

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

Watkins Glen, New York

FINANCIAL REPORT

December 31, 2017



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, as of and for the year ended December 31, 2017, 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, 2017, 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 March 8, 2018 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,

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

Insero & Co. CPAs, LLP
Certified Public Accountants

Ithaca, New York
March 8, 2018

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017. 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. 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, 2017 amounted to \$(4,465,065) reflecting an increase in the deficit of \$192,853 from a net deficit of \$(4,272,212) at December 31, 2016. The decrease in net position is due to the annual accretion of interest on the 2015 bonds.
- Total fund balance of \$606,417 showed a decrease of \$27,649 in 2017, from \$634,066 in 2016. This decrease in fund balance is the result of a decrease in tobacco payments received during the current year.

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, 2017

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, 2017 increased by \$192,853. 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>2016</i>	<i>2017</i>	<i>Total Dollar Change 2016-2017</i>
<i>Current assets</i>	\$ 634,066	\$ 606,417	\$ (27,649)
<i>Total Assets</i>	634,066	606,417	(27,649)
<i>Current liabilities</i>	367,320	522,038	154,718
<i>Noncurrent liabilities</i>	4,538,958	4,549,444	10,486
<i>Total Liabilities</i>	4,906,278	5,071,482	165,204
<i>Restricted for debt service</i>	269,136	273,463	4,327
<i>Unrestricted</i>	(4,541,348)	(4,738,528)	(197,180)
<i>Total Net (Deficit)</i>	\$ (4,272,212)	\$ (4,465,065)	\$ (192,853)

The decrease in current assets stems primarily from a decrease in the tobacco settlement receivable of \$40,000, offset by an increase in cash.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2017

There was a 2017 payment of \$55,000 for principal payments in arrears on the 2000 issue. The \$205,000 turbo redemption payments not fully made in prior years was increased by \$105,000 because the payment was below the scheduled amount. The total turbo redemption payments is reported as a current liability, which resulted in the increase during the current 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>2016</i>	<i>2017</i>	<i>Total Dollar Change 2016-2017</i>
REVENUES			
<i>Tobacco settlement proceeds</i>	\$ 312,175	\$ 188,201	\$ (123,974)
<i>Interest income</i>	1,632	3,173	1,541
Total Revenues	313,807	191,374	(122,433)
EXPENSES			
<i>Insurance expense</i>	2,533	-	(2,533)
<i>Professional fees</i>	23,373	23,791	418
<i>Interest expense</i>	338,299	334,406	(3,893)
<i>Other expenses</i>	2,530	5,015	2,485
<i>Administrative reimbursement to Schuyler County</i>	19,915	21,015	1,100
Total Expenses	386,650	384,227	(2,423)
(INCREASE) IN NET (DEFICIT)	\$ (72,843)	\$ (192,853)	\$ (120,010)

Total revenues decreased by 39.0% due to a reduction in the amount of tobacco settlement proceeds during the current year. Total expenses decreased by 0.6%.

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 \$606,417, which is 4.4% lower than last year's total of \$634,066. This is primarily due to the reduction in tobacco settlement proceeds during the current year.

Figure 3

<i>Governmental Fund Balances</i>	<i>2016</i>	<i>2017</i>	<i>Total Dollar Change 2016-2017</i>
<i>General Fund</i>	\$ 634,066	\$ 606,417	\$ (27,649)
Total	\$ 634,066	\$ 606,417	\$ (27,649)

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2017

DEBT ADMINISTRATION

Debt, considered a liability of Governmental Activities, increased by \$165,486 in 2017, as shown in *Figure 4*, mainly due to the annual increase of accreted interest of \$213,741 attributable to the Series 2005 issue, offset by principal payments made of \$55,000.

Figure 4

<i>Outstanding Long-Term Debt</i>	<i>2016</i>	<i>2017</i>	<i>Total Dollar Change 2016-2017</i>
<i>Bonds payable</i>	\$ 4,897,213	\$ 5,062,699	\$ 165,486
<i>Total</i>	<i>\$ 4,897,213</i>	<i>\$ 5,062,699</i>	<i>\$ 165,486</i>

Since 2010, the Corporation has not received adequate tobacco settlement receipts to cover the turbo redemption payments on the 2000 serial bonds. In 2016, the Corporation repaid \$185,000 of the accumulated shortfall and in 2017 underpaid the scheduled payment by \$105,000. This does not represent a default, as turbo redemption payments are not required payments. The Corporation is allowed to make up the shortfall if funds are available. The accumulated shortfall as of December 31, 2017 was \$310,000.

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 tobacco settlement receipts for the year ending December 31, 2018 will approximate the 2017 proceeds.

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 management, at 105 9th Street, Watkins Glen, NY 14891.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET POSITION DECEMBER 31, 2017

	Governmental Fund Type General	Adjustments	Statement of Net Position
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 59,849	\$	\$ 59,849
Restricted cash and cash equivalents	5,647		5,647
Temporary investments - unrestricted	48,105		48,105
Temporary investments - restricted	267,816		267,816
Tobacco settlement receivable	225,000		225,000
Total Current Assets	\$ 606,417	\$ -	\$ 606,417
LIABILITIES			
Current Liabilities			
Accrued interest payable	\$	\$ 8,783	\$ 8,783
Current portion of bonds payable, net		513,255	513,255
Total Current Liabilities	-	522,038	522,038
Long-term Liabilities			
Bonds payable, net		2,633,737	2,633,737
Accreted interest		1,915,707	1,915,707
Total Long-term Liabilities	-	4,549,444	4,549,444
Total Liabilities	-	5,071,482	5,071,482
FUND BALANCE/NET POSITION (DEFICIT)			
Fund Balance			
Restricted for debt service	273,463	(273,463)	273,463
Unassigned	332,954	(332,954)	-
Total Fund Balance	606,417	(606,417)	-
Net Position			
Restricted for debt service		273,463	273,463
Unrestricted (deficit)		(4,738,528)	(4,738,528)
Total Net (Deficit)	-	(4,465,065)	(4,465,065)
Total Fund Balance/Net (Deficit)	\$ 606,417	\$ (5,071,482)	\$ (4,465,065)

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, 2017

	Governmental Fund Type		Statement of
REVENUE	General	Adjustments	Activities
Tobacco settlement proceeds	\$ 188,201	\$	\$ 188,201
Interest income	3,173		3,173
Total Revenues	<u>191,374</u>	<u>-</u>	<u>191,374</u>
EXPENDITURES/EXPENSES			
Professional fees	23,791		23,791
Debt service	169,202	165,204	334,406
Rent paid to Schuyler County	5,000		5,000
Other expenditures/expenses	15		15
Administrative reimbursement to Schuyler County	21,015		21,015
Total Expenditures/Expenses	<u>219,023</u>	<u>165,204</u>	<u>384,227</u>
Excess of (Expenditures/Expenses)	(27,649)	(165,204)	(192,853)
Fund Balance/Net (Deficit), January 1,	<u>634,066</u>	<u>(4,906,278)</u>	<u>(4,272,212)</u>
Fund Balance/Net (Deficit), December 31,	\$ <u>606,417</u>	\$ <u>(5,071,482)</u>	\$ <u>(4,465,065)</u>

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

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

***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.

Reporting Entity

The Corporation is a component unit of the County of Schuyler. 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, 2017

***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.

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 columns 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 - Principal operating fund.

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, 2017

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

Basis of Accounting/Measurement Focus - Continued

The Statement of Net Position and the Statement of Activities columns 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.

Equity Classifications - 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.”

Equity Classifications - Governmental Fund Financial Statements

The Corporation reports its fund balance in accordance with Governmental Accounting Standards Board Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” Statement No. 54 classifies fund balance to reflect spending constraints on resources, rather than availability for appropriation. This approach is intended to provide users more consistent and understandable information about a fund’s net resources.

Constraints are broken into five classifications: nonspendable, restricted, committed, assigned, and unassigned. These classifications serve to inform readers of the financial statements of the extent to which the government is bound to honor any constraints on specific purposes for which resources in a fund can be spent.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

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

Equity Classifications - Government Fund Financial Statements - Continued

- **Nonspendable** - Consists of assets inherently nonspendable in the current period either because of their form or because they must be maintained intact; including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and endowment principal. There are no nonspendable assets at year end.
- **Restricted** - Consists of amounts subject to legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and enforced externally; or through constitutional provisions or enabling legislation. Most of the Corporation's legally adopted reserves are reported here.
- **Committed** - Consists of amounts subject to a purpose constraint imposed by formal action of the government's highest level of decision-making authority prior to the end of the fiscal year, and requires the same level of formal action to remove said constraint. There are no committed assets at year end.
- **Assigned** - Consists of amounts subject to a purpose constraint representing an intended use established by the government's highest level of decision-making authority, or their designated body or official. The purpose of the assignment must be narrower than the purpose of the General Fund. In funds other than the General Fund, assigned fund balance represents the residual amount of fund balance. There are no assigned assets at year end.
- **Unassigned** - Represents the residual classification of the government's General Fund, and could report a surplus or deficit. In funds other than the General Fund, the unassigned classification should only be used to report a deficit balance resulting from overspending amounts restricted, committed, or assigned for specific purposes.

The Board of the Corporation has not adopted any resolutions to commit or assign fund balance. The Corporation applies expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance.

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.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

Note 1 Summary of Significant Accounting Policies - Continued

Cash and Cash Equivalents

For purposes of the financial statements, the Corporation considers all short-term investments with an original maturity of three months or less to be cash equivalents.

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.

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.

Difference between the Governmental Fund Type column and the Statement of Net Position column are as follows:

Total Governmental Fund Balances	\$ 606,417
Long-term liabilities are reported in the Statement of Net Position, but not in the Governmental Fund because they are not due and payable in the current period.	
Bonds payable	(3,212,013)
Less: unamortized discount	<u>65,021</u>
	(3,146,992)
Interest on long-term debt is accrued in the Statement of Net Position, but not in the Governmental Fund.	
Accrued interest payable	(8,783)
Accreted interest on Series 2005 Bonds	<u>(1,915,707)</u>
	<u>(1,924,490)</u>
Total Net (Deficit) as reported in the Statement of Net Position	\$ (4,465,065)

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

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

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

\$ 219,023

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.

(282)

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

Repayment of bond principal is an expenditure in the Governmental Fund, but it reduces long-term liabilities in the Statement of Net Position, and does not affect the Statement of Activities.

(55,000)

Interest is accreted on 2005 series bonds but is not paid until maturity.

213,741

Total Expenditures of Governmental Activities in the Statement of Activities

\$ 384,227

There were no differences in revenue in 2017, other than the recording of accrued interest receivable.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

Note 3* **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 Federal Deposit Insurance Corporation (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, 2017 were \$381,417. Restricted cash and cash equivalents of \$5,647 represent amounts held in a mandated bond trapping account in the amount of \$3,904, and a bond fund debt service account in the amount of \$1,743. Restricted investments consist of a mandated TASC liquidity reserve, in the amount of \$267,816, comprised of U.S. Treasury Bills. Net position and fund balance have been restricted for these amounts.

Investments are as follows at December 31, 2017:

- Certificate of Deposit - Matures March 2018, with interest payable at 1.258%: \$48,105
- U.S. Treasury Bills with an original maturity of 6 months - Matures June 1, 2018, with interest payable at 0.57%: \$267,816.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

Note 4 Long-term Debt

The following is a summary of the Corporation's long-term debt for the year ended December 31, 2017:

Description of Issue	Issue Date	Interest Rate	Final Maturity	Outstanding Balance
Tobacco Settlement Pass-through Bonds 2000	12/01/2000	5.25%-6.30%	06/01/2023	\$ 1,715,000
Less: Unamortized bond discount				(40,617)
Carrying Value of Series 2000 Bonds				<u>1,674,383</u>
 Tobacco Settlement Pass-through Bonds 2005	 11/01/2005	 6.00%-7.85%	 06/01/2060	 1,497,013
Less: Unamortized bond discount				(24,404)
Add: Interest accretion				1,915,707
Carrying Value of Series 2005 Bonds				<u>3,388,316</u>
Total Debt Outstanding				<u>\$ 5,062,699</u>

Interest on long-term debt during the year was:

Interest paid	\$ 114,202
Less: Interest accrued in the prior year	(9,065)
Add: Interest accrued in the current year	8,783
Change in accreted interest	213,741
Amortization of bond discount	<u>6,745</u>
 Total	 <u>\$ 334,406</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:

	Balance December 31, 2016	Issued	Redeemed	Balance December 31, 2017	Amounts Due Within One Year
Bonds payable	\$ 3,267,013	\$	\$ (55,000)	\$ 3,212,013	\$ 520,000
Less: Bond discount	(71,766)		6,745	(65,021)	(6,745)
Add: Interest accretion	<u>1,701,966</u>	<u>213,741</u>		<u>1,915,707</u>	
Total	<u>\$ 4,897,213</u>	<u>\$ 213,741</u>	<u>\$ (48,255)</u>	<u>\$ 5,062,699</u>	<u>\$ 513,255</u>

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

Note 4 Long-term Debt - Continued

Series 2000 Bonds

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

Year	Series 2000 Bonds		
	Principal	Interest	Total
2018	\$ 520,000	\$ 85,545	\$ 605,545
2019	225,000	71,526	296,526
2020	240,000	56,313	296,313
2021	250,000	40,081	290,081
2022	265,000	23,022	288,022
2023-2027	215,000	7,122	222,122
Total	\$ 1,715,000	\$ 283,609	\$ 1,998,609

From 2010 through 2015, the Corporation had not received adequate tobacco settlement receipts to cover the turbo redemption payment on the serial bonds; shortfalls were \$205,000 and \$90,000 in 2016 and 2015, 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. In 2017, the Corporation made principal payments of \$55,000, which increased the accumulated deficit by \$105,000. Cumulative underpayment as of December 31, 2017 is \$310,000, which is classified as a current liability.

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.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

Note 4 Long-term Debt - Continued

Projected turbo redemption payments are presented in the following table. It was expected the Corporation would begin making payments based on this amortization beginning in 2015. However, no payments on this debt have been made. The current portion represents scheduled payments for 2015-2017.

The Series 2005 bonds are as follows:

Description of Issue	Issue Date	Interest Rate	Final Maturity	Principal
Series 2005 S1 Capital Appreciation Bond	11/01/2005	6.00%	06/01/2038	\$ 455,180
Series 2005 S2 Capital Appreciation Bond	11/01/2005	6.10%	06/01/2050	282,005
Series 2005 S3 Capital Appreciation Bond	11/01/2005	6.85%	06/01/2055	201,844
Series 2005 S4B Capital Appreciation Bond	11/01/2005	7.85%	06/01/2060	557,984
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:

Year	Series 2005 Bonds		
	Projected Principal	Projected Interest	Total Debt Service
2018	\$ 239,300	\$ 223,727	\$ 463,027
2019	66,594	81,381	147,975
2020	64,398	87,415	151,813
2021	65,130	97,758	162,888
2022	19,758	104,047	123,805
2023-2027	539,497	1,417,481	1,956,978
2028-2032	305,312	1,701,759	2,007,071
2033-2037	197,024	1,673,450	1,870,474
Estimated Amount Due at Maturity	\$ <u>1,497,013</u>	\$ <u>5,387,018</u>	\$ <u>6,884,031</u>

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

Note 4 **Long-term Debt - Continued**

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

Year	Amount of Yearly Accretion
2018	\$ 220,803
2019	228,057
2020	235,415
2021	242,841
2022	250,857
2023-2027	1,164,194
2028-2032	842,810
2033-2037	<u>286,335</u>
Future Total Accretion	3,471,311
Cumulative accreted interest December 31, 2017	1,915,707
Principal	<u>1,497,013</u>
Total	\$ <u><u>6,884,031</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, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 8, 2018.

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 dark ink that reads "Inero & Co. CPAs, LLP". The signature is written in a cursive, flowing style.

Inero & Co. CPAs, LLP
Certified Public Accountants

Ithaca, New York
March 8, 2018