CHAUTAUQUA TOBACCO ASSET SECURITIZATION CORPORATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
BASIC FINANCIAL STATEMENTS:	
Entity-Wide Financial Statements;	
Statements of Net Deficit	5
Statements of Activities	6
Governmental Funds Financial Statements:	
Balance Sheets - Governmental Funds	7
Statements of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	8
Reconciliation of the Governmental Funds Balance Sheets to the Statements of Net Deficit	9
Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statements of Activities	10
Notes to Financial Statements	11
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*	21

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INDEPENDENT AUDITOR'S REPORT

February 28, 2013

To the Board of Directors
Chautauqua Tobacco Asset Securitization Corporation
3163 Airport Drive
Jamestown, New York 14701

Report of Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Chautauqua Tobacco Asset Securitization Corporation (CTASC), as of and for the years ended December 31, 2012 and 2011 and the related notes to the financial statements, which collectively comprise CTASC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of CTASC, as of December 31, 2012 and 2011, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 3 and 4 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2013, on our consideration of CTASC's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CTASC's internal control over financial reporting and compliance.

Johnson, Mackowiak & Associates, LLP

JOHNSON, MACKOWIAK & ASSOCIATES, LLP

CHAUTAUQUA TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

This discussion and analysis of the Chautauqua Tobacco Asset Securitization Corporation (CTASC) financial performance provides an overview of CTASC's financial activities for the year ended December 31, 2012. This document should be read in conjunction with CTASC's financial statements which begin on page 5.

FINANCIAL HIGHLIGHTS

- CTASC's net deficit increased $738,255 as a result of this year's activity.
- Total assets decreased by approximately $998,255 from 2011 to 2012, primarily as a result of decreases in unamortized bond discount costs on capital appreciation bonds. Total liabilities decreased by approximately $260,000, as a result of the amortization of the bond discount costs of the capital appreciation bonds, net of repayments of debt totaling approximately $260,000.
- Tobacco settlement revenues increased by approximately $42,003 or 2.0% from 2011 to 2012.
- Dividend distribution to Chautauqua County totaled $0 for the years ended December 31, 2012 and 2011.

USING THIS REPORT

The annual report consists of a series of financial statements. The statement of net assets (deficit) and the statement of activities provide information regarding CTASC as a whole and present a longer-term view of CTASC's finances. Financial statements for each fund start on page 7. For governmental activities, these statements show how services were financed in the overall operation of CTASC in greater detail than CTASC-wide financial statements.

REPORTING CTASC AS A WHOLE

The Statements of Net Deficit and Statements of Activities

The statements of net deficit and statements of activities show information about CTASC as a whole. These statements include all assets and liabilities of CTASC using the accrual basis of accounting which is used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report CTASC's net deficit and the changes to it. CTASC's net deficit – the difference between assets and liabilities – is a way to measure CTASC's financial health, or financial position. Over time, increases or decreases in CTASC's net deficit are one indicator of whether its financial health is improving or deteriorating.

In the statements of net deficit and the statements of activities, CTASC reports all its basic services as governmental activities. These services are primarily economic development.

REPORTING CTASC'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our discussion and analysis of CTASC's major funds begins on page 7 and provide detail of CTASC's most significant funds on an individual basis rather than the Corporation taken as a whole. Some funds are required to be established by state or local law or by the nature of the federal and state funding for their operation. Currently CTASC utilizes two governmental funds (Capital Projects and Debt Service).

Governmental Funds

The two funds of CTASC are considered governmental funds. This section focuses on how revenue flows into and out of this fund and the balance of the fund at year-end which is available for future spending. These funds are reported using the modified accrual basis of accounting which measures cash and financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of CTASC's general operations and the basic services it provides. This information helps determine the financial resources that can be spent to finance CTASC programs. The relationship between the governmental activities (accrual basis) and the governmental funds (modified accrual basis) is provided in reconciliations on pages 8 and 10.

FACTORS BEARING ON THE CORPORATION'S FUTURE

At the time these financial statements were prepared and audited, the Corporation was aware of the following circumstances that could significantly affect its financial health in the future:

- As of February 2013, the three Original Participating Manufacturers ("OPM") in the Master Settlement agreement with a market share totaling 80% were rated at BBB- or above by Moody's Investors Service. As discussed in the notes to the financial statements, the tobacco settlement revenues are dependent upon the volume of cigarettes shipped in the United States, which is primarily a function of domestic cigarette consumption.
- On August 27, 2012 CTASC was downgraded to a BBB- rating by Fitch, Inc. For 2012, the aggregate MSA payment was 1.97% higher than the amount in 2011. Fitch published updated Tobacco Settlement ABS Criteria on July 16, 2012, which included a change in the base case assumption for the MSA payment from +1% to 0%. The rating scale was recalibrated to reflect this change, and as a result there were several downgrades. The downgrades were taken on turbo and capital appreciation bonds (CABs), which are typically more leveraged. No serial bonds were downgraded.as a result of the downgrading of the aforementioned Original Participating Manufacturers.

CONTACTING CTASC'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens of Chautauqua County, customers, and creditors with a general overview of CTASC's finances and to show CTASCS's accountability for the money it receives. If you have any questions or need additional information, contact Darin Schulz, 3200 Deerwood Drive, Ashville, NY 14710.

CHAUTAUQUA TOBACCO ASSET SECURITIZATION CORPORATION
STATEMENTS OF NET DEFICIT
DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
Restricted cash and cash equivalents	$ 210,680	$ 147,774
Restricted investments	3,508,334	3,427,221
Capital assets, net	-	-
Unamortized bond discount:		
Series 2000 Bonds	107,915	111,810
Series 2005 Turbo Capital Appreciation Bonds	443,430,878	444,537,352
Unamortized bond issuance cost	796,279	828,184
TOTAL ASSETS	$ 448,054,086	$ 449,052,341

LIABILITIES AND NET DEFICIT

LIABILITIES:		
Bonds payable:		
Due and payable within one year	$ 265,000	$ 260,000
Due and payable after one year	27,815,000	28,080,000
Turbo Capital Appreciation Bonds payable	458,214,716	458,214,716
TOTAL LIABILITIES	486,294,716	486,554,716
NET DEFICIT:		
Invested in capital assets, net of related debt	-	-
Restricted for debt service	3,508,334	3,427,221
Restricted for capital program	210,680	147,774
Unrestricted deficit	(41,959,644)	(41,077,370)
TOTAL NET DEFICIT	(38,240,630)	(37,502,375)
TOTAL LIABILITIES AND NET DEFICIT	$ 448,054,086	$ 449,052,341

See accompanying notes to financial statements.

CHAUTAUQUA TOBACCO ASSET SECURITIZATION CORPORATION
STATEMENTS OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
EXPENSES:		
General and administrative expenses	$ 90,092	$ 97,375
Distributions to Chautauqua County for capital program	-	-
Interest expense	1,907,921	1,923,221
Bond accretion	1,095,898	1,019,529
Bond issuance cost	31,905	31,905
TOTAL EXPENSES	3,125,816	3,072,030
REVENUES:		
Tobacco settlement :		
Revenue	2,161,508	2,119,505
Net tobacco settlement revenues	2,161,508	2,119,505
Investment income:		
Interest income	132,184	132,484
Investment gain	93,869	268,099
Total investment income	226,053	400,583
TOTAL REVENUES	2,387,561	2,520,088
CHANGE IN NET ASSETS	(738,255)	(551,942)
NET DEFICIT, beginning of year	(37,502,375)	(36,950,433)
NET DEFICIT, end of year	$ (38,240,630)	$ (37,502,375)

See accompanying notes to the financial statements.

CHAUTAUQUA TOBACCO ASSET SECURITIZATION CORPORATION
BALANCE SHEETS - GOVERNMENTAL FUNDS
DECEMBER 31, 2012 AND 2011

	2012			2011		
	Capital Projects	Debt Service	Total Governmental Funds	Capital Projects	Debt Service	Total Governmental Funds
ASSETS:						
Restricted cash and cash equivalents	$ 210,680	$ -	$ 210,680	$ 147,774	$ -	$ 147,774
Restricted investments	-	3,508,334	3,508,334	-	3,427,221	3,427,221
TOTAL ASSETS	$ 210,680	$ 3,508,334	$ 3,719,014	$ 147,774	$ 3,427,221	$ 3,574,995
FUND BALANCES:						
Restricted for capital program	$ 210,680	$ -	$ 210,680	$ 147,774	$ -	$ 147,774
Restricted for debt service	-	3,508,334	3,508,334	-	3,427,221	3,427,221
TOTAL FUND BALANCES	$ 210,680	$ 3,508,334	$ 3,719,014	$ 147,774	$ 3,427,221	$ 3,574,995

See accompanying notes to the financial statements.

CHAUTAUQUA TOBACCO ASSET SECURITIZATION CORPORATION
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012			2011		
	Capital Projects	Debt Service	Total Governmental Funds	Capital Projects	Debt Service	Total Governmental Funds
REVENUES:						
Tobacco settlement revenue	$ 2,161,508	$ -	$ 2,161,508	$ 2,119,505	$ -	$ 2,119,505
Interest income	818	131,366	132,184	800	131,684	132,484
Investment earnings	-	93,869	93,869	-	268,099	268,099
TOTAL REVENUES	2,162,326	225,235	2,387,561	2,120,305	399,783	2,520,088
EXPENDITURES:						
Bond interest expense	-	1,893,450	1,893,450	-	1,908,750	1,908,750
Bond principal	-	260,000	260,000	42,719	255,000	297,719
General and administrative expenses	90,092	-	90,092	97,297	79	97,376
TOTAL EXPENDITURES	90,092	2,153,450	2,243,542	140,016	2,163,829	2,303,845
Excess of Revenues Over Expenditures	2,072,234	(1,928,215)	144,019	1,980,289	(1,764,046)	216,243
Other Financing Sources (Uses):						
Operating transfers in	80,672	2,090,000	2,170,672	187,064	2,156,317	2,343,381
Operating transfers out	(2,090,000)	(80,672)	(2,170,672)	(2,156,317)	(187,064)	(2,343,381)
Total Other Financing Sources (Uses)	(2,009,328)	2,009,328	-	(1,969,253)	1,969,253	-
Excess of Revenues and Other Sources Over Expenditures and Other Uses	62,906	81,113	144,019	11,036	205,207	216,243
FUND BALANCES, beginning of year	147,774	3,427,221	3,574,995	136,738	3,222,014	3,358,752
FUND BALANCES, end of year	$ 210,680	$ 3,508,334	$ 3,719,014	$ 147,774	$ 3,427,221	$ 3,574,995

See accompanying notes to the financial statements.

CHAUTAUQUA TOBACCO ASSET SECURITIZATION CORPORATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEETS
TO THE STATEMENTS OF NET DEFICIT
DECEMBER 31, 2012 AND 2011

	2012	2011
TOTAL FUND BALANCE - GOVERNMENTAL FUNDS	$ 3,719,014	$ 3,574,995
Amounts reported for governmental activities in the statement of net deficits are different because:		
Property and equipment used in governmental activities are not financial resources and therefore not reported in the governmental funds.		
Governmental property and equipment	34,189	34,189
Less accumulated depreciation	(34,189)	(34,189)
	-	-
Costs of debt issuance are expenditures in government activities. However, in the statement of net assets, the costs of debt issuance are reported as capitalized assets and amortized over the lives of the related debt.	796,279	828,184
Bond discounts are reported as other financing uses in governmental funds financial statements. However, in the statement of net assets, bond discounts are reported as a component of bonds payable and amortized over the lives of the related debt.	443,538,793	444,649,162
Some liabilities are not due and payable in the current period from currently available financial resources and are therefore not reported in the governmental funds financial statements. Those liabilities consist of:		
Governmental bonds payable	(486,294,716)	(486,554,716)
NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$ (38,240,630)	$ (37,502,375)

See accompanying notes to financial statements.

CHAUTAUQUA TOBACCO ASSET SECURITIZATION CORPORATION
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENT FUNDS	$ 144,019	$ 216,243
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report the cost of debt issuance as expenditures. However, in the statement of activities, the cost of debt issuance is amortized over the lives of the related debt.	(46,376)	(46,376)
Governmental funds report bond proceeds net of repayment of debt. However, in the statement of activities, bond accretion, which results in an increase in the amount of the bond due is recognized.	(1,095,898)	(1,019,529)
Governmental funds report bond principal payments as other financing uses. However, in the statement of activities, bond principal payments are recognized as liabilities and written down as they are paid.	260,000	297,720
CHANGE IN NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$ (738,255)	$ (551,942)

See accompanying notes to the financial statements.

NOTE 1 - ORGANIZATION

Overview

Chautauqua Tobacco Asset Securitization Corporation ("CTASC"), a component unit of Chautauqua County, New York (the County), is a special purpose, bankruptcy remote local development corporation organized under the provisions of Section 1411 of the New York State Not-For-Profit Corporation Law. CTASC is governed by a Board of three directors, consisting of the County Executive for Chautauqua County, New York; the Director of Finance for Chautauqua County, New York; and an 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 discretely presented component unit.

Pursuant to a Purchase and Sale Agreement with the County, CTASC purchased from the County all of its future rights, title and interest in the Tobacco Settlement Revenues (TSR's) under the Master Settlement Agreement ("MSA"). The MSA was entered into on November 23, 1998, among the attorneys general of 46 states (including New York), the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Territory of the Northern Marianas and the four largest United States tobacco manufacturers: Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company. The MSA resolved cigarette smoking-related litigation between the Settling States. The MSA also imposed certain tobacco advertising and marketing restrictions, among other things. Neither the County nor CTASC is a party to the MSA.

CTASC financed the purchase through the issuance of Tobacco Settlement Revenue Bonds and the Residual Certificate. The Residual Certificate 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 TSR's not required by CTASC to pay various expenses, debt service or required reserves with respect to the bonds are generally transferred to the CTASC Residual Trust, as owner of the Residual Certificate. The County is the beneficial owner of the Trust and thus the funds received by the Trust are transferred to the County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus/Basis of Accounting

The entity-wide financial statements of CTASC, which include the statement of net deficit and the statement of activities, are presented to display information about the reporting entity as a whole, in accordance with Statements No. 34 of the Governmental Accounting Standards Board. The statement of net deficit and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

CTASC's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measureable and available to finance expenditures in the current fiscal period. Measureable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized when the related liability is incurred, except for unmatured interest on bonds payable, which is recognized when due.

Property, Equipment and Depreciation

Property and equipment are recorded at cost. Depreciation is computed over the estimated useful lives of the property and equipment on the straight-line method in the entity-wide financial statements. The governmental funds financial statements recognize property and equipment acquisitions as an expense in the period in which they are acquired. Depreciation is not recognized in the governmental funds financial statements.

Bond Premiums, Discounts and Issuance Costs

Bond premiums, discounts and issuance costs are capitalized and amortized over the lives of the related debt using the straight-line method in the entity-wide financial statements. The governmental funds financial statements recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Interest Expense

Interest expense is recognized on the accrual basis in the entity-wide financial statements. Interest expenditures are recognized when paid in the individual governmental funds financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires CTASC's management to make estimates and assumptions in determining the reported amounts of assets and liabilities, 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.

Tax Status

The Corporation is exempt from federal income tax under Section 115 of the Internal Revenue Code. The Corporation believes that it has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Cash and Cash Equivalents

CTASC's cash and cash equivalents are currently limited to bank deposits, U.S. Government securities, and Insured Money Market funds. At December 31, 2012, the Corporation's cash and cash equivalents consisted of insured Money Market funds of $983,357 and bank deposits of $210,680. At December 31, 2011, the Corporation's cash and cash equivalents consisted of Insured Money Market funds of $963,291 and bank deposits of $147,774. Investments with an original maturity date of three months or less are classified as cash and cash equivalents. Bank deposits up to $250,000 are insured by Federal Depository Insurance Corporation.

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.

Accounting and Reporting Changes

During February 2009, Governmental Accounting Standards Board (GASB) issued Statement No. 54 - *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which CTASC is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. CTASC implemented Statement No. 54, effective for the fiscal year ending December 31, 2011. The adoption of Statement No. 54 had no effect on CTASC's financial statements.

During June 2010, GASB issued Statement No. 59 - *Financial Instruments Omnibus*. This statement's objective is to improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. CTASC implemented Statement No. 59, effective for the fiscal year ending December 31, 2011. The adoption of Statement No. 59 had no effect on CTASC's financial statements.

During December 2009, GASB issued Statement No. 57 - *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* This Statement amends Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. CTASC implemented Statement No. 57, effective for the fiscal year ending December 31, 2012, with retroactive application for the fiscal year ended December 31, 2011. The adoption of Statement No. 57 had no effect on CTASC's financial statements.

In November 2010, GASB issued GASB Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements.* The objective of this statement is to improve financial reporting related to service concession arrangements (SCA's), which are a type of public-private or public-public partnerships. As used in this statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. CTASC implemented Statement No. 60, effective for the fiscal year ending December 31, 2012, with retroactive application for the fiscal year ended December 31, 2011. The adoption of Statement No. 60 had no effect on CTASC's financial statements.

In December 2010, GASB issued GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions, and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. CTASC implemented Statement No. 62, effective for the fiscal year ending December 31, 2012, with retroactive application for the fiscal year ended December 31, 2011. The adoption of Statement No. 62 had no effect on CTASC's financial statements.

In June 2011, GASB issued GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. CTASC implemented Statement No. 63, effective for the fiscal year ending December 31, 2012, with retroactive application for the fiscal year ended December 31, 2011. The adoption of Statement No. 63 had no effect on CTASC's financial statements.

In June 2011, GASB issued GASB Statement No. 64 - *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53.* The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. CTASC implemented Statement No. 64, effective for the fiscal year ending December 31, 2012, with retroactive application for the fiscal year ended December 31, 2011. The adoption of Statement No. 64 had no effect on CTASC's financial statements.

Future Impacts of Accounting Pronouncements

CTASC has not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statement No. 61 - *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, effective for the year ending December 31, 2013; GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities*, effective for the year ending December 31, 2013; and GASB Statement No. 66 - *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and 62*, effective for the year ending December 31, 2013; GASB Statement No. 67 *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, effective for the year ending December 31, 2014; GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*; effective for the year ending December 31, 2015; and, GASB Statement No. 69 - *Government Combinations and Disposals of Government Operations*; effective for the year ending December 31, 2014.

CTASC is therefore unable to disclose the impact that adopting these GASB Statements will have on its financial position and results of operation when such statements are adopted.

NOTE 3 - INVESTMENTS

Investments are reported at fair value. The Corporation's trustee holds investments for the funds included in the financial statements. The Corporation invests in authorized investments as described in the bond resolution such as obligations of the United States of America.

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 the possession of an outside party. The Corporation's investments at December 31, 2012 and 2011 were in U.S. Government and Municipal Obligations.

Concentration of Credit Risk - The Corporation places no limit on the amount that it may invest within any one issuer. The Corporation's investments at December 31, 2012 and 2011 were in the U.S. Government and Municipal Obligations.

Interest Rate Risk - The Corporation's investment policies are governed by resolution of the Board of Directors. It is the policy of CTASC to diversify its deposits and investments by maturity scheduling as a means of managing its exposure to fair value losses arising from interest rates.

NOTE 3 - INVESTMENTS, continued

Fair Value Measurements - Fair values of assets measured on a recurring basis at December 31, 2012 and 2011, are as follows:

Investment Description	2012 Cost	2012 Fair Value	2011 Cost	2011 Fair Value
Cash and Cash Equivalents	$ 983,357	$ 983,357	$ 963,291	$ 963,291
Debt Service -				
U.S. Government Agencies	144,768	143,474	62,343	65,343
Municipal Obligations	2,193,205	2,381,503	2,255,142	2,398,587
Total Investments	$ 3,321,330	$ 3,508,334	$ 3,280,776	$ 3,427,221

Credit Quality Ratings - Municipal Obligations - The Corporation invested in various NYS Municipal Obligations during 2012 and 2011. The credit quality ratings of these investments as of December 31, 2012, are as follows:

Municipal Obligation	Fair Value	CUSIP No.	Maturity Date	Rating per Moody's
New York, NY	$ 861,057	64966HMT4	10/01/34	Aa2
NY City Transitional Finance Authority	463,454	64971MS60	05/01/30	Aa1
NY City Transitional Finance Authority	351,738	64971M4N9	08/01/30	Aa1
Metropolitan Transportation Authority, NY	705,254	59259YGG8	11/15/30	A2
Total municipal obligations	$ 2,381,503			

The credit quality rating of these investments at December 31, 2011 are as follows:

Municipal Obligation	Fair Value	CUSIP No.	Maturity Date	Moody's
New York, NY	$ 297,069	64966HMT4	10/01/34	Aa2
NY City Transitional Finance Authority	444,658	64971MS60	05/01/30	Aa1
NY City Transitional Finance Authority	329,867	64971M4N9	08/01/30	Aa1
Metropolitan Transportation Authority, NY	530,213	59259YBF5	11/15/39	A2
Metropolitan Transportation Authority, NY	688,516	59259YGG8	11/15/30	A2
Metropolitan Transportation Authority, NY	108,264	59259NZN6	11/15/40	A2
Total municipal obligations	$ 2,398,587			

NOTE 4 - PROPERTY, EQUIPMENT AND DEPRECIATION

Property, equipment and depreciation consist of the following:

	Year ended December 31, 2012			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental activities:				
Property and equipment that is depreciated:				
Office improvements	$ 3,277	$ -	$ -	$ 3,277
Furniture and fixtures	30,912	-	-	30,912
Total depreciable historical cost	34,189	-	-	34,189
Less accumulated depreciation:				
Office improvements	3,277	-	-	3,277
Furniture and fixtures	30,912	-	-	30,912
Total accumulated depreciation	34,189	-	-	34,189
Total depreciable historical cost, net	$ -	$ -	$ -	$ -

NOTE 4 - PROPERTY, EQUIPMENT AND DEPRECIATION, continued

	Year ended December 31, 2011			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental activities:				
Property and equipment that is depreciated:				
Office improvements	$ 3,277	$ -	$ -	$ 3,277
Furniture and fixtures	30,912	-	-	30,912
Total depreciable historical cost	34,189	-	-	34,189
Less accumulated depreciation:				
Office improvements	3,277	-	-	3,277
Furniture and fixtures	30,912	-	-	30,912
Total accumulated depreciation	34,189	-	-	34,189
Total depreciable historical cost, net	$ -	$ -	$ -	$ -

NOTE 5 - BOND ISSUANCE COSTS AND DISCOUNT FEES

The Corporation has incurred issuance costs and discount fees associated with the Series 2005 and Series 2000 Bond issues. These costs are expensed as incurred in the Corporation's governmental fund financial statements. Such costs and discount fees are deferred and amortized over the life of related debt in the government-wide statements. Discount fees and bond issuance costs for the 2000 Series totaling $1,039,231 will be amortized over 40 years (9/15/2000 through 8/31/2040). The discount fees and bond issuance costs for the 2005 Series totaling $354,560 will be amortized over 21 years (12/01/05 - 11/20/2026). This will result in a matching of the amortization of the asset related to the 2000 Series Bonds with the related payment of the liability. Balances at December 31, 2012 are as follows:

	2000 Series		2005 Series	
	Issuance Costs	Discount Fees	Issuance Costs	Discount Fees
Cost	$ 1,023,444	$ 155,787	$ 132,616	$ 221,944
Less: Accumulated Amortization	315,547	47,872	44,234	75,795
Net	$ 707,897	$ 107,915	$ 88,382	$ 146,149

Balances at December 31, 2011 are as follows:

	2000 Series		2005 Series	
	Issuance Costs	Discount Fees	Issuance Costs	Discount Fees
Cost	$ 1,023,444	$ 155,787	$ 132,616	$ 221,944
Less: Accumulated Amortization	289,961	43,977	37,915	65,219
Net	$ 733,483	$ 111,810	$ 94,701	$ 156,725

NOTE 6 - BONDS PAYABLE

SERIES 2000 BONDS

Overview

The Series 2000 Bonds are issued in fully registered form in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC") who acts as Securities Depository for the Series 2000 Bonds. Individual purchases are in book-entry form only, in the principal amount of $5,000, or integral multiples thereof. Purchasers do not receive certificates representing their ownership interest in the Series 2000 Bonds.

Interest on the Series 2000 Bonds is payable semi-annually on January 1 and July 1 in each year until maturity or prior redemption. Principal of and interest on the Series 2000 Bonds will be paid by the Indenture Trustee to DTC which will in turn remit such principal and interest to its Participants, for subsequent distribution to the Beneficial Owners of the Series 2000 Bonds.

Security for the Series 2000 Bonds

Pursuant to a Purchase and Sale Agreement, dated September 1, 2000 (the "TSR Purchase Agreement"), the County sold to CTASC all of its rights, title and interest under the MSA and the Decree, including the County's right to be paid its portion of the State of New York's (the "State") allocable shares of future initial Payments and Annual Payments under the MSA (the "Tobacco Settlement Revenues").

NOTE 6 - BONDS PAYABLE, continued

Debt Service Account

Under the Indenture, CTASC is required to maintain a debt service account. The account is to contain an amount equivalent to the interest and principal amounts due within the next twelve months. At December 31, 2012 this fund was required to be at least $2,142,850 The balance in the fund at December 31, 2012 totaled $939,067 At December 31, 2011 this fund was required to be at least $2,153,450 The balance in the fund at December 31, 2011 totaled $947,056. Any shortfall in this account is to be made up out of the debt service reserve account.

Debt Service Reserve Account

Under the Indenture, the Indenture Trustee has established and holds a Debt Service Reserve Account which is funded from Series 2000 Bond proceeds. Except after an Event of Default, CTASC is required to maintain a balance in the Debt Service Reserve Account to the extent of available funds equal to the maximum annual debt service on the Series 2000 Bonds in the current year or any future year. The amount in this account at December 31, 2012 and 2011 was $2,569,327 and $2,480,166, respectively.

Maturity

The following is a summary of maturity of indebtedness:

Description of Issue	Issue Date	Final Maturity	Interest Rate	Outstanding at December 31, 2012
Serial Bonds	09/15/2000	07/1/2040	6.0 - 6.75%	$ 28,080,000

The following is a summary of maturing debt service requirements for the year ending December 31:

Year	Principal	Interest	Total
2013	$ 265,000	$ 1,877,850	$ 2,142,850
2014	270,000	1,861,288	2,131,288
2015	280,000	1,844,413	2,124,413
2016	285,000	1,826,912	2,111,912
2017	295,000	1,809,100	2,104,100
2018 - 2022	3,070,000	8,569,050	11,639,050
2023 - 2027	4,010,000	7,457,300	11,467,300
2028 - 2032	5,600,000	5,911,650	11,511,650
2033 - 2037	7,855,000	3,738,150	11,593,150
2038 - 2040	6,150,000	848,813	6,998,813
	$ 28,080,000	$ 35,744,526	$ 63,824,526

Sinking Fund Redemption

The Series 2000 bonds maturing on July 1, 2016 are subject to mandatory sinking fund redemption in part on July 1 of the years, and in the aggregate principal amounts, shown below, at a redemption price equal to the principal amount thereof to be redeemed, without premium.

Redemption Date (July 1)	Principal to be Redeemed
2013	$ 265,000
2014	$ 270,000
2015	$ 280,000
2016	$ 285,000

The Series 2000 bonds maturing on July 1, 2024 are subject to mandatory sinking fund redemption in part on July 1 of the years, and in the aggregate principal amounts, shown below, at a redemption price equal to the principal amount thereof to be redeemed, without premium.

Redemption Date (July 1)	Principal to be Redeemed
2017	$ 295,000
2018	$ 560,000
2019	$ 585,000
2020	$ 610,000
2021	$ 640,000
2022	$ 675,000
2023	$ 710,000
2024	$ 745,000

NOTE 6 - BONDS PAYABLE, continued

Sinking Fund Redemption, continued

The Series 2000 bonds maturing on July 1, 2040 are subject to mandatory sinking fund redemption in part on July 1 of the years, and in the aggregate principal amounts, shown below, at a redemption price equal to the principal amount thereof to be redeemed, without premium.

Redemption Date (July 1)	Principal to be Redeemed
2025	$ 795,000
2026	$ 850,000
2027	$ 910,000
2028	$ 975,000
2029	$ 1,040,000
2030	$ 1,115,000
2031	$ 1,195,000
2032	$ 1,275,000
2033	$ 1,365,000
2034	$ 1,460,000
2035	$ 1,565,000
2036	$ 1,675,000
2037	$ 1,790,000
2038	$ 1,915,000
2039	$ 2,045,000
2040	$ 2,190,000

At the option of the CTASC, there shall be applied to or credited against any of the required principal amounts, shown above, the principal amount of any such Series 2000 Bonds that are to be decreased, purchased or redeemed.

SERIES 2005 BONDS

Overview

The New York Counties Tobacco Trust V issued $202,792,505 aggregate principal amount of Tobacco Settlement Pass-Through Bonds in four series. These Series 2005 NYCTT Bonds represent direct, pass-through interest in corresponding bonds of certain series of tobacco settlement asset-backed bonds issued by one or more of the 24 tobacco asset securitization corporations of which CTASC is one. These bonds are subordinate to the Series 2000 bonds discussed above.

There are not scheduled payments of principal or interest on the Series 2005 NYCTT Bonds other than on their respective maturity dates because the bonds are Capital Appreciation Bonds. All interest accretes until both principal and accreted interest is paid. Turbo (accelerated) amortization payments are required to be made against the outstanding principal providing that CTASC receives sufficient TSR's to make the Turbo payments. Since there is no certainty that CTASC will receive sufficient TSR's to make these Turbo payments, the outstanding amount of the bonds and the related discount have not been reduced on the statements of net deficits.

Security for the Series 2005 Bonds

In order to secure payment of its Prior Bonds and Series 2005 TASC Bonds, each TASC has pledged to the TASC Trustee all of the TASC's rights, title, and interest whether now owned or hereafter acquired, in (i) the TSR Purchase Agreement and the TSR's (ii) the Pledged Series 2005 Accounts, and all investment earnings on amounts on deposit in or credited to the Pledged Series 2005 Accounts; and (iii) all present and future claims, demands, and causes in action in respect to the foregoing.

Series 2005 Bond Fund

A Series 2005 Bond Fund will be established with the Trustee and money will be deposited therein as provided in the Series 2005 Supplemental Indenture. The money in the Bond Fund will be held in trust and, except as otherwise provided in the Series 2005 Supplemental Indenture, will be applied solely to the payment of Debt Service. The Series 2005 Bond Fund includes a Series 2005 Turbo Redemption Account, a Series 2005 Lump Sum Redemption Account and a Series 2005 Extraordinary Payment Account.

NOTE 6 - BONDS PAYABLE, continued

Maturity

CTASC issued bonds out of three series of the 2005 issuances. The total bonds issued and their terms are summarized as follows:

Series	Issuance Amount	Maturity Amount	Interest Rate	Maturity
Series S2	$ 2,400,150	$ 3,481,000	6.10%	June 1, 2050
Series S3	$ 1,820,337	$ 51,090,000	6.85%	June 1, 2055
Series S4B	$ 5,617,440	$ 373,500,000	7.85%	June 1, 2060

What follows is a schedule of Projected TASC Turbo Redemption Payments for the portion of the bonds attributable to CTASC. Although not mandatory redemptions, these are the redemptions originally anticipated based upon projected cash flows. Because these bonds are capital appreciation bonds, there is not differentiation between principal and interest with respect to each payment.

Year	Series 2005 S2	Series 2005 S3	Series 2005 S4B	Total
2006	$ 378,318	$ -	$ -	$ 378,318
2007	409,240	-	-	409,240
2008	467,544	-	-	467,544
2009	504,906	-	-	504,906
2010	545,026	-	-	545,026
2011	588,230	-	-	588,230
2012	243,271	382,070	-	625,341
2013	-	665,574	-	665,574
2014	-	704,235	-	704,235
2015	-	737,892	-	737,892
2016	-	482,076	302,978	785,054
2017	-	-	825,034	825,034
2018	-	-	976,276	976,276
2019	-	-	1,022,406	1,022,406
2020	-	-	1,065,048	1,065,048
2021	-	-	1,113,048	1,113,048
2022	-	-	1,156,688	1,156,688
2023	-	-	1,206,000	1,206,000
2024	-	-	1,256,956	1,256,956
2025	-	-	1,292,225	1,292,225
2026	-	-	1,334,049	1,334,049
2027	-	-	1,374,477	1,374,477
2028	-	-	1,421,550	1,421,550
2029	-	-	1,467,695	1,467,695
2030	-	-	1,512,116	1,512,116
2031	-	-	1,554,384	1,554,384
2032	-	-	1,593,930	1,593,930
2033	-	-	1,642,880	1,642,880
2034	-	-	1,689,578	1,689,578
2035	-	-	1,733,388	1,733,388
2036	-	-	1,757,407	1,757,407
2037	-	-	991,629	991,629
	$ 3,136,535	$ 2,971,847	$ 28,289,742	$ 34,398,124

NOTE 7 - EQUITY CLASSIFICATIONS

A. Government-wide Statements

In the entity-wide statements, there are three classes of net assets:

Invested in Capital Assets, Net of Related Debt - This class consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvements of these assets.

Restricted Net Assets - Restricted net assets report constraints placed on assets that are either legally imposed by creditors (such as through covenants), grantors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

NOTE 7 - EQUITY CLASSIFICATIONS, Continued

Restrictions of net assets have been recorded in the entity-wide financial statements of the Corporation at December 31, 2012 and 2011 as follows:

Restricted for Capital - represents resources that are committed for future transfers to the CTASC Residual Trust.

Restricted for Debt Service - represents resources that are committed to retiring the outstanding obligations of the corporation.

Unrestricted Net Assets - Designations are not legally required restrictions, but are segregated for a specific purpose. At December 31, 2012 and 2011, the Corporation had not designated any unrestricted net assets. The unrestricted net deficit balance represents the outstanding bond liability to be paid off with future rights to receive tobacco revenues.

B. Fund Statements

In the fund basis statements there are five classifications of fund balance:

Non-Spendable - includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The Corporation does not have any nonspendable fund balance at December 31, 2012 and 2011.

Restricted - includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The Corporation has established the following restricted fund balances.

Restricted For Capital - represents resources that are restricted for future transfers to the CTASC Residual Trust.

Restricted For Debt Service - represents resources that are contractually committed to the retirement of outstanding debt obligations of the Corporation.

Committed - includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the Corporation's highest level of decision making authority, i.e., the Common Council. At December 31, 2012 and 2011 the Corporation did not have any committed fund balances.

Assigned - includes amounts that are constrained by the Corporation's intent to be used for specific purposes, but are neither restricted nor committed. The Corporation did not have any assigned fund balances at December 31, 2012 or 2011.

Unassigned - includes all other General Fund net assets that do not meet the definition of the above four classifications and are deemed to be available for general use by the Corporation.

Order of Use of Fund Balance - The Corporation's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year. For all funds, nonspendable fund balances are determined first and then restricted fund balances for specific purposes are determined.

NOTE 8 - INTERFUND TRANSACTIONS

The operations of the Corporation give rise to certain transactions between funds. Net interfund transfers of $2,170,672 and $2,343,381 were made between the governmental funds primarily for debt service during 2012 and 2011, respectively.

NOTE 9 - OPERATING LEASE

CTASC entered into a three-year operating lease with Chautauqua County for office space for the period January 1, 2011 through December 31, 2013. Annual rents amounted to $8,000 for each of the years ended December 31, 2012 and 2011. The future minimum lease payments under this lease are $8,000 for 2013.

NOTE 10 - RELATED PARTY TRANSACTIONS

As part of the purchase price of the MSA, CTASC has created a residual trust that is funded by Tobacco Settlement Revenues received by CTASC that are not required to pay expenses, debt service or required reserves with respect to the Series 2000 Bonds. During the years ended December 31, 2012 and 2011, no residual proceeds were transferred to the trust. The County appoints the governing board of CTASC but is not responsible for the operations of the Corporation.

NOTE 10 - RELATED PARTY TRANSACTIONS, Continued

Chautauqua County provides CTASC financial services. Payments to Chautauqua County for services rendered totaled $5,000 and $15,000 for the years ended December 31, 2012 and December 31, 2011, respectively.

NOTE 11 - ECONOMIC DEPENDENCY

The primary security and source of payments for the principal and interest on the Series 2000 bonds is Tobacco Settlement Revenues pursuant to the Master Settlement Agreement and the decree. The Tobacco Settlement Revenues are primarily dependent upon the volume of cigarettes shipped in the United States, which is primarily a function of domestic cigarette consumption.

NOTE 12 - CONTINGENCIES

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

During 2009, the Corporation paid a bond rating agency $10,000 in an attempt to settle a dispute over previously unpaid professional fees. Although management believes that this payment is sufficient to settle this dispute, the Corporation has not been formally released by the bond rating agency from any additional liability. No further information was received from the bond rating agency regarding this dispute through the date of the financial statements.

NOTE 13 - SUBSEQUENT EVENTS

Events and transactions which have occurred from December 31, 2012 through February 28, 2013, the date of these financial statements, have been evaluated by management for the purpose of determining whether there were any events that might require disclosure in these financial statements. No such events or transactions were noted.

JOHNSON, MACKOWIAK
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTER BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

February 28, 2013

To the Board of Directors
Chautauqua Tobacco Asset Securitization Corporation
3163 Airport Drive
Jamestown, New York 14701

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Chautauqua Tobacco Asset Securitization Corporation ("CTASC"), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise CTASC's basic financial statements and have issued our report thereon dated February 28, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CTASC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CTASC's internal control. Accordingly, we do not express an opinion on the effectiveness of CTASC's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Johnson, Mackowiak & Associates, LLP

JOHNSON, MACKOWIAK & ASSOCIATES, LLP