

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION

FINANCIAL STATEMENTS

For the Years Ended December 31, 2007 and 2006

CORTLAND, NEW YORK

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Richard M. McNeilly

Certified Public Accountant

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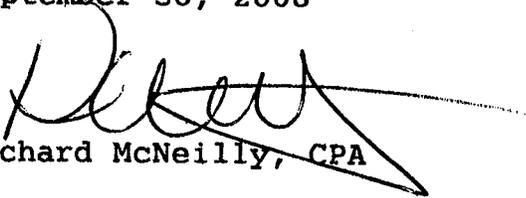
To the Board of Directors
Cortland Tobacco Asset
Securitization Corporation
Cortland, New York

I have audited the accompanying statement of financial position of Cortland Tobacco Asset Securitization Corporation as of December 31, 2007 and 2006, and the related statements of activity and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 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 statements presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cortland Tobacco Asset Securitization Corporation as of December 31, 2007 and 2006, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

September 30, 2008


Richard McNeilly, CPA

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

	2007	2006
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 129,185	\$ 142,636
Tobacco Settlement Receivables	774,676	744,369
Total Current Assets	903,861	887,005
Restricted Cash - Reserves	1,135,710	1,049,001
TOTAL ASSETS	\$ 2,039,571	\$ 1,936,006
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Current Portion of Long-Term Debt	\$ 235,000	\$ 205,000
Accounts Payable	23,350	19,165
Accrued Interest Payable	45,009	45,899
Total Current Liabilities	303,359	270,064
Bonds Payable, Net of Discount	12,811,113	12,822,766
Net Assets (Deficit) - Restricted	(11,074,901)	(11,156,824)
TOTAL LIABILITIES AND NET ASSETS	\$ 2,039,571	\$ 1,936,006

See Notes to Financial Statements

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
 STATEMENTS OF ACTIVITY
 FOR THE YEARS ENDED DECEMBER 31,

	2007	2006
RESTRICTED NET ASSETS		
Revenues		
Tobacco Settlement Proceeds	\$ 804,983	\$ 742,081
Investment Revenue	73,651	69,650
Total Revenue	878,634	811,731
Expenses		
Interest on Loan	767,906	764,486
Administration	5,216	6,198
Professional Fees	18,981	19,666
Insurance	4,608	4,765
Payment to Residual Trust	-0-	-0-
Total Expenses	796,711	795,115
INCREASE (DECREASE) IN RESTRICTED NET ASSETS	81,923	16,616
RESTRICTED NET ASSETS, BEGINNING OF YEAR	(11,156,824)	(11,173,440)
RESTRICTED NET ASSETS (DEFICIT), END OF YEAR	\$(11,074,901)	\$(11,156,824)

See Notes to Financial Statements

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in Net Assets	\$ 81,923	\$ 16,616
Adjustment to Reconcile Change in Net Assets to Net Change in Cash		
- Bond Discount Amortization	4,751	4,751
- Interest on Capital Appreciation Bond	218,596	205,031
Adjustments to Reconcile Net Cash Used by Operations		
Change in Tobacco Settlement Receivable	(30,307)	2,289
Change in Accounts Payable	4,185	4,930
Change in Accrued Interest Payable	(890)	(783)
Net Cash Provided (Used) by Operating Activities	278,258	232,834
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Transfer of Cash to Reserves	(86,709)	(50,583)
Net Cash Provided (Used) by Investing Activities	(86,709)	(50,583)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of Bond Issue	-0-	-0-
Principal Payment on Bonds	(205,000)	(180,000)
Net Cash (Used) by Financing Activities	(205,000)	(180,000)
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,451)	2,251
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	142,636	140,385
 CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 129,185	\$ 142,636

See Notes to Financial Statements

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - Summary of Significant Accounting Policies

Nature of Organization

Cortland Tobacco Asset Securitization Corporation (The Corporation) is a bankruptcy-remote local development corporation created in July, 2001 under Section 1411 of the New York State 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 the County of Cortland, 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 (the County). The Corporation has a board of directors comprised of three directors, all but one of whom shall be one or more of the following; an employee of the County, an elected official of the County or a member of the County legislature; and one director who shall be independent. 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.

Pursuant to the Purchase and Sale Agreement with the County, the County sold to the Corporation all of its future right, title, and interest in the tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgement (the Decree). The MSA resolved cigarette smoking-related litigation between the settling states and claimants. The MAS provides for a continuing release of 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 right, title, and interest of the County's share were sold to the Corporation.

The purchase price of the County's future right, title, and interest in the TSRs has been financed by the issuance of serial bonds. 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 CTASC 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. A Residual Certificate exists which represents the entitlement to receive all amounts required to be distributed after payment of the debt service, operating expense, and certain other costs as set forth in the indenture. Payments of the Residual Certificate from TSR collections are subordinate to payments on the bonds and payments of certain other costs specified in the indenture.

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles for government entities as prescribed by the Governmental Financial Accounting Standards Board as a blended component unit of the County

Concentrations

The Corporation maintains cash in bank deposit accounts at a financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. The balances, at times, may exceed federally insured limits.

Cash and Cash Equivalents

The Corporation considers all short-term highly liquid investments with maturities of three months or less to be cash equivalents.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures, accordingly, actual results could differ from those estimates.

Income Taxes

The Corporation is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code.

Revenue Recognition

Future tobacco settlement collections are contingent upon future tobacco products sales subject to various adjustments as outlined in the MSA. The Corporation recognizes revenue from tobacco proceeds settlement collections as the collections are received. In addition, an estimated receivable is accrued at year end for estimated product sales from the preceding year.

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2 - Tobacco Settlement Proceeds Receivable

This asset represents the value of the tobacco settlement proceeds that the Organization has recognized based upon the domestic shipment of cigarettes (sales) at December 31, 2007 and 2006 for the following year. The receivable is estimated based upon actual tobacco settlement payments received in 2007 and 2006 since this is the method which will most closely estimate the actual payments to be received in the following year. No downgrades or trapping events occurred in 2007, so the estimated receivable appears to be reasonable.

NOTE 3 - Liquidity Reserve Requirement

Per the indenture, the liquidity reserve requirement is defined as the "maximum annual scheduled Debt Service on the Senior Bonds in the then current or any future Fiscal Year". The liquidity reserve requirement as calculated by the Organization's consultant is \$776,831 and the amount of the reserves at December 31, 2007 and 2006 are \$776,832 and \$776,835, respectively.

NOTE 4 - Restrictive Securities Held in Trust

Tobacco proceeds are held in trust by Manufacturer's and Trader's Trust (M&T) on behalf of the Corporation. M&T invests the proceeds in a highly liquid, interest bearing securities, and performs the transfer of the debt obligations upon the instruction of Bond Logistix, the administrator retained by the Corporation.

Note 5 - Bond Trapping Reserve Requirement

In accordance with Section 6.4(d)(g) of the indenture and Section 4.1(F) and (G), and to the extent contained in "Calculations for the Tobacco Litigation Master Settlement Agreement" report, as of the next distribution date, two trapping events have occurred and one is continuing. The NPM trapping event is no longer occurring according to the MSA report, the NPM market share in 2006 is less than 7%. A downgrade trapping event is still occurring since the rating of Reynolds America is below the allowable threshold as described in the official statement. The trapping reserve requirement as computed by the Organization's consultants at December 1, 2007 is \$2,482,500 and the Organization has \$358,878 reserved at December 31, 2007.

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
 NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 7 - Bonds Payable

The first bonds issued were issued 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 issue price of \$10,516,462. The discount will be amortized over the maturity period of the bonds using the straight-line method. For the years ended 2007 and 2006 the discount amortized amounted to \$4,752. The unamortized discount was \$ 95,029 and \$99,780 for the years ended December 31, 2007 and 2006, respectively. The bonds mature from June 1, 2006 until June 1, 2043 under term restructuring and from June 1, 2002 until June 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 are capital appreciation bonds. These bonds are subordinate bonds to the original issue bonds detailed above and cannot be defeased until the original issue bonds are paid in full. These bonds were issued in different series with different interest and 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 semiannually, until maturity. Interest accrued for years ended December 31, 2007 and 2006 was \$218,596 and \$205,031, respectively. 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 \$3,099,929. The bonds outstanding at December 31, 2007 are as follows:

	<u>Value at 12//31/07</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Series 2005 S1	\$ 1,128,537	6.00%	June 1, 2038
Series 2005 S2	824,307	6.10%	June 1, 2050
Series 2005 S3	743,150	6.85%	June 1, 2055
Series 2005 S4A	<u>845,148</u>	7.15%	June 1, 2060
Total	<u>\$ 3,541,142</u>		

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 1, 2015. There is a prepayment premium for payment 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.

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
 NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

The annual activity for 2007 is as follows:

	Series 2001	Series 2005	Total Bonds Payable
Balance 12/31/06	\$ 9,705,219	\$ 3,322,547	\$ 13,027,766
Principal Payments	(205,000)		(205,000)
Accretion		218,596	218,596
Amortization	<u>4,751</u>		<u>4,751</u>
Balance 12/31/07	<u>\$ 9,504,970</u>	<u>\$ 3,541,143</u>	<u>\$ 13,046,113</u>

Future debt service requirements are as follows:

	Term Bond Restructuring	Capital Appreciation
2008	\$ 235,000	\$
2009	255,000	
2010	270,000	
2011	300,000	
2012	325,000	
2013-2017	1,785,000	
2018-2022	2,800,000	
2023-2027	3,630,000	
2028-2032		3,750,000
2033-2037		3,750,000
2038-2040		3,750,000
2041-2043		<u>1,025,530</u>
	<u>\$ 9,600,000</u>	<u>\$ 12,275,530</u>

The cost of issuing the bonds has been expensed because it provides no future benefit to the Organization. The total costs of the original bond issuance were \$337,672 and these costs were expensed in the period ending December 31, 2001. The total costs of the 2005 issue were \$165,459 and these costs were expensed in the period ending December 31, 2005.

NOTE 8- Expense Recognition of Bond Proceeds

Per GASB, because of the Organization's contractual obligation to remit the bond proceeds to the County of Cortland, the Organization should recognize an expense in the same period that liability for the bonds is recognized.

