

**STEUBEN TOBACCO ASSET SECURITIZATION
CORPORATION**
**(A Blended Component Unit of the County of Steuben,
New York)**

**Basic Financial Statements as of
December 31, 2019 and 2018
Together with Independent
Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

STEBEN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Steuben, New York)

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INDEPENDENT AUDITOR'S REPORT

March 18, 2020

To the Board of Directors of the
Steuben Tobacco Asset Securitization Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Steuben Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of the County of Steuben, New York, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 entity'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 entity'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 major fund of the Corporation, as of December 31, 2019 and 2018, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 18, 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, and 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.

STEBEN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Steuben, New York)

Management's Discussion and Analysis (Unaudited)
For the years ended December 31, 2019 and 2018

The following Management's Discussion and Analysis (MD&A) provides a comprehensive overview of the Steuben Tobacco Asset Securitization Corporation's (the Corporation) financial position as of December 31, 2019 and 2018 and its changes in financial position for the years then ended. This MD&A should be read in conjunction with the financial statements and related footnotes of the Corporation, which directly follow the MD&A.

General Overview

The Corporation is a special purpose, bankruptcy remote local development corporation organized under the Not-For-Profit Corporation Laws of the State of New York (the State). The Corporation was established on October 3, 2000; however, there were no substantive operations until October 15, 2000. The Corporation is an instrumentality of, but separate and apart from, the County of Steuben, New York (the County). Pursuant to a Purchase and Sale Agreement with the County, the County sold to the Corporation all of its future rights, 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 the Participating Manufacturers (PMs), released the PMs from past and present smoking related claims, and provided for a continuing release from 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 rights, title and interest of the County's share were sold to the Corporation and were financed by the issuance of bonds.

Overview of the Financial Statements

The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB). The financial statement presentation consists of the following four basic financial statements:

- Statements of Net Position
- Statements of Activities
- Governmental Fund Balance Sheet and the Reconciliation to Statement of Net Position
- Statement of Governmental Fund Revenues, Expenditures and Change in Fund Balance and Reconciliation to Statements of Activities

The Statement of Net Position and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, assets and liabilities resulting from non-exchange transactions are recognized when the amounts to be received are measurable and collection is probable. The Governmental Fund Balance Sheet and the Statement of Governmental Fund Revenues, Expenditures and Change in Fund Balance are presented using the current financial resources measurement focus and the modified accrual basis of accounting. These policies are more fully described in the accompanying notes to the basic financial statements.

STEBEN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Steuben, New York)

Management’s Discussion and Analysis (Unaudited)
For the years ended December 31, 2019 and 2018

The Statements of Net Position presents all of the Corporation’s asset and liability information, with the difference between the two reported as net position. Fluctuations in net position can be a useful indicator of the Corporation’s financial position. Restricted net position is restricted as a result of externally imposed conditions and consists of funds in the debt service and liquidity reserve accounts. These accounts were established under the bond indenture to provide for debt service payments for at least one year in the event of insufficient revenues. All other net position is considered unrestricted.

The Statements of Activities present all of the Corporation’s revenues, both program and general, expenses, and transfers.

The Governmental Fund Balance Sheet presents the Corporation’s assets, liabilities, deferred inflows, and fund balance. This statement uses the debt service fund, a governmental fund type, to report its financial position.

The Statement of Governmental Fund Revenues, Expenditures, and Change in Fund Balance presents the changes in financial position of the debt service fund.

Financial Highlights

The Corporation reported a net position deficit (i.e., liabilities in excess of assets) of \$34,520 thousand as of December 31, 2019, an increase in the net position deficit of \$1,442 thousand from the prior year.

There were no new debt obligations issued in 2019 or 2018. Required payments were made in 2007 through and including 2019 against bonds issued in 2010 and 2005 based upon the TSRs received by the Corporation.

Condensed
Statements of Net Position
(In thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total assets	\$ <u>3,349</u>	\$ <u>3,412</u>	\$ <u>3,455</u>
Bonds payable, net of bond discount	37,762	36,384	35,872
Other liabilities	<u>107</u>	<u>106</u>	<u>110</u>
Total liabilities	<u>37,869</u>	<u>36,490</u>	<u>35,982</u>
Net position	<u>\$ (34,520)</u>	<u>\$ (33,078)</u>	<u>\$ (32,527)</u>

STEBEN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Steuben, New York)

Management's Discussion and Analysis (Unaudited)
For the years ended December 31, 2019 and 2018

Total Assets

The total assets decreased approximately \$63 thousand from 2018 to 2019 primarily due to the reduction in accounts receivable of approximately \$33 thousand resulting from the decrease of amounts to be received from the tobacco settlement revenues and a decrease of approximately \$46 thousand in deposits held by trustee offset by a slight increase of \$16 thousand in cash in the current year.

The total assets decreased approximately \$43 thousand from 2017 to 2018 primarily due to the reduction in accounts receivable resulting from the decrease of amounts to be received from the tobacco settlement revenues.

Total Liabilities

The increase in total liabilities from 2018 to 2019 of \$1,379 thousand reflects the accretion on outstanding bonds (approximately \$1,445 thousand) and an increase in bonds payable (approximately \$34 thousand) less a current year bond payment of \$100 thousand. The increase in total liabilities from 2017 to 2018 of \$508 thousand reflects the increase in the accretion on outstanding bonds and accrued interest (approximately \$577 thousand) and an increase in bonds payable (approximately \$34 thousand) less a current year bond payment of \$100 thousand.

Condensed
Statements of Activities
(In thousands)

Expenses:	<u>2019</u>	<u>2018</u>	<u>2017</u>
General government -			
Materials and services	\$ 12	\$ 9	\$ 10
Administrative costs	21	21	21
Interest, amortization and fees	<u>2,726</u>	<u>1,861</u>	<u>2,195</u>
 Total expenses	 2,759	 1,891	 2,226
 Program revenues - tobacco settlement	 1,267	 1,297	 1,216
General Revenues	<u>50</u>	<u>43</u>	<u>20</u>
 CHANGE IN NET POSITION, before transfer	 (1,442)	 (551)	 (990)
 TRANSFER TO STEUBEN COUNTY	 <u>-</u>	 <u>-</u>	 <u>(50)</u>
 CHANGE IN NET POSITION, after transfer	 (1,442)	 (551)	 (1,040)
 NET POSITION, beginning of year	 <u>(33,078)</u>	 <u>(32,527)</u>	 <u>(31,487)</u>
 NET POSITION, end of year	 <u>\$ (34,520)</u>	 <u>\$ (33,078)</u>	 <u>\$ (32,527)</u>

STEBEN TOBACCO ASSET SECURITIZATION CORPORATION
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Management's Discussion and Analysis (Unaudited)
For the years ended December 31, 2019 and 2018

Expenses

Expenses incurred in 2019 increased from those incurred in 2018. The increase is due to an increase in accreted interest and interest paid during the year. Expenses incurred in 2018 decreased from those incurred in 2017. The decrease is due to a decrease in the amount of interest recorded in 2018, whereas the administrative, materials and services expenses were consistent with 2017.

Revenues

Total revenues recorded during 2019 were less than those recorded in 2018. TSRs decreased by \$30 thousand in 2019 compared to 2018. Total revenues recorded during 2018 were more than those recorded in 2017. TSRs increased by \$80 thousand in 2018 compared to 2017. In both instances, changes in consumption of tobacco products has led to an increase or decrease in tobacco settlement revenues.

Financial Analysis of the Corporation's Fund Financial Statements

The Corporation uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

The focus of the Corporation's governmental fund reporting is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Corporation's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Corporation's net resources available for spending at the end of the year.

As of December 31, 2019, the Corporation's debt service fund reported an ending balance of \$1.931 million, a decrease of \$30 thousand from the prior year. Approximately \$123 thousand of fund balance is unassigned fund balance and is available for the Corporation's future needs.

As of December 31, 2018, the Corporation's debt service fund reported an ending balance of \$1.962 million, an increase of \$32 thousand from the prior year. Approximately \$106 thousand of fund balance is unassigned fund balance and is available for the Corporation's future needs.

Debt Service

Debt obligations of the Corporation as of December 31, 2019 consist of the remaining balance of the Series 2005 Tobacco Settlement Asset-Backed Bonds and the Series 2010 Tobacco Settlement Asset-Backed Bonds. The proceeds of the Series 2005 Bonds were used to advance refund/defeas the remaining outstanding Series 2000 Bonds (which were originally issued to purchase the rights to the future TSRs due to the County), pay the Trust, and to pay related costs of issuance of the Series 2005 Bonds. The total amount of the Series 2005 Bonds and Series 2010 Bonds outstanding, net of bond discount, at December 31, 2019 was \$37,762 thousand.

The Series 2005 Trust IV Bonds are composed of the following:

- \$14,755,000 Tobacco Settlement Asset-Backed Bonds, Series 2005A (Tax Exempt Turbo Bonds), maturity date is June 1, 2042, interest rate of 5.00%.
- \$3,290,000 Tobacco Settlement Asset-Backed Bonds, Series 2005B (Taxable Turbo Bonds), maturity date is June 1, 2027, interest rate of 6.00%.
- \$1,090,190 Tobacco Settlement Asset-Backed Bonds, Series 2005D (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2050, interest rate of 0.00%, with an accreted value at maturity of \$14,565,000.

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- \$1,188,760 Tobacco Settlement Asset-Backed Bonds, Series 2005E (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2055, interest rate of 0.00%, with an accreted value at maturity of \$27,005,000.

The Series 2010 Bonds are composed of the following:

- \$8,300,000 Tobacco Settlement Asset-Backed Bonds, Series 2010A (Taxable Turbo Bonds), maturity date is June 1, 2041, interest rate of 6.25%.

The Series 2005 Trust V Bonds are composed of the following:

- \$3,323,840 Tobacco Settlement Asset-Backed Bonds, Series 2005 S4B (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2060, with an accreted value at maturity of \$221,000,000.

Turbo bonds are subject to prepayment from Turbo Redemption Payments. Turbo Redemption Payments are made from collections (other than partial and lump sum payments) in excess of the amount needed to pay certain operating expenses. To the extent possible, the Turbo Redemption Payments will amortize the Series 2005 Bonds earlier than their stated maturity dates at their accreted values. There were Turbo Redemption payments made in 2019 and 2018 of \$100 thousand, against the Series 2010 and 2005 Bonds, respectively.

Payments on the outstanding capital appreciation bonds are based on the accreted value of the bonds at their stated maturity. The accretion of these capital appreciation bonds over their life results in the recognition of substantial annual costs until the capital appreciation bonds are redeemed. Reference should be made to the Bonds Payable footnote (Note 5) in the financial statements for a summary of the required principal and interest (which includes accretion of the capital appreciation bonds) payments.

Contacting the Corporation

This financial report is designed to provide a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer, Steuben Tobacco Asset Securitization Corporation, 3 E. Pulteney Square, Bath, NY 14810.

STEBEN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Steuben, New York)

Statements of Net Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 122,714	\$ 106,497
Tobacco settlement revenues receivable	<u>1,418,185</u>	<u>1,451,346</u>
Total current assets	<u>1,540,899</u>	<u>1,557,843</u>
NON CURRENT ASSETS		
Deposits held by trustee	<u>1,808,030</u>	<u>1,853,795</u>
Total assets	<u>3,348,929</u>	<u>3,411,638</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accrued interest	<u>107,475</u>	<u>106,275</u>
Total current liabilities	<u>107,475</u>	<u>106,275</u>
BONDS PAYABLE, net of current portion and bond discount	<u>37,761,851</u>	<u>36,383,729</u>
Total liabilities	<u>37,869,326</u>	<u>36,490,004</u>
NET POSITION		
Restricted for debt service	1,808,030	1,853,795
Unrestricted	<u>(36,328,427)</u>	<u>(34,932,161)</u>
Net position	<u>\$ (34,520,397)</u>	<u>\$ (33,078,366)</u>

The accompanying notes are an integral part of these statements.

STEBEN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Steuben, New York)

Statements of Activities

For the years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
EXPENSES:		
General government -		
Materials and services	\$ 11,676	\$ 8,724
Administrative costs	20,972	20,772
Interest, amortization and fees	<u>2,726,447</u>	<u>1,861,042</u>
Total expenses	2,759,095	1,890,538
PROGRAM REVENUE:		
Tobacco settlement revenues	<u>1,266,915</u>	<u>1,296,635</u>
Net program revenues	(1,492,180)	(593,903)
GENERAL REVENUES - INVESTMENT INCOME	<u>50,149</u>	<u>42,665</u>
CHANGE IN NET POSITION	(1,442,031)	(551,238)
NET POSITION - beginning of year	<u>(33,078,366)</u>	<u>(32,527,128)</u>
NET POSITION - end of year	<u>\$ (34,520,397)</u>	<u>\$ (33,078,366)</u>

The accompanying notes are an integral part of these statements.

STEBEN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Steuben, New York)

Governmental Fund Balance Sheet and Reconciliation To Statements of Net Position - Debt Service Fund
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 122,714	\$ 106,497
Accounts receivable	1,418,185	1,451,346
Deposits held by trustee	<u>1,808,030</u>	<u>1,853,795</u>
 Total assets	 <u>\$ 3,348,929</u>	 <u>\$ 3,411,638</u>
DEFERRED INFLOW OF RESOURCES		
Tobacco settlement revenue	\$ 1,418,185	\$ 1,451,346
 Total deferred inflow of resources	 <u>1,418,185</u>	 <u>1,451,346</u>
FUND BALANCE		
Restricted for -		
Debt service	1,808,030	1,853,795
Unassigned	<u>122,714</u>	<u>106,497</u>
 Total fund balance	 <u>1,930,744</u>	 <u>1,960,292</u>
 Total liabilities and fund balance	 <u>\$ 3,348,929</u>	 <u>\$ 3,411,638</u>

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

Total fund balance	\$ 1,930,744	\$ 1,960,292
 Tobacco settlement revenues were not received in the current period and therefore, are not reported as revenues at the fund level	 1,418,185	 1,451,346
 Bonds payable and accrued interest are not due and payable in the current period and therefore, are not reported at the fund level	 <u>(37,869,326)</u>	 <u>(36,490,004)</u>
 Total net position	 <u>\$ (34,520,397)</u>	 <u>\$ (33,078,366)</u>

The accompanying notes are an integral part of these statements.

STEBEN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Steuben, New York)

**Statements of Governmental Fund Revenues, Expenditures and Change in Fund Balance and Reconciliation to
Statements of Activities - Debt Service Fund**
For the years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUES:		
Tobacco settlement revenues	\$ 1,300,076	\$ 1,372,149
Interest and dividends	<u>50,149</u>	<u>42,665</u>
Total revenues	<u>1,350,225</u>	<u>1,414,814</u>
EXPENDITURES:		
General and administrative	11,676	8,724
Administrative costs	20,972	20,772
Debt service - principal	100,000	100,000
Debt service - interest	<u>1,247,125</u>	<u>1,253,375</u>
Total expenditures	<u>1,379,773</u>	<u>1,382,871</u>
CHANGE IN FUND BALANCE	(29,548)	31,943
FUND BALANCE - beginning of year	<u>1,960,292</u>	<u>1,928,349</u>
FUND BALANCE - end of year	<u>\$ 1,930,744</u>	<u>\$ 1,960,292</u>
Amounts reported for governmental activities in the statements of activities are different because:		
Change in fund balance	\$ (29,548)	\$ 31,943
Tobacco settlement revenues reported in the statement of activities were not received in time to pay current financial obligations and therefore, have not been reported as revenue in the governmental fund	(33,161)	(75,514)
Certain expenses reported in the statement of activities (amortization of the bond discount) do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental fund	(33,606)	(33,606)
The net effect of bond repayments, accretion and interest expense are activities of the governmental fund but not reported in the statement of activities	<u>(1,345,716)</u>	<u>(474,061)</u>
Change in net position	<u>\$ (1,442,031)</u>	<u>\$ (551,238)</u>

The accompanying notes are an integral part of these statements.

STEBEN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Steuben, New York)

Notes to Basic Financial Statements
December 31, 2019 and 2018

1. ORGANIZATION

Steuben Tobacco Asset Securitization Corporation (the Corporation) is a special purpose, bankruptcy remote local development corporation organized under the Not-For-Profit Corporation Law of the State of New York (the State). The Corporation was established on October 3, 2000. The Corporation is an instrumentality of, but separate and apart from the County of Steuben, New York (the County). The Corporation will have not less than three nor more than five directors, consisting of Ex-Officio Directors during the tenure of their respective offices in the County, and Appointed Directors who will serve 1-year terms. Although legally separate from the County, the Corporation is a component unit of the County and, accordingly, is included in the County's basic financial statements as a blended component unit.

On October 15, 2000, pursuant to a Purchase and Sale Agreement with the County, the County sold to the Corporation all of its future rights, 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 the Participating Manufacturers (PMs), released the PMs from past and present smoking related claims, and provided for a continuing release from 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 into by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future rights, title and interest of the County's share were sold to the Corporation.

The Corporation's purchase of the County's future rights, title and interest in the TSRs was financed by the original Series 2000 Bond issuance. 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 of the Corporation 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. 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 Steuben TASC 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Corporation's financial statements are prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB). The Corporation's government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

STEBEN TOBACCO ASSET SECURITIZATION CORPORATION
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Notes to Basic Financial Statements
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The Corporation's fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

The major governmental fund is the Debt Service Fund. The Debt Service Fund accounts for the resources accumulated and payments made for operations and principal debt service on long-term general obligation debt.

Net Position

Generally accepted accounting principles require that resources be classified for accounting purposes into applicable net position categories.

Unrestricted net position is the residual net position that is not restricted, but which may be internally designated by the Board of Directors.

Net position is reported as restricted when constraints placed on its use are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted net position of the Corporation is based on externally imposed conditions and include amounts restricted for debt service and bond issuance costs.

The Corporation has adopted a practice of utilizing its restricted net position when available, prior to unrestricted net position.

Fund Balance

GASB requires more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable** - These are amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted** - These are amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- **Committed** - These are amounts that can be used only for specific purposes determined by a formal action of the Board of Directors prior to year-end. The Board of Directors is the highest level of decision-making authority for the Corporation. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors.

STEBEN TOBACCO ASSET SECURITIZATION CORPORATION
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Notes to Basic Financial Statements
December 31, 2019 and 2018

- **Assigned** - These are amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Board of Directors makes a determination of the assigned amounts of fund balance.
- **Unassigned** - These are all other spendable amounts.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Corporation considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Directors has provided otherwise in its commitment or assignment actions.

Cash

Cash for the Corporation consists of demand and non-demand deposits.

Bond Discount

The Corporation recognizes discounts fully in the year of issuance for the governmental fund statements. These costs are amortized over the term of the related bonds for the government-wide financial statements as additional interest expense. The Corporation recognizes all interest paid as interest expenditures on the modified accrual basis for the governmental fund statements and all interest incurred as expenses on the full accrual basis for the government-wide financial statements.

Accounts Receivable

The Corporation records a receivable for TSRs and does not accrue interest on unpaid amounts. The Corporation has not recorded an allowance for doubtful accounts related to the TSRs and does not anticipate future write-offs.

Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, the Balance Sheet and Statement of Net Position will sometimes report a separate section for deferred outflows/inflows of resources. The separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then.

Income Taxes

The Corporation is a not-for-profit corporation and is exempt from income taxes as an organization qualified under Section 501(c)(3) of the Internal Revenue Code. The Corporation has also been classified by the Internal Revenue Service as an entity that is not a private foundation. The Corporation is also exempt from Federal reporting requirements under Internal Revenue Service Revenue Procedure 95-48, 1995-2 C.B. 418 as a governmental unit or affiliate of a governmental unit described in the procedure.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

STEBEN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Steuben, New York)

Notes to Basic Financial Statements
December 31, 2019 and 2018

3. DEPOSITS AND INVESTMENTS

Investment and Deposit Policy

The Corporation follows an investment and deposit policy as outlined in the bond indenture, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; provide sufficient liquidity of invested funds in order to meet obligations as they become due; and attainment of a market rate of return. Oversight of investment activity is the responsibility of the Treasurer of the Corporation.

The Corporation categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Corporation did not have any investments that are measured using Level 2 or Level 3 inputs.

Fair value measurements of the Corporation's investments at December 31, 2019 comprised of U.S. Government Agency Bonds valued at \$1,805,373 and money market funds valued at \$2,657 based on quoted market prices (Level 1 inputs).

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The Corporation has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Corporation's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. The Corporation's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Obligations of the United States of America;
- Obligations guaranteed by the United States of America where payment of principal and interest are guaranteed by the United States of America;
- Obligations of the State of New York;
- Special time deposit accounts;
- Certificates of Deposit;
- Obligations of public authorities, public housing authorities, urban renewal agencies, and industrial development agencies where the general State statutes governing such entities or whose specific enabling legislation authorizes such investments;
- Obligations issued pursuant to New York State Local Finance Law Section 24.00 and 25.00 (with approval of the New York State Comptroller) by any municipality, school district or district corporation other than the Corporation; and
- Eligible investments, as defined in the indenture between the Corporation and Manufacturers and Traders Trust Company, as trustee, as amended from time to time.

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Custodial Credit Risk - Deposits

Custodial credit risk - deposits is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Corporation's investment and deposit policy, all deposits of the Corporation including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIA) shall be secured by a pledge of securities with an aggregate value equal to the aggregate amount of deposits. The Corporation does not have a collateral agreement in place as required by its investment policy but would restrict the securities to the following eligible items:

- Obligations issued, or fully insured or guaranteed as to the payment of principal and interest, by the United States of America, an agency thereof or a United States government sponsored corporation;
- Obligations issued or fully guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank;
- Obligations partially insured or guaranteed by any agency of the United States of America at a proportion of the market value of the obligation that represents the amount of insurance or guaranty;
- Obligations issued or fully insured or guaranteed by the State of New York, obligations issued by a municipal corporation, a school district or district corporation of such State or obligations of any public benefit corporation which under a specific State statute may be accepted as security for deposit of public moneys;
- Obligations issued by states (other than the State of New York) of the United States rated in one of the three highest rating categories by at least one Nationally Recognized Statistical Rating Organization (NRSRO);
- Obligations of Puerto Rico rated in one of the three highest rating categories by at least one NRSRO;
- Obligations of counties, cities and other governmental entities of a state other than the State of New York having the power to levy taxes that are backed by the full faith and credit of such governmental entity and rated in one of the three highest categories by at least one NRSRO;
- Obligations of domestic corporations rated in one of the two highest rating categories by at least one NRSRO;
- Any mortgage related securities, as defined in the Securities Exchange Act of 1934, as amended, which may be purchased by banks under the limitations established by bank regulatory agencies;
- Commercial paper and bankers' acceptances issued by a bank, other than the Corporation's bank, rated in the highest short-term category by at least one NRSRO and having maturities of no longer than 60 days from the date they are pledged; and
- Zero coupon obligations of the United States of America marketed as "treasury strips".

As of December 31, 2019 and 2018, the carrying amount of the Corporation's cash was \$122,714 and \$106,497 respectively, which were fully insured under the FDIC.

STEBEN TOBACCO ASSET SECURITIZATION CORPORATION
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Notes to Basic Financial Statements
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4. DEPOSITS HELD WITH TRUSTEE

Funds held by trustee refers to cash held by a third party to satisfy the Corporations debt service requirements. The funds held by trustee are not subject to the Corporation’s Investment and Deposit Policy or collateralization requirements. As of December 31, 2019 and 2018, the amounts held with the trustee were \$1,808,030 and \$1,853,795, respectively.

The Corporation had the following reserve funds as of December 31:

	<u>2019</u>	<u>2018</u>
Liquidity reserve	\$ 1,727,266	\$ 1,729,122
Debt service reserve	30,609	28,505
Turbo redemption	49,098	95,583
Collection Account	<u>1,057</u>	<u>585</u>
 Total	 <u>\$ 1,808,030</u>	 <u>\$ 1,853,795</u>

These amounts are restricted by law for debt service.

Total funds held by trustee by type as of December 31, are as follows:

	<u>2019</u>	<u>2018</u>
United States Treasury Obligation	\$ 1,805,373	\$ 1,851,006
Money Market Funds	<u>2,657</u>	<u>2,789</u>
 Total	 <u>\$ 1,808,030</u>	 <u>\$ 1,853,795</u>

5. BONDS PAYABLE

The Corporation issued \$28,623,950 of Series 2005 Trust IV Tobacco Asset-Backed Bonds in August 2005 and \$3,323,840 in Series 2005 Trust V Tobacco Asset-Backed Bonds in November 2005. All Series 2005 Bonds are secured by a perfected security interest in, and pledge of, the Trust Estate, as defined in the Indenture, which includes, among other things, the TSRs and all investment earnings on amounts on deposit in the accounts established under the Indenture (collectively, the Collections). Among the accounts so established are the Liquidity Reserve Account and the Debt Service Account. The Corporation retains TSRs in an amount sufficient to service its debt and pay its operating expenses.

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The Series 2005 Bonds are payable solely from and secured solely by the future right, title and interest of the Corporation in the collection of TSRs previously purchased by the Corporation from the County. This series consists of subordinate turbo capital appreciation bonds that provide long-dated financing for the Corporation and take advantage of current market conditions where interest rates are low, investors have a favorable view of litigation events and where institutional investors are looking for high yield investments. The Corporation is required to covenant not to issue additional bonds or refunding bonds that would extend the term of the capital appreciation bonds or other outstanding bonds.

The Series 2005 Trust IV Bonds are composed of the following:

- \$14,755,000 Tobacco Settlement Asset-Backed Bonds, Series 2005A (Tax Exempt Turbo Bonds), maturity date is June 1, 2042, interest rate of 5.00%.
- \$3,290,000 Tobacco Settlement Asset-Backed Bonds, Series 2005B (Taxable Turbo Bonds), maturity date is June 1, 2027, interest rate of 6.00%.
- \$1,090,190 Tobacco Settlement Asset-Backed Bonds, Series 2005D (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2050, interest rate of 0.00%, with an accreted value at maturity of \$14,565,000.
- \$1,188,760 Tobacco Settlement Asset-Backed Bonds, Series 2005E (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2055, interest rate of 0.00%, with an accreted value at maturity of \$27,005,000.

The Series 2005 Trust V Bonds are composed of the following:

- \$3,323,840 Tobacco Settlement Asset-Backed Bonds, Series 2005 S4B (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2060, with an accreted value at maturity of \$221,000,000.

The Series 2010 Bonds are composed of the following:

- \$8,300,000 Tobacco Settlement Asset-Backed Bonds, Series 2010A (Taxable Turbo Bonds), maturity date is June 1, 2041, interest rate of 6.25%.

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Long-term indebtedness for the Corporation's bonds payable consisted of the following:

	<u>2019</u>	<u>2018</u>
Balance - beginning of year	\$ 28,557,790	\$ 28,657,790
Repayments of bonds	<u>(100,000)</u>	<u>(100,000)</u>
Balance - end of year	28,457,790	28,557,790
Add: Accretion of capital appreciation bonds	9,662,216	8,217,701
Less: Bond discount	<u>(358,155)</u>	<u>(391,762)</u>
Total	<u>\$ 37,761,851</u>	<u>\$ 36,383,729</u>
Required payments due within one year	<u>\$ -</u>	<u>\$ -</u>

Principal and interest payments (including accretion on capital appreciation bonds) based upon the required maturities are as follows for the years ended December 31:

	<u>Principal</u>	<u>Interest/ Accretion</u>	<u>Total</u>
2020	\$ -	\$ 2,408,952	\$ 2,408,952
2021	-	2,492,015	2,492,015
2022	200,000	2,569,363	2,769,363
2023	500,000	2,636,461	3,136,461
2024	500,000	2,707,840	3,207,840
2025 – 2029	3,000,000	14,840,897	17,840,897
2030 – 2034	4,130,000	17,753,587	21,883,587
2035 – 2039	5,660,000	22,262,815	27,922,815
2040 – 2044	7,235,000	29,179,565	36,414,565
2045 – 2049	1,630,000	40,211,417	41,841,417
2050 – 2054	1,090,190	53,701,340	54,791,530
2055 – 2059	1,188,760	68,787,535	69,976,295
2060	<u>3,323,840</u>	<u>8,347,170</u>	<u>11,671,010</u>
	<u>\$ 28,457,790</u>	<u>\$267,898,957</u>	<u>\$296,356,747</u>

STEBEN TOBACCO ASSET SECURITIZATION CORPORATION
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Required maturities for the Series 2005 Bonds represent the minimum amount of principal that the Corporation must pay as of the specific distribution dates in order to avoid a default. Turbo (accelerated) amortization payments are required to be made against outstanding principal providing that the Corporation receives sufficient TSRs to make the Turbo payments. The interest payment requirements shown are based on the required principal maturity schedule and include the accreted value portion of capital appreciation bonds in the year in which they are required to be redeemed.

Bonds payable as recorded on the Statement of Net Position consist of the following as of December 31, 2019:

	Bond Principal	Bond Discount	Bond Accretion	Total
Beginning balance, 1/1/19	\$ 28,557,790	\$ (391,762)	\$ 8,217,701	\$ 36,383,729
Principal payment	(100,000)	-	-	(100,000)
Amortization	-	33,606	-	33,606
Accretion	-	-	1,444,516	1,444,516
Ending balance, 12/31/19	<u>\$ 28,457,790</u>	<u>\$ (358,156)</u>	<u>\$ 9,662,217</u>	<u>\$ 37,761,851</u>

Bonds payable as recorded on the Statement of Net Position consist of the following as of December 31, 2018:

	Bond Principal	Bond Discount	Bond Accretion	Total
Beginning balance, 1/1/18	\$ 28,657,790	\$ (425,368)	\$ 7,639,765	\$ 35,872,187
Principal payment	(100,000)	-	-	(100,000)
Amortization	-	33,606	-	33,606
Accretion	-	-	577,936	577,936
Ending balance, 12/31/18	<u>\$ 28,557,790</u>	<u>\$ (391,762)</u>	<u>\$ 8,217,701</u>	<u>\$ 36,383,729</u>

Under the terms of the Indenture, the Corporation is required to maintain certain deposits to fund debt service payments, if needed. Such deposits are within deposits with the trustee in the basic financial statements. In addition, the Corporation is subject to various debt covenants, including limitations on expenses/expenditures, and compliance with Indenture agreement requirements. The Corporation was in compliance with all covenants and Indenture agreement requirements at December 31, 2019 and 2018.

There were principal payments of \$100,000 made during both 2019 and 2018 in accordance with the Series 2010A and Series 2005 Bonds, respectively.

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Bond discount expense was \$33,606 for each of the years ended December 31, 2019 and 2018. Accumulated amortization on bond discount was \$470,485 and \$436,878 for the years ended December 31, 2019 and 2018.

Interest

Interest expense on bonds payable was \$2,692,841 and \$1,827,436 in 2019 and 2018, respectively. In 2019 and 2018, cash paid for interest was \$1,247,125 and \$1,253,375, respectively.

6. NET POSITION

The Corporation has a deficit in net position as a result of the outstanding bonds. Throughout the life of the bonds, due to the accretion on capital appreciation bonds, the net position deficit will continue to increase. Once sufficient TSRs are collected through the life of these bonds and these outstanding bonds are repaid, the net position deficit will be eliminated.

7. CONTINGENCIES

Future TSRs are subject to adjustment based upon tobacco consumption, inflation and other factors. Pursuant to the Indenture, these adjustments and other events could trigger additional debt service reserve requirements.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

March 18, 2020

To the Board of Directors of
Steuben Tobacco Asset Securitization Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund of Steuben Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of the County of Steuben, New York 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 financial statements, and have issued our report thereon dated March 18, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.