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

Basic Financial Statements as of
December 31, 2017
Together with
Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

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

TABLE OF CONTENTS

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

March 29, 2018

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

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities and major fund of Seneca Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of the County of Seneca, New York, as of and for the year ended December 31, 2017 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 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 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.

171 Sully's Trail, Suite 201
Pittsford, New York 14534
p (585) 381-1000
f (585) 381-3131

www.bonadio.com

(Continued)

INDEPENDENT AUDITOR'S REPORT
(Continued)

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, 2017 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of an Error
As discussed in Note 3 to the financial statements, the prior year financial statements of the major fund and the governmental activities were not properly presented. Our opinions are not modified with respect to this matter.

Report on Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2018 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.

Bonadio & Co., LLP

The following Management's Discussion and Analysis (MD&A) provides a comprehensive overview of the Seneca Tobacco Asset Securitization Corporation's (the Corporation) financial position as of December 31, 2017 and its change in financial position for the year 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 Seneca, 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:

- Statement of Net Position
- Statement 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 Statement 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.

Overview of the Financial Statements (Continued)
The Statement 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 Statement 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 $8,509 as of December 31, 2017, an increase in the net position deficit of $197 from the prior year.

There were no new debt obligations issued in 2017 or 2016. Required payments were made in 2007 through and including 2017 against bonds issued in 2005 based upon the TSRs received by the Corporation.

Condensed
Statements of Net Position
(In thousands)

	2017	2016 (As Restated)
Total assets	$ 1,429	$ 1,305
Bonds payable, net of bond discount	9,938	9,617
Total liabilities	9,938	9,617
Net position	$ (8,509)	$ (8,312)

Total Assets
The total assets increased approximately $124 from 2016 to 2017. As explained in Note 3 of the financial statements, the Corporation did not previously record a receivable as of December 31, 2016 for tobacco settlement revenues to be received in the following year. A prior period adjustment was recorded to adjust net position at January 1, 2017. The increase in assets was due to an increase in cash of $38 due to conservative spending and an increase of $86 in receivables due to a historical increase in tobacco settlement revenue over the last five years.

Total Liabilities
The increase in total liabilities from 2016 to 2017 of $321 reflects the increase in the accretion on outstanding bonds (approximately $431 thousand) and the amortization of bond discount (approximately $10 thousand) offset by the repayment of bond principal (approximately $120 thousand). A prior period adjustment was made to increase the bond payable liability at December 31, 2016 by approximately $119.

Condensed
Statements of Activities
(In thousands)

	2017	2016
Expenses:		
General government -		
Materials and services	$ 12	$ 12
Administrative costs	13	59
Interest, amortization and fees	677	670
Total expenses	702	741
Program revenues - tobacco settlement	499	946
General revenues	6	51
CHANGE IN NET POSITION	$ (197)	$ 256

Expenses
Expenses incurred in 2017 decreased from those incurred in 2016. The decrease is due to a decrease in administrative expenses from 2016 to 2017.

Revenues
Total revenues recorded during 2017 were less than those recorded in 2016. TSRs decreased by $447 in 2017 compared to 2016. The statement of activities was not adjusted to reflect the impact of the prior period adjustment as the changes impacted not only 2016, but the years prior as well.

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, 2017, the Corporation's debt service fund reported an ending balance of $929, an increase of $38 from the prior year. Approximately $413 of fund balance is unassigned fund balance and is available for the Corporation's future needs.

As of December 31, 2016, the Corporation's debt service fund reported an ending balance of $891, an increase of $31 from the prior year. Approximately $377 of fund balance is unassigned fund balance and is available for the Corporation's future needs.

Debt Service
The Corporation issued debt to fund its purchases of the future right, title and interest in the Tobacco Settlement Revenues. Debt is amortized through 2024 for the 2000 Series Bonds and 2060 for the 2005 Series Bonds.

Serial bond principal payments are due annually and interest semiannually for the 2000 Series Bonds. At December 31, 2017 and 2016, the Corporation had $3,545 and $3,665 in 2000 Serial Bonds outstanding, respectively. This was a $120 decrease from the previous year due to principal payments.

The Corporation is required to make annual debt service payments beginning June 2038 for the 2005 Series Bonds. These bonds are Capital Appreciation Bonds and pay interest at maturity, not every year. The series 2005 Bonds are subordinate to the 2000 Bonds. In December 2009, $1,055 of the Series 1 Bonds were retired with monies held in the trapping fund. The remaining bonds mature as follows:

	Principal and Interest Due at Maturity
Series 2005 S1 Payable June 1, 2038	$ 6,425
Series 2005 S2 Payable June 1, 2050	8,605
Series 2005 S3 Payable June 1, 2055	10,245
Series 2005 S4B Payable June 1, 2060	69,200
Total	$ 94,475

More detailed information about the Corporation's long-term liabilities is presented in Note 5 to the financial statements.

Other Known Facts

<u>Trapping Events</u>
In accordance with Section 6.4(d)(6) of the Indenture and Sections 4.1(iv)(F) and (G), and to the extent contained in the "Calculations for the Tobacco Litigation Master Settlement Agreement" report (the "MSA Report"), as of the Next Distribution Date, three Trapping Events have occurred. One is still occurring.

<u>Consumption Decline Trapping Event</u>
As defined in Exhibit A of the Indenture, a Consumption Decline Trapping Event means that shipments of cigarettes in or to the 50 United States, the District of Columbia and Puerto Rico as measured under the MSA, are less any year preceding a Deposit Date than the amount opposite such year under the "Consumption Decline Trapping Event" definition, which is 261,174,858,073.

According to the MSA Report, the amount shown as relevant shipments for the year 2016 was less than the shipment amount specified above and therefore, a Consumption Decline Trapping Event has occurred.

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, Seneca Tobacco Asset Securitization Corporation, 1 Dipronio Dr, Waterloo, NY 13165.

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

STATEMENT OF NET POSITION
DECEMBER 31, 2017

ASSETS		
Cash	$	413,317
Tobacco settlement revenues receivable		499,305
Restricted cash and cash equivalents		516,159
Total assets		1,428,781
LIABILITIES		
Bonds payable, current portion		140,000
Bonds payable, net of current portion and bond discount		9,797,945
Total liabilities		9,937,945
NET POSITION		
Restricted for debt service		516,159
Unrestricted		(9,025,323)
Net position	$	(8,509,164)

The accompanying notes are an integral part of these statements.

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

EXPENSES:		
General government -		
Materials and services	$	12,370
General and administrative		12,773
Interest, amortization and fees		676,992
Total expenses		702,135
PROGRAM REVENUE:		
Tobacco settlement revenues		499,305
Net program revenues		(202,830)
GENERAL REVENUES - INVESTMENT INCOME		5,328
CHANGE IN NET POSITION		(197,502)
NET POSITION - beginning of year, as previously reported		(8,845,317)
PRIOR PERIOD ADJUSTMENT (NOTE 3)		533,655
NET POSITION - beginning of year, as restated		(8,311,662)
NET POSITION - end of year	$	(8,509,164)

The accompanying notes are an integral part of these statements.

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

GOVERNMENTAL FUND BALANCE SHEET AND RECONCILIATION TO STATEMENT OF NET POSITION - DEBT SERVICE FUND
DECEMBER 31, 2017

ASSETS		
Cash	$	413,317
Accounts receivable		499,305
Restricted cash and cash equivalents		516,159
Total assets	$	1,428,781
DEFERRED INFLOW OF RESOURCES		
Tobacco settlement revenue	$	499,305
Total deferred inflow of resources		499,305
FUND BALANCE		
Restricted for -		
Debt service		516,159
Unassigned		413,317
Total fund balance		929,476
Total liabilities and fund balance	$	1,428,781

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

Total fund balance	$	929,476
Tobacco settlement revenues were not received in the current period and therefore, are not reported as revenues at the fund level		499,305
Bonds payable and accrued interest are not due and payable in the current period and therefore, are not reported at the fund level		(9,937,945)
Total net position	$	(8,509,164)

The accompanying notes are an integral part of these statements.

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

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE AND RECONCILIATION TO STATEMENT OF ACTIVITIES - DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

REVENUES:		
Tobacco settlement revenues	$	414,366
Interest and dividends		5,328
Total revenues		419,694
EXPENDITURES:		
General and administrative		12,773
Materials and services		12,370
Debt service - principal		120,000
Debt service - interest		236,221
Total expenditures		381,364
CHANGE IN FUND BALANCE		38,330
FUND BALANCE - beginning of year		891,146
FUND BALANCE - end of year	$	929,476

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

Change in fund balance	$	38,330
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		84,939
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		(9,501)
The net effect of bond repayments, accretion and interest expense are activities of the governmental fund but not reported in the statement of activities		(311,270)
Change in net position	$	(197,502)

The accompanying notes are an integral part of these statements.

1. ORGANIZATION

The Seneca Tobacco Asset Securitization Corporation (the Corporation), is a Non-Profit Local Development Corporation under Section 1411 of the Not-For-Profit Corporation Law of the State of New York.

The Corporation was formed to acquire from the County of Seneca all future right, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) with respect to tobacco related litigation among various states and participating manufacturers. The purchase price of the County's future right, title and interest in the TSRs has been financed by the issuance of serial bonds. 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 bonds and 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 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.

The Corporation is classified as a special-purpose government under the Government Accounting Standards Board. A special-purpose government is defined as a legally separate entity that performs only one activity. 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.

The Corporation is primarily dependent on the future proceeds from the Tobacco Settlement Rights to meet future obligations under the indenture agreement.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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. 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

Generally accepted accounting principles require 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Continued)

- **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 and Cash Equivalents
The Corporation considers bank deposit accounts and all highly liquid debt instruments with remaining maturities, when purchased, of 12 months or less to be cash equivalents and these are stated at fair value.

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.

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 exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3. PRIOR PERIOD ADJUSTMENTS

Correction of an Error

The beginning net position and fund balance were improperly presented and it was determined that prior period adjustments were required to properly state the financial statements for the governmental activities and the debt service fund. The following adjustments were made to adjust net position and fund balance as of December 31, 2016 for the governmental activities and debt service fund:

	Government Wide	Debt Service Fund
Beginning fund balance (net position), as previously reported	$ (8,845,317)	$ 891,146
To adjust bonds payable liability from prior years	154,410	-
To adjust accreted interest from prior years	(35,121)	-
To record deferred inflow of resources at December 31, 2016	-	(414,366)
To record TRS receivable at December 31, 2016	414,366	414,366
Subtotal	533,655	-
Beginning fund balance (net position), as restated	$ (8,311,662)	$ 891,146

The above adjustments increased the change in net position $414,366 for the governmental activities in 2016. The remaining change in net position, an increase of $119,289, related to 2015 and prior.

4. 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.

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.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned. The Corporation's deposits are secured by $250,000 from the Federal Depository Insurance Corporation. The remaining $163,317 was un-collateralized at December 31, 2017. For the Corporation, all pledged collateral and all investments are classified in the highest category by being held in bank trust departments in the County's name.

4. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk - Investments

Custodial credit risk - investments is the risk that an entity will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails. The Corporation's investment and deposit policy requires that all custodial investments be registered or insured in the Corporation's name and held in the custody of the bank or the bank's trust department. The Corporation requires that all repurchase agreements be limited to obligations of the United States of America or obligations whose principal and interest are fully guaranteed, or insured by the United States of America.

Concentration of Credit Risk

The Corporation places no limit on the amount that may be invested in any one issuer. At December 31, 2017, all amounts were held by one bank.

Restricted Cash and Cash Equivalents

The Corporation maintains a liquidity reserve account, which must be maintained at a minimum of $511,288 until such time that all bonds, other than subordinated bonds, are paid. All amounts withdrawn from this account are replenished, as needed, and amounts in excess of the required amount are transferred out.

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

Investments	
Liquidity reserve	$ 511,725
Debt service reserve	3,391
Trapping account	956
Collection account	87
Total	$ 516,159

These amounts are restricted by law for debt service.

4. DEPOSITS AND INVESTMENTS (Continued)

Restricted Cash and Cash Equivalents (Continued)
Total cash and cash equivalents and marketable securities by type as of December 31, controlled by the Trustee are as follows:

United States Treasury obligation	$	510,912
Money Market funds		5,247
	$	516,159

United States Treasury obligations are considered level 1 investments. The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. 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 has the following fair value measurements as of December 31, 2017:

- U.S. Treasury securities are valued using quoted market prices (Level 1 inputs).

5. BONDS PAYABLE

The Corporation's bond obligations as of December 31, 2017 are as follows:

Tobacco Settlement Asset-Backed Bonds, Series 2000, Net of Discount	$	3,478,500
Tobacco Settlement Asset-Backed Bonds, Series 2005, Including Accretion		6,459,445
Total	$	9,937,945

Tobacco Settlement Pass-Through Bonds, Series 2000
On December 7, 2000, the Corporation issued $6,450,000 in variable rate bonds. These bonds were part of the $227,130,000 New York Counties Tobacco Trust I, Tobacco Settlement Pass-Through Bonds, Series 2000. The debt is payable solely from pledged Tobacco Settlement Rights and investment earnings on amounts on deposit. According to the terms of the required amortization payments, the Corporation is required to make annual debt service payments through 2042 with interest ranging from 5% to 6.3%. The Corporation has incurred discount fees associated with the Series 2000 Bond Issue. Such discount fees have been deferred at the government-wide level and are being amortized over the life of the Series 2000 Bonds. Amortization expense was $9,501 in 2017.

5. BONDS PAYABLE (Continued)

Tobacco Settlement Pass-Through Bonds, Series 2000 (Continued)
Changes in the Tobacco Settlement Pass-Through Bonds, Series 2000 for the year ended December 31, 2017 are as follows:

	Balance at January 1, 2017	Additions	Reductions	Balance at December 31, 2017
Tobacco Settlement Pass-Through Bonds, Series 2000	$ 3,665,000	$ -	$ (120,000)	$ 3,545,000
Less: Bond Discount	(76,001)	-	9,501	(66,500)
Total	$ 3,588,999	$ -	$ (110,499)	$ 3,478,500

Depending on the extent of actual collections from TSR payments and availability of funds, the Corporation has agreed to make principal payments in accordance with a flexible amortization payment schedule that allows for increased payments and a final maturity of June 1, 2024 on the Series 2000 Bonds.

The following is a summary of the debt service for the Series 2000 bond issue in accordance with the flexible amortization payment schedule at December 31, 2017.

	Nonflexible	Flexible	Interest
2018	$ 140,000	$ 765,000	$ 189,263
2019	150,000	265,000	155,788
2020	-	430,000	133,047
2021	-	460,000	103,681
2022	-	485,000	72,378
2023-2024	-	850,000	50,019
Total	$ 290,000	$ 3,255,000	$ 704,176

Tobacco Settlement Pass-Through Bonds, Series 2005
On November 29, 2005, the Corporation issued variable rate Capital Appreciation Bonds with an accreted value of $95,530,000 at maturity, and bond issuance costs of $197,730. The par value of these bonds at issuance was $3,093,885. The bonds bear interest at rates ranging from 6% to 7.85%. These bonds were part of the $199,375,348 par value (net of discount) New York Counties Tobacco Trust V., Settlement Pass-Through Bonds, Series 2005. The debt is payable from pledged Tobacco Settlement Revenues and investment earnings on deposit. The Corporation is required to make annual debt service payments beginning June 2038 through June 2060. Because these bonds are Capital Appreciation Bonds, they pay interest only at maturity, not every year. The Series 2005 Bonds are subordinate to the 2000 Bonds. In December 2009, Series 2005 S1 Bonds with a face value of $1,055,000 were retired.

5. BONDS PAYABLE (Continued)

Tobacco Settlement Pass-Through Bonds, Series 2005 (Continued)
Changes in Tobacco Settlement Pass-Through Bonds, Series 2005 for the year ended December 31, 2017 are as follows:

	Original Balance at January 1, 2017	Prior Period Adjustment	Restated Balance at January 1, 2017	Additions	Reductions	Balance at December 31, 2017
Tobacco Settlement Asset-Backed Bonds, Series 2005	$ 3,093,885	$ (154,410)	$ 2,939,475	-	-	$ 2,939,475
Accreted Interest	3,053,579	35,121	3,088,700	431,270	-	3,519,970
Total	$ 6,147,464	$ (119,289)	$ 6,028,175	$ 431,270	-	$ 6,459,445

The Corporation's required principal and interest payments at December 31, 2017 on the above bonds are as follows:

	Principal and Interest Due at Maturity
Series 2005 S1 Payable June 1, 2038	$ 6,425,000
Series 2005 S2 Payable June 1, 2050	8,605,000
Series 2005 S3 Payable June 1, 2055	10,245,000
Series 2005 S4B Payable June 1, 2060	69,200,000
Total	$ 94,475,000

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.

Bonadio & Co., LLP
Certified Public Accountants

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 29, 2018

To the Board of Directors of
Seneca 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 the major fund of Seneca Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of the County of Seneca, New York, as of and for the year ended December 31, 2017, 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 29, 2018.

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 purposes 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control that we consider to be a material weakness (Finding 2017-001).

171 Sully's Trail, Suite 201
Pittsford, New York 14534
p (585) 381-1000
f (585) 381-3131

www.bonadio.com

(Continued)

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*
(Continued)

Finding 2017-001: Material Audit Adjustments

Condition/Criteria: The Corporation's financial statements required significant prior period adjustments in order to properly state the results of operations and long-term obligations. Generally accepted accounting principles require revenue to be recorded in the period earned and liabilities to be recorded in the period that they are incurred.

Cause: The internal controls of the Corporation did not catch the material errors.

Effect: The prior period adjustments resulted in an increase to net position in the government-wide financial statements as of December 31, 2016 totaling $533,655.

Recommendation: We recommend that the Corporation develop a process to ensure the year-end activity is properly closed and representative of the true assets, liabilities, revenues and expenses of the Corporation.

Management Response: Management concurs and will work with the auditor to develop a process to mitigate the potential for future audit adjustments.

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*.

Corporation's Response to Finding
The Corporation's response to the finding identified in our audit is described above. The Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Bonadio & Co., LLP