenues</b>	<u>457,919</u>	<u>-0-</u>	<u>457,919</u>
<b>EXPENDITURES/EXPENSES</b>			
Insurance expense	2,827		2,827
Professional fees	23,898		23,898
Debt service	200,070	144,825	344,895
Other expenditures/expenses	2,515		2,515
<b>Total Expenditures/Expenses</b>	<u>229,310</u>	<u>144,825</u>	<u>374,135</u>
<b>EXCESS OF REVENUES OVER (EXPENDITURES/EXPENSES)</b>	<u>228,609</u>	<u>(144,825)</u>	<u>83,784</u>
<b>Other Financing (Uses):</b>			
Transfers (out)	<u>(20,165)</u>		<u>(20,165)</u>
<b>Total Other Financing (Uses)</b>	<u>(20,165)</u>	<u>-0-</u>	<u>(20,165)</u>
Excess of Revenues and Other Financing Sources	208,444	(144,825)	63,619
Fund Balance/Net (Deficit), January 1,	<u>632,273</u>	<u>(4,895,261)</u>	<u>(4,262,988)</u>
<b>Fund Balance/Net (Deficit), December 31,</b>	<u>\$ 840,717</u>	<u>\$ (5,040,086)</u>	<u>\$ (4,199,369)</u>

*See Independent Auditor's Report and Notes to Financial Statements.*

# ***SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015**

### ***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.

# ***SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015**

### ***Note 1* Summary of Significant Accounting Policies - Continued**

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).

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 on 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.

# ***SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015**

### ***Note 1* Summary of Significant Accounting Policies - Continued**

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 - 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 - 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.

# **SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION**

## **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015**

**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	\$ 840,717
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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	\$ (3,612,013)	
Less: unamortized discount	78,510	(3,533,503)

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	\$ (10,832)	
Accreted interest on Series 2005 Bonds	(1,495,751)	(1,506,583)

Total Net (Deficit) as Reported in the Statement of Net Position	<u>\$ (4,199,369)</u>
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# **SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION**

## **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015**

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

**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	\$ 249,475
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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.	(307)
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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.	(60,000)
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Interest is accreted on 2005 series bonds but is not paid until maturity.	<u>198,387</u>
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Total Expenses and other Financing Uses of Governmental Activities in the Statement of Activities	<u>\$ 394,300</u>
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There were no differences in revenue in 2015, other than the recording of accrued interest receivable.

# ***SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015**

### **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.

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, 2015, per the bank, were \$317,579. Restricted cash and cash equivalents of \$274,805 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 \$6,995. 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, 2015:

Certificate of Deposit - Matures March 2016, with interest payable at 1.98%:     \$ 46,605

# **SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION**

## **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015**

### **Note 4 Long-term Debt**

The following is a summary of the Corporation's long-term debt for the year ended December 31, 2015:

Description of Issue	Issue Date	Final Maturity	Interest Rate	Outstanding December 31, 2015
Tobacco Settlement Pass-through Bonds 2000	12/00	6/23	5.25%-6.30%	\$ 2,115,000
Less: Unamortized bond discount				(50,834)
Carrying Value of Series 2000 Bonds				2,064,166
 Tobacco Settlement Pass-through Bonds 2005	 11/05	 6/60	 6.00%-7.85%	 1,497,013
Less: Unamortized bond discount				(27,676)
Add: Interest accretion				1,495,751
Carrying Value of Series 2005 Bonds				2,965,088
Total Pass-through Bonds				\$ 5,029,254

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

Interest paid	\$ 140,070
Less: Interest accrued in the prior year	(11,139)
Plus: Interest accrued in the current year	10,832
Change in accreted interest	198,387
Amortization of bond discount	6,745
Total Expense	\$ 344,895

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	\$ 3,672,013	\$	\$ (60,000)	\$ 3,612,013	\$ 550,000
Less: Bond discount	(85,255)		6,745	(78,510)	(6,745)
Add: Interest accretion	1,297,364	198,387		1,495,751	
Total Bonds Payable and Accreted Interest	\$ 4,884,122	\$ 198,387	\$ (53,255)	\$ 5,029,254	\$ 543,255

# ***SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015**

### **A. Series 2000 Bonds**

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 550,000	\$ 107,795	\$ 657,795
2017	160,000	97,465	257,465
2018	210,000	85,545	295,545
2019	225,000	71,526	296,526
2020	240,000	56,313	296,313
2021-2023	<u>730,000</u>	<u>70,225</u>	<u>800,225</u>
Total	<u>\$ 2,115,000</u>	<u>\$ 488,369</u>	<u>\$ 2,603,869</u>

Since 2010, the Corporation has not received adequate tobacco settlement receipts to cover the turbo redemption payment on the serial bonds; shortfalls were \$90,000 and \$35,000 in 2015 and 2014, 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 \$390,000 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 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.

# ***SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015**

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%	<u>557,984</u>
Total				<u>\$ 1,497,013</u>

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>

***SCHUYLER TOBACCO ASSET  
SECURITIZATION CORPORATION***

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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 <u>Accretion</u>
2016	\$ 197,715
2017	204,730
2018	211,237
2019	217,908
2020	224,654
2021-2025	1,194,198
2026-2030	1,001,957
2031-2035	533,628
2036-2037	<u>35,381</u>
Future Total Accretion	3,821,408
Cumulative Accreted Interest 12/31/15	1,495,751
Principal	<u>1,497,013</u>
Estimated Total Debt Service	\$ <u><u>6,814,172</u></u>

**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, 2015, 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 29, 2016.

**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.

**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.

Respectfully Submitted,

A handwritten signature in black ink that reads "Insero & Co. CPAs, LLP". The signature is written in a cursive, slightly slanted style.

Insero & Co. CPAs, LLP  
Certified Public Accountants

Ithaca, New York  
February 29, 2016