

Cortland Tobacco Asset Securitization Corporation
2017 Annual Report
March 31, 2017

The Cortland Tobacco Asset Securitization Corporation is a bankruptcy-remote local Development Corporation created in July 2001 under Section 1411 of the New York Not-For-Profit Corporation Law. The organization was formed to raise funds by issuing bonds, use those funds to acquire rights to future proceeds from the settlement agreement with various tobacco companies payable to Cortland County and remain in existence during the term of the bonds to collect the tobacco settlement proceeds and service the debt. The organization is an instrumentality of, but separate and apart from Cortland County, New York.

This report is being submitted in compliance with the Public Authorities Accountability Act of 2005 (Chapter 776 of the Laws of 2005). It is not intended to be a substitute for or to replace the Cortland County Tobacco Asset Securitization Corporation's (herein referred to as either as "Cortland TASC" or the "Corporation") financial statements prepared to the year ending December 31, 2017.

1. Operations and Accomplishments:

The Corporation received sufficient Tobacco Settlement Revenues (TSR's) to make a principal payment of \$335,000 and an interest accretion of \$64,869.

2. The Corporation's revenues and expenditures for December 31, 2017 which were reported in its 2017 financial statements are as follows:

Revenues:	\$654,302
Expenses:	\$804,878
Decrease in Net Position	(\$150,576)

3. The Corporation's assets and liabilities for December 31, 2017 which were reported in its 2017 financial statements are as follows:

Assets:	\$1,661,619
Liabilities:	\$12,339,794
Net Deficit:	(\$10,678,175)

4. The bonds payable of the Corporation for the year ending December 31, 2017 as reported in its 2017 financial statements (attached).

The first bonds payable were issues on August 3, 2001 as part of the New York Tobacco Trust/Tobacco Settlement Pass-through Bond Series 2001.

Face Value of the bonds issued was \$10,640,000. The bonds were sold at a discount of \$123,538 for a net issuance price of \$10,516,460. The discount will be amortized over a maturity period of the bonds using the straight-line method. For the year ended 2016 the discount amortized amounted to \$4,751. The unamortized discount was \$47,514 for the year ended December 31, 2017. The bonds mature from June 1, 2006 until June 1, 2043 under term restructuring from June 1, 2002 until Jun 1, 2027 under the super sinker payment schedule. Interest on the bonds ranges from 4.27% to 5.75%.

The second bond issue was issued November 29, 2005 and is comprised of capital appreciation bonds. These bonds are subordinate bonds to the original issue bonds detailed above and cannot be defeased until the original bond issues are paid in full. These bonds were issued in different series with different interest maturity rates. These bonds shall accrue interest at their stated rates from the Series 2005 Delivery Date, which interest shall accrue and not be payable, compounded semi-annually, until maturity. Interest accrued for the year ended December 31, 2017 was \$364,869. During 2017 no principal or interest payments were made. The value of the bonds increase based upon the interest accrued over the life of the bonds. The total value of the bonds issued at November 29, 2005 were \$5,817,104.

The total bonds outstanding at December 31, 2016 are as follows:

	<u>Issue</u> <u>Date/Maturity</u>	<u>Interest Rate</u> <u>Series 2005</u>	<u>Balance</u>
Series 2001	8/01-6/27	4.3%-5.75	\$6,485,000
Series 2005	11/05-6/60	6.0%-7.15%	\$2,827,986
Add: Accretion			<u>\$6,624,249</u>
Value of 2005 Bonds			\$5,817,104

Total: \$12,302,104

Note that the defeasance of these bonds is expected to occur before the stated maturity dates based upon the expected revenue stream from the tobacco settlement proceeds. These bonds can be defeased on or after June 15, 2015. There is a prepayment premium for payment on or before May 31, 2016 of 102% of the accredited value and for payment between June 1, 2016 and May 31, 2017 a premium of 101% of the accredited value. After May 31, 2017 there is no premium for prepayment.

The annual activity for 2017 is as follows:

	<u>Series 2001</u>	<u>Series 2005</u>	<u>Total Bonds Payable</u>
Balance 12/31/16	\$6,820,000	\$5,452,235	\$12,272,235
Principal Payments	(335,000)	0	(335,000)
Accretion (net of interest paid)		\$ 364,869	\$ 364,869
Balance 12/31/2017	\$6,485,000	\$5,817,104	\$12,302,104

5. The Corporation's compensation schedule:

Although it is allowable by the By-Laws to reimburse directors for reasonable expenses incurred in the performance of corporate duties and/or to compensate the Independent Director for his/her services in an amount fixed from time to time as voted on by the majority of the Board of Directors other than the Independent Director, no salary or compensation was paid to any officer or director of the Corporation during 2017.

The Corporation had no paid employees in 2017.

6. Projects undertaken by the Corporation in 2017:

The Corporation did not undertake any projects during 2017.

7. Real Property owned and disposed of by the Corporation:

The Corporation did not acquire or dispose of any real property during 2017 having an estimated fair market value greater the \$15,000.

The Corporation does not currently own any real property, accordingly no separate report was prepared.

8. Investments held by the Corporation:

Investments are reported at fair value. The Corporation's trustee holds investments for the funds included in the financial statements. The Corporation invests in authorized investments as described in the bond resolution such as commercial paper or financial company paper, special time deposit accounts, certificates of deposit and obligations of the United States of America. All investments are insured, registered or held by the Corporation's trustee in the Corporation's name. As of December 31, 2017, investments, stated at fair value consist of the following:

Cash and money market funds	\$811,148
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Note that fair value measurements under FASB ASC 820-10, which establishes a framework for measuring fair value, is under the highest priority. Such priority is level 1 measurements, which uses unadjusted quoted prices in active markets for identical assets.

Tobacco proceeds are held in trust by Manufacturer's 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 any debt obligations upon the instruction of Bond Logistix, the administrator retained by the Corporation.

This report is intended to suffice as the Annual Investment Report.

9. Procurement transactions during 2017:

The Corporation had two procurement transactions during 2017 with an actual or estimated value of \$5,000 or more to a single vendor, this was the auditor's fee and the Harris Beach fees.

10. The Corporation's Code of Ethics as adopted and approved by the Board of Directors is as follows:

No director, officer, or employee of the Corporation shall (1) accept other employment which will impair his or her independence of judgment in the exercise of his or her official duties; (2) accept employment or engage in any business or professional activity which will require him to disclose confidential information which he or she has gained by reason of his or her official position of authority; (3) disclose confidential information acquired by him or her in the course of his or her official duties nor use such information to further his or her personal interests; (4) use or attempt to use his or her official position to secure unwarranted privileges or exemptions for himself, herself or others; (5) engage in any transaction as a representative or agency of Corporation with any business entity in which she has a direct or indirect financial interest that might reasonably tend to conflict with the proper discharge of his or her official duties; (6) not, by his or her conduct, give reasonable basis for the impression that any person can improperly influence him or her or unduly enjoy his or her favor in the performance of his or her official duties, or that he or she is affected by the kinship, rank, position or influence of any party or person; (7) abstain from making personal investments in enterprises which he or she has reason to believe may be directly involved in decisions to be made by him or her which will otherwise create substantial conflict between his or her duty in the public interest and his or her private interest; and (8) endeavor to pursue a course of conduct which will not raise suspicion among the public that he or she is likely to be engaged in acts that are in violation of his or her trust.

11. The financial statements for the Cortland Tobacco Asset Securitization Corporation for the year ended December 31, 2017 are the responsibility of management. The financial statements were prepared in accordance with auditing standards generally accepted in the United States of America. Financial information contained elsewhere in this annual report are consistent with the financial statements.

12. The Corporation has an established internal control structure. The objectives of an internal control structure are to provide reasonable assurance as to the protection of and accountability for assets, compliance with applicable laws and regulations, proper authorization of the recording of transactions and the reliability of financial records for preparing financial statements.

For the year ending December 31, 2017, management has documented and assessed the internal control structure and procedures of the Cortland Tobacco Asset Securitization Corporation; this assessment found the authority's internal controls to be adequate, and to the extent that deficiencies were identified, the authority has developed corrective action plans to reduce any corresponding risk.

13. The Corporation reported that there is no material pending litigation in which the entity was involved during 2017.