

**YATES TOBACCO ASSET SECURITIZATION CORPORATION
A COMPONENT UNIT OF YATES COUNTY, NEW YORK**

BASIC FINANCIAL STATEMENTS

For The Years Ended December 31, 2011 and 2010

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Members of
American Institute of
Certified Public Accountants
and
New York State Society of
Certified Public Accountants

Independent Auditors' Report

To the Board of Directors
Yates Tobacco Asset Securitization Corporation
A Component Unit of Yates County, New York

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

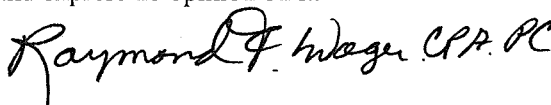
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

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 Yates 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 of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2012 on our consideration of the Corporation's internal control over financial reporting and our 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 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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 2 to 4 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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

February 27, 2012



YATES TOBACCO ASSET SECURITIZATION CORPORATION

A COMPONENT UNIT OF YATES COUNTY, NEW YORK

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011

INTRODUCTION

This discussion and analysis of the Yates Tobacco Asset Securitization Corporation (TASC), a component unit of Yates County, New York, financial performance provides an overview of the financial activities for the year ended December 31, 2011. It should be read in conjunction with the basic financial statements which immediately follow this section, and it is intended to enhance understanding of the TASC's financial performance.

THE STATEMENT OF NET ASSETS AND THE STATEMENT OF ACTIVITIES

The Statement of Net Assets includes all assets and liabilities of the Yates TASC, with the difference between assets and liabilities reported as Net Assets. The Statement of Activities presents financial information as to how the TASC's Net Assets changed during the year, with all of the changes being reported. Over time, increases or decreases in the TASC's Net Assets position are one indicator of whether its "financial health" is strengthening or deteriorating. Both statements utilize the full accrual basis of accounting.

The total net assets at the close of the 2011 year were (\$4,739,868). Of this amount, (\$5,436,389) is unrestricted net assets.

Net assets decreased by \$51,185 from the previous year as illustrated below:

	<u>2011</u>	<u>2010</u>	<u>Dollar</u>
	<u>Total</u>	<u>Total</u>	<u>Variance</u>
Operating Revenues	\$ 346,971	\$ 272,532	\$ 74,439
Operating Expenses	<u>377,678</u>	<u>372,132</u>	<u>5,546</u>
Operating Income (Loss)	\$ (30,707)	\$ (99,600)	\$ 68,893
Non-Operating Revenues	89	101	(12)
Non-Operating (Expenses)	<u>(20,567)</u>	<u>(20,567)</u>	<u>-</u>
Increase (Decrease) in Net Assets	<u><u>\$ (51,185)</u></u>	<u><u>\$ (120,066)</u></u>	<u><u>\$ 68,881</u></u>

The decrease in net assets in 2011 is explained in the following operating revenue and operating expense summaries.

OPERATING REVENUES

The Yates TASC's operating revenues increased \$74,439 or 28% in 2011.

OPERATING EXPENSES

The Yates TASC's operating expenses increased by \$5,546 or 2% in 2011.

NOTES TO THE FINANCIAL STATEMENTS

The Notes to the Basic Financial Statements provide additional information considered essential to a clear understanding of the financial information provided in the TASC's financial statements.

2011 FINANCIAL ACTIVITIES

Of the \$393,356 year end cash balance, all is reserved to pay for future operating and contingency costs of the TASC as outlined in Note VI of the attached Notes to the Financial Statements.

While the TASC has \$393,356 in cash and cash equivalents on hand at December 31, 2011, the Statement of Net Assets indicates that the TASC has outstanding debt for the Series 2005 New York Counties Tobacco Trust IV and Trust V of \$4,393,868 and \$1,645,368 at year end, respectively. These debt instruments have varying principal payment terms. For the Trust IV bonds, annual interest payments are required and the first principal payment of \$325,000 is due June 1, 2021. The Trust V bonds are Capital Appreciation Bonds and do not pay current interest. The first principal payment of \$159,334 is expected to be paid June 1, 2024. Additional liabilities of \$29,725 consist of accrued interest due June 1, 2011.

Because of the outstanding debt and accrued liabilities, the TASC had a deficit net asset balance at December 31, 2011 of (\$4,739,868) which is the difference between the total liabilities at December 31, 2011 of \$6,068,961 less the sum of cash currently on hand to pay those bondholders of \$393,356, accounts receivable of \$347,350 net bond issuance costs of \$262,945 and a deferred charge for refunding bonds of \$325,442. The following is a summary of the Yates TASC's net assets as of December 31, 2011 and December 31, 2010:

	<u>2011</u>	<u>2010</u>	<u>Dollars</u> <u>Variance</u>
<u>ASSETS:</u>			
Current Assets	\$ 740,706	\$ 700,483	\$ 40,223
Other Assets	588,387	608,954	(20,567)
Total Assets	\$ 1,329,093	\$ 1,309,437	\$ 19,656
<u>LIABILITIES:</u>			
Current Liabilities	\$ 29,725	\$ 29,149	\$ 576
Noncurrent Liabilities	6,039,236	5,968,971	70,265
Total Liabilities	\$ 6,068,961	\$ 5,998,120	\$ 70,841
<u>NET ASSETS:</u>			
Restricted for Debt	\$ 696,521	\$ 747,318	\$ (50,797)
Unrestricted	(5,436,389)	(5,436,001)	(388)
Total Net Assets	\$ (4,739,868)	\$ (4,688,683)	\$ (51,185)

The deficit net assets is a result of the issuance of the debt to be repaid with future revenues which can not be recorded as a receivable until it is due and payable.

Factors Bearing on the Corporation's Future

The ability of tobacco companies to make annual tobacco settlement payments to Yates TASC is a risk that affects the TASC's ability to repay the bondholders.

The original bonding agreements also contained a provision for alternate debt repayment schedule in the event that tobacco settlement revenue is not sufficient to meet the original repayment schedule.

CONTACTING THE TASC FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the TASC's finances for anyone having an interest and should be considered along with the Basic Financial Statements and related notes.

Questions concerning any of the information provided in this report should be addressed to Ms. Bonnie L. Percy, Yates County, 417 Liberty Street, Suite 1081, Penn Yan, New York 14527-1122.

YATES TOBACCO ASSET SECURITIZATION CORPORATION
A COMPONENT UNIT OF YATES COUNTY, NEW YORK

STATEMENT OF NET ASSETS

December 31, 2011 and 2010

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
<u>ASSETS:</u>		
<u>Current Assets -</u>		
Restricted cash	\$ 393,356	\$ 397,318
Tobacco settlement receivable	347,350	303,165
Total Current Assets	<u>\$ 740,706</u>	<u>\$ 700,483</u>
<u>Other Assets -</u>		
Bond issuance costs - net	\$ 262,945	\$ 271,459
Deferred charge - refunding bonds	325,442	337,495
Total Other Assets	<u>\$ 588,387</u>	<u>\$ 608,954</u>
TOTAL ASSETS	<u>\$ 1,329,093</u>	<u>\$ 1,309,437</u>
<u>LIABILITIES:</u>		
<u>Current Liabilities -</u>		
Accrued liabilities	\$ 29,725	\$ 29,149
<u>Non-current Liabilities -</u>		
Bonds payable - net of discount	6,039,236	5,968,971
TOTAL LIABILITIES	<u>\$ 6,068,961</u>	<u>\$ 5,998,120</u>
<u>NET ASSETS:</u>		
Restricted for debt	\$ 696,521	\$ 747,318
Unrestricted	<u>(5,436,389)</u>	<u>(5,436,001)</u>
TOTAL NET ASSETS	<u>\$ (4,739,868)</u>	<u>\$ (4,688,683)</u>

YATES TOBACCO ASSET SECURITIZATION CORPORATION

A COMPONENT UNIT OF YATES COUNTY, NEW YORK

STATEMENT OF ACTIVITIES

For the Years Ended December 31, 2011 and 2010

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
<u>OPERATING REVENUES:</u>		
Tobacco settlement revenues	\$ 346,971	\$ 272,532
TOTAL OPERATING REVENUES	<u>\$ 346,971</u>	<u>\$ 272,532</u>
<u>OPERATING EXPENSES:</u>		
Debt service - interest	\$ 336,234	\$ 330,779
Insurance	5,654	5,761
Professional fees	27,790	27,592
Rent	8,000	8,000
TOTAL OPERATING EXPENSES	<u>\$ 377,678</u>	<u>\$ 372,132</u>
OPERATING INCOME (LOSS)	<u>\$ (30,707)</u>	<u>\$ (99,600)</u>
<u>NON-OPERATING REVENUES (EXPENSES):</u>		
Interest	\$ 89	\$ 101
Amortization of issuance costs	(8,514)	(8,514)
Amortization of refunding bond costs	(12,053)	(12,053)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>\$ (20,478)</u>	<u>\$ (20,466)</u>
CHANGE IN NET ASSETS	<u>\$ (51,185)</u>	<u>\$ (120,066)</u>
NET ASSETS - BEGINNING OF YEAR	<u>(4,688,683)</u>	<u>(4,568,617)</u>
NET ASSETS - END OF YEAR	<u><u>\$ (4,739,868)</u></u>	<u><u>\$ (4,688,683)</u></u>

YATES TOBACCO ASSET SECURITIZATION CORPORATION
A COMPONENT UNIT OF YATES COUNTY, NEW YORK

BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2011 and 2010

	<u>Debt Service Fund</u>	
	<u>2011</u>	<u>2010</u>
<u>ASSETS:</u>		
Cash and cash equivalents	\$ 393,356	\$ 397,318
TOTAL ASSETS	\$ 393,356	\$ 397,318
<u>LIABILITIES AND FUND BALANCE:</u>		
<u>Fund Balance</u>		
Reserved for,		
Liquidity reserve	\$ 309,667	\$ 309,653
Restricted Fund Balance	83,689	87,665
TOTAL LIABILITIES AND FUND BALANCE	\$ 393,356	\$ 397,318
 Amounts reported in the statement of net assets are different because:		
Receivables related to tobacco settlement revenues are not available financial resources and therefore, are not reported in the governmental funds.	347,350	303,165
Deferred charge for refunding bonds (to be amortized over the life of the bond).	325,442	337,495
Deferred charge for bond issuance costs.	262,945	271,459
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds balance sheet.	(29,725)	(29,149)
Long-term liabilities, including bonds payable, are not due in the current period and therefore are not reported in the fund.	(6,039,236)	(5,968,971)
Net Assets of Governmental Activities	\$ (4,739,868)	\$ (4,688,683)

**YATES TOBACCO ASSET SECURITIZATION CORPORATION
A COMPONENT UNIT OF YATES COUNTY, NEW YORK**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

For the Years Ended December 31, 2011 and 2010

	<u>Debt Service Fund</u>	
<u>REVENUES:</u>	<u>2011</u>	<u>2010</u>
Tobacco settlement revenues	\$ 302,786	\$ 319,367
Interest income	89	101
TOTAL REVENUES	\$ 302,875	\$ 319,468
<u>EXPENDITURES:</u>		
<u>Current -</u>		
General government support	\$ 41,444	\$ 41,353
<u>Debt Service -</u>		
Principal	45,000	60,000
Interest	220,393	222,625
TOTAL EXPENDITURES	\$ 306,837	\$ 323,978
NET CHANGE IN FUND BALANCE	\$ (3,962)	\$ (4,510)
FUND BALANCE - BEGINNING OF YEAR	397,318	401,828
FUND BALANCE - END OF YEAR	\$ 393,356	\$ 397,318

**YATES TOBACCO ASSET SECURITIZATION CORPORATION
A COMPONENT UNIT OF YATES COUNTY, NEW YORK
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES**

For the Years Ended December 31, 2011 and 2010

	<u>Debt Service Fund</u>	
NET CHANGE IN FUND BALANCE -	<u>2011</u>	<u>2010</u>
DEBT SERVICE FUND	\$ (3,962)	\$ (4,510)
 Amounts reported in the Statement of Activities are different because:		
The issuance of long-term debt, including bonds, provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(82,318)	(59,706)
Receivables related to tobacco settlement revenues are not available financial resources and therefore, are not reported in the governmental funds.	44,185	(46,835)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(576)	(501)
Net change in bond issuance costs.	<u>(8,514)</u>	<u>(8,514)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (51,185)</u></u>	<u><u>\$ (120,066)</u></u>

YATES TOBACCO ASSET SECURITIZATION CORPORATION

A COMPONENT UNIT OF YATES COUNTY, NEW YORK

Notes to Financial Statements

December 31, 2011

I. Organization:

The Yates Tobacco Asset Securitization Corporation (The Corporation), a component unit of Yates County, New York 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. The Corporation is an instrumentality of, but separate and apart from the County of Yates, New York (the County). The Corporation will have not less than three or more than five directors, consisting of two ex-officio positions including the Chairman of the County Legislature and the County Administrator, up to two additional directors and one independent director. The Corporation is a related organization as described in Governmental Accounting Standards Board Statement 14, because while the County appoints the governing board of the Corporation, the County is not responsible for the operations of the Corporation.

On October 15, 2000, pursuant to a Purchase and Sale Agreement with the County, the County sold to the Corporation 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 the Corporation.

The purchase price of the County's future rights, title and interest in the TSRs has been financed by the issuance of serial bonds. A Residual Certificate exists which represents 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 are 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 are transferred to the Yates Tobacco Asset Securitization Corporation Residual 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.

II. Summary of Significant Accounting Policies:

A. Adoption of Accounting Principles

The Governmental Accounting Standards Board (GASB) promulgates accounting principles and guidelines for financial reporting for use by state and local governments throughout the United States. Effective January 1, 2004, the following Governmental Accounting Standards Board's (GASB) Statements became applicable: Statement No. 46 – *Net Assets Restricted by Enabling Legislation, an Amendment of GASB No. 34* and GASB Technical Bulletins No. 2004-1 – *Tobacco Settlement Recognition and Financial Reporting Entity Issues* and No. 2004-2 – *Recognition of Pension and Other Post Employment Benefits Expenditures/Expenses and Liabilities by Cost-Sharing Employers*. Only Technical Bulletin No. 2004-1 had an impact on the Corporation's basic financial statements. As a result, the Corporation began recognizing tobacco settlement revenues based on the date of domestic shipment of cigarettes.

B. Basis of Presentation

The Corporation uses one governmental fund (Debt Service Fund) to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and aid financial management by segregating transactions related to certain functions and activities. The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on long-term debt and supports the operations of the Corporation.

C. Basis of Accounting/Measurement Focus

The Corporation follows the modified accrual basis of accounting in its debt service fund, which focuses on changes in available resources, in preparation of the fund financial statements. Under the modified accrual basis of accounting, revenues and related receivables are recorded in the accounting period that they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay the liabilities of the current period (ninety days or less). Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recognized as expenditures to the extent they have matured.

General administration expenditures are direct costs incurred by the Corporation, such as legal and auditing fees, financial advisory fees, printing costs, trustee fees and other related costs. General administration expenditures are paid either from bond proceeds or from TSR's.

The Corporation utilizes the full accrual basis of accounting, which focuses on changes in total economic resources, in preparation of the Corporation-wide financial statements. Under the full accrual basis of accounting, changes in long-term assets and liabilities are incorporated into the financial statements and revenues and expenses are recorded based on the timing of the underlying transaction without regard for the timing of cash flows. Since the fund financial statements are prepared on a different measurement focus and basis of accounting than the Corporation-wide financial statements, an adjustments column is presented to transform the fund based financial statements into the Corporation-wide financial statements.

(II) (Continued)

D. Cash, Cash Equivalents and Investments

The Corporation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

E. Interest Expenditures/Expense

The Corporation recognizes all interest paid as interest expenditures for the statement of governmental fund revenues, expenditures and changes in fund balance, and as expenses as incurred on the full accrual basis for the statement of activities.

F. Amortized Bond Issuance Costs and Discounts

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

G. Net Assets

Resources are classified for accounting purposes into applicable net asset categories. The Corporation has both restricted and unrestricted net assets.

Net assets are reported as restricted when constraints placed on net assets use are either externally imposed by creditors, grantors, contributions, or law or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted net assets of the Corporation 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.

The Corporation has adopted a practice of generally utilizing their restricted net assets when available, prior to unrestricted net assets.

H. 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 reporting period. Actual results could differ from those estimates.

I. Tax Status

The Corporation is exempt from federal income tax under Section 115 of the Internal Revenue Code.

(II) (Continued)

J. Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the government's financial position and operations.

III. Cash, Cash Equivalents and Investments:

The Corporation's cash and cash equivalents including restricted amounts, consist of bank deposits and short term liquid debt instruments held by the Corporation's agent in the Corporation's name. At December 31, 2011, total cash and cash equivalents aggregated \$393,356.

The Corporation's trustee holds investments for the funds included in the basic financial statements. The Corporation invests in authorized investments as described in the bond resolution including: commercial paper or finance company paper rated "P-1" by Moody's; special time deposit accounts; certificates of deposit; obligations of the United States of America; obligations guaranteed by agencies of the United States of America; obligations of the State of New York; obligations issued pursuant to Local Finance Law Sect. 24.00 or 25.00 (with approval of the State Comptroller) by any municipality, school district or district corporation other than the County of Yates, New York, obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where general State statutes governing such entities or whose specific enabling legislation authorizes such investments; and repurchase agreements limited to obligations of the United States of America and obligations guaranteed by agencies of the United States of America.

All deposits of the Corporation, including money market deposits, are insured under the provisions of the Federal Deposit Insurance Act. Excess deposits are not secured.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in possession of an outside party.

Concentration of Credit Risk – The Corporation places no limit on the amount that it may invest with in any one issuer.

Interest Rate Risk – The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rates.

IV. Long-Term Liabilities:

Interest on long-term debt is composed of:

	<u>2011</u>	<u>2010</u>
Interest paid	\$ 220,393	\$ 222,625
<u>Less:</u> interest accrued in the prior year	(29,149)	(28,648)
<u>Plus:</u> current amortization of bond discount / accreted interest	115,265	107,653
<u>Plus:</u> interest accrued in the current year	29,725	29,149
Total Interest Expense	\$ 336,234	\$ 330,779

Bond payable activity for the year ended December 31, 2011 is summarized below:

<u>Governmental Activities:</u> <u>Bonds and Notes Payable -</u>	<u>Balance</u> <u>12/31/2010</u>	<u>Redeemed</u>	<u>Change in</u> <u>Discount</u>	<u>Balance</u> <u>12/31/2011</u>	<u>Classified As</u>	
					<u>Current</u>	<u>Non-Current</u>
Series 2005A Turbo Term NY Counties Trust IV Tobacco Settlement Pass-Through Bonds	\$ 4,436,901	\$ 45,000	\$ 1,967	\$ 4,393,868	\$ -	\$ 4,393,868
Series 2005 S2, S3, & S4B Subordinate Turbo Capital Appreciation NY Counties Trust V Tobacco Settlement Pass- Through Bonds	1,532,070	-	113,298	1,645,368	-	1,645,368
Total Long-Term Obligations	\$ 5,968,971	\$ 45,000	\$ 115,265	\$ 6,039,236	\$ -	\$ 6,039,236

(IV) (Continued)

Series 2005A NY County Trust IV Turbo Term Bonds

On August 19, 2005, the Corporation issued \$4,950,000 in Series 2006A Turbo Term Tax-Exempt NY Counties Trust IV Tobacco Settlement Pass-Through Bonds bearing interest ranging from 4.25% to 5.00%, collateralized by future TSR revenues, to advance refund \$3,445,000 of outstanding Series 2000 NY Counties Trust I Tobacco Settlement Pass-Through Bonds bearing interest ranging from 5.25% to 6.625%. The net proceeds of \$3,842,760 (after payment of \$1,107,240 in underwriting fees, insurance, other issuance costs, and distributions to the County) were used to purchase United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2000 bonds. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the Corporation's financial statements. The Corporation advance refunded the bonds to revise its payment schedules due to changes in TSR earnings and related trapping events. The economic gain (loss) on the transaction (the difference between the present values of the debt service payments on the old and new debt) was approximately (\$397,760) and is being amortized over the life of the new bonds.

At December 31, 2011, the outstanding principal, net of discount, totaled \$4,393,868. The amortization schedule for required payments is as follows:

Year Ended December 31,	Amortization Schedule Assuming Planned Required Amortization Payments					Net Bond Balance
	Principal	Interest	Payments	Gross Bond Balance	Remaining Discount	
2011	\$ -	\$ 221,405	\$ 221,405	\$ 4,465,000	\$ (71,132)	\$ 4,393,868
2012	-	221,428	221,428	4,465,000	(69,142)	4,395,858
2013	-	221,415	221,415	4,465,000	(67,165)	4,397,835
2014	-	221,401	221,401	4,465,000	(65,202)	4,399,798
2015	-	221,422	221,422	4,465,000	(63,218)	4,401,782
2016-20	-	1,107,723	1,107,723	4,465,000	(52,685)	4,412,315
2021-25	325,000	1,056,231	1,381,231	4,140,000	(41,792)	4,098,208
2026-30	550,000	921,241	1,471,241	3,590,000	(31,114)	3,558,886
2031-35	-	908,133	908,133	3,590,000	(20,481)	3,569,519
2036-40	1,915,000	668,529	2,583,529	1,675,000	(10,077)	1,664,923
2041-45	1,675,000	379,973	2,054,973	-	-	-
Total	\$ 4,465,000	\$ 6,148,901	\$ 10,613,901	\$ -	\$ -	\$ -

(IV) (Continued)

Series 2005 S2, S3, and S4B Subordinate Turbo Capital Appreciation Bonds

On November 15, 2005, the Corporation issued \$1,111,025 in Series 2005 S2, S3, and S4B Subordinate Turbo Term NY Counties Trust IV Tobacco Settlement Pass-Through Capital Appreciation Bonds bearing interest ranging from 6.10% to 7.85%, collateralized by future TSR revenues. Capital Appreciation Bonds do not pay current interest. Interest accretes until both principal and accreted interest are paid. Future interest accretion has been recorded as a bond discount, amortized as the current interest accretes.

At December 31, 2011, the outstanding principal, net of discount, totaled \$1,645,368. The amortization schedule for required payments is as follows:

**Amortization Schedule Assuming Planned
Turbo Amortization Payments**

<u>Year Ended December 31,</u>	<u>Total Payments</u>	<u>Gross Bond Balance</u>	<u>Remaining Discount</u>	<u>Net Bond Balance</u>
2011	\$ -	\$ 6,965,112	\$ (5,319,744)	\$ 1,645,368
2012	-	6,965,112	(5,197,755)	1,767,357
2013	-	6,965,112	(5,066,554)	1,898,558
2014	-	6,965,112	(4,925,966)	2,039,146
2015	-	6,965,112	(4,774,370)	2,190,742
2016-20	-	6,965,112	(3,828,227)	3,136,885
2021-25	622,404	6,342,708	(2,478,546)	3,864,162
2026-30	2,394,288	3,948,420	(1,099,658)	2,848,762
2031-35	2,515,071	1,433,349	(193,369)	1,239,980
2036-38	1,433,349	-	-	-
Total	\$ 6,965,112			

Any debt service amounts not paid in accordance with the above turbo amortization schedule will be due and payable on the following final maturity dates:

Series 2005 S2	June 1, 2050
Series 2005 S3	June 1, 2055
Series 2005 S4B	June 1, 2060

V. Reserves:

As required by the Corporation Indenture, the Corporation has the following reserves at December 31, 2011 and 2010:

- A. Liquidity Reserve** – in the amount of \$309,667 and \$309,653 at December 31, 2011 and 2010, respectively, to fund future debt service payments, if needed.
- B. Restricted Fund Balance** – with a balance of \$83,689 and \$87,665 at December 31, 2011 and 2010, respectively, this reserve is available to fund future costs of the TASC.

Upon retirement of the outstanding bonds payable, any funds available in any of these reserves will be distributed to Yates County, New York.

VI. Contingencies:

Future tobacco settlement revenues are subject to adjustment based upon tobacco consumption, inflation and other potential reductions. Pursuant to the Purchase and Sale Agreements these adjustments and other events could trigger additional debt service reserve requirements.

VII. Unrestricted Net Assets – Deficit:

The deficit unrestricted net asset balance primarily represents the outstanding bond liabilities to be paid off with future rights to receive tobacco revenues.

Raymond F. Wager, CPA, P.C.
Certified Public Accountants

Shareholders:

Raymond F. Wager, CPA
Thomas J. Lauffer, CPA
Thomas C. Zuber, CPA

Members of
American Institute of
Certified Public Accountants
and
New York State Society of
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***

To the Board of Directors
Yates Tobacco Asset Securitization Corporation
A Component Unit of Yates County, New York

We have audited the financial statements of the Yates Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of Yates County, New York as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated February 27, 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

The management of the Corporation is responsible for establishing and maintaining effective 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, 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.

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, 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*.

We noted certain matters that we reported to the management of the Yates Tobacco Asset Securitization Corporation, a Component Unit of Yates County, New York in a separate letter dated February 27, 2012.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Raymond F. Wager, CPA, PC in cursive script.

February 27, 2012