

**BROOME TOBACCO ASSET
SECURITIZATION CORPORATION**

**(A Blended Component Unit of the
County of Broome, New York)**

Basic Financial Statements

December 31, 2011

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

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Broome Tobacco Asset Securitization Corporation:

We have audited the accompanying financial statements of the governmental activities and fund information of Broome Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of the County of Broome, as of and for the year ended December 31, 2011, 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 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 financial position of the governmental activities and fund information of the Corporation, as of December 31, 2011, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 23, 2012 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Toski & Co., CPAs, P.C.

Williamsville, New York
July 23, 2012

BROOME TOBACCO ASSET SECURITIZATION CORPORATION

Management's Discussion and Analysis

December 31, 2011

This section of Broome Tobacco Asset Securitization Corporation's (the Corporation) basic financial statements presents the discussion and analysis of the Corporation's financial performance during 2011. It should be read in conjunction with the financial statements and their associated notes which follow this section to properly evaluate the Corporation's financial position. The financial statements present only the information for the year ended December 31, 2011.

The Basic Financial Statements

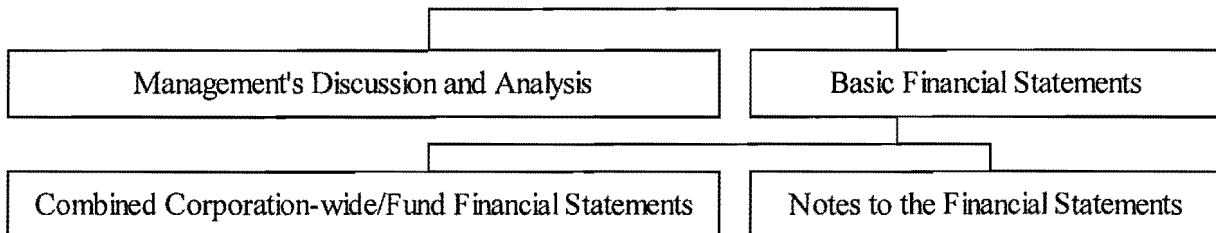
This Financial Report consists of two parts, Management's Discussion and Analysis and the basic financial statements with accompanying notes. The basic financial statements of the Corporation are presented as a special purpose corporation engaged in a single governmental program. The Corporation-wide and fund financial statements are presented in a combined format. Although combined, the basic financial statements present two different views of the Corporation.

The first column of each statement presents the fund financial statement view. This shows how the Corporation's activities were financed in 2011, as well as what resources remain to fund future activities. Its presentation uses the accounting methods traditionally associated with Governmental Funds, the current resource measurement focus and modified accrual basis of accounting.

The third column of each of the statements presents the Corporation-wide (Government-wide) statement view. It provides both short-term and long-term information about the Corporation's overall financial position. This presentation uses accounting methods similar to those employed by for-profit companies in the private sector, the economic resource measurement focus and full accrual.

The second column of each of the statements presents adjustments necessary to reconcile the differences between the two statements. The notes to the basic financial statements are referenced to provide further explanation of adjustments, when appropriate.

Components of the Corporation's Annual Financial Report



BROOME TOBACCO ASSET SECURITIZATION CORPORATION
Management's Discussion and Analysis, Continued

	Corporation-wide Statement Column	Fund Financial Statement Column
Scope	Entire Corporation	Corporation activities that are not proprietary or fiduciary
Required financial statements	<ul style="list-style-type: none"> ◆ Statement of net assets ◆ Statement of activities 	<ul style="list-style-type: none"> ◆ Balance sheet ◆ Statement of revenues, expenses, and changes in fund balances
Accounting basis	Accrual	Modified Accrual
Measurement focus	Economic resources	Current financial resources
Asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Assets expected to be used and liabilities due during the year or soon thereafter, no capital assets are included
Inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or disbursed	Revenues for which cash is received during the year or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter

Fund Financial Statement Column

The fund financial statement column provides more information about the Corporation's Major Fund. Funds are self-balancing groups of accounts used to keep track of specific sources of funds and spending for particular purposes.

The Corporation is presented as a Governmental Fund, which focuses on how money flows into and out of the fund. Fund balance remaining at the end of the year is available to be spent in subsequent fiscal years. The fund is reported using the modified accrual method of accounting. This method, emphasizing sources and uses of resources, measures cash and other financial assets that can be converted to cash. The fund financial statement column therefore provides a detailed short-term view of the Corporation.

Because this information does not include the long-term focus of the Corporation-wide statements, an adjustment column is provided reconciling and explaining the relationship and differences between them.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION

Management's Discussion and Analysis, Continued

Corporation-wide Statement Column

The Corporation-wide statement column reports information about the Corporation as a whole. The column includes all of the Corporation's assets and liabilities. All of the current year's revenue and expenses are reported, regardless of when the cash itself is actually received or paid.

The Corporation-wide statement column reports the Corporation's net assets and how they have changed. Net assets, the difference between the assets and liabilities, provide a way to assess the Corporation's financial health or position. Over time, increases or decreases in net assets are an indicator of whether the Corporation's financial position is either improving or deteriorating, respectively.

Financial Analysis of the Corporation as a Whole

Prior year data on the Government-wide level is presented in the Management's Discussion and Analysis only, for a comparative analysis of the data.

The focus of our analysis will be the net assets and related changes as presented in the following tables.

Condensed Schedule of Net Assets (Deficit) (in millions)

	<u>Governmental Activities and Total Corporation</u>		<u>Percent Change</u>
	<u>2010</u>	<u>2011</u>	<u>2010-2011</u>
Cash, cash equivalents, and investments	\$ 4.0	4.0	0.0%
Other assets	<u>4.7</u>	<u>4.7</u>	0.0%
Total assets	<u>8.7</u>	<u>8.7</u>	0.0%
Long-term debt outstanding	65.5	65.8	0.5%
Other liabilities	<u>0.2</u>	<u>0.2</u>	0.0%
Total liabilities	<u>65.7</u>	<u>66.0</u>	0.5%
Restricted	7.0	7.0	0.0%
Unrestricted (deficit)	<u>(64.0)</u>	<u>(64.3)</u>	(0.5%)
Total net (deficit)	<u>\$ (57.0)</u>	<u>(57.3)</u>	(0.5%)

The net deficit increased by \$.3 million from \$(57.0) million to \$(57.3) million, an increase of 0.5%. The table below, and related discussion, will provide the reasons for the change in the net deficit.

The increase in the long-term liabilities accounts for the increase in the deficit.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
Management's Discussion and Analysis, Continued

Condensed Change in Net Assets (in millions)			
	<u>Governmental Activities and Total Corporation</u>		<u>Percent Change</u>
	<u>2010</u>	<u>2011</u>	<u>2010-2011</u>
Revenues:			
Tobacco settlement	\$ 3.1	3.1	0.0%
Interest income	<u>0.2</u>	<u>0.2</u>	0.0%
Total revenues	<u>3.3</u>	<u>3.3</u>	0.0%
Expenses:			
Debt service	3.3	3.5	6.1%
Other	<u>0.1</u>	<u>0.1</u>	0.0%
Total expenses	<u>3.4</u>	<u>3.6</u>	5.9%
Decrease in net assets	(0.1)	(0.3)	(200.0%)
Beginning of year net assets (deficit)	<u>(56.9)</u>	<u>(57.0)</u>	(0.1%)
End of year net assets (deficit)	<u><u>\$ (57.0)</u></u>	<u><u>(57.3)</u></u>	(0.5%)

Net assets decreased due to an increase in debt service costs.

Financial Analysis of the Corporation's Funds

Fund Balances

Total fund balances decreased by \$0.3 million, primarily as a result of the increase in debt service costs.

Long-Term Debt Activity

Payments totaling \$1.3 million were made in 2011 on serial bond issuances of previous years.

Serial bonds principal payments are due annually and interest semiannually. At the end of fiscal year 2011, the Corporation had \$65.8 million in bonds outstanding with accredited interest. This is an increase due to the accredited interest in excess of the scheduled principal payments.

There has been no change to the Corporation's bond rating during 2011 and no legal debt limitations to apply to the Corporation. More detailed information about the Corporation's long-term liabilities is presented in note 3 to the basic financial statements.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
Management's Discussion and Analysis, Continued

Other Known Facts

In June of 2003, Moody's Investor's Service and Standard and Poor's Rating Services downgraded R.J. Reynolds Tobacco Holdings, Inc. (the parent of R.J. Reynolds Tobacco Company, which is an original participating manufacturer) below the threshold established under the Downgrade Trapping Event definition. The Corporation was required to report and comply with the Downgrade Trapping Event as of the first distribution report of 2004. The rating of Reynolds American is now above the allowable threshold and a Downgrade Trapping Event is no longer occurring.

Contacting the Corporation's Financial Management

This financial report is designed to provide our citizens and investors with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the monies it administers. For questions about this report and requests for additional information, contact the Broome Tobacco Asset Securitization Corporation at the Edwin L. Crawford Office Building, P.O. Box 1766, Binghamton, New York, 13902. The Corporation also has a website at www.BroomeTASC.com.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
 Governmental Fund Balance Sheet/Statement of Net Assets (Deficit)
 December 31, 2011

<u>Assets</u>	Debt Service Fund	Adjustments (note 6)	Governmental Activities Statement of Net Assets (Deficit)
Current assets:			
Cash and equivalents	\$ 72,334	-	72,334
Tobacco settlement receivables	-	3,129,975	3,129,975
Interest receivable	20	-	20
Prepaid expense	3,569	-	3,569
Bond issuance costs and discounts, net	-	1,562,146	1,562,146
Total current assets	75,923	4,692,121	4,768,044
Restricted cash and equivalents	730,561	-	730,561
Restricted investments	3,228,584	-	3,228,584
Total assets	<u>\$ 4,035,068</u>	<u>4,692,121</u>	<u>8,727,189</u>
<u>Liabilities</u>			
Liabilities:			
Due to primary government	5,725	-	5,725
Accrued interest	-	191,892	191,892
Long-term liabilities:			
Due within one year	-	1,425,000	1,425,000
Due after one year	-	64,351,150	64,351,150
Total liabilities	5,725	65,968,042	65,973,767
<u>Fund Balances/Net Assets (Deficit)</u>			
Reserved for debt service	3,959,145	(3,959,145)	-
Unreserved - undesignated	70,198	(70,198)	-
Total fund balances	4,029,343	(4,029,343)	-
Total liabilities and fund balances	<u>\$ 4,035,068</u>	<u>61,938,699</u>	<u>65,973,767</u>
Net assets (deficit):			
Restricted for debt service		7,089,120	7,089,120
Unrestricted (deficit)		(64,335,698)	(64,335,698)
Total net assets (deficit)		<u>\$ (57,246,578)</u>	<u>(57,246,578)</u>

See accompanying notes to financial statements.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
Statement of Governmental Fund Revenues, Expenditures,
and Changes in Fund Balance/Statement of Activities
Year ended December 31, 2011

	Debt Service Fund	Adjustments (note 7)	Governmental Activities Statement of Activities
General revenues:			
Tobacco settlement revenues	\$3,069,153	56,980	3,126,133
Interest income	<u>225,303</u>	<u>-</u>	<u>225,303</u>
Total general revenues	<u>3,294,456</u>	<u>56,980</u>	<u>3,351,436</u>
Expenditures/Expenses:			
General and administrative	43,255	-	43,255
Amortization of bond issuance costs and discount	-	51,338	51,338
Debt service:			
Principal	1,340,000	(1,340,000)	-
Interest	<u>1,908,075</u>	<u>1,609,482</u>	<u>3,517,557</u>
Total expenditures/expenses	<u>3,291,330</u>	<u>320,820</u>	<u>3,612,150</u>
Excess (deficiency) of general revenues over expenditures/expenses	<u>3,126</u>	<u>(263,840)</u>	<u>(260,714)</u>
Change in net assets	3,126	(263,840)	(260,714)
Fund balances/net assets (deficit):			
Beginning of year	<u>4,026,217</u>	<u>(61,012,081)</u>	<u>(56,985,864)</u>
End of year	<u>\$4,029,343</u>	<u>(61,275,921)</u>	<u>(57,246,578)</u>

See accompanying notes to financial statements.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION

Notes to Financial Statements

December 31, 2011

(1) Summary of Significant Accounting Policies

(a) Financial Reporting Entity

Broome 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 June 21, 2001, however there were no substantive operations until July 15, 2001 as discussed herein. The Corporation is an instrumentality of, but separate and apart from the County of Broome, New York (the County). The Corporation has four directors, including the County Executive, the County Director of Office of Management and Budget, the Chairman of the County Legislature and one independent director. Although legally separate from the County, the Corporation is a component unit of the County, and accordingly, is included in the County's financial statements as a blended component unit.

On July 15, 2001, pursuant to a Purchase and Sale Agreement with the County, the County sold to the Corporation all of its future right, title and interest in the Tobacco Settlement Revenues (TSR) 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 provides 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.

The purchase price of the County's future right, title and interest in the TSRs has been financed by the issuance of serial bonds. A Residual Certificate exists which represents the entitlement to receive all amounts required to be distributed after the payment of debt service, operating expenses and certain other costs 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 Broome County Tax Stabilization 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.

In 2005 a subordinate serial bond was issued. No payments will be made with respect to principal or interest of the series 2005 bonds until amounts currently due on the Senior Bond (series 2001) have been paid and Senior Indenture Requirements have been satisfied.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(a) Financial Reporting Entity, Continued

In June of 2003, Moody's Investor's Service and Standard and Poor's Rating Services downgraded R.J. Reynolds Tobacco Holdings, Inc. (the parent of R. J. Reynolds Tobacco Company, which is an Original Participating Manufacturer) below the threshold established under the Downgrade Trapping Event definition. The Downgrade Trapping Event will require the Corporation to withhold future payments to the Trustee of the Broome Tobacco Tax Stabilization Trust for the beneficial owner of the Residual Certificate, which is the County of Broome, until the time that the trapping event has been resolved. The rating of Reynolds American is now above the allowable threshold and the Downgrade Trapping Event is no longer occurring.

(b) Basis of Presentation

The Corporation operates as an instrumentality of, but separate from the County. The Corporation is included in the County's reporting entity because three of its four directors are officials of the County and because it exists solely for the benefit of the County. The Corporation is a blended component unit presented as the County's Debt Service Fund.

The Corporation uses one Governmental Fund to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and aid financial management by segregating transactions related to certain functions and activities. The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on long-term debt and supports the operations of the Corporation.

(c) Basis of Accounting

The Corporation follows the modified accrual basis of accounting in its Debt Service Fund, which focuses on changes in available resources, in preparation of the fund financial statements. Under the modified accrual basis of accounting, revenues and related receivables are recorded in the accounting period that they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay the liabilities of the current period (ninety days or less). Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recognized as expenditures to the extent they have matured.

General administration expenditures are direct costs incurred by the Corporation, such as legal and auditing fees, financial advisory fees, printing costs, trustee fees and other related costs. General administration expenditures are paid either from bond proceeds or from TSR's.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(c) Basis of Accounting, Continued

The Corporation utilizes the full accrual basis of accounting, which focuses on changes in total economic resources, in preparation of the Corporation-wide financial statements. Under the full accrual basis of accounting, changes in long-term assets and liabilities are incorporated into the financial statements and revenues and expenses are recorded based on the timing of the underlying transaction without regard for the timing of cash flows. Because the fund financial statements are prepared on a different measurement focus and basis of accounting than the Corporation-wide financial statements, an adjustments column is presented to transform the fund based financial statements into the Corporation-wide financial statements.

(d) Net Assets

Resources are classified for accounting purposes into applicable net asset categories. The Corporation has both restricted and unrestricted net assets.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, or law 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.

Unrestricted net assets are considered all other net assets that are not restricted and may be internally designated.

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

(e) Cash, Cash Equivalents, and Investments

The Corporation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(f) Interest Expenditures/Expense

The Corporation recognizes all interest paid as interest expenditures for the statement of governmental fund revenues, expenditures and changes in fund balance, and as expenses as incurred on the full accrual basis for the statement of activities.

(g) Amortized Bond Issuance Costs and Discounts

The Corporation recognizes bond discounts and issuance costs fully in the year of issuance for the governmental fund statements. Bond discount and issuance costs are deferred and amortized over the life of the related bonds for the Corporation-wide statements.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(h) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America require the Corporation's management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(i) Tax Status

The Corporation received a letter of opinion from its counsel dated August 8, 2001, stating that the Corporation is exempt from federal income tax under section 115(1) of the Internal Revenue Code.

(2) Cash, Equivalents and Investments

The Corporation's cash and cash equivalents, including restricted amounts, consist of bank deposits and short term liquid debt instruments held by the Corporation's agent in the Corporation's name. At December 31, 2011, total cash and equivalents aggregated \$802,895, and the Corporation's bank balance totaled \$802,895.

The Corporation's trustee holds investments for the funds included in the basic financial statements. The Corporation invests in authorized investments as described in the bond resolution including: commercial paper or finance company paper rated "P-1" by Moody's; special time deposit accounts; certificates of deposit; obligations of the United States of America; obligations guaranteed by agencies of the United States of America; obligations of the State of New York; obligations issued pursuant to Local Finance Law Sect. 24.00 or 25.00 (with approval of the State Comptroller) by any municipality, school district or district corporation other than the County of Broome, obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where general State statutes governing such entities or whose specific enabling legislation authorizes such investments; and repurchase agreements limited to obligations of the United States of America and obligations guaranteed by agencies of the United States of America.

All deposits of the Corporation, including money market deposits, are insured under the provisions of the Federal Deposit Insurance Act. Excess deposits are not secured.

Credit Risk - The FCAR commercial paper has an original maturity of six months.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Corporation investment in commercial paper (\$3,228,584) is held by the counter party in the Corporation's name and is not insured.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION

Notes to Financial Statements, Continued

(2) Cash, Equivalents and Investments, Continued

Concentration of Credit Risk - The Corporation places no limit on the amount that it may invest in any one issuer. The entire amount of the Corporation's investments is in HSBC commercial paper and represents 100% of the investments of the Corporation. This investment has an original maturity of six months.

Interest Rate Risk - The Corporation does not have a formal investment policy limiting investment maturities as a means of managing its exposure to fair value losses arising from interest rates.

As of December 31, 2011 the Corporation's investments were as follows:

<u>Investment</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Fair Value</u>
FCAR - Commercial Paper	06/01/12	0.50%	\$ <u>3,228,584</u>

(3) Long-Term Liabilities

As discussed in note 1, the purchase price of the County's future right, title and interest in the TSRs was financed through the issuance of Series 2001 Bonds in the amount of \$50,620,000, bearing interest rates ranging from 5.00% to 6.00% and Series 2005 Bonds in the amount of \$17,654,335, bearing interest rates from 6.00% to 7.85% with a final maturity date of June 1, 2060. The 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 Trapping Account. The Corporation retains TSRs in an amount sufficient to service its debt not otherwise provided for from bond proceeds, and pay its operating expenses, and remits the remaining balance to the Trust (note 1).

Bonds payable activity for the year ended December 31, 2011 was as follows:

	Balance at December 31, <u>2010</u>	<u>Additions</u>	<u>Reductions</u>	Balance at December 31, <u>2011</u>	Due Within <u>One Year</u>
Bonds payable	\$ 58,900,482	-	(1,340,000)	57,560,482	1,425,000
Accreted interest	<u>6,600,020</u>	<u>1,615,648</u>	-	<u>8,215,668</u>	-
Total	\$ <u>65,500,502</u>	<u>1,615,648</u>	<u>(1,340,000)</u>	<u>65,776,150</u>	<u>1,425,000</u>

BROOME TOBACCO ASSET SECURITIZATION CORPORATION

Notes to Financial Statements, Continued

(3) Long-Term Liabilities, Continued

The Corporation's various long-term debt obligations payable at December 31, 2011 are comprised of the following individual issues:

Series 2001 Bonds

<u>Year Ended</u> <u>December 31,</u>	<u>Required Maturities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 390,000	2,743,306	3,133,306
2013	430,000	2,719,731	3,149,731
2014	455,000	2,694,288	3,149,288
2015	500,000	2,666,206	3,166,206
2016	570,000	2,634,106	3,204,106
2017 - 2021	5,425,000	12,456,476	17,881,476
2022 - 2026	7,445,000	10,693,873	18,138,873
2027 - 2031	8,050,000	8,546,313	16,596,313
2032 - 2036	8,320,000	6,288,395	14,608,395
2037 - 2041	11,675,000	3,482,631	15,157,631
2042 - 2043	5,935,000	345,719	6,280,719
Total	<u>\$ 49,195,000</u>	<u>55,271,044</u>	<u>104,466,044</u>

<u>Year Ended</u> <u>December 31,</u>	<u>Flexible Amortization Payments</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,425,000	2,302,700	3,727,700
2013	1,525,000	2,223,213	3,748,213
2014	1,580,000	2,139,494	3,719,494
2015	1,625,000	2,050,700	3,675,700
2016	1,765,000	1,953,809	3,718,809
2017 - 2021	12,105,000	7,933,047	20,038,047
2022 - 2026	16,500,000	3,849,642	20,349,642
2027 - 2028	4,795,000	192,477	4,987,477
Total	<u>\$ 41,320,000</u>	<u>22,645,082</u>	<u>63,965,082</u>

BROOME TOBACCO ASSET SECURITIZATION CORPORATION

Notes to Financial Statements, Continued

(3) Long-Term Liabilities, Continued

Required maturities for these bonds represent the minimum amount of principal the Corporation must pay as of the specific distribution dates in order to avoid a default. The flexible amortization payments represent the amount of principal the Corporation has covenanted to pay to the extent of available TSRs collected. The Corporation is currently making payments according to the flexible amortization schedule. The required maturities table is shown for comparative purposes only. In the event the Corporation begins to make payments according to the required maturities schedule, future principal and interest payments would be adjusted for prior payments made.

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.

However, 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 2001 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 following table. It is expected that the Corporation will make payments based on this amortization. The column entitled, "Accreted Interest," represents the compounded interest that will be expensed each year and added to the carrying value of the bonds.

Series 2005 Bonds

Year Ended December 31,	<u>Projected Debt Service</u>			Accreted
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Interest</u>
2012	\$ -	-	-	1,730,651
2013	-	-	-	1,857,717
2014	-	-	-	1,989,171
2015	-	-	-	2,132,879
2016	-	-	-	2,285,233
2017 - 2021	2,853,272	3,420,515	6,273,787	13,078,789
2022 - 2026	3,052,072	6,490,608	9,542,680	16,316,087
2027 - 2031	5,317,793	22,087,519	27,405,312	16,541,478
2032 - 2036	3,262,176	25,916,383	29,178,559	11,120,642
2037 - 2040	1,755,169	20,172,409	21,927,578	2,819,119
Total	<u>\$ 16,240,482</u>	<u>78,087,434</u>	<u>94,327,916</u>	69,871,766
Accreted interest at December 31, 2011				<u>8,215,668</u>
Total				<u>\$ 78,087,434</u>

BROOME TOBACCO ASSET SECURITIZATION CORPORATION
Notes to Financial Statements, Continued

(3) Long-Term Liabilities, Continued

At December 31, 2011, the Corporation had \$170,371 reserved for principal and interest on its bonds and also had a liquidity reserve in the amount of \$3,788,774 to fund debt service payments if needed, thus providing a total of \$3,959,145 reserved for debt service payments in the Governmental Fund Balance Sheet and, including the tobacco settlement receivable of \$3,129,975, \$7,089,120 is restricted in the Statement of Net Assets for debt service.

The aggregated required amortization of all the serial bonds, assuming flexible payments on the Series 2001 Bonds, of the Corporation are as follows:

Year Ended December 31,	Principal	Interest	Total
2012	\$ 1,425,000	2,302,700	3,727,700
2013	1,525,000	2,223,213	3,748,213
2014	1,580,000	2,139,494	3,719,494
2015	1,625,000	2,050,700	3,675,700
2016	1,765,000	1,953,809	3,718,809
2017 - 2021	14,958,272	11,353,562	26,311,834
2022 - 2026	19,552,072	10,340,250	29,892,322
2027 - 2031	10,112,793	22,279,996	32,392,789
2032 - 2036	3,262,176	25,916,383	29,178,559
2037 - 2040	1,755,169	20,172,409	21,927,578
Total	<u>\$ 57,560,482</u>	<u>100,732,516</u>	<u>158,292,998</u>

(4) Transactions with the County of Broome

In addition to setting forth the terms and conditions of the sale and purchase of the TSRs, the Purchase and Sale Agreement also provides for separate consideration to retain the County to act as Administrator with respect to the preparation of all reports and other instruments and documents that are the duty of the Corporation to prepare, execute, file or deliver pursuant to the Indenture and the related agreements.

The Purchase and Sale Agreement also contemplates the lease by the Corporation of office space and telephone service from the County, and the sharing of overhead and operating services and expenses (including shared employees, consultants and agents and reasonable legal and auditing expenses) on the basis of actual use or value of such services, or otherwise on a basis reasonably related thereto. The cost to the Corporation for these County-provided services was \$2,701 for the year ended December 31, 2011.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION

Notes to Financial Statements, Continued

(5) Contingencies

Future Tobacco Settlement Revenues are subject to adjustment based upon tobacco consumption, inflation and other potential reductions. Pursuant to the Purchase and Sale Agreement these adjustments, and other events, could trigger additional debt service reserve requirements.

(6) Explanation of Certain Differences between the Governmental Fund Balance Sheet/the Statement of Net Assets (Deficit)

Receivables related to tobacco settlement revenues are not available financial resources and, therefore, are not reported in the Governmental Funds.

Long-term liabilities applicable to the Corporation's activities are not due and payable in the current period and, therefore, are not reported as fund liabilities. In addition, certain items are fully expensed in the Governmental Fund statements, but amortized over a period of time in the Corporation-wide statements. All assets and liabilities - both current and long-term - are reported in the statement of net assets (deficit).

The adjustments required to the reported governmental fund assets and liabilities to arrive at the statement of net assets (deficit) are as follows:

Adjustments to assets:

Tobacco settlement receivables	\$ 3,129,975
Capitalized bond issuance costs	849,630
Capitalized bond discount	<u>712,516</u>
Total adjustments to assets	<u>4,692,121</u>

Adjustments to liabilities:

Accrued interest	(191,892)
Accreted interest	(8,215,668)
Bonds payable	<u>(57,560,482)</u>
Total adjustments to liabilities	<u>(65,968,042)</u>
Net adjustments	\$ <u>(61,275,921)</u>

(7) Explanation of Certain Differences between the Statement of Governmental Fund Revenues, Expenditures/Changes in Fund Balances and the Statement of Activities

Certain revenue and revenue adjustments related to tobacco settlement revenues reported in the Corporation-wide statements do not provide current financial resources and are therefore not reported as revenues in the Governmental Funds. The amount by which the tobacco settlement receivables increased from 2010 to 2011 aggregated \$56,980.

BROOME TOBACCO ASSET SECURITIZATION CORPORATION

Notes to Financial Statements, Continued

(7) Explanation of Certain Differences between the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances/the Statement of Activities, Continued

Proceeds of bond issuance are reported as revenue in the Governmental Funds. However, in the Corporation-wide statements, the issuance of bonds increases long-term liabilities and does not affect the statement of activities. Repayment of bond principal is reported as an expenditure in the Governmental Funds and therefore contributes to the change in fund balance. However, in the Corporation-wide statements, repaying bond principal decreases long-term liabilities and does not affect the statement of activities. In addition, the Corporation-wide statements recognize bond discounts and issuance costs fully in the year of issuance for the Governmental Fund statements. Bond discount and issuance costs are deferred and are amortized over the life of the related bonds for the Corporation-wide statements. The statement of activities, prepared on the full accrual basis, reports bond interest expense in the year incurred regardless of when it is paid, whereas, the fund financial statements report expenditure amounts only in the current year if they are due and payable. These differences in measurement recognition affect both the reported fund balance and reported net assets.

The adjustments to the reported governmental fund revenues and expenditures to arrive at the statement of activities are as follows:

Adjustments to revenues:

Tobacco settlement receivables	\$ 56,980
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Adjustments to expenditures:

Amortization of bond issuance costs	(27,692)
Amortization of bond discount	(23,646)
Principal payments made	1,340,000
Interest	(1,609,482)

Net adjustments	\$ <u>(263,840)</u>
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(8) Events Subsequent to Report Date

The Corporation has evaluated event transactions occurring between December 31, 2011 and July 23, 2012, which is the date of the financial statements, for possible disclosure and recognition in the financial statements. No events were identified which require disclosure or recognition in the financial statements as of December 31, 2011.

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
Broome Tobacco Asset Securitization Corporation:

We have audited the financial statements of the governmental activities and fund information of Broome Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of the County of Broome, as of and for the year ended December 31, 2011, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated July 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining effective 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 opinions 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Corporation'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.

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 a matter that we reported to management of the Corporation in a separate letter dated July 23, 2012.

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

Toski & Co., CPAs, P.C.

Williamsville, New York
July 23, 2012