

COLUMBIA TOBACCO ASSET
SECURITIZATION CORPORATION
(a blended component unit of Columbia County, New York)

BASIC FINANCIAL STATEMENTS
(and Report of Independent Auditors)

December 31, 2011

COLUMBIA TOBACCO ASSET SECURITIZATION CORPORATION
(a blended component unit of Columbia County, New York)

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of net assets (deficit) and governmental fund balance sheet of Columbia Tobacco Asset Securitization Corporation (a blended component unit of Columbia County, New York), (the "Corporation") at December 31, 2011 and the related statement of activities and governmental fund revenues, expenditures and changes in fund balance and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion 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 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 audit provides a reasonable basis for our opinion.

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 Columbia Tobacco Asset Securitization Corporation as of December 31, 2011, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2012, on our consideration of the Columbia Tobacco Asset Securitization Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4 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.

Columbia Tobacco Asset Securitization Corporation has not presented budgetary comparison schedules that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

As Discussed in Note 1. Fund Balances, the Corporation adopted Governmental Accounting Standards Board (GASB) statement No.54 "Fund Balance Reporting and Governmental Fund Type Definitions" in 2011.

Patton, Koskey, Howe & Bucci, CPAs, P.C.

Valatie, New York
March 30, 2012

COLUMBIA TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Introduction:

Within this section of the Columbia Tobacco Asset Securitization Corporation (the Corporation's) financial statements, the Corporation's management provides narrative discussion and analysis of the financial activities of the Corporation for the year ended December 31, 2011. This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements for the year ended December 31, 2011. This is the first year that the Corporation has included a management discussion and analysis section as required by Governmental Accounting Standards Board (GASB) Statement No. 34.

2. Overview of the Financial Statements:

The Corporation's basic financial statements include: (1) financial statements, and (2) notes to the financial statements.

A. Financial Statements

The Corporation's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles promulgated by the GASB. The Corporation is structured as a single debt service fund. See notes to the financial statements for a summary of the Corporation's significant accounting policies.

The *Statements of Net Assets (Deficit) and Governmental Fund Balance Sheet* present information on the Corporation's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the Corporation's financial position.

The *Statements of Activities and Governmental Fund Revenues, Expenditures and Change in Fund Balance* presents information showing how the Corporation's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future periods.

B. Notes to Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the basic financial statements.

3. Financial Highlights:

At the present time, given the limited discretionary activity in the debt service fund, the Corporation has not adopted an annual budget. Therefore, actual results cannot be compared to an approved budget.

The Corporation's net assets decreased by \$287,112 primarily due to interest costs incurred on the two bond series in excess of tobacco settlement revenue earned. Of this amount, \$514,280 of interest was accrued on the 2005 variable rate bonds to be paid in the future when the 2000 variable rate bonds are paid in full. No new bonds were issued during 2011. With excess tobacco settlement proceeds earned in 2011, the Corporation paid an additional \$145,000 of principal on the 2000 variable rate bonds in excess of the required payment of \$70,000.

COLUMBIA TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4. Financial Statement Analysis:

Below is a comparative summary of the Corporation's Statement of Net Assets as of December 31:

	<u>2011</u>	<u>2010</u>
Assets	<u>\$ 2,584,996</u>	<u>\$ 2,491,975</u>
Liabilities	17,605,796	17,225,663
Net Assets (Deficit)	<u>(15,020,800)</u>	<u>(14,733,688)</u>
Total Liabilities and net assets (Deficit)	<u>\$ 2,584,996</u>	<u>\$ 2,491,975</u>

As of December 31, 2011 and 2010, tobacco settlement receivables made up 38% and 35% of total assets, respectively, and restricted investments held by fiscal agent made up 39% and 42% of total assets, respectively. As of December 31, 2011 and 2010, unamortized bond issuance costs made up 21% and 22% of total assets, respectively. Current liabilities are comprised of the current portion of bonds payable, accrued interest on the 2000 variable rate bonds and accounts payable for administrative fees. Long-term liabilities comprised 99% of total liabilities as of December 31, 2011 and 2010. Net assets decreased in 2011 and 2010 by \$287,112 and \$297,296, respectively.

	<u>2011</u>	<u>2010</u>
General Revenues		
Other financing sources		
Administrative fee income	\$ 13,530	\$ 12,266
Interest and dividend income	209	127
Tobacco settlement revenue	<u>965,633</u>	<u>869,686</u>
Total general revenues	979,372	882,079
General expenditures	<u>1,266,484</u>	<u>1,179,375</u>
Total general expenditures in excess of revenues	(287,112)	(297,296)
Net deficit at the beginning of the year	<u>(14,733,688)</u>	<u>(14,436,392)</u>
Net deficit at the end of the year	<u>\$ (15,020,800)</u>	<u>\$ (14,733,688)</u>

Tobacco settlement revenue comprised 99% of total general revenues for the year ended December 31, 2011 and 2010. Tobacco settlement revenue increased by \$95,947 or 11% in 2011 compared to 2010. General expenditures increased by \$87,109 or 7% primarily due to a one time correction of amortization expense. Interest expenses comprised 91% and 96% of total general expenditures during the year ended December 31, 2011 and 2010, respectively. Interest expense increased \$21,072 or 1.8% in 2011 compared to 2010.

COLUMBIA TOBACCO ASSET SECURITIZATION CORPORATION
(a blended component unit of Columbia County, New York)
STATEMENT OF NET ASSETS (DEFICIT) AND
GOVERNMENTAL FUND BALANCE SHEET
December 31, 2011

	<u>Debt Service Fund and Total Governmental Funds</u>	<u>Full Accrual Adjustments</u>	<u>Statement of Net Assets (Deficit)</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 38,325	\$ -	\$ 38,325
Certificate of deposit	4,469	-	4,469
Prepaid insurance	-	4,344	4,344
Tobacco settlement receivables	994,683	-	994,683
Total current assets	<u>1,037,477</u>	<u>4,344</u>	<u>1,041,821</u>
Noncurrent assets:			
Restricted investments held by fiscal agent	1,000,050	-	1,000,050
Bond issuance costs, net of \$126,044 of accumulated amortization	-	543,125	543,125
Total noncurrent assets	<u>1,000,050</u>	<u>543,125</u>	<u>1,543,175</u>
Total assets	<u>\$ 2,037,527</u>	<u>\$ 547,469</u>	<u>\$ 2,584,996</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 15,521	\$ -	\$ 15,521
Interest payable	-	63,896	63,896
Bonds payable, current portion	-	75,000	75,000
Total current liabilities	<u>15,521</u>	<u>138,896</u>	<u>154,417</u>
Long-term liabilities:			
Bonds payable, net of current portion	-	17,565,655	17,565,655
Unamortized discount	-	(114,276)	(114,276)
Total long-term liabilities	<u>-</u>	<u>17,451,379</u>	<u>17,451,379</u>
Total liabilities	<u>15,521</u>	<u>17,590,275</u>	<u>17,605,796</u>
FUND BALANCE/NET ASSETS (DEFICIT)			
Fund Balance:			
Assigned	42,794	(42,794)	-
Restricted for debt service	1,979,212	(1,979,212)	-
Total fund balance	<u>2,022,006</u>	<u>(2,022,006)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 2,037,527</u>		
Net Assets (Deficit):			
Unrestricted		4,344	47,138
Restricted for debt service		(17,047,150)	(15,067,938)
Total nets assets (deficit)		<u>(17,042,806)</u>	<u>(15,020,800)</u>
Total liabilities and net assets (deficit)		<u>\$ 547,469</u>	<u>\$ 2,584,996</u>

See independent auditors' report and notes to financial statements.

COLUMBIA TOBACCO ASSET SECURITIZATION CORPORATION
(a blended component unit of Columbia County, New York)
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
Year ended December 31, 2011

	Debt Service Fund and Total Governmental Funds	Full Accrual Adjustments	Statement of Activities
General revenues:			
Other financing sources			
Administrative fee income	\$ 13,530	\$ -	\$ 13,530
Interest and dividend income	209	-	209
Tobacco settlement revenue	965,633	-	965,633
Total general revenues	979,372	-	979,372
General expenditures/expenses:			
Other financing uses			
Interest	636,758	513,929	1,150,687
Debt service principal payments	215,000	(215,000)	-
Professional fees	4,709	-	4,709
Administrative agent fees	16,280	-	16,280
Insurance	13,022	-	13,022
Amortization	-	81,786	81,786
Total expenditures/expenses	885,769	380,715	1,266,484
Change in fund balance/net assets (deficit)	93,603	(380,715)	(287,112)
Fund balance/net assets (deficit), beginning of year	1,928,403	(16,662,091)	(14,733,688)
Fund balance/net assets, end of year	\$ 2,022,006	\$ (17,042,806)	\$ (15,020,800)

See independent auditors' report and notes to financial statements.

COLUMBIA TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Organization:

Columbia Tobacco Asset Securitization Corporation (CTASC) was incorporated October 28, 2000 as a local development corporation by the County of Columbia, New York (the County) under the provisions of Section 1411 of the New York State Not-For-Profit Corporation Law. Its purpose is to issue bonds securitized solely from County Tobacco Settlement Revenues under the Master Settlement Agreement dated November 23, 1998, purchased from the County under the Purchase and Sale Agreement dated October 15, 2000 and November 15, 2005, and to forward to the County the net proceeds from the bond issuance. In compliance with GASB Technical Bulletin No. 2004-1 the Corporation is treated as a blended component unit of the County.

General:

The accompanying general purpose financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for governments as prescribed by the GASB which is the primary standard setting body for establishing governmental accounting and financial reporting principles.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The 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.

Governmental 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 considered measurable and available. Revenues are considered available when they are collected within the current period as soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within one year after the end of current fiscal period. The Corporation applies GASB Technical Bulletin No. 2004-1 "Tobacco Settlement Recognition and Financial Report Entity Issues" and recognizes tobacco settlement revenue when the event giving rise to recognition (i.e., the domestic shipment of cigarettes) occurs. Expenditures generally are recorded when a liability is incurred.

The statement of activities demonstrates the degree to which direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or benefit from the services provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted interest income and tobacco settlement rights not properly included among program revenues are reported as general revenues. The Corporation has no program revenues.

See independent auditor's report

COLUMBIA TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued):

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

In addition to the government-wide financial statements, the Corporation has prepared financial statements for the Corporation's only governmental fund. Governmental fund financial statements continue to use the modified accrual basis of accounting and the current financial resources measurement focus. Accordingly, the accounting and financial reporting of the fund financial statement is similar to what previously could have been presented in the Corporation's financial statements, although the format of the financial statements has been modified in accordance with requirements of GASB Statement No. 34. Due to the single purpose nature of the activities of the Corporation, the government-wide and fund financial statements have been presented together with an adjustments column reconciling the differences.

The Corporation reports one governmental fund - the Debt Service Fund. As a blended component unit of Columbia County, New York, the Debt Service Fund is combined into the Governmental funds of Columbia County, New York. When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, then unrestricted resources as they are needed.

Under the full accrual basis, the Corporation is required to report the full amount of the bonds outstanding, however, cannot recognize the tobacco settlement revenue to be received in the future. The future collection of tobacco settlement revenue (TSR) is dependent on many factors, including future cigarette consumption. As such, the future collection is not reasonably estimable and is not recorded as an asset in either the government-wide financial statements or the governmental fund financial statements. This results in a significant deficit in net assets on the government-wide financial statements.

Fund Balances:

In fiscal 2011 the Corporation implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" (GASB 54). GASB 54 changed the classification of fund balance to focus on the constraints imposed on resources in governmental funds, instead of the previous focus on availability for appropriation.

As a result of adopting GASB 54, the Corporation re-categorized its only special revenue fund to a debt service fund because the only restriction that exists related to the tobacco revenue received is to service the outstanding debt. The majority of the Corporation's debt service fund equity is restricted for debt service. The amount of cash and cash equivalents and certificate of deposit is assigned to pay future operating expenditures.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

See independent auditor's report

COLUMBIA TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued):

Income Tax Status:

The Corporation is exempt from federal income tax under Section 115 (1) of the Internal Revenue Code and from state income tax under Section 1411 of the State Not-For-Profit Corporation Code.

Investments:

Under the GASB's authoritative guidance on accounting and financial reporting for investments, the Corporation reports investments at amortized cost in the statement of net assets and governmental fund balance sheet as all investments are in U.S. Treasury money market funds. All investment income is reported as revenue in the statement of activities and the statement of revenues, expenditures and changes in fund balance.

2. Cash and Cash Equivalents:

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date acquired by the Corporation. The carrying value of cash at December 31, 2011 was \$38,325 and is covered by Federal Depository Insurance.

3. Restricted Investments Held By Fiscal Agent:

Investments held by fiscal agent consist of Liquidity Reserve, Trapping, Collection and Debt Service accounts.

The Liquidity Reserve Account, administered by a trustee, was established and initially funded from bond proceeds. This account serves as security for the Corporation's bonds and may be used to pay interest and required amortization payments.

The Trapping Account, administered by a trustee, was established and serves to receive proceeds when a Trapping Event occurs. A Downgrade Trapping Event occurred during the 2000 year end, which as defined in the Master Settlement Agreement (MSA) report is when as of any deposit date an Original Participating Manufacture (OPM) with a Market Share of 7% or more is rated below "Baa3" by Moody's or "BBB" by S&P. A New Participating Manufacture (NPM) Trapping Event is no longer occurring in 2011, meaning that as of any deposit date, the aggregate market share of NPM exceeds 7% in the calendar year preceding such deposit date.

The Collection Account, administered by a trustee, serves to receive proceeds from tobacco companies under the Master Settlement Agreement. Funds are transferred to the Debt Service account.

The Debt Service Account, administered by a trustee, serves to remit payments to bond holders.

The Corporation's investment policy is to invest in high quality investments with a yield not to exceed the yield on the Tobacco Asset Securitization Corporation (TASC) bonds. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Corporation manages and attempts to minimize interest rate risk by investing in short-term investments that mature within one year, so that they can react to changing interest rates and invest in securities that provide the highest yield without exceeding interest rates on the TASC bonds.

See independent auditor's report

COLUMBIA TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Tobacco Settlement Proceeds Receivable:

As purchaser of the County's Tobacco Assets under the Master Settlement Agreement, per the Purchase and Sale Agreement dated October 15, 2000 between the Corporation and the County, the Corporation obtained all right, title and interest, exclusive of the 100% Beneficial Interest in the Residual Trust, of the Tobacco Assets. Total available funds over the life of the bonds including earnings on the Liquidity Reserve less annual operating expense allocations estimated at \$60.3 million at the bond issuance date are dependent upon numerous variables. These variables are identified in the Bond Offering Statement dated November 10, 2000.

As purchaser of the County's Tobacco Assets under the Master Settlement Agreement, per the Purchase and Sale Agreement dated November 15, 2005 between the Corporation and the County, the Corporation obtained all right, title and interest, exclusive of the 100% Beneficial Interest in the Residual Trust, of the Tobacco Assets. Total available funds over the life of the bonds including earnings on the Liquidity Reserve less annual operating expense allocations estimated at \$68.3 million at the bond issuance date of November 29, 2005, are dependent upon numerous variables. These variables are identified in the Bond Offering Statement dated November 15, 2005.

Collection of funds in excess of debt service requirements, should they occur, will be residual payments, the rights to which have been retained by the County.

The Tobacco Settlement receivable of \$994,683 as of December 31, 2011 consists of estimated revenue that will be received in 2012 for 2011 sales of tobacco.

5. Bond Issuance Costs:

The original bond issuance cost of \$390,958 has been capitalized and is being amortized on the straight-line method over the life of the bonds. Amortization expense for the year was \$9,790.

There was a new bond issuance cost in 2005 for \$278,211 for the 2005 Series. The bond issuance has been capitalized and is being amortized on the straight-line method over the life of the bonds. Amortization expense for the year was \$6,323.

The straight-line method is not materially different from the effective yield method.

6. Bonds Payable:

On December 7, 2000, the Corporation issued \$12,510,000 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 Corporation's bonds consist of serial bonds maturing in the years 2005 through and including 2015, fixed term bonds maturing in the years 2016 through and including 2019 and flexible term bonds maturing in the years 2020 through and including 2042. The Corporation's bonds are secured by the Tobacco Settlement Revenues acquired from the County and by investment earnings on the Liquidity Reserve Account and on other accounts established under the bond agreement. The Original Issue Discount of \$180,390 is being amortized under the interest method over the life of the bonds. Amortization expense for the year was \$65,673.

See independent auditor's report

COLUMBIA TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Bonds Payable (Continued):

On November 29, 2005 the Corporation issued a \$5,644,277 variable rate bonds. This bond issue was part of the \$199,375,348 New York Counties Tobacco Trust V, Tobacco Settlement Pass Through Bonds, Series 2005 N-184. The bonds and interest are not payable until the original TASC Senior Bonds - Series 2000 have been paid off. The projected start date for the payment of these bonds is anticipated to start in the year 2016 with maturity dates ranging from 2038 to 2060. As the result of a trapping event that occurred in 2005 and ended in 2009, a one-time payment of \$495,210 was made in 2009 and applied to the outstanding accumulated principal and interest. As of December 31, 2011, the original \$5,644,277 accreted accumulated interest of \$2,756,588 net of the \$495,210 payment made during 2009. Reflected in the required schedule below is excess principal paid by the Corporation of \$2,170,000 through December 31, 2010. The excess principal paid in 2011 above the required scheduled amount was \$145,000. The required schedule shown below assumes that principal payments originally scheduled to be paid in years 2020 to 2025 will be reduced by the \$2,315,000 paid in excess of the required amount through December 31, 2011.

Required Schedule

<u>Year ending</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 75,000	\$ 628,154
2013	95,000	623,285
2014	110,000	617,323
2015	120,000	610,566
2016	135,000	602,789
2017-2021	685,000	2,850,459
2022-2026	275,000	2,768,313
2027-2031	2,395,000	2,309,575
2032-2036	2,390,000	1,543,838
2037-2041	2,805,000	697,110
2042	650,000	21,531
	<u>9,735,000</u>	<u>13,272,943</u>
Series 2005 (see above)	7,905,655	-
Payable at December 31, 2011	<u><u>\$ 17,640,655</u></u>	<u><u>\$ 13,272,943</u></u>

See independent auditor's report

COLUMBIA TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Bonds Payable (Continued):

It is mandatory for the Corporation to make payments according to the required schedule to meet its obligations to the bond holders; however an optional flexible amortization payment schedule for the 2000 Series allows for the bonds to be paid off in the year 2025. This accelerated payment schedule would reduce total interest expense over the remaining life of the bonds and will be utilized by the Corporation as funding allows. A principal payment of \$215,000 and interest payment of \$636,748 based upon the accelerated schedule was made during the year ended December 31, 2011. It appears that the Corporation will continue to follow the accelerated schedule as long as there are sufficient proceeds to cover the principal and interest; however there is no official commitment to do so at the present time. Reflected in the optional schedule below is principal paid by the Corporation of \$165,000 through December 31, 2010 less than the original optional scheduled amount. The principal paid in 2011 was less than the original optional scheduled amount by \$145,000. The optional schedule shown below assumes that \$310,000 in additional principal payments will be paid in 2012.

Optional Schedule

<u>Year ending</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 755,000	\$ 606,904
2013	425,000	570,473
2014	455,000	543,248
2015	485,000	513,679
2016	500,000	482,176
2017-2021	3,505,000	1,806,312
2022-2025	3,610,000	481,307
	<u>9,735,000</u>	<u>5,004,099</u>
Series 2005 (see above)	7,905,655	-
Payable at December 31, 2011	<u>\$ 17,640,655</u>	<u>\$ 5,004,099</u>

7. Concentration of Credit Risk:

The ability of the Corporation to make debt service payments on the TASC Bonds is contingent upon the receipts of TSRs. The TSR payment may vary based on inflation adjustments, volume of cigarette sales adjustments, litigation adjustments from non-settling states, offsets for miscalculated or disputed payments, federal tobacco legislation offsets, litigation releasing party offsets, and offsets for claims over the amount of the award.

8. Annual Operating Expense Allocation:

A corporate annual operating expense has been established and will be funded by collections received under the Master Settlement Agreement. The first year allocation was \$39,000. Future allocations will be adjusted for inflation and capped at that adjusted amount.

See independent auditor's report

COLUMBIA TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Related Organizations:

County of Columbia, New York

The Corporation was formed by the County as an instrumentality of the County. The majority of the Corporation's Board of Directors consists of County officials. The Corporation is a related organization of the County. It is a blended component unit of the County, as defined by Government Accounting Standards Board (GASB) Technical Bulletin No. 2004-1 because the County appoints the voting majority of the Tobacco Settlement Authority's (TSA's) governing board and the TSA could provide specific financial benefits to the County.

New York Counties Tobacco Trust I

The Corporation is one of seventeen New York counties forming the New York Counties Tobacco Trust I (The Trust). The Trust was established to provide for the consolidation and sale of the seventeen Tobacco Asset Securitization Corporation's (TASC) Bonds. No TASC assets or revenues are available as security or as payment for any other TASC of the Trust.

10. Contingencies:

The assets of the Corporation are not available to pay any creditor of Columbia County. The bonds issued by the Corporation do not constitute a claim against the full faith, credit and taxing power of the General Fund of Columbia County. The ability of the Corporation to meet debt service payments of the bonds is contingent upon the receipt of Tobacco Settlement awards.

11. Subsequent Events:

Subsequent events have been evaluated through March 30, 2012, which is the date the financial statements were available to be issued.

See independent auditor's report

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Members:

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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

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

We have audited the accompanying statement of net assets (deficit) and governmental fund balance sheet of Columbia Tobacco Asset Securitization Corporation (a blended component unit of Columbia County, New York), (the "Corporation") at December 31, 2011 and the related statement of activities and governmental fund revenues, expenditures and changes in fund balance and the changes in financial position thereof for the year then ended and have issued our report thereon dated March 30, 2012. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Columbia County Tobacco Asset Securitization Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Columbia County Tobacco Asset Securitization Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Columbia County Tobacco Asset Securitization Corporation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 a 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. We consider the deficiency described below to be a material weakness.

Observation:

The Corporation has not established procedures for converting the governmental fund financial statements to the full accrual basis in order to prepare the Corporation's year-end financial statements in accordance with GASB Statement No. 34.

Management's response:

The Corporation is working more closely with the Columbia County Controller who has the necessary experience and knowledge with GASB Statement No. 34 to oversee the preparation of the financial statements in 2012.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Columbia County Tobacco Asset Securitization Corporation's financial statements are free of 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 instances of noncompliance or other matters described below that are required to be reported under *Government Auditing Standards*.

General Organization

Observation:

The Corporation has multiple vacancies on its board of directors and the board does not hold regular meetings.

Management's response:

In 2012, the Corporation will re-review the Corporation's bylaws to adequately understand the requirements of the Corporation's governance structure in order to fill the vacant spots on the board. The Corporation will also begin, in 2012, to hold formal board meetings and establish the appropriate committees, as well as keep minutes and post them to the Corporation's web site.

NYS Public Authorities Law Requirements

Observation:

The Corporation is required to comply with the provisions of the New York State Public Authorities Law and periodically report required information to the New York State Comptroller's office to comply with such regulations. There are certain requirements under the Law that have not been implemented. For example, the Corporation has not established governance, audit, and finance committees and there have been no minutes kept for such committee meetings. Also, it is a requirement of the Authorities Law to post board related information (e.g. minutes, committee members) to the Corporation's website. Other relevant requirements of the Authorities Law not fully addressed include: formalizing an annual budget, completing an operations and accomplishments report annually, creating a policy for compensation and attendance and related issues, adopting a code of ethics for board members and staff, formally assessing the effectiveness of board members, establishing a policy for prohibiting the

extension of credit to board members, obtaining financial disclosures from board members, officers and staff, taking the necessary board training, signing an acknowledgement of fiduciary duty as board members, and formalizing whistleblower, procurement, and investment policies.

Management's response:

Management will review the requirements of the New York State Public Authorities law in detail in conjunction with the annual PARIS report to identify policies and procedures not yet implemented and to implement such policies and procedures. In addition, management will re-evaluate current practices to ensure that for those policies established there are procedures to ensure operating effectiveness. Management will also consider formalizing its assessment of the Corporation's internal controls and report such assessment to the audit committee on an annual basis.

We noted certain matters that we reported to management of Columbia Tobacco Asset Securitization Corporation, in a separate letter dated March 30, 2012.

Columbia County Asset Securitization Corporation's response to the findings identified in our audit is described above. We did not audit Columbia Tobacco Asset Securitization Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Columbia Tobacco Asset Securitization Corporation, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Pattison, Koskey, Howe & Bucci, CPAs, P.C.

Valatie, New York
March 30, 2012