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

Basic Financial Statements as of December 31, 2011 and 2010 Together with Independent Auditors' Report

Bonadio & Co., LLP
Certified Public Accountants

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

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis (Unaudited)	3 - 6
Basic Financial Statements:	
• Statements of Net Deficit	7
• Statements of Activities and Change in Net Deficit	8
• Governmental Fund Balance Sheets	9
• Statements of Governmental Fund Revenues, Expenditures and Change in Fund Balance	10
• Notes to Basic Financial Statements	11 - 19
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*	20 - 21

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INDEPENDENT AUDITORS' REPORT

March 27, 2012

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

We have audited the accompanying financial statements of the governmental activities and major fund of the Monroe Tobacco Asset Securitization Corporation (MTASC), a blended component unit of the County of Monroe, New York, as of and for the years ended December 31, 2011 and 2010, which collectively comprise MTASC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of MTASC's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Monroe Tobacco Asset Securitization Corporation as of December 31, 2011 and 2010, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2012, on our consideration of the Monroe 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 audits.

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INDEPENDENT AUDITORS' REPORT
(Continued)

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 6 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, 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.

Bonadio & Co., LLP

The following Management's Discussion and Analysis (MD&A) provides a comprehensive overview of the Monroe Tobacco Asset Securitization Corporation's (MTASC) financial position as of December 31, 2011 and 2010 and its changes in financial position for the years then ended. This MD&A should be read in conjunction with the financial statements and related footnotes of MTASC, which directly follow the MD&A.

General Overview

MTASC is a special purpose, bankruptcy remote local development corporation organized under the Not-For-Profit Corporation Laws of the State of New York (the State). MTASC was established on May 11, 2000; however, there were no substantive operations until August 15, 2000. MTASC is an instrumentality of, but separate and apart from the County of Monroe, New York (the County). Pursuant to a Purchase and Sale Agreement with the County, the County sold to MTASC all of its future rights, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgment (the Decree). The MSA resolved cigarette smoking related litigation between the settling states and the Participating Manufacturers (PMs), released the PMs from past and present smoking related claims, and provided for a continuing release of future smoking related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future rights, title and interest of the County's share were sold to MTASC and were financed by the issuance of bonds.

Overview of the Financial Statements

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

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

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

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

Overview of the Financial Statements (Continued)
The Statement of Activities and Change in Net Assets (Deficit) presents all of MTASC's revenues, both program and general, expenses, and transfers.

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

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

Financial Highlights
MTASC reported liabilities in excess of assets of $220.42 million as of December 31, 2011. MTASC's net deficit increased by $5.6 million from the prior year, caused by the increase in interest payable for the Capital Appreciation Bonds. MTASC reported liabilities in excess of assets of $214.82 million as of December 31, 2010. This was an increase of $4.0 million from the prior year.

MTASC made the 2011 debt service payments along with a Turbo (principal) payment towards the Series 2005B Bonds with the TSR's received. There were no new debt obligations issued in 2011.

Condensed
Statement of Net Deficit
(In millions)

	2011	2010	2009
Total assets	$ 30.05	$ 31.47	$ 32.06
Bonds payable	226.40	226.67	227.39
Other liabilities	24.07	19.62	15.50
Total liabilities	250.47	246.29	242.89
Net deficit	$ (220.42)	$ (214.82)	$ (210.83)

Total Assets
The total assets decreased from 2010 to 2011 ($31.5 million and $30.1 million, respectively). The decrease in total assets from 2010 to 2011 was primarily due to a decrease in accounts receivable of $1.3 million. The decrease in accounts receivable is the result of anticipated TSR's being less than those that were expected in the prior year. The decrease in bond issuance cost ($0.1 million) from 2010 to 2011 was the result of amortization of costs incurred in connection with the issuance of the Series 2005, 2006 and 2010 Bonds. The total assets decreased from 2009 to 2010 by $0.6 million, $32.1 million and $31.5 million, respectively.

Total Liabilities
The total liabilities increased by $4.2 million from 2010 to 2011. This increase is due to accrued interest payable on outstanding bonds increasing from $19.6 million in 2010 to $24.1 million in 2011, offset by a decrease in bonds payable from $226.7 million in 2010 to $226.4 million in 2011. The increase in total liabilities from 2009 to 2010 of $3.4 million was due to the increase in accrued interest payable on outstanding bonds (approximately $4.1 million) and a decrease in bonds payable (approximately $0.7 million).

Condensed
Statement of Activities and Change in Net Deficit
(In millions)

	2011	2010	2009
Total expenses	$ 14.83	$ 14.66	$ 14.66
Program revenues - tobacco settlement	9.23	10.67	14.15
Change in net assets	(5.60)	(3.99)	(0.51)
Net deficit - beginning of year	(214.82)	(210.83)	(210.32)
Net deficit - end of year	$ (220.42)	$ (214.82)	$ (210.83)

Expenses
Expenses incurred in 2011 were virtually unchanged from those incurred in 2010 and are predominately interest costs. Expenses incurred in 2010 were identical to those incurred in 2009.

Revenues
Revenues recorded during 2011 were less than those recorded in 2010. TSR's decreased by $1.4 million in 2011 over 2010. Revenues recorded during 2010 decreased by $3.5 million over those recorded in 2009. The decrease was due to declining TSR's of $3.5 million.

Financial Analysis of MTASC's Fund Financial Statements
The focus of MTASC's governmental fund reporting is to provide information on near-term inflows, outflows and balances of spendable resources.

As of December 31, 2011, MTASC's debt service fund reported fund balances of $13.6 million, unchanged from the prior year. Approximately $0.4 million of fund balance is unassigned fund balance and is available for MTASC's future needs. The remainder of fund balance is restricted to indicate that it is not available for spending because it has already been committed to pay future debt service and fund bond issuance costs.

As of December 31, 2010, MTASC's debt service fund also reported an ending fund balance of $13.6 million, a decrease of $0.1 million from the prior year due to a decrease in the debt service account. Approximately $0.3 million of the fund balance was restricted with the remaining balance to be used to fund MTASC's future debt service.

Debt
Debt obligations of MTASC as of December 31, 2011 consist of the MTASC Series 2010 Tobacco Settlement Asset-Backed Bonds (which replaced the Series 2005C as part of a forward purchase contract on June 1, 2010), the MTASC Series 2006 Tobacco Settlement Asset-Backed Bonds and the remaining balance of the MTASC Series 2005 Tobacco Settlement Asset-Backed Bonds, a portion of the proceeds which were used to advance refund/defease the remaining outstanding Series 2000 bonds (which were originally issued to purchase the rights to the future TSRs due to the County), make a payment to the Trust, and to pay related costs of issuance of the Series 2005 bonds.

Debt (Continued)
The total amount of the Series 2010, Series 2006 bonds and Series 2005 bonds outstanding at December 31, 2011 was $226.4 million. None of the outstanding Series 2010, Series 2006 bonds or Series 2005 bonds were considered current since none were due within twelve months of year-end.

The 2010 Series and 2005 Series bonds were structured to enable the New York Counties Tobacco Trust IV bonds to attain the following ratings:

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

The 2006 Series bonds were not rated as MTASC did not apply for, and the rating agencies have not issued, a rating for the bonds.

All of MTASC's turbo bonds are subject to prepayment from Turbo Redemption Payments. Turbo Redemption Payments are made from collections (other than partial and lump sum payments) in excess of the amount needed to pay certain operating expenses. To the extent possible, the Turbo Redemption Payments will amortize the Series 2005 bonds, Series 2006 bonds and Series 2010 bonds earlier than their maturity dates at their accreted values. Payments of $270,000 and $720,000 were made in 2011 and 2010, respectively, against the Series 2005 bonds.

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

Details on the debt outstanding is provided in Note #4 to the financial statements.

Contacting Monroe Tobacco Asset Securitization Corporation's Management
This financial report is designed to provide a general overview of MTASC's finances and to demonstrate MTASC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer, Monroe Tobacco Asset Securitization Corporation, at 39 West Main Street, Room 402, Rochester, New York, 14614.

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

STATEMENTS OF NET DEFICIT
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
Cash and cash equivalents	$ 408,517	$ 357,266
Accrued interest receivable	100	100
Accounts receivable	10,316,438	11,659,163
Restricted cash and cash equivalents	13,198,233	13,206,430
Bond issuance costs, net	6,126,544	6,249,690
Prepaid expenses	2,447	2,023
Total assets	30,052,279	31,474,672
LIABILITIES		
Accrued interest payable	24,072,914	19,628,473
Bonds payable	226,399,794	226,669,794
Total liabilities	250,472,708	246,298,267
NET DEFICIT		
RESTRICTED FOR:		
Debt service	12,868,096	12,876,326
Other purposes	330,137	330,104
UNRESTRICTED	(233,618,662)	(228,030,025)
Total net deficit	$ (220,420,429)	$ (214,823,595)

The accompanying notes are an integral part of these statements.

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

STATEMENTS OF ACTIVITIES AND CHANGE IN NET DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
EXPENSES:		
General government -		
Materials and services	$ 67,024	$ 68,734
Administrative costs	30,500	30,554
Interest and amortization	14,735,337	14,571,028
Total expenses	14,832,861	14,670,316
PROGRAM REVENUE:		
Tobacco settlement	9,227,272	10,673,996
Net program revenues	(5,605,589)	(3,996,320)
GENERAL REVENUES - INVESTMENT INCOME	8,755	1,695
CHANGE IN NET ASSETS	(5,596,834)	(3,994,625)
NET DEFICIT - beginning of year	(214,823,595)	(210,828,970)
NET DEFICIT - end of year	$ (220,420,429)	$ (214,823,595)

The accompanying notes are an integral part of these statements.

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

GOVERNMENTAL FUND BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
Cash and cash equivalents	$ 408,517	$ 357,266
Accrued interest receivable	100	100
Accounts receivable	10,316,438	11,659,163
Restricted cash and cash equivalents	13,198,233	13,206,430
Prepaid expenses	2,447	2,023
Total assets	$ 23,925,735	$ 25,224,982
LIABILITIES AND FUND BALANCES		
LIABILITIES:		
Deferred revenue	$ 10,316,438	$ 11,659,163
Total liabilities	10,316,438	11,659,163
FUND BALANCES:		
Restricted for -		
Debt service	12,868,096	12,876,326
Other purposes	330,137	330,104
Unassigned	411,064	359,389
Total fund balances	13,609,297	13,565,819
Total liabilities and fund balances	$ 23,925,735	$ 25,224,982
Amounts reported for governmental activities in the statement of net assets (deficit) are different because:		
Total fund balances	$ 13,609,297	$ 13,565,819
Tobacco settlement revenue was not received in the current period and therefore, is not reported as revenues at the fund level	10,316,438	11,659,163
Bonds payable and accrued interest are not due and payable in the current period and therefore, are not reported at the fund level	(250,472,708)	(246,298,267)
Certain items, including bond issuance costs, premiums and original issue discount are fully expensed in the governmental fund statement, but amortized over a period of time in the statement of activities	6,126,544	6,249,690
Total net deficit	$ (220,420,429)	$ (214,823,595)

The accompanying notes are an integral part of these statements.

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

STATEMENTS OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
REVENUES:		
Tobacco settlement	$ 10,569,997	$ 11,148,819
Investment income	8,755	1,695
Total revenues	10,578,752	11,150,514
EXPENDITURES:		
General and administrative	67,024	68,734
Bond issuance and administration costs	30,500	100,554
Debt service - principal	270,000	720,000
Debt service - interest	10,167,750	10,323,650
Total expenditures	10,535,274	11,212,938
NET CHANGE IN FUND BALANCES	43,478	(62,424)
FUND BALANCES - beginning of year	13,565,819	13,628,243
FUND BALANCES - end of year	$ 13,609,297	$ 13,565,819
Amounts reported for governmental activities in the statements of activities are different because:		
Net change in fund balances	$ 43,478	$ (62,424)
Tobacco settlement revenues reported in the statement of activities were not received in time to pay current financial obligations and therefore, have not been reported as revenue in the governmental fund	(1,342,725)	(474,823)
Certain expenses reported in the statement of activities (amortization of bond issuance costs, premiums and interest) do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental fund	(123,146)	(51,800)
The net effect of bond proceeds received, repayments of the Series 2005 and 2006 bonds and interest expense are activities of the governmental fund but not reported in the statement of activities	(4,174,441)	(3,405,578)
Change in net assets (deficit)	$ (5,596,834)	$ (3,994,625)

The accompanying notes are an integral part of these statements.

1. ORGANIZATION

Monroe Tobacco Asset Securitization Corporation (MTASC) 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). MTASC was established on May 11, 2000; however, there were no substantive operations until August 15, 2000 as discussed herein. The Corporation is an instrumentality of, but separate and apart from the County of Monroe, New York (the County). MTASC will have not less than three nor more than five directors, consisting of two ex-officio positions including the Executive of the County and the Director of Finance - Chief Financial Officer of the County, up to two additional directors and one independent director. Although legally separate from the County, MTASC is a component unit of the County and, accordingly, is included in the County's basic financial statements as a blended component unit.

On August 15, 2000, pursuant to a Purchase and Sale Agreement with the County, the County sold to MTASC all of its future rights, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgment (the Decree). The MSA resolved cigarette smoking related litigation between the settling states and the Participating Manufacturers (PMs), released the PMs from past and present smoking related claims, and 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 MTASC.

MTASC's purchase of the County's future rights, title and interest in the TSRs was financed by the issuance of bonds. A Residual Certificate exists that represents the County's entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses, and certain other costs by MTASC as set forth in the Amended and Restated Indenture (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 MTASC to pay various expenses, debt service or required reserves with respect to the bonds are transferred to the Monroe Tobacco 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.

2. ACCOUNTING AND REPORTING CHANGE

In March 2010, GASB issued GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. MTASC has adopted the provisions of this statement for the year ended December 31, 2010. The fund equity portion of governmental funds balance sheet has been classified into the appropriate fund balance categories.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
MTASC's financial statements are prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB). MTASC's government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

Net Assets
Net Assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through State statute or are otherwise unavailable for appropriation by the primary government and component units.

As of December 31, 2011 these restrictions included:

- <u>Debt Service</u> - represents resources that have been legally restricted for debt service payments that will be made in future periods.

- <u>Other Purposes</u> - represents resources that have be restricted to arbitrage rebate analysis services and bond issuing costs.

Unrestricted net assets are net assets that are not restricted, but which may be internally designated by the Board of Directors. At December 31, 2011 and 2010, the amount of unrestricted net deficit were ($233.6) million and ($228.0) million, respectively.

Fund Balance
Fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- <u>Nonspendable</u> - amounts that are not in spendable form (such as inventory and prepaids) or are legally or contractually required to be maintained intact;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Continued)

- Restricted - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

- Committed - amounts constrained to specific purposes by a MTASC itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless MTASC takes the same highest level action to remove or change the constraint;

- Assigned - amounts MTASC intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;

- Unassigned - amounts that have not been assigned to another fund or are not restricted, committed, or assigned to specific purposes within the debt service fund.

When fund balance resources are available for a specific purpose in more than one classification, it is MTASC's practice to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Cash and Cash Equivalents

MTASC considers bank deposit accounts and all highly liquid debt instruments with remaining maturities, when purchased, of 3 months or less to be cash equivalents and these are stated at fair value. MTASC maintains a liquidity reserve account, which was initially funded from the Series 2000 Bond proceeds and has been increased by funds from the Series 2005 Bonds. This account must be maintained at a minimum of $12,849,750 until such time that all bonds, other than subordinated bonds, are paid. All amounts withdrawn from this account are replenished, as needed, and amounts in excess of the required amount are transferred out. This account is included in restricted cash and cash equivalents on the balance sheet.

Deferred Bond Issuance Costs, Original Issue Discount and Bond Premium

MTASC recognizes bond premium, original issue discount and issuance costs fully in the year of issuance for the governmental fund statements. These costs are amortized on the straight line basis over the term of the related bonds for the government-wide financial statements as additional interest expense.

	2011	2010
Series 2005	$ 6,051,797	$ 6,051,797
Series 2006	769,000	769,000
Series 2010	70,000	70,000
Subtotal	6,890,797	6,890,797
Accumulated amortization	(764,253)	(641,107)
Total	$ 6,126,544	$ 6,249,690

Amortization expense was $123,146 and $121,800 for the years ended December 31, 2011 and 2010, respectively. MTASC recognizes all interest paid as interest expenditures on the modified accrual basis for the governmental fund statements and all interest incurred as expenses on the full accrual basis for the government-wide financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable
MTASC records a receivable for TSRs and does not accrue interest on unpaid amounts. MTASC has not recorded an allowance for doubtful accounts related to the TSRs and does not anticipate future write-offs.

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

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

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

4. DEPOSITS AND INVESTMENTS

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

Interest Rate Risk
Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. MTASC does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk
MTASC's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. MTASC's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Obligations of the United States of America;
- Obligations guaranteed by the United States of America where payment of principal and interest are guaranteed by the United States of America;
- Obligations of the State of New York;
- Special time deposit accounts;
- Certificates of deposit;
- Commercial paper;

4. DEPOSITS AND INVESTMENTS (Continued)

Credit Risk (Continued)

- Repurchase agreements limited to obligations of the United States of America, or obligations whose principal and interest are fully guaranteed, or insured by the United States of America. The term of each agreement shall generally not exceed 180 days. The agreement shall be confirmed in writing by the seller, and each security purchased under the agreement shall be specifically identified; segregated from the assets of the seller and delivered for safekeeping into an account designated and controlled by MTASC. Also, each seller shall enter into a master Repurchase Agreement with MTASC which shall specify the rights and obligations of MTASC and the Seller in all transactions;
- Obligations of public authorities, public housing authorities, urban renewal agencies, and industrial development agencies where the general State statutes governing such entities or whose specific enabling legislation authorizes such investments; and
- Obligations issued pursuant to New York State Local Finance Law Section 24.00 and 25.00 (with approval of the New York State Comptroller) by any municipality, school district or district corporation other than MTASC.

Custodial Credit Risk - Deposits

Custodial credit risk - deposits is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Corporation’s investment and deposit policy, all deposits of MTASC including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIA) shall be secured by a pledge of securities with an aggregate value equal to the aggregate amount of deposits. MTASC restricts the securities to the following eligible items:

- Obligations issued, or fully insured or guaranteed as to the payment of principal and interest, by the United States of America, an agency thereof or a United States government sponsored corporation;
- Obligations issued or fully guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank;
- Obligations partially insured or guaranteed by any agency of the United States of America;
- Obligations issued or fully insured or guaranteed by the State of New York;
- Obligations issued by a municipal corporation, school district or district corporation of New York State;
- Obligations of any public benefit corporation, which under a specific State statute may be accepted as security for deposit of public monies;
- Obligations issued by states (other than the State of New York) of the United States rated in one of the two highest rating categories by at least one Nationally Recognized Statistical Rating Organization (NRSRO);
- Obligations of Puerto Rico rated in the highest rating category by at least one NRSRO;
- Obligations of counties, cities and other governmental entities of a state other than the State of New York having the power to levy taxes that are backed by the full faith and credit of such governmental entity and rated in one of the two highest categories by at least one NRSRO;
- Obligations of domestic corporations rated in one of the two highest rating categories by at least one NRSRO; and
- Zero coupon obligations of the United States of America marketed as “treasury strips.”

4. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits (Continued)
As of December 31, 2011 and 2010, the carrying amount of MTASC's cash and cash equivalents was $408,517 and $357,266, respectively, and was exposed to custodial credit risk as follows:

	2011	2010
Federal Depository Insurance Coverage	$ 408,517	$ 357,266

Custodial Credit Risk - Investments
Custodial credit risk - investments is the risk that an entity will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails. MTASC's investment and deposit policy requires that all custodial investments be registered or insured in MTASC's name and held in the custody of the bank or the bank's trust department. MTASC requires that all repurchase agreements be limited to obligations of the United States of America or obligations whose principal and interest are fully guaranteed, or insured by the United States of America. As of December 31, 2011 and 2010, MTASC's investments, with maturities of less than one year, were in compliance with the investment and deposit policy as follows:

Investment Type	2011	2010
Money market fund (U.S. Treasuries)	$ 13,198,233	$ 13,206,430

Concentration of Credit Risk
MTASC places no limit on the amount that may be invested in any one investment type. At December 31, 2011 and 2010, the Corporation's investments were invested in money market funds.

Restricted Cash and Cash Equivalents
MTASC had the following restricted funds as of December 31:

Restricted Cash and Cash Equivalents	2011	2010
Liquidity reserves	$ 12,850,396	$ 12,849,856
Debt service reserves	17,700	26,470
Bond issuance and rebate costs	330,137	330,104
Total	$ 13,198,233	$ 13,206,430

5. BONDS PAYABLE

The Series 2005 and Series 2010 Bonds are secured by a perfected security interest in, and pledge of, the Trust Estate, as defined in the Indenture, which includes, among other things, the TSRs and all investment earnings on amounts on deposit in the accounts established under the Indenture (collectively, the Collections). Among the accounts so established are the Liquidity Reserve Account and the Debt Service Account. MTASC retains TSRs in an amount sufficient to service its debt and pay its operating expenses. The Series 2006 Bonds are subordinate to the Series 2005 Bonds and Series 2010 Bonds.

MTASC entered into a forward purchase contract in connection with the issuance of Tobacco Settlement Asset-Backed Bonds, Series 2010A (Tax Exempt Turbo Term Bonds) to be in an amount equal to the amount of Series 2005C Bonds outstanding on the date of issuance of the

5. BONDS PAYABLE (Continued)

Series 2010A Bonds. The Series 2005C Bonds were replaced by the Series 2010A Bonds on June 1, 2010 with a maturity date of June 1, 2041 and an interest rate of 6.25%.

The Series 2006 Bonds are composed of the following:

- $14,579,370 Tobacco Settlement Asset-Backed Bonds, Series 2006A (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2061, interest rate of 0.00%, with an accreted value at maturity of $952,900,000.

The Series 2005 Bonds are composed of the following:

- $91,120,000 Tobacco Settlement Asset-Backed Bonds, Series 2005A (Tax Exempt Turbo Bonds), maturity date is June 1, 2042, interest rate of 5.00%.
- $36,665,000 Tobacco Settlement Asset-Backed Bonds, Series 2005B (Taxable Turbo Bonds), maturity date is June 1, 2027, interest rate of 6.00% ($27,665,000 principal amount remains outstanding as of December 31, 2011 as a result of Turbo Redemption payments which have been made since 2006).
- $5,386,580 Tobacco Settlement Asset-Backed Bonds, Series 2005D (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2050, interest rate of 0.00%, with an accreted value at maturity of $71,965,000.
- $8,923,514 Tobacco Settlement Asset-Backed Bonds, Series 2005E (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2055, interest rate of 0.00%, with an accreted value at maturity of $202,715,000.
- $15,625,329 Tobacco Settlement Asset-Backed Bonds, Series 2005F (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2060, interest rate of $0.00%, with an accreted value at maturity of $608,700,000.

The Series 2010 Bonds are composed of the following:

- $63,100,000 Tobacco Settlement Asset-Backed Bonds, Series 2010A (Tax Exempt Turbo Term Bonds), maturity date is June 1, 2041 with an interest rate of 6.25%.

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

	2011	2010
Balance - beginning of year	$ 226,669,794	$ 227,389,794
Repayments of bonds	(270,000)	(720,000)
Balance - end of year	$ 226,399,794	$ 226,669,794
Payments due within one year	$ -	$ -

5. BONDS PAYABLE (Continued)

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

Year	Principal	Interest	Total
2012	$ -	$ 10,159,650	$ 10,159,650
2013	-	10,159,650	10,159,650
2014	-	10,159,650	10,159,650
2015	-	10,159,650	10,159,650
2016	-	10,159,650	10,159,650
2017 - 2021	-	50,798,250	50,798,250
2022 - 2026	-	50,798,250	50,798,250
2027 - 2031	27,665,000	43,328,700	70,993,700
2032 - 2036	-	42,498,750	42,498,750
2037 - 2041	63,100,000	40,526,875	103,626,875
2042 - 2046	91,120,000	7,597,750	98,717,750
2047 - 2051	5,386,580	66,578,420	71,965,000
2052 - 2056	8,923,514	193,791,486	202,715,000
2057 - 2061	30,204,700	1,531,395,300	1,561,600,000
	$ 226,399,794	$ 2,078,112,031	$2,304,511,825

Required maturities for the Series 2005, Series 2006 and Series 2010 Bonds represent the minimum amount of principal that MTASC 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 MTASC receives sufficient TSRs to make the Turbo payments. The interest payment requirements shown are based on the required principal maturity schedule and include the accreted value portion of capital appreciation bonds in the year in which they are required to be redeemed.

Under the terms of the Indenture, MTASC is required to maintain certain deposits to fund debt service payments, if needed. Such deposits are included in restricted cash and cash equivalents in the basic financial statements. In addition, MTASC is subject to various debt covenants, including limitations on expenses/expenditures, and compliance with Trustee indenture agreement requirements. MTASC was in compliance with all covenants and indenture agreement requirements at December 31, 2011 and 2010.

Principal payments in the amount of $270,000 and $720,000 were made during 2011 and 2010, respectively, in accordance with the Turbo Redemption requirements of the Series 2005B bonds.

Interest
Interest expense on bonds payable was $14,612,191 and $14,449,229 in 2011 and 2010, respectively. In 2011 and 2010, cash paid for interest was $10,167,750 and $10,323,650 respectively.

Advance Refunding/Defeasance
On June 1, 2010 the outstanding Series 2000 Tobacco Settlement Asset-Backed Bonds in the amount of $143,475,000 were redeemed and paid with funds generated by the Series 2005 Bonds. The Series 2000 Bonds were deemed to have been advance refunded and defeased since the issuance of the Series 2005 Bonds.

6. TRANSACTIONS WITH MONROE COUNTY

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 it is the duty of MTASC to prepare, execute, file or deliver pursuant to the Indenture and the related agreements.

The Purchase and Sale Agreement also contemplates the lease by MTASC 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 MTASC for the services provided by the County was approximately $30,000 in each of the years ended December 31, 2011 and 2010.

No residual funds, in accordance with the Amended and Restated Indenture, were transferred to the Trustee and ultimately the County in 2011 or 2010.

7. NET ASSET DEFICIT

The Corporation has a deficit in net assets as a result of the outstanding bonds. As these bonds are repaid, this will help to reduce the deficit, along with the future revenue streams.

8. CONTINGENCIES

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

Bonadio & Co., LLP
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

March 27, 2012

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

We have audited the financial statements of the governmental activities and major fund of Monroe Tobacco Asset Securitization Corporation (MTASC) as of and for the year ended December 31, 2011, which collectively comprise MTASC's basic financial statements and have issued our report thereon dated March 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered MTASC'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 MTASC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MTASC's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MTASC'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*.

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

Bonadio & Co., LLP