

Dutchess Tobacco Asset Securitization Corporation

(A blended component unit of Dutchess County, New York)

**Management's Discussion and Analysis
and Basic Financial Statements**

December 31, 2011

Dutchess Tobacco Asset Securitization Corporation

(A blended component unit of Dutchess County, New York)

Index

December 31, 2011

	Page(s)
Management's Discussion and Analysis	1-5
Report of Independent Auditors	6
Financial Statements	
Governmental Fund Balance Sheet and Government-wide Statement of Net Assets (Deficit)	7
Governmental Fund Revenues, Expenditures and Changes in Fund Balance and Government-wide Statement of Activities and Changes in Net Asset (Deficit)	8
Notes to Financial Statements	9-13

Dutchess Tobacco Asset Securitization Corporation

(A blended component unit of Dutchess County, New York)

Management's Discussion and Analysis

December 31, 2011

The following discussion and analysis of the financial statements of the Dutchess Tobacco Asset Securitization Corporation (the "TASC" or "Corporation") provides an overview of the Corporation's financial activities from January 1, 2011 to December 31, 2011. It should be read in conjunction with the basic financial statements and notes to the financial statements contained herein.

This report of the TASC includes statements that are not historical or current facts and are considered "forward looking statements" under accounting principles generally accepted in the United States of America. Forward looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those presently anticipated. The management of the TASC cautions readers not to place undue reliance on any such forward looking statements. Some of the factors that could cause actual results to differ materially from forward looking statements include, for example, a change in realized tobacco settlement payments or other uncertainties not identified at this time.

The TASC undertakes no obligation to publicly correct or update any forward looking statement if it later becomes aware that such results have not or are not likely to be achieved.

The Corporation

The Corporation was formed on December 1, 2003. In December 2003, the Corporation entered into a Purchase and Sale Agreement with the County of Dutchess to purchase the rights, title and interest in Tobacco Settlement fund litigation awards in the amount of \$41.97 million, under a Master Settlement Agreement (the "MSA"). The MSA was entered into on November 23, 1998, among the Attorneys General of 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Commonwealth of the North Mariana Islands (collectively the "Settling States") and the four largest United States tobacco manufacturers" Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation, and Lorillard Tobacco Company (collectively the "Original Participating Manufacturers or "OPMs"). The MSA resolved cigarette smoking-related claims by the Settling States, and provides for a continuing release of future smoking-related claims in exchange for certain payments to be made to the Settling States. The MSA also provides for the imposition of certain tobacco advertising and marketing restrictions, among other things. The Corporation is not a party to the MSA.

On December 18, 2003, the Corporation, together with local development corporations in Rockland and Oswego counties formed a pool known as the New York Counties Tobacco Trust III and issued \$79.7 million in Tobacco Settlement Pass-Through Bonds Series 2003 (Turbo Term Bonds). The TASC's share of the pool totaled \$47.8 million.

In November 2005, the Corporation entered into a Purchase and Sale Agreement with the County of Dutchess to purchase the rights, title and interest in Tobacco Settlement fund litigation awards in the amount of \$25.5 million. On November 28, 2005, the New York Counties Tobacco Trust V was formed and issued \$199.4 million in Tobacco Settlement Bonds Series 2005 [Subordinate Turbo Capital Appreciation Bonds ("CABs")]. The TASC's share of this pool totaled \$26.2 million.

Both Series of bonds are collateralized by, and payable from, all of the annual payments allocated to the County under the MSA. The bond payments are due on the Subordinate Turbo CAB bonds after the series 2003 Term bonds are paid in order to match the cash flows of the underlying collateral. As of December 31, 2011, gross debt payable of \$34,865,000 and \$26,236,279 (excluding accrued interest of \$13,150,388) remained outstanding under the Turbo Term Bonds and the Subordinate Turbo CABs, respectively.

Dutchess Tobacco Asset Securitization Corporation

(A blended component unit of Dutchess County, New York)

Management's Discussion and Analysis

December 31, 2011

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements consist of three components: 1) government-wide financial statements, 2) governmental fund financial statements, and 3) notes to the financial statements. Due to the single purpose nature of the activities of the Corporation, the government-wide and governmental fund financial statements have been presented together with an adjustments column reconciling the differences.

The *Government-wide Statement of Net Asset (Deficit) and Governmental Fund Balance Sheet* include all of the Corporation's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Corporation creditors (liabilities). These statements provide the basis for computing rate of return, evaluating the capital structure of the Corporation and assessing the liquidity and financial flexibility of the Corporation. The Government-wide Statement of Net Asset (Deficit) column reports information about the Corporation using accounting methods similar to those used by private sector companies (accrual basis of accounting) and presents all assets and liabilities of the Corporation – both current and long-term. The Governmental Fund Balance Sheet focuses on the Corporation's balances of spendable resources available for the payment of governmental expenditures including payment of debt service requirements at the end of the current period.

All activity in the current period is accounted for in the *Government-wide Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance*. These statements measure the success of the Corporation's operations and can be used to determine the Corporation's ability to meet its financial objectives and credit-worthiness. The Government-wide Statement of Activities and Changes in Net Asset (Deficit) column presents information on how the Corporation's net asset changed during the most recent fiscal period. All changes in net asset are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The Governmental Fund Revenues, Expenditures and Changes in Fund Balance focuses on inflows and outflows of spendable resources during the current year.

Summary of Financial Results

Government-wide Financial Statements

Government-wide Statements of Net Asset (Deficit): The table below summarizes the Corporation's Statements of Net Asset (Deficit) at December 31, 2011 and 2010.

	2011	2010	Change	Change
Cash and cash equivalents, restricted cash and investments	\$ 3,532,982	\$ 3,531,128	\$ 1,854	0.05%
Due from New York State	3,476,979	3,445,061	31,918	9.3%
Other assets	965,132	984,409	(19,277)	-1.96%
Total assets	<u>7,975,093</u>	<u>7,960,598</u>	<u>14,495</u>	<u>1.8%</u>
Accrued interest	13,150,385	10,645,326	2,505,059	23.53%
Bonds payable	59,698,924	61,053,182	(1,354,258)	-2.22%
Total liabilities	<u>72,849,309</u>	<u>71,698,508</u>	<u>1,150,801</u>	<u>1.61%</u>
Total net asset (deficit)	<u>\$ (64,874,216)</u>	<u>\$ (63,737,910)</u>	<u>\$ (1,136,306)</u>	<u>1.8%</u>

Dutchess Tobacco Asset Securitization Corporation

(A blended component unit of Dutchess County, New York)

Management's Discussion and Analysis

December 31, 2011

At December 31, 2011, the Corporation's total assets amounted to \$7.9 million, of which \$3.5 million is restricted cash and investments and \$3.4 million is due from New York State government for 2010 tobacco settlement revenue expected to be received in 2012. At December 31, 2011, total liabilities of the Corporation amounted to \$72.8 million, of which \$59.7 million is bonds payable. The change in net assets (deficits) from 2010 to 2011 relates primarily to tobacco settlement revenue of \$3.5 million offset by interest expense of \$4.6 million. Accrued interest increased by \$2.5 million due to the accrual of interest on the Subordinated Turbo CABs, which will not be paid until the Turbo Term Bonds are paid in full.

Government-wide Statements of Activities and Changes in Net Asset (Deficit). The table below summarizes the Corporation's Statements of Activities for the years ended December 31, 2011 and 2010.

	2011	2010	Change	Change
Revenues	\$ 3,637,363	\$ 3,643,582	\$ (6,219)	(1.7)%
Expenses	4,773,669	4,685,143	88,526	1.89 %
Decrease in net assets (deficits)	(1,136,306)	(1,041,561)	(94,745)	9.1 %
Net asset (deficit) - beginning of year	(63,737,910)	(62,696,349)	(1,041,561)	(1.66)%
Net asset (deficit) - end of year	\$ (64,874,216)	\$ (63,737,910)	\$ (1,136,306)	(1.8)%

In 2011, the Corporation's revenues consist of \$3,472,000 of tobacco settlement revenue and \$164,000 of investment income. In 2011, the Corporation's expenses consisted of, interest expense of \$4,600,000, administrative expenses of \$79,000, and amortization expense of \$95,000, as compared to interest expense of \$4,510,000, administrative expenses of \$81,000, and amortization expenses of \$93,000 in 2010.

Governmental Fund Financial Statements

Governmental Fund Balance Sheets. The table below summarizes the Corporation's Balance Sheet at December 31, 2011 and 2010.

	2011	2010	Change	Change
Total assets	\$ 7,009,961	\$ 6,976,189	\$ 33,772	4.8 %
Total fund balance	\$ 7,009,961	\$ 6,976,189	\$ 33,772	4.8 %

The Corporation's assets, as reported on the Governmental Fund Balance Sheet, amounted to \$7.0 million at December 31, 2011, which include cash and cash equivalents, restricted cash and investments and amounts due from New York State government.

Dutchess Tobacco Asset Securitization Corporation

(A blended component unit of Dutchess County, New York)

Management's Discussion and Analysis

December 31, 2011

Governmental Fund Statements of Revenue, Expenditures, and Changes in Fund Balance. The table below summarizes the Corporation's Governmental Fund Revenues, Expenditures and Changes in Fund Balance for the years ended December 31, 2011 and 2010.

	2011	2010	Change	Change
Revenues	\$ 3,637,363	\$ 3,643,582	\$ (6,219)	(0.2)%
Expenditures	3,603,591	3,826,180	(222,589)	(5.82)%
Excess (deficiency) of revenues over expenditures	33,772	(182,598)	216,370	(118.5)%
Fund balance - beginning of year	6,976,189	7,158,787	(182,598)	(2.55)%
Fund balance - end of year	\$ 7,009,961	\$ 6,976,189	\$ 33,772	4.8 %

In 2011, revenues of \$3,637,000 reflect \$3,472,000 in tobacco settlement revenue and \$165,000 in investment income, whereas in 2010, revenues of \$3,644,000 reflect the receipt of \$3,480,000 in tobacco settlement revenue and \$164,000 in investment income.

In 2011, the Corporation's expenditures primarily include repayment of principal of \$1,430,000, interest expense of \$2,095,000 and administrative expenses of \$79,028, whereas in 2010, expenditures primarily included repayment of principal of \$1,575,000 interest expense of \$2,170,000 and administrative expenses of \$81,000.

Long Term Debt Activity

The 2003 Series Bonds issued by the Corporation are forty-year obligations scheduled to retire in ordinary course in May 2043. However, under early redemption provisions, particularly Turbo Redemption's, any MSA payments exceeding annual debt service requirements of the Bonds must be applied to the early redemption of principal. During 2011, the Corporation made a Turbo Redemption payment in the amount of \$1,430,000.

During 2005, the Corporation issued additional bonds, Subordinate Turbo CABs that are subordinate to the 2003 Series Bonds. The Subordinate Turbo CABs consist of four series scheduled to retire in ordinary course in June 2038, 2050, 2055 and 2060.

Since the Corporation has pledged all future Tobacco Settlement revenues ("TSRs") to the bonds currently outstanding until those bonds have been retired, the Corporation cannot issue additional debt without rating agency confirmation and residual holder consent. The Corporation monitors market conditions for circumstances conducive to undertaking a refunding transaction that would result in savings of interest expense over time. No such conditions arose during the current fiscal period.

Dutchess Tobacco Asset Securitization Corporation
(A blended component unit of Dutchess County, New York)
Management's Discussion and Analysis
December 31, 2011

Significant Currently Known Facts

The following are currently known facts that could have a potential effect on governmental fund and government-wide financial statements in future years.

Payment Collections

On November 23, 1998, participating cigarette manufacturers, entered into a Master Settlement Agreement with 46 states and 5 other jurisdictions. The Master Settlement Agreement provides for Tobacco Settlement payments in exchange for a release from claims. Tobacco Settlement payments consist of initial payments to be received through 2003; annual payments to be made on April 15, continuing in perpetuity; and strategic contribution fund payments to be made on April 15, 2008 continuing annually through 2017.

Payments may vary based on inflation adjustments, volume adjustments of cigarette sales, litigation adjustments from nonsettling states, offsets for miscalculated or disputed payments, federal tobacco legislation offsets, litigation releasing parties offsets, and offsets for claims over the amounts of the award.

The ability of the Corporation to make debt service payments on bonds is contingent upon the receipt of Tobacco Settlement payments. The bonds issued by the Corporation do not constitute a claim against the full faith, credit, or taxing powers of Dutchess County, New York.

Contacting the TASC's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the TASC's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact James M Fedorchak, President or Pamela Barrack, Treasurer, 22 Market Street, Poughkeepsie, New York 12601.



Report of Independent Auditors

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

In our opinion, the accompanying government-wide statement of net asset (deficit) and governmental fund balance sheet and the related government-wide statement of activities and changes in net asset (deficit) and governmental fund revenues, expenditures and changes in fund balance present fairly, in all material respects, the financial position of Dutchess Tobacco Asset Securitization Corporation (a blended component unit of Dutchess County, New York), (the "Corporation") at December 31, 2011 and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with Government Auditing Standards, we have also issued our report dated March 29, 2012 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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.

The management's discussion and analysis on pages 1 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

PricewaterhouseCoopers LLP

March 29, 2012

Dutchess Tobacco Asset Securitization Corporation

(A blended component unit of Dutchess County, New York)

Governmental Fund Balance Sheet and Government-wide Statement of Net Asset (Deficit)

December 31, 2011

	Governmental Fund Balance Sheet	Entity-wide Adjustments	Government- wide Statement of Net Asset (Deficit)
Assets			
Current assets			
Cash and cash equivalents	\$ 51,444	\$ -	\$ 51,444
Restricted cash	40,100	-	40,100
Due from New York state government	<u>3,476,979</u>	<u>-</u>	<u>3,476,979</u>
Total current assets	<u>3,568,523</u>	<u>-</u>	<u>3,568,523</u>
Noncurrent assets			
Bond issuance costs, net of accumulated amortization of \$75,745	-	965,132	965,132
Restricted investments	<u>3,441,438</u>	<u>-</u>	<u>3,441,438</u>
Total noncurrent assets	<u>3,441,438</u>	<u>965,132</u>	<u>4,406,570</u>
Total assets	<u>\$ 7,009,961</u>	<u>965,132</u>	<u>\$ 7,975,093</u>
Liabilities			
Current liabilities			
Accrued interest	\$ -	171,568	\$ 171,568
Total current liabilities	<u>-</u>	<u>171,568</u>	<u>171,568</u>
Noncurrent liabilities			
Accrued interest		12,978,817	12,978,817
Bonds payable, net of a discount of \$1,402,355		<u>59,698,924</u>	<u>59,698,924</u>
Total noncurrent liabilities	<u>-</u>	<u>72,677,741</u>	<u>72,677,741</u>
Total liabilities	<u>-</u>	<u>72,849,309</u>	<u>72,849,309</u>
Fund balance/Net asset (deficit)			
Fund Balance			
Reserved for debt service	<u>7,009,961</u>	<u>(7,009,961)</u>	<u>-</u>
Total fund balance	<u>\$ 7,009,961</u>	<u>(7,009,961)</u>	<u>\$ -</u>
Total liabilities and fund balance	<u>\$ 7,009,961</u>		
Net asset (deficit)			
Restricted			<u>\$ (64,874,216)</u>
Total net asset (deficit)			<u>\$ (64,874,216)</u>

The accompanying notes are an integral part of the financial statements.

Dutchess Tobacco Asset Securitization Corporation

(A blended component unit of Dutchess County, New York)

Governmental Fund Revenues, Expenditures and Changes in Fund Balance and Government-wide Statement of Activities and Changes in Net Asset (Deficit) Year Ended December 31, 2011

	Governmental Fund Revenues, Expenditures and Changes in fund Balance	Entity-wide Adjustments	Government-wide Statement of Activities and Changes in Net Asset (Deficit)
General revenues			
Other financing sources			
Investment income	\$ 164,691	\$ -	\$ 164,691
Tobacco settlement revenue	3,472,672	-	3,472,672
Total general revenues	<u>3,637,363</u>	<u>-</u>	<u>3,637,363</u>
General expenditures/expenses			
Other financing uses			
Interest expense	2,094,563	2,505,059	4,599,622
Amortization of debt discount		75,742	75,742
Amortization of bond issuance costs		19,277	19,277
Administrative expenses	79,028	-	79,028
Debt service principal payments	1,430,000	(1,430,000)	-
Total expenditures/expenses	<u>3,603,591</u>	<u>1,170,078</u>	<u>4,773,669</u>
Excess of revenues over expenditures/ Increase in net asset (deficit)	33,772	(1,170,078)	(1,136,306)
Fund balance/Net asset (deficit)			
Beginning of the year	<u>6,976,189</u>		<u>(63,737,910)</u>
End of the year	<u>\$ 7,009,961</u>		<u>\$ (64,874,216)</u>

The accompanying notes are an integral part of the financial statements.

Dutchess Tobacco Asset Securitization Corporation

(A blended component unit of Dutchess County, New York)

Notes to Financial Statements

December 31, 2011

1. Reporting Entity

Dutchess Tobacco Asset Securitization Corporation (Blended Component Unit)

The Dutchess Tobacco Asset Securitization Corporation (the "TASC" or "Corporation") is a special purpose local development corporation organized pursuant to Section 1411 of the Not-For-Profit Corporation Law of the State of New York, created by Dutchess County (the "County") for the purposes of: (i) purchasing from the County all rights, title and interest in certain litigation awards under the Consent Decree and Final Judgment of the Supreme Court of the State of New York dated December 23, 1998 and in and under all portions due to the County under the Master Settlement Agreement ("MSA") with respect to tobacco related litigation among various Settling States and participating manufacturers, (ii) to purchase, acquire, own, hold, sell, dispose of tobacco assets and any future rights of tobacco assets and (iii) to issue and sell bonds to pay for the acquisition of such tobacco assets. The sole member of the Corporation is the County Attorney. There are three directors, one appointed by the County Executive, one appointed by the Chairman of the Dutchess County Legislature and one jointly appointed by the County Executive and Chairman of the County Legislature.

2. Summary of Significant Accounting Policies

General

The accompanying general purpose financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles. The TASC has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the TASC's accounting policies are described below.

Basis of Accounting, and Financial Statement Presentation

Due to the single purpose nature of the activities of the Corporation, the government-wide and governmental fund financial statements have been presented together with an adjustments column reconciling the differences.

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. TSR are recognized as soon as they are considered measurable and available. TSR are considered 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 TSR to be available if they are collected within one year after the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

Dutchess Tobacco Asset Securitization Corporation

(A blended component unit of Dutchess County, New York)

Notes to Financial Statements

December 31, 2011

The government-wide statement of activities and changes in net asset (deficit) demonstrates the degree to which interest, amortization and administrative expenses are offset by tobacco settlement revenue and investment income.

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

Entity-wide adjustments primarily consist of recording bonds payable and related amortizations and interest expenses and adjusting debt service principal payments in the government-wide financial statements.

The future collection of tobacco settlement revenue (TSR) is dependent on many factors, including future cigarette consumption. As such, the future collection is not reasonably estimatable and is not recorded as an asset in either the government-wide financial statements or the governmental fund financial statements. This results in a significant deficit in net assets on the government-wide financial statements.

Cash and Cash Equivalents

Cash includes cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date acquired by the Corporation. The carrying value of unrestricted cash at December 31, 2011 was \$51,444 and is covered by Federal Depository Insurance.

Investments

Investments are recorded at fair value. The Corporation's investment policy is to invest in high quality investments at a yield not to exceed the yield on the TASC bonds. All investments are in commercial paper with maturity dates within one year. All investment income is reported as revenue in the government-wide statement of activities and the statement of revenues, expenditures, and changes in fund balance.

Due From New York State Government

Due from New York State government represents amounts owed to the TASC for tobacco settlement revenue earned in 2011.

Bond Issuance Costs

Bond issuance costs are amortized over the life of the bonds using the effective interest method.

Accrued Interest

Accrued interest represents interest expense owed on the Series 2003 Term Bonds and Subordinate Turbo Capital Appreciation Bonds that will be paid in the future.

Income Taxes

The Corporation is exempt from the payment of all Federal and State income taxes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that

Dutchess Tobacco Asset Securitization Corporation

(A blended component unit of Dutchess County, New York)

Notes to Financial Statements

December 31, 2011

affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Restricted Cash and Investments

Restricted cash and investments consist of amounts required to be on deposit by the Turbo Term Bonds agreement until the Bonds are paid in full, which is scheduled in 2043.

Restricted cash and investments at December 31, 2011 were as follows:

Cash restricted for debt service	\$ 40,100
Investments restricted for debt service	3,441,438
	<hr/>
	<u>\$ 3,481,538</u>

Investments consist of collateralized commercial paper which is all scheduled to mature within the next year.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Corporation manages and attempts to minimize interest rate risk by investing in short-term investments that mature within one year, so that they can react to changing interest rates.

4. Bonds Payable

On December 18, 2003, the Corporation issued the 2003 New York Counties Tobacco Trust III Tobacco Settlement Pass-Through Bonds (Series 2003 Term Bonds) amounting to \$47,815,000, with an issue value of \$45,912,363, net of bond discount of \$1,902,637. Proceeds of \$41,970,000 were used to purchase tobacco settlement rights from Dutchess County. On November 28, 2005, the Corporation issued the 2005 New York Tobacco Trust V, Tobacco Settlement Pass Through Bonds Subordinate Turbo Capital Appreciation Bonds ("CABs") amounting to \$26,236,279. Proceeds of \$25,500,000 were used to purchase tobacco settlement rights from Dutchess County. The bonds are collateralized and payable from collections including all tobacco settlement revenues to be received by the Corporation, reserves, amounts held in other accounts established by the indenture and the Corporation's rights under the purchase agreement. The proceeds have been used for the purpose of purchasing all rights, title and interest in certain litigation awards under the Master Settlement Agreement entered into by participating cigarette manufacturers.

Bonds payable at December 31, 2011, amounted to \$33,462,645 and \$26,236,279 for the Series 2003 Term Bonds and the Subordinate Turbo CABs (collectively the "TASC Bonds"), respectively.

Interest on the Series 2003 Term Bonds is payable semi-annually at interest rates ranging from 5.00% - 6.00% on each June and December 1, beginning with June 1, 2004. The Corporation is responsible for all principal and interest payments on the bonds. Interest was paid in the amount of \$2,094,563 during the year ended December 31, 2011 on the Series 2003 Term Bonds.

Principal and interest on the Subordinate Turbo CABs are subordinate to the Series 2003 Term Bonds and therefore will not be paid until the Series 2003 Term Bonds are fully paid. Interest on the Subordinate Turbo CABs is accruing at rates ranging from 6.00% - 7.85%.

Dutchess Tobacco Asset Securitization Corporation

(A blended component unit of Dutchess County, New York)

Notes to Financial Statements

December 31, 2011

The following table presents principal activity related to bonds payable:

Debt	2011 Beginning Balance	Add New Debt	Less Payments	2011 Ending Balance
Series 2003 Term Bonds	\$ 36,295,000	\$ -	\$ (1,430,000)	\$ 34,865,000
Subordinate Turbo CABs	26,236,279			26,236,279
Bonds payable, gross	<u>\$ 62,531,279</u>	<u>\$ -</u>	<u>\$ (1,430,000)</u>	<u>\$ 61,101,279</u>

Future maturity dates and debt service requirements, for the Series 2003 Term Bonds are as follows:

Year Ended December 31, 2011	Principal	Interest	Total
2012	\$ -	\$ 2,058,813	\$ 2,058,813
2013	-	2,058,813	2,058,813
2014	-	2,058,813	2,058,813
2015-2019	-	10,294,063	10,294,063
2020-2024	-	10,294,063	10,294,063
2025-2029	3,755,000	10,007,981	13,762,981
2030-2034	8,065,000	8,145,700	16,210,700
2035-2039	11,185,000	5,318,550	16,503,550
2040-2043	11,860,000	1,480,200	13,340,200
	<u>34,865,000</u>	<u>51,716,996</u>	<u>86,581,996</u>
Less Discount	1,402,355		1,402,355
Total	<u>\$ 33,462,645</u>	<u>\$ 51,716,996</u>	<u>\$ 87,984,351</u>

Future maturity dates and debt service requirements for the Subordinate Turbo CABs are as follows:

Year Ended December 31	Principal	Interest	Total
2012-2037	\$ -	\$ -	\$ -
2038-2042	10,384,242	60,565,758	70,950,000
2043-2047	-	-	-
2048-2052	4,889,934	66,030,066	70,920,000
2053-2057	2,604,375	70,490,625	73,095,000
2058-2060	8,357,728	547,342,272	555,700,000
Total	<u>\$ 26,236,279</u>	<u>\$ 744,428,721</u>	<u>\$ 770,665,000</u>

Dutchess Tobacco Asset Securitization Corporation

(A blended component unit of Dutchess County, New York)

Notes to Financial Statements

December 31, 2011

Other Information

The Series 2003 Term Bonds are subject to "Turbo Redemption".

"Turbo Redemptions" represent the requirement contained in the Indenture to apply 100% of all collections that are in excess of the requirements in the Indenture for the funding of the operating expenses; interest, sinking fund installments, and term bond maturities; maintenance of the Liquidity Reserve Account (such excess, surplus collections); to the redemption of Series 2003 Term Bonds on each distribution date (each a Turbo Redemption Date) in ascending order of maturity. Such surplus collections will be deposited in an account established and maintained by the trustee under the Indenture (the Turbo Redemption Account). Turbo Redemptions will be credited against sinking fund installments for any particular Series 2003 Term Bonds in ascending order of sinking fund installment dates. Turbo Redemptions are not scheduled amortization payments and are to be made only from surplus collections. In June 2011, the Corporation made a Turbo Redemption payment of \$1,430,000.

5. Concentration of Credit Risk

The ability of the Corporation to make debt service payments on the TASC Bonds is contingent upon the receipt of TSR. TSR receipts may vary based on inflation adjustments, volume of cigarette sales adjustments, litigation adjustments from nonsettling states, offsets for miscalculated or disputed payments, federal tobacco legislation offsets, litigation releasing party offsets, and offsets for claims over the amounts of the award. Because of the many adjustments included in the Master Settlement Agreement (See Note 1), it is not possible to know the future collections under the MSA.

The TASC Bonds are collateralized by and payable solely from TSR and investment earnings pledged under the Bond Indentures and amounts established and held in accordance with the Bond Indentures.

The TASC Bonds are payable only from the assets of the Corporation. The Subordinate Turbo CABs are subordinate to the Series 2003 Term Bonds and no amounts will be paid on the Subordinate Turbo CABs until the Series 2003 Term Bonds are paid in full. In the event that the assets of the Corporation have been exhausted, no amounts will thereafter be paid on the TASC Bonds. The TASC Bonds are not legal or moral obligations of Dutchess County and no recourse may be had thereto for payment of amounts owing on the TASC Bonds. The Corporation's only source of funds for payments on the TASC Bonds is the TSRs. The Corporation has no taxing power.

6. Contingencies

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