

**PUTNAM COUNTY TOBACCO ASSET
SECURITIZATION CORPORATION**

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

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

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

PUTNAM COUNTY TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Putnam, New York)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Putnam County Tobacco Asset
Securitization Corporation:

We have audited the accompanying basic financial statements of the Putnam County Tobacco Asset Securitization Corporation (the Corporation), a component unit of the County of Putnam, New York (the County), as of and for the years ended December 31, 2011 and 2010. 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 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Putnam County 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 February 24, 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, grants 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.

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

Toski & Co., CPAs, P.C.

Williamsville, New York
February 24, 2011

PUTNAM COUNTY TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Putnam, New York)
Management's Discussion and Analysis
December 31, 2011 and 2010

OVERVIEW

The Putnam County Tobacco Asset Securitization Corporation (the Corporation) is a local development corporation created by an act of the New York State Legislature. The Corporation's primary purpose is to acquire the securitized tobacco assets from the County of Putnam, New York (the County) and issue bonds securitized by a settlement agreement with companies in the tobacco industry. The net proceeds of borrowings by the Corporation were paid to the County to acquire the rights to future proceeds from the settlement agreement. Under this structure, the borrowings by the Corporation are not debt of the County. The Corporation will remain in existence during the term of the bonds and provide annual reports to bondholders.

The Corporation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. The financial statements include the following:

- Statement of Net Assets - reports the financial position of the Corporation at December 31, 2011 and 2010.
- Statement of Revenue, Expenses and Changes in Net Assets - reports the financial activity of the Corporation for the years ended December 31, 2011 and 2010.
- Statement of Cash Flows - reports the sources and uses of cash for the years ended December 31, 2011 and 2010.

FINANCIAL HIGHLIGHTS

During the year ended December 31, 2011, the net assets of the Corporation decreased by \$326,295 from \$(15,414,319) at December 31, 2010 to \$(15,740,614) at December 31, 2011. The unrestricted cash balance of the Corporation increased \$4,661 during the year ended December 31, 2011.

The deficit in the statement of net assets of \$15,740,614 at December 31, 2011 is a result of the Corporation's issuance of long-term debt, secured by a stream of revenue which is dependent upon future tobacco sales in the United States, in which the revenue is not reportable until the sales are made.

During the year ended December 31, 2010, the net assets of the Corporation decreased by \$199,604 from \$(15,214,715) at December 31, 2009 to \$(15,414,319) at December 31, 2010. The cash balance of the Corporation decreased by \$15,961 during the year ended December 31, 2010.

PUTNAM COUNTY TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Putnam, New York)
Management's Discussion and Analysis, Continued

The deficit in the statement of net assets of \$15,414,319 at December 31, 2010 is a result of the Corporation's issuance of long-term debt, secured by a stream of revenue which is dependent upon future tobacco sales in the United States, in which the revenue is not reportable until the sale is made.

REQUEST FOR INFORMATION

This financial report is designated to provide a general overview of the Corporation's finances for all those with an interest in the Putnam County Tobacco Asset Securitization Corporation's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Treasurer of Putnam County Tobacco Asset Securitization Corporation, Carmel, New York 10512.

PUTNAM COUNTY TOBACCO ASSET
 SECURITIZATION CORPORATION
 (A Component Unit of the County of Putnam, New York)
 Statements of Net Assets
 December 31, 2011 and 2010

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and equivalents	\$ 49,556	44,895
Tobacco settlement proceeds receivable	1,075,000	1,188,026
Prepaid expenses	9,405	9,405
Total current assets	1,133,961	1,242,326
Restricted cash and equivalents	1,208,920	1,208,859
Costs of issuance, net of accumulated amortization of \$70,604 and \$59,495	196,014	207,123
Total assets	\$ 2,538,895	2,658,308
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accrued liabilities	\$ 78,650	78,950
Current maturities of bonds payable	180,000	530,000
Total current liabilities	258,650	608,950
Bonds payable, net of current maturities	18,020,859	17,463,677
Total liabilities	18,279,509	18,072,627
Unrestricted net assets (deficit)	(15,740,614)	(15,414,319)
Contingencies (note 5)		
Total liabilities and net assets	\$ 2,538,895	2,658,308

See accompanying notes to financial statements.

PUTNAM COUNTY TOBACCO ASSET
 SECURITIZATION CORPORATION
 (A Component Unit of the County of Putnam, New York)
 Statements of Revenue, Expenses and Changes in Net Assets
 Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenue - tobacco settlement revenue	\$ <u>932,963</u>	<u>1,076,594</u>
Operating expenses:		
Professional fees	13,570	29,625
Insurance	7,260	7,260
Administrative charges	15,000	15,000
Amortization	<u>11,109</u>	<u>11,109</u>
Total operating expenses	<u>46,939</u>	<u>62,994</u>
Increase in net assets from operations	<u>886,024</u>	<u>1,013,600</u>
Non-operating activities:		
Interest income	163	160
Interest expense	<u>(1,212,482)</u>	<u>(1,213,364)</u>
Total non-operating expenses	<u>(1,212,319)</u>	<u>(1,213,204)</u>
Decrease in unrestricted net assets	(326,295)	(199,604)
Unrestricted net assets (deficit) at beginning of year	<u>(15,414,319)</u>	<u>(15,214,715)</u>
Unrestricted net assets (deficit) at end of year	<u>\$ (15,740,614)</u>	<u>(15,414,319)</u>

See accompanying notes to financial statements.

PUTNAM COUNTY TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Putnam, New York)
Statements of Cash Flows
Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from tobacco settlement revenue	\$ 1,045,989	1,103,269
Cash paid to vendors	<u>(35,830)</u>	<u>(51,885)</u>
Net cash provided by operating activities	<u>1,010,159</u>	<u>1,051,384</u>
Cash flows from investing activities - interest income	<u>102</u>	<u>160</u>
Cash flows from financing activities:		
Repayment of bonds payable	(60,000)	(110,000)
Interest paid	<u>(945,600)</u>	<u>(957,505)</u>
Net cash used in investing activities	<u>(1,005,600)</u>	<u>(1,067,505)</u>
Net decrease in cash and equivalents	4,661	(15,961)
Cash and equivalents at beginning of year	<u>44,895</u>	<u>60,856</u>
Cash and equivalents at end of year	<u>\$ 49,556</u>	<u>44,895</u>
Cash flows from operating activities:		
Increase in net assets from operations	886,024	1,013,600
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Amortization	11,109	11,109
Change in receivables	<u>113,026</u>	<u>26,675</u>
Net cash provided by operating activities	<u>\$ 1,010,159</u>	<u>1,051,384</u>
Noncash financing activities:		
Increase in bonds payable from amortization of:		
Original issue discount on term bonds	<u>\$ 13,673</u>	<u>13,671</u>
Underwriter's discount	<u>\$ 11,892</u>	<u>11,892</u>
Loss on refunding	<u>\$ 90,650</u>	<u>90,658</u>
Increase in bonds payable from accreted interest on capital appreciation bonds	<u>\$ 150,967</u>	<u>141,321</u>

See accompanying notes to financial statements.

PUTNAM COUNTY TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Putnam, New York)

Notes to Financial Statements

December 31, 2011 and 2010

(1) Organization and Summary of Significant Accounting Policies

(a) Nature of Organization

Putnam County Tobacco Asset Securitization Corporation (the Corporation), a Component Unit of the County of Putnam, New York (the County) is a special purpose corporation. The Corporation was organized under the New York State Not-For-Profit Corporation Law and pursuant to the Public Authorities Law of the State of New York. The Board of Directors of the Corporation consists of five members; the County's County Executive, the County's Director of Finance, the Chairman of the County's Board of Legislators, the Chairman of the Audit and Administration Committee of the County's Board of Legislators and a fifth director who meets certain requirements of independence and shall be designated by the other four members.

An agreement among the attorneys general of 46 states and various territories (Settling States) and the four largest United States tobacco manufacturers was entered into on November 23, 1998. The agreement, known as the Master Settlement Agreement (MSA), resolved cigarette smoking-related litigation between the Settling States and U.S. Tobacco manufacturers. Pursuant to the MSA, the Settling States and the participating manufacturers agreed to settle all past, present and future smoking related claims in exchange for an agreement by the participating manufacturers to make certain payments. Under the MSA, the State of New York is entitled to receive approximately 12.76% of the initial and annual payments. The New York Consent Decree, which was entered into the Supreme Court of the State of New York for the County in December 1998, allocated 0.152% of this State-wide share of the initial and annual payments to the County and the remainder among the State, the City of New York and all other counties within the State.

During 2001, the County sold all of its future rights, title and interest to receive payments under the MSA and the Consent Decree to the Corporation which issued \$15,280,000 in Tobacco Settlement Asset-Backed Bonds, Series 2000 (Series 2000). During 2005, the Corporation issued \$20,565,798 in Tobacco Settlement Asset-Backed Bonds, Series 2005 A, B and C Term Bonds and Series 2005 D and E Capital Appreciation Bonds (collectively Series 2005), the proceeds of which were used to (1) refund the outstanding Series 2000 bonds, (2) fund the Liquidity Reserve Account at its required level, (3) pay certain costs of issuance related to the Series 2005 bonds and (4) provide the County with funds for working capital purposes. During 2010, the Corporation issued \$3,400,000 of Tobacco Settlement Asset-Backed Bonds, Series 2010A Term Bonds. The proceeds of which were used to refund the outstanding Series 2005C term bonds of \$3,400,000. The remaining Series 2005 and 2010A bonds are payable from and secured solely from pledged Tobacco Settlement Revenue (TSR's). The County as owner of the beneficial interest in the Residual Trust which holds the Residual Certificate, will not be entitled to received payments on such certificate while the Corporation's bonds remain outstanding.

PUTNAM COUNTY TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Putnam, New York)
Notes to Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

(a) Nature of Organization, Continued

The debt issued by the Corporation to securitize these revenues is not considered debt of the County and is secured only by future tobacco settlement payments.

Based on the guidance provided by Governmental Accounting Standards Board Technical Bulletin No. 2004-1, Tobacco Settlement Recognition and Financial Reporting Entity Issues, the Corporation is reported as a blended component unit of the County in its financial statements.

(b) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The Agency applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

(c) Concentration of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and equivalent accounts in financial institutions. Although the accounts exceed the federally insured deposit amount, management does not anticipate nonperformance by the financial institution.

(d) Cash and Equivalents

The Corporation considers all short-term highly liquid investments with maturities of three months or less to be cash equivalents.

(e) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(f) Revenue Recognition

Future tobacco settlement collections are contingent upon future tobacco products sales subject to various adjustments as outlined in the MSA. The Corporation recognizes revenue from tobacco settlement collections as the collections are received by the Corporation. In addition, an estimated receivable (master settlement agreement receivable) is accrued at year-end for estimated product sales occurring from July 1 through December 31 of each year.

PUTNAM COUNTY TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Putnam, New York)
Notes to Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

(g) Costs of Issuance

The costs of issuance of the bonds are being amortized over the turbo redemption maturities of the bonds, which is twenty-four years.

(h) Subsequent Events

The Corporation has evaluated events after December 31, 2011, and through February 24, 2012, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(2) Tobacco Settlement Proceeds Receivable

This asset represents estimated payments to be received under the Master Settlement Agreement (MSA) between various tobacco manufacturers and the County for cigarettes shipped though December 31, 2011. The MSA resolved cigarette smoking-related litigation between the manufacturers and the states, including the County of Putnam. The right to receive the payments was acquired by the Corporation through a purchase from the County of Putnam. The estimated tobacco settlement proceeds receivable amounted to \$1,075,000 at December 31, 2011 and \$1,188,026 at December 31, 2010.

(3) Restricted Cash and Equivalents

The Corporation is required to place a portion of the bond proceeds in trusts as a reserve to partially secure payments to the bondholders. Tobacco proceeds are held in trust by Manufacturers and Traders Trust (M&T) on behalf of the Corporation. M&T invests the proceeds in highly liquid, interest bearing securities, and performs the transfer of the debt obligations upon the instruction of Bond Logistix, the administrator retained by the Corporation. The restriction on these funds will be released as the bonds mature and are paid. The balance in restricted cash and equivalents amounted to \$1,208,920 at December 31, 2011 and \$1,208,859 at December 31, 2010.

PUTNAM COUNTY TOBACCO ASSET
SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Putnam, New York)
Notes to Financial Statements, Continued

(4) Bonds Payable

A summary of the activity of bonds payable for the years ended December 31, 2011 and 2010 is as follows:

Balance at December 31, 2009	\$ 17,846,135
Principal payments	(110,000)
Accretion	141,321
Amortization - original issue discount	13,671
Amortization - underwriter's discount	11,892
Amortization - loss on refunding	<u>90,658</u>
Balance at December 31, 2010	17,993,677
Principal payments	(60,000)
Accretion	150,967
Amortization - original issue discount	13,673
Amortization - underwriter's discount	11,892
Amortization - loss on refunding	<u>90,650</u>
Balance at December 31, 2011	\$ <u>18,200,859</u>

The Corporation issued bonds on August 25, 2005 as follows:

- \$2,915,000 - Turbo Term Bonds due June 1, 2020, with interest at 6.0% and a projected final Turbo Redemption date of June 1, 2012.* Balance due at December 2011 is \$1,780,000.
- \$9,165,000 - Turbo Term Bonds due June 1, 2042, with interest at 5.0% and a projected final Turbo Redemption date of June 1, 2024.* Balance due at December 2011 is \$9,165,000.
- \$3,325,000 - Turbo Term Bonds due June 1, 2045, with interest at 5.0% and a projected final Turbo Redemption date of June 1, 2026.* Balance due at December 2011 is \$3,325,000.
- \$1,326,156 - (net of unaccreted amounts of \$1,784,837) - Turbo Capital Appreciation Bonds due June 1, 2050, with yield of 5.875% and a projected final Turbo Redemption date of June 1, 2027.*
- \$1,255,364 - (net of unaccreted amounts of \$2,264,066) - Turbo Capital Appreciation Bonds due June 1, 2055, with yield of 6.375% and a projected final Turbo Redemption date of June 1, 2029.*

The Corporation issued \$3,400,000 of Turbo Term Bonds on June 1, 2010. The bonds are due June 1, 2031, with interest at 6.25% and a projected final Turbo Redemption date of June 1, 2017.* Balance due at December 2011 is \$3,400,000.

* Assumes Turbo Redemption payments are made based on the receipt of surplus pledged TSR's in accordance with the Global Insight Base Case Forecast of future tobacco consumption.

PUTNAM COUNTY TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Putnam, New York)
Notes to Financial Statements, Continued

(4) Bonds Payable, Continued

The payment schedule based upon planned structured principal maturities is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 180,000	938,400	1,118,400
2013	145,000	928,650	1,073,650
2014	160,000	919,500	1,079,500
2015	165,000	909,750	1,074,750
2016	175,000	899,550	1,074,550
2017 - 2021	955,000	4,302,150	5,257,150
2022 - 2026	1,400,000	4,022,500	5,422,500
2027 - 2031	9,010,424	3,406,750	12,417,174
2032 - 2036	3,405,000	2,618,875	6,023,875
2037- 2041	4,370,000	1,652,250	6,022,250
2042 - 2046	<u>4,335,000</u>	<u>445,125</u>	<u>4,780,125</u>
	24,300,424	<u>21,043,500</u>	<u>45,343,924</u>
Unamortized original issue discount on term bonds	(241,219)		
Unamortized underwriter's discount	(209,850)		
Deferred amounts of refunding	(1,599,591)		
Unaccreted amounts on capital appreciation bonds	<u>(4,048,905)</u>		
	<u>\$ 18,200,859</u>		

The Turbo Redemption principal payments for the five years following December 31, 2011 and thereafter are anticipated to be as follows:

	<u>Amount</u>
2012	\$ 180,000
2013	145,000
2014	160,000
2015	165,000
2016	175,000
Thereafter	<u>23,475,424</u>
	<u>\$ 24,300,424</u>

PUTNAM COUNTY TOBACCO ASSET
SECURITIZATION CORPORATION
(A Component Unit of the County of Putnam, New York)
Notes to Financial Statements, Continued

(5) Contingencies

The enforceability of the rights and remedies of the State (and thus the bondholders) and of the obligations of a participating manufacturer under the MSA are subject to the Bankruptcy Code and the other applicable insolvency, moratorium or similar laws relating to or affecting the enforcement of the creditor's rights. Some of the risks include risks of delay in or reduction of amounts of payment or of non-payment under the MSA and the risk that the State (and thus the County and/or the Corporation) may be stayed for an extended time from enforcing any rights under the MSA and the Consent Decree or with respect to the payments owed by the bankrupt participating manufacturer or from commencing legal proceedings against the bankrupt participating manufacturer. As a result, if a participating manufacturer becomes a debtor in a bankruptcy case and defaults in making payment, funds available to the Corporation to pay bondholders may be reduced or eliminated.

The bonds are payable only from the assets of the Corporation. The bonds are neither legal nor moral obligations of the County or the State, and no recourse may be had thereto for payment of amounts owing on the bonds. The Corporation's only source of funds for payments on the bonds is the collections and amounts on deposit in pledged account pursuant to the indenture. The Corporation has no taxing power and no significant assets other than the rights to receive tobacco settlement revenues.

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

The Board of Directors
Putnam County Tobacco Asset
Securitization Corporation:

We have audited the financial statements of Putnam County Tobacco Asset Securitization Corporation (the Corporation), a component unit of the County of Putnam, New York (the County), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated February 24, 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 Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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

Our consideration of the 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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including Investment Guidelines for Public Authorities and the Corporation's Investment Guidelines, 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 the Members of the Board and management of the Corporation, and is not intended to be and should not be used by anyone other than these specified parties.

Toski & Co., CPAs, P.C.

Williamsville, New York
February 24, 2012