

**GENESEE TOBACCO ASSET SECURITIZATION
CORPORATION**

FINANCIAL STATEMENTS

DECEMBER 31, 2011

GENESEE TOBACCO ASSET SECURITIZATION CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Genesee Tobacco Asset Securitization Corporation
Batavia, New York

We have audited the accompanying statements of financial position of Genesee Tobacco Asset Securitization Corporation (a not-for-profit corporation), a blended component unit of the County of Genesee, New York, as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Genesee Tobacco Asset Securitization Corporation as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years 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 March 28, 2012, on our consideration of Genesee Tobacco Asset Securitization Corporation's internal control over financial reporting and on 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 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.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
March 28, 2012

GENESEE TOBACCO ASSET SECURITIZATION CORPORATION
Statements of Financial Position
December 31, 2011 and 2010

	<u>2011</u>	<u>(Restated)</u> <u>2010</u>
ASSETS		
Assets		
Cash and cash equivalents	\$ 190,073	\$ 194,047
Prepaid insurance	6,712	6,959
Restricted cash - liquidity reserve	926,853	926,808
Restricted cash - trapping reserve	1,233	2,278
Bond closing costs - net of accumulated amortization of \$472,992 and \$414,560	<u>675,866</u>	<u>734,298</u>
Total Assets	<u>\$ 1,800,737</u>	<u>\$ 1,864,390</u>
LIABILITIES AND NET DEFICIT		
Liabilities		
Accounts payable	\$ 1,330	\$ 1,407
Accrued interest payable	85,621	73,971
Accretion payable - TASC IV Series 2005	668,034	543,836
Accretion payable - TASC V	1,091,687	873,242
Bonds payable - TASC IV	12,935,000	12,975,000
Bonds payable - TASC IV Series 2005	1,458,440	1,458,440
Bonds payable - TASC V	<u>1,855,936</u>	<u>1,855,936</u>
Total liabilities	18,096,048	17,781,832
Net Deficit		
Unrestricted	<u>(16,295,311)</u>	<u>(15,917,442)</u>
Total Liabilities and Net Deficit	<u>\$ 1,800,737</u>	<u>\$ 1,864,390</u>

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

GENESEE TOBACCO ASSET SECURITIZATION CORPORATION
Statements of Activities
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>%</u>	<u>(Restated)</u> <u>2010</u>	<u>%</u>
Revenues				
Tobacco settlement revenues	\$ 812,018	100.0	\$ 856,485	99.9
Interest income	<u>307</u>	<u>-</u>	<u>1,131</u>	<u>0.1</u>
Total revenues	<u>812,325</u>	<u>100.0</u>	<u>857,616</u>	<u>100.0</u>
Expenses				
Accounting	4,950	0.6	4,900	0.6
Accretion	342,643	42.2	319,189	37.2
Administrative agent	5,663	0.7	18,216	2.1
Amortization	58,432	7.2	58,708	6.8
Bond expenses	775	0.1	775	0.1
Insurance	5,252	0.6	5,317	0.6
Interest	737,900	90.8	756,475	88.2
Legal	4,750	0.6	5,000	0.6
Rent	1,286	0.2	1,364	0.2
Telephone	41	-	41	-
Transfer to County	25,000	3.1	-	-
Trustee expenses	<u>3,502</u>	<u>0.4</u>	<u>3,502</u>	<u>0.4</u>
Total expenses	<u>1,190,194</u>	<u>146.5</u>	<u>1,173,487</u>	<u>136.8</u>
Change in Net Assets	(377,869)	<u>(46.5)</u>	(315,871)	<u>(36.8)</u>
Net Deficit - Beginning	<u>(15,917,442)</u>		<u>(15,601,571)</u>	
Net Deficit - Ending	<u>\$ (16,295,311)</u>		<u>\$ (15,917,442)</u>	

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

GENESEE TOBACCO ASSET SECURITIZATION CORPORATION
Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>(Restated)</u> <u>2010</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (377,869)	\$ (315,871)
Adjustments		
Amortization	58,432	58,708
Changes in assets and liabilities		
Prepaid insurance	247	-
Accounts payable	(77)	(168)
Accrued interest payable	11,650	15,975
Accretion payable	<u>342,643</u>	<u>319,189</u>
Net cash flows from operating activities	<u>35,026</u>	<u>77,833</u>
Cash Flows from Financing Activities		
Repayment of bonds payable	<u>(40,000)</u>	<u>(75,000)</u>
Net Change in Cash and Cash Equivalents	(4,974)	2,833
Cash and Cash Equivalents - Beginning	<u>1,123,133</u>	<u>1,120,300</u>
Cash and Cash Equivalents - Ending	<u>\$ 1,118,159</u>	<u>\$ 1,123,133</u>
Reconciliation of Total Cash to the Statements of Financial Position		
Cash and cash equivalents	\$ 190,073	\$ 194,047
Restricted cash - liquidity reserve	926,853	926,808
Restricted cash - trapping reserve	<u>1,233</u>	<u>2,278</u>
Total cash and cash equivalents - ending	<u>\$ 1,118,159</u>	<u>\$ 1,123,133</u>

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

GENESEE TOBACCO ASSET SECURITIZATION CORPORATION
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies and Nature of the Organization

Nature of the Organization - In January 1997, the State of New York filed a lawsuit against the tobacco industry, seeking to recover the costs that the State and local governments had incurred in treating smoking related illnesses. Genesee Tobacco Asset Securitization Corporation (GTASC) was established to acquire from the County all or a portion of the rights, title and interest under the Master Settlement Agreement (the "MSA") and the Consent Decree and Final Judgment (the "Decree") as described herein.

The MSA includes New York and 45 other states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Territory of the Northern Marianas, and four of the largest United States tobacco product manufacturers: Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown and Williamson Tobacco Company (B&W), and Lorillard Tobacco Company (collectively, the "Original Participating Manufacturers" or "OPMs"). On January 5, 2004, Reynolds American Inc. was incorporated as a holding company to facilitate the combination of the U.S. assets, liabilities, and operations of B&W with those of Reynolds Tobacco. The agreement was entered into in settlement of certain smoking-related litigation and the Decree entered in New York Supreme Court, including the County's right to receive certain initial and annual payments to be made by the OPMs under the MSA.

During 2000 and 2005, Genesee County (the "County") sold its right to receive payments under the MSA to the Genesee Tobacco Asset Securitization Corporation. GTASC's right to receive Tobacco Settlement Revenues (TSR's) is its most significant asset, and is expected to produce cash flow to fund its obligations. The County is a related organization of the GTASC, however, the GTASC is not controlled or financially accountable to the County.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, Determining Whether Certain Organizations are Component Units, and Technical Bulletin 2004-1, Tobacco Settlement Recognition and Financial Reporting Entity Issues, GTASC is required to be included in the basic financial statements of the County of Genesee, New York. Accordingly, GTASC is presented as a blended component unit of the County.

Basis of Presentation - The preparation of financial statements is in conformity with accounting principles generally accepted in the United States of America.

Method of Accounting - The Corporation maintains its books and prepares its financial statements on the accrual basis of accounting.

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 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.

Cash and Cash Equivalents - For purposes of the statements of financial position and statements of cash flows, cash and cash equivalents includes commercial paper, cash in money market funds, certificates of deposit, and all highly liquid investments with original maturities of three months or less. The Corporation maintains cash and cash equivalents at financial institutions which periodically may exceed federally insured limits.

Bond Closing Costs - Bond closing costs are recorded at cost and are being amortized over the life of the bonds which range from 18 to 604 months.

GENESEE TOBACCO ASSET SECURITIZATION CORPORATION
Notes to Financial Statements

Income Taxes - The Corporation, as a not-for-profit organization, is exempt from income taxes under section 501 (c)(3) of the Internal Revenue Code. In June 2006, the Financial Accounting Standards Board issued Accounting Standards Codification (ASC) 740-10-50, *Accounting for Uncertainty in Income Taxes*, which prescribed a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that the organization has taken or expects to take on their tax return. ASC 740-10-50 is effective for nonpublic entities for years beginning after December 15, 2008. The Corporation adopted ASC 740-10-50 as of January 1, 2009 and, thereafter, recognizes the tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. Management believes that the Corporation is currently operating in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no liability for unrecognized tax benefits has been included on the Corporation's financial statements. The Corporation is exempt from the filing of any informational returns and therefore there are no open audit periods.

Revenue Recognition - Interest earnings are recognized in the year earned. TSR's are recorded as income in the year that they are received.

Subsequent Events - In accordance with ASC 855, *Subsequent Events*, the Corporation evaluated subsequent events through March 28, 2012, the date these financial statements were available to be issued.

Note 2. Bond Closing Costs

Repayment of bond closing costs consists of the following at December 31:

2012	\$ 58,151
2013	57,852
2014	57,514
2015	57,152
2016	57,000
Thereafter	<u>388,197</u>
Total	<u>\$ 675,866</u>

Note 3. Bonds Payable

TASC IV bonds payable consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Turbo Term Bonds - Redeemable in annual installments of various amounts beginning June 1, 2008 through June 1, 2027. Interest is payable in semi-annual installments at 6.000%.	\$ 1,080,000	\$ 1,120,000
Turbo Term Bonds - Redeemable in annual installments of various amounts beginning June 1, 2027 through June 1, 2041. Interest is payable in semi-annual installments at 6.650%.	5,400,000	5,400,000
Turbo Term Bonds - Redeemable in annual installments of various amounts beginning June 1, 2041 through June 1, 2042. Interest is payable in semi-annual installments at 5.000%.	3,925,000	3,925,000
Turbo Term Bonds - Redeemable in annual installments of various amounts beginning June 1, 2042 through June 1, 2045. Interest is payable in semi-annual installments at 5.000%.	<u>2,530,000</u>	<u>2,530,000</u>
Total	<u>\$ 12,935,000</u>	<u>\$ 12,975,000</u>

GENESEE TOBACCO ASSET SECURITIZATION CORPORATION
Notes to Financial Statements

Scheduled repayment of these obligations is currently estimated as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 155,000	\$ 759,700	\$ 914,700
2013	115,000	753,100	868,100
2014	120,000	746,050	866,050
2015	130,000	738,550	868,550
2016	125,000	730,900	855,900
2017 - 2021	1,050,000	3,494,750	4,544,750
2022 - 2026	885,000	3,134,450	4,019,450
2027 - 2031	1,400,000	2,679,375	4,079,375
2032 - 2036	2,300,000	2,054,375	4,354,375
2037 - 2041	3,350,000	1,263,250	4,613,250
2042 - 2045	<u>3,305,000</u>	<u>338,875</u>	<u>3,643,875</u>
Total	<u>\$ 12,935,000</u>	<u>\$ 16,693,375</u>	<u>\$ 29,628,375</u>

TASC IV - Series 2005 bonds payable consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Subordinate Turbo CABs - Redeemable in annual installments of various amounts beginning June 1, 2045 through June 1, 2050. This is a non-interest bearing bond.*	\$ 784,054	\$ 784,054
Subordinate Turbo CABs - Redeemable in annual installments of various amounts beginning June 1, 2050 through June 1, 2055. This is a non-interest bearing bond.*	<u>674,386</u>	<u>674,386</u>
Total	<u>\$ 1,458,440</u>	<u>\$ 1,458,440</u>

* In, 2005 GTASC refunded and defeased in substance its outstanding 2000 Series bonds with a portion of the Series 2005 bonds. All of the issuance costs and reserves were funded from the bond proceeds. The net proceeds were deposited into an irrevocable trust to provide funding for the debt service on the Series 2000 bonds to the call date in the year 2010. The excess costs necessary to defease the 2000 Series bonds are being amortized as interest expense over the remaining life of the bonds.

In conjunction with the advanced refunding, GTASC completed the sale of Series 2005D and 2005E capital appreciation bonds carrying varying yields and were sold discounted (zero coupon). As required by accounting principles generally accepted in the United States of America, GTASC accretes the effective interest appreciation over the life of the bonds to maturity. These bonds are subordinate to the Series 2005 bonds in the advanced refunding. No interest or principal will be paid on these bonds until all other series bonds of the corporation are redeemed. Funds expected to be used for redemption of these bonds will come from the TSR's and payments are not anticipated until 2026. Increases to the bond values were \$124,198 and \$116,933 for the years ending December 31, 2011 and 2010, respectively.

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. The interest payment requirements shown above are based on the required principal maturity schedule and includes the accreted value portion of capital appreciation bonds in the year in which they are required to be redeemed.

GENESEE TOBACCO ASSET SECURITIZATION CORPORATION
Notes to Financial Statements

TASC V bond payable consists of the following at December 31:

	<u>2011</u>	<u>2010</u>
Subordinate Turbo CABs - Redeemable in installments of estimates to begin on June 1, 2029 based upon the estimated collections of the payments under the MSA. Interest is accrued at 7.850%. Final payment of principal and accrued interest is due June 1, 2060.	\$ <u>1,855,936</u>	\$ <u>1,855,936</u>

Accretion of this obligation is currently estimated as follows:

	<u>Principal</u>	<u>Accretion</u>	<u>Total</u>
2012	\$ 0	\$ 235,929	\$ 235,929
2013	0	254,813	254,813
2014	0	275,209	275,209
2015	0	297,237	297,237
2016	0	321,028	321,028
2017 - 2021	0	2,034,249	2,034,249
2022 - 2026	0	2,989,540	2,989,540
2027 - 2031	0	4,393,441	4,393,441
2032 - 2036	0	6,456,617	6,456,617
2037 - 2041	0	9,488,672	9,488,672
2042 - 2046	0	13,944,590	13,944,590
2047 - 2051	0	20,493,025	20,493,025
2052 - 2056	0	30,116,632	30,116,632
2057 - 2060	<u>1,855,936</u>	<u>29,151,395</u>	<u>31,007,331</u>
Total	<u>\$ 1,855,936</u>	<u>\$ 120,452,377</u>	<u>\$ 122,308,313</u>

The TASC IV, TASC IV - Series 2005 and TASC V bond payable obligations shall not be a debt of either the State or the County of Genesee, New York (the "County"), and neither the State nor the County shall be liable hereon, nor shall it be payable out of any funds other than those of the Corporation pledged therefor.

Note 4. Contingency and Concentration of Credit Risk

During 2000, the Corporation purchased the rights to receive TSRs (Tobacco Settlement Revenues) from the County of Genesee. There are a number of risks associated with receipts of such TSRs including, litigation affecting participating manufacturers and possible bankruptcy as a result thereof, and future adjustments to the calculation of the TSRs. The Corporation's financial existence is contingent upon receiving these TSRs from the tobacco manufacturers.

Note 5. Net Deficit

The net asset deficit is due to various expenses associated with the bonds. The future cash receipts from the Master Settlement Agreement (MSA) are expected to offset this deficit. The largest payments provided for in the MSA are called initial payments and annual payments. Both are subject to certain adjustments, reductions and offsets, which are described in the following paragraphs.

Initial payments to New York State will be made in the first five years of the agreement, starting with \$2.4 billion in 1999; the last four of these will be subject to the volume adjustment, the non-settling states reduction, and the offset for miscalculated or disputed payments. The Corporation received the County's share of the payment in the last three years of the agreement, starting in 2001.

GENESEE TOBACCO ASSET SECURITIZATION CORPORATION
Notes to Financial Statements

Annual payments commenced on April 15, 2000, starting at \$4.5 billion in 2000 and continuing into perpetuity at a cap of \$9 billion to be reached in 2018. The annual payments will be subject to inflation adjustment, the volume adjustment, the previously settled states reduction, the non-settling states reduction, the non-participating manufacturers adjustment, the offset for miscalculated or disputed payments, the federal tobacco legislation offset, the litigating parties offset, and the offsets for claims. The Corporation started receiving the County's portion of the annual payments on April 15, 2001.

Note 6. Restricted Cash - Liquidity Reserve

The Corporation is required to place a portion of the bond proceeds in trust as a reserve to partially secure payments to the bond holders. The restriction of these funds will be released as the bonds mature and are paid. The restricted cash - liquidity reserve amounted to \$926,853 and \$926,808 for the years ended December 31, 2011 and 2010, respectively.

Note 7. Restricted Cash - Trapping Reserve

Pursuant to the terms of the MSA, in 2003 the credit rating of one of the OPM's was rated below the required level, causing a downgrade trapping event. GTASC is now required to cease residual payments to the County until at least 25% of the outstanding principal on the debt is held in the fund or until one year after the bond rating goes back to a specified level to ensure that applicable debt payments can be made. GTASC began funding this account during 2003 and the outstanding balance at December 31, 2011 and 2010 was \$1,233 and \$2,278, respectively.

Note 8. Supplemental Cash Flow Information

	<u>2011</u>	<u>2010</u>
Cash paid during the year:		
Interest	\$ <u>726,250</u>	\$ <u>740,500</u>

Note 9. Restatement

The 2010 financial statements were restated to properly reflect the correct timing of the \$25,000 transfer of funds to the County of Genesee.



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

The Board of Directors
Genesee Tobacco Asset Securitization Corporation
Batavia, New York

We have audited the financial statements of the Genesee Tobacco Asset Securitization Corporation (a not-for-profit corporation), a blended component unit of the County of Genesee New York, as of and for the year ended December 31, 2011, and have issued our report thereon dated March 28, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Genesee Tobacco Asset Securitization 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 Genesee Tobacco Asset Securitization Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Genesee Tobacco Asset Securitization 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 would not necessarily identify all deficiencies in internal control 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 Genesee Tobacco Asset Securitization 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 disclose no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management of the Genesee Tobacco Asset Securitization Corporation and is not intended to be and should not be used by anyone other than these specified parties.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
March 28, 2012