

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
Financial Statements
December 31, 2019
(With Independent Auditors' Report Thereon)

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

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 7
Basic Financial Statements:	
Governmental Fund Balance Sheet/Statement of Net Position	8
Reconciliation of Governmental Fund Balance Sheet to Statement of Net Position	9
Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance/Statement of Activities	10
Reconciliation of Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance/Statement of Activities	11
Notes to Financial Statements	12 - 22
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 <u>Government Auditing Standards</u>	23 - 24

* * * * *

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, 2019, 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.

Auditors' 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.

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 Cayuga Tobacco Asset Securitization Corporation as of December 31, 2019, 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 Matter

The Corporation has not made cumulative scheduled flexible principal payments on the 2000 Series Bonds amounting to \$3,350,000 as of December 31, 2019. The revised amortization schedule provided by the Corporation's bond consultant reflects these principal payments as due during the year ending December 31, 2020, although the Corporation's assets are not sufficient to enable this amount of principal to be paid. The statement of net position reflects a current portion of long-term debt amounting to \$3,350,000. See note 4(b) and note 6. Our opinion is not modified with respect to this matter.

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 May 12, 2020, 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 solely 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 the effectiveness of the Corporation's 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
May 12, 2020

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

Management’s Discussion and Analysis

December 31, 2019

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 2019. 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, 2019.

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 2019, 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 (debt service 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 Corporation's 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.

<u>Condensed Statement of Net Position</u>			
	<u>2019</u>	<u>2018</u>	<u>Percent change</u>
Assets:			
Cash and cash equivalents	\$ 1,554,623	1,556,668	-0.1%
Tobacco settlement proceeds receivable	<u>1,050,000</u>	<u>1,038,000</u>	1.2%
Total assets	<u>2,604,623</u>	<u>2,594,668</u>	0.4%
Liabilities:			
Long-term debt outstanding	27,464,524	26,644,914	3.1%
Other liabilities	<u>51,740</u>	<u>57,993</u>	-10.8%
Total liabilities	<u>27,516,264</u>	<u>26,702,907</u>	3.0%
Net Position:			
Restricted	2,604,623	2,590,409	0.5%
Unrestricted	<u>(27,516,264)</u>	<u>(26,698,648)</u>	3.1%
Total net position	<u>\$ (24,911,641)</u>	<u>(24,108,239)</u>	3.3%

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 increased from \$24.1 million at the end of 2018 to \$24.9 million at the end of 2019. This represents a 3.3% increase in the deficit. Long-term liabilities increased in 2018 as accreted interest exceeded principal paid. Tobacco settlement proceeds receivable decreased as average tobacco receipts over the past three years have decreased.

Condensed Statement of Activities

	<u>2019</u>	<u>2018</u>	<u>Percent change</u>
Revenue:			
Tobacco settlements	\$ 1,034,809	1,027,510	0.7%
Investment income	<u>36,256</u>	<u>24,586</u>	47.5%
Total revenue	<u>1,071,065</u>	<u>1,052,096</u>	1.8%
Expenses:			
Debt service	1,830,461	1,774,637	3.1%
Other	<u>44,006</u>	<u>40,140</u>	9.6%
Total expenses	<u>1,874,467</u>	<u>1,814,777</u>	3.3%
Change in net position	(803,402)	(762,681)	5.3%
Net position at beginning of year	<u>(24,108,239)</u>	<u>(23,345,558)</u>	3.3%
Net position at end of year	<u><u>\$ (24,911,641)</u></u>	<u><u>(24,108,239)</u></u>	3.3%

In 2019, tobacco settlements increased over 2018 although they remain lower than average historical amounts. Interest accretion on the Capital Appreciation Bonds exceeded the interest expense reduction related to the principal paid on the outstanding bonds.

Financial Analysis of the Corporation's Funds

- Fund Balance - Total net fund balance increased from \$2,509,409 to \$2,604,623 as tobacco settlement proceeds exceeded expenditures.
- Long-Term Debt Activity - The Corporation paid \$1,012,845 in total debt service in 2019 consisting of principal of \$380,000 and interest of \$632,845. For governmental activities total interest expense for 2019 also includes accretion of interest amounting to \$1,190,330 a reduction of accrued interest of \$1,996, 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, 2019

<u>Assets</u>	<u>Debt Service Fund</u>	<u>Adjustments</u>	<u>Governmental Activities Statement of Net Position</u>
Current assets:			
Cash and cash equivalents	\$ 195,983	-	195,983
Tobacco settlement proceeds receivable	<u>1,050,000</u>	<u>-</u>	<u>1,050,000</u>
Total current assets	1,245,983	-	1,245,983
Restricted cash, cash equivalents and investments	<u>1,358,640</u>	<u>-</u>	<u>1,358,640</u>
Total assets	<u>\$ 2,604,623</u>	<u>-</u>	<u>2,604,623</u>
 <u>Liabilities</u> 			
Current liabilities:			
Current portion of long-term debt	-	3,350,000	3,350,000
Accrued interest payable	<u>-</u>	<u>51,740</u>	<u>51,740</u>
Total current liabilities	-	3,401,740	3,401,740
Long-term liabilities:			
Bonds payable, net of discount	-	13,003,256	13,003,256
Accreted interest payable	<u>-</u>	<u>11,111,268</u>	<u>11,111,268</u>
Total long-term liabilities	<u>-</u>	<u>24,114,524</u>	<u>24,114,524</u>
Total liabilities	<u>-</u>	<u>27,516,264</u>	<u>27,516,264</u>
 <u>Fund Balance/Net Position</u> 			
Fund balance - restricted for liabilities and debt service	<u>2,604,623</u>	<u>(2,604,623)</u>	<u>-</u>
Total fund balance	<u>\$ 2,604,623</u>		
Net position:			
Restricted for debt service		2,604,623	2,604,623
Unrestricted deficit		<u>(27,516,264)</u>	<u>(27,516,264)</u>
Total net position (deficit)		<u>\$ (24,911,641)</u>	<u>(24,911,641)</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, 2019

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

Total fund balance - debt service fund	\$ 2,604,623
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.	(51,740)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the debt service fund.	<u>(27,464,524)</u>
Total net position - governmental activities	<u>\$ (24,911,641)</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 Activities
Year ended December 31, 2019

	Debt Service Fund	<u>Adjustments</u>	Governmental Activities Statement of Activities
Revenue:			
Tobacco settlements	\$ 1,034,809	-	1,034,809
Investment income	<u>36,256</u>	<u>-</u>	<u>36,256</u>
Total revenue	<u>1,071,065</u>	<u>-</u>	<u>1,071,065</u>
Expenditures:			
Professional fees	14,393	-	14,393
Insurance	4,655	-	4,655
Administrative fees	6,226	-	6,226
Rent	5,632	-	5,632
Contractual services	13,100	-	13,100
Debt service - principal	380,000	(380,000)	-
Debt service - interest	<u>632,845</u>	<u>1,197,616</u>	<u>1,830,461</u>
Total expenditures	<u>1,056,851</u>	<u>817,616</u>	<u>1,874,467</u>
Excess (deficit) of revenue over expenditures	14,214	(14,214)	-
Change in net position	-	-	(803,402)
Fund balance/net position (deficit) at beginning of year	<u>2,590,409</u>	<u>(26,698,648)</u>	<u>(24,108,239)</u>
Fund balance/net position (deficit) at end of year	<u>\$ 2,604,623</u>	<u>(26,712,862)</u>	<u>(24,911,641)</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 Activities
 Year ended December 31, 2019

Net change in fund balance - debt service fund	\$	14,214
<p>Amounts reported for governmental activities in the changes in net position are different because:</p>		
Accrued interest decrease on long-term debt and accreted interest on capital appreciation bonds for governmental activities are not a use of current financial resources and, therefore are not recorded in the debt service fund.		(1,188,336)
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>380,000</u>
Total change in net position of governmental activities	\$	<u><u>(803,402)</u></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, 2019

(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.

(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) Fair Value Measurements

A framework has been established for measuring fair value of its investments. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

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

(f) Fair Value Measurements, Continued

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Corporation holds investments in U.S. Treasury Notes valued at \$1,353,030 at December 31, 2019. These are considered level 1 investments.

(g) 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

(h) 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.

(i) 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.

The United States is presently in the midst of a national health emergency related to the COVID-19 virus. The overall consequences of the COVID-19 virus on a national, regional and local level are unknown, but has the potential to result in a significant economic impact. The impact of this situation on the Town and its future results and financial position is not presently determinable.

GASB issued Statement No. 95 - "Postponement of the Effective Dates of Certain Authoritative Guidance" in May 2020. This Statement has the primary objective of providing temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Disclosures in note 7 have been updated accordingly.

(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, 2019. 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 \$1,050,000 at December 31, 2019.

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

(3) Restricted Cash, Cash Equivalents and Investments

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, cash equivalents and investments amounted to \$1,358,640 at December 31, 2019, including U.S. Treasury Notes valued at \$1,353,030.

(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, 2019 is as follows:

	<u>Trust I</u>	<u>Trust V</u>	<u>Total Bonds payable</u>
Balance at December 31, 2018	\$ 9,755,758	16,889,156	26,644,914
Principal payments	(380,000)	-	(380,000)
Interest accretion	-	1,190,330	1,190,330
Amortization	<u>9,280</u>	<u>-</u>	<u>9,280</u>
Balance at December 31, 2019	\$ <u>9,385,038</u>	<u>18,079,486</u>	<u>27,464,524</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, 2019 is as follows:

	<u>Principal</u>	<u>Discount</u>	<u>Total Bonds payable</u>
Balance at December 31, 2018	\$ 9,830,000	(74,242)	9,755,758
Principal payments	(380,000)	-	(380,000)
Amortization	<u>-</u>	<u>9,280</u>	<u>9,280</u>
Balance at December 31, 2019	\$ <u>9,450,000</u>	<u>(64,962)</u>	<u>9,385,038</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.

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

Future principal payments on the bonds payable for the five years following December 31, 2019 and thereafter, assuming a “catch up” flexible principal payment on June 1, 2020, are as follows:

	<u>Nonflexible</u>	<u>Flexible</u>	<u>Interest</u>	<u>Total</u>
2020	\$ -	3,350,000	512,000	3,862,000
2021	-	1,070,000	368,181	1,438,181
2022	-	1,125,000	295,972	1,420,972
2023	-	1,195,000	219,122	1,414,122
2024	-	1,275,000	137,303	1,412,303
Thereafter	-	<u>1,435,000</u>	<u>57,472</u>	<u>1,492,472</u>
	<u>\$ -</u>	<u>9,450,000</u>	<u>1,590,050</u>	<u>11,040,050</u>

(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, 2019 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, 2018	\$2,043,971	1,207,315	1,163,141	2,553,792	6,968,219
Accreted interest:					
Balance December 31, 2018	2,385,377	1,443,559	1,646,599	4,445,402	9,920,937
Current year accretion	<u>269,894</u>	<u>164,170</u>	<u>195,853</u>	<u>560,413</u>	<u>1,190,330</u>
Balance December 31, 2019	<u>2,655,271</u>	<u>1,607,729</u>	<u>1,842,452</u>	<u>5,005,815</u>	<u>11,111,267</u>
Total balance outstanding	<u>\$4,699,242</u>	<u>2,815,044</u>	<u>3,005,593</u>	<u>7,559,607</u>	<u>18,079,486</u>

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

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 principle 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>
2020	\$ 733,189	-	-	-	733,189
2021	765,024	-	-	-	765,024
2022	807,726	-	-	-	807,726
2023	3,158,350	-	-	-	3,158,350
2024	-	627,902	-	-	627,902
2025 to 2029	-	3,374,132	5,080,993	1,543,920	9,999,045
2030 to 2034	-	-	-	10,285,870	10,285,870
2035 to 2039	-	-	-	10,795,534	10,795,534
	<u>\$ 5,464,289</u>	<u>4,002,034</u>	<u>5,080,993</u>	<u>22,625,324</u>	<u>37,172,640</u>

CAYUGA TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Cayuga)
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). In 2019 the Corporation paid the County \$5,632 for rent.

(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. 87 - "Leases." This Statement, issued in June 2017, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2021, which is the fiscal year beginning January 1, 2022 for the Corporation. Management is in process of evaluating the potential impact due to the implementation of this Statement 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. 89 - “Accounting for Interest Cost Incurred before the End of a Construction Period.” This Statement, issued in June 2018, establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62 - “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements” which are superseded by this Statement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, which is the fiscal year beginning January 1, 2021 for the Corporation. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Corporation.

GASB Statement No. 91 - “Conduit Debt Obligations.” This Statement, issued in May of 2019, requires a single method be used for the reporting of conduit debt obligations. The focus of the Statement is to improve financial reporting by eliminating diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021, which is the fiscal year beginning January 1, 2022 for the Corporation. Management is in the process of evaluating the potential impact of this Statement on the financial statements of the Corporation.

GASB Statement No. 92 - “Omnibus 2020.” This Statement, issued in January 2020, clarifies implementation of GASB Statements No. 73, 74, 84 and 87, generally effective for fiscal years beginning after June 15, 2021, which is the fiscal year beginning January 1, 2022 for the Corporation. Management is in the process of evaluating the potential impact of this Statement on the financial statements of the Corporation.

GASB Statement No. 93 - “Replacement of Interbank Offered Rates.” This Statement, issued in March 2020, addresses the accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR) - most notably, the London Interbank Offered Rate (LIBOR), which is expected to cease to exist in its current form at the end of 2021. The requirements of this Statement are effective for reporting periods after December 31, 2022, which is the fiscal year beginning January 1, 2023 for the Corporation. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Corporation.

GASB Statement No. 94 - “Public-Private and Public-Public Partnerships and Availability Payment Arrangements.” This Statement, issued in March 2020, addresses issues related to public-private and public-public partnerships (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022, which is the fiscal year beginning January 1, 2023 for the Corporation. Management is in the process of evaluating the potential impact due to the implementation of this Statement 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

(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, 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic statements, and have issued our report thereon dated May 12, 2020.

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
May 12, 2020