

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
Financial Statements
December 31, 2016
(With Independent Auditors' Report Thereon)

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Cayuga Tobacco Asset Securitization Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Cayuga Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of the County of Cayuga (the County), as of and for the year ended December 31, 2016, and the related notes to financial statements which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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 Cayuga Tobacco Asset Securitization Corporation as of December 31, 2016, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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 22, 2017, 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, 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.

EFPR Group, CPAs, PLLC

Williamsville, New York
March 22, 2017

CAYUGA TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga, New York)

Management's Discussion and Analysis

December 31, 2016

This section of Cayuga Tobacco Asset Securitization Corporation's (the Corporation) basic financial statements presents the discussion and analysis of the Corporation's financial performance during 2016. It should be read in conjunction with the financial statements and their associated notes which follow this section to properly evaluate the Corporation's financial position. The financial statements present only the information for the year ended December 31, 2016.

The Basic Financial Statements

The Financial Report consists of two parts, Management Discussion and Analysis and the basic financial statements with accompanying notes. The basic financial statements of the Corporation are presented as a special purpose corporation engaged in a single governmental program. The Corporation-wide and fund financial statements are presented in a combined format. Although combined, the basic financial statements present two different views of the Corporation.

The first column of each statement presents the fund financial statement view. This shows how the Corporation's activities were financed in 2016, as well as what resources remain to fund future activities. Its presentation uses the accounting methods traditionally associated with Governmental Funds, The current resource measurement focus and modified accrual basis of accounting.

The third column of each of the statements presents the Corporation-wide statement view. It provides both short-term and long-term information about the Corporation's overall financial position. This presentation uses accounting methods similar to those employed by for-profit companies in the private sector, the economic resource measurement focus and full accrual.

The second column of each of the statements presents adjustments necessary to reconcile the differences between the two statement views. The notes to the basic financial statements are referenced to provide further explanation of adjustments, when appropriate.

Components of the Corporation's Annual Financial Report

Management's Discussion and Analysis	Basic Financial Statements
Combined Corporation-wide/Fund Financial Statements	Notes to Financial Statements

CAYUGA TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga, New York
Management’s Discussion and Analysis (Continued)

	Corporation-wide Statement Column	Fund Financial Statement Column
Scope	Entire corporation	Corporation activities that are not proprietary or fiduciary
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenue, expenditures, and changes in fund balances
Accounting basis	Accrual	Modified accrual
Measurement focus	Economic resources	Current financial resources
Asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Assets expected to be used and liabilities due during the year or soon thereafter, no capital assets are included.
Inflow/Outflow Information	All revenue and expense	Revenue for which cash is received during the year or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter

Fund Financial Statement Column

The fund financial statement column provides more information about the Corporation’s major fund. Funds are self-balancing groups of accounts used to keep track of specific sources of funds and spending for particular purposes.

The Corporation is presented as a Governmental Fund, which focuses on how money flows into and out of the fund. Fund balance remaining at the end of the year is available to be spent in subsequent fiscal years. The fund is reported using the modified accrual method of accounting. This method, emphasizing sources and uses of resources, measures cash and other financial assets that can be converted to cash. The fund financial statement column therefore provides a detailed short-term view of the Corporation.

CAYUGA TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga, New York)
Management's Discussion and Analysis (Continued)

Because this information does not include the long-term focus of the Corporation-wide statements, an adjustment column is provided reconciling and explaining the relationship and differences between them.

Corporation-wide Statement Column

The Corporation-wide statement column presents information about the Corporation as a whole. The column includes all of the Corporations assets and liabilities. All of the current year's revenue and expenses are reported, regardless of when the cash itself is actually received or paid.

The Corporation-wide statement column reports the Corporation's net position and how they have changed. Net position, the difference between assets and liabilities, provide a way to assess the Corporation's financial health or position. Over time, increases or decreases in net position are an indicator of whether the Corporation's financial position is either improving or deteriorating, respectively.

Financial Analysis of the Corporation as a Whole

Prior year data on the Government-wide level is presented in the Management's Discussion and Analysis only, for a comparative analysis of the data.

The focus of our analysis will be the net position and related changes as presented in the following tables.

Condensed Statement of Net Position

	<u>2016</u>	<u>2015</u>	<u>Percent change</u>
Assets:			
Cash and cash equivalents	\$ 1,492,118	1,463,777	1.9%
Tobacco settlement proceeds receivable	<u>1,200,000</u>	<u>2,113,000</u>	-43.2%
Total assets	<u>2,692,118</u>	<u>3,576,777</u>	-24.7%
Liabilities:			
Long-term debt outstanding	25,098,481	25,611,304	-2.0%
Other liabilities	<u>57,004</u>	<u>64,818</u>	-12.1%
Total liabilities	<u>25,155,485</u>	<u>25,676,122</u>	-2.0%
Net Position:			
Restricted	2,692,118	3,576,777	-24.7%
Unrestricted deficit	<u>(25,155,485)</u>	<u>(25,676,122)</u>	-2.0%
Total net position	<u>\$ (22,463,367)</u>	<u>(22,099,345)</u>	1.6%

CAYUGA TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga, New York)
Management's Discussion and Analysis (Continued)

The deficit in net position decreased from \$22.1 million at the end of 2015 to \$22.5 million at the end of 2016. This represents a 1.6% increase in the deficit. A decrease in the long-term liabilities was offset by the accrual for the settlement with tobacco producers. Liabilities decreased due to the amount of principal paid on debt exceeding accreted interest in 2016. The decrease in the tobacco settlement proceeds receivable relates to a \$913,000 provision for a settlement reached with the tobacco companies to release amounts withheld from previous years payments under the MSA.

Condensed Statement of Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>Percent change</u>
Revenue:			
Tobacco settlements	\$ 1,363,714	2,015,166	-32.3%
Investment income	<u>1,332</u>	<u>40</u>	3230.0%
Total revenue	<u>1,365,046</u>	<u>2,015,206</u>	-32.3%
Expenses:			
Debt service	1,700,291	1,697,134	0.2%
Other	<u>28,777</u>	<u>83,718</u>	-65.6%
Total expenses	<u>1,729,068</u>	<u>1,780,852</u>	-2.9%
Increase (decrease) in net position	(364,022)	234,354	-255.3%
Net position at beginning of year	<u>(22,099,345)</u>	<u>(22,333,699)</u>	-1.0%
Net position at beginning of year	<u>\$ (22,463,367)</u>	<u>(22,099,345)</u>	1.6%

The decrease in tobacco settlements was due to an accrual for receipts to be made under a settlement between New York State and the major tobacco producers which was offset partially by an increase in recurring annuals tobacco settlement revenues. Interest accretion on the Capital Appreciation Bonds exceeded the interest expense reduction related to the principal paid on the outstanding bonds. Other expenses in 2015 includes a \$35,000 nonrecurring contribution from the Corporation's discretionary funds for the acquisition of a vehicle for the Cayuga Veterans.

Financial Analysis of the Corporation's Funds

- Fund Balances - Total net fund balance increased related to accrual of the tobacco settlement proceeds, the adjustment of the recurring MSA settlement.
- Long-Term Debt Activity - The Corporation paid \$2,220,928 in total debt service in 2016 consisting of principal of \$1,490,000 and interest of \$730,928. Total interest expense for 2016 includes accretion of interest amounting to \$967,897, a reduction of accrued interest of \$47,814, and amortization of bond issuance discount of \$9,280.

CAYUGA TOBACCO ASSET SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga, New York
Management's Discussion and Analysis (Continued)

Contacting the Corporation's Financial Management

This financial report is designed to provide our citizens and investors with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the monies it administers. For questions about this report and requests for additional information, contact the Chief Financial Officer, Cayuga Tobacco Asset Securitization Corporation, 160 Genesee Street, Auburn New York 13021. The Corporation also has a website at www.Cayuga.yourtasc.com.

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
Governmental Fund Balance Sheet/Statement of Net Position
December 31, 2016

<u>Assets</u>	Debt Service Fund	<u>Adjustments</u>	Governmental Activities Statement of Net Position
Current assets:			
Cash and cash equivalents	\$ 154,236	-	154,236
Tobacco settlement proceeds receivable	<u>1,200,000</u>	<u>-</u>	<u>1,200,000</u>
Total current assets	1,354,236	-	1,354,236
Restricted cash and cash equivalents	<u>1,337,882</u>	<u>-</u>	<u>1,337,882</u>
Total assets	<u>\$ 2,692,118</u>	<u>-</u>	<u>2,692,118</u>
<u>Liabilities</u>			
Current liabilities:			
Current portion of long-term debt	-	185,000	185,000
Accrued interest payable	<u>-</u>	<u>57,004</u>	<u>57,004</u>
Total current liabilities	-	242,004	242,004
Long-term liabilities:			
Bonds payable, net of discount	-	17,140,417	17,140,417
Accreted interest payable	<u>-</u>	<u>7,773,064</u>	<u>7,773,064</u>
Total long-term liabilities	<u>-</u>	<u>24,913,481</u>	<u>24,913,481</u>
Total liabilities	<u>-</u>	<u>25,155,485</u>	<u>25,155,485</u>
<u>Fund Balance/Net Position</u>			
Fund balance - restricted for debt service	<u>2,692,118</u>	<u>(2,692,118)</u>	<u>-</u>
Total fund balance	<u>\$ 2,692,118</u>		
Net position:			
Restricted for debt service		2,692,118	2,692,118
Unrestricted deficit		<u>(25,155,485)</u>	<u>(25,155,485)</u>
Total net position (deficit)		<u>\$ (22,463,367)</u>	<u>(22,463,367)</u>

See accompanying notes to financial statements.

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
Reconciliation of Governmental Fund Balance Sheet
to Statement of Net Position
December 31, 2016

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance - debt service fund	\$ 2,692,118
Interest accrued on long-term debt does not require current financial resources and, therefore, is not reported as a liability in the debt service fund.	(57,004)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the debt service fund.	<u>(25,098,481)</u>
Total net position - governmental activities	<u><u>\$ (22,463,367)</u></u>

See accompanying notes to financial statements.

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
Statement of Governmental Fund Revenue, Expenditures and Changes
in Fund Balance/Statement of Changes in Net Position
Year ended December 31, 2016

	Debt Service Fund	Adjustments	Governmental Activities Statement of Activities
Revenue:			
Tobacco settlements	\$ 2,276,714	(913,000)	1,363,714
Investment income	<u>1,332</u>	<u>-</u>	<u>1,332</u>
Total revenue	<u>2,278,046</u>	<u>(913,000)</u>	<u>1,365,046</u>
Expenditures:			
Professional fees	24,542	-	24,542
Insurance	4,235	-	4,235
Debt service - principal	1,490,000	(1,490,000)	-
Debt service - interest	<u>730,928</u>	<u>969,363</u>	<u>1,700,291</u>
Total expenditures	<u>2,249,705</u>	<u>(520,637)</u>	<u>1,729,068</u>
Excess (deficit) of revenue over expenditures	28,341	(28,341)	-
Change in net position	-	(364,022)	(364,022)
Fund balance/net position (deficit) at beginning of year	<u>2,663,777</u>	<u>(24,763,122)</u>	<u>(22,099,345)</u>
Fund balance/net position (deficit) at end of year	<u>\$ 2,692,118</u>	<u>(25,155,485)</u>	<u>(22,463,367)</u>

See accompanying notes to financial statements.

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
Reconciliation of Statement of Revenue, Expenditures and Changes in
Fund Balance/Governmental Fund to Statement of Net Position
Year ended December 31, 2016

Net change in fund balance - debt service fund	\$ 28,341
Amounts reported for governmental activities in the changes in net position are different because:	
Certain tobacco settlement revenues receivable were recorded in the governmental statement of activities in 2015, received in the debt service fund in 2016.	(913,000)
Accrued interest decrease of \$7,814 on long-term debt and accreted interest on capital appreciation bonds of \$967,897 for governmental activities are not a use of current financial resources and, therefore, are not recorded in the debt service fund.	(960,083)
Amortization of the bond issuance discount does not use current spendable resources and therefore is not recorded in the debt service fund	(9,280)
Repayment of bond principal is an expenditure in the debt service fund, but the repayment reduces long-term liabilities in the statement of net position.	<u>1,490,000</u>
Total change in net position of governmental activities	<u>\$ (364,022)</u>

See accompanying notes to financial statements.

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)

Notes to Financial Statements

December 31, 2016

(1) Organization and Summary of Significant Accounting Policies

(a) Nature of Organization

Cayuga Tobacco Asset Securitization Corporation (the Corporation) is a bankruptcy-remote local development corporation created in October 2000 under section 1411 of the New York State Not-for-Profit Corporation Law.

The Corporation is an instrumentality of, but separate and apart from Cayuga County, New York (the County). The Corporation has a board of directors that is comprised of a majority of elected or appointed officials of the County and one independent director. Although legally separate from the County, the Corporation is a component unit of the County and, accordingly, is included in the County's financial statements as a blended component unit.

Pursuant to a purchase and sale agreement with the County, the County sold to the Corporation all of its future right, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgment (the Decree). The MSA resolved cigarette smoking-related litigation between the settling states and claims, and provides for a continuing release of future smoking-related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future right, title and interest of the County's share were sold to the Corporation.

The purchase price of the County's future right, title and interest in the TSRs has been financed by the issuance of serial bonds. Excess TSRs not required by the Corporation to pay various expenses, debt service or required reserves with respect to the bonds are transferred to the CTASC Residual Trust (the Trust), as owner of the Residual Certificate. The County is the beneficial owner of the Trust and thus the funds received by the Trust will ultimately transfer to the County. A Residual Certificate exists which represents the entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses and certain other costs as set forth in the indenture. Payments on the Residual Certificate from TSR collections are subordinate to payments on the bonds and payment of certain other costs specified in the indenture.

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
Notes to Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

(b) Basis of Accounting

The Corporation follows the modified accrual basis of accounting in its Debt Service Fund, which focuses on changes in available resources, in preparation of the fund financial statements. Under the modified accrual basis of accounting, revenue and related receivables are recorded in the accounting period that they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (ninety days or less). Expenditures and related liabilities are recognized in the accounting period the liability is due and payable.

The Corporation utilizes the full accrual basis of accounting, which focuses on changes in total economic resources, in preparation of the Corporation-wide financial statements. Under the full accrual basis of accounting changes in long-term assets and liabilities are incorporated into the financial statements. Since the fund financial statements are prepared on a different measurement focus and basis of accounting than the corporation-wide financial statements, an adjustments column is presented to transform the fund based financial statements into the entity-wide financial statements.

(c) Basis of Presentation

The Corporation has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America. The Corporation has prepared entity-wide financial statements titled "Statement of Net Position" and "Statement of Activities" as well as the required supplementary information titled "Management's Discussion and Analysis" which precedes the financial statements. The Corporation also prepares the fund financial statements, which are the "Governmental Fund Balance Sheet," and "Statement of Revenue, Expenditures and Changes in Fund Balance." The basic financial statements include both the corporation-wide and the fund financial statements in one presentation.

The Corporation follows the principles of fund accounting in that each segment of operations is represented under a discrete fund presentation in the fund financial statements. The Corporation uses one governmental fund type to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions and activities. The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on long-term debt and supports the operations of the Corporation.

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
Notes to Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

(c) Basis of Presentation, Continued

The collection account within the Debt Service Fund will be used to deposit all collections (excluding certain investment earnings). Funds on deposit in the collection account will be transferred to various other accounts under the Indenture. The debt service account within the Debt Service Fund will be used to deposit amounts transferred from the collection account in respect of interest and principal payments and from which the Trustee will make payments on the bonds in accordance with the priority of payments. The Corporation is required to maintain a balance of, to the extent of available funds, equal to the lesser of: (i) 125% of the average annual debt service on the bonds of each series of bonds of which one or more bonds remain outstanding bonds, measured as of their respective dates of original issuance; or (ii) the maximum amount that may be held in the liquidity reserve account, in the opinion of counsel, without adversely affecting the tax-exempt status of the series 2001 bonds and any other subsequently issued debt. The extraordinary payment account within the Debt Service Fund will be used to deposit, following the occurrence of any event of default, collections after the payment of certain expenses. The Trustee will make interest payments, extraordinary payments and various other payments related to the bonds.

The trapping account within the Debt Service Fund will be funded from collections at the amount necessary to make the amount in the trapping account equal to the sum, of (i) the trapping requirement during the existence of a trapping event and (ii) the lump sum payment requirement as a result of a lump sum payment event.

For further information regarding the above accounts, events, and requirements refer to the Corporation's tobacco settlement asset-backed bonds, series 2001 resolution dated February 8, 2001.

(d) Concentration of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and equivalent accounts in financial institutions. Although the accounts exceed the federally insured deposit amount, management does not anticipate nonperformance by the financial institution.

(e) Cash and Equivalents

The Corporation considers all short-term highly liquid investments with maturities of three months or less to be cash equivalents.

(f) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
Notes to Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

(g) Revenue Recognition

Future tobacco settlement collections are contingent upon future tobacco products sales subject to various adjustments as outlined in the MSA. The Corporation recognizes revenue from tobacco settlement collections as the collections are received by the Corporation, with an estimated receivable (master settlement agreement receivable) accrued at year-end for estimated product sales occurring from January 1 through December 31 of each year.

(h) Subsequent Events

The Corporation has evaluated subsequent events through the date of the report which is the date the financial statements were available to be issued.

(2) Tobacco Settlement Proceeds Receivable

This asset represents estimated payments to be received under the Master Settlement Agreement (MSA) between various tobacco manufacturers and the County for cigarettes shipped through December 31, 2016. The MSA resolved cigarette smoking-related litigation between the manufacturers and the states, including the County of Cayuga. The right to receive the payments was acquired by the Corporation through a purchase from the County of Cayuga. The estimated tobacco settlement proceeds receivable amounted to \$1,200,000 at December 31, 2016.

(3) Restricted Cash and Equivalents

The Corporation is required to place a portion of the bond proceeds in trusts as a reserve to partially secure payments to the bondholders. Tobacco proceeds are held in trust by Manufacturers and Traders Trust (M&T) on behalf of the Corporation. M&T invests the proceeds in highly liquid, interest bearing securities, and performs the transfer of the debt obligations upon the instruction of Bond Logistix, the administrator retained by the Corporation. The restriction on these funds will be released as the bonds mature and are paid. The balance in restricted cash and equivalents amounted to \$1,337,882 at December 31, 2016.

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
Notes to Financial Statements, Continued

(4) Bonds Payable

(a) Overview

The Corporation originally issued bonds as part of New York Counties Tobacco Trust I Tobacco Settlement Pass-Through Bond Series 2000 on December 7, 2000. The Corporation also became part of the New York Counties Tobacco Trust V by issuing capital appreciation bonds on November 5, 2005. A summary of the activity for bonds payable for the year ended December 31, 2016 is as follows:

	<u>Trust I</u>	<u>Trust V</u>	<u>Total Bonds payable</u>
Balance at December 31, 2015	\$ 11,837,918	13,773,386	25,611,304
Principal payments	(1,490,000)	-	(1,490,000)
Interest accretion	-	967,897	967,897
Amortization	<u>9,280</u>	<u>-</u>	<u>9,280</u>
Balance at December 31, 2016	<u>\$ 10,357,198</u>	<u>14,741,283</u>	<u>25,098,481</u>

(b) 2000 Series Bonds - New York Counties Tobacco Trust I

The Corporation issued \$16,740,000 in term bonds for total proceeds of \$16,498,718, at a discount of \$241,282. The discount will be amortized through 2025. A summary of the activity for bonds payable for the year ended December 31, 2016 is as follows:

	<u>Principal</u>	<u>Discount</u>	<u>Total Bonds payable</u>
Balance at December 31, 2015	\$ 11,940,000	(102,082)	11,837,918
Principal payments	(1,490,000)	-	(1,490,000)
Amortization	<u>-</u>	<u>9,280</u>	<u>9,280</u>
Balance at December 31, 2016	<u>\$ 10,450,000</u>	<u>(92,802)</u>	<u>10,357,198</u>

The bonds mature from June 1, 2002 through June 1, 2042, without flexible amortization, and from June 1, 2001 through June 1, 2026 under a flexible amortization payment schedule. Interest on the bonds ranges from 5% to 6.25%. Payments on the term bonds are through 2026.

Future principal payments on the bonds payable for the five years following December 31, 2016 and thereafter are as follows:

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
Notes to Financial Statements, Continued

(4) Bonds Payable, Continued

(b) 2000 Series Bonds - New York Counties Tobacco Trust I, Continued

	<u>Nonflexible</u>	<u>Flexible</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 185,000	-	678,218	863,218
2018	350,000	-	661,365	1,011,365
2019	380,000	-	638,370	1,018,370
2020	-	-	626,400	626,400
2021	-	-	626,400	626,400
2022 - 2026	-	-	3,132,000	3,132,000
2027 - 2031	-	1,720,000	2,972,750	4,692,750
2032 - 2036	-	3,190,000	2,064,603	5,254,603
2037 - 2041	-	3,760,000	931,806	4,691,806
2042	-	865,000	28,653	893,653
	<u>\$ 915,000</u>	<u>9,535,000</u>	<u>12,360,565</u>	<u>22,810,565</u>

In 2015, the amortization of the flexible portion was modified, which has extended final payment to 2042.

(c) 2005 Series Bonds - New York Counties Tobacco Trust V

The Corporation issued \$37,338,337 in capital appreciation bonds (CABs) for proceeds of \$7,334,797 on November 29, 2005. These bonds are subordinate to the original Trust I issue and cannot be defeased until the original issue bonds are paid in full. These bonds were issued in different series with different interest rates and maturities. These bonds accrue (accrete) interest compounded semiannually from their 2005 delivery date, until maturity, at which time the appreciated value of the bond, inclusive of all accrued interest, is payable. A summary of the activity for Trust V CABs payable for the year ended December 31, 2016 is as follows:

	Series 2005 <u>S1</u>	Series 2005 <u>S2</u>	Series 2005 <u>S3</u>	Series 2005 <u>S4B</u>	Total 2005 <u>Bonds</u>
Interest rate	6.00%	6.10%	6.85%	7.85%	
Final maturity	June 1, 2023	June 1, 2026	June 1, 2029	June 1, 2039	
Principal balance, December 31, 2016	\$2,043,971	1,207,315	1,163,141	2,553,792	6,968,219
Accreted interest:					
Balance December 31, 2015	1,665,191	1,006,294	1,132,341	3,001,341	6,805,167
Current year accretion	<u>226,010</u>	<u>137,090</u>	<u>160,007</u>	<u>444,790</u>	<u>967,897</u>
Balance December 31, 2016	<u>1,891,201</u>	<u>1,143,384</u>	<u>1,292,348</u>	<u>3,446,131</u>	<u>7,773,064</u>
Total balance outstanding	<u>\$3,935,172</u>	<u>2,350,699</u>	<u>2,455,489</u>	<u>5,999,923</u>	<u>14,741,283</u>

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
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Notes to Financial Statements, Continued

(4) Bonds Payable, Continued

(c) 2005 Series Bonds - New York Counties Tobacco Trust V, Continued

The amounts payable on these CABs at the respective maturity dates included in the original Official Statement, inclusive of remaining outstanding principal and accreted interest, are as follows:

	Series 2005 <u>S1</u>	Series 2005 <u>S2</u>	Series 2005 <u>S3</u>	Series 2005 <u>S4B</u>	Total 2005 <u>Bonds</u>
June 1, 2038	\$ 16,470,000	-	-	-	16,470,000
June 1, 2050	-	17,510,000	-	-	17,510,000
June 1, 2055	-	-	32,645,000	-	32,645,000
June 1, 2060	-	-	-	169,800,000	169,800,000
	<u>\$ 16,470,000</u>	<u>17,510,000</u>	<u>32,645,000</u>	<u>169,800,000</u>	<u>236,425,000</u>

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 2001 bonds and to satisfy operating requirements. Failure to make such turbo redemption payments will not, however, constitute an event of default. The projected turbo redemption payments as presented in the original Official Statement on these bonds inclusive of original principal and accreted interest through maturity, is as follows:

	Series 2005 <u>S1</u>	Series 2005 <u>S2</u>	Series 2005 <u>S3</u>	Series 2005 <u>S4B</u>	Total 2005 <u>Bonds</u>
2017	\$ 562,008	-	-	-	562,008
2018	672,877	-	-	-	672,877
2019	704,101	-	-	-	704,101
2020	733,189	-	-	-	733,189
2021	765,024	-	-	-	765,024
2022 to 2026	1,365,949	4,002,034	758,684	-	6,126,667
2027 to 2031	-	-	4,322,309	5,585,962	9,908,271
2032 to 2036	-	-	-	10,532,111	10,532,111
2037 to 2039	-	-	-	6,507,251	6,507,251
	<u>\$4,803,148</u>	<u>4,002,034</u>	<u>5,080,993</u>	<u>22,625,324</u>	<u>36,511,499</u>

CAYUGA TOBACCO ASSET
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Notes to Financial Statements, Continued

(5) Transactions with Cayuga County

In addition to setting forth the terms and conditions of the sale and purchase of the TSR's, the purchase and sale agreement also provides for separate consideration to retain the County to act as administrator with respect to the preparation of all reports and other instruments and documents that are the duty of the Corporation to prepare, execute, file or deliver.

The Corporation uses office space and shares overhead and operating services and expenses with the County (including employees, consultants and agents). There were no payments made to the County in 2016.

(6) Net Deficit

The net deficit is due to various expenses associated with the bonds. The future cash receipts from the Master Settlement Agreement (MSA) are expected to offset this deficit. The largest payments provided for in the MSA are called initial payments and annual payments. Both are subject to certain adjustments, reductions and offsets, which are described in the following paragraphs.

Initial payments to New York State were made in the first five years of the agreement, starting with \$2.4 billion in 1999; the last four of these were subject to the volume adjustments, the non-settling states reduction, and the offset for miscalculated or disputed payments.

Annual payments to the State commenced on April 15, 2000, starting at \$2.5 billion in 2000 and continuing into perpetuity at a cap of \$9 billion to be reached in 2018. The annual payments are subject to inflation adjustment, the volume adjustment, the previously settled states reduction, the non-settling states reduction, the non-participating manufacturer's adjustment, the offset for miscalculated or disputed payments, the federal tobacco legislation offset, the litigating parties offset, and the offsets for claims. The Corporation started receiving the County's portion of the annual payments in 2001.

(7) Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 74 - "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans". This statement, issued in June 2015, replaces existing standards of accounting and financial reporting for post employment benefit plans other than pension plans and also replaces existing requirements for defined contribution OPEB plans. The provisions of this statement are effective for financial statements for fiscal years beginning after June 15, 2016, which is the fiscal year beginning January 1, 2017 for the Corporation. This Statement is not expected to have a material effect on the financial statements of the Corporation.

CAYUGA TOBACCO ASSET
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Notes to Financial Statements, Continued

(7) Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement, issued in June 2015, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This Statement is effective for fiscal years beginning after June 15, 2017, which is the fiscal year beginning January 1, 2018 for the Corporation. This Statement is not expected to have a material effect on the financial statements of the Corporation.

GASB Statement No. 79 - "Certain External Investment Pools and Pool Participants." This Statement, issued in December 2015, addresses the accounting and financial reporting for certain external investment pools and pool participants. It establishes the criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The provisions of this Statement are effective for financial statements for years beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. For the Corporation, this statement becomes effective for the fiscal year beginning January 1, 2016. This Statement is being evaluated for its effect on the financial statements of the Corporation.

GASB Statement No. 80 - "Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14." This Statement, issued in January 2016, amends the blending requirements for the financial statement presentation of component units of all state and local governments. It requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The provisions of this Statement are effective for financial statements for years beginning after June 15, 2016, which is the fiscal year beginning January 1, 2017 for the Corporation. This Statement is not expected to have a material effect on the financial statements of the Corporation.

GASB Statement No. 81 - "Irrevocable Split-Interest Agreements." This Statement, issued in March 2016, establishes accounting and reporting standards for irrevocable split-interest agreements with characteristics that are equivalent to irrevocable split-interest agreements in which a donor irrevocably transfers resources to an intermediary who administers these resources for the unconditional benefit of a government and at least one other beneficiary. The provisions of this Statement are effective for financial statements for years beginning after December 15, 2016. For the Corporation, this statement becomes effective for the fiscal year beginning January 1, 2017. This Statement is not expected to have a material effect on the financial statements of the Corporation.

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
Notes to Financial Statements, Continued

(7) Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 82 - "Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73." This Statement, issued in March 2016, addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, which is the fiscal year beginning January 1, 2017 for the Corporation, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, which is the fiscal year beginning January 1, 2018 for the Corporation. This Statement is not expected to have a material effect on the financial statements of the Corporation.

GASB Statement No. 83 - "Certain Asset Retirement Obligations." This Statement, issued in November 2016, addresses accounting and financial reporting for certain asset retirement obligations (AROs). Governments that have legal obligations to perform certain future asset retirement activities related for tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, which is the fiscal year beginning January 1, 2019 for the Corporation. This Statement is not expected to have a material effect on the financial statements of the Corporation.

GASB Statement No. 84 - "Fiduciary Activities." This Statement, issued in January 2017, established criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This Statement is effective for reporting periods beginning after December 15, 2018, which is the fiscal year beginning January 1, 2019 for the Corporation. This Statement is not expected to have a material effect on the financial statements of the Corporation.

CAYUGA TOBACCO ASSET
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Notes to Financial Statements, Continued

(8) Significant Contingencies

The enforceability of the rights and remedies of the State (and thus the bondholders) and of the obligations of a participating manufacturer under the MSA are subject to the Bankruptcy Code and the other applicable insolvency, moratorium or similar laws relating to or affecting the enforcement of creditors' rights. Some of the risks include risks of delay in or reduction of amounts of payment or of non-payment under the MSA and the risk that the State (and thus the County and/or the Corporation) may be stayed for an extended time from enforcing any rights under the MSA and the Consent Decree or with respect to the payments owed by the bankrupt participating manufacturer or from commencing legal proceedings against the bankrupt participating manufacturer. As a result, if a participating manufacturer becomes a debtor in a bankruptcy case and defaults in making payment, funds available to the Corporation to pay bondholders may be reduced or eliminated.

The bonds are payable only from the assets of the Corporation. The bonds are neither legal nor moral obligations of the County or the State of New York, and no recourse may be had thereto for payment of amounts owing on the bonds. The Corporation's only source of funds for payments on the bonds is the collections under the MSA and amounts on deposit in pledged accounts pursuant to the indenture. The Corporation has no taxing power and no significant assets other than the rights to receive tobacco settlement revenues.

**INDEPENDENT AUDITORS' 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**

The Board of Directors
Cayuga Tobacco Asset Securitization Corporation:

We have audited, 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, the financial statements of governmental activities and the major fund of Cayuga Tobacco Asset Securitization Corporation (the Corporation), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic statements, and have issued our report thereon dated March 22, 2017.

Internal Control over Financial Reporting

In planning and performing our audit, 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 opinion 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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

EFPR Group, CPAs, PLLC

Williamsville, New York
March 22, 2017