

**SCHUYLER TOBACCO ASSET
SECURITIZATION CORPORATION**

Watkins Glen, New York

Report on Audit of Financial Statements

December 31, 2008

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

DECEMBER 31, 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Schuyler Tobacco Asset
Securitization Corporation
Watkins Glen, New York

We have audited the accompanying financial statements of the governmental activities and the fund information of the Schuyler Tobacco Asset Securitization Corporation, a component unit of the County of Schuyler, as of and for the year ended December 31, 2008, which collectively comprise the Corporation's basic financial statements as noted in the table of contents. These basic financial statements are the responsibility of the Schuyler Tobacco Asset Securitization Corporation's management. Our responsibility is to express opinions on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the fund information of the Schuyler Tobacco Asset Securitization Corporation, as of December 31, 2008, and the results of its operations 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 May 26, 2009 on our consideration of the Schuyler 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

- 1 -

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The Management's Discussion and Analysis on pages 2-2d 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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Cinchi, Dittulyn, Little, Mickelson & Co., LLP

May 26, 2009
Ithaca, New York

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008

The following is a discussion and analysis of the Schuyler Tobacco Asset Securitization Corporation's (Corporation) financial performance for fiscal years ended December 31, 2008 and 2007. This section is a summary of the Corporation's financial activities based on currently known facts, decisions, or conditions. It is also based on both the Government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. The Management's Discussion and Analysis (MD&A) section is only an introduction and should be read in conjunction with the Corporation's financial statements, which immediately follow this section.

The Schuyler Tobacco Asset Securitization Corporation (TASC) is a component unit of the County of Schuyler. The Schuyler TASC was organized as a local development corporation pursuant to Section 1411 of the Not-For-Profit Corporation Law of the State of New York.

FINANCIAL HIGHLIGHTS

- Net deficit for the year ended December 31, 2008 amounted to \$(3,557,482), reflecting a deficit decrease of \$13,550 from a net deficit of \$(3,571,032) at December 31, 2007.
- Total fund balance of \$786,605 showed an increase of \$52,710 in 2008, from \$733,895 in 2007. The increase was due to the unanticipated receipt of a prior year settlement.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts: MD&A (this section) and the basic financial statements. The basic financial statements present different views of the Corporation.

- The Statement of Net Assets and the Statement of Activities columns shown in the financial statements provide both short-term and long-term information about the Corporation's overall financial status.
- The Governmental Fund Type columns are fund financial statements that focus on individual parts of the Corporation.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Statement of Net Assets and Statement of Activities Columns

The Statement of Net Assets and Statement of Activities columns in the basic financial statements report information about the Corporation as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Corporation's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

These two columns in the basic financial statements report the Corporation's net assets and how they have changed. Net assets - the difference between the Corporation's assets and liabilities - are one way to measure the Corporation's financial health or position. Over time, increases or decreases in the Corporation's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

Governmental Fund Type Columns

The Governmental Fund type columns are accounting devices the Corporation uses to keep track of specific sources of funding and spending. The Corporation's basic services are included in Governmental Funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the Governmental Funds columns provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the Corporation's programs. Because this information does not encompass the additional long-term focus of the Statement of Net Assets and Statement of Activities columns, additional information in the notes to the financial statements explains the relationship (or differences) between them.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008

FINANCIAL ANALYSIS OF THE CORPORATION AS A WHOLE

The Corporation's total net assets for fiscal year ended December 31, 2008 increased by \$13,550. Our analysis below focuses on the net assets (*Figure 1*) and changes in net assets (*Figure 2*) of the Corporation's Governmental Activities.

Figure 1

Condensed Statement of Net Assets	Governmental Activities and Total Corporation		Total Dollar Change
	2007	2008	2007 - 2008
<i>Current assets</i>	\$ 736,395	\$ 786,605	\$ 50,210
<i>Noncurrent assets</i>	112,251	106,927	(5,324)
Total assets	848,646	893,532	44,886
<i>Current liabilities</i>	106,940	111,725	4,785
<i>Noncurrent liabilities</i>	4,312,738	4,339,289	26,551
Total liabilities	4,419,678	4,451,014	31,336
<i>Restricted for debt service</i>	350,645	354,639	3,994
<i>Unrestricted net assets</i>	(3,921,677)	(3,912,121)	9,556
Total net deficit	\$ (3,571,032)	\$ (3,557,482)	\$ 13,550

The increase in current assets stems from the increase in cash of \$23,043, which is due to timing of receipts and expenses, an increase in the tobacco settlement receivable of \$30,884, and a decrease in prepaid expenses of \$2,664 along with a decrease of \$1,053 in accrued interest income. The decrease in noncurrent assets is due to the annual amortization of bond issuance costs. The increase in noncurrent liabilities is due to the annual increase of accreted interest attributable to the Series 2005 bond issue, offset by principal payments made during the year. See Note 4 of the financial statements for more information about debt transactions during the year.

Our analysis in *Figure 2* considers the operations of the Corporation's activities.

Figure 2

Changes in Net Assets	Governmental Activities and Total Corporation		Total Dollar Change
	2007	2008	2007 - 2008
<i>Revenues:</i>			
<i>Tobacco settlement proceeds</i>	\$ 302,841	\$ 337,466	\$ 34,625
<i>Interest income</i>	25,542	19,161	(6,381)
Total revenues	328,383	356,627	28,244
<i>Expenses:</i>			
<i>Insurance expense</i>	5,651	4,895	(756)
<i>Professional fees</i>	22,886	23,886	1,000
<i>Interest expense</i>	301,598	306,425	4,827
<i>Amortization of bond issuance costs</i>	5,324	5,324	-0-
<i>Other expenses</i>	2,515	2,547	32
Total expenses	337,974	343,077	5,103
(INCREASE) DECREASE IN NET DEFICIT	\$ (9,591)	\$ 13,550	\$ 23,141

Total revenues for the Corporation's Governmental Activities increased by \$28,244 or 8.6% due to higher tobacco settlement receipts offset by decreased interest income in 2008. Tobacco settlement receipts increased due to an unanticipated prior year settlement of \$26,219. Total expenses increased by 1.5%. The increase in interest expense is the result of the scheduled interest payments and change in accreted interest on the 2005 bonds.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008

Figures 3 and 4 present the sources of revenues for 2008 and 2007.

Figure 3

Sources of Revenue for 2008

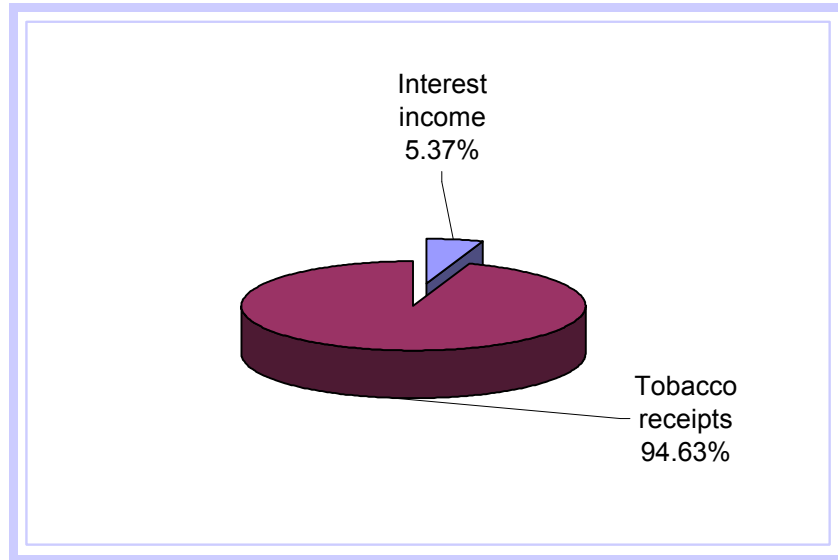
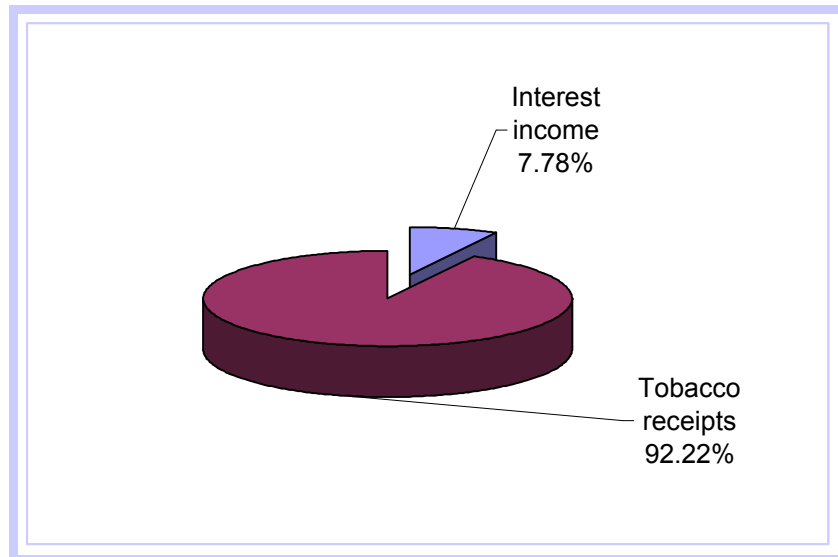


Figure 4

Sources of Revenue for 2007 (Restated)



SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008

Figures 5 and 6 present the expenses of the Corporation for the years ended December 31, 2008 and 2007.

Figure 5

Expenses 2008

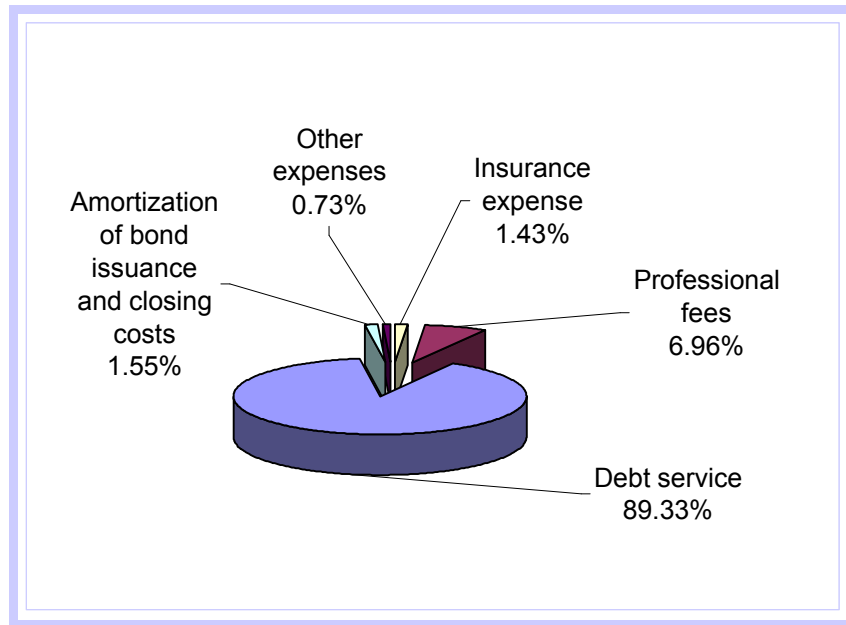
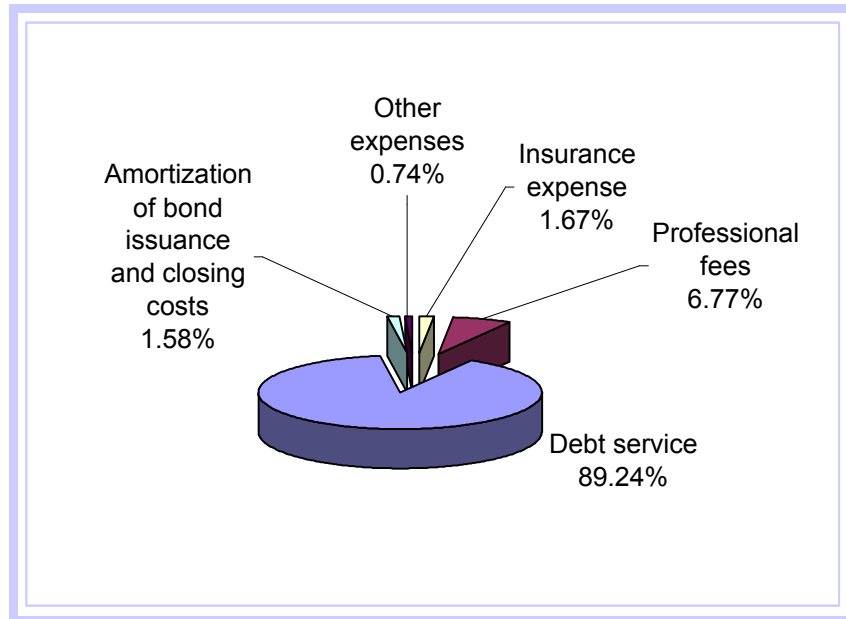


Figure 6

Expenses 2007



SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008

FINANCIAL ANALYSIS OF THE CORPORATION'S FUNDS

Figure 7 shows the changes in debt service reserved fund balance for the year. As the Corporation completed the year, its Governmental Funds, as presented in the basic financial statements, reported a combined debt service reserve of \$786,605, which is 7.2 percent above last year's total of \$733,895.

Figure 7

Governmental Fund Balances	Governmental		Total Dollar Change
	2007	2008	2007 - 2008
General Fund	\$ 733,895	\$ 786,605	\$ 52,710

DEBT ADMINISTRATION

Debt, considered a liability of Governmental Activities, increased by \$31,551 in 2008, as shown in Figure 8, due to the annual increase of accreted interest of \$124,806 attributable to the Series 2005 issue, offset by principal payments made of \$100,000.

Figure 8

Outstanding Debt	Governmental Activities		Total Dollar Change
	2007	2008	2007 - 2008
Bonds payable	\$ 4,405,993	\$ 4,437,544	\$ 31,551

Additional information and the maturities and terms of the Corporation's outstanding debt can be found in the notes to these financial statements.

FACTORS BEARING ON THE CORPORATION'S FUTURE

- The Corporation does not anticipate any significant changes in tobacco settlement receipts for the year ended December 31, 2009.
- In April 2006, the No. 2 and No. 3 cigarette makers, R.J. Reynolds and Lorillard withheld \$700 million in payments to the master settlement agreement, and placed the payments into a Disputed Payment Escrow Account. These companies contend that they are entitled to reductions in payments because they have lost market share to smaller companies that were not part of the settlement. The Attorney Generals from various states have indicated that they will vigorously challenge this action.
- In 2009, the Corporation has budgeted a transfer of \$28,000 to Schuyler County.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Corporation's citizens, customers, investors, and creditors with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Schuyler County, at 105 9th Street, Watkins Glen, NY 14891.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
 GOVERNMENTAL FUND BALANCE SHEET / STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	<u>Governmental Fund Type General</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 98,676	\$	\$ 98,676
Restricted cash and cash equivalents	354,639		354,639
Accrued interest			
Tobacco settlement receivable	331,431		331,431
Prepaid expenses	<u>1,859</u>		<u>1,859</u>
Total Current Assets	<u>786,605</u>	<u>-0-</u>	<u>786,605</u>
Bond issuance and closing costs, net		<u>106,927</u>	<u>106,927</u>
Total Assets	<u>\$ 786,605</u>	<u>106,927</u>	<u>893,532</u>
<u>LIABILITIES</u>			
Current Liabilities:			
Accrued interest payable	\$	13,470	13,470
Accounts payable			
Current portion of bonds payable, net		<u>98,255</u>	<u>98,255</u>
Total Current Liabilities	<u>-0-</u>	<u>111,725</u>	<u>111,725</u>
Long-term Liabilities:			
Bonds payable, net		3,979,874	3,979,874
Accreted interest		<u>359,415</u>	<u>359,415</u>
Total Long-term Liabilities	<u>-0-</u>	<u>4,339,289</u>	<u>4,339,289</u>
Total Liabilities	<u>-0-</u>	<u>4,451,014</u>	<u>4,451,014</u>
<u>FUND BALANCE/NET DEFICIT</u>			
Fund Balance:			
Reserved for debt service	<u>786,605</u>	<u>(786,605)</u>	<u>-0-</u>
Total Fund Balance	<u>786,605</u>	<u>(786,605)</u>	<u>-0-</u>
Net Deficit:			
Restricted for debt service		354,639	354,639
Unrestricted		<u>(3,912,121)</u>	<u>(3,912,121)</u>
Total Net Deficit	<u>-0-</u>	<u>(3,557,482)</u>	<u>(3,557,482)</u>
Total Fund Balance/Net Deficit	<u>\$ 786,605</u>	<u>\$ (4,344,087)</u>	<u>\$ (3,557,482)</u>

See Independent Auditor's Report and Notes to Financial Statements

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Governmental <u>Fund Type</u>		Statement of
	<u>General</u>	<u>Adjustments</u>	<u>Activities</u>
<u>REVENUE</u>			
Tobacco settlement proceeds	\$ 337,466	\$	\$ 337,466
Interest income	<u>19,161</u>	<u></u>	<u>19,161</u>
 Total Revenues	 <u>356,627</u>	 <u>-0-</u>	 <u>356,627</u>
<u>EXPENDITURES/EXPENSES</u>			
Insurance expense	4,895		4,895
Professional fees	23,886		23,886
Debt service	272,589	33,836	306,425
Amortization of bond issuance and closing costs		5,324	5,324
Other expenditure/expenses	<u>2,547</u>	<u></u>	<u>2,547</u>
 Total Expenditures/Expenses	 <u>303,917</u>	 <u>39,160</u>	 <u>343,077</u>
 EXCESS OF REVENUES OVER (EXPENSES)	 52,710	 (39,160)	 13,550
 Excess of Revenues (Expenditures/Expenses) and Other Financing Sources (Uses)	 52,710	 (39,160)	 13,550
 Fund Balance/Net Deficit, January 1, as restated	 <u>733,895</u>	 <u>(4,304,927)</u>	 <u>(3,571,032)</u>
 Fund Balance/Net Deficit, December 31,	 <u>\$ 786,605</u>	 <u>\$ (4,344,087)</u>	 <u>\$ (3,557,482)</u>

See Independent Auditor's Report and Notes to Financial Statements

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Schuyler Tobacco Asset Securitization Corporation have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant of the Corporation's accounting policies are described below.

A. Reporting Entity

The Schuyler Tobacco Asset Securitization Corporation (TASC) is a component unit of the County of Schuyler. The Schuyler TASC was organized as a local development corporation pursuant to Section 1411 of the Not-For-Profit Corporation Law of the State of New York. The Schuyler TASC is one of 17 New York County TASC's created in 2000 for the purpose of purchasing the tobacco settlement rights from each respective county with the net proceeds of bonds issued to the New York Counties Tobacco Trust I (NYCTT). The trust in-turn issued \$227,130,000 aggregate principal amount Tobacco Settlement Pass-Through Bonds - Series 2000, dated December 7, 2000. The Trust bonds represent a direct, pass-through interest in the corresponding TASC bonds. All payments of the TASC bonds will be made directly by the Trust with the future proceeds of the Tobacco Settlement Revenues.

The Schuyler TASC, along with 23 other Counties created a trust known as the New York Counties Tobacco Trust V (NYCTTV) in order to issue \$199,375,348 aggregate principal amount of Tobacco Settlement Pass-Through Bonds (Series 2005 NYCTT Bonds). Series 2005 NYCTT Bonds, issued on November 29, 2005, represent a direct, pass-through interest in corresponding TASC bonds held by the trust and are subordinate to the prior bonds issued. The Series 2005 TASC bonds are subject to the rights of holders of the prior bonds, payable solely from, and secured solely by, the Collections and the funds and accounts pledged by the respective TASC Indenture. The Collections of the Schuyler TASC will be comprised of the TSRs remaining after payment of the prior bonds and investment earnings on funds and accounts established under the TASC's Indenture. The Schuyler TASC Series 2005 TASC Bonds are also payable from certain amounts released from Liquidity Reserve Accounts upon retirement of the prior bonds and amounts released from Trapping Accounts.

There are no scheduled principal and interest payments on the Series 2005 bonds other than on their respective maturity dates. However, the bonds are subject to redemption prior to maturity through turbo redemption payments made from surplus collections on deposit in the turbo redemption account, as provided in the bond indenture. Redemption of the Series 2005 bonds will be in order of maturity date at a price equal to their accreted value.

The Schuyler TASC is controlled by a group of four directors who are appointed by the Chair of the Schuyler County Legislature. At this time, two directors are members of the County Legislature, one is a member of the management team of the County, and one member has no affiliation with the County. The Corporation is deemed to be a component unit of Schuyler County and is presented in the annual financial statements of Schuyler County as a discretely presented component unit.

B. Basis of Presentation

The Schuyler Tobacco Asset Securitization Corporation's basic financial statements include columns for Governmental Fund types prepared on the modified accrual basis of accounting (Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance), and columns for Governmental Activities prepared on the accrual basis of accounting (Statement of Net Assets and Statement of Activities.)

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2008

The Statement of Net Assets and the Statement of Activities present summaries of activities for the Corporation. The focus of these columns is more on the sustainability of the Corporation as an entity and the change in the Corporation's net assets from the current year's activities.

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

The Schuyler Tobacco Asset Securitization Corporation records its transactions in the fund types described below:

Fund Categories

Governmental Fund Types - those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources, and the related liabilities are accounted for through Governmental Funds. The measurement focus of the Governmental Funds is based upon determination of financial position and changes in financial position. The following is the Schuyler Tobacco Asset Securitization Corporation's Governmental Fund Type:

General Fund - the principal operating fund which includes all operations not required to be recorded in other funds.

C. Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and expenditures and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus. Measurement focus is the determination of what is measured, i.e. expenditures or expenses.

The Statement of Net Assets and the Statement of Activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the Corporation gives or receives value without directly receiving or giving equal value in exchange, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Governmental Fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Corporation considers all revenues reported in the Governmental Funds to be available if the revenues are collected within six months after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures to the extent they have matured. Proceeds of general long-term debt are reported as other financing sources.

D. Equity Classifications

Statement of Net Assets

- Restricted Net Assets

Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2008

- Unrestricted Net Assets
Consists of all other net assets that do not meet the definition of “restricted.”

E. Estimates

Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

Note 2 - Explanation of Certain Differences between Governmental Fund Columns and the Statement of Net Assets and Statement of Activities Columns

Due to the differences in the measurement focus and basis of accounting used in the Governmental Fund columns and the Statement of Net Assets and Statement of Activities columns, certain financial transactions are treated differently. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the Governmental Funds.

A. Total Fund Balance of Governmental Fund vs. Net Assets of Governmental Activities:

Total fund balance of the Corporation’s Governmental Fund differs from “net assets” of governmental activities reported in the Statement of Net Assets. This difference primarily results from the additional long-term economic focus of the Statement of Net Assets versus the solely current financial resources focus of the Governmental Fund Balance Sheet.

Total Fund Balance of Governmental Fund vs. Net Assets of Governmental Activities:

Total fund balance as reported in the Governmental Fund type column \$ 786,605

Long-term liabilities are reported in the Statement of Net Assets, but not in the Governmental Funds, because they are not due and payable in the current period. Balances at year end were:

Bonds payable	\$	(4,203,852)
Less unamortized discount		<u>125,723</u>

Total Long-term Liabilities (4,078,129)

Interest on long-term debt is accrued in the Statement of Net Assets, but not in the Governmental Fund. The balance of accrued interest payable at year-end was:

Accrued interest payable		(13,470)
Accreted Interest on Series 2005 Bonds		(359,415)

Bond issuance and closing costs are reported in the Statement of Net Assets, but not in the Governmental Fund because they are not due and receivable in the current period. The balance of unamortized bond issuance and closing costs at year end was:

		<u>106,927</u>
Total Net Deficit as Reported in the Statement of Net Assets	\$	<u><u>(3,557,482)</u></u>

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2008

B. Governmental Fund Type Operating Statement vs. the Statement of Activities:

Differences between the Governmental Fund Type column in the Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities column are as follows:

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the Governmental Fund statements, whereas interest payments are recorded in the Statements of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Assets.

Total Expenditures and Other Financing Uses as reported in the Governmental Fund Type column	\$ 303,917
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the Governmental Funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The decrease in interest reported in the Statement of Activities is the result of a decrease in accrued interest on bonds payable.	2,285
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Amortization of bond issuance and closing costs and the bond discount are recorded as expenditures in the Statement of Activities. However, these expenditures are recorded when incurred, rather than amortized, in the Governmental Fund.	12,069
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Repayment of bond principal is an expenditure in the Governmental Funds, but it reduces long-term liabilities in the Statement of Net Assets, and does not affect the Statement of Activities.	(100,000)
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Interest is accreted on 2005 series bonds but is not paid until maturity.	<u>124,806</u>
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Total Expenses of Governmental Activities in the Statement of Activities	<u>\$ 343,077</u>
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There were no differences in revenues in 2008.

Note 3 - Detail Notes

A. Assets

Cash and Investments

The Schuyler Tobacco Asset Securitization Corporation's investment policies are governed by state statutes. In addition, the Schuyler Tobacco Asset Securitization Corporation follows its written investment policy. Schuyler Tobacco Asset Securitization Corporation's monies must be deposited in FDIC-insured commercial banks or trust companies located within the state. The Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

The written investment policy requires repurchase agreements to be purchased from banks located within the state and that underlying securities must be obligations of the federal government. Underlying securities must have a market value of at least the cost of the repurchase agreements.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2008

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of three months or less.

Total financial institution (bank) balances at December 31, 2008, per the bank, were \$434,522. Restricted cash and cash equivalents of \$354,639 represent amounts held in a mandated TASC liquidity reserve, in the amount of \$271,100, comprised of US Treasury money market funds, a bond trapping account of \$74,150 and a bond debt service fund of \$9,389, both comprised of money market funds. The average yield on these accounts is 0.01%.

Note 4 - Long-term Debt

The following is a summary of the Corporation's long-term debt for the year ended December 31, 2008:

<u>Description of Issue</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding December 31, 2008</u>
Tobacco Settlement Pass-through Bonds 2000	12/00	6/23	5.25%-6.30%	\$ 2,630,000
Less: unamortized bond discount				<u>(86,594)</u>
Carrying Value of Series 2000 Bonds				2,543,406
Tobacco Settlement Pass-through Bonds 2005	11/05	6/60	6.00%-7.85%	1,573,852
Less: unamortized bond discount				<u>(39,129)</u>
Add: interest accretion				359,415
Carrying Value of Series 2005 Bonds				<u>1,894,138</u>
Total Pass-through Bonds				<u>\$ 4,437,544</u>

Interest on long-term debt paid during the year was:

Interest paid	\$ 172,589
Less: Interest accrued in the prior year	(11,185)
Plus: Interest accrued in the current year	13,470
Accreted interest	124,806
Amortization of bond discount	<u>6,745</u>
Total Expense	<u>\$ 306,425</u>

Interest paid on the serial bonds varies from year to year, in accordance with the interest rates specified in the bond agreements.

Long-term liability balances and activity for the year are summarized below:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Bonds payable	\$ 4,303,852	\$	\$ (100,000)	\$ 4,203,852	\$ 105,000
Less: Bond discount	(132,468)		6,745	(125,723)	(6,745)
Add: interest accretion	<u>234,609</u>	<u>124,806</u>		<u>359,415</u>	
Total Bonds Payable and Accreted Interest	<u>\$ 4,405,993</u>	<u>\$ 124,806</u>	<u>\$ (93,255)</u>	<u>\$ 4,437,544</u>	<u>\$ 98,255</u>

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2008

Series 2000 Bonds

The following is a summary of the debt service for the Series 2000 bond issue.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 105,000	\$ 166,303	\$ 271,303
2010	120,000	159,403	279,403
2011	125,000	151,897	276,897
2012	130,000	144,028	274,028
2013	135,000	135,698	270,698
2014-2018	820,000	535,478	1,355,478
2019-2023	<u>1,195,000</u>	<u>198,064</u>	<u>1,393,064</u>
Total	<u>\$ 2,630,000</u>	<u>\$ 1,490,871</u>	<u>\$ 4,120,871</u>

Series 2005 Bonds

The Series 2005 bonds are capital appreciation bonds, upon which the investment return on the initial principal amount is reinvested at a compounded rate until maturity. There are no scheduled principal and interest payments on the Series 2005 bonds other than on their respective maturity dates, at which time a single payment is made representing both the initial principal amount and the total investment return.

The Series 2005 bonds are subject to redemption prior to maturity through turbo redemption payments which are to be made from surplus collections on deposit, as provided in the Bond Indenture.

The amounts and timing of the turbo redemption payments are based on projections of future tobacco settlement receipts less amounts needed to satisfy debt service on the Series 2000 bonds and to satisfy operating requirements. Failure to make such turbo redemption payments will not, however, constitute an event of default.

The projected turbo redemption payments are presented in the table below. It is expected that the Corporation will make payments based on this amortization. The table entitled, "Accreted Interest," represents the compounded interest that will be expended each year and added to the carrying value of the bonds.

The Series 2005 bonds are as follows:

<u>Description of Issue</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Principal</u>
Series 2005 S1 Capital Appreciation Bond	11/05	6/38	6.00%	\$ 532,019
Series 2005 S2 Capital Appreciation Bond	11/05	6/50	6.10%	282,005
Series 2005 S3 Capital Appreciation Bond	11/05	6/55	6.85%	201,844
Series 2005 S4B Capital Appreciation Bond	11/05	6/60	7.85%	<u>557,984</u>
Total				<u>\$ 1,573,852</u>

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2008

The following is the projected debt service for the Series 2005 bonds from TASC turbo redemption payments, which is based on a forecast of future tobacco settlement receipts available after payment of the Series 2000 bonds:

	<u>Projected Principal</u>	<u>Projected Interest</u>	<u>Total Debt Service</u>
2013-2017	\$ 171,242	\$ 149,239	\$ 320,481
2018-2022	327,115	445,089	772,204
2023-2027	573,159	1,438,015	2,011,174
2028-2032	305,312	1,701,759	2,007,071
2033-2037	<u>197,024</u>	<u>1,673,450</u>	<u>1,870,474</u>
Estimated Amount Due at Maturity	<u>\$ 1,573,852</u>	<u>\$ 5,407,552</u>	<u>\$ 6,981,404</u>

The following is a summary of the amount of accretion on the Series 2005 capital appreciation bonds assuming the projected debt service amortization:

	<u>Amount of Yearly Accretion</u>
2009	\$ 134,014
2010	143,231
2011	153,343
2012	164,040
2013	175,858
2014-2018	1,027,209
2019-2023	1,204,989
2024-2028	1,118,840
2029-2033	748,780
2034-2037	<u>177,833</u>
Future Total Accretion	5,048,137
Cumulative Accreted Interest 12/31/08	356,415
Principal	<u>1,573,852</u>
Estimated Total Debt Service	<u>\$ 6,981,404</u>

Note 5 - Prior Period Adjustment

Fund balance, and net assets, and bond issue costs have been restated by reducing these amounts by \$6,000 as of December 31, 2007 to account for the return bond issue costs.

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Certified Public Accountants and Consultants

Frederick J. Ciaschi, C.P.A.

**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**

Board of Directors
Schuyler Tobacco Asset
Securitization Corporation
Watkins Glen, New York

We have audited the financial statements of the governmental activities and fund information of the Schuyler Tobacco Asset Securitization Corporation, a component unit of the County of Schuyler, as of and for the year ended December 31, 2008, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated May 26, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Schuyler Tobacco Asset Securitization Corporation'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 Schuyler Tobacco Asset Securitization Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Schuyler Tobacco Asset Securitization Corporation's internal control over financial reporting.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Schuyler Tobacco Asset Securitization Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Schuyler Tobacco Asset Securitization Corporation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Schuyler Tobacco Asset Securitization Corporation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schuyler Tobacco Asset Securitization Corporation's basic 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and New York State and is not intended to be and should not be used by anyone other than these specified parties.

Cinchi, Dittulyn, Little, Mickelson & Co., LLP

May 26, 2009
Ithaca, New York