STEUBEN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Steuben, New York)

Basic Financial Statements as of
December 31, 2009 and 2008
Together with
Independent Auditors' Report

Bonadio & Co., LLP
Certified Public Accountants

STEUBEN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Steuben, New York)

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Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

March 15, 2010

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

We have audited the accompanying financial statements of the governmental activities and major fund of the Steuben Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of the County of Steuben, New York, as of and for the years ended December 31, 2009 and 2008, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Steuben Tobacco Asset Securitization Corporation as of December 31, 2009 and 2008, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2010, on our consideration of the Steuben Tobacco Asset Securitization Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

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INDEPENDENT AUDITORS' REPORT
(Continued)

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States. 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.

Bonadio & Co., LLP

The following Management's Discussion and Analysis (MD&A) provides a comprehensive overview of the Steuben Tobacco Asset Securitization Corporation's (the Corporation) financial position as of December 31, 2009 and 2008 and its changes in financial position for the years then ended. This MD&A should be read in conjunction with the financial statements and related footnotes of the Corporation, which directly follow the MD&A.

General Overview
The Corporation is a special purpose, bankruptcy remote local development corporation organized under the Not-For-Profit Corporation Laws of the State of New York (the State). The Corporation was established on October 3, 2000; however, there were no substantive operations until October 15, 2000. The Corporation is an instrumentality of, but separate and apart from the County of Steuben, New York (the County). Pursuant to a Purchase and Sale Agreement with the County, the County sold to the Corporation all of its future rights, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgment (the Decree). The MSA resolved cigarette smoking related litigation between the settling states and the Participating Manufacturers (PMs), released the PMs from past and present smoking related claims, and provided for a continuing release of future smoking related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future rights, title and interest of the County's share were sold to the Corporation and were financed by the issuance of bonds.

Overview of the Financial Statements
The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB). The financial statement presentation consists of the following four basic financial statements:

- Statement of Net Assets
- Statement of Activities and Change in Net Assets
- Governmental Fund Balance Sheet
- Statement of Governmental Fund Revenues, Expenditures, and Change in Fund Balance

The Statement of Net Assets and the Statement of Activities and Change in Net Assets are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, assets and liabilities resulting from non-exchange transactions are recognized when the amounts to be received are measurable and collection is probable. The Governmental Fund Balance Sheet and the Statement of Governmental Fund Revenues, Expenditures and Change in Fund Balance are presented using the current financial resources measurement focus and the modified accrual basis of accounting. These policies are more fully described in the accompanying notes to the basic financial statements.

Overview of the Financial Statements (Continued)
The Statement of Net Assets presents all of the Corporation's asset and liability information, with the difference between the two reported as net assets. Fluctuations in net assets can be a useful indicator of the Corporation's financial position. Restricted net assets are those that are restricted based on externally imposed conditions and consist of funds in the debt service and liquidity reserve accounts. These accounts were established to provide for debt service payments for at least one year in the event of insufficient revenues. All other net assets are considered unrestricted.

The Statement of Activities and Change in Net Assets presents all of the Corporation's revenues, both program and general, expenses, and transfers.

The Governmental Fund Balance Sheet presents the Corporation's assets, liabilities and fund balance. This statement uses the debt service fund, a governmental fund type, to report its financial position.

The Statement of Governmental Fund Revenues, Expenditures, and Change in Fund Balance presents the changes in financial position of the debt service fund.

Financial Highlights
The Corporation reported a net deficit (i.e., liabilities in excess of assets) of $28,423 as of December 31, 2009, a decrease in the net deficit of $1,539 from the prior year.

There were no new debt obligations issued or other major transactions during 2009. Required payments were made in 2007 through and including 2009 against bonds issued in 2005 based upon the TSRs received by the Corporation.

Condensed Statement of
Net Assets
(In thousands)

	2009	2008	2007
Total assets	$ 3,648	$ 3,665	$ 3,600
Bonds payable	30,034	30,435	31,475
Other liabilities	2,037	3,192	927
Total liabilities	32,071	33,627	32,402
Net assets	$ (28,423)	$ (29,962)	$ (28,802)

Total Assets
The total assets remained relatively unchanged from 2008 to 2009 ($3,665 and $3,648, respectively). The decrease in total assets from 2008 to 2009 was primarily due to a decrease in investments of approximately $61, offset by an increase in TSR receivable of approximately $51. The decrease in investments is primarily due to a reduction in the Debt Service fund balance to meet the interest and principal payment requirements on the Series 2005 Bonds. The increase in accounts receivable was the result of anticipated 2010 TSRs being greater than those that were expected in 2009. The total assets remained relatively unchanged from 2007 to 2008 ($3,600 and $3,665, respectively). The increase in total assets from 2007 to 2008 was primarily due to an increase in TSR receivable.

Financial Highlights (Continued)

Total Liabilities

The decrease in total liabilities from 2008 to 2009 of $1,556 reflects the decrease in accrued interest payable on outstanding bonds (approximately $1,157) and a decrease in bonds payable (approximately $401). The increase in total liabilities from 2007 to 2008 of $1,225 reflects the increase in accrued interest payable on outstanding bonds and a decrease in bonds payable.

Total Net Assets

The decrease in the net deficit from 2008 to 2009 of approximately $1,539 was primarily due to the decrease in interest and amortization expense (approximately $2,701) and an increase in TSRs (approximately $139). The increase in the net deficit from 2007 to 2008 of approximately $1,160 was primarily due to the increase in interest and amortization expense (approximately $984).

Statement of Activities
And Change in Net Assets
(In thousands)

	2009	2008	2007
Expenses:			
General government -			
Materials and services	$ 17	$ 12	$ 7
Administrative costs	32	24	24
Interest, amortization and fees	303	3,004	2,020
Total expenses	352	3,040	2,051
Program revenues - tobacco settlement	1,891	1,752	1,739
Net program revenue	1,539	(1,288)	(312)
General revenues - investment income	-	128	142
Change in net assets	1,539	(1,160)	(170)
Net assets - beginning of year	(29,962)	(27,441)	(27,271)
Prior period adjustment	-	(1,361)	-
Net assets - end of year	$ (28,423)	$ (29,962)	$ (27,441)

Expenses

Expenses incurred in 2009 were less than those incurred in 2008. This decrease was due to a decrease in the amount of interest recorded in 2009. Expenses incurred in 2008 were more than those incurred in 2007. This increase was due to an increase in the amount of interest recorded in 2008.

Revenues

Total revenues recorded during 2009 were relatively unchanged from those recorded in 2008. TSRs increased by $139 in 2009 over 2008, but were offset by investment income decreasing by $128 due to the decrease in rates for securities held at December 31, 2009 from 2008. Revenues recorded during 2008 were relatively unchanged from those recorded in 2007. TSRs increased in 2008, but were offset by a decrease in interest income due to the decrease in interest rates paid against money market funds during 2008 compared to 2007.

Financial Analysis of the Corporation's Fund Financial Statements
The Corporation uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

The focus of the Corporation's governmental fund reporting is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Corporation's financing requirements. In particular, Unreserved - undesignated fund balance may serve as a useful measure of the Corporation's net resources available for spending at the end of the year.

As of December 31, 2009, the Corporation's debt service fund reported an ending balance of $1,886, a decrease of $70 from the prior year. Approximately $96 of fund balance is unreserved fund balance and is available for the Corporation's future needs. The remainder of fund balance is reserved, which indicates that it is not available for spending, since it has already been committed to pay future debt service and fund future bond issuance costs.

As of December 31, 2008, the Corporation's debt service fund reported an ending fund balance of $1,956, a decrease of $19 from the prior year. Approximately $104 of fund balance is unreserved fund balance and is available for the Corporation's future needs. The remainder of fund balance is reserved, which indicates that it is not available for spending since it has already been committed to pay future debt service and fund future bond issuance costs.

Debt Service
Debt obligations of the Corporation as of December 31, 2009 consist of the Series 2005 Tobacco Settlement Asset-Backed Bonds, the proceeds of which were used to advance refund/defease the remaining outstanding Series 2000 bonds (which were originally issued to purchase the rights to the future TSRs due to the County), pay the Trust, and to pay related costs of issuance of the Series 2005 bonds. The total amount of the Series 2005 bonds outstanding at December 31, 2009 was $30,034. The 2005 Series bonds were not rated since they were sold to the New York Counties Tobacco Trust IV and New York Counties Tobacco Trust V, unrelated trusts established by participating local development corporations, including the Corporation. The 2005 bonds were structured, however, to enable the New York Counties Tobacco Trust IV and V bonds to attain the following ratings:

Bond Series IV	Standard & Poor's	Fitch
2005A	BBB -	BBB
2005B	BBB -	BBB
2005C	BBB -	BBB
2005D	Non-rated	BBB -
2005E	Non-rated	BB
2010A	Non-rated	BBB

Debt Service (Continued)
The Series 2005 Trust IV bonds are composed of the following:

- $14,755,000 Tobacco Settlement Asset-Backed Bonds, Series 2005A (Tax Exempt Turbo Bonds), maturity date is June 1, 2042, interest rate of 5.00%.
- $3,290,000 Tobacco Settlement Asset-Backed Bonds, Series 2005B (Taxable Turbo Bonds), maturity date is June 1, 2027, interest rate of 6.00%.
- $8,300,000 Tobacco Settlement Asset-Backed Bonds, Series 2005C (Taxable Turbo Bonds), maturity date is June 1, 2041 with a mandatory redemption date of June 1, 2010, and interest rate of 6.65%.
- $1,090,190 Tobacco Settlement Asset-Backed Bonds, Series 2005D (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2050, interest rate of 0.00%, with an accreted value at maturity of $14,565,000.
- $1,188,760 Tobacco Settlement Asset-Backed Bonds, Series 2005E (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2055, interest rate of 0.00%, with an accreted value at maturity of $27,005,000.

In addition, the Corporation entered into a forward purchase contract in connection with the issuance of Tobacco Settlement Asset-Backed Bonds, Series 2010A (Tax Exempt Turbo Term Bonds) to be in an amount equal to the amount of Series 2005C bonds outstanding on the date of issuance of the 2010A bonds. The 2010A bonds will have a maturity date of June 1, 2041 and an interest rate of 6.25%, when issued.

Bond Series V	Standard & Poor's	Fitch
2005 S4B	Non-rated	Non-rated

The Series 2005 Trust V bonds are composed of the following:

- $3,323,840 Tobacco Settlement Asset-Backed Bonds, Series 2005 S4B (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2060, with an accreted value at maturity of $221,000,000.

Turbo bonds are subject to prepayment from Turbo Redemption Payments. Turbo Redemption Payments are made from collections (other than partial and lump sum payments) in excess of the amount needed to pay certain operating expenses. To the extent possible, the Turbo Redemption Payments will amortize the Series 2005 bonds earlier than their maturity dates at their accreted values. Turbo Redemption payments of $435,000 and $330,000 were made in 2009 and 2008, respectively, against the Series 2005 bonds.

Payments on the outstanding capital appreciation bonds are based on the accreted value of the bonds at their stated maturity. The accretion of these capital appreciation bonds over their life results in the recognition of substantial annual costs until the capital appreciation bonds are redeemed. Reference should be made to the Bonds Payable footnote in the financial statements for a summary of the required principal and interest (which includes accretion of the capital appreciation bonds) payments.

Contacting the Corporation
This financial report is designed to provide 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 the Treasurer, Steuben Tobacco Asset Securitization Corporation, 3 E. Pulteney Square, Bath, NY 14810.

STEUBEN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Steuben, New York)

STATEMENT OF NET ASSETS
DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash	$ 98,277	$ 95,483
Tobacco settlement revenues receivable	1,759,276	1,708,743
Interest and dividend income receivable	40	9,148
Total current assets	1,857,593	1,813,374
INVESTMENTS	1,790,186	1,851,553
Total assets	3,647,779	3,664,927
LIABILITIES		
CURRENT LIABILITIES:		
Due to Steuben County	2,260	-
Current portion bonds payable	105,000	65,000
Accrued interest	2,035,034	3,192,421
Total current liabilities	2,142,294	3,257,421
BONDS PAYABLE, net of current portion	29,928,574	30,369,968
Total liabilities	32,070,868	33,627,389
NET ASSETS		
Restricted for debt service	1,790,186	1,851,553
Unrestricted	(30,213,275)	(31,814,015)
Net assets	$ (28,423,089)	$ (29,962,462)

The accompanying notes are an integral part of these statements.

STEUBEN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Steuben, New York)

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
EXPENSES:		
General government -		
Materials and services	$ 16,594	$ 12,256
Administrative costs	31,711	23,981
Interest, amortization and fees	303,169	3,004,403
Total expenses	351,474	3,040,640
PROGRAM REVENUE:		
Tobacco settlement revenues	1,890,847	1,752,573
Net program revenues	1,539,373	(1,288,067)
GENERAL REVENUES - INVESTMENT INCOME	-	128,233
CHANGE IN NET ASSETS	1,539,373	(1,159,834)
NET ASSETS - beginning of year, as previously reported	(29,962,462)	(27,441,340)
PRIOR PERIOD ADJUSTMENT (NOTE 3)	-	(1,361,288)
NET ASSETS - beginning of year, as restated	(29,962,462)	(28,802,628)
NET ASSETS - end of year	$ (28,423,089)	$ (29,962,462)

The accompanying notes are an integral part of these statements.

STEUBEN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Steuben, New York)

GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
Cash	$ 98,277	$ 95,483
Accounts receivable	1,759,276	1,708,743
Accrued interest receivable	40	9,148
Restricted cash and cash equivalents	1,790,186	1,851,553
Total assets	$ 3,647,779	$ 3,664,927
LIABILITIES AND FUND BALANCES		
LIABILITIES:		
Due to Steuben County	$ 2,260	$ -
Deferred revenue	1,759,276	1,708,743
Total liabilities	1,761,536	1,708,743
FUND BALANCES:		
Reserved for -		
Debt service	1,790,186	1,851,553
Unreserved - undesignated	96,057	104,631
Total fund balances	1,886,243	1,956,184
Total liabilities and fund balances	$ 3,647,779	$ 3,664,927

Amounts reported for governmental activities in the statement of net assets are different because:

	2009	2008
Total fund balances	$ 1,886,243	$ 1,956,184
Tobacco settlement revenue was not received in the current period and therefore, is not reported as revenues at the fund level	1,759,276	1,708,743
Bonds payable and accrued interest are not due and payable in the current period and therefore, are not reported at the fund level	(32,068,608)	(33,627,389)
Total net assets	$ (28,423,089)	$ (29,962,462)

The accompanying notes are an integral part of these statements.

STEUBEN TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Steuben, New York)

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
REVENUES:		
Tobacco settlement	$ 1,840,314	$ 1,668,830
Interest and dividends	-	128,233
Total revenues	1,840,314	1,797,063
EXPENDITURES:		
General and administrative	16,594	12,256
Administrative costs	31,711	23,981
Debt service - principal	435,000	330,000
Debt service - interest and trustee fees	1,426,950	1,449,900
Total expenditures	1,910,255	1,816,137
NET CHANGE IN FUND BALANCES	(69,941)	(19,074)
FUND BALANCES - beginning of year	1,956,184	1,975,258
FUND BALANCES - end of year	$ 1,886,243	$ 1,956,184
Amounts reported for governmental activities in the statements of activities are different because:		
Net change in fund balances	$ (69,941)	$ (19,074)
Tobacco settlement revenues reported in the statement of activities were not received in time to pay current financial obligations and therefore, have not been reported as revenue in the governmental fund	50,533	83,743
Certain expenses reported in the statement of activities (amortization of bond issuance costs and the bond discount) do not require the use of current financialresources and therefore, are not reported as expenditures in the governmental fund	(33,606)	(33,606)
The net effect of bond repayments and interest expense are activities of the governmental fund but not reported in the statement of activities	1,592,387	(1,190,897)
Change in net assets	$ 1,539,373	$ (1,159,834)

The accompanying notes are an integral part of these statements.

1. ORGANIZATION

The Steuben Tobacco Asset Securitization Corporation (the Corporation) is a special purpose, bankruptcy remote local development corporation organized under the Not-For-Profit Corporation Law of the State of New York (the State). The Corporation was established on October 3, 2000. The Corporation is an instrumentality of, but separate and apart from the County of Steuben, New York (the County). The Corporation will have not less than three nor more than five directors, consisting of Ex-Officio Directors during the tenure of their respective offices in the County, and Appointed Directors who will serve 1-year terms. Although legally separate from the County, the Corporation is a component unit of the County and, accordingly, is included in the County's basic financial statements as a blended component unit.

On October 15, 2000, pursuant to a Purchase and Sale Agreement with the County, the County sold to the Corporation all of its future rights, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgment (the Decree). The MSA resolved cigarette smoking related litigation between the settling states and the Participating Manufacturers (PMs), released the PMs from past and present smoking related claims, and provided for a continuing release of future smoking related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered into by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future rights, title and interest of the County's share were sold to the Corporation.

The Corporation's purchase of the County's future rights, title and interest in the TSRs was financed by the original Series 2000 bond issuance. A Residual Certificate exists which represents the entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses and certain other costs of the Corporation as set forth in the indenture. Payments on the Residual Certificate from TSR collections are subordinate to payments on the bonds and payment of certain other costs specified in the indenture. Excess TSRs not required by the Corporation to pay various expenses, debt service or required reserves with respect to the bonds are transferred to the Steuben TASC Residual Trust (the Trust), as owner of the Residual Certificate. The County is the beneficial owner of the Trust and thus the funds received by the Trust will ultimately transfer to the County.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Corporation's financial statements are prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB). The Corporation's 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Corporation's 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 both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments, are recorded only when payment is due.

The major governmental fund, currently the Corporation's only fund, is the Debt Service Fund. The Debt Service Fund accounts for the resources accumulated and payments made for operations and principal debt service on long-term general obligation debt.

Net Assets

Generally accepted accounting principles require that resources be classified for accounting purposes into applicable net asset categories.

Unrestricted net assets are net assets that are not restricted, but which may be internally designated by the Board of Directors. At December 31, 2009 and 2008, there were no internally designated net assets.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted net assets of the Corporation are those net assets that are restricted based on externally imposed conditions and include amounts restricted for debt service and bond issuance costs.

The Corporation has adopted a practice of utilizing its restricted net assets when available, prior to unrestricted net assets.

Cash and Cash Equivalents

The Corporation considers bank deposit accounts and all highly liquid debt instruments with remaining maturities, when purchased, of 12 months or less to be cash equivalents and these are stated at fair value. The Corporation maintains a liquidity reserve account, which was initially funded from the Series 2000 bond proceeds and has been increased by funds from the Series 2005 bonds. This account must be maintained at a minimum of $1,725,625 until such time that all bonds, other than subordinated bonds, are paid. All amounts withdrawn from this account are replenished, as needed, and amounts in excess of the required amount are transferred out. This account is included in restricted cash and cash equivalents on the balance sheet. At December 31, 2009 and 2008, the balance in the liquidity reserve account was $1,725,640 and $1,780,799, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Bond Original Issue Discount

The Corporation recognizes original issue discount fully in the year of issuance for the governmental fund statements. These costs are amortized over the term of the related bonds for the government-wide financial statements as additional interest expense. The Corporation recognizes all interest paid as interest expenditures on the modified accrual basis for the governmental fund statements and all interest incurred as expenses on the full accrual basis for the government-wide financial statements. Bond discount expense was $33,606 for each of the years ended December 31, 2009 and 2008. Accumulated amortization on bond discounts was $134,423 and $100,818 for the years ended December 31, 2009 and 2008, respectively.

Deferred Revenue

Deferred revenue represents amounts earned under the modified accrual basis of accounting used in the Debt Service Fund, but not meeting the definition of available for use.

Income Taxes

The Corporation is a not-for-profit corporation and is exempt from income taxes as an organization qualified under Section 501(c)(3) of the Internal Revenue Code. The Corporation has also been classified by the Internal Revenue Service as an entity that is not a private foundation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. PRIOR PERIOD ADJUSTMENT

The financial statements for the year ended December 31, 2007 were presented improperly because accretion on the CABs was not calculated correctly. The accrued interest liability was understated. Accretion was calculated using the global consumption case rather than the turbo schedule. The global consumption case has not occurred to date and is not expected to occur. Therefore, the debt schedules should be based on maturities as detailed in the offering sheet. The correction of this error affects the December 31, 2008 government-wide financial statements as an increase to accrued interest payable and an increase in the net deficit by $927,916. The correction of this error does not affect the fund balance for the fund-level statements of the Corporation as of December 31, 2007.

In addition, the financial statements for the year ended December 31, 2007 were also presented improperly because the bond issuance costs related to the Series 2000 bonds and the related accumulated amortization expense, were recorded as an asset on the Statement of Net Assets. These bonds were advance refunded by depositing a portion of the Series 2005 bond into an irrevocable trust with an escrow agent and the balance of the bond issuance costs were expensed (see Note 5). The correction of this error affected the government-wide financial statements as an decrease to bond issuance costs and an increase in the net deficit by $433,372. The correction of this error does not affect the fund balance for the fund-level statements of the Corporation as of December 31, 2007.

4. DEPOSITS AND INVESTMENTS

Investment and Deposit Policy

The Corporation follows an investment and deposit policy as outlined in the bond indenture, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; provide sufficient liquidity of invested funds in order to meet obligations as they become due; and attainment of a market rate of return. Oversight of investment activity is the responsibility of the Treasurer of the Corporation.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The Corporation has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Corporation's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. The Corporation's investment and deposit policy follows the eligible investments defined in the indenture. The Corporation adheres to the following guidelines:

- Obligations of the United States of America;
- Obligations guaranteed by the United States of America where payment of principal and interest are guaranteed by the United States of America;
- Obligations of the State of New York;
- Special time deposit accounts;
- Certificates of Deposit;
- Obligations of public authorities, public housing authorities, urban renewal agencies, and industrial development agencies where the general State statutes governing such entities or whose specific enabling legislation authorizes such investments;
- Obligations issued pursuant to New York State Local Finance Law Section 24.00 and 25.00 (with approval of the New York State Comptroller) by any municipality, school district or district corporation other than the Corporation; and
- Eligible investments, as defined in the indenture between the Corporation and Manufacturers and Traders Trust Company, as trustee, as amended from time to time.

Custodial Credit Risk - Deposits

Custodial credit risk - deposits is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Corporation's investment and deposit policy, all deposits of the Corporation including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Corporation (FDIC) shall be secured by a pledge of securities with an aggregate value equal to the aggregate amount of deposits. The Corporation does not have a collateral agreement in place as required by its investment policy but would restrict the securities to the following eligible items:

- Obligations issued, or fully insured or guaranteed as to the payment of principal and interest, by the United States of America, an agency thereof or a United States government sponsored corporation;
- Obligations issued or fully guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank;
- Obligations partially insured or guaranteed by any agency of the United States of America at a proportion of the market value of the obligation that represents the amount of insurance or guaranty;

4. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits (Continued)

- Obligations issued or fully insured or guaranteed by the State of New York, obligations issued by a municipal corporation, a school district or district corporation of such State or obligations of any public benefit corporation which under a specific State statute may be accepted as security for deposit of public moneys;
- Obligations issued by states (other than the State of New York) of the United States rated in one of the three highest rating categories by at least one Nationally Recognized Statistical Rating Organization (NRSRO);
- Obligations of Puerto Rico rated in one of the three highest rating categories by at least one NRSRO;
- Obligations of counties, cities and other governmental entities of a state other than the State of New York having the power to levy taxes that are backed by the full faith and credit of such governmental entity and rated in one of the three highest categories by at least one NRSRO;
- Obligations of domestic corporations rated in one of the two highest rating categories by at least one NRSRO;
- Any mortgage related securities, as defined in the Securities Exchange Act of 1934, as amended, which may be purchased by banks under the limitations established by bank regulatory agencies;
- Commercial paper and bankers' acceptances issued by a bank, other than the Corporation’s bank, rated in the highest short term category by at least one NRSRO and having maturities of not longer than 60 days form the date they are pledged; and
- Zero coupon obligations of the United States of America marketed as “treasury strips.”

As of December 31, 2009 and 2008, the carrying amount of the Corporation’s cash and cash equivalents was $98,277 and $95,483, respectively, and was exposed to custodial credit risk as follows:

	2009	2008
Federal Depository Insurance Coverage	$ 98,277	$ 95,483
Collateralization rate	100%	100%

Custodial Credit Risk - Investments

Custodial credit risk - investments is the risk that an entity will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails. The Corporation’s investment and deposit policy requires that all custodial investments be registered or insured in the Corporation’s name and held in the custody of the bank or the bank’s trust department. The Corporation requires that all repurchase agreements be limited to obligations of the United States of America or obligations whose principal and interest are fully guaranteed, or insured by the United States of America. As of December 31, 2009 and 2008, the Corporation’s investments, with maturities of less than one year, were in compliance with the investment and deposit policy as follows:

	2009	2008
Money market fund (U.S. Treasuries)	$ 1,790,186	$ 1,851,553

Concentration of Credit Risk

The Corporation places no limit on the amount that may be invested in any one issuer. At December 31, 2009 and 2008, all amounts were held by one bank.

5. ADVANCE REFUNDING/DEFEASANCE OF SERIES 2000 BONDS

Payments of $475,000 and $440,000 were made against the $19,363,332 defeased Series 2000 bonds on June 1, 2009 and 2008, respectively. Cumulative payments of $1,735,000 and $1,260,000 have been made leaving an outstanding balance of $17,628,332 and $18,103,332 as of December 31, 2009 and 2008, respectively.

6. BONDS PAYABLE

The Corporation issued $28,623,950 of Series 2005 Trust IV Tobacco Asset-Backed bonds in August 2005 and $3,323,840 in Series 2005 Trust V Tobacco Asset-Backed bonds in November 2005. The Series 2005 bonds are secured by a perfected security interest in, and pledge of, the Trust Estate, as defined in the Indenture, which includes, among other things, the TSRs and all investment earnings on amounts on deposit in the accounts established under the Indenture (collectively, the Collections). Among the accounts so established are the Liquidity Reserve Account and the Debt Service Account. The Corporation retains TSRs in an amount sufficient to service its debt and pay its operating expenses.

The Series 2005 bonds are payable solely from and secured solely by the future right, title and interest of the Corporation in the collection of TSRs previously purchased by the Corporation from the County. This series consists of subordinate turbo capital appreciation bonds that provide long-dated financing for the Corporation and take advantage of current market conditions where interest rates are low, investors have a favorable view of litigation events and where institutional investors are looking for high yield investments. The Corporation is required to covenant not to issue additional bonds or refunding bonds that would extend the term of the capital appreciation bonds or other outstanding bonds.

The Series 2005 Trust IV bonds are composed of the following:

- $14,755,000 Tobacco Settlement Asset-Backed Bonds, Series 2005A (Tax Exempt Turbo Bonds), maturity date is June 1, 2042, interest rate of 5.00%.
- $3,290,000 Tobacco Settlement Asset-Backed Bonds, Series 2005B (Taxable Turbo Bonds), maturity date is June 1, 2027, interest rate of 6.00%.
- $8,300,000 Tobacco Settlement Asset-Backed Bonds, Series 2005C (Taxable Turbo Bonds), maturity date is June 1, 2041 with a mandatory redemption date of June 1, 2010, interest rate of 6.65%.
- $1,090,190 Tobacco Settlement Asset-Backed Bonds, Series 2005D (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2050, interest rate of 0.00%, with an accreted value at maturity of $14,565,000.
- $1,188,760 Tobacco Settlement Asset-Backed Bonds, Series 2005E (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2055, interest rate of 0.00%, with an accreted value at maturity of $27,005,000.

The Series 2005 Trust V bonds are composed of the following:

- $3,323,840 Tobacco Settlement Asset-Backed Bonds, Series 2005 S4B (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2060, with an accreted value at maturity of $221,000,000.

6. BONDS PAYABLE (Continued)

Long-term indebtedness for the Corporation's bonds payable consisted of the following:

	2009	2008
Balance - beginning of year	$ 31,162,790	$ 31,492,790
Repayments of bonds	(435,000)	(330,000)
Balance - end of year	$ 30,727,790	$ 31,162,790
Required payments due within one year	$ 105,000	$ 65,000

Principal and interest payments (including accretion on capital appreciation bonds) based upon the required maturities are as follows for the years ended December 31:

	Principal	Interest/ Accretion	Total
2010	$ 105,000	$ 1,979,430	$ 2,084,430
2011	165,000	2,011,078	2,176,078
2012	185,000	2,044,053	2,229,053
2013	195,000	2,080,985	2,275,985
2014	215,000	2,117,702	2,332,702
2015 - 2019	1,205,000	11,168,464	12,373,464
2020 - 2024	1,400,000	12,818,681	14,218,681
2025 - 2029	3,000,000	14,840,898	17,840,898
2030 - 2034	4,130,000	17,753,588	21,883,588
2035 - 2039	5,660,000	22,262,815	27,922,815
2040 - 2044	7,235,000	29,179,564	36,414,564
2045 - 2049	1,630,000	40,211,416	41,841,416
2050 - 2054	1,090,190	53,701,340	54,791,530
2055 - 2059	1,188,760	68,787,535	69,976,295
2060	3,323,840	8,347,170	11,671,010
	$ 30,727,790	$ 289,304,719	$ 320,032,509

Bonds payable as recorded on the Statement of Net Assets consist of the following as of December 31, 2009:

	Bond Principal	Bond Discount	Total
Beginning balance, 1/1/09	$ 31,162,790	$ (727,822)	$ 30,434,968
Principal payment	(435,000)	-	(435,000)
Amortization	-	33,606	33,606
Ending balance, 12/31/09	$ 30,727,790	$ (694,216)	$ 30,033,574

6. BONDS PAYABLE (Continued)

Required maturities for the Series 2005 bonds represent the minimum amount of principal that the Corporation must pay as of the specific distribution dates in order to avoid a default. Turbo (accelerated) amortization payments are required to be made against outstanding principal providing that the Corporation receives sufficient TSRs to make the Turbo payments. The interest payment requirements shown are based on the required principal maturity schedule and include the accreted value portion of capital appreciation bonds in the year in which they are required to be redeemed. The schedule also assumes that the Series 2005C bonds will be retired and replaced at their initial par value by Series 2010A bonds, in accordance with the Indenture. The Series 2010A bonds will be issued under a forward bond purchase contract and will have a maturity date of June 1, 2041 and an interest rate of 6.25%.

Under the terms of the Indenture, the Corporation is required to maintain certain deposits to fund debt service payments, if needed. Such deposits are included in investments in the basic financial statements. In addition, the Corporation is subject to various debt covenants, including limitations on expenses/expenditures, and compliance with Indenture agreement requirements. The Corporation was in compliance with all covenants and Indenture agreement requirements at December 31, 2009 and 2008.

Principal payments of $435,000 and $330,000 were made during 2009 and 2008, respectively, in accordance with the Series 2005 bonds.

The Corporation had the following reserve funds as of December 31:

Investments	2009	2008
Liquidity reserve	$ 1,725,640	$ 1,780,799
Collection account	3,433	4,974
Debt service reserve	13,355	14,435
Turbo redemption account	1,279	4,874
Bond issuance and rebate cost reserve	46,479	46,471
Total	$ 1,790,186	$ 1,851,553

Interest
Interest expense on bonds payable was $269,563 and $1,567,475 in 2009 and 2008, respectively. In 2009 and 2008, cash paid for interest was $1,426,950 and $1,449,900, respectively.

7. CONTINGENCIES

Future TSRs are subject to adjustment based upon tobacco consumption, inflation and other factors. Pursuant to the Indenture, these adjustments and other events could trigger additional debt service reserve requirements.

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Bonadio & Co., LLP
Certified Public Accountants

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*

March 15, 2010

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

We have audited the financial statements of the governmental activities and the major fund of Steuben Tobacco Asset Securitization Corporation (the Corporation), as of and for the year ended December 31, 2009, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated March 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 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 the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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.

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.

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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*
(Continued)

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Corporation in a separate letter dated March 2010.

This report is intended solely for the information and use of management, the Board of Directors and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP