



## **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, for the year ended December 31, 2018. 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 February 1, 2019. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Matters**

#### **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 2018. 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, and the calculation of tobacco settlement receivables in determining that they are reasonable in relation to the financial statements taken as a whole.

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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.

#### **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 detected as the result of our audit procedures.

#### **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 21, 2019.

#### **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.

**Other Matters**

We applied certain limited procedures to Management's Discussion and Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

**Restriction on Use**

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

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  
February 21, 2019

# SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

Watkins Glen, New York

FINANCIAL REPORT

December 31, 2018



# ***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, 2018, 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.

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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, 2018, 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 21, 2019 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  
February 21, 2019

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2018**

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, 2018. 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 §1411 of the Not-For-Profit Corporation Law of the State of New York.

### **FINANCIAL HIGHLIGHTS**

- Net deficit for the year ended December 31, 2018 amounted to \$(4,579,574) reflecting an increase in the deficit of \$114,509 from a net deficit of \$(4,465,065) at December 31, 2017. The decrease in net position is due to the annual accretion of interest on the 2015 bonds.
- Total fund balance of \$634,021 showed an increase of \$27,604 in 2018, from \$606,417 in 2017. This increase in fund balance is the result of an increase 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, 2018**

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, 2018 increased by \$114,509. 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>2017</i>	<i>2018</i>	<i>Total Dollar Change 2017-2018</i>
<i>Current assets</i>	\$ 606,417	\$ 634,021	\$ 27,604
<b><i>Total Assets</i></b>	<b>606,417</b>	<b>634,021</b>	<b>27,604</b>
<i>Current liabilities</i>	761,338	967,497	206,159
<i>Noncurrent liabilities</i>	4,310,144	4,246,098	(64,046)
<b><i>Total Liabilities</i></b>	<b>5,071,482</b>	<b>5,213,595</b>	<b>142,113</b>
<i>Restricted for debt service</i>	273,463	272,164	(1,299)
<i>Unrestricted</i>	(4,738,528)	(4,851,738)	(113,210)
<b><i>Total Net (Deficit)</i></b>	<b>\$ (4,465,065)</b>	<b>\$ (4,579,574)</b>	<b>\$ (114,509)</b>

The increase in current assets stems primarily from an increase in the tobacco settlement receivable of \$25,000.

# **SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2018**

There was a 2018 payment of \$85,000 for principal payments in arrears on the 2000 issue. The \$310,000 turbo redemption payments not fully made in prior years were increased by \$125,000 because the payment was below the scheduled amount. The total turbo redemption payments are 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>2017</i>	<i>2018</i>	<i>Total Dollar Change 2017-2018</i>
<b>REVENUES</b>			
<i>Tobacco settlement proceeds</i>	\$ 188,201	\$ 272,117	\$ 83,916
<i>Interest income</i>	3,173	6,689	3,516
<b>Total Revenues</b>	<b>191,374</b>	<b>278,806</b>	<b>87,432</b>
<b>EXPENSES</b>			
<i>Professional fees</i>	23,791	23,348	(443)
<i>Interest expense</i>	334,406	336,870	2,464
<i>Other expenses</i>	5,015	5,015	-
<i>Administrative reimbursement to Schuylers County</i>	21,015	28,082	7,067
<b>Total Expenses</b>	<b>384,227</b>	<b>393,315</b>	<b>9,088</b>
<b>(INCREASE) IN NET (DEFICIT)</b>	<b>\$ (192,853)</b>	<b>\$ (114,509)</b>	<b>\$ 78,344</b>

Total revenues increased by 45.7% due to an increase in the amount of tobacco settlement proceeds during the current year. Total expenses increased by 2.4%.

### **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 \$634,021, which is 4.6% higher than last year's total of \$606,417. This is primarily due to an increase in tobacco settlement proceeds during the current year.

**Figure 3**

<i>Governmental Fund Balances</i>	<i>2017</i>	<i>2018</i>	<i>Total Dollar Change 2017-2018</i>
<i>General Fund</i>	\$ 606,417	\$ 634,021	\$ 27,604
<b>Total</b>	<b>\$ 606,417</b>	<b>\$ 634,021</b>	<b>\$ 27,604</b>

# **SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2018**

### **DEBT ADMINISTRATION**

Debt, considered a liability of Governmental Activities, increased by \$142,548 in 2018, as shown in *Figure 4*, mainly due to the annual increase of accreted interest of \$220,803 attributable to the Series 2005 issue, offset by principal payments made of \$85,000.

*Figure 4*

<i>Outstanding Long-Term Debt</i>	<i>2017</i>	<i>2018</i>	<i>Total Dollar Change 2017-2018</i>
<i>Bonds payable</i>	\$ 5,062,699	\$ 5,205,247	\$ 142,548
<i>Total</i>	<b>\$ 5,062,699</b>	<b>\$ 5,205,247</b>	<b>\$ 142,548</b>

Since 2010, the Corporation has not received adequate tobacco settlement receipts to cover the turbo redemption payments on the 2000 serial bonds. In 2018 the accumulated shortfall increased as the Corporation underpaid the scheduled payment by \$125,000. 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, 2018 was \$435,000.

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, 2019 will approximate the 2018 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, 2018**

	<b>Governmental Fund Type General</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 62,790	\$	\$ 62,790
Restricted cash and cash equivalents	4,323		4,323
Temporary investments - Unrestricted	49,067		49,067
Temporary investments - Restricted	267,841		267,841
Tobacco settlement receivable	250,000		250,000
<b>Total Current Assets</b>	<b>\$ 634,021</b>	<b>\$ -</b>	<b>\$ 634,021</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accrued interest payable	\$	\$ 8,348	\$ 8,348
Current portion of bonds payable, net		959,149	959,149
<b>Total Current Liabilities</b>	<b>-</b>	<b>967,497</b>	<b>967,497</b>
<b>Long-term Liabilities</b>			
Bonds payable, net		2,109,588	2,109,588
Accreted interest		2,136,510	2,136,510
<b>Total Long-term Liabilities</b>	<b>-</b>	<b>4,246,098</b>	<b>4,246,098</b>
<b>Total Liabilities</b>	<b>-</b>	<b>5,213,595</b>	<b>5,213,595</b>
<b>FUND BALANCE/NET POSITION (DEFICIT)</b>			
<b>Fund Balance</b>			
Restricted for debt service	272,164	(272,164)	-
Unassigned	361,857	(361,857)	-
<b>Total Fund Balance</b>	<b>634,021</b>	<b>(634,021)</b>	<b>-</b>
<b>Net Position</b>			
Restricted for debt service		272,164	272,164
Unrestricted (deficit)		(4,851,738)	(4,851,738)
<b>Total Net (Deficit)</b>	<b>-</b>	<b>(4,579,574)</b>	<b>(4,579,574)</b>
<b>Total Fund Balance/Net (Deficit)</b>	<b>\$ 634,021</b>	<b>\$ (5,213,595)</b>	<b>\$ (4,579,574)</b>

*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, 2018**

	<b>Governmental Fund Type</b>		<b>Statement of</b>
<b>REVENUE</b>	<b>General</b>	<b>Adjustments</b>	<b>Activities</b>
Tobacco settlement proceeds	\$ 272,117	\$	\$ 272,117
Interest income	6,689		6,689
<b>Total Revenues</b>	<u>278,806</u>	<u>-</u>	<u>278,806</u>
 <b>EXPENDITURES/EXPENSES</b>			
Professional fees	23,348		23,348
Debt service	194,757	142,113	336,870
Rent paid to Schuyler County	5,000		5,000
Other expenditures/expenses	15		15
Administrative reimbursement to Schuyler County	28,082		28,082
<b>Total Expenditures/Expenses</b>	<u>251,202</u>	<u>142,113</u>	<u>393,315</u>
 Excess of Revenue (Expenditures/Expenses)	27,604	(142,113)	(114,509)
 Fund Balance/Net (Deficit), January 1,	<u>606,417</u>	<u>(5,071,482)</u>	<u>(4,465,065)</u>
 <b>Fund Balance/Net (Deficit), December 31,</b>	<b><u>\$ 634,021</u></b>	<b><u>\$ (5,213,595)</u></b>	<b><u>\$ (4,579,574)</u></b>

*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, 2018**

### ***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 FOR THE YEAR ENDED DECEMBER 31, 2018**

### ***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 FOR THE YEAR ENDED DECEMBER 31, 2018**

### ***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 FOR THE YEAR ENDED DECEMBER 31, 2018**

### ***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 FOR THE YEAR ENDED DECEMBER 31, 2018**

### **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:

<b>Total Governmental Fund Balances</b>	<b>\$</b>	<b>634,021</b>
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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	\$ (3,127,013)	
Less: unamortized discount	<u>58,276</u>	(3,068,737)

Interest on long-term debt is accrued in the Statement of Net Position, but not in the Governmental Fund.

Accrued interest payable	\$ (8,348)	
Accreted interest on Series 2005 Bonds	<u>(2,136,510)</u>	<u>(2,144,858)</u>

<b>Total Net (Deficit) as reported in the Statement of Net Position</b>	<b>\$</b>	<b><u>(4,579,574)</u></b>
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# ***SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018**

### ***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.

<b>Total Expenditures and Other Financing Uses as reported in the Governmental Fund Type column</b>	<b>\$</b>	<b>251,202</b>
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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.	(435)
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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 Fund, but it reduces long-term liabilities in the Statement of Net Position, and does not affect the Statement of Activities.	(85,000)
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Interest is accreted on 2005 series bonds but is not paid until maturity.	<u>220,803</u>
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<b>Total Expenditures of Governmental Activities in the Statement of Activities</b>	<b>\$</b>	<b><u>393,315</u></b>
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There were no differences in revenue in 2018.

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

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018**

### ***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, 2018 were \$386,771. Restricted cash and cash equivalents of \$4,323 represent amounts held in a mandated bond trapping account in the amount of \$847, and a bond fund debt service account in the amount of \$3,476. Restricted investments consist of a mandated TASC liquidity reserve, in the amount of \$267,841, comprised of U.S. Treasury Bills. Net position and fund balance have been restricted for these amounts.

Investments are as follows at December 31, 2018:

- Certificate of Deposit - Matures September 2020, with interest payable at 2.25%:    \$49,067
- U.S. Treasury Bills with an original maturity of 6 months - Matures May 29, 2019, with interest payable at 2.43%:    \$267,841.

The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Corporation's investments in U.S. Treasury Bills are categorized as Level 2.

# **SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018**

**Note 4 Long-term Debt**

The following is a summary of the Corporation's long-term debt for the year ended December 31, 2018:

<b>Description of Issue</b>	<b>Issue Date</b>	<b>Interest Rate</b>	<b>Final Maturity</b>	<b>Outstanding Balance</b>
Tobacco Settlement Pass-through Bonds 2000	12/01/2000	5.25%-6.30%	06/01/2023	\$ 1,630,000
Less: Unamortized bond discount				(35,507)
Carrying Value of Series 2000 Bonds				<u>1,594,493</u>
 Tobacco Settlement Pass-through Bonds 2005	 11/01/2005	 6.00%-7.85%	 06/01/2060	 1,497,013
Less: Unamortized bond discount				(22,769)
Add: Interest accretion				2,136,510
Carrying Value of Series 2005 Bonds				<u>3,610,754</u>
 <b>Total Debt Outstanding</b>				 <b>\$ <u><u>5,205,247</u></u></b>

Interest on long-term debt during the year was:

Interest paid	\$ 109,757
Less: Interest accrued in the prior year	(8,783)
Add: Interest accrued in the current year	8,348
Change in accreted interest	220,803
Amortization of bond discount	<u>6,745</u>
 <b>Total</b>	 <b>\$ <u><u>336,870</u></u></b>

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:

	<b>Balance December 31, 2017</b>	<b>Issued</b>	<b>Redeemed</b>	<b>Balance December 31, 2018</b>	<b>Amounts Due Within One Year</b>
Bonds payable	\$ 3,212,013	\$	\$ (85,000)	\$ 3,127,013	\$ 965,894
Less: Bond discount	(65,021)		6,745	(58,276)	(6,745)
Add: Interest accretion	<u>1,915,707</u>	<u>220,803</u>	<u></u>	<u>2,136,510</u>	<u></u>
 <b>Total</b>	 <b>\$ <u><u>5,062,699</u></u></b>	 <b>\$ <u><u>220,803</u></u></b>	 <b>\$ <u><u>(78,255)</u></u></b>	 <b>\$ <u><u>5,205,247</u></u></b>	 <b>\$ <u><u>959,149</u></u></b>

# **SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018**

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

#### **Series 2000 Bonds**

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

<b>Year</b>	<b>Series 2000 Bonds</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 660,000	\$ 71,526	\$ 731,526
2020	240,000	56,313	296,313
2021	250,000	40,081	290,081
2022	265,000	23,022	288,022
2023	215,000	7,122	222,122
<b>Total</b>	<b>\$ <u>1,630,000</u></b>	<b>\$ <u>198,064</u></b>	<b>\$ <u>1,828,064</u></b>

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 \$310,000 and \$205,000 in 2017 and 2016, 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 2018, the Corporation made principal payments of \$85,000, which increased the accumulated deficit by \$125,000. Cumulative underpayment as of December 31, 2018 is \$435,000, 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 FOR THE YEAR ENDED DECEMBER 31, 2018**

**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 2015-2018.

The Series 2005 bonds are as follows:

<b>Description of Issue</b>	<b>Issue Date</b>	<b>Interest Rate</b>	<b>Final Maturity</b>	<b>Principal</b>
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
<b>Total</b>				<b>\$ <u>1,497,013</u></b>

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:

<b>Year</b>	<b>Series 2005 Bonds</b>		
	<b>Projected Principal</b>	<b>Projected Interest</b>	<b>Total Debt Service</b>
2019	\$ 305,894	\$ 305,108	\$ 611,002
2020	64,398	87,415	151,813
2021	65,130	97,758	162,888
2022	19,758	104,047	123,805
2023	136,521	294,929	431,450
2024-2028	472,160	1,444,783	1,916,943
2029-2033	285,760	1,742,562	2,028,322
2034-2037	147,392	1,310,417	1,457,809
<b>Estimated Amount Due at Maturity</b>	<b>\$ <u>1,497,013</u></b>	<b>\$ <u>5,387,019</u></b>	<b>\$ <u>6,884,032</u></b>

# **SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018**

**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:

<u>Year</u>	<u>Amount of Yearly Accretion</u>
2019	\$ 228,057
2020	235,415
2021	242,841
2022	250,857
2023	247,820
2024-2028	1,118,840
2029-2033	748,780
2034-2037	<u>177,899</u>
Future Total Accretion	3,250,509
Cumulative accreted interest December 31, 2018	2,136,510
Principal	<u>1,497,013</u>
<b>Total</b>	<b>\$ <u><u>6,884,032</u></u></b>

**Note 5 Reclassification**

Certain items reported in the prior year have been reclassified conform to the current year's presentation.





**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, 2018, 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 21, 2019.

**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.

**INSERO & Co. CPAs, LLP**

Rochester | Ithaca | Corning | Cortland | Watkins Glen | (800) 232-9547 | [www.inserocpa.com](http://www.inserocpa.com)

**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 "Insero & Co. CPAs, LLP". The signature is written in a cursive, flowing style.

Insero & Co. CPAs, LLP  
Certified Public Accountants

Ithaca, New York  
February 21, 2019