GENESEE TOBACCO ASSET SECURITIZATION CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2013

GENESEE TOBACCO ASSET SECURITIZATION CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Genesee Tobacco Asset Securitization Corporation
Batavia, New York

Report on the Financial Statements

We have audited the accompanying statements of financial position of Genesee Tobacco Asset Securitization Corporation, a blended component unit of the County of Genesee, New York, as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Genesee Tobacco Asset Securitization Corporation as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present information on the Genesee Tobacco Asset Securitization Corporation and do not purport to, and do not, present fairly the financial position of the County of Genesee, New York, as of December 31, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2014, on our consideration of Genesee Tobacco Asset Securitization Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Genesee Tobacco Asset Securitization Corporation's internal control over financial reporting and compliance.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
March 11, 2014

GENESEE TOBACCO ASSET SECURITIZATION CORPORATION
Statements of Financial Position
December 31, 2013 and 2012

	2013	2012
ASSETS		
Assets		
Cash and cash equivalents	$ 177,722	$ 185,155
Prepaid insurance	6,712	6,712
Restricted cash - liquidity reserve	927,054	926,963
Restricted cash - trapping reserve	1,782	1,723
Bond closing costs - net of accumulated amortization of $588,995 and $531,143	559,863	617,715
Total Assets	$ 1,673,133	$ 1,738,268
LIABILITIES AND NET DEFICIT		
Liabilities		
Accounts payable	$ 1,309	$ 1,513
Accrued interest payable	84,246	84,721
Accretion payable - TASC IV Series 2005	940,061	799,949
Accretion payable - TASC V	1,582,430	1,327,617
Bonds payable - TASC IV	12,810,000	12,875,000
Bonds payable - TASC IV Series 2005	1,458,440	1,458,440
Bonds payable - TASC V	1,855,936	1,855,936
Total liabilities	18,732,422	18,403,176
Net Deficit		
Unrestricted	(17,059,289)	(16,664,908)
Total Liabilities and Net Deficit	$ 1,673,133	$ 1,738,268

The accompanying notes are an integral part of these financial statements.

GENESEE TOBACCO ASSET SECURITIZATION CORPORATION
Statements of Activities
For the Years Ended December 31, 2013 and 2012

	2013	%	2012	%
Revenues				
Tobacco settlement revenues	$ 827,596	99.9	$ 828,110	99.9
Interest income	774	0.1	1,204	0.1
Total revenues	828,370	100.0	829,314	100.0
Expenses				
Accounting	4,700	0.6	4,750	0.6
Accretion	394,925	47.7	367,844	44.4
Administrative agent	5,663	0.7	5,663	0.7
Amortization	57,852	7.0	58,151	7.0
Bond expenses	775	0.1	388	-
Insurance	5,005	0.6	5,005	0.6
Interest	719,025	86.8	722,350	87.1
Legal	5,000	0.6	4,750	0.6
Rent	1,266	0.2	1,471	0.2
Telephone	38	-	37	-
Transfer to County	25,000	3.0	25,000	3.0
Trustee expenses	3,502	0.4	3,502	0.4
Total expenses	1,222,751	147.7	1,198,911	144.6
Change in Net Assets	(394,381)	(47.7)	(369,597)	(44.6)
Net Deficit - Beginning	(16,664,908)		(16,295,311)	
Net Deficit - Ending	$ (17,059,289)		$ (16,664,908)	

The accompanying notes are an integral part of these financial statements.

GENESEE TOBACCO ASSET SECURITIZATION CORPORATION
Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	$ (394,381)	$ (369,597)
Adjustments		
Amortization	57,852	58,151
Changes in assets and liabilities		
Accounts payable	(204)	183
Accrued interest payable	(475)	(900)
Accretion payable	394,925	367,845
Net cash flows from operating activities	57,717	55,682
Cash Flows from Financing Activities		
Repayment of bonds payable	(65,000)	(60,000)
Net Change in Cash and Cash Equivalents	(7,283)	(4,318)
Cash and Cash Equivalents - Beginning	1,113,841	1,118,159
Cash and Cash Equivalents - Ending	$ 1,106,558	$ 1,113,841
Reconciliation of Total Cash to the Statements of Financial Position		
Cash and cash equivalents	$ 177,722	$ 185,155
Restricted cash - liquidity reserve	927,054	926,963
Restricted cash - trapping reserve	1,782	1,723
Total cash and cash equivalents - ending	$ 1,106,558	$ 1,113,841

The accompanying notes are an integral part of these financial statements.

Note 1. Summary of Significant Accounting Policies and Nature of the Organization

Nature of the Organization - In January 1997, the State of New York filed a lawsuit against the tobacco industry, seeking to recover the costs that the State and local governments had incurred in treating smoking related illnesses. Genesee Tobacco Asset Securitization Corporation (the "Corporation") was established to acquire from the County all or a portion of the rights, title and interest under the Master Settlement Agreement (the "MSA") and the Consent Decree and Final Judgment (the "Decree") as described herein.

The MSA includes New York and 45 other states, 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 four of the largest United States tobacco product manufacturers: Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown and Williamson Tobacco Company (B&W), and Lorillard Tobacco Company (collectively, the "Original Participating Manufacturers" or "OPMs"). On January 5, 2004, Reynolds American Inc. was incorporated as a holding company to facilitate the combination of the U.S. assets, liabilities, and operations of B&W with those of Reynolds Tobacco. The agreement was entered into in settlement of certain smoking-related litigation and the Decree entered in New York Supreme Court, including the County's right to receive certain initial and annual payments to be made by the OPMs under the MSA.

During 2000 and 2005, Genesee County (the "County") sold its right to receive payments under the MSA to the Genesee Tobacco Asset Securitization Corporation. The Corporation's right to receive Tobacco Settlement Revenue (TSR) is its most significant asset, and is expected to produce cash flow to fund its obligations. The County is a related organization of the Corporation, however, the Corporation is not controlled or financially accountable to the County.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, Determining Whether Certain Organizations are Component Units, and Technical Bulletin 2004-1, Tobacco Settlement Recognition and Financial Reporting Entity Issues, the Corporation is required to be included in the basic financial statements of the County of Genesee, New York. Accordingly, the Corporation is presented as a blended component unit of the County.

Basis of Presentation - The preparation of financial statements is in conformity with accounting principles generally accepted in the United States of America.

Method of Accounting - The Corporation maintains its books and prepares its financial statements on the accrual basis of accounting.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - For purposes of the statements of financial position and statements of cash flows, cash and cash equivalents includes commercial paper, cash in money market funds, certificates of deposit, and all highly liquid investments with original maturities of three months or less. The Corporation maintains cash and cash equivalents at financial institutions which periodically may exceed federally insured limits.

Bond Closing Costs - Bond closing costs are recorded at cost and are being amortized over the life of the bonds which range from 18 to 604 months.

Income Taxes - The Corporation, as a not-for-profit organization, is exempt from income taxes under section 501 (c)(3) of the Internal Revenue Code. In June 2006, the Financial Accounting Standards Board issued Accounting Standards Codification (ASC) 740-10-50, *Accounting for Uncertainty in Income Taxes*, which prescribed a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that the organization has taken or expects to take on their tax return. The Corporation recognizes the tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. Management believes that the Corporation is currently operating in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no liability for unrecognized tax benefits has been included on the Corporation's financial statements. The Corporation is exempt from the filing of any informational returns and therefore there are no open audit periods.

Revenue Recognition - Interest earnings are recognized in the year earned. TSR is recorded as income in the year that it is received.

Subsequent Events - In accordance with ASC 855, *Subsequent Events*, the Corporation evaluated subsequent events through March 11, 2014, the date these financial statements were available to be issued.

Note 2. Bond Closing Costs

Amortization of bond closing costs consists of the following at December 31, 2013:

2014	$ 57,514
2015	57,152
2016	57,000
2017	57,000
2018	57,000
Thereafter	274,197
Total	$ 559,863

Note 3. Bonds Payable

TASC IV bonds payable consist of the following at December 31:

	2013	2012
Turbo Term Bonds - Redeemable in annual installments of various amounts beginning June 1, 2008 through June 1, 2027. Interest is payable in semi-annual installments at 6.000%.	$ 955,000	$ 1,020,000
Turbo Term Bonds - Redeemable in annual installments of various amounts beginning June 1, 2027 through June 1, 2041. Interest is payable in semi-annual installments at 6.650%.	5,400,000	5,400,000
Turbo Term Bonds - Redeemable in annual installments of various amounts beginning June 1, 2041 through June 1, 2042. Interest is payable in semi-annual installments at 5.000%.	3,925,000	3,925,000
Turbo Term Bonds - Redeemable in annual installments of various amounts beginning June 1, 2042 through June 1, 2045. Interest is payable in semi-annual installments at 5.000%.	2,530,000	2,530,000
Total	$ 12,810,000	$ 12,875,000

Scheduled repayment of these obligations is currently estimated as follows:

	Principal	Interest	Total
2014	$ 265,000	$ 746,050	$ 1,011,050
2015	130,000	738,550	868,550
2016	125,000	730,900	855,900
2017	130,000	723,250	853,250
2018	210,000	713,050	923,050
2019 - 2023	1,175,000	3,355,900	4,530,900
2024 - 2028	720,000	2,970,000	3,690,000
2029 - 2033	1,900,000	2,454,375	4,354,375
2034 - 2038	2,740,000	1,752,125	4,492,125
2039 - 2043	3,695,000	909,625	4,604,625
2044 - 2045	1,720,000	86,750	1,806,750
Total	$ 12,810,000	$ 15,180,575	$ 27,990,575

TASC IV - Series 2005 bonds payable consist of the following at December 31:

	2013	2012
Subordinate Turbo CABs - Redeemable in annual installments of various amounts beginning June 1, 2045 through June 1, 2050. This is a non-interest bearing bond.*	$ 784,054	$ 784,054
Subordinate Turbo CABs - Redeemable in annual installments of various amounts beginning June 1, 2050 through June 1, 2055. This is a non-interest bearing bond.*	674,386	674,386
Total	$ 1,458,440	$ 1,458,440

* In, 2005 the Corporation refunded and defeased in substance its outstanding 2000 Series bonds with a portion of the Series 2005 bonds. All of the issuance costs and reserves were funded from the bond proceeds. The net proceeds were deposited into an irrevocable trust to provide funding for the debt service on the Series 2000 bonds to the call date in the year 2010. The excess costs necessary to defease the 2000 Series bonds are being amortized as interest expense over the remaining life of the bonds.

In conjunction with the advanced refunding, the Corporation completed the sale of Series 2005D and 2005E capital appreciation bonds carrying varying yields and were sold discounted (zero coupon). As required by accounting principles generally accepted in the United States of America, the Corporation accretes the effective interest appreciation over the life of the bonds to maturity. These bonds are subordinate to the Series 2005 bonds in the advanced refunding. No interest or principal will be paid on these bonds until all other series bonds of the Corporation are redeemed. Funds expected to be used for redemption of these bonds will come from the TSR and payments are not anticipated until 2026. Increases to the bond values were $140,112 and $131,915 for the years ending December 31, 2013 and 2012, respectively.

Required maturities for the Series 2005 Bonds represent the minimum amount of principal that the Corporation must pay as of the specific distribution dates in order to avoid a default. Turbo (accelerated) amortization payments are required to be made against outstanding principal providing that the Corporation receives sufficient TSR to make the Turbo. The interest payment requirements shown above are based on the required principal maturity schedule and includes the accreted value portion of capital appreciation bonds in the year in which they are required to be redeemed.

TASC V bond payable consists of the following at December 31:

	2013	2012
Subordinate Turbo CABs - Redeemable in installments of estimates to begin on June 1, 2029 based upon the estimated collections of the payments under the MSA. Interest is accrued at 7.850%. Final payment of principal and accrued interest is due June 1, 2060.	$ 1,855,936	$ 1,855,936

Accretion of this obligation is currently estimated as follows:

	Principal	Accretion	Total
2014	$ 0	$ 275,209	$ 275,209
2015	0	297,237	297,237
2016	0	321,028	321,028
2017	0	346,723	346,723
2018	0	374,475	374,475
2019 - 2023	0	2,372,925	2,372,925
2024 - 2028	0	3,487,262	3,487,262
2029 - 2033	0	5,124,894	5,124,894
2034 - 2038	0	7,531,564	7,531,564
2039 - 2043	0	11,068,419	11,068,419
2044 - 2048	0	16,266,191	16,266,191
2049 - 2053	0	23,904,860	23,904,860
2054 - 2058	0	35,130,678	35,130,678
2059 - 2060	1,855,936	13,460,170	15,316,106
Total	$ 1,855,936	$ 119,961,635	$ 121,817,571

Accretion expense for the TASC V bond payable amounted to $254,813 and $235,930 for the years ended December 31, 2013 and 2012, respectively.

The TASC IV, TASC IV - Series 2005 and TASC V bond payable obligations shall not be a debt of either the State or the County of Genesee, New York (the "County"), and neither the State nor the County shall be liable hereon, nor shall it be payable out of any funds other than those of the Corporation pledged therefore.

Note 4. Contingency and Concentration of Credit Risk

During 2000, the Corporation purchased the rights to receive Tobacco Settlement Revenue (TSR) from the County of Genesee. There are a number of risks associated with receipts of such TSR including, litigation affecting participating manufacturers and possible bankruptcy as a result thereof, and future adjustments to the calculation of the TSR. The Corporation's financial existence is contingent upon receiving these TSR from the tobacco manufacturers.

Note 5. Net Deficit

The net asset deficit is due to various expenses associated with the bonds. The future cash receipts from the Master Settlement Agreement (MSA) are expected to offset this deficit. The largest payments provided for in the MSA are called initial payments and annual payments. Both are subject to certain adjustments, reductions and offsets, which are described in the following paragraphs.

Initial payments to New York State will be made in the first five years of the agreement, starting with $2.4 billion in 1999; the last four of these will be subject to the volume adjustment, the non-settling states reduction, and the offset for miscalculated or disputed payments. The Corporation received the County's share of the payment in the last three years of the agreement, starting in 2001.

Annual payments commenced on April 15, 2000, starting at $4.5 billion in 2000 and continuing into perpetuity at a cap of $9 billion to be reached in 2018. The annual payments will be subject to inflation adjustment, the volume adjustment, the previously settled states reduction, the non-settling states reduction, the non-participating manufacturers adjustment, the offset for miscalculated or disputed payments, the federal tobacco legislation offset, the litigating parties offset, and the offsets for claims. The Corporation started receiving the County's portion of the annual payments on April 15, 2001.

Note 6. Restricted Cash - Liquidity Reserve

The Corporation is required to place a portion of the bond proceeds in trust as a reserve to partially secure payments to the bond holders. The restriction of these funds will be released as the bonds mature and are paid. The restricted cash - liquidity reserve amounted to $927,054 and $926,963 for the years ended December 31, 2013 and 2012, respectively.

Note 7. Restricted Cash - Trapping Reserve

Pursuant to the terms of the MSA, in 2003 the credit rating of one of the OPM's was rated below the required level, causing a downgrade trapping event. The Corporation is now required to cease residual payments to the County until at least 25% of the outstanding principal on the debt is held in the fund or until one year after the bond rating goes back to a specified level to ensure that applicable debt payments can be made. The Corporation began funding this account during 2003 and the outstanding balance at December 31, 2013 and 2012 was $1,782 and $1,723, respectively.

Note 8. Supplemental Cash Flow Information

	2013	2012
Cash paid during the year:		
Interest	$ 719,500	$ 723,250

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INDEPENDENT AUDITORS' 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*

The Board of Directors
Genesee Tobacco Asset Securitization Corporation
Batavia, New York

We have audited, in accordance with the 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, the financial statements of Genesee Tobacco Asset Securitization Corporation, as of and for the year ended December 31, 2013, which collectively comprise Genesee Tobacco Asset Securitization Corporation's basic financial statements, and the related notes to the financial statements, and have issued our report thereon dated March 11, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Genesee Tobacco Asset Securitization Corporation'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Genesee Tobacco Asset Securitization Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Genesee Tobacco Asset Securitization Corporation'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 statements 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 Genesee Tobacco Asset Securitization 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 disclose 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 results 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.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
March 11, 2014