ULSTER TOBACCO ASSET SECURITIZATION CORPORATION

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

Basic Financial Statements

For the year ended December 31, 2011

(With Independent Auditors' Report Thereon)

ULSTER TOBACCO ASSET
SECURITIZATION CORPORATION

Basic Financial Statements and Required Supplementary Information

For the year ended December 31, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Ulster Tobacco Asset Securitization Corporation:

We have audited the accompanying financial statements of the governmental activities and the major fund of the Ulster Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of the County of Ulster (the County), as of and for the year ended December 31, 2011, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Ulster Tobacco Asset Securitization Corporation as of December 31, 2011, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 13, 2012, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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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.

Toski & Co., CPAs, P.C.

Williamsville, New York
February 13, 2012

Required Supplementary Information-Management's Discussion and Analysis

Our discussion and analysis of the Ulster Tobacco Asset Securitization Corporation's (the Corporation) financial performance provides an overview of the Corporation's financial activities for the fiscal year ended December 31, 2011.

Financial Highlights

- The Corporation had a net asset (deficit) of $(39.096) million at year end.
- During the year, the Corporation had general revenues of $2.226 million, which included approximately $2.060 million in tobacco settlement revenues (TSRs) and approximately $152 thousand in interest income earned on investments.
- The total cost of all the Corporation's operations was $2.947 million, which includes $2.876 million for interest on the Corporation's outstanding bonds payable and $35 thousand for general administration expenses.
- The Corporation's total debt outstanding at year end was $44.896 million of bonds payable.

Using This Annual Report

This annual report consists of four financial statements presented on two pages. The first two financial statements are the Governmental Funds Balance Sheet/Statement of Net Assets (Deficit) found on page 6. The final two financial statements are the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities (fund financial statements) found on page 7.

The Statement of Net Assets (Deficit) and the Statement of Activities provides information about the activities of the Corporation as a whole and presents a long-term view of the Corporation's finances by focusing on the total available resources and changes therein. The fund's financial statements tell how the operations were financed in the short-term, as well as what remains for future spending. The Corporation has only one fund, a debt service fund. The debt service fund is used to account for the accumulation of resources to pay for future debt service.

For the Corporation, the change in the focus between current spendable resources and total available resources is identified in the adjustment columns found on each of the financial statements as noted above. To arrive at the statement of net assets (deficit), the accrued interest expense on the Corporation's bonds, the outstanding balance of bonds payable and certain other adjustments are added to the total column on the Governmental Fund Balance Sheet. This is displayed in the Adjustments Column to the left of the Statement of Net Assets (Deficit). To arrive at the Statement of Activities, transactions that have no effect on the Corporation's net assets (deficit) are eliminated from the Statement of Revenues, Expenditures and Changes in Fund Balances. For the Corporation, transactions not affecting its reported net assets (deficit) are payments of debt service-principal and the non-amortized portion of bond issuance costs and bond premiums. Accounts relating to the aforementioned transactions are displayed in the Adjustments Column to the left of the Statement of Activities.

Reporting the Corporation as a Whole

The Statement of Net Assets (Deficit) and the Statement of Activities
These two statements report the Corporation's net assets (deficit) and changes in them. Annual changes in the Corporation's net assets (deficit)—the difference between assets and liabilities—is the way to measure the Corporation's financial health, or financial position. Over time, increases or decreases in the Corporation's net assets (deficit) are one indicator of whether its financial health is improving or deteriorating. As the Corporation is entirely dependent on tobacco settlement revenues, in evaluating the financial health of the Corporation, the reader will also need to consider the likelihood that the amount of payments from the primary tobacco manufacturers will continue to support the debt service on the Corporation's bonds as well as operating expenses.

The Corporation will annually report a deficit in its net assets (deficit). The deficit in the Corporation's net assets (deficit) arose as it carried out its statutory purpose of acting as a facilitator for the issuance of debt to finance the purchase of all right, title and interest in Ulster County's future revenues under the Master Settlement Agreement for future Tobacco Settlement Revenues. This debt will be repaid from amounts expected to be received from primary tobacco manufacturers in subsequent years. The unrestricted net asset (deficit) can be expected to continue until the outstanding debt is retired.

The Corporation had total assets of $6.387 million and total liabilities of $45.483 million at the end of the year. Unrestricted net assets (deficit)—the part of net assets (deficit) that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—was a net asset (deficit) of $(41.778) million at the end of this year. In addition, there were restricted net assets in the amount of $2.682 million.

As the Corporation completed the year, its debt service fund (as presented in the governmental fund balance sheet on page 6) reported a combined fund balance of $2.821 million.

During the year the Corporation received TSRs of $2.060 million for its administrative costs and to provide funds for the payment of debt service on its outstanding bonds payable. The Corporation earned $152 thousand in interest income on investments, which was collectively used to fund $35 thousand in general administrative expenses.

Reporting the Corporation's Fund

Fund Financial Statements
The fund financial statements provide detailed information about its debt service fund. The fund financial statements are prepared using a different approach than the Corporation-wide financial statements. The Corporation's expenditures are reported in its governmental fund, which focuses on how money flows into and out of this fund and the balance left at year-end that is available for spending. This fund is reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The debt service fund statements provide a detailed short-term view (less than one year) of the Corporation's operations.

Investments
During the year the Corporation invested in short-term United States Treasury obligations, including treasury bills and notes. In addition, the Corporation also invested in short-term commercial paper.

Debt
In 2001, the Corporation was authorized to issue up to $28.352 million of debt. The Series 2001 Bonds consist of the Series 2001 Convertible Capital Appreciation Bonds (CABs) in the amount of $6.397 million (with $2.977 million in Capital Appreciation that is recognized by the Corporation over a period of 10 years) and the Series 2001 Current Interest Bonds in the amount of $21.955 million. The Series 2001 Bonds were issued at a net original issue premium of $583 thousand and the Corporation paid issuance costs of $1.069 million. In 2005, the Corporation was authorized to issue an additional $15.852 million of debt. The County participated in the New York Counties Tobacco Trust V (NYCTT V) to facilitate this transaction. These bonds consist of Series 2005 S1 Subordinate Turbo CABs in the amount of $5.486 million, Series 2005 S2 Subordinate Turbo CABs in the amount of $3.127 million, Series 2005 S3 Subordinate Turbo CABs in the amount of $1.736 million and Series 2005 S4B Subordinate CABs in the amount of $5.503 million. At year end the Corporation had $44.896 million in bonds outstanding, including the accretion on Capital Appreciation Bonds through December 31, 2011.

Significant Events

During 2011 a Consumption Decline Trapping Event occurred. This means that shipments of cigarettes in or to the 50 United States, the District of Columbia and Puerto Rico as measured under the MSA, are less in any year preceding a Deposit Date than the amount opposite such year under the "Consumption Decline Trapping Event" definition. According to the MSA Report, the amount shown as relevant shipments was less, and therefore a Consumption Decline Trapping Event has occurred. The trapping requirement for this event as of December 31, 2011 is $7.744 million. As of year end this trapping requirement was funded at $1,380.

Contacting The Corporation's Financial Management
This financial report is designed to provide our citizens, taxpayers, customers, 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 any questions about this report or need additional financial information, contact the Ulster County Department of Finance at the Ulster County Office Building, 4th Floor, Kingston, New York 12402.

ULSTER TOBACCO ASSET
SECURITIZATION CORPORATION

Governmental Funds Balance Sheet / Statement of Net Assets (Deficit)

Decemaber 31, 2011

		Debt Service Fund	Adjustments (Note 8)	Governmental Activities Statement of Net Assets (Deficit)
Assets				
Cash and cash equivalents	$	181,221	-	181,221
Accounts receivable		-	2,361,356	2,361,356
Prepaid expenses		-	-	-
Investments		2,639,646	-	2,639,646
Capitalized bond issuance costs		-	874,868	874,868
Capitalized bond issuance dicount		-	330,294	330,294
Total assets	$	2,820,867	3,566,518	6,387,385
Liabilities				
Due to other funds, general fund		-	-	-
Accrued interest		-	165,864	165,864
Deferred bond premium		-	420,778	420,778
Bonds payable (net of accreted capital appreciation)		-	44,896,489	44,896,489
Total liabilities		-	45,483,131	45,483,131
Fund Balances / Net Assets (Deficit)				
Reserved for debt service		2,720,508	(2,720,508)	-
Unreserved		100,359	(100,359)	-
Total fund balances		2,820,867	(2,820,867)	-
Total liabilities and fund balances	$	2,820,867		
Net assets (deficit):				
Restricted for debt service			2,681,092	2,681,092
Restricted for trapping			1,380	1,380
Unrestricted (deficit)			(41,778,218)	(41,778,218)
Total net assets (deficit)			$ (39,095,746)	(39,095,746)

See accompanying notes to financial statements.

ULSTER TOBACCO ASSET SECURITIZATION CORPORATION

Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance / Statement of Activities

For the year ended December 31, 2011

		Debt Service Fund	Adjustments (Note 9)	Governmental Activities Statement of Activities
General revenues:				
Tobacco settlement revenues	$	2,298,424	(238,644)	2,059,780
Interest income		151,690	-	151,690
Realized premium on debt obligations		-	14,574	14,574
Total general revenues		2,450,114	(224,070)	2,226,044
Expenditures / Expenses:				
General administration		35,300	-	35,300
Bond issuance costs		-	35,505	35,505
Debt service - principal		355,000	(355,000)	-
Debt service - interest		1,989,736	886,192	2,875,928
Total expenditures / expenses		2,380,036	566,697	2,946,733
Excess (deficiency) of revenues over expenditures / expenses		70,078	(790,767)	(720,689)
Change in net assets (deficit)		70,078	(790,767)	(720,689)
Fund balances / net assets (deficit):				
Beginning of year		2,750,789	(41,125,846)	(38,375,057)
End of year	$	2,820,867	(41,916,613)	(39,095,746)

See accompanying notes to financial statements.

(1) Organization

The Ulster Tobacco Asset Securitization Corporation (the Corporation) is a special purpose, bankruptcy-remote local development corporation organized under the Not-For-Profit Corporation Law of the State of New York (the State). The Corporation was established on January 12, 2001, however there were no substantive operations until February 1, 2001 as discussed herein. The Corporation is an instrumentality of, but separate and apart from the County of Ulster, New York (the County). The Corporation has a board of directors comprised of nine directors, all but one of whom shall be one or more of the following: an employee of the County, an elected official of the County or a member of the County legislature; and one director who shall be independent. Although legally separate from the County, the Corporation is a component unit of the County and, accordingly, is included in the County's financial statements as a blended component unit.

On February 1, 2001, pursuant to a Purchase and Sale Agreement with the County, the County sold to the Corporation all of its future right, title and interest (that the market would allow) in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgment (the Decree). On November 29, 2005, the County participated in the New York Counties Tobacco Trust V (NYCTT V) whereby the County sold all of its future right, title and interest (that the present market would allow) in the TSRs under the MSA. The MSA resolved cigarette smoking-related litigation between the settling states and the Participating Manufacturers (PMs), released the PMs from past and present smoking-related claims, and provides for a continuing release of future smoking-related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future right, title and interest of the County's share were sold to the Corporation.

The purchase price of the County's future right, title and interest in the TSRs has been financed by the issuance of serial bonds. Excess TSRs not required by the Corporation to pay various expenses, debt service or required reserves with respect to the bonds are transferred to the Ulster Tobacco Asset Securitization Corporation Residual Trust (the Trust), as owner of the Residual Certificate. The County is the beneficial owner of the Trust and thus the funds received by the Trust will ultimately transfer to the County. A Residual Certificate exists which represents the entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses and certain other costs as set forth in the indenture. Payments on the Residual Certificate from TSR collections are subordinate to payments on the bonds and payment of certain other costs specified in the indenture.

There were no TSRs transferred to the Trust to pass onto the County for the period January 1, 2011 through December 31, 2011.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The Corporation has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America. The Corporation has prepared corporation-wide financial statements titled "Statement of Net Assets (Deficit)" and "Statement of Activities" as well as the required supplementary information titled "Management's Discussion and Analysis" which precedes the financial statements. The Corporation also prepares the fund financial statements, which are the "Governmental Fund Balance Sheet," and "Statements of Revenues, Expenditures and Changes in Fund Balance." The basic financial statements include both the corporation-wide and the fund financial statements.

The Corporation follows the principles of fund accounting in that each segment of operations is represented under a discrete fund presentation in the fund financial statements. The Corporation uses one governmental fund type to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions and activities. The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on long-term debt and supports the operations of the Corporation.

The Collection Account within the Debt Service Fund will be used to deposit all Collections (excluding certain investment earnings). Funds on deposit in the Collection Account will be transferred to various other accounts under the Indenture. The Debt Service Account within the Debt Service Fund will be used to deposit amounts transferred from the Collection Account in respect of interest and principal payments and from which the Trustee will make payments on the bonds in accordance with the priority of payments. The Corporation is required to maintain a balance of, to the extent of available funds, equal to the lesser of: (i) 125% of the average annual Debt Service on the Bonds of each Series of Bonds of which one or more Bonds remain Outstanding Bonds, measured as of their respective dates of original issuance; or (ii) the maximum amount that may be held in the Liquidity Reserve Account, in the opinion of Counsel, without adversely affecting the tax-exempt status of the Series 2001 Bonds and any other subsequently issued debt. The Extraordinary Payment Account within the Debt Service Fund will be used to deposit, following the occurrence of any Event of Default, Collections after the payment of certain expenses. The Trustee will make interest payments, Extraordinary Payments and various other payments related to the Bonds.

The Trapping Account within the Debt Service Fund will be funded from Collections at the amount necessary to make the amount in the Trapping Account equal to the sum of (i) the Trapping Requirement during the existence of a Trapping Event and (ii) the Lump Sum Payment Requirement as a result of a Lump Sum Payment Event. During 2011 a Consumption Decline Trapping Event occurred. The trapping requirement as of December 31, 2011 is $7.44 million and the amount funded is $1,380. See significant events for further details.

For further information regarding the above accounts, events, and requirements refer to the Corporation's Tobacco Settlement Asset-Backed Bonds, Series 2001 Resolution dated February 8, 2001.

(b) Measurement Focus and Basis of Accounting

The Corporation follows the modified accrual basis of accounting in its debt service fund, which focuses on changes in available resources, in preparation of the fund financial statements. Under the modified accrual basis of accounting, revenues and related receivables are recorded in the accounting period that they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (ninety days or less). Expenditures and related liabilities are recognized in the accounting period the liability is due and payable.

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

The Corporation utilizes the full accrual basis of accounting, which focuses on changes in total economic resources, in preparation of the corporation-wide financial statements. Under the full accrual basis of accounting changes in long-term assets and liabilities are incorporated into the financial statements. Since the fund financial statements are prepared on a different measurement focus and basis of accounting than the corporation-wide financial statements, an adjustments column is presented to transform the fund based financial statements into the corporation-wide financial statements.

(c) Cash and Cash Equivalents

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

(d) Interest

The Corporation recognizes all interest paid as interest expenditures on a cash (modified accrual) basis for the revenue, expenditures and changes in fund balance statement and as expensed on the full accrual basis for the statement of activities.

(e) Amortized Bond Premiums and Bond Issuance Costs

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

(f) Investments

The Corporation considers all debt instruments with original maturities of more than three months to be investments. The Corporation reports its investments with an original maturity of greater than one year at quoted market price (fair value) and reports investments with an original maturity of one year or less at cost.

(g) Use of Estimates

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

(h) Subsequent Events

The Corporation has evaluated events after December 31, 2011, and through February 15, 2012, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(i) Tax Status

The Corporation received a determination letter dated January 3, 2003, finding the Corporation exempt from federal income tax under section 501(a) of the Internal Revenue Code (IRC) as an organization described in section 501(c)(3).

(3) Cash and Cash Equivalents

At December 31, 2011, total cash and cash equivalents of $181 thousand consist primarily of short-term U.S. Government guaranteed securities held by the Corporation's agent in the Corporation's name. At year end the carrying amount of deposits for the Corporation was

$181 thousand and the bank balance was $184 thousand. Of the bank balance, $184 thousand was covered by federal depository insurance.

(4) Investments

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, including: commercial or finance company paper rated "P-1" by Moody's; special time deposit accounts; certificates of deposit; obligations of the United States of America; obligations guaranteed by agencies of the United States of America; obligations of the State of New York; obligations issued pursuant to LFL Sect. 24.00 or 25.00 (with approval of the State Comptroller) by any municipality, school district or district corporation other than the County of Ulster; 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; and repurchase agreements limited to obligations of the United States of America and obligations guaranteed by agencies of the United States of America.

All deposits of the Corporation, including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act are secured.

All investments are insured, registered, or held by the Corporation's trustee in the Corporation's name. The following table represents investments of the Corporation by investment type with related reported amounts, which equals fair value (excluding accrued interest), at December 31, 2011:

		(Fair Value)	Cost
U.S. government sponsored enterprises	$	2,639,646	2,639,646

(5) Bonds Payable

As discussed in note 1, the purchase price of the County's future right, title and interest in the TSRs, was financed through the issuance of Series 2001 Bonds in the amount of $31.330 million bearing interest at rates ranging from 5.950% to 6.262% and Series 2005 NYCTT V Bonds in the amount of $15.852 million bearing interest rates ranging from 6.00% to 7.85%. The Series 2001 Bonds consist of the Series 2001 Convertible Capital Appreciation Bonds in the amount of $6.397 million (with $2.978 million in Capital Appreciation that is recognized by the Corporation over a period of 10 years) and the Series 2001 Current Interest Bonds in the amount of $21.955 million. At December 31, 2011, Series 2001 bonds outstanding total $30.975 million. At December 31, 2011, the Series 2005 NYCTT V bonds consist of the Series 2005 S2 Subordinate Turbo CABs, the Series 2005 S3 Subordinate Turbo CABs and the Series 2005 S4B Subordinate CABs totaling $13.921 million, net of capital appreciation and payment of principal and interest.

The Bonds are secured by a perfected security interest in, and pledge of, the Trust Estate, as defined in the indenture, which includes, among other things, the TSRs and all investment earnings on amounts on deposit in the accounts established under the indenture. The Corporation retains TSRs in an amount sufficient to service its debt, not otherwise provided for from bond proceeds, and pay its operating expenses, and remits the remaining balance to the Trust (see note 1).

Principal and interest debt service requirements for required maturities and flexible amortization payments at December 31, 2011 for the Series 2001 Bonds are as follows:

Year ended December 31:		Required maturities			Flexible amortization payments		
		Principal	Interest	Total	Principal	Interest	Total
2012	$	-	2,001,005	2,001,005	745,000	1,933,174	2,678,174
2013		-	2,001,006	2,001,006	805,000	1,882,473	2,687,473
2014		420,000	1,987,344	2,407,344	885,000	1,827,186	2,712,186
2015		470,000	1,958,380	2,428,380	965,000	1,766,649	2,731,649
2016		530,000	1,925,819	2,455,819	1,055,000	1,700,549	2,755,549
2017-2021		4,535,000	8,874,508	13,409,508	7,750,000	7,130,892	14,880,892
2022-2026		6,430,000	7,019,233	13,449,233	8,290,000	4,445,329	12,735,329
2027-2031		6,880,000	4,798,114	11,678,114	10,480,000	1,613,569	12,093,569
2032-2036		6,805,000	2,653,835	9,458,835	-	-	-
2037-2040		5,260,000	657,378	5,917,378	-	-	-
Debt service payable	$	31,330,000	33,876,622	65,206,622	30,975,000	22,299,821	53,274,821

Required maturities for these bonds represent the minimum amount of principal that the Corporation must pay as of the specific distribution dates in order to avoid a default. The flexible amortization payments represent the amount of principal that the Corporation has covenanted to pay to the extent of available TSRs collected. The Corporation paid $355 thousand in principal payments in 2011.

The Corporation had a liquidity reserve in the amount of $2.681 million to fund debt service payments if needed, at December 31, 2011.

With the exception of the Series 2001 Convertible Capital Appreciation Bonds with the June 1, 2040 Maturity Date, the Series 2001 Bonds may be called for redemption at prices ranging from 101% of the principal amount, for the period from June 11, 2011 until May 31, 2012, to 100% for the period from June 1, 2012 and thereafter. The Series 2001 Convertible Captial Appreciation Bonds with the June 1, 2040 Maturity Date may be called for redemption at prices ranging from 101% of the principal amount, for the period from June 1, 2017 until May 31, 2018, to 100% for the period from June 1, 2018 and thereafter.

During the course of 2011, there were no payments of principal and accreted interest on the Series 2005 NYCTT V Bonds.

The remaining projected debt service requirements including principal of $13.921 million, capital appreciation and interest for the Series 2005 NYCTT V Bonds are now to be paid starting in June 1, 2018 and maturing on June 1, 2039 totaling $57.383 million as follows:

Year ended December 31:		Principal & Interest
2012	$	-
2013		-
2014		-
2015		-
2016		-
2017-2021		4,377,340
2022-2026		6,006,920
2027-2031		14,243,725
2032-2036		21,196,838
2037-2039		11,558,388
Debt service payable	$	57,383,211

(6) Transactions with Ulster County

In addition to setting forth the terms and conditions of the sale and purchase of the TSRs, the Purchase and Sale Agreement also provides for separate consideration to retain the County to act as administrator with respect to the preparation of all reports and other instruments and documents that it is the duty of the Corporation to prepare, execute, file or deliver pursuant to the indenture and the related agreements.

The Corporation uses office space and telephone services from the County, and shares overhead and operating services and expenses with the County (including employees, consultants and agents). The Contract provides for payments to the County on the basis of actual use or value of such services, or on a basis reasonably related thereto. For the year ended December 31, 2011, the Corporation paid $6 thousand for services rendered by Ulster County.

(7) Contingencies

Future Tobacco Settlement Revenues are subject to adjustment based upon tobacco consumption, inflation and other potential reductions. Pursuant to the Purchase and Sale

Agreement these adjustments, and other events, could trigger additional debt service reserve requirements.

(8) Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Statement of Net Assets (Deficit)

Long-term liabilities of the Corporation's activities are not due and payable in the current period and, therefore, are not reported as fund liabilities. In addition, certain items are fully expensed in the governmental fund statements, but amortized over a period of time in the Statement of Net Assets (Deficit). All assets and liabilities – both current and long-term – are reported in the Statement of Net Assets (Deficit). The adjustments required to the reported governmental funds asset and liabilities to arrive at the Statement of Net Assets (Deficit) are as follows:

Total fund balances-debt service fund	$	2,820,867
Accounts receivable		2,361,356
Capitalized bond issuance costs		874,868
Capitalized bond discount		330,294
Accrued interest expense		(165,864)
Deferred bond premium		(420,778)
Bonds payable (net of accreted capital appreciation)		(44,896,489)
Total net assets (deficit)-governmental activities	$	(39,095,746)

(9) Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Statement of Activities

Repayment of bond principal is reported as an expenditure in governmental funds and therefore contributes to the change in fund balance. In the Statement of Net Assets (Deficit), however, repaying bond principal decreases long-term liabilities and does not affect the statement of activities. Similarly, recognition of revenues not expected to be received in the current year and expenditures not due and payable will not affect the fund balance reported for the governmental funds. In the Statement of Activities prepared on the full accrual basis, however, all revenues and expenses are recognized in the year they are earned or incurred regardless of when they are paid and will therefore be reflected in the Statement of Activities. These differences in measurement recognition affect both the reported fund balance and reported net assets. The adjustments required to the reported governmental funds revenues and expenditures to arrive at the Statement of Activities are as follows:

ULSTER TOBACCO ASSET SECURITIZATION CORPORATION

Notes to Financial Statements

For the year ended December 31, 2011

Change in net assets (deficit)-debt service fund	$	70,078
Tobacco settlement revenues		(238,644)
Realized premium on debt obligations		14,574
Bond issuance costs		(35,505)
Debt service-principal		355,000
Debt service-interest		(886,192)
Change in net assets (deficit) of governmental activities		(720,689)

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS, INCLUDING COMPLIANCE WITH INVESTMENT GUIDELINES, BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Ulster Tobacco Asset Securitization Corporation:

We have audited the financial statements of the governmental activities and the major fund of the Ulster Tobacco Asset Securitization Corporation (the Corporation), a blended component unit of the County of Ulster, New York, (the County), as of and for the year ended December 31, 2011, which collectively comprise the Corporation's basic financial statements and have issued our independent auditors' report dated February 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including compliance with investment guidelines for public authorities and the Corporation's investment guidelines, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the Corporation in a separate letter dated February 13, 2012.

This report is intended solely for the information and use of management and members of the Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Toski & Co., CPAs, P.C.

Williamsville, New York
February 13, 2012