

**RENSELAER TOBACCO ASSET  
SECURITIZATION CORPORATION**  
(A COMPONENT UNIT OF THE COUNTY OF  
RENSELAER, NEW YORK)

*Basic Financial Statements and Required Supplementary  
Information for the Year Ended December 31, 2011  
and Independent Auditors' Reports*



**RENSSELAER TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A COMPONENT UNIT OF THE COUNTY OF RENSSELAER, NEW YORK)**  
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**Year Ended December 31, 2011**

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Rensselaer Tobacco Asset Securitization Corporation:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Rensselaer Tobacco Asset Securitization Corporation ("RTASC"), a component unit of the County of Rensselaer, New York, as of and for the year ended December 31, 2011, which collectively comprise RTASC's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the RTASC's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RTASC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 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 each major fund of RTASC, at 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 29, 2012, on our consideration of RTASC'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 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 read in conjunction with this report in considering 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 6 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.

*Dresser & Malecki LLP*

March 29, 2012

**RENSELAER TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A COMPONENT UNIT OF THE COUNTY OF RENSELAER, NEW YORK)**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2011**

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As management of the Rensselaer Tobacco Asset Securitization Corporation ("RTASC"), a blended component unit of the County of Rensselaer, New York (the "County"), we offer readers of RTASC's financial statements this narrative overview and analysis of the financial activities of RTASC for the fiscal year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with additional information contained in the financial statements and notes to the financial statements. All amounts, unless otherwise indicated, are expressed in dollars.

**Financial Highlights**

- ◆ Total government-wide liabilities of RTASC exceeded government-wide assets by \$43,034,735 (*net deficit*) at December 31, 2011. This compares to total government-wide liabilities of RTASC exceeding government-wide assets by \$42,490,935 at December 31, 2010.
- ◆ RTASC's net assets decreased by \$543,800, which increased its net deficit, for the year ended December 31, 2011. The change in RTASC's net deficit was largely due to accreted interest costs coupled with the declining cigarette sales which may be attributed to recent increases in cigarette taxes.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the RTASC's basic financial statements. RTASC's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

**Government-wide Financial Statements**—The *government-wide financial statements* are designed to provide readers with a broad overview of RTASC's finances, similar to a private-sector business.

The *statement of net assets* presents information on all RTASC's assets and liabilities, assets denote resources available to continue the operations of RTASC, while liabilities indicate how much RTASC owes lending institutions. The difference between the two is reported as *net assets (deficit)*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of RTASC is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal 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 this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found on pages 7-8 of this report.

**Fund Financial Statements**—A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. RTASC, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Both of RTASC’s funds are classified as governmental funds.

**Governmental Funds**—Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

RTASC maintains two individual governmental funds, the General Fund and the Debt Service Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the both funds.

The governmental fund financial statements can be found on pages 9-12 of this report.

**Notes to the Financial Statements**—The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-22 of this report.

**Financial Analysis**

As noted earlier, net assets (deficit) may serve over time as a useful indicator of a government’s financial position. In the case of RTASC, liabilities exceeded assets by \$43,034,735 at December 31, 2011, as compared to \$42,490,935 at December 31, 2010. The following presents the condensed statements of net assets (deficit) for RTASC at December 31, 2011 and 2010.

	December 31,		Increase/(Decrease)	
	2011	2010	\$	%
Current assets	\$ 2,745,429	\$ 2,803,432	(58,003)	(2.1)
Total assets	2,745,429	2,803,432	(58,003)	(2.1)
Current liabilities	132,919	135,946	(3,027)	(2.2)
Noncurrent liabilities	45,647,245	45,158,421	488,824	1.1
Total liabilities	45,780,164	45,294,367	485,797	1.1
Net assets (deficit)	\$ (43,034,735)	\$ (42,490,935)	(543,800)	1.3



Total RTASC assets were \$2,745,429 and \$2,803,432 at December 31, 2011 and 2010, respectively. The largest asset held by RTASC was cash and cash equivalents at the end of each fiscal year.

RTASC's liabilities totaled \$45,780,164 and \$45,294,367 at December 31, 2011 and 2010, respectively. The entire liability consists of bond related debt and associated accrued and accumulated interest.

RTASC had favorable current ratios of 1.8 and 2.3 at December 31, 2011 and 2010, respectively. Such a ratio implies whether RTASC has sufficient assets on hand to cover its liabilities that will come due in the coming year. The following presents the current ratio for RTASC at December 31, 2011 and 2010.

#### **RTASC'S CURRENT RATIO**

	<b>2011</b>	<b>2010</b>
Current assets	\$ 2,745,429	\$ 2,803,432
Current liabilities	1,542,919	1,210,946
Ratio of current assets to current liabilities	1.8	2.3

The statement of revenues, expenses and changes in net assets (deficit) presents revenues received and expenses paid by RTASC. Presented below is the condensed statement of revenues, expenses and changes in net assets for the years ended December 31, 2011 and 2010.

#### **RTASC'S CHANGES IN NET ASSETS**

	<b>Year Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
General revenues	\$ 2,311,910	\$ 2,432,035
Expenses and transfers	2,855,710	2,816,452
Change in net assets	(543,800)	(384,417)
Net assets (deficit)—beginning	(42,490,935)	(42,106,518)
Net assets (deficit)—ending	\$ (43,034,735)	\$ (42,490,935)

General revenues are received from the tobacco settlement and from interest on investments. Expenses are associated with meeting debt service requirements and the administrative and maintenance costs associated with operating RTASC.

A summary of sources of revenues for the years ended December 31, 2011 and December 31, 2010 is presented on the following page.

## SOURCES OF REVENUES

	<u>2011</u>	<u>2010</u>	Increase/(Decrease)	
			<u>\$</u>	<u>%</u>
Tobacco settlement revenues	\$ 2,181,438	\$ 2,300,896	\$ (119,458)	(5.2)
Interest earnings	<u>130,472</u>	<u>131,139</u>	<u>(667)</u>	(0.5)
Total revenues	<u>\$ 2,311,910</u>	<u>\$ 2,432,035</u>	<u>\$ (120,125)</u>	(4.9)

For the year ended December 31, 2011, total general revenues decreased by 4.9%, due to a decrease in tobacco settlement revenues.

The most significant source of revenue, for both years, was tobacco settlement revenue, which was 94.5% of total revenues for the year ended December 31, 2011 and 94.6% of total revenues for the year ended December 31, 2010. The next largest source of revenue each year was interest earnings which comprised 5.5% of total revenues for the year ended December 31, 2011 and 5.4% of total revenues for the year ended December 31, 2010.

A summary of expenses for the years ended December 31, 2011 and 2010 is presented below:

## EXPENSES AND TRANSFERS BY TYPE

	<u>2011</u>	<u>2010</u>	Increase/(Decrease)	
			<u>\$</u>	<u>%</u>
Expenses:				
General government support	\$ 61,690	\$ 60,518	\$ 1,172	1.9
Interest and fiscal charges	<u>2,794,020</u>	<u>2,755,934</u>	<u>38,086</u>	1.4
Total expenses	<u>\$ 2,855,710</u>	<u>\$ 2,816,452</u>	<u>\$ 39,258</u>	1.4

RTASC's total expenses for the year ended December 31, 2011 increased by 1.4% from the previous year. The increase resulted primarily from interest and fiscal charges.

RTASC's most significant expense item for the year ended December 31, 2011 was interest and fiscal charges which comprised \$2,794,020, or 97.9%, of total expenses. Interest and fiscal charges are associated with RTASC's debt service requirements.

### Requests for Information

This financial report is designed to provide a general overview of RTASC's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Rensselaer Tobacco Asset Securitization Corporation, c/o Rensselaer County Bureau of Finance, 1600 Seventh Avenue, Troy, New York, 12180.

# **BASIC FINANCIAL STATEMENTS**

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**RENSSELAER TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A COMPONENT UNIT OF THE COUNTY OF RENSSELAER, NEW YORK)**  
**Statement of Net Assets (Deficit)**  
**December 31, 2011**

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**ASSETS**

Cash and cash equivalents	\$ 2,734,106
Accrued interest receivable	<u>11,323</u>
Total assets	<u>2,745,429</u>

**LIABILITIES**

Accrued interest payable	132,919
Non-current liabilities:	
Due within one year - bonds	1,410,000
Due within more than one year - bonds	26,601,483
Subordinate Turbo CABs	<u>17,635,762</u>
Total liabilities	<u>45,780,164</u>

**NET ASSETS (DEFICIT)**

Restricted for:	
Debt service	2,621,033
Unrestricted	<u>(45,655,768)</u>
Total net assets (deficit)	<u>\$ (43,034,735)</u>

The notes to the financial statements are an integral part of this statement.

**RENSELAER TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A COMPONENT UNIT OF THE COUNTY OF RENSELAER, NEW YORK)**  
**Statement of Activities**  
**Year Ended December 31, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Revenue and Changes in Net Assets</u> <u>Governmental Activities</u>
<b>Primary Government:</b>			
Governmental activities:			
General government support	\$ 61,690	\$ -	\$ (61,690)
Interest and fiscal charges	<u>2,794,020</u>	<u>-</u>	<u>(2,794,020)</u>
Total governmental activities	<u>\$ 2,855,710</u>	<u>\$ -</u>	<u>(2,855,710)</u>
General revenues:			
Interest earnings			130,472
Tobacco settlement revenues			<u>2,181,438</u>
Total general revenues			<u>2,311,910</u>
Change in net assets			(543,800)
Net assets—beginning			<u>(42,490,935)</u>
Net assets—ending			<u>\$ (43,034,735)</u>

The notes to the financial statements are an integral part of this statement.

**RENSSELAER TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A COMPONENT UNIT OF THE COUNTY OF RENSSELAER, NEW YORK)**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2011**

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	<b>General</b>	<b>Debt Service</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 124,396	\$ 2,609,710	\$ 2,734,106
Accrued interest receivable	-	11,323	11,323
Total assets	\$ 124,396	\$ 2,621,033	\$ 2,745,429
<b>LIABILITIES AND FUND BALANCES</b>			
Fund balances:			
Restricted for:			
Debt	-	2,621,033	2,621,033
Unassigned	124,396	-	124,396
Total fund balances	124,396	2,621,033	2,745,429
Total liabilities and fund balances	\$ 124,396	\$ 2,621,033	\$ 2,745,429

The notes to the financial statements are an integral part of this statement.

**RENSELAER TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A COMPONENT UNIT OF THE COUNTY OF RENSELAER, NEW YORK)**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets (Deficit)**  
**December 31, 2011**

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Amounts reported for governmental activities in the statement of net assets (deficit) are different from those reported in the balance sheet for governmental funds because:

Total fund balances—governmental funds	\$ 2,745,429
Long-term liabilities, including bonds payable and accumulated interest on capital appreciation bonds, are not due and payable in the current period and, therefore, are not reported in the funds.	(45,935,762)
To recognize interest accrual on long term debt, which, for fund reporting purposes, is not recognized as a liability until due.	(132,919)
Certain charges (bond issuance costs) are deferred and amortized over the term of the related debt in the government-wide statements. In the fund financial statements, such charges are recognized during the current period as debt service expenditures. The net effect of these differences is:	<u>288,517</u>
Total net assets (deficit)—governmental activities	\$ <u>(43,034,735)</u>

The notes to the financial statements are an integral part of this statement.



**RENSSELAER TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A COMPONENT UNIT OF THE COUNTY OF RENSSELAER, NEW YORK)**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended December 31, 2011**

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Tobacco settlement revenue	\$ -	\$ 2,181,438	\$ 2,181,438
Interest earnings	<u>202</u>	<u>130,270</u>	<u>130,472</u>
Total revenues	<u>202</u>	<u>2,311,708</u>	<u>2,311,910</u>
<b>EXPENDITURES</b>			
Current:			
General government support	61,555	135	61,690
Debt service:			
Principal	-	695,000	695,000
Interest	<u>-</u>	<u>1,613,223</u>	<u>1,613,223</u>
Total expenditures	<u>61,555</u>	<u>2,308,358</u>	<u>2,369,913</u>
Excess (deficiency) of revenues over (under) expenditures	(61,353)	3,350	(58,003)
Fund balances—beginning	<u>185,749</u>	<u>2,617,683</u>	<u>2,803,432</u>
Fund balances—ending	<u>\$ 124,396</u>	<u>\$ 2,621,033</u>	<u>\$ 2,745,429</u>

The notes to the financial statements are an integral part of this statement.

**RENSSELAER TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A COMPONENT UNIT OF THE COUNTY OF RENSSELAER, NEW YORK)**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**Year Ended December 31, 2011**

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Amounts reported for governmental activities in the statement of activities are different from those reported in the statement of revenues, expenditures and changes in fund balances of governmental funds because:

Net change in fund balances—total governmental funds \$ (58,003)

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, this has no effect on net assets. The total of principal payments for the year ended December 31, 2011 is: 695,000

Certain charges (bond issuance costs) are deferred and amortized over the term of the related debt in the government-wide statements. In the fund financial statements, such charges were recognized during prior periods as debt service expenditures. The net effect of these differences is: (20,801)

In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of the difference in accrued interest on outstanding bonds between the beginning of the year and the end of the year is: (1,159,996)

Change in net assets (deficit) of governmental activities \$ (543,800)

**RENSELAER TOBACCO ASSET SECURITIZATION CORPORATION**  
**(A COMPONENT UNIT OF THE COUNTY OF RENSELAER, NEW YORK)**  
**Notes to the Financial Statements**  
**December 31, 2011**

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**1. ORGANIZATION**

The Rensselaer Tobacco Asset Securitization Corporation (“RTASC”) is a special purpose, bankruptcy remote, local development corporation organized under the Not-for-Profit Corporation Law of the State of New York. RTASC is an instrumentality of, but separate and apart from, the County of Rensselaer, New York (the “County”). Although legally separate and independent of the County, RTASC is considered an affiliate organization under Governmental Accounting Standards Board (“GASB”) Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Accordingly, RTASC is reported as a blended component unit of the County.

The board of directors of RTASC has five members, one of which must meet certain requirements of independence: (i) one who must be the Chief Fiscal Officer of the County, *ex officio*; (ii) one as nominated by the Majority of the County Legislature of the County; (iii) one as nominated by the Minority of the County Legislature of the County; (iv) one Independent Director as recommended by the County Executive; and, (v) one additional Director as recommended by the County Executive.

The RTASC was incorporated on November 27, 2001 for the purpose of issuing Asset Backed Bonds in order to provide funds to purchase from the County all of the County’s right, title and interest under the Master Settlement Agreement (the “MSA”) and the Consent Decree and Final Judgment (the “Decree”) as described herein. RTASC has issued bonds in two series: 1) the initial Senior Bonds issued in 2001 and 2) Subordinate Capital Appreciation Bonds issued in 2005.

The MSA was entered into on November 23, 1998, among the attorneys general of 46 states (including New York), the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Territory of the Northern Marianas and for the four largest United States tobacco manufacturers: Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown and Williamson Tobacco Company and Lorillard Tobacco Company (collectively the “Original Participating Manufacturers” or “OPMs”) in settlement of certain smoking-related litigation and the Decree entered in New York Supreme Court, including the County’s right to receive certain initial and annual payments to be made by the OPMs under the MSA. On January 5, 2004, R.J. Reynolds was incorporated as a holding company to facilitate the combination of the U.S. assets, liabilities and operations of Brown and Williamson with those of Reynolds Tobacco.

In 2001, the County dedicated the discounted net proceeds of the sale of the bonds as a source of funds for certain capital expenditures and the defeasance of debt. RTASC disbursed the net proceeds of the sale of bonds on behalf of the County as follows: \$27,520,954 to the Escrow Agent to defease certain County general obligation bonds; \$3,004,413 to the County to finance certain capital projects, and \$2,518,565 to the Liquidity Reserve Account held by the Indenture Trustee.

Subsequent to the initial sale of the Bonds, the County has the right to receive net proceeds of future bond issuances and the revenues of RTASC that are in excess of RTASC’s expenses, debt service and contractual obligations, pursuant to the Indenture. In the current year, there were no payments to the County resulting from these excess revenues.

During the year ended December 31, 2005, RTASC participated in the New York Counties Tobacco Trust V (“NYCTT V”), along with twenty-three other New York County Tobacco Corporations, and issued subordinate Capital Appreciation Bonds (“CABs”) in various series for the purpose of securitizing additional future tobacco settlement revenues. Net proceeds of the 2005 series, after closing costs, amounted to \$12,225,328. The County has set these proceeds aside in their entirety for capital projects. With the issuance of the 2005 CAB, the County is no longer entitled to any residual cash receipts until such time that the 2005 CAB is retired.

In accordance with the Bond Indenture and to the extent contained in the MSA Report, as of the next distribution date, three trapping events have occurred. One is still occurring, while the others, the NPM Trapping Event and the Downgrade Trapping Event as defined in the Bond Indenture and the Official Statement, respectively, are no longer occurring.

A Consumption Decline Trapping Event occurs when shipments of cigarettes in or to the 50 United States, the District of Columbia and Puerto Rico as measured under the MSA, being less in any year preceding a Deposit Date than the amount opposite such year under the “Consumption Decline Trapping Event” definition, which number for the year 2010 is 305,664,161,271. According to the MSA Report, the amount shown as relevant shipments for the year 2010 was less than the shipment amount specified above, and therefore, a Consumption Decline Trapping Event has occurred.

The following *acronyms* that have been used throughout this report:

CAB	Capital Appreciation Bond
FDIC	Federal Depository Insurance Corporation
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association
GASB	Governmental Accounting Standards Board
MSA	Master Settlement Agreement
NPM	Non-Participating Manufacturers
RTASC	Rensselaer Tobacco Asset Securitization Corporation
NYCTT	New York Counties Tobacco Trust V
OPMs	Original Participating Manufacturers
TSR	Tobacco Settlement Revenues

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. General**

In its accounting and financial reporting in conformity with accounting principles generally accepted in the United States of America, RTASC follows all applicable GASB pronouncements.

### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the nonfiduciary activities of RTASC. Interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of governmental activities demonstrates the degree to which the direct expenses of a given function is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Indirect expenses have been included as part of the program expenses reported for the various functional activities. *Program revenues* include 1) charges to those who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

### **C. 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 the related cash flows.

Governmental fund 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. For this purpose, RTASC considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when the payment is due.

RTASC reports the following major governmental funds:

- ◆ **General Fund**—The General Fund is RTASC’s primary operating fund. It accounts for all financial resources of RTASC, except those required to be accounted for in another fund.
- ◆ **Debt Service Fund**—The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on the long-term debt of RTASC.

### **D. Assets, Liabilities, and Net Assets or Equity**

**Cash and Cash Equivalents**—Cash includes amounts in demand deposits as well as short-term investments that mature within three months after the date acquired by RTASC.

**Investments**—Investments are recorded on the balance sheet at fair value and all investment income, including changes in the fair value of investments, is reported as revenue in the statement of revenues, expenditures and changes in fund balance.

RTASC’s investment policy for funds held by its Trustee provides for eligible investments in defeasance collateral, obligations of FHLMC, FNMA, or the Federal Farm Credit System, demand and time deposit accounts and certificates of deposit, general obligations of states and guaranteed state obligations, commercial or finance company paper, repurchase obligations,

corporate securities bearing interest or sold at discount, taxable money market funds, investment agreements or guaranteed investment contracts, and other obligations or securities that are non-callable. RTASC reports no investments at December 31, 2011.

**Long-term Obligations**—In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Expenditures**—Expenditures are recorded on a modified accrual basis of accounting within the fund financial statements. General administration costs consist of operating expenses for professional service fees and are paid from General Fund revenues. Debt service expenditures are recognized when due in the Debt Service Fund.

#### **E. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 those estimates.

#### **F. Tax Status**

RTASC is a special purpose local development corporation organized pursuant to section 1411 of Not-for-Profit Corporation Law of the State of New York and is exempt from Federal income tax and New York State taxes. Accordingly, no provision for taxes has been made.

#### **G. Impacts of Accounting Pronouncements**

**Adoption of New Accounting Pronouncement**—During the year ended December 31, 2011, the RTASC adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the RTASC to change its fund balance classifications for governmental funds. The new classifications are explained below:

**Nonspendable fund balance**—Amounts that are not in a spendable form (such as inventory or prepaids) or are required to be maintained intact (such as the corpus of an endowment fund).

**Restricted fund balance**—Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation.

Committed fund balance—Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority (RTASC Board); to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.

Assigned fund balance—Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance—Amounts that are available for any purpose; these amounts are reported only in the general fund.

Additionally, during the year ended December 31, 2011, RTASC completed the process of evaluating the impact that will result from adopting GASB Statement No. 59, *Financial Instruments Omnibus* effective for the year ending December 31, 2011. GASB Statement No. 59 did not have a material impact on RTASC’s financial position or results from operations.

**Impact of Future Pronouncements**— RTASC has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*; No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, effective for the year ending December 31, 2012; and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, effective for the year ending December 31, 2013. RTASC is therefore unable to disclose the impact that adopting GASB Statements No. 57, 60, 61, 62, 63 and 64 will have on its financial position and results of operations when such statements are adopted.

### 3. CASH AND CASH EQUIVALENTS

At December 31, 2011, RTASC’s cash and cash equivalents consisted of the following:

Description	Maturity Date	Fair Value at 12/31/2011
Cash on deposit		\$ 124,396
Cash equivalents:		
Money market funds		79,840
Discount note	1/3/2012	<u>2,529,870</u>
Total cash and cash equivalents		<u>\$ 2,734,106</u>

**Cash**—All deposits (e.g. cash in bank) are carried at fair value and were insured or collateralized at December 31, 2011 as follows:

	Carrying Amount	Bank Balance
FDIC	<u>\$ 124,396</u>	<u>\$ 124,396</u>
Total deposits	<u>\$ 124,396</u>	<u>\$ 124,396</u>

**Cash equivalents**—Cash equivalents include money market accounts and a discount note with a maturity date within three months of year end and are, therefore, considered to be cash equivalents at December 31, 2011. These cash equivalents are carried at fair value as follows:

	Carrying Amount	Bank Balance
Money market funds	\$ 79,840	\$ 79,840
Discount note	<u>2,529,870</u>	<u>2,529,870</u>
Total cash equivalents	<u>\$ 2,609,710</u>	<u>\$ 2,609,710</u>

**Custodial Credit Risk – Deposits**—In the case of deposits, this is the risk that in the event of a bank failure, RTASC’s deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2011, the RTASC’s deposits were FDIC insured or collateralized.

#### 4. DEBT ISSUANCE COSTS

Bond issuance costs are capitalized and amortized over the term of the respective bonds using a straight-line method in the government-wide financial statements.

Bond issuance costs related to RTASC’s issuance of debt in 2005 amounted to \$414,970, with \$309,318 remaining at December 31, 2010. During the year ended December 31, 2011, \$20,801 was amortized as an expense, leaving a remaining balance of \$288,517 at December 31, 2011.



## 5. LONG-TERM DEBT

The following is a summary of the changes in RTASC's long-term obligations for the year ended December 31, 2011:

	Balance 1/1/2011	Increases	Decreases	Balance 12/31/2011	Due Within One Year
Tobacco Settlement Bonds:					
Series 2001A	\$ 28,995,000	\$ -	\$ 695,000	\$ 28,300,000	\$ 1,410,000
Subordinate Turbo CABs:					
Series 2005 - Original Principal	11,653,100	-	-	11,653,100	-
Accreted Interest	4,819,639	1,163,023	-	5,982,662	-
Total Subordinated Turbo CABs	16,472,739	1,163,023	-	17,635,762	-
Bond issuance costs	(309,318)	-	20,801	(288,517)	-
Net Long Term Debt	<u>\$ 45,158,421</u>	<u>\$ 1,163,023</u>	<u>\$ 715,801</u>	<u>\$ 45,647,245</u>	<u>\$ 1,410,000</u>

- A. Series 2001A**—In 2001, the RTASC issued \$34,555,000 of Tobacco Settlement Asset Backed Bonds, Series A pursuant to an indenture dated as of December 1, 2001. The net proceeds of the Series A Bonds were used to purchase from the County all of the County's right, title and interest, under the MSA and the Decree, including the Tobacco Settlement Revenues ("TSR").

The payment of the Series A Bonds is dependent on the receipt of TSR's. The amount of TSR's actually collected is dependent on many factors including cigarette consumption and the continued operations of the OPMs. Such bonds are secured by and payable solely from TSR's and investment earnings pledged under the bond indenture, and amounts established and held in accordance with the bond indenture.

In the event sufficient funds are not available to meet Planned Payment Maturities, Rated Maturity dates will be used.

Each Series A Bond has a Rated Maturity Date and a Planned Principal Payment Date. Planned Principal Payment Dates are based upon a maturity of debt that began June 1, 2002 extending through 2027 at variable rates. Interest is payable June 1 and December 1 of each year. Planned Principal Payments and Rate Maturities are scheduled only on June 1 of each year although principal could be paid semiannually if actual principal payments are slower than Planned Principal Payments. Failure to pay interest on the Series A Bonds when due or principal of the Series A Bonds when due on a Rated Maturity Date will constitute a default.

Debt service requirements for the Series 2001A bonds, based upon planned principal payments, are as follows:

Year ended December 31,	Principal	Interest	Total
2012	\$ 1,410,000	\$ 1,548,484	\$ 2,958,484
2013	1,095,000	1,492,908	2,587,908
2014	1,135,000	1,433,546	2,568,546
2015	1,170,000	1,370,219	2,540,219
2016	1,265,000	1,302,188	2,567,188
2017-2021	10,770,000	5,402,638	16,172,638
2022-2026	9,675,000	2,279,440	11,954,440
2027-2030	1,780,000	51,175	1,831,175
	<u>\$ 28,300,000</u>	<u>\$ 14,880,598</u>	<u>\$ 43,180,598</u>

- B. Series 2005**—In 2005, RTASC participated in the New York Counties Tobacco Trust V (“NYCTT V”), along with 23 other New York County Tobacco Corporations, and issued Subordinate Capital Appreciation Bonds (Subordinate Turbo CABs) in various series for the purpose of securitizing additional future tobacco settlement revenues. Net proceeds of the 2005 series, after closing costs, amounted to \$12,225,328.

Interest on the Subordinate Turbo CABs is compounded semiannually on June 1 and December 1, but is not payable until bond maturity. Interest accretes until both principal and accreted interest are paid. Future interest accretion has been recorded as bond discount and amortized as the current interest accretes. The accrued interest on the Subordinate Turbo CABs is reflected as long-term accreted interest payable.

Redemption of the Subordinate Turbo CABs as outlined in the original official statement totals \$67,955,251 with interest ranging from 6.00% to 7.85% and are scheduled to be paid from 2017 through 2040, while early payment is allowed. During the year ended December 31, 2011 funds were not available to make redemption payments. Any debt service amounts not paid in accordance with the Subordinated Turbo CAB’s redemption payments schedule will be due and payable on the following maturity dates:

Series	Maturity Date
2005 S1	June 1, 2038
2005 S2	June 1, 2050
2005 S3	June 1, 2055
2005 4B	June 1, 2060

## **6. FUND BALANCE**

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. At December 31, 2011, RTASC reported \$2,621,033 of fund balance restricted for debt service that must be used toward the future repayment of bonded debt.

If RTASC must use funds for emergency expenditures it shall expend funds first from funds classified under GASB 54 as nonspendable (if funds become available) then restricted funds. The use of committed and assigned funds as classified by GASB 54 will occur after the exhaustion of available restricted funds. Finally, if no other fund balances are available RTASC will use unassigned fund balance.

## **7. CONTINGENCIES**

Certain smokers, consumer groups, cigarette importers, cigarette wholesalers, cigarette distributors, cigarette manufacturers, Native American tribes, taxpayers, taxpayers' groups and other parties have instituted lawsuits against various tobacco manufacturers, including the participating manufacturers, as well as against certain of the settling States and other public entities. The lawsuits allege, among other things, that the MSA violates certain provisions of the United States Constitution, state constitutions, the federal antitrust laws, federal civil rights laws, state consumer protection laws and unfair competition laws, some of which actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek, among other things, an injunction against one or more of the settling States from collecting any monies under the MSA and barring the participating manufacturers from collecting cigarette price increases related to the MSA and/or a determination that the MSA is void or unenforceable. In addition, class action lawsuits have been filed in several federal and state courts alleging that under the federal Medicaid law, any amount tobacco settlement funds that the settling State receive in excess of what they paid through the Medicaid program to treat tobacco-related diseases should be paid directly to Medicaid recipients.

With respect to all matters of litigation that have been brought and may in the future be brought against the OPMs, or involving the enforceability of the MSA or constitutionality of the Model Statute or the enforcement of the right to the annual payments or otherwise filed in connection with the tobacco industry, the outcome of such litigation, in general, cannot be determined with certainty and depends, among other things, on (i) the issues being appropriately presented and argued before the courts (including the applicable appellate courts) and (ii) on the courts, having been presented with such issues, correctly applying applicable legal principles in reaching appropriate decisions regarding the merits. In addition, the courts may, in their exercise of equitable jurisdiction, reach judgments based not upon the legal merits but upon a balancing of the equities among the parties. Accordingly, no assurance can be given as to the outcome of any such litigation and any such adverse outcome could have a material adverse effect on the amount of TSRs available to the TASCs to pay the Series 2005 Bonds which could adversely affect the amount of pass-through funds available to pay Turbo redemptions, principal of and interest on the Series 2005 NYCTT Bonds and could result in the complete loss of an owner's investment.

## **8. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through March 29, 2012, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

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Certified Public Accountants

**INDEPENDENT AUDITORS' 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  
Rensselaer Tobacco Asset Securitization Corporation:

We have audited the financial statements of the Rensselaer Tobacco Asset Securitization Corporation ("RTASC"), a component unit of the County of Rensselaer, New York, as of and for the year ended December 31, 2011, and have issued our report thereon dated March 29, 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of RTASC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered RTASC'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 RTASC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the RTASC's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the RTASC'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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of RTASC's Board of Directors and others within RTASC, the County of Rensselaer Legislators, the Office of the State Comptroller of New York, and the Authority Budget Office of New York State and is not intended to be and should not be used by anyone other than these specified parties.

*Drescher & Malecki LLP*

March 29, 2012