

**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, 2009
and Independent Auditors' Reports*

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

Table of Contents
Year Ended December 31, 2009

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
<i>Basic Financial Statements:</i>	
Government-wide Financial Statements:	
Statement of Net Assets (Deficit)	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet—Governmental Funds	12
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit)	13
Statement of Revenues, Expenditures and Changes in Fund Balances—Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statements of Activities	15
Notes to the Financial Statements	16
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 <i>Government Auditing Standards</i>	24

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, 2009, which collectively comprise RTASC's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the management of RTASC. 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, 2009, 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, 2010, 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.

The Management's Discussion and Analysis as listed in the forgoing table of contents is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of RTASC management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Drescher & Mahler LLP

March 30, 2010

RENSSELAER TOBACCO ASSET SECURITIZATION CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF RENSSELAER, NEW YORK)
Management's Discussion and Analysis
Year Ended December 31, 2009

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, 2009. 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. Certain amounts relating to the financial statements as of and for the year ended December 31, 2008 have been reclassified in order to be more consistent with the current year's presentation.

Financial Highlights

- ◆ Total government-wide liabilities of RTASC exceeded government-wide assets by \$42,106,518 (*net deficit*) at December 31, 2009. This compares to total government-wide liabilities of RTASC exceeding government-wide assets by \$42,155,160 at December 31, 2008.
- ◆ RTASC's net assets increased by \$48,642 (an improvement in the net deficit), for the year ended December 31, 2009. The increase in RTASC's net assets was largely due an early redemption transaction whereby RTASC trapping account funds were used to call a portion of the 2005 subordinate capital appreciation bonds (S1 Series), which resulted in a savings of accumulated interest payable on those bonds.

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 10-11 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 the funds of RTASC are classified 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 12-15 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 16-23 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 \$42,106,518 at December 31, 2009, as compared to \$42,155,160 at December 31, 2008. The following presents the condensed statements of net assets (deficit) for RTASC at December 31, 2009 and 2008.

CONDENSED STATEMENT OF NET ASSETS (DEFICIT)

	December 31,		Increase/(Decrease)	
	2009	2008	\$	%
Current assets	\$ 2,863,468	\$ 3,798,988	(935,520)	(24.6)
Total assets	2,863,468	3,798,988	(935,520)	(24.6)
Current liabilities	137,402	141,094	(3,692)	(2.6)
Noncurrent liabilities	44,832,584	45,813,054	(980,470)	(2.1)
Total liabilities	44,969,986	45,954,148	(984,162)	(2.1)
Net assets (deficit)	\$ (42,106,518)	\$ (42,155,160)	48,642	(0.1)

Total RTASC assets were \$2,863,468 and \$3,798,988 at December 31, 2009 and 2008, respectively. The largest asset held by RTASC was cash and cash equivalents at the end of each fiscal year.

RTASC's liabilities totaled \$44,969,986 and \$45,954,148 at December 31, 2009 and 2008, respectively. The entire liability consists of bond related debt and associated accrued and accumulated interest.

RTASC had favorable current ratios of 2.8 and 3.9 at December 31, 2009 and 2008, 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, 2009 and 2008.

RTASC'S CURRENT RATIO

	2009	2008
Current assets	\$ 2,863,468	\$ 3,798,988
Current liabilities	1,022,402	971,094
Ratio of current assets to current liabilities	2.8	3.9

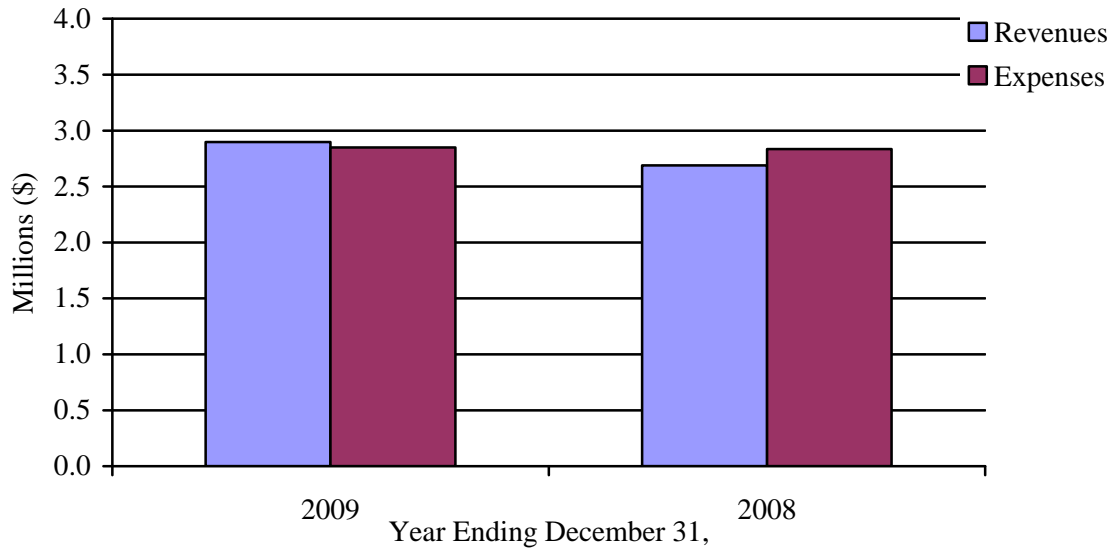
The statement of revenues, expenses and changes in net assets (deficit) presents revenues received and expenses paid by RTASC. Presented below is the condensed statement of revenues, expenses and changes in net assets for the years ended December 31, 2009 and 2008.

RTASC'S CHANGES IN NET ASSETS

	Year Ended December 31,	
	2009	2008
General revenues	\$ 2,897,061	\$ 2,687,830
Expenses and transfers	2,848,419	2,835,652
Change in net assets	48,642	(147,822)
Net assets (deficit)—beginning	(42,155,160)	(42,007,338)
Net assets (deficit)—ending	\$ (42,106,518)	\$ (42,155,160)

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.

RTASC'S REVENUES AND EXPENSES AND TRANSFERS



A summary of sources of revenues for the years ended December 31, 2009 and December 31, 2008 is presented below:

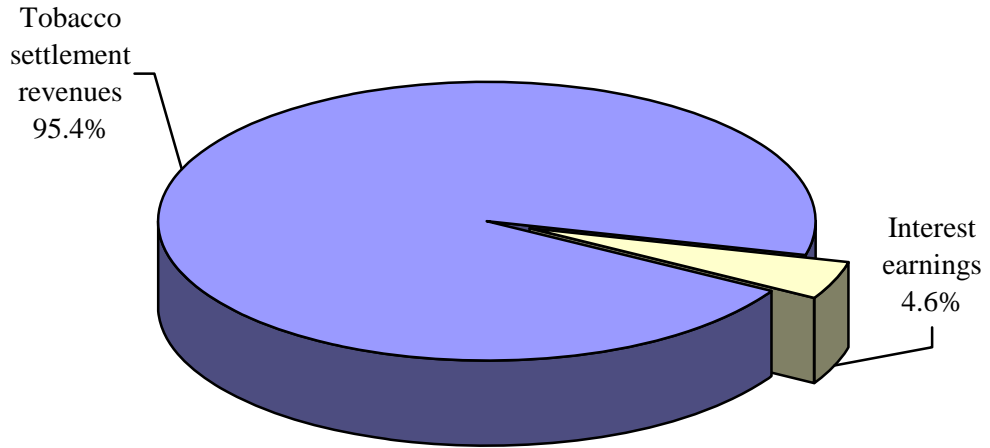
SOURCES OF REVENUES

	<u>2009</u>	<u>2008</u>	Increase/(Decrease)	
			<u>\$</u>	<u>%</u>
Tobacco settlement revenues	\$ 2,764,832	\$ 2,507,199	\$ 257,633	10.3
Interest earnings	132,229	180,631	(48,402)	(26.8)
Total revenues	<u>\$ 2,897,061</u>	<u>\$ 2,687,830</u>	<u>\$ 209,231</u>	7.8

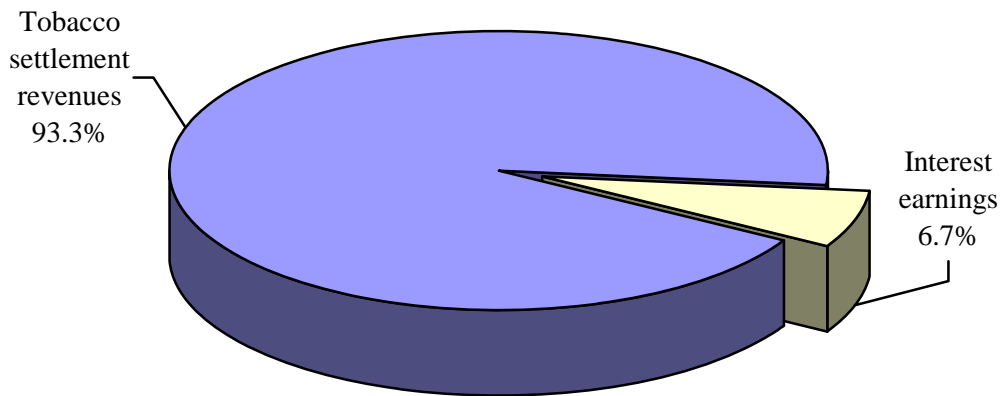
For the year ended December 31, 2009, total general revenues increased by 7.8%, due to an increases in tobacco settlement revenues offset by a decrease in interest earnings.

As presented on the following page, the most significant source of revenue, for both years, was tobacco settlement revenue, which was 95.4% of total revenues for the year ended December 31, 2009 and 93.3% of total revenues for the year ended December 31, 2008. The next largest source of revenue each year was interest earnings which comprised 4.6% of total revenues for the year ended December 31, 2009 and 6.7% of total revenues for the year ended December 31, 2008.

COMPONENTS OF REVENUE
YEAR ENDED DECEMBER 31, 2009



YEAR ENDED DECEMBER 31, 2008



A summary of expenses for the years ended December 31, 2009 and 2008 is presented below:

EXPENSES AND TRANSFERS BY TYPE

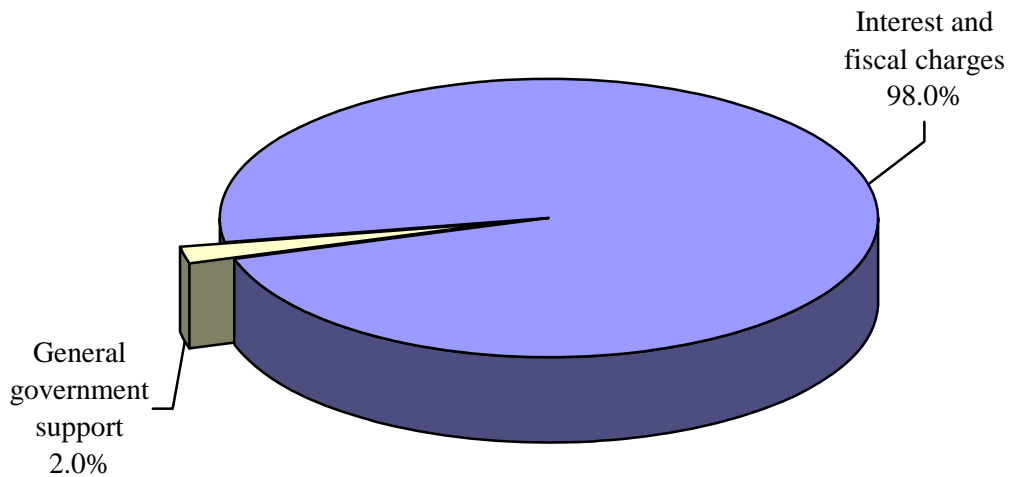
			Increase/(Decrease)	
	<u>2009</u>	<u>2008</u>	<u>\$</u>	<u>%</u>
Expenses:				
General government support	\$ 58,125	\$ 72,455	\$ (14,330)	(19.8)
Interest and fiscal charges	<u>2,790,294</u>	<u>2,763,197</u>	<u>27,097</u>	1.0
Total expenses	<u>\$ 2,848,419</u>	<u>\$ 2,835,652</u>	<u>\$ 12,767</u>	0.5

RTASC’s total expenses for the year ended December 31, 2009 increased by 0.5% from the previous year. The increase resulted from a increase in interest and fiscal charges offset by an decrease in general governmental support.

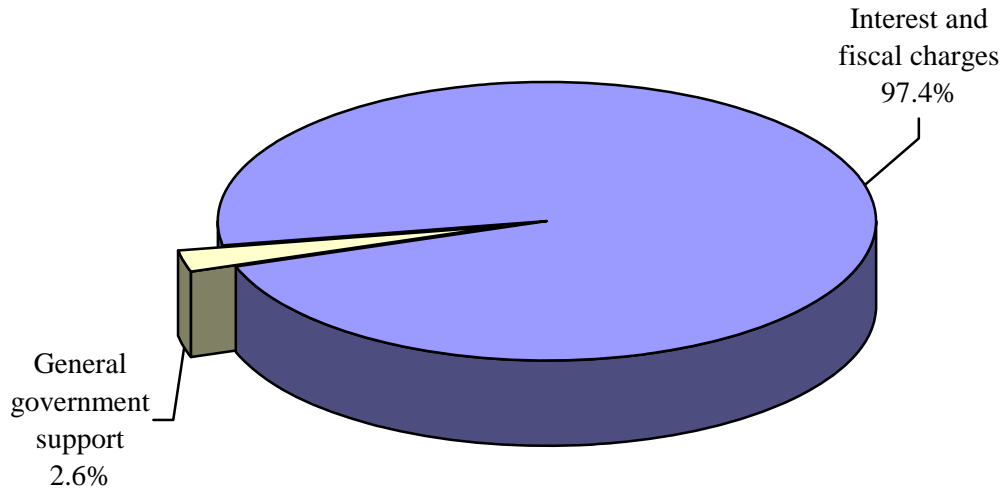
As presented below, RTASC’s most significant expense item for the year ended December 31, 2009 was interest and fiscal charges which comprised \$2,790,294, or 98.0%, of total expenses. Interest and fiscal charges are associated with RTASC’s debt service requirements.

COMPONENTS OF EXPENSES

YEAR ENDED DECEMBER 31, 2009



YEAR ENDED DECEMBER 31, 2008



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 County Bureau of Finance, 1600 Seventh Avenue, Troy, New York, 12180.

**** THIS PAGE INTENTIONALLY LEFT BLANK ****

BASIC FINANCIAL STATEMENTS

**** THIS PAGE INTENTIONALLY LEFT BLANK ****

RENSELAER TOBACCO SECURITIZATION CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF RENSELAER, NEW YORK)
Statement of Net Assets (Deficit)
December 31, 2009

ASSETS

Cash and cash equivalents	\$ 2,844,996
Accrued interest receivable	10,422
Prepaid expenses	<u>8,050</u>
Total assets	<u>2,863,468</u>

LIABILITIES

Accrued interest payable	137,402
Non-current liabilities:	
Due within one year - bonds	885,000
Due within more than one year - bonds	28,559,881
Subordinate Turbo CABs	<u>15,387,703</u>
Total liabilities	<u>44,969,986</u>

NET ASSETS (DEFICIT)

Restricted for:	
Debt service	2,617,646
Unrestricted	<u>(44,724,164)</u>
Total net assets (deficit)	<u>\$ (42,106,518)</u>

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

RENSELAER TOBACCO SECURITIZATION CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF RENSELAER, NEW YORK)
Statement of Activities
Year Ended December 31, 2009

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Assets
			Governmental Activities
Primary Government:			
Governmental activities:			
General government support	\$ 58,125	\$ -	\$ (58,125)
Interest and fiscal charges	<u>2,790,294</u>	<u>-</u>	<u>(2,790,294)</u>
Total governmental activities	<u>\$ 2,848,419</u>	<u>\$ -</u>	<u>(2,848,419)</u>
General revenues:			
Interest earnings			132,229
Tobacco settlement revenues			<u>2,764,832</u>
Total general revenues			<u>2,897,061</u>
Change in net assets			48,642
Net assets—beginning			<u>(42,155,160)</u>
Net assets—ending			<u>\$ (42,106,518)</u>

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

RENSELAER TOBACCO SECURITIZATION CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF RENSELAER, NEW YORK)
Balance Sheet
Governmental Funds
December 31, 2009

	General	Debt Service	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 237,772	\$ 2,607,224	\$ 2,844,996
Accounts receivable (accrued interest)	-	10,422	10,422
Prepaid expenditures	8,050	-	8,050
Total assets	\$ 245,822	\$ 2,617,646	\$ 2,863,468
LIABILITIES AND FUND BALANCES			
Fund balances:			
Reserved for:			
Prepaid expenditures	8,050	-	8,050
Debt	-	2,617,646	2,617,646
Unreserved	237,772	-	237,772
Total fund balances	245,822	2,617,646	2,863,468
Total liabilities and fund balances	\$ 245,822	\$ 2,617,646	\$ 2,863,468

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

RENSELAER TOBACCO 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, 2009

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	\$ 2,863,468
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.	(45,162,703)
To recognize interest accrual on long term debt, which, for fund reporting purposes, is not recognized as a liability until due.	(137,402)
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>330,119</u>
Total net assets (deficit)—governmental activities	<u>\$ (42,106,518)</u>

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

RENSELAER TOBACCO SECURITIZATION CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF RENSELAER, NEW YORK)
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2009

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUES			
Tobacco settlement revenue	\$ -	\$ 2,764,832	\$ 2,764,832
Interest earnings	309	131,920	132,229
Total revenues	<u>309</u>	<u>2,896,752</u>	<u>2,897,061</u>
EXPENDITURES			
Current:			
General government support	56,674	1,451	58,125
Debt service:			
Principal	-	830,000	830,000
Interest	-	1,957,258	1,957,258
Redemption payment	-	987,198	987,198
Total expenditures	<u>56,674</u>	<u>3,775,907</u>	<u>3,832,581</u>
Deficiency of revenues under expenditures	<u>(56,365)</u>	<u>(879,155)</u>	<u>(935,520)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	96,676	-	96,676
Transfers out	-	(96,676)	(96,676)
Total other financing sources (uses)	<u>96,676</u>	<u>(96,676)</u>	<u>-</u>
Net change in fund balances	40,311	(975,831)	(935,520)
Fund balances—beginning	<u>205,511</u>	<u>3,593,477</u>	<u>3,798,988</u>
Fund balances—ending	<u>\$ 245,822</u>	<u>\$ 2,617,646</u>	<u>\$ 2,863,468</u>

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

RENSELAER TOBACCO 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, 2009

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 \$ (935,520)

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, 2009 is:

	Principal	\$ 830,000	
	Redemption payment	<u>987,198</u>	1,817,198

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: (812,235)

Change in net assets of governmental activities \$ 48,642

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

**** THIS PAGE INTENTIONALLY LEFT BLANK ****

RENSELAER TOBACCO SECURITIZATION CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF RENSELAER, NEW YORK)
Notes to the Financial Statements
December 31, 2009

1. ORGANIZATION

The Rensselaer Tobacco Asset Securitization Corporation (“RTASC”) is a special purpose local development corporation organized under the Not-for-Profit Corporation Law of the State of New York and is an instrumentality of, but separate and apart from, Rensselaer County (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.

Similar to the year ended December 31, 2008, in the year ended December 31, 2009 the residual amounts that had gone to the County were deposited into a “trapping account” to protect investors. This is in response to “trapping events” that have occurred. A downgrade trapping event is defined in the Official Statement as a situation in which one of the Original Participating Manufacturers is rated below a certain threshold by Moody’s or Standard & Poor’s. During the year ended December 31, 2006, the rating of R.J. Reynolds, an OPM, was below the minimum rating, and therefore, in the opinion of counsel, a downgrade trapping event had occurred.

During the year ended December 31, 2009, one OPM that was previously below the allowable threshold, which led to a Downgrade Trapping Event, was upgraded to a rating above the threshold. Therefore, in accordance with the MSA Report, this NPM Trapping Event is no longer occurring. As a result, the funds that RTASC had reserved for the trapping event were released and were used to make an additional payment of \$1,251,008 on the 2005 New York Counties Tobacco Trust V Subordinate Turbo Capital Appreciation Bonds.

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 operations.

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, 2009.

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. Future Impacts of Accounting Pronouncements

RTASC has not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (“GASB”) Statements No. 51, *Accounting and Financial Reporting for Intangible Assets*, No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, effective for the year ending December 31, 2010; and No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* effective for the year ending December 31, 2011. RTASC is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 51, 53, 54, 57 and 58 will have on its financial position and results of operations when such statements are adopted.

RTASC has completed the process of evaluating the impact that will result from adopting GASB Statement No. 52 *Accounting Land and Other Real Estate Held as Investments by Endowments*, GASB Statement No. 55 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*; and GASB Statement No. 56 *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. They did not have a material impact on RTASC’s financial position or results of operation.

3. CASH AND CASH EQUIVALENTS

At December 31, 2009, RTASC's cash and cash equivalents consisted of the following:

Description	Maturity Date	Fair Value at 12/31/2009
Cash:		
Cash on deposit		\$ 237,772
Cash equivalents:		
Money market funds		15
Discount note	1/4/2010	2,607,209
Total cash and cash equivalents		<u>\$ 2,844,996</u>

Cash—All deposits (e.g. cash in bank) are carried at fair value and were insured or collateralized at December 31, 2009 as follows:

	Carrying Amount	Bank Balance
FDIC	<u>\$ 237,772</u>	<u>\$ 237,772</u>
Total deposits	<u>\$ 237,772</u>	<u>\$ 237,772</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, 2009. These cash equivalents are carried at fair value as follows:

	Carrying Amount	Bank Balance
Money market funds	\$ 15	\$ 15
Discount note	2,607,209	2,607,209
Total cash equivalents	<u>\$ 2,607,224</u>	<u>\$ 2,607,224</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, 2009, 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 \$350,920 remaining at December 31, 2008. During the year ended December 31, 2009, \$20,801 was amortized as an expense, leaving a remaining balance of \$330,119 at December 31, 2009.

5. LONG-TERM DEBT

The following is a summary of the changes in RTASC's long-term obligations for the year ended December 31, 2009:

	Balance 1/1/2009	Increases	Decreases	Balance 12/31/2009	Due Within One Year
Tobacco Settlement Bonds:					
Series 2001A	\$ 30,605,000	\$ -	\$ 830,000	\$ 29,775,000	\$ 885,000
Subordinate Turbo CABs:					
Series 2005 - Original Principal	12,640,298	-	987,198	11,653,100	-
Accreted Interest	2,918,676	1,079,737	263,810	3,734,603	-
Total Subordinated Turbo CABs	15,558,974	1,079,737	1,251,008	15,387,703	-
Bond issuance costs	(350,920)	-	20,801	(330,119)	-
Net Long Term Debt	\$ 45,813,054	\$ 1,079,737	\$ 2,101,809	\$ 44,832,584	\$ 885,000

- 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.

In the event it is determined that residual revenues exist as a result of debt service reserve requirements being met on an annual basis, such residual revenues shall be payable to the County.

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

Year Ending December 31,	Principal	Interest	Total
2010	\$ 885,000	\$ 1,648,823	\$ 2,533,823
2011	970,000	1,600,613	2,570,613
2012	1,030,000	1,548,484	2,578,484
2013	1,095,000	1,492,908	2,587,908
2014	1,135,000	1,433,546	2,568,546
2015 - 2019	7,220,000	6,094,535	13,314,535
2020 - 2024	10,575,000	3,556,696	14,131,696
2025 - 2026	6,865,000	552,431	7,417,431
Total	<u>\$ 29,775,000</u>	<u>\$ 17,928,036</u>	<u>\$ 47,703,036</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.

As discussed in Note 1, during the year ended December 31, 2009, the rating of Reynolds American rose above the allowable threshold resulting in the termination of the Downgrade Trapping Event. RTASC used amounts previously reserved for the Downgrade Trapping Event to make a \$1,251,008 payment on its Subordinate Turbo CABs, of which \$987,198 represented a redemption payment; the remaining \$263,810 was a payment reducing 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. As of December 31, 2009, RTASC has made \$987,198 total 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. CONTINGENCIES

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 and adverse impact on the payment of interest on the Series 2005 NYCTT Bonds when due, principal of the Series 2005 NYCTT Bonds and NYCTT Bonds Turbo Redemption Payments.

* * * * *

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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, 2009, and have issued our report thereon dated March 30, 2010. 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

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 opinions 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 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 purposes 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 & Malachuk LLP

March 30, 2010