

**ONEIDA TOBACCO ASSET
SECURITIZATION CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2019 & 2018**

2019
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Oneida Tobacco Asset Securitization Corporation

I have audited the accompanying statements of financial position of the Oneida Tobacco Asset Securitization Corporation, (a non-profit corporation) as of December 31, 2019 and 2018, and the related statements of activities, and cashflows for the years then ended, and the related notes to the financial statements.

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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oneida Tobacco Asset Securitization Corporation, as of December 31, 2019 and 2018, and the changes in its net assets and cashflows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



Patrick M. Tyksinski, CPA, PC
January 31, 2020
New Hartford, New York

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MANAGEMENT'S DISCUSSION & ANALYSIS

The following is a discussion and analysis of Oneida Tobacco Asset Securitization Corporation's financial performance which provides an overview of the Corporation's activities for the fiscal year ended December 31, 2019. Please read it in conjunction with the entity's financial statements.

Oneida Tobacco Asset Securitization Corporation, (The Corporation), was formed pursuant to New York State not-for-profit corporation law. The Corporation operates as a section 501(c)(3) entity under the Internal Revenue Code. The Corporation was formed exclusively for the purpose of acquiring all or any portion of the rights, title and interest of the County of Oneida in, to and under the Consent Decree and Final Judgment of the Supreme Court of the State of New York dated December 23, 1998, all or any portion of the moneys due the County thereunder or under the Master Settlement Agreement with respect to tobacco related litigation among various Settling States and participating manufacturers (defined as Tobacco Assets).

The Corporation in acquiring these Tobacco Assets can then issue and sell one or more series of negotiable bonds which would be secured by the Tobacco Assets.

FINANCIAL HIGHLIGHTS

The Corporation's net assets decreased as a result of this year's operations. The decrease from last year amounted to \$2,622,116, or three percent (3%) of the net assets.

Revenues (tobacco receipts) for the current year decreased from the previous year by \$185,817.

Revenues:	
December 31, 2013	\$ 3,815,357
December 31, 2014	\$ 4,316,427
December 31, 2015	\$ 3,693,845
December 31, 2016	\$ 7,461,038
December 31, 2017	\$ 3,266,883
December 31, 2018	\$ 3,537,673
December 31, 2019	\$ 3,351,856

Total expenditures for the year ended December 31, 2019 were higher than the previous year. The increase amounted to \$180,995, or approximately 3%. The increase was primarily due to the increased interest on the NYCTT Bonds which

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increases each year.

FINANCIAL POSITION

The net position of OTASC decreased by \$ 2,622,116 or 3% of net assets.

December 31,	<u>2019</u>	<u>2018</u>
Assets	\$ 5,210,252	\$ 5,209,355
Long-term debt	\$ 96,431,677	\$ 93,811,143
Other liabilities	\$ 279,146	\$ 286,667
Net Position	\$(91,510,571)	\$(88,888,455)

The deficit in Net Position is primarily due to non-cashflow items accrued each year. These items are the accreted interest on bonds and amortization of bond discount. For the year ended December 31, 2019 these amounts were \$2,720,534 and \$15,179, respectively.

CHANGES IN POSITION

REVENUES:

Tobacco Revenues	\$ 3,351,856	\$ 3,537,673
Investment Income	<u>140,445</u>	<u>105,012</u>
Total Revenue	\$ <u>3,492,301</u>	\$ <u>3,642,685</u>

EXPENDITURES:

Amortization	\$ 15,179	\$ 15,179
Administrative expenses	26,352	26,102
Bond interest	<u>6,072,888</u>	<u>5,892,143</u>
Total expenditures	\$ <u>6,114,419</u>	\$ <u>5,933,424</u>

ECONOMIC FACTORS

A decline in cigarette sales has had an effect on the tobacco receipts received. If the decline continues or becomes more significant this could seriously affect

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the tobacco receipts received by OTASC. Tobacco receipts are essentially the sole source of income from which debt service is paid.

CONTACTING OTASC FINANCIAL MANAGEMENT

This financial report is designed to provide the users with a general overview of OTASC's finances. If you have questions about this report or need additional financial information, contact the Vice-President/Treasurer at 800 Park Ave, Utica, NY 13501.

ONEIDA TOBACCO ASSET SECURITIZATION CORP.

STATEMENT OF FINANCIAL POSITION

December 31,

	2019	2018
	<u>ASSETS</u>	
Cash and cash equivalents	\$ 123,666	\$ 75,386
Deposits held by trustee	4,695,738	4,724,899
Prepaid trustee fees	2,520	2,520
Prepaid Insurance	0	3,043
Original issue discount, Net of accumulated amortization	388,328	403,507
TOTAL ASSETS	<u>\$ 5,210,252</u>	<u>\$ 5,209,355</u>

LIABILITIES AND NET ASSETS (DEFICIT)

Accrued Liabilities	\$ 10,000	\$ 7,000
Accrued Interest Payable	279,146	279,667
Bonds Payable NYCTT V (Series 2005 S2,S3 &S4B)	38,936,677	36,216,143
Bonds Payable NYCTT IV (2005 A,B,C & 2010A)	57,495,000	57,595,000
TOTAL LIABILITIES	<u>96,720,823</u>	<u>94,097,810</u>
Net Position (Deficit)	(91,510,571)	(88,888,455)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u>\$ 5,210,252</u>	<u>\$ 5,209,355</u>

ONEIDA TOBACCO ASSET SECURITIZATION CORP.

STATEMENT OF ACTIVITIES

December 31,

	2019	2018
Revenue		
Tobacco revenue	\$ 3,351,856	\$ 3,537,673
Investment income	140,445	105,012
Total Revenue	<u>3,492,301</u>	<u>3,642,685</u>
Expenses		
Amortization expense	15,179	15,179
Administrative agent fee	9,860	9,860
Audit Fees	7,000	7,000
Bond Rating Fees	1,787	1,787
Bond Interest Expense	6,072,888	5,892,143
Insurance	3,293	3,043
Office and administrative expenses	1	1
Trustee fees	4,411	4,411
Total Expenses	<u>6,114,419</u>	<u>5,933,424</u>
Other Expenditures		
Transfer to County	0	50,000
Total Expenses and Other Expenditures	<u>6,114,419</u>	<u>5,983,424</u>
Revenues over (under) expenses and other expenditures	<u>(2,622,118)</u>	<u>(2,340,739)</u>
Change in Net Assets		
Net position (deficit) - beginning of year	(88,888,453)	(86,547,716)
Net position (deficit) - end of year	<u>\$ (91,510,571)</u>	<u>\$ (88,888,455)</u>

See accountant's report and notes to financial statements

ONEIDA TOBACCO ASSET SECURITIZATION CORP.

STATEMENT OF CASHFLOWS

December 31,

	2019	2018
Cash flows from operating activities		
Revenues over (under) expenditures	\$ (2,622,116)	\$ (2,340,739)
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	15,179	15,179
(Increase) decrease in prepaid expenses	3,043	0
Increase (decrease) in Interest Payable	(521)	(1,041)
(Increase) decrease in Deposits held by Trustee	29,161	(2,108)
Increase (decrease) in accounts payable	3,000	0
Total adjustments	<u>49,862</u>	<u>12,030</u>
Net cash provided (used) by operating activities	<u>(2,572,254)</u>	<u>(2,328,709)</u>
Cash flow from financing activities:		
Payments on bonds	(100,000)	(200,000)
Increase in bonds do to accreted interest	2,720,534	2,530,935
Net cash provided (used) by financing activities	<u>2,620,534</u>	<u>2,330,935</u>
Net increase (decrease) in cash and equivalents	48,280	2,226
Cash and equivalents, beginning of year	75,386	73,160
Cash and equivalents, end of year	<u>\$ 123,666</u>	<u>\$ 75,386</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	\$ 6,072,888	\$ 5,892,143

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Oneida Tobacco Asset Securitization Corporation (OTASC) is a special purpose, bankruptcy-remote local development corporation incorporated under the provisions of section 1411 of the State's Not-For-Profit Corporation Law. The Corporation was established in December 2000 for the exclusive purpose of acquiring all rights, titles and interest the County of Oneida is due under the Master Settlement Agreement (MSA), the result of tobacco industry litigation. OTASC acquired the rights to receive all future Tobacco Settlement Receipts (TSR's). The acquisition price of the County's future right, title and interest in the TSR's has been financed by the issuance of serial bonds, as part of the New York Counties Tobacco Trust I, Trust IV and Trust V, which issued Tobacco Settlement Pass-Through Bonds. TSR'S which exceed various expenses of OTASC, debt service and required reserves are transferred to a Residual Trust, under the entitlement of Residual Certificate. The County has a beneficial interest in the Trust and ultimately receives funds held by the Trust. The County has no legal obligation for any of the liabilities or debt which may exist in OTASC.

In order to meet payments on debt service and other obligations the OTASC is dependent upon the receipt of future TSR's.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenues are recognized when earned, and expenses when incurred.

Deposits held by Trustee

Funds under control of the Trustee are funds held in various types of investment accounts. These funds are held by the Trust and are invested in money market accounts and US Treasury obligations. These investments are recorded at cost which approximates fair market value as of December 31, 2019 and 2018.

Income Taxes

The Oneida Tobacco Asset Securitization Corporation is a not-for-profit organization and exempt from income taxes under section 115(1) of the Internal Revenue Code.

Management's Use of Estimates

OTASC prepares its financial statements in conformity with accounting principles generally accepted in the United States which require management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates. Estimates are used when accounting for certain items such as future collections on receivables, liquidity reserves, and contingencies.

NOTE 2 - INTANGIBLE ASSETS

Original issue discount of the Tobacco Settlement Pass-Through Bonds, Series 2005 A,B,& C, have been capitalized and are being amortized over the life of the bonds, (5 - 40 years). As of December 31, 2019 intangible assets were as follows for the 2005 bonds:

Original Issue Discount	\$ 607,158
Accumulated Amortization	- <u>218,830</u>
NET OID	\$ <u>388,328</u>

Amortization expense for the years 2019 and 2018 was \$15,179 and \$15,179 respectively.

NOTE 3 - LONG-TERM DEBT

Advance Refunding

On August 18, 2005 Oneida Tobacco Asset Securitization Corporation refunded and defeased in substance its outstanding 2000 Series bonds of \$58,609,855, carrying variable interest rates of 5.25% to 6.625%, with new 2005A, 2005B, 2005C/2010A Series bonds of \$65,630,000, issued at rates varying from 4.25% to 6.25%. All series have varied maturities with the final payment due December 31, 2045.

All issuance costs of the transaction (\$1,394,824) were paid from bond proceeds. Reserve amounts required under the agreement (\$5,330,009) were also funded from the bond proceeds. The net proceeds of \$58,575,167 were used to redeem the 2000 bonds and cover expenses incurred in connection with the refunding.

NYCTT IV -2005 (A,B,&C) & 2010 Series Bonds (Advance Refunding)

Bonds issued to complete the advanced refunding as described above have varying interest rates and maturity dates as follows:

<u>issue</u>	<u>Maturity</u>	<u>Rate</u>	<u>Amount</u>
2005A	6/01/2021	4.25	689,532
2005A	6/01/2026	4.75	447,478
2005A	6/01/2038	5.00	1,641,908
2005A	6/01/2042	5.00	8,412,490
2005A	6/01/2045	5.00	8,303,592
2005A	6/01/2027	6.00	6,735,000
2005C/2010A	6/01/2041	6.25	<u>39,400,000</u>
TOTAL ORIGINAL			<u>\$ 65,630,000</u>

Future debt service requirements for the 2005/2010 Series bonds is as follows:

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2020	0	2,375,000
2021	0	2,375,000
2022	0	2,375,000
2023	900,000	2,346,875
2024	1,200,000	2,281,250
THEREAFTER	<u>53,995,000</u>	<u>21,209,375</u>
TOTAL	<u>\$ 57,795,000</u>	<u>\$105,031,201</u>

New Bond Issue NYCTT V (Series 2005S2, 2005S3, & 2005S4)

The Oneida Tobacco Asset Securitization Corporation completed a new bond issue in November 2005. These bonds, noted as Series 2005S2, 2005S3 and 2005S4B, carry varying yields and were sold discounted (zero coupon), the par value of these bonds totals \$721,365,000. The maturity dates of the bonds are June 1, 2050 for the 2005S2 series; June 1, 2055 for the 2005S3 series; and June 1, 2060 for the 2005S4B series. The discounted amount of these bonds (present value) at time of sale was \$14,684,111. The proposed repayment of the bonds would be on an accelerated basis, known as The Turbo Redemption. The yields and maturities, based on the Turbo Redemption Plan, are as follows:

<u>ISSUE</u>	<u>MATURITY</u>	<u>YIELD</u>	<u>PROCEEDS</u>
2005S2	2025-2040	6.10	\$ 2,853,841
2005S3	2025-2040	6.85	2,774,686
2005S4B	2025-2040	7.85	<u>9,055,584</u>
	TOTAL		<u>\$14,684,111</u>

The 2005S Series bonds are subordinate to the 2005A, 2005/2010 bonds issued in 2005 in the advance refunding discussed above. No interest or principal will be paid on these bonds until all other series bonds of the corporation are redeemed. Funds expected to be used for redemption of these bonds will come from the Tobacco Settlement Receipts. Interest will begin to accrete in 2006, payments are not anticipated until the year 2025.

Redemption of the bonds based on the Turbo Redemption schedule is anticipated as follows:

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2025	\$ 467,481	\$ 1,041,950	\$ 1,509,431
2026	1,889,575	4,589,515	6,479,090
2027	1,613,607	4,950,003	6,563,610
2028	1,460,117	5,189,297	6,649,415
2029	1,142,259	5,592,320	6,734,578
Thereafter	<u>8,111,072</u>	<u>67,546,019</u>	<u>75,657,091</u>
TOTAL	<u>\$14,684,111</u>	<u>\$ 88,909,104</u>	<u>\$103,593,215</u>

The projected accreted balances for the NYCTT V bonds are as follows:

YEAR	SERIES			TOTAL
	2005S2	2005S3	2005S4	
2019	6,425,384	6,891,938	25,619,355	38,936,677
2020	6,823,555	7,372,426	27,672,516	41,868,497
2021	7,246,147	7,885,623	29,888,244	45,020,014
2022	7,694,815	8,435,420	32,278,581	48,408,816
2023	8,171,214	9,022,598	34,861,590	52,055,422
2024	8,677,414	9,651,828	37,649,313	55,978,555
2025	7,705,224	10,323,889	40,665,834	58,694,947
2026	1,703,406	11,043,454	43,923,195	56,670,055
2027		7,058,136	47,439,459	54,497,595
2028		900,543	51,232,689	52,133,232
2029			49,561,670	49,561,670
2030			46,711,756	46,711,756
2031			43,537,981	43,537,981
2032			40,017,024	40,017,024
2033			36,114,440	36,114,440
2034			31,820,136	31,820,136
2035			27,089,916	27,089,916
2036			21,899,450	21,899,450
2037			16,199,232	16,199,232
2038			9,942,498	9,945,498
2039			3,096,444	3,096,444

NOTE 4 - DEPOSITS HELD IN TRUST

Under the terms of the bond indenture agreement certain accounts were to be maintained by a Trust Company to provide for various functions of the bond repayments. The Liquidity Reserve Account, established with proceeds from the bond sales is required to maintain on deposit \$4,574,750; at December 31, 2019 the balance was \$4,580,366. This is adequate to service one year's required debt service. Other accounts serve to act as a conduit for debt service repayment and collection of the TSR's.

NOTE 6 - RELATED PARTY

OTASC is considered to be a special purpose local development corporation and in the opinion of legal counsel to be bankruptcy-remote from the County of Oneida. However, OTASC's board of directors is comprised of a majority of elected or appointed officials of the County of Oneida, due to this the non-profit organization is considered to be a special purpose local development corporation by New York Public Authorities agency. For financial statement purposes, OTASC is considered a component unit of the County of Oneida for the same reason.

NOTE 7 CONTINGENCIES

The primary revenue of OTASC is the receipt of future tobacco payments in accordance with the Master Settlement Agreement between 46 States (including New York) and members of the tobacco industry. The collection of future tobacco payments have many risks associated with it. These risks include, smoking trends, regulatory restrictions and legislative initiatives, potential adjustments to MSA payments, bankruptcy by member(s) of the tobacco industry which are part of the MSA, and lawsuits against these members. The occurrence of any of these risks could have an affect upon the amount of payments received by OTASC, and this affect could be significant. The OTASC's financial existence relies upon the collection of the future tobacco payments.