

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

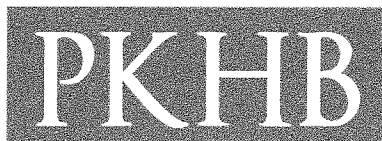
BASIC FINANCIAL STATEMENTS  
(and Report of Independent Auditors)

December 31, 2012

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

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Columbia Tobacco Asset Securitization Corporation (a blended component unit of Columbia County, New York), (the "Corporation") as of December 31, 2012, and for the year then ended, and the related notes to the financial statements, which collectively comprise Columbia Tobacco Asset Securitization Corporation's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Columbia Tobacco Asset Securitization Corporation's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Columbia Tobacco Asset Securitization Corporation, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

### ***Other Matters***

In accordance with *Government Auditing Standards*, we have issued our report dated March 26, 2013 on our consideration of Columbia Tobacco Asset Securitization Corporation's internal control over financial reporting and 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information 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 evidence sufficient to express an opinion or provide any assurance.

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

Valatie, New York  
March 26, 2013

COLUMBIA TOBACCO ASSET SECURITIZATION CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS

**1. Introduction:**

Within this section of the Columbia Tobacco Asset Securitization Corporation (the Corporation's) financial statements, the Corporation's management provides narrative discussion and analysis of the financial activities of the Corporation for the year ended December 31, 2012. This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements for the year ended December 31, 2012.

**2. Overview of the Financial Statements:**

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

**A. Financial Statements**

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

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

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

**B. Notes to Financial Statements**

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

**3. Financial Highlights:**

The Corporation's net assets decreased by \$523,733 primarily due to interest costs incurred on the two bond series in excess of tobacco settlement revenue earned. Of this amount, \$550,619 of interest was accrued on the 2005 variable rate bonds to be paid in the future when the 2000 variable rate bonds are paid in full. No new bonds were issued during 2012. With excess tobacco settlement proceeds earned in 2012, the Corporation paid an additional \$125,000 of principal on the 2000 variable rate bonds in excess of the required payment of \$75,000.

See independent auditors' report.

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

**4. Financial Statement Analysis:**

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

	<u>2012</u>	<u>2011</u>
Assets	<u>\$ 2,402,599</u>	<u>\$ 2,584,996</u>
Liabilities	17,947,132	17,605,796
Net Position	<u>(15,544,533)</u>	<u>(15,020,800)</u>
Total Liabilities and Net Position	<u>\$ 2,402,599</u>	<u>\$ 2,584,996</u>

As of December 31, 2012 and 2011, tobacco settlement receivables made up 33% and 38% of total assets, respectively, and restricted investments held by fiscal agent made up 44% and 39% of total assets, respectively. As of December 31, 2012 and 2011, unamortized bond issuance costs made up 22% and 21% of total assets, respectively. Current liabilities are comprised of the current portion of bonds payable, accrued interest on the 2000 variable rate bonds and accounts payable for administrative fees. Long-term liabilities comprised 99% of total liabilities as of December 31, 2012 and 2011. Net assets decreased in 2012 and 2011 by \$523,733 and \$287,112, respectively.

	<u>2012</u>	<u>2011</u>
General Revenues		
Other financing sources		
Administrative fee income	\$ 14,055	\$ 13,530
Interest and dividend income	159	209
Tobacco settlement revenue	<u>678,556</u>	<u>965,633</u>
Total general revenues	<u>692,770</u>	<u>979,372</u>
General expenditures	<u>1,216,503</u>	<u>1,266,484</u>
Total general expenditures in excess of revenues	<u>(523,733)</u>	<u>(287,112)</u>
Net position at the beginning of the year	<u>(15,020,800)</u>	<u>(14,733,688)</u>
Net position at the end of the year	<u>\$ (15,544,533)</u>	<u>\$ (15,020,800)</u>

Tobacco settlement revenue comprised 98% and 99% of total general revenues for the year ended December 31, 2012 and 2011, respectively. Tobacco settlement revenue decreased by \$287,077 or 30% in 2012 compared to 2011. General expenditures decreased by \$49,981 or 4% in 2012 compared to 2011. Interest expenses comprised 96% and 91% of total general expenditures during the years ended December 31, 2012 and 2011, respectively. Interest expense increased \$11,802 or 1% in 2012 compared to 2011.

**5. Budget:**

The Corporation adopted a 2012 debt service fund budget projecting revenues at \$1,008,383. Actual 2012 debt service fund revenues totaled \$692,770. The 2012 debt service fund budget projected expenses at \$884,500 and actual debt service fund expenses totaled \$856,253 for the year.

See independent auditors' report.

COLUMBIA TOBACCO ASSET SECURITIZATION CORPORATION  
(a blended component unit of Columbia County, New York)  
STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUND BALANCE SHEET  
December 31, 2012  
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	Debt Service Fund and Total Governmental Funds	Full Accrual Adjustments	Statement of Net Position
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 20,375	\$ -	\$ 20,375
Certificate of deposit	4,482	-	4,482
Prepaid insurance	-	4,344	4,344
Tobacco settlement receivables	800,238	-	800,238
Total current assets	<u>825,095</u>	<u>4,344</u>	<u>829,439</u>
Noncurrent assets:			
Restricted investments held by fiscal agent	1,046,148	-	1,046,148
Bond issuance costs, net of \$142,157 of accumulated amortization	-	527,012	527,012
Total noncurrent assets	<u>1,046,148</u>	<u>527,012</u>	<u>1,573,160</u>
Total assets	<u>\$ 1,871,243</u>	<u>\$ 531,356</u>	<u>\$ 2,402,599</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 12,720	\$ -	\$ 12,720
Interest payable	-	51,517	51,517
Bonds payable, current portion	-	95,000	95,000
Total current liabilities	<u>12,720</u>	<u>146,517</u>	<u>159,237</u>
Long-term liabilities:			
Bonds payable, net of current portion	-	17,896,275	17,896,275
Unamortized discount	-	(108,380)	(108,380)
Total long-term liabilities	<u>-</u>	<u>17,787,895</u>	<u>17,787,895</u>
Total liabilities	<u>12,720</u>	<u>17,934,412</u>	<u>17,947,132</u>
FUND BALANCE/NET POSITION			
Fund Balance:			
Assigned	24,857	(24,857)	-
Restricted for debt service	1,833,666	(1,833,666)	-
Total fund balance	<u>1,858,523</u>	<u>(1,858,523)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 1,871,243</u>		
Net Position:			
Unrestricted			24,857
Restricted for debt service		(17,403,056)	(15,569,390)
Total net position		<u>(17,403,056)</u>	<u>(15,544,533)</u>
Total liabilities and net position		<u>\$ 531,356</u>	<u>\$ 2,402,599</u>

See independent auditors' report and notes to financial statements.

COLUMBIA TOBACCO ASSET SECURITIZATION CORPORATION  
(a blended component unit of Columbia County, New York)  
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION  
AND GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE  
Year ended December 31, 2012  
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	Debt Service Fund and Total Governmental Funds	Full Accrual Adjustments	Statement of Revenues, Expenses, and Change in Net Position
General revenues:			
Other financing sources			
Administrative fee income	\$ 14,055	\$ -	\$ 14,055
Interest and dividend income	159	-	159
Tobacco settlement revenue	678,556	-	678,556
Total general revenues	<u>692,770</u>	<u>-</u>	<u>692,770</u>
General expenditures/expenses:			
Other financing uses			
Interest	624,248	538,241	1,162,489
Debt service principal payments	200,000	(200,000)	-
Professional fees	4,919	-	4,919
Administrative agent fees	14,055	-	14,055
Insurance	13,031	-	13,031
Amortization	-	22,009	22,009
Total expenditures/expenses	<u>856,253</u>	<u>360,250</u>	<u>1,216,503</u>
Change in fund balance/net position	(163,483)	(360,250)	(523,733)
Fund balance/net position, beginning of year	<u>2,022,006</u>	<u>(17,042,806)</u>	<u>(15,020,800)</u>
Fund balance/net position, end of year	<u>\$ 1,858,523</u>	<u>\$ (17,403,056)</u>	<u>\$ (15,544,533)</u>

See independent auditors' report and notes to financial statements.



COLUMBIA TOBACCO ASSET SECURITIZATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS

**1. Summary of Significant Accounting Policies:**

Organization:

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

General:

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

The GASB issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," which became effective this year for the Corporation. Statement 63 changed how governments organize their statements of financial position (such as the current government-wide statement of net assets and the governmental funds balance sheet).

See independent auditors' report.

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

**1. Summary of Significant Accounting Policies (Continued):**

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

As a result of Statement 63, financial statements will include deferred outflows of resources and deferred inflows of resources ("deferrals"), in addition to assets and liabilities, and will report *net position* instead of net assets.

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

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

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

Fund Balances:

The Corporation applies Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" (GASB 54). GASB 54 focuses on the constraints imposed on resources in governmental funds.

Fund balance is now broken down into five different classifications: nonspendable, restricted, committed, assigned, and unassigned.

Nonspendable consists of assets that are inherently nonspendable in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale and principal of endowments.

Restricted consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.

See independent auditors' report.

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

**1. Summary of Significant Accounting Policies (Continued):**

Fund Balances (Continued):

Committed consists of amounts that are subject to a purpose constraint imposed by a formal action of the government's highest level of decision-making authority before the end of the fiscal year, and that require the same level of formal action to remove the constraint. The Corporation's Board is the decision-making authority that can, by passing a resolution prior to the end of the fiscal year, commit fund balance.

Assigned consists of amounts that are subject to a purpose constraint that represents an intended use established by the government's highest level of decision-making authority, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance.

Unassigned represents the residual classification for the government's general fund, and could report a surplus or deficit. In funds other than the general fund, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

When resources are available from multiple classifications, the Corporation spends funds in the following order: restricted, committed, assigned, unassigned.

The Corporation categorizes its only fund as a debt service fund because the only restriction that exists related to the tobacco revenue received is to service the outstanding debt. The majority of the Corporation's debt service fund equity is restricted for debt service. The amount of cash and cash equivalents and certificate of deposit are assigned to pay future operating expenditures.

Use of estimates:

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

Income Tax Status:

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

Investments:

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

See independent auditor's report

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

**2. Cash and Cash Equivalents:**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date acquired by the Corporation. The carrying value of cash at December 31, 2012 was \$20,375 and is covered by Federal Depository Insurance.

**3. Restricted Investments Held By Fiscal Agent:**

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

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

The Trapping Account, administered by a trustee, was established and serves to receive proceeds when a Trapping Event occurs. A Downgrade Trapping Event as defined in the Master Settlement Agreement (MSA) report is when as of any deposit date an Original Participating Manufacture (OPM) with a Market Share of 7% or more is rated below "Baa3" by Moody's or "BBB" by S&P.

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

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

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

**4. Tobacco Settlement Proceeds Receivable:**

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

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

See independent auditor's report

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

**4. Tobacco Settlement Proceeds Receivable (Continued):**

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

The Tobacco Settlement receivable of \$800,238 as of December 31, 2012 consists of estimated revenue that will be received in 2013 for 2012 sales of tobacco.

**5. Bond Issuance Costs:**

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

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

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

**6. Bonds Payable:**

On December 7, 2000, the Corporation issued \$12,510,000 variable rate bonds. These bonds were part of the \$227,130,000 New York Counties Tobacco Trust I, Tobacco Settlement Pass-Through Bonds, Series 2000. The Corporation's bonds consist of serial bonds maturing in the years 2005 through and including 2015, fixed term bonds maturing in the years 2016 through and including 2019 and flexible term bonds maturing in the years 2020 through and including 2042. The Corporation's bonds are secured by the Tobacco Settlement Revenues acquired from the County and by investment earnings on the Liquidity Reserve Account and on other accounts established under the bond agreement. The Original Issue Discount of \$180,390 is being amortized under the interest method over the life of the bonds. Amortization expense for the year was \$5,896.

On November 29, 2005 the Corporation issued a \$5,644,277 variable rate bonds. This bond issue was part of the \$199,375,348 New York Counties Tobacco Trust V, Tobacco Settlement Pass Through Bonds, Series 2005 N-184. The bonds and interest are not payable until the original TASC Senior Bonds - Series 2000 have been paid off. The projected start date for the payment of these bonds is anticipated to start in the year 2016 with maturity dates ranging from 2038 to 2060. As the result of a trapping event that occurred in 2005 and ended in 2009, a one-time payment of \$495,210 was made in 2009 and applied to the outstanding accumulated principal and interest. As of December 31, 2012, the original \$5,644,277 accreted accumulated interest of \$3,307,207 net of the \$495,210 payment made during 2009. Reflected in the required schedule below is excess principal paid by the Corporation of \$2,315,000 through December 31, 2011. The excess principal paid in 2012 above the required scheduled amount was \$125,000. The required schedule shown below assumes that principal payments originally scheduled to be paid in years 2020 to 2025 will be reduced by the \$2,440,000 paid in excess of the required amount through December 31, 2012.

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

**6. Bonds Payable (Continued):**

Required Schedule

<u>Year ending</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 95,000	\$ 615,473
2014	110,000	609,510
2015	120,000	602,754
2016	135,000	594,976
2017	140,000	586,314
2018-2022	545,000	2,772,651
2023-2027	610,000	2,709,406
2028-2032	2,390,000	2,155,850
2033-2037	2,450,000	1,385,578
2038-2042	2,940,000	506,807
	<u>9,535,000</u>	<u>12,539,319</u>
Series 2005 (see above)	8,456,275	-
Payable at December 31, 2012	<u><u>\$ 17,991,275</u></u>	<u><u>\$ 12,539,319</u></u>

It is mandatory for the Corporation to make payments according to the required schedule to meet its obligations to the bond holders; however an optional flexible amortization payment schedule for the 2000 Series allows for the bonds to be paid off in the year 2025. This accelerated payment schedule would reduce total interest expense over the remaining life of the bonds and will be utilized by the Corporation as funding allows. A principal payment of \$200,000 and interest payment of \$624,248 based upon the accelerated schedule was made during the year ended December 31, 2012. It appears that the Corporation will continue to follow the accelerated schedule as long as there are sufficient proceeds to cover the principal and interest; however there is no official commitment to do so at the present time. Reflected in the optional schedule below is principal paid by the Corporation of \$310,000 through December 31, 2011 less than the original optional scheduled amount. The principal paid in 2012 was less than the original optional scheduled amount by \$245,000. The optional schedule shown below assumes that \$555,000 in additional principal payments will be paid in 2013.

See independent auditor's report

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

**6. Bonds Payable (Continued):**

Optional Schedule

<u>Year ending</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 980,000	\$ 587,816
2014	455,000	543,248
2015	485,000	513,679
2016	500,000	482,176
2017	530,000	448,976
2018-2022	3,835,000	1,568,011
2023-2026	2,750,000	270,631
	<u>9,535,000</u>	<u>4,414,537</u>
Series 2005 (see above)	8,456,275	-
Payable at December 31, 2012	<u>\$ 17,991,275</u>	<u>\$ 4,414,537</u>

**7. Concentration of Credit Risk:**

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

**8. Annual Operating Expense Allocation:**

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

**9. Related Organizations:**

County of Columbia, New York

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

See independent auditor's report

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

**9. Related Organizations (Continued):**

New York Counties Tobacco Trust I

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

**10. Contingencies:**

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

Currently a number of groups and organizations have initiated lawsuits against the Tobacco Settlement that have passed the test of the lower courts and if these suits are successful they could have a detrimental effect on the current settlement arrangement that initiated the Corporation. These lawsuits, if successful, could have a major impact on the investors (bond holders) ability to continue to collect interest and principal payments. Due to the structure of the settlement and the bond sales, the Corporation, has no liability if the settlement is rescinded in any way by the courts. A more detailed narrative can be found in the Administrative Agent Report issued by Bond Logistix, LLC (BLX) on November 30, 2011.

**11. Recent Accounting Standards:**

GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement No. 4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in Concepts Statement 4. Based on those definitions, Statement 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. Statement 65 is effective for the Corporation's 2013 financial statements. It is expected that the accounting treatment for certain items included in these 2012 financial statements will be adjusted and re-categorized (e.g. debt issuance costs) when Statement 65 is retrospectively implemented in 2013.

**12. Subsequent Events:**

Subsequent events have been evaluated through March 26, 2013, which is the date the financial statements were available to be issued.



## REQUIRED SUPPLEMENTARY INFORMATION



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Carol LaMont Howe, EA

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*

Independent Auditors' Report

To the Board of Directors of  
Columbia Tobacco Asset Securitization Corporation

We have audited the basic financial statements of Columbia Tobacco Asset Securitization Corporation as of and for the year ended December 31, 2012, and have issued our report thereon dated March 26, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control over Financial Reporting***

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

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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. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2012-1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Columbia Tobacco Asset Securitization Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

We noted certain matters that we have reported to management of Columbia Tobacco Asset Securitization Corporation in a separate letter dated March 26, 2013.

### ***Restriction on Use***

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting and compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose.

*Pattison, Kosken, Howe & Bucci, CPAs, P.C.*

Valatie, New York  
March 26, 2013

COLUMBIA TOBACCO ASSET SECURITIZATION CORPORATION  
SCHEDULE OF FINDINGS AND RESPONSES  
Year ended December 31, 2012

**Finding 2012-1**

**Significant Deficiency in Internal Control Over Financial Reporting- Lack of Management Review over Reconciliation Process**

Criteria:

The Corporation's accountant reconciles all accounts, however, there is no review by management to ensure that the reconciliations are completed completely and accurately.

Condition:

Management should ensure that the accountant's reconciliations have been completed correctly by reviewing the reconciliations on a regular basis.

Cause:

There is no procedure in place to ensure that management performs a review of the accountant's work.

Effect:

The lack of review by management causes a weakness in internal control that could result in a misstatement if the reconciliation process is not completed properly.

Management's Response:

Management will implement a policy that requires a review of the reconciliations on a regular basis beginning with the year ending December 31, 2013.

COLUMBIA TOBACCO ASSET SECURITIZATION CORPORATION  
(a blended component unit of Columbia County, New York)  
STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL  
December 31, 2012  
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	<u>Budget</u>	<u>Debt Service Fund</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Administration Fees	\$ 13,500	\$ 14,055	\$ 555
Interest and dividend income	200	159	(41)
Tobacco settlement revenue	<u>994,683</u>	<u>678,556</u>	<u>(316,127)</u>
Total revenues:	<u>1,008,383</u>	<u>692,770</u>	<u>(315,613)</u>
Expenses:			
Debt service	850,000	824,248	25,752
Professional fees	5,000	4,919	81
Administrative agent fees	16,500	14,055	2,445
Insurance	<u>13,000</u>	<u>13,031</u>	<u>(31)</u>
Total expenses:	<u>884,500</u>	<u>856,253</u>	<u>28,247</u>
Total expenses in excess of revenues:	<u><u>\$ 123,883</u></u>	<u><u>\$ (163,483)</u></u>	<u><u>\$ (343,860)</u></u>

See independent auditors' report and notes to financial statements.