WARREN TOBACCO ASSET SECURITIZATION CORPORATION

(A Discretely Presented Component Unit of the County of Warren, New York)

Financial Reports as of December 31, 2012
Together with Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

March 26, 2013

To the Board of Directors of the
Warren Tobacco Asset Securitization Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Warren Tobacco Asset Securitization Corporation (WTASC), a discretely presented component unit of Warren County, New York, as of and for the year ended December 31, 2012 and the related notes to the financial statements, which collectively comprise the Corporation'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 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 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.

(Continued)

INDEPENDENT AUDITOR'S REPORT (Continued)

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 the major fund of the Warren Tobacco Asset Stabilization Corporation, as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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 March 26, 2013 on our consideration of WTASC'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 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 WTASC's internal control over financial reporting and compliance.

Bonadio & Co., LLP

Albany, New York
March 26, 2013

This discussion and analysis of the Warren Tobacco Asset Securitization Corporation's (Corporation) financial performance provides an overview of the Corporation's financial activities for the year ended December 31, 2012. This document should be read in conjunction with the Corporation's financial statements and related notes to the financial statements.

The Corporation is a component unit of the County of Warren, New York and is discretely presented in the County's financial statements.

Financial Highlights

- The Corporation's net position increased $126,871 as a result of this year's activity and electing to early adopt GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), which is illustrated in the Statement of Activities.
- The Corporation paid $135,000 of bond principal.
- Tobacco settlement revenue was approximately $968,000.

Reporting the Corporation as a Whole

One of the most important questions asked about the Corporation's finances is, "Is the Corporation, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Corporation as a whole and about its activities in a manner that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting 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 the Corporation's net position and changes in it. You can think of the Corporation's net position – the difference between assets and liabilities – as one way to measure the Corporation's financial health, or financial position. Over time, increases or decreases in the Corporation's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the financial capability of the participating cigarette manufacturers to pay and the future cigarette consumption which impacts the tobacco settlement revenue payments, to assess the overall health of the Corporation.

Overview of the Financial Statements

The Corporation's financial statements consist of two parts: Management's Discussion and Analysis, and basic financial statements. The basic financial statements include the government-wide presentation, governmental fund presentation, and notes.

The government-wide financial statements, which include the Statement of Net Position and the Statement of Activities, are presented to display information about the Corporation as a whole and are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) using the accrual basis; similar to the accounting used by most private-sector companies.

The Statement of Net Position answers the question, "How is our financial health at the end of the year?" This statement includes all assets and liabilities. Over time, changes in net position may serve as a useful indicator as to whether the financial position of the Corporation is improving or deteriorating.

Overview of the Financial Statements (Continued)
The Statement of Activities accounts for all revenue and expenses. This statement measures the success of the Corporation's operations over the past year and can be used to determine if the Corporation has successfully recovered all of its costs through revenue sources. This statement helps to answer the question, "Is the Corporation, as a whole, better off or worse off as a result of the year's activities?"

The notes to the financial statements provide additional information essential to understanding the data provided in the basic financial statements.

Below is a summary of the Statement of Net Position and the Statement of Activities for the years ended December 31, 2012, and 2011 respectively:

Condensed Statement of Net Position (Rounded)

	2012	2011
Cash and investments	$ 471,000	$ 480,000
Accounts receivable	875,000	700,000
Bond issuance costs, net	-	101,000
Total assets	1,346,000	1,281,000
Total long-term liabilities	6,817,000	6,878,000
Net position:		
Restricted for debt	471,000	480,000
Unrestricted	(5,942,000)	(6,077,000)
Total net position	$ (5,471,000)	$ (5,597,000)

Condensed Statement of Activities (Rounded)

	2012	2011
Tobacco settlement revenue	$ 968,000	$ 678,000
Interest income	29,000	28,000
Total revenues	997,000	706,000
Distribution to County	432,000	444,000
Interest expense	314,000	495,000
General and administrative costs	23,000	21,000
Total expenses	769,000	960,000
Change in net position	$ 228,000	$ (254,000)

Overview of the Financial Statements (Continued)
Changes in the Corporation's estimate of tobacco settlement revenue receivables and the increase in actual receipts resulted in a significant increase in tobacco settlement revenue during 2012. Interest expense decreased during the current year due to changes in due to an adjustment in the accreted interest on the Series 2005 bonds. As a result of adopting GASB 65, the Corporation no longer reports bond issuance costs on the Statement of Net Position. The effect of this accounting change resulted in a decrease of $101,271 in net position

Major Fund
The Corporation's governmental fund financial statements, which include the Governmental Fund Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance, are presented using the modified accrual basis of accounting for the Debt Service Fund, the only fund the Corporation has. This fund is generally restricted to debt service activities.

For 2012, total fund balance decreased by approximately $8,000. This decrease was due mainly to an increase in debt service expenditures in 2012.

Debt Administration
The Corporation paid $135,000 in principal and approximately $241,000 in interest during the year. Currently, there are no plans for the Corporation to issue additional debt.

Economic Factors
Tobacco settlement revenue is the primary revenue source for the Corporation. Tobacco settlement revenue is dependent on future tobacco sales, as well as the participating manufacturers' ability to pay. Increases or decreases in tobacco consumption will result in corresponding increases or decreases in tobacco settlement revenue.

Contacting the Corporation's Financial Management
This financial report is designed to provide investors and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Corporation's Treasurer's Office at 1340 State Route 9, Lake George, NY 12845.

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Discretely Presented Component Unit of the County of Warren, New York)

STATEMENT OF NET POSITION
DECEMBER 31, 2012

ASSETS	
Cash - Restricted	$ 34,097
Investments - Restricted	437,288
Accounts receivable	875,000
Total assets	1,346,385
LIABILITIES	
CURRENT LIABILITIES:	
Bonds payable, current portion	370,000
Accrued interest	19,767
Total current liabilities	389,767
NONCURRENT LIABILITIES:	
Bonds payable, noncurrent portion	6,426,739
Total liabilities	6,816,506
NET POSITION	
Restricted for debt service	471,385
Unrestricted	(5,941,506)
Total net position	$ (5,470,121)

The accompanying notes are an integral part of these statements.

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Discretely Presented Component Unit of the County of Warren, New York)

STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

	Expenses	Net (Expense) Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES:		
Distribution to Warren County - Residual share	431,510	$ (431,510)
General and administrative costs	22,769	(22,769)
Debt service - Interest	314,294	(314,294)
Total governmental activities	$ 768,573	$ (768,573)
GENERAL REVENUES:		
Tobacco settlement revenue		$ 968,021
Interest income		28,694
Total general revenues		996,715
CHANGE IN NET POSITION		228,142
NET POSITION - beginning of year, as originally stated		(5,596,992)
Cumulative effect of early implementation of GASB Statement No. 65		(101,271)
NET POSITION - beginning of year, restated		(5,698,263)
NET POSITION - end of year		$ (5,470,121)

The accompanying notes are an integral part of these statements.

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Discretely Presented Component Unit of the County of Warren, New York)

BALANCE SHEET - GOVERNMENTAL FUND
DECEMBER 31, 2012

	Debt Service
ASSETS	
Cash - Restricted	$ 34,097
Investments - Restricted	437,288
Accounts Receivable	875,000
	$ 1,346,385
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Unearned revenue	$ 875,000
FUND BALANCE:	
Restricted - debt service reserve	471,385
	$ 1,346,385

The accompanying notes are an integral part of these statements.

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Discretely Presented Component Unit of the County of Warren, New York)

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND FOR THE YEAR ENDED DECEMBER 31, 2012

	Debt Service
REVENUES:	
Tobacco settlement revenue	$ 793,021
Interest income	28,694
Total revenues	821,715
EXPENDITURES:	
Distribution to County of Warren - Residual share	431,510
General and administrative costs	22,769
Debt service - Principal	135,000
Debt service - Interest	240,856
Total expenditures	830,135
DEFICIENCY OF REVENUES OVER EXPENDITURES	(8,420)
FUND BALANCE - beginning of year	479,805
FUND BALANCE - end of year	$ 471,385

The accompanying notes are an integral part of these statements.

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Discretely Presented Component Unit of the County of Warren, New York)

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012

Fund balance, governmental fund	$ 471,385
Amounts reported for governmental activities in the statement of net assets are different due to the following:	
Tobacco settlement revenue not received within current period therefore, not recognized as revenue in fund financial statements	875,000
Interest accrued on long term debt not due in the current period	(19,767)
Bonds payable are not due and payable in the current period and are therefore, not reported in the fund financial statements	(6,796,739)
Net position of governmental activities	$ (5,470,121)

The accompanying notes are an integral part of these statements.

WARREN TOBACCO ASSET SECURITIZATION CORPORATION
(A Discretely Presented Component Unit of the County of Warren, New York)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Net changes in fund balance - Total governmental fund	$	(8,420)
Accrual of accreted interest is interest expense in the statement of activities, but not in the governmental fund financial statements		(74,047)
Accrued revenue recorded in the governmental funds but is not recorded in the statement of net assets		175,000
Repayments of long-term debt are recorded as expenditures in the governmental funds, but are recorded as payments of liabilities in the statement of net assets		135,000
Accrued interest in the statement of activities does not require the expenditure of current resources and is, therefore, not reported as an expenditure in the governmental funds		609
Change in position - Governmental activities	$	228,142

The accompanying notes are an integral part of these statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization
The Warren Tobacco Asset Securitization Corporation (Corporation) is a special purpose, bankruptcy remote, non-profit, local development corporation organized under Section 1411 of the Not-For-Profit Corporation Law of the State of New York. It is a public instrumentality of, but separate and apart from the County of Warren, New York. The Corporation was established on July 3, 2001, and became active August 8, 2001. The Corporation's board of directors is comprised of a majority of elected or appointed officials of the County and one independent director.

The Corporation was formed to acquire from the County of Warren, New York (County) all future rights, title, and interest in 50% of the Tobacco Settlement Revenue (TSR) under the Master Settlement Agreement (MSA) with respect to tobacco related litigation among various states and participating manufacturers. The purchase price of 50% of the County's future rights, title, and interest in the TSR 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 bonds and certain other costs specified in the indenture. Excess TSR not required by the Corporation to pay various expenses, debt service, or required reserves with respect to the bonds are transferred to the Warren Tobacco Asset Securitization WTASC 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.

The future TSR payments are dependent on a variety of factors, some of which are:

- The financial capability of the participating cigarette manufacturers to pay TSR;
- Future cigarette consumption which impacts the TSR payment;
- Future legal and legislative challenges against the tobacco manufacturers and the MSA that provides for the TSR payments.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
The Corporation's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Corporation's government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Corporation's fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments, are recorded only when payment is due.

The major governmental fund, currently the Corporation's only fund, is the Debt Service Fund. The Debt Service Fund accounts for the resources accumulated and payments made for operations and principal debt service on long-term general obligation debt.

Net Position and Fund Balance Classifications

Government-Wide Statements

In the Government-wide statements, there are three classes of net position:

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The Corporation does not have this classification.

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or the liability will be liquidated with the restricted assets reported.

The unrestricted component of net position is the net amounts of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund Statements

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

Non-spendable fund balance – 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 has no non-spendable fund balances as of December 31, 2012.

Restricted fund balance – 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's restricted fund balance consisted of its debt service reserve as of December 31, 2012.

Committed fund balance – Includes amounts that can 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 Board of Trustees. The Corporation has no committed fund balance as of December 31, 2012.

Assigned fund balance – Includes amounts that are constrained by the Corporation's intent to be used for specific purposes, but are neither restricted nor committed. The Corporation has no assigned fund balance as of December 31, 2012.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position and Fund Balance Classifications (Continued)
Unassigned fund balance - Includes all other fund amounts that do not meet the definition of the above four classifications and are deemed to be available for general use by the Corporation. The Corporation has no unassigned fund balance as of December 31, 2012.

Order of Fund Balance Spending Policy
The Corporation's highest level of decision-making authority is the Board however, the Board does not have the authority to authorize spending from the only form of fund balance the Corporation has, restricted fund balance due to third party restrictions. The Corporation does not have a policy to apply expenditures against the various classifications of fund balance because they are restricted by the laws that established the Corporation the various bond indentures and at the end of any fiscal year, they will only have restricted fund balance related to its debt service reserve.

Deficit Net Position
The Corporation has a deficit unrestricted net position at December 31, 2012. This should eventually reverse through the receipt of TSR and the reduction of the outstanding bonds over time.

Investments - restricted
The Corporation maintains a liquidity reserve account, debt service account, and trapping account which was initially funded from the Series 2001 bond proceeds and has been increased by TSR to maintain required levels in these accounts. The liquidity reserve account has a minimum balance requirement of $406,313. All amounts withdrawn from these accounts are replenished, as needed, and amounts in excess of the required amount are transferred out.

Deferred Revenue
Deferred revenue represents TSR related to the year ended December 31, 2012, but does not meet the definition of available for use based on when it is received in the subsequent year.

Income Taxes
The Corporation is a not-for-profit local development corporation under Section 1411 of New York State not-for-profit corporation law and is exempt from federal income taxes and New York state taxes. Accordingly, no income tax provision has been made.

Estimates
The preparation of financial statements in conformity 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, the disclosure of contingent assets and liabilities at 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.

Newly Adopted Accounting Standards
During the year ended December 31, 2012, the Corporation adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The primary impact on the Corporation's financial statements for the year then ended was to change the terminology previously used of "net assets" to "net position" throughout the financial statements and related footnotes.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Newly Adopted Accounting Standards (Continued)
During the year ended December 31, 2012, the Corporation elected to early implement GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The impact on the Corporation's financial statements for the year then ended is to no longer recognize bond issuance costs net of accumulated amortization as an asset. The balance of $101,271 at December 31, 2011, is no longer presented as an asset in the Statement of Net Position and is reflected as an accounting change reduction of net position in the Statement of Activities.

2. CASH AND INVESTMENTS

Credit Risk
The Corporation's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. The Corporation's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Obligations of the United States of America;
- Obligations guaranteed by the United States of America where payment of principal and interest are guaranteed by the United States of America;
- Obligations of the State of New York;
- Special time deposit accounts;
- Certificates of Deposit;
- Commercial Paper;
- Repurchase agreements limited to obligations of the United States of America, or obligations whose principal and interest are fully guaranteed, or insured by the United States of America. The term of each agreement shall generally not exceed 180 days. The agreement shall be confirmed in writing by the seller, and each security purchased under the agreement shall be specifically identified; segregated from the assets of the seller and delivered for safekeeping into an account designated and controlled by the Corporation. Also, each seller shall enter into a Master Repurchase Agreement with the Corporation which shall specify the rights and obligations of the Corporation and the Seller in all transactions;
- Obligations of public authorities, public housing authorities, urban renewal agencies, and industrial development agencies where the general State statutes governing such entities or whose specific enabling legislation authorizes such investments;
- Obligations issued pursuant to New York State Local Finance Law Section 24.00 and 25.00 (with approval of the New York State Comptroller) by any municipality, school district or district corporation other than the Corporation.

2. CASH AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk - deposits is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Corporation's investment policy, all deposits of the Corporation including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIA) shall be secured by a pledge of securities with an aggregate value equal to the aggregate amount of deposits.

As of December 31, 2012, the carrying amount of the Corporation's cash was $34,097 and was fully covered by Federal Depository Insurance Coverage (FDIC).

Custodial Credit Risk - Investments

Custodial credit risk - investments is the risk that an entity will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails. The Corporation's investment and deposit policy requires that all custodial investments be registered or insured in the Corporation's name and held in the custody of the bank or the bank's trust department. The Corporation requires that all repurchase agreements be limited to obligations of the United States of America or obligations whose principal and interest are fully guaranteed, or insured by the United States of America. As of December 31, 2012, the Corporation's investments consisted of money market funds and were in compliance with the investment policy.

Concentration of Credit Risk

The Corporation places no limit on the amount that may be invested in any one issuer. At December 31, 2012, all cash balances were held in one bank; all investment balances were held in a different bank.

3. BONDS PAYABLE

On August 8, 2001, the Corporation issued $5,540,000 of variable rate bonds. These bonds are part of the $215,220,000 New York Counties Tobacco Trust II, Tobacco Settlement Pass-Through Bonds, Series 2001. The debt service payments include serial bond principal and super sinking payments and are payable solely from pledged tobacco settlement revenue and investment earnings on amounts on deposit.

According to the terms of the required amortization payments, the Corporation is required to make annual debt service payments through 2043, with interest ranging from 5% to 6%. Under the terms of the flexible amortization payments, the Corporation can make debt service payments that allows for increased payments and a final maturity of June 1, 2025 for the Super Sinker Payments. The flexible amortization payments are dependent upon the extent of actual collections from the TSR payments and availability of funds.

3. BONDS PAYABLE (Continued)

The Corporation's required amortization payments at December 31, 2012, on the Series 2001 Bonds are as follows:

	Principal	Interest
2013	200,000	222,266
2014	210,000	210,675
2015	225,000	198,306
2016	230,000	185,294
2017	245,000	171,822
2018-2022	1,715,000	592,897
2023-2025	1,340,000	97,175
Total	$ 4,165,000	$ 1,678,435

The Corporation's flexible amortization payments at December 31, 2012, are as follows:

	Principal	Interest
2013	45,000	231,991
2014	50,000	229,484
2015	55,000	226,699
2016	60,000	223,636
2017	-	225,307
2018-2022	-	1,101,468
2023-2027	410,000	1,083,922
2028-2032	885,000	887,301
2033-2037	965,000	640,272
2037-2042	1,365,000	330,858
2043	330,000	18,381
Total	$ 4,165,000	$ 5,199,317

For 2012, the Corporation made debt service payments of $375,856; $240,856 of the total was for interest and $90,000 of this total was applied in accordance with the Super Sinker provision of the bond agreement based on the available TSR funding.

On November 29, 2005, the Corporation issued $37,750,000 capital appreciation bonds. These bonds are the Corporation's portion of the $199,375,348 New York Counties Tobacco Trust V, Tobacco Settlement Pass-Through Bonds, Series 2005. The debt is payable solely from pledged tobacco settlement revenue and investment earnings on amounts on deposit. This debt is subordinate to bonds the Corporation has previously issued (Series 2001 bonds).

On December 1, 2009 a principal and interest redemption payment of $221,639 was applied to the capital appreciation bonds Series 2005 S1 bonds as a result of termination of the trapping event which had occurred in previous years. The maturity value of the $174,900 principal portion of the redemption payment was $1,195,000; therefore the maturity value of the Corporation's Series 2005 bonds due is now $36,555,000.

3. BONDS PAYABLE (Continued)

The Corporation's required amortization payments at December 31, 2012, on the Series 2005 Bonds are as follows:

	Present Value of Principal	Accreted Interest	Face Value of Bond
S1 - final maturity 6/1/2038, int at 6.00%	$ 529,092	$ 3,085,908	$ 3,615,000
S2 - final maturity 6/1/2050, int at 6.10%	466,102	6,293,898	6,760,000
S3 - final maturity 6/1/2055, int at 6.85%	291,453	7,888,547	8,180,000
S4A - final maturity 6/1/2060, int at 7.15%	390,960	17,609,040	18,000,000
Total	$ 1,677,607	$ 34,877,393	$ 36,555,000

Depending on the extent of actual collections from the TSR payments and availability of funds, the Corporation has covenanted to make debt service payments in accordance with a Turbo Redemption Payments schedule that allows for increased payments and a final maturity of June 1, 2031.

The Corporation's future Turbo Redemption Payments on the Series 2005 bonds are as follows:

2005 Series - Turbo Redemption

	Present Value of Principal	Interest	Total
2015-2019	$ 223,931	$ 368,297	$ 592,228
2020-2024	476,157	796,259	1,272,416
2025-2029	788,555	2,428,731	3,217,286
2030-2031	188,964	899,322	1,088,286
Total	$ 1,677,607	$ 4,492,609	$ 6,170,216

A summary of changes in bonds payable for the year ended December 31, 2012, is as follows:

	Balance at December 31, 2011	Additions	Payments	Balance at December 31, 2012	Due Within One Year
Bonds payable - 2001	$ 4,300,000	$ -	$ (135,000)	$ 4,165,000	$ 370,000
Bonds payable - 2005	1,677,607			1,677,607	
Accreted interest - 2005 bonds	880,085	74,047	-	954,132	-
Total	$ 6,857,692	$ 74,047	$ (135,000)	$ 6,796,739	$ 370,000

4. RELATED PARTY TRANSACTIONS

The Purchase and Sale Agreement between the Corporation and the County sets forth the terms and conditions of the sale and purchase of the TSR. In addition there is an Administrative Services Agreement that provides for separate consideration to retain the County to act as Administrator to supervise and manage certain aspects of the Corporation. During 2012, the County provided administrative services, but did not seek reimbursement from the Corporation.

5. ECONOMIC DEPENDENCY

The Corporation has purchased the rights to receive TSR from the County. 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 this revenue stream from the tobacco manufacturers.

6. CONTINGENCY

The assets of the Corporation are not available to pay any creditor of the County. The Series 2001 and Series 2005 bonds issued by the Corporation do not constitute a claim against the full faith, credit and taxing power of the General Fund of the County of Warren, New York. The ability of the Corporation to meet debt service payments of bonds is contingent upon the receipt of TSR. These future revenues are subject to adjustment based on tobacco consumption, inflation, and other factors in accordance with the Master Settlement Agreement.

7. ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET IMPLEMENTED

In March 2012, the GASB issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62.* This Statement improves accounting and financial reporting by clarifying guidance regarding risk financing, operating lease payments, and accounting for loans. The Corporation is required to adopt the provisions of Statement No. 66 for the year ending December 31, 2013.

In June 2012, the GASB issued Statements No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25, and No. 68 Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.* The objective of Statement No. 67 is to improve financial reporting by state and local governmental pension plans. Statement No. 67 replaces the requirements of Statements No. 25 and No. 50 as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. Statement No. 68 establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of Statement No. 68, as well as for non-employer governments that have a legal obligation to contribute to those plans. The Corporation is required to adopt the provisions of these Statements for the year ending December 31, 2014, with early adoption encouraged.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The term *government combinations* include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The Corporation is required to adopt the provisions of this Statement for the year ending December 31, 2014. A prospective basis should be applied and early adoption is encouraged. The Corporation has not yet assessed the impact of these statements on its future financial statements.

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S 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*

March 26, 2013

To the Board of Directors of the
Warren Tobacco Asset Securitization Corporation:

We have audited, 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, the financial statements of the governmental activities and the major fund of the Warren Tobacco Asset Securitization Corporation as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Warren Tobacco Asset Securitization Corporation's basic financial statements, and have issued our report thereon dated March 26, 2013.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered Warren 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Warren Tobacco Asset Securitization Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Warren 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 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.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Warren 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 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 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 Warren Tobacco Asset Securitization Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bonadio & Co., LLP