

Jan E. Nolis

Certified Public Accountant

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TIOGA TOBACCO ASSET  
SECURITIZATION CORPORATION

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

Basic Financial Statements

Years ended December 31, 2011 and 2010

(With Independent Auditor's Report Thereon)

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SECURITIZATION CORPORATION  
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Tioga Tobacco Asset  
Securitization Corporation:

I have audited the accompanying financial statements of the governmental activities and major fund of the Tioga Tobacco Asset Securitization Corporation (the Corporation) as of and for the years ended December 31, 2011 and 2010, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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 significant estimates made by management, as well as evaluating the overall financial statements presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, based on my audit, 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 Tioga Tobacco Asset Securitization Corporation as of December 31, 2011 and 2010, and the changes in financial position, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, I have also issued my report dated June 14, 2012, on my consideration of the Tioga Tobacco Asset Securitization Corporation's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my 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 conjunction with this report in assessing the results of my audit.

My audit was conducted for the purpose of forming an opinion on the financial statements of Tioga Tobacco Asset Securitization Corporation. The management's discussion and analysis on pages 3 to 6 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Jan E. Nolis

June 14, 2012

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Tioga Tobacco Asset  
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Management's Discussion and Analysis

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

The financial statements of TTASC have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The financial statement presentation consists of four statements. This includes the Statement of Net Assets (Deficit), the Statement of Activities, Governmental Fund Balance Sheet, and the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance. The Statement of Net Assets (Deficit) and the Statement of Activities 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 nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Statement No. 33. The governmental fund balance sheet and the statement of governmental fund revenues, expenditures and changes in fund balance are presented using the current financial resources measurement focus and the modified accrual basis of accounting.

The Statement of Net Assets (Deficit) presents all of Tioga Tobacco Asset Securitization Corporation'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 TTASC's financial position. TTASC's net assets consist of restricted and unrestricted net assets. Restricted net assets of TTASC are those net assets that are restricted

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Management's Discussion and Analysis  
(continued)

based on externally imposed conditions and consist of funds in the debt service, turbo redemption and liquidity reserve accounts. These accounts were established to maintain funds to provide for debt service payments for at least one year in the event of insufficient revenues. Unrestricted net assets are considered all other net assets.

The Statement of Activities presents all of TTASC's revenues, both program and general, expenses, and transfers.

The Statement of Governmental Fund Balance Sheet categorizes assets, liabilities, and fund balance. This statement includes the governmental fund type debt service, to report its financial position.

The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance presents the changes in financial position for the debt service fund for the years ended December 31, 2010 and 2009.

Total Assets - Total assets decreased \$49,843 during the year 2011.

Total Liabilities - Total liabilities increased by \$187,842 during the year 2011.

Net Assets (Deficit) - The decrease in net assets of \$237,685, is the result of the excess of program expenses over program revenues.

Total Revenues - Revenues are made up of investment earnings and tobacco settlement revenues reported on the accrual basis. In 2011, TSRs increased by approximately \$18,866 from the prior year. Investment income decreased by approximately \$927, as a result of less favorable market conditions through the year.

Total Expenses - Expenses are made up of administrative expenses of the Corporation and interest on the outstanding bonds. In 2011, administrative expenses decreased by approximately \$334. Interest expense increased by approximately \$14,643, as a result of the provisions made for annual accretion. Actual interest paid during 2011 and 2010 were \$587,625 and \$591,000, respectively.

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Management's Discussion and Analysis  
(continued)

Financial Analysis of the Corporation's Fund

As noted earlier, the Corporation uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Corporation's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Corporation's financing requirements. In particular, the unreserved - undesignated fund balance may serve as a useful measure of the Corporation's net resources available for spending at the end of the year.

As of December 31, 2011 and 2010, the Corporation's governmental fund reported ending fund equity balances in the amount of \$825,378 and \$839,728 respectively. The unreserved fund balances in the amount of \$49,365 for 2011 and \$63,759 for 2010, are available for future needs. The remainder of the fund is reserved to pay future debt service and is not available for new spending.

Debt Service

The obligations of TTASC in 2011 consist of the Tioga Tobacco Settlement Asset-Backed and Pass-Through Bonds Series 2005, the proceeds of which were used to advance refund/defease the remaining outstanding Series 2000 Bonds, make a payment to the Trust, and to pay related costs of issuance of the Series 2005 Bonds. The total amount of the Series 2005 bonds outstanding at December 31, 2011 was \$15.565 million. The bonds began to retire starting in 2006, with final maturity payments on the Capital Appreciation Bonds due in 2060. Bond principal retirements are made from the TSRs based upon required amortization payments. Turbo bonds are subject to repayment 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.

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Management's Discussion and Analysis  
(continued)

Debt Service (continued)

The Turbo Redemption Payments were to amortize the Series 2005 bonds earlier than their maturity date at their accreted values. However, the current amount available through regular TSA receipts is significantly less than originally provided for in the repayment schedule. The shortfall in bond principle being paid each year causes additional interest to be paid, and a longer amortization period. The exact date of the final payment can not be determined at this time.

The Series 2005 bonds are comprised of the following:

\$12,840,000 Tobacco Settlement Asset-Backed Bonds, Series 2005A (Tax Exempt Turbo Bonds), maturity date is June 1, 2042, interest rate 5.00%.

\$354,415 Tobacco Settlement Asset-Backed Bonds, Series 2005D (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2050, interest rate 0.00%. The accreted value as of December 31, 2011, is \$509,486.

\$527,140 Tobacco Settlement Asset-Backed Bonds, Series 2005E (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2055, interest rate 0.00%. The accreted value as of December 31, 2011, is \$781,010.

\$1,451,360 Tobacco Settlement Pass-Through Bonds, Series 2005SB4 (Subordinate Turbo Capital Appreciation Bonds), maturity date is June 1, 2060, interest rate 0.00%. The accreted value as of December 31, 2011, is \$2,304,420.



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Statement of Net Assets(Deficit)  
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 47,211	\$ 63,753
Accounts receivable - TSRs	701,788	688,151
Restricted cash and cash equivalents	776,013	775,975
Bond issuance costs, net of accumulated amortization	427,224	476,354
Prepaid expenses	2,154	0
Total assets	<u>1,954,390</u>	<u>2,004,233</u>
Liabilities and Net Assets(Deficit)		
Accrued interest payable	48,969	48,000
Current portion of bonds payable	375,000	320,000
Long-term portion of bonds payable	<u>15,189,916</u>	<u>15,058,043</u>
Total liabilities	<u>15,613,885</u>	<u>15,426,043</u>
Net assets(deficit):		
Unrestricted	<u>(13,659,495)</u>	<u>(13,421,810)</u>
Total liabilities and net deficit	<u>\$ 1,954,390</u>	<u>\$ 2,004,233</u>

See accompanying notes to  
basic financial statements.

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Tioga Tobacco Asset  
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Statement of Activities  
For the Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Expenses		
Administrative and general	\$ 20,230	\$ 20,564
Transfer to residual trust	40,000	140,000
Amortization	49,129	49,129
Interest	835,467	820,824
	<u>944,826</u>	<u>1,030,517</u>
Total program expenses		
	944,826	1,030,517
Program revenues:		
Tobacco settlement	707,017	688,151
	<u>707,017</u>	<u>688,151</u>
Net program revenue	(237,809)	(342,366)
General revenues:		
Interest	124	1,051
	<u>124</u>	<u>1,051</u>
Change in net deficit	(237,685)	(341,315)
Net deficit at beginning of year	(13,421,810)	(13,080,495)
Net deficit at end of year	\$ <u>(13,659,495)</u>	\$ <u>(13,421,810)</u>

See accompanying notes to  
basic financial statements.

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Tioga Tobacco Asset  
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Statement of Governmental Fund Balance Sheet  
December 31, 2011 and 2010

	<u>2011</u> <u>Debt Service</u>	<u>2010</u> <u>Debt Service</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 47,211	\$ 63,753
Accounts receivable- TSRs	701,788	688,151
Investments	776,013	775,975
Prepaid expenses	<u>2,154</u>	<u>0</u>
Total assets	<u>\$ 1,527,166</u>	<u>\$ 1,527,879</u>
<b>Liabilities</b>		
Deferred revenues- TSRs	701,788	688,151
<b>Fund balances</b>		
Reserved - debt service	776,013	775,969
Unreserved - undesignated	<u>49,365</u>	<u>63,759</u>
Total fund Balance	<u>825,378</u>	<u>839,728</u>
Total liabilities and fund balance	<u>\$ 1,527,166</u>	<u>\$ 1,527,879</u>
Amounts reported for governmental activities in the statement of net assets(deficit) are different because:		
Total fund balance	\$ 825,378	\$ 839,728
Tobacco settlement revenue was not received in the current period and is not reported as income at the fund level	701,788	688,151
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds	(15,613,885)	(15,426,043)
Certain items, including bond issuance costs, are fully expensed in the governmental fund statement, but amortized over a period of time in the Statement of Activities	<u>427,224</u>	<u>476,354</u>
Net deficit of governmental activities	<u>\$ (13,659,495)</u>	<u>\$ (13,421,810)</u>

See accompanying notes to  
basic financial statements.

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Statement of Governmental Fund Revenues, Expenditures and  
Changes in Fund Balance  
Year ended December 31, 2011 and 2010

	Debt Service 2011	Debt Service 2010
Revenues:		
Tobacco settlement	\$ 693,381	\$ 725,835
Interest and investment income	124	1,051
Total revenues	<u>693,505</u>	<u>726,886</u>
Expenditures:		
General and administrative	20,230	20,564
Debt service - principal	60,000	90,000
Debt service - interest & fees	587,625	590,814
Transfer to Residual Trustee	40,000	140,000
Total expenditures	<u>707,855</u>	<u>841,378</u>
Excess of revenues over (under) expenditures	(14,350)	(114,492)
Fund balance at beginning of year	<u>732,599</u>	<u>847,091</u>
Fund balance at end of year	<u>\$ 718,249</u>	<u>\$ 732,599</u>
Net change in fund balance	\$ (14,350)	\$ (114,492)
Amounts reported in the statement of activities are different because:		
The net effect of bond proceeds received, repayments of the series 2000 bonds and interest expense are activities of the governmental fund but not reported in the statement of activities	(187,842)	(140,871)
Income from tobacco settlement revenues	13,636	(36,823)
Certain expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund		
Amortization of bond issuance costs	<u>(49,129)</u>	<u>(49,129)</u>
Change in net deficit of governmental activities	<u>\$ (237,685)</u>	<u>\$ (341,315)</u>

See accompanying notes to  
basic financial statements.

Tioga Tobacco Asset  
Securitization Corporation  
(A Blended Component Unit of the  
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Notes to Financial Statements

(1) Organization

Tioga Tobacco Asset Securitization Corporation ("the Corporation") is a special purpose, bankruptcy-remote local development corporation organized under the Not-For-Profit Corporation Law of the State of New York ("the State"). The Corporation was established on October 11, 2000, however there were no substantive operations until December 7, 2000 as discussed herein. The Corporation is an instrumentality of, but separate and apart from the County of Tioga, New York ("the County"). The Corporation will have not less than three or more than five directors, consisting of one ex-officio position being the chairperson of the County Legislature, up to four additional directors and one independent director. Although legally separate from the County, the Corporation is a component unit of the County and, accordingly, is included in the County's financial statements as a blended component unit.

On December 7, 2000, pursuant to a Purchase and Sale Agreement with the County, the County sold to the Corporation all of its future right, title and interest in the Tobacco Settlement Revenues ("TSRs") under the Master Settlement Agreement ("MSA") and the Decree and Final Judgment (the "Decree"). The MSA resolved the cigarette smoking-related litigation between the settling states and the Participating Manufacturers ("PMs"), released the PMs from past and present smoking-related claims, and provides for a continuing release of future smoking-related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future rights, title and interest of the County's share were sold to the Corporation.

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Notes to Financial Statements

(1) Organization (continued)

The purchase price of the County's future right, title and interest in the TSRs was financed by the issuance of serial pass-through bonds (series 2000). A Residual Certificate existed which represented the entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses and certain other costs as set forth in the indenture. Payments on the Residual Certificate from TSR collections were subordinate to payments on the bonds and payment of certain other costs specified in the indenture. Excess TSRs not required by the Corporation to pay various expenses, debt service or required reserves with respect to the bonds were transferred to the Tioga Tobacco Asset Stabilization Trust (the "Trust"), as owner of the Residual Certificate. The County was the beneficial owner of the Trust and thus the excess funds received by the Trust ultimately transfer to the County.

During 2005, and as a result of favorable tobacco market conditions and the cooperation of multiple municipalities to participate on a pooled basis, the Corporation participated in two restructuring transactions whereby additional proceeds became available to the beneficial owner of the tobacco trust. The series 2000 bonds were refunded/defeased and the corporation became obligated on several other bond issues under the same operating structure.

(2) Summary of Significant Accounting Policies

(a) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Corporation'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.

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(2) Summary of Significant Accounting Policies (continued)

The corporation 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, the Corporation considers revenues to be available if they are collected within 105 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, 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, principal and interest on long-term general obligation debt.

(b) Cash & Cash Equivalents

The Corporation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The Corporation's cash and cash equivalents consist of bank deposits and short-term U.S. Government guaranteed securities with original maturities of three months or less. At December 31, 2011 and 2010, total cash and cash equivalents of \$47,211 and \$63,753, respectively, consist primarily of short-term U.S. Government guaranteed securities held by the Corporation's agent in the Corporation's name.

(c) Tax Status

The Corporation, as a not-for-profit organization, is exempt from income taxes under section 501 C (3) of the Internal Revenue Code. The Corporation is not a private foundation.

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(2) Summary of Significant Accounting Policies (continued)

(d) Use of Estimates

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

(e) Amortized Bond Issuance Costs

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

(f) Interest Expense/Expenditure

The Corporation recognizes all interest paid as interest expenditures on a modified accrual basis for the statement of revenues, expenditures and changes in fund balance and as expenses on the full accrual basis for the government-wide financial statements. Interest expense includes a current provision for accreted interest on the Capital Appreciation Bonds in the amount of \$246,873. Actual interest paid during the year ended December 31, 2011 and 2010 was \$587,625 and \$590,813, respectively.

(g) Risk

Numerous lawsuits have been filed challenging the enforceability of the MSA and related statutes, including two cases pending in the United States District Court for the Southern District of New York wherein plaintiffs seek a determination that the MSA, the State's Qualifying Statute and the State's Complementary Legislation (each as described herein) violate the United States Constitution and/or federal antitrust laws.



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(2) Summary of Significant Accounting Policies (continued)

A final ruling adverse to the State in either case or in a future case could result in a material adverse affect on the amount of TSRs available to pay back bondholders and the complete cessation of TSRs for an indeterminate period. It could also result in the complete loss of an owner's investment.

(h) Net Assets

GASB Statement No. 34 requires that resources be classified for accounting purposes into applicable net asset categories. TTASC has both restricted and unrestricted net assets.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted net assets of TTASC are those net assets that are restricted based on externally imposed conditions.

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

(3) Accounts receivable - TSRs

The Corporation reports tobacco settlement revenues received by April 16-18<sup>th</sup> of the following year as a receivable.

(4) Advance Refunding/Defeasance of 2000 Series Bonds

The Corporation issued \$15.7 million of Tobacco Settlement Asset Backed Series 2005 bonds in 2005 to provide a portion of the funds necessary to advance refund/defeasance all future debt service payments of its outstanding \$8.82 million Tobacco Settlement Asset-Backed Series 2000 bonds; to securitize additional future TSRs; and to pay related costs of issuance of the Series 2005 bonds. As a result, the liability for the Series 2000 bonds has been removed from the Corporation's financial statements.

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Notes to Financial Statements

(5) Contingency and concentration of credit risk

Future Tobacco Settlement Revenues are subject to adjustment based upon potential reductions in tobacco consumption as a result of inflation, litigation affecting participating manufacturers, and bankruptcy. Pursuant to the Purchase and Sale Agreement these adjustments, and other events, could trigger additional debt service reserve requirements. The Corporation's financial existence is contingent upon receiving these TSR's from the tobacco manufacturers.

(6) Investment and deposit policy

The Corporation 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 the Corporation.

In accordance with the Corporation's investment and deposit policy, all deposits of the Corporation including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIC) shall be secured by a pledge of securities with an aggregate value equal to the aggregate amount of deposits.

As of December 31, 2011 and 2010, the carrying amount of the Corporation's cash and cash equivalents was \$47,211 and \$63,753, respectively. The amounts exposed to Custodial Credit Risk, and secured by collateral held by a bank are \$-0- and \$-0-, respectively.

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(7) Bonds Payable

The Series 2005 bonds bear interest at rates ranging from 0.00% to 5.00%. These bonds are secured by a perfected security interest in, and pledge of, the Trust Estate, as defined in the Indenture, which includes the TSRs and all investment earnings on amounts on deposit. Among the accounts established are the liquidity reserve account, the turbo redemption account and the debt service account. The corporation retains TSRs in an amount sufficient to service its debt and pay its operating expenses.

Long-term indebtedness consisted of the following:

	<u>2011</u>	<u>2010</u>
Balance - beginning of year	\$15,378,043	\$15,238,032
Repayments of bonds	(60,000)	(90,000)
Accreted interest	<u>\$ 246,873</u>	<u>\$ 230,011</u>
Balance - end of year	<u>\$15,564,916</u>	<u>\$15,378,043</u>
Required payments due within one year	<u>\$ 375,000</u>	<u>\$ 320,000</u>

Scheduled Turbo redemption repayments are as follows:

<u>Year ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Accreted Int.</u>
2012	375,000	544,807	265,320
2013	590,000	527,363	285,840
2014	430,000	507,675	306,648
2015	460,000	486,537	329,813
2016	495,000	463,306	354,183
2017-2021	3,560,000	1,845,250	2,212,856
2022-2026	5,025,000	767,375	3,182,694
2027-2031	2,512,264	4,183,797	2,257,690
Thereafter	<u>2,117,652</u>	<u>9,411,163</u>	<u>484,662</u>
Total	<u>\$ 15,564,916</u>	<u>\$ 18,737,273</u>	<u>\$ 13,107,201</u>

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Notes to Financial Statements

(4) Bonds Payable (continued)

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 payments. There are no assurances that TSRs will materialize and/or be sufficient to make the projected Turbo payment. The interest payment requirements shown above 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 debt agreement, the Corporation 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, the Corporation is subject to various debt covenants, including limitations on expenses/expenditures, and compliance with Trustee indenture agreement requirements. The Corporation was in compliance with all covenants and indenture agreement requirements at December 31, 2011 and 2010.

The corporation had liquidity reserves in the amount of \$776,013 and \$775,975, at December 31, 2011 and 2010, respectively, to fund debt payments on its bonds.

Principal payments in the amounts of \$60,000 and \$90,000 were made in 2011 and 2010, respectively, in accordance with the flexible amortization payment schedule for the Series 2005 bonds. In June of 2012, \$375,000 in principal payments are scheduled to be made on the bonds. If required principal payments are not made on the bonds, the unpaid principal is added to the end of the term, and final maturity is extended.

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Notes to Financial Statements

(8) Transactions with Tioga County

In addition to setting forth the terms and conditions of the sale and purchase of TSRs, the Purchase and Sale Agreement provides for separate consideration to retain the County to act as Administrator with respect to the preparation of reports and other instruments and documents that it is the duty of the Corporation to prepare, execute, file or deliver pursuant to the Indenture and the related agreements. The Agreement also contemplates the lease of office space, telephone, overhead and operating services and expenses (including shared employees, consultants, and reasonable legal and auditing expenses) on the basis of actual use, value of such services, or on a basis reasonably related thereto. The corporation reimbursed the cost for these County-provided services in the amount of \$-0- and \$-0- for the years December 31, 2011 and 2010, respectively.

(9) Series 2000 Pass-Through Bonds

In accordance with the terms and conditions of the advance refund/defeasement of the series 2000 Pass-Through Bonds in 2005, principal and interest in the amount of \$1,060,000 and \$254,189 respectively, was due June 1, 2010. The bond was called early and the remaining principal balance in the amount of \$6,815,000 was also paid.

The total payment in the amount of \$8,129,189 was made from the Trust originally funded at the time of the refund/defeasement of the Series 2000 Pass-Through Bonds. As of June 1, 2010 the obligation for TTASC under Series 2000 Pass-Through Bonds has been satisfied in full.

(10) Subsequent Events

Events and transaction that occurred from the period from December 31, 2011, to April 30, 2012, have been evaluated for disclosure and inclusion in the financial statements.

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*

To the Board of Directors  
Tioga Tobacco Asset Securitization  
Corporation

I have audited the financial statements of the governmental activities and major fund as of and for the year ended December 31, 2011, which collectively comprise the Tioga Tobacco Asset Securitization Corporation's basic financial statements and have issued my report thereon dated June 14, 2012. I conducted my 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.

In planning and performing my audit, I considered Tioga Tobacco Asset Securitization Corporation's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Jan E. Nolis

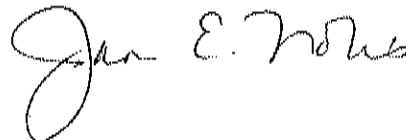
Certified Public Accountant

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I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

As part of obtaining reasonable assurance about whether Tioga Tobacco Asset Securitization Corporation's financial statements are free of material misstatement, I performed test 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 and the Board of Directors of the Tioga Tobacco Asset Securitization Corporation and is not intended to be and should not be used by anyone other than these specified parties.



June 14, 2012