

**SCHUYLER TOBACCO ASSET  
SECURITIZATION CORPORATION**

**Watkins Glen, New York**

**Report on Audit of Financial Statements**

**December 31, 2004**

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION

DECEMBER 31, 2004

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John E. Little, C.P.A.

INDEPENDENT AUDITORS' 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, 2004, 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, 2004, 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 April 26, 2005 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 grants. 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 Managements Discussion and Analysis on pages 2-2e are not a required part of the basic financial statements but are 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.

*Ciaschi, Dietershagen, Little, Mickelson & Company LLP*

April 26, 2005  
Ithaca, New York

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SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004

The following is a discussion and analysis of the Corporation's financial performance for the fiscal year ended December 31, 2004. 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. 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 County of Schuyler is not responsible for or liable upon default on these bonds.

#### **FINANCIAL HIGHLIGHTS**

- Revenue exceeded expense in 2004 by \$97,466 compared to \$90,097 in 2003.
- Net deficit for the year ended December 31, 2004 amounted to \$(2,474,079), reflecting an increase of \$97,466 from a net deficit of \$(2,571,545) at December 31, 2003.
- Total fund balance of \$356,892 showed an increase of \$34,386 in 2004, from \$322,506 in 2003.

#### **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.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2004

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.

**FINANCIAL ANALYSIS OF THE CORPORATION AS A WHOLE**

The Corporation's total net assets for fiscal year ended December 31, 2004 increased by \$97,466. 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*

<b>Condensed Statement of Net Assets</b>	<b>Governmental Activities and Total Corporation</b>		<b>Total Dollar Change</b>
	<b>2003</b>	<b>2004</b>	<b>2003 - 2004</b>
<i>Current assets</i>	\$ 322,506	\$ 356,892	\$ 34,386
<i>Noncurrent assets</i>	46,267	44,169	(2,098)
<b>Total assets</b>	<b>368,773</b>	<b>401,061</b>	<b>32,288</b>
<i>Current liabilities</i>	77,347	77,060	(287)
<i>Noncurrent liabilities</i>	2,862,971	2,798,080	(64,891)
<b>Total liabilities</b>	<b>2,940,318</b>	<b>2,875,140</b>	<b>(65,178)</b>
<i>Restricted for debt service</i>	288,307	311,481	23,174
<i>Unrestricted net assets</i>	(2,859,852)	(2,785,560)	74,292
<b>Total net deficit</b>	<b>\$ (2,571,545)</b>	<b>\$ (2,474,079)</b>	<b>\$ 97,466</b>

The increase in current assets is largely the result of a decrease in expenses greater than the decrease in revenues. The decrease in noncurrent liabilities is due to a decrease in the amount payable within one year.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

*Figure 2*

<b>Changes in Net Assets</b>	<b>Governmental Activities and Total Corporation</b>		<b>Total Dollar Change</b>
	<b>2003</b>	<b>2004</b>	<b>2003 - 2004</b>
<b>Revenues:</b>			
<i>Tobacco settlement proceeds</i>	\$ 363,302	\$ 304,859	\$ (58,443)
<i>Interest income</i>	18,313	19,095	782
<b>Total revenues</b>	<b>381,615</b>	<b>323,954</b>	<b>(57,661)</b>
<b>Expenses:</b>			
<i>Insurance expense</i>	6,167	6,673	506
<i>Professional fees</i>	11,337	17,879	6,542
<i>Interest expense</i>	201,609	196,877	(4,732)
<i>Amortization of bond issuance costs</i>	2,098	2,098	-0-
<i>Other expenses</i>	2,958	2,961	3
<i>Transfer to Schuyler County</i>	67,349	-0-	(67,349)
<b>Total expenses</b>	<b>291,518</b>	<b>226,488</b>	<b>(65,030)</b>
<b>DECREASE (INCREASE) IN NET DEFICIT</b>	<b>\$ 90,097</b>	<b>\$ 97,466</b>	<b>\$ 7,369</b>

Total revenues for the Corporation's governmental activities decreased by \$57,661 or 15.1 percent, while total expenses decreased \$65,030, or 22.3 percent. The decrease in expenses is primarily a result of a decrease in monies transferred to Schuyler County.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2004

Figures 3 and 4 present the following charts showing the sources of revenues for 2004 and 2003.

Figure 3

**Sources of Revenue for 2004**

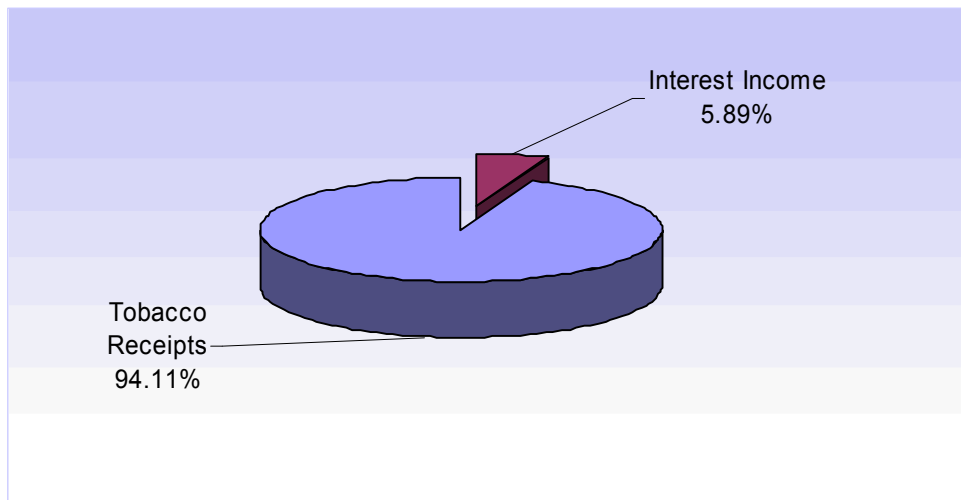
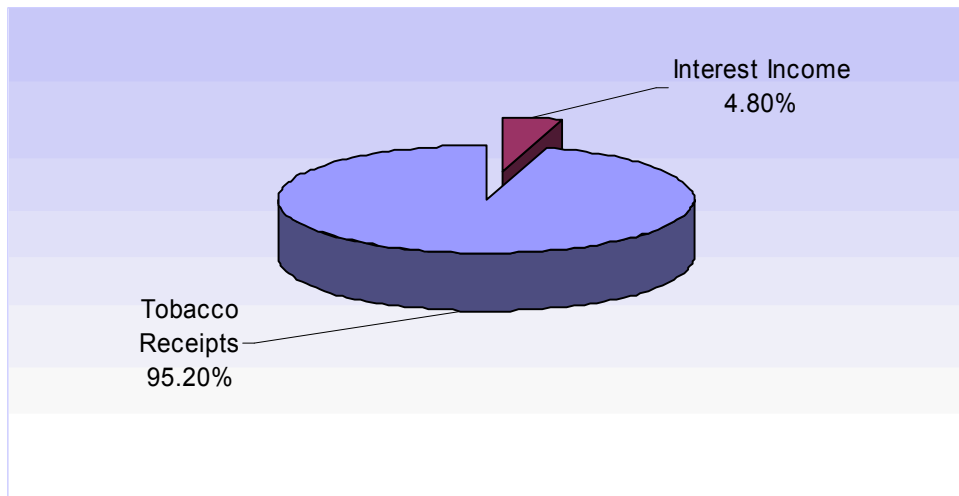


Figure 4

**Sources of Revenue for 2003**

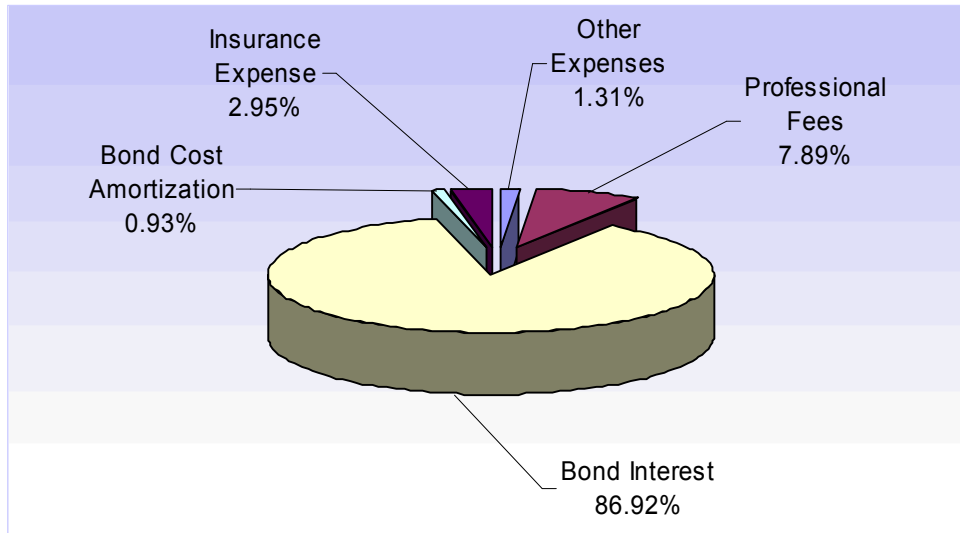


SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2004

Figures 5 and 6 present the expenses of the Corporation for the years ended December 31, 2004 and 2003.

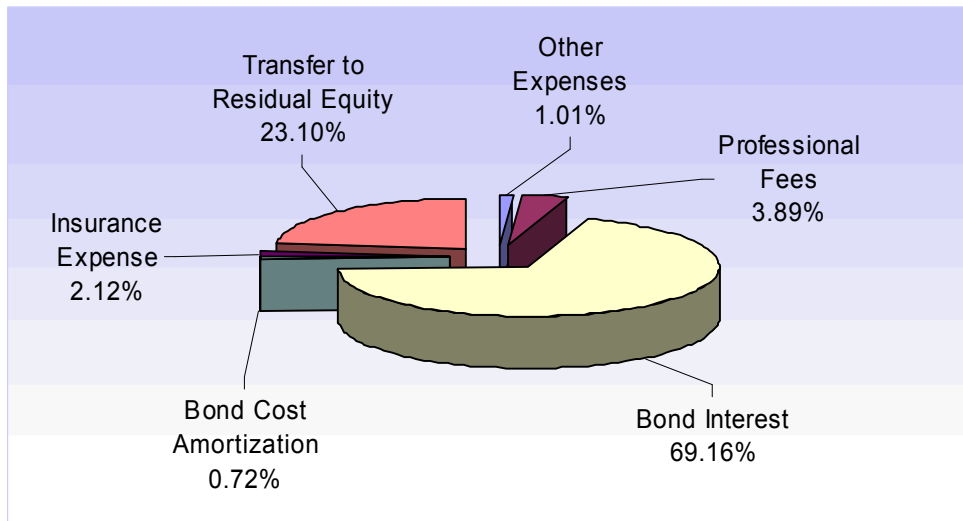
*Figure 5*

**Expenses 2004**



*Figure 6*

**Expenses 2003**



SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2004

**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 \$356,892, which is 10.7 percent above last year's total of \$322,506.

*Figure 7*

<b>Governmental Fund Balances - Major Funds</b>	<b>Governmental</b>		<b>Total Dollar Change</b>
	<b>2003</b>	<b>2004</b>	<b>2003 - 2004</b>
<i>General Fund</i>	\$ 322,506	\$ 356,892	\$ 34,386

**DEBT ADMINISTRATION**

Debt, considered a liability of governmental activities, decreased by \$64,891 in 2004, as shown in Figure 8.

*Figure 8*

<b>Outstanding Debt</b>	<b>Governmental Activities</b>		<b>Total Dollar Change</b>
	<b>2003</b>	<b>2004</b>	<b>2003 - 2004</b>
<i>Bonds payable</i>	\$ 2,927,862	\$ 2,862,971	\$ 64,891

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, 2005.
- In April 2004, the rating of the Tobacco Asset Settlement Pass-Through bonds was downgraded to below investment grade by Moody's Investors Service. This downgrade was due to the denial of a petition for a rehearing of a lawsuit in which it was decided that the Master Settlement Agreement between the Tobacco Companies and New York State was invalid. Moody's estimates that, if this decision is upheld, payments from Tobacco Companies to New York State would decrease approximately 65%, significantly increasing the risk of default on the bonds by the individual Tobacco Asset Securitization Corporations.

**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 FUNDS BALANCE SHEET / STATEMENT OF NET ASSETS  
DECEMBER 31, 2004

	<u>Governmental Fund Type General</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b><u>ASSETS</u></b>			
Current Assets:			
Cash and cash equivalents	\$ 78,121	\$	\$ 78,121
Restricted cash and cash equivalents	272,124		272,124
Accrued interest	1,053		1,053
Prepaid expenses	5,594		5,594
	<u>356,892</u>	<u>-0-</u>	<u>356,892</u>
Bond issuance and closing costs, net		44,169	44,169
	<u>\$ 356,892</u>	<u>\$ 44,169</u>	<u>\$ 401,061</u>
<b><u>LIABILITIES</u></b>			
Current Liabilities:			
Accrued interest payable	\$	\$ 12,169	\$ 12,169
Current portion of bonds payable, net		64,891	64,891
	<u>-0-</u>	<u>77,060</u>	<u>77,060</u>
Long-term Liabilities:			
Bonds payable, net		2,798,080	2,798,080
	<u>-0-</u>	<u>2,875,140</u>	<u>2,875,140</u>
<b><u>FUND BALANCE/NET DEFICIT</u></b>			
Fund balance:			
Reserved for debt service	356,892	(356,892)	-0-
	<u>356,892</u>	<u>(356,892)</u>	<u>-0-</u>
Net deficit:			
Restricted for debt service		311,481	311,481
Unrestricted		(2,785,560)	(2,785,560)
	<u>-0-</u>	<u>(2,474,079)</u>	<u>(2,474,079)</u>
Total Fund Balance/Net Deficit	<u>\$ 356,892</u>	<u>\$ (2,830,971)</u>	<u>\$ (2,474,079)</u>

See Independent Auditors' 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, 2004

	<u>Governmental Fund Type General</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b><u>REVENUE</u></b>			
Tobacco settlement proceeds	\$ 304,859	\$	\$ 304,859
Interest income	<u>19,095</u>	<u>                    </u>	<u>19,095</u>
Total Revenues	<u>323,954</u>	<u>-0-</u>	<u>323,954</u>
<b><u>EXPENSES</u></b>			
Insurance expense	6,673		6,673
Professional fees	17,879		17,879
Debt service	262,055	(65,178)	196,877
Amortization of bond issuance and closing costs		2,098	2,098
Other expense	2,961		2,961
Transfer to residual trust			<u>-0-</u>
Total Expenses	<u>289,568</u>	<u>(63,080)</u>	<u>226,488</u>
EXCESS OF REVENUES OVER (EXPENSES)	<u>34,386</u>	<u>63,080</u>	<u>97,466</u>
Fund Balance/Net Deficit, January 1,	<u>322,506</u>	<u>(2,894,051)</u>	<u>(2,571,545)</u>
Fund Balance/Net Deficit, December 31,	<u>\$ 356,892</u>	<u>\$ (2,830,971)</u>	<u>\$ (2,474,079)</u>

See Independent Auditors' Report and Notes to Financial Statements

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. 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 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.)

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 government 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:

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2004

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.
- Unrestricted Net Assets  
All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

E. Estimates

Management uses estimates and assumptions in preparing financial statements. Those 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 those estimates.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2004

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.	\$	356,892
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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	\$	(2,970,000)	
Less unamortized discount		107,029	
Total long-term liabilities	\$	(2,862,971)	

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		(12,169)
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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:

Unamortized bond issuance and closing costs		44,169
Total net deficit as reported in the Statement of Net Assets	\$	(2,474,079)

B. Explanation of Differences between the Governmental Fund Type Column in the Operating Statement and the Statement of Activities Column:

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:

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2004

- 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	\$	289,568
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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.

(287)

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.

7,207

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.

(70,000)

Total expenses of governmental activities in the Statement of Activities	\$	<u>226,488</u>
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Note 3 - Detail Notes on All Funds and Account Groups

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.

Collateral (security) is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance at 105%. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities and Corporations as set forth in the investment policy.

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2004

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.

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

Deposits and investments are valued at cost or cost plus interest, and are categorized as either (1) insured and for which the collateral is held by the Schuyler Tobacco Asset Securitization Corporation's agent in the Corporation's name, (2) collateralized, and for which the securities are held by the pledging financial institution's trust department or agent in the Schuyler Tobacco Asset Securitization Corporation's name, or (3) uncollateralized.

Total financial institution (bank) balances at December 31, 2004, per the bank, were \$350,245. These deposits are categorized as follows:

<u>1</u>	<u>2</u>	<u>3</u>	Carrying Value
\$ <u>138,663</u>	\$ <u>211,582</u>	\$ <u>          </u>	\$ <u>350,245</u>

Restricted cash and cash equivalents represent amounts held in a mandated TASC liquidity reserve, required in the amount of \$272,124, and held in trust. This reserve is comprised of commercial paper maturing March 1, 2005 recorded at cost, which approximates fair value.

Note 4 - Long-term Debt

The following is a summary of the Corporation's long-term debt for the year ended December 31, 2004:

Description of Issue	Issue Date	Final Maturity	Interest Rate	Outstanding December 31, 2004
Tobacco Settlement Pass-through Bonds	12/00	6/23	5.25%-6.30%	\$ 2,970,000
Less: Unamortized Bond Discount				107,029
Total pass-through bonds				\$ 2,862,971

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

Interest paid	\$ 192,055
Less: interest accrued in the prior year	(12,456)
Plus: interest accrued in the current year	12,169
amortization of bond discount	5,109
Total expense	\$ 196,877

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

SCHUYLER TOBACCO ASSET SECURITIZATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

	Beginning Balance	Issued	Redeemed	Ending Balance	Amounts Due Within One Year
Bonds payable	\$ 3,040,000	\$	\$ (70,000)	\$ 2,970,000	\$ 70,000
Less: Bond discount	<u>(112,138)</u>	<u></u>	<u>5,109</u>	<u>(107,029)</u>	<u>(5,109)</u>
 Total Bonds Payable	 <u>\$ 2,927,862</u>	 <u>\$ -0-</u>	 <u>\$ 64,891</u>	 <u>\$ 2,862,971</u>	 <u>\$ 64,891</u>

The following is a summary of the maturity of long-term indebtedness.

	Principal	Interest	Total
2005	\$ 70,000	\$ 188,032	\$ 258,032
2006	80,000	183,600	263,600
2007	90,000	178,416	268,416
2008	100,000	172,590	272,590
2009	105,000	166,304	271,304
2010-2014	650,000	717,975	1,367,975
2015-2019	905,000	480,057	1,385,057
2020-2023	<u>970,000</u>	<u>126,538</u>	<u>1,096,538</u>
 Total	 <u>\$ 2,970,000</u>	 <u>\$ 2,213,512</u>	 <u>\$ 5,183,512</u>

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Thomas K. Van Derzee, C.P.A.  
Debbie Conley Jordan, C.P.A.  
Patrick S. Jordan, C.P.A.  
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Lesley L. Horner, C.P.A.

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**Ciaschi • Dietershagen • Little • Mickelson  
& Company, LLP**

*Certified Public Accountants and Consultants*

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Frederick J. Ciaschi, C.P.A.  
John E. Little, C.P.A.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
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 basic financial statements of the Schuyler Tobacco Asset Securitization Corporation, a component unit of the County of Schuyler, as of and for the year ended December 31, 2004, and have issued our report thereon dated April 26, 2005. 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.

Compliance

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 grants, 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.

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 in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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.

*Ciaschi, Dietershagen, Little, Mickelson & Company LLP*

April 26, 2005  
Ithaca, New York

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