

**SCHUYLER TOBACCO ASSET  
SECURITIZATION CORPORATION**

**Watkins Glen, New York**

**Financial Statements**

**December 31, 2003 and 2002**

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

DECEMBER 31, 2003 and 2002

Independent Auditors' Report .....	1
Audited Financial Statements:	
Statements of Financial Position .....	2
Statements of Activities .....	3
Statements of Cash Flows .....	4
Notes to Financial Statements .....	5-7

---

John H. Dietershagen, C.P.A.  
Jerry E. Mickelson, C.P.A.  
Thomas K. Van Derzee, C.P.A.  
Debbie Conley Jordan, C.P.A.  
Patrick S. Jordan, C.P.A.  
Duane R. Shoen, C.P.A.  
Lesley L. Horner, C.P.A.

---



**Ciaschi • Dietershagen • Little • Mickelson  
& Company, LLP**

*Certified Public Accountants and Consultants*

---

Frederick J. Ciaschi, C.P.A.  
John E. Little, C.P.A.

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Schuyler Tobacco Asset  
Securitization Corporation  
Watkins Glen, New York

We have audited the accompanying statements of financial position of the Schuyler Tobacco Asset Securitization Corporation, a component unit of the County of Schuyler, as of December 31, 2003 and 2002, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Schuyler Tobacco Asset Securitization Corporation's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Schuyler Tobacco Asset Securitization Corporation, as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America

*Ciaschi, Dietershagen, Little, Mickelson & Company LLP*

March 29, 2004  
Ithaca, New York

---

**CORTLAND**

18 Tompkins Street  
Cortland, New York 13045  
607-753-7439  
fax 607-753-7874

---

**ITHACA**

401 East State Street ~ Suite 500  
Ithaca, New York 14850  
607-272-4444  
fax 607-273-8372  
[www.cdilm.com](http://www.cdilm.com)

---

**WATKINS GLEN**

108 West Fourth Street  
Watkins Glen, New York 14891  
607-535-4443  
fax 607-535-6220

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31,

	<u>2003</u>	<u>2002</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents		
Unrestricted	\$ 28,002	\$ 121,411
Restricted	11,493	
Prepaid expenses	5,577	5,158
Accrued interest	<u>1,053</u>	<u>1,361</u>
Total Current Assets	46,125	127,930
Short-term investments held by Trustee	276,379	275,500
Tobacco settlement rights, net of accumulated amortization of \$334,395 in 2003 and \$222,930 in 2002.	2,452,231	2,563,697
Bond issuance and closing costs, net of accumulated amortization of \$6,398 in 2003 and \$4,300 in 2002.	<u>46,267</u>	<u>48,365</u>
Total Assets	<u>\$ 2,821,002</u>	<u>\$ 3,015,492</u>
<u>LIABILITIES AND NET ASSETS (DEFICIT)</u>		
Current Liabilities		
Accrued interest payable	\$ 12,456	\$ 12,866
Deferred tobacco receipts	-0-	77,818
Current portion of bonds payable	<u>70,000</u>	<u>100,000</u>
Total Current Liabilities	82,456	190,684
Bonds payable, \$3,040,000 and \$3,140,000 par, less unamortized discount of \$112,138 in 2003 and \$117,247 in 2002, less current portion.	<u>2,857,862</u>	<u>2,922,753</u>
Total Liabilities	<u>2,940,318</u>	<u>3,113,437</u>
Unrestricted net (deficit)	(130,809)	(97,945)
Temporarily restricted net assets	<u>11,493</u>	<u>-0-</u>
Total Net (Deficit)	<u>(119,316)</u>	<u>(97,945)</u>
Total Liabilities and Net Assets (Deficit)	<u>\$ 2,821,002</u>	<u>\$ 3,015,492</u>

See Independent Auditors' Report and Notes to Financial Statements

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION  
 STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31.

	<u>2003</u>	<u>2002</u>
UNRESTRICTED NET ASSETS		
Revenues		
Tobacco asset settlement receipts	\$ 351,824	\$ 363,214
Interest income	<u>18,297</u>	<u>18,850</u>
Total Unrestricted Revenues	<u>370,121</u>	<u>382,064</u>
Expenses		
Residual to Schuyler County	67,349	54,610
Insurance expense	6,167	6,167
Professional fees	11,337	16,831
Interest expense	201,609	207,216
Amortization of bond issuance and closing costs	2,098	2,098
Amortization of tobacco asset settlement rights	111,465	111,465
All other costs	<u>2,960</u>	<u>1,450</u>
Total Expenses	<u>402,985</u>	<u>399,837</u>
Decrease in Unrestricted Net Assets	(32,864)	(17,773)
TEMPORARILY RESTRICTED NET/ASSETS		
Revenues		
Tobacco asset settlement receipts	11,478	-0-
Interest income	<u>15</u>	<u>-0-</u>
Increase in temporarily restricted net assets	11,493	-0-
Decrease in net assets	(21,371)	(17,773)
Net (Deficit), January 1,	<u>(97,945)</u>	<u>(80,172)</u>
Net (Deficit), December 31,	<u><u>\$ (119,316)</u></u>	<u><u>\$ (97,945)</u></u>

See Independent Auditors' Report and Notes to Financial Statements

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION  
 STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31.

	<u>2003</u>	<u>2002</u>
Cash Flows from Operating Activities:		
(Decrease) in net assets	\$ (21,371)	\$ (17,773)
Reconciliation of (decrease) in net assets to net cash provided by operating activities:		
Amortization of bond issuance and closing costs	2,098	2,098
Amortization of discount on bond payable	5,109	5,108
Amortization of tobacco asset settlement rights	111,465	111,465
(Increase) (decrease) in:		
Prepaid expenses	(419)	-0-
Accrued interest	309	196
(Decrease) increase in:		
Deferred tobacco receipts	(77,818)	(16,454)
Accrued interest payable	(410)	(389)
Net Cash Provided by Operating Activities	<u>18,963</u>	<u>84,251</u>
Cash Flows from Investing Activities:		
Sales of investments held by Trustee	-0-	1,045
Purchase of investments held by Trustee	(879)	-0-
Net Cash (Used) Provided by Financing Activities	<u>(879)</u>	<u>1,045</u>
Cash Flows from Financing Activities:		
Repayment of bonds	(100,000)	(95,000)
Net Cash (Used) by Financing Activities	<u>(100,000)</u>	<u>(95,000)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(81,916)	(9,704)
Cash and cash equivalents, January 1,	<u>121,411</u>	<u>131,115</u>
Cash and cash equivalents, December 31,	<u>\$ 39,495</u>	<u>\$ 121,411</u>
Interest paid	<u>\$ 201,609</u>	<u>\$ 207,216</u>

See Independent Auditors' Report and Notes to Financial Statements

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002

Note 1 - Summary of Significant Accounting Policies

Organization and Purpose

The Schuyler Tobacco Asset Securitization Corporation (TASC) was organized as a local development corporation pursuant to Section 1411 of the Not-For-Profit Corporation Law of the State of New York. The Schuyler TASC is one of 17 New York County TASC's created in 2000 for the purpose of purchasing the tobacco settlement rights from each respective county with the net proceeds of bonds issued to the New York Counties Tobacco Trust I (NYCTT). The trust in-turn issued \$227,130,000 aggregate principal amount Tobacco Settlement Pass-Through Bonds - Series 2000, dated December 7, 2000. The Trust bonds represent a direct, pass-through interest in the corresponding TASC bonds. All payments of the TASC bonds will be made directly by the Trust with the future proceeds of the Tobacco Settlement Revenues.

The financial statements of the Schuyler Tobacco Asset Securitization Corporation have been prepared in conformity with generally accepted accounting principles (GAAP). Significant accounting policies are:

Basis of Accounting

The accounts of the Corporation are maintained on the accrual basis of accounting.

Income Tax

The Corporation is exempt from Federal and New York State Income Taxes under Section 501 (c)(3) of the Internal Revenue Code.

Cash and Cash Equivalents

The Corporation considers all highly liquid investments having an original maturity of three months or less to be cash equivalents.

Investments

Investments are recorded at fair value.

Tobacco Settlement Rights

Tobacco Settlement Rights have been recorded at cost, which is the net proceeds of the bonds issued by the Corporation. The net proceeds represent the face value of the bonds less discounts and issue costs associated therewith less the mandated liquidity reserve and initial operating cost allocation. This asset will be amortized over a 25 year period, unless a greater adjustment is necessary due to the present value of future cash flows from Tobacco Settlement funds.

Bond Issuance and Closing Costs

Bond issuance costs will be amortized over a 25 year period using the straight-line method.

Bonds Payable and Related Discounts

Bonds payable, in the amount of \$3,040,000 and \$3,140,000, have been recorded net of issuer and underwriter discounts of \$127,717, which will be amortized over a 25 year period using the straight-line method.

Operating Costs

The Corporation is notified annually by the bond attorneys of the amount that it may draw down from the Trust in advance for that year's operating costs. That amount may vary from year to year, but should approximate \$34,000 annually.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002

differ from those estimates.

Note 2 - Investments Held by Trustee

Investments held by Trustee represent a mandated TASC liquidity reserve, in the amount of \$276,379 in 2003 and \$275,500 in 2002, and held in trust at year end. At December 31, 2003, this reserve is comprised of commercial paper maturing March 1, 2004, recorded at cost, which approximates fair value. At December 31, 2002, the reserve consisted of commercial paper maturing on June 3, 2003. It was recorded at cost which approximates fair value. The investment was held to maturity.

Note 3 - Projected Debt Service

The County's future right, title, and interest in the Tobacco Settlement revenues were financed through the issuance of bonds in the amount of \$3,280,000 in 2000. The bonds bear interest at a rate ranging from 5.250% to 6.300%. There were two options, a 25 year flexible amortization option and a 42 year option. The TASC intends to pay using the 25 year flexible amortization option, but may make payments based on the 42 year option if they choose to in the future.

Projected flexible minimum debt service requirements, per the 25 year option, at December 31, 2003 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 70,000	\$ 192,055	\$ 262,055
2005	70,000	188,032	258,032
2006	80,000	183,600	263,600
2007	90,000	178,416	268,416
2008	100,000	172,590	272,590
2009-2013	615,000	757,331	1,372,331
2014-2018	820,000	535,478	1,355,478
2019-2023	<u>1,195,000</u>	<u>198,064</u>	<u>1,393,064</u>
	<u>\$ 3,040,000</u>	<u>\$ 2,405,566</u>	<u>\$ 5,445,566</u>

Based on the 25 year flexible amortization option, the current and long-term portion of bonds payable at December 31, is as follows:

	<u>2003</u>	<u>2002</u>
Current portion	\$ 70,000	\$ 100,000
Long-term portion	<u>2,970,000</u>	<u>3,040,000</u>
Total Debt Service	3,040,000	3,140,000
Unamortized bond discount, net	<u>(112,138)</u>	<u>(117,247)</u>
Total Bonds Payable, net of Unamortized Discount	<u>\$ 2,927,862</u>	<u>\$ 3,022,753</u>

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 and 2002

Note 4 - Restricted Cash/ Temporarily Restricted Net Assets

Per the Master Settlement Agreement between New York State and its localities and Tobacco companies, if the bond rating of any of the respective tobacco companies decreases, a portion of tobacco monies received by the State will be put into a "trapping account." This money is unavailable for distribution by the Tobacco Asset Securitization Corporations (TASC) until the tobacco company has fulfilled its requirements, as outlined in the Master Settlement Agreement. During 2003, one of these tobacco company's bond rating decreased and the Schuyler TASC received \$11,478, which was deposited and held in the corporation's trapping account until further notice. During 2002, \$-0- was held in the trapping account.

Note 5 - Relationship to Schuyler County

The Schuyler Tobacco Asset Securitization Corporation is a local development corporation organized pursuant to Section 1411 of Not-for-Profit Law of the State of New York. It is controlled by a group of four directors of the Corporation who are appointed by the Chair of the Schuyler County Legislature. At this time, two directors are members of the County Legislature; one is a member of the management team of the County, and one member who has no affiliation with the County. The Corporation is deemed to be a component unit of Schuyler County and will be presented in the annual financial statements of Schuyler County as a discretely presented component unit.