MONROE TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Monroe, New York)

Basic Financial Statements
as of December 31, 2013 and 2012
Together with
Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Monroe, New York)

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Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

March 13, 2014

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of Monroe Tobacco Asset Securitization Corporation, (MTASC), a blended component unit of the County of Monroe, New York, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise MTASC'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 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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(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 major fund of MTASC, as of December 31, 2013 and 2012, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 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 13, 2014 on our consideration of MTASC'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 MTASC's internal control over financial reporting and compliance.

Bonadio & Co., LLP

The following Management's Discussion and Analysis (MD&A) provides a comprehensive overview of the Monroe Tobacco Asset Securitization Corporation's (MTASC) financial position as of December 31, 2013 and 2012 and its changes in financial position for the years then ended. This MD&A should be read in conjunction with the financial statements and related footnotes of MTASC, which directly follow the MD&A.

General Overview
MTASC is a special purpose, bankruptcy remote local development corporation organized under the Not-For-Profit Corporation Laws of the State of New York (the State). MTASC was established on May 11, 2000; however, there were no substantive operations until August 15, 2000. MTASC is an instrumentality of, but separate and apart from the County of Monroe, New York (the County). Pursuant to a Purchase and Sale Agreement with the County, the County sold to MTASC all of its future rights, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgment (the Decree). The MSA resolved cigarette smoking related litigation between the settling states and the Participating Manufacturers (PMs), released the PMs from past and present smoking related claims, and provided for a continuing release from future smoking related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future rights, title and interest of the County's share were sold to MTASC and were financed by the issuance of bonds.

Overview of the Financial Statements
The financial statements of MTASC have been prepared in accordance with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board. The financial statement presentation consists of the following four basic financial statements:

- Statement of Net Position
- Statement of Activities and Change in Net Position
- Governmental Fund Balance Sheet
- Statement of Governmental Fund Revenues, Expenditures, and Change in Fund Balance

The Statement of Net Position and the Statement of Activities and Change in Net Position are prepared using the economic resource measurement focus and the accrual basis of accounting. Revenues, expenses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, assets and liabilities resulting from non-exchange transactions are recognized when the amounts to be received are measurable and collection is probable. The Governmental Fund Balance Sheet and the Statement of Governmental Fund Revenues, Expenditures and Change in Fund Balance are presented using the current financial resources measurement focus and the modified accrual basis of accounting. These policies are more fully described in the accompanying notes to the basic financial statements.

The Statement of Net Position presents all of MTASC's asset and liability information, with the difference between the two reported as net position. Restricted net position is based on externally imposed conditions and consists of funds in the debt service and liquidity reserve accounts. These accounts were established to provide for debt service payments for at least one year in the event of insufficient revenues. All other net position is considered unrestricted.

Overview of the Financial Statements (Continued)
The Statement of Activities and Change in Net Position presents all of MTASC's revenues, both program and general, expenses, and transfers.

The Governmental Fund Balance Sheet presents MTASC's assets, liabilities and fund balance. This statement uses the debt service fund, a governmental fund type, to report its financial position.

The Statement of Governmental Fund Revenues, Expenditures, and Change in Fund Balance presents the changes in financial position of the debt service fund.

Financial Highlights
MTASC reported liabilities in excess of assets of $233.23 million as of December 31, 2013. MTASC's net position decreased by $4.5 million from the prior year, caused by the increase in interest payable for the Capital Appreciation Bonds. MTASC reported liabilities in excess of assets of $228.74 million as of December 31, 2012. This also was a decrease in net position of $4.5 million from the prior year.

MTASC made the 2013 debt service payments along with a Turbo (principal) payment towards the Series 2005B Bonds with the TSR's received. There were no new debt obligations issued in 2012.

Condensed
Statement of Net Position
(In millions)

	2013	2012 (as restated)	2011
Total assets	$ 23.51	$ 23.81	$ 27.81
Bonds payable	255.90	251.71	247.38
Other liabilities	0.84	0.84	0.85
Total liabilities	256.74	252.55	248.23
Net position	$ (233.23)	$ (228.74)	$ (220.42)

Total Assets
The total assets decreased from 2012 to 2013 ($23.8 million and $23.5 million, respectively). The decrease in total assets from 2012 to 2013 was primarily due to a decrease in restricted funds of $0.3 million. This is a result of closing two obsolete restricted fund accounts and applying the proceeds to debt service. The total assets decreased from 2011 to 2012 by $4 million, $27.81 million and $23.81 million, respectively. This decrease was due to the write-off of debt issuance costs in accordance with the Governmental Accounting Standards Board Statement No. 65 (see Note 3). The impact of this write-off was not restated to the 2011 columns within this MD&A. Instead, the 2011 debt issuance costs remain reported as assets, with any change between years resulting from this change explained in narrative form.

Total Liabilities
The total liabilities increased by $4.2 million from 2012 to 2013. This increase is due to the value of the capital appreciation bonds (Series 2005 D,E & F) increasing by $5.1 million, offset by a Turbo payment of $0.9 million made towards the Series 2005 B bonds . The increase in total liabilities from 2011 to 2012 of $4.3 million was due to the increase of the capital appreciation bonds (Series 2005 D,E & F) increasing by approximately $4.8 million, offset by a Turbo payment of approximately $0.5 million made towards the Series 2005 B bonds.

Condensed
Statement of Activities and Change in Net Position
(In millions)

	2013	2012 (as restated)	2011
Total expenses	$ 15.36	$ 15.12	$ 14.83
Program revenues - tobacco settlement	10.87	10.60	9.23
Change in net position before change in accounting principle	(4.49)	(4.52)	(5.60)
Change in accounting principle	-	(3.80)	-
Net position - beginning of year	(228.74)	(220.42)	(214.82)
Net position - end of year	$ (233.23)	$ (228.74)	$ (220.42)

Expenses
Expenses incurred in 2013 were $0.2 million greater than those incurred in 2012 and are predominately interest costs. Expenses incurred in 2012 were $0.3 million greater than those incurred in 2011.

Revenues
Revenues recorded during 2013 were greater than those recorded in 2012. TSR's increased by $0.3 million in 2013 over 2012. Revenues recorded during 2012 increased by $1.4 million over those recorded in 2011. The increase was due to receiving more TSR revenue in 2012.

Financial Analysis of MTASC's Fund Financial Statements
The focus of MTASC's governmental fund reporting is to provide information on near-term inflows, outflows and balances of spendable resources.

As of December 31, 2013, MTASC's debt service fund reported fund balances of $13.3 million, a decrease of $0.4 million from the prior year. Approximately $0.1 million of fund balance was restricted to pay issuance costs for the 2010 Series Bonds and $0.2 million was restricted for arbitrage rebate service fees for the 2000 Series Bonds. Since these restricted funds were no longer required, they were closed and the proceeds were applied towards debt service in 2013. The remaining fund balance is restricted and is committed to pay future debt service.

As of December 31, 2012, MTASC's debt service fund reported an ending fund balance of $13.7 million, which was equal to the prior year. Approximately $0.3 million of the fund balance was restricted to the above mentioned funds, with the remaining balance restricted to fund MTASC's future debt service.

Debt
Debt obligations of MTASC as of December 31, 2013 consist of the MTASC Series 2010 Tobacco Settlement Asset-Backed Bonds (which replaced the Series 2005C as part of a forward purchase contract on June 1, 2010), the MTASC Series 2006 Tobacco Settlement Asset-Backed Bonds and the remaining balance of the MTASC Series 2005 Tobacco Settlement Asset-Backed Bonds.

Debt (Continued)
The total amount of the Series 2010 bonds, Series 2006 bonds and Series 2005 bonds outstanding at December 31, 2013 was $225.0 million. None of the outstanding Series 2010, Series 2006 bonds or Series 2005 bonds were considered current since none were due within twelve months of year-end.

The 2010 Series and 2005 Series bonds were structured to enable the New York Counties Tobacco Trust IV bonds to attain the following ratings:

Bond Series	Standard & Poor's	Fitch
2005A	BBB	BBB
2005B	BB+	BBB
2005D	Non-rated	BBB -
2005E	Non-rated	BB
2005F	Non-rated	Non-rated
2010A	B-	BBB

The 2006 Series bonds were not rated as MTASC did not apply for, and the rating agencies have not issued, a rating for the bonds.

All of MTASC's turbo bonds are subject to prepayment from Turbo Redemption Payments. Turbo Redemption Payments are made from collections (other than partial and lump sum payments) in excess of the amount needed to pay certain operating expenses. To the extent possible, the Turbo Redemption Payments will amortize the Series 2005 bonds, Series 2006 bonds and Series 2010 bonds earlier than their maturity dates at their accreted values. Payments of $965,000 and $480,000 were made in 2013 and 2012, respectively, against the Series 2005 bonds.

Payments on the outstanding capital appreciation bonds are based on the accreted value of the capital appreciation bonds at their stated maturity. The accretion of these capital appreciation bonds over their life results in the recognition of substantial annual costs until the capital appreciation bonds are redeemed. Reference should be made to the Bonds Payable footnote in the financial statements for a summary of the required principal and interest (which includes accretion of the capital appreciation bonds) payments.

Details on the debt outstanding is provided in Note #5 to the financial statements.

Contacting Monroe Tobacco Asset Securitization Corporation's Management
This financial report is designed to provide a general overview of MTASC's finances and to demonstrate MTASC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer, Monroe Tobacco Asset Securitization Corporation, at 39 West Main Street, Room 402, Rochester, New York, 14614.

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Monroe, New York)

STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012

	2013	2012 (as restated)
ASSETS		
Cash and cash equivalents	$ 376,479	$ 453,359
Accrued interest receivable	100	100
Accounts receivable	10,237,314	10,140,995
Restricted cash and cash equivalents	12,882,838	13,205,786
Prepaid expenses	8,271	8,240
Total assets	23,505,002	23,808,480
LIABILITIES		
Accrued interest payable	839,412	844,237
Bonds payable, net of bond discount	255,903,783	251,708,973
Total liabilities	256,743,195	252,553,210
NET POSITION		
RESTRICTED FOR:		
Debt service	12,882,838	12,875,610
Other purposes	-	330,176
UNRESTRICTED	(246,121,031)	(241,950,516)
Total net position	$ (233,238,193)	$ (228,744,730)

The accompanying notes are an integral part of these statements.

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Monroe, New York)

STATEMENTS OF ACTIVITIES AND CHANGE IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012 (as restated)
EXPENSES:		
General government -		
Materials and services	$ 76,849	$ 72,539
Administrative costs	30,500	25,456
Interest and amortization	15,256,886	15,029,167
Total expenses	15,364,235	15,127,162
PROGRAM REVENUE:		
Tobacco settlement	10,869,091	10,604,024
Net program revenues	(4,495,144)	(4,523,138)
GENERAL REVENUES - INVESTMENT INCOME	1,681	1,967
CHANGE IN NET POSITION BEFORE CHANGE IN ACCOUNTING PRINCIPLE	(4,493,463)	(4,521,171)
CHANGE IN ACCOUNTING PRINCIPLE:		
Bond issuance costs	-	(3,803,130)
NET POSITION - beginning of year	(228,744,730)	(220,420,429)
NET POSITION - end of year	$ (233,238,193)	$ (228,744,730)

The accompanying notes are an integral part of these statements.

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Monroe, New York)

GOVERNMENTAL FUND BALANCE SHEETS AND RECONCILIATION TO STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012

	2013	2012 (as restated)
ASSETS		
Cash and cash equivalents	$ 376,479	$ 453,359
Accrued interest receivable	100	100
Accounts receivable	10,237,314	10,140,995
Restricted cash and cash equivalents	12,882,838	13,205,786
Prepaid expenses	8,271	8,240
Total assets	$ 23,505,002	$ 23,808,480
LIABILITIES AND FUND BALANCES		
LIABILITIES:		
Unearned revenue	$ 10,237,314	$ 10,140,995
Total liabilities	10,237,314	10,140,995
FUND BALANCES:		
Restricted for -		
Debt service	12,882,838	12,875,610
Other purposes	-	330,176
Unassigned	384,850	461,699
Total fund balances	13,267,688	13,667,485
Total liabilities and fund balances	$ 23,505,002	$ 23,808,480
Amounts reported for governmental activities in the statements of net position are different because:		
Total fund balances	$ 13,267,688	$ 13,667,485
Tobacco settlement revenue was not received in the current period and therefore, is not reported as revenues at the fund level	10,237,314	10,140,995
Bonds payable and accrued interest are not due and payable in the current period and therefore, are not reported at the fund level	(256,743,195)	(252,553,210)
Total net position	$ (233,238,193)	$ (228,744,730)

The accompanying notes are an integral part of these statements.

MONROE TOBACCO ASSET SECURITIZATION CORPORATION
(A Blended Component Unit of the County of Monroe, New York)

STATEMENTS OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE AND RECONCILIATION TO STATEMENTS OF ACTIVITIES AND CHANGE IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012 (as restated)
REVENUES:		
Tobacco settlement	$ 10,772,771	$ 10,779,467
Investment income	1,681	1,967
Total revenues	10,774,452	10,781,434
EXPENDITURES:		
General and administrative	76,849	72,539
Administration costs	30,500	25,456
Debt service - principal	965,000	480,000
Debt service - interest	10,101,900	10,145,250
Total expenditures	11,174,249	10,723,245
CHANGE IN FUND BALANCE	(399,797)	58,189
FUND BALANCES - beginning of year	13,667,485	13,609,296
FUND BALANCES - end of year	$ 13,267,688	$ 13,667,485
Amounts reported for governmental activities in the statements of activities are different because:		
Net change in fund balances	$ (399,797)	$ 58,189
Tobacco settlement revenues reported in the statement of activities were not received in time to pay current financial obligations and therefore, have not been reported as revenue in the governmental fund	96,320	(175,443)
Amortization of bond discounts reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental fund	(45,839)	(123,146)
The net effect of bond proceeds received and repayments of the Series 2005 and 2006 bonds are activities of the governmental fund but not reported in the statement of activities	(4,144,147)	(4,280,771)
Change in net position	$ (4,493,463)	$ (4,521,171)

The accompanying notes are an integral part of these statements.

1. ORGANIZATION

Monroe Tobacco Asset Securitization Corporation (MTASC) 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). MTASC was established on May 11, 2000; however, there were no substantive operations until August 15, 2000 as discussed herein. MTASC is an instrumentality of, but separate and apart from the County of Monroe, New York (the County). MTASC will have not less than three nor more than five directors, consisting of two ex-officio positions including the Executive of the County and the Director of Finance - Chief Financial Officer of the County, up to two additional directors and one independent director. Although legally separate from the County, MTASC is a component unit of the County and, accordingly, is included in the County's basic financial statements as a blended component unit.

On August 15, 2000, pursuant to a Purchase and Sale Agreement with the County, the County sold to MTASC all of its future rights, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgment (the Decree). The MSA resolved cigarette smoking related litigation between the settling states and the Participating Manufacturers (PMs), released the PMs from past and present smoking related claims, and provides for a continuing release from future smoking related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future rights, title and interest of the County's share were sold to MTASC.

MTASC's purchase of the County's future rights, title and interest in the TSRs was financed by the issuance of bonds. A Residual Certificate exists that represents the County's entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses, and certain other costs by MTASC as set forth in the Amended and Restated Indenture (the Indenture). Payments on the Residual Certificate from TSR collections are subordinate to payments on the bonds and payment of certain other costs specified in the Indenture. Excess TSRs not required by MTASC to pay various expenses, debt service or required reserves with respect to the bonds are transferred to the Monroe Tobacco Tax Stabilization 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

MTASC's financial statements are prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB). MTASC'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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)
MTASC'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. For this purpose, MTASC 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 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
Net position in government-wide financial statements is classified as net investment in capital assets; restricted and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through State statute or are otherwise unavailable for appropriation by the primary government and component units.

As of December 31, 2013 and 2012, these restrictions included:

- Debt Service - represents resources that have been legally restricted for debt service payments that will be made in future periods.

- Other Purposes - represents resources that have be restricted to arbitrage rebate analysis services and bond issuing costs.

Unrestricted net position is net position that is not restricted, but which may be internally designated by the Board of Directors. At December 31, 2013 and 2012, the amount of unrestricted net position was ($246.1) million and ($242.0) million, respectively.

Fund Balance
Fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable - amounts that are not in spendable form (such as inventory and prepaids) or are legally or contractually required to be maintained intact;

- Restricted - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

- Committed - amounts constrained to specific purposes by a MTASC itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless MTASC takes the same highest level action to remove or change the constraint;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Continued)

- Assigned - amounts MTASC intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;

- Unassigned - amounts that have not been assigned to another fund or are not restricted, committed, or assigned to specific purposes within the debt service fund.

When fund balance resources are available for a specific purpose in more than one classification, it is MTASC's practice to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Cash and Cash Equivalents
MTASC considers bank deposit accounts and all highly liquid debt instruments with remaining maturities, when purchased, of 3 months or less to be cash equivalents and these are stated at fair value. MTASC maintains a liquidity reserve account, which was initially funded from the Series 2000 Bond proceeds and has been increased by funds from the Series 2005 Bonds. This account must be maintained at a minimum of $12,849,750 until such time that all bonds, other than subordinated bonds, are paid. All amounts withdrawn from this account are replenished, as needed, and amounts in excess of the required amount are transferred out. This account is included in restricted cash and cash equivalents on the balance sheet.

Bond Issuance Costs
In previous years, MTASC recognized bond issuance costs fully in the year of issuance on the financial statements. These costs were amortized on the straight line basis over the term of the related bonds for the government-wide financial statements as additional interest expense. As a result of GASB Statement No. 65, to be implemented with this year's reporting, these costs are now fully expensed (refer to Note 3, Change in Accounting Principle).

Accounts Receivable
MTASC records a receivable for TSRs and does not accrue interest on unpaid amounts. MTASC has not recorded an allowance for doubtful accounts related to the TSRs and does not anticipate future write-offs.

Unearned Revenue
Unearned revenue represents amounts earned under the modified accrual basis of accounting used in the Debt Service Fund, but not meeting the definition of available for use.

Income Taxes
MTASC is a not-for-profit corporation and is exempt from income taxes as an organization qualified under Section 501(c)(3) of the Internal Revenue Code. MTASC has also been classified by the Internal Revenue Service as an entity that is not a private foundation.

Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications
Certain prior year amounts have been reclassified to conform with the current year presentation.

3. CHANGE IN ACCOUNTING PRINCIPLE

GASB issued Statement No. 65, "*Items Previously Reported as Assets and Liabilities,*" which reclassifies certain items that were previously reported as assets and liabilities as deferred inflows or outflows. This standard also states that bond issuance costs are expensed rather than recognized as an asset and amortized through the life of the bond. MTASC adopted the provisions of this Statement retroactively for the years ended December 31, 2013 and 2012.

The 2012 financial statements have been restated to recognize this change in accounting principle. The effect of this restatement was a decrease of $3,803,130 to net position.

The effect of the restatement as of and for the year ended December 31, 2012 is as follows:

	As Previously Reported	Restated
Government Wide Statements:		
Bond issuance costs	$ 3,803,130	$ -
Change in accounting principle	$ -	$ (3,803,130)
Net position, end of year	$(224,941,600)	$ (228,744,730)

4. DEPOSITS AND INVESTMENTS

Investment and Deposit Policy
MTASC follows an investment and deposit policy as outlined in the Indenture, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; provide sufficient liquidity of invested funds in order to meet obligations as they become due; and attainment of a market rate of return. Oversight of investment activity is the responsibility of the Treasurer of MTASC.

Interest Rate Risk
Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. MTASC does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk
MTASC'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. MTASC'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;

4. DEPOSITS AND INVESTMENTS (Continued)

Credit Risk (Continued)

- 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 MTASC. Also, each seller shall enter into a master Repurchase Agreement with MTASC which shall specify the rights and obligations of MTASC 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; and
- 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 MTASC.

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 MTASC's investment and deposit policy, all deposits of MTASC 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. MTASC restricts the securities to the following eligible items:

- Obligations issued, or fully insured or guaranteed as to the payment of principal and interest, by the United States of America, an agency thereof or a United States government sponsored corporation;
- Obligations issued or fully guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank;
- Obligations partially insured or guaranteed by any agency of the United States of America;
- Obligations issued or fully insured or guaranteed by the State of New York;
- Obligations issued by a municipal corporation, school district or district corporation of New York State;
- Obligations of any public benefit corporation, which under a specific State statute may be accepted as security for deposit of public monies;
- Obligations issued by states (other than the State of New York) of the United States rated in one of the two highest rating categories by at least one Nationally Recognized Statistical Rating Organization (NRSRO);
- Obligations of Puerto Rico rated in the highest rating category by at least one NRSRO;
- Obligations of counties, cities and other governmental entities of a state other than the State of New York having the power to levy taxes that are backed by the full faith and credit of such governmental entity and rated in one of the two highest categories by at least one NRSRO;
- Obligations of domestic corporations rated in one of the two highest rating categories by at least one NRSRO; and
- Zero coupon obligations of the United States of America marketed as "treasury strips."

4. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk – Deposits (Continued)

As of December 31, 2013 and 2012, the bank balance and carrying amount of MTASC's cash and cash equivalents was $376,479 and $453,359, respectively, and was exposed to custodial credit risk as follows:

	2013	2012
Federal Depository Insurance Coverage	$ 250,000	$ 453,359
Collateralized by third party	129,010	-
Total FDIC and collateral	$ 379,010	$ 453,359

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. MTASC's investment and deposit policy requires that all custodial investments be registered or insured in MTASC's name and held in the custody of the bank or the bank's trust department. MTASC 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, 2013 and 2012, MTASC's investments, with maturities of less than one year, were in compliance with the investment and deposit policy as follows:

Investment Type	2013	2012
Money market fund (U.S. Treasuries)	$ 12,882,838	$ 13,205,786

Concentration of Credit Risk

MTASC places no limit on the amount that may be invested in any one investment type. At December 31, 2013 and 2012, MTASC's investments were invested in money market funds.

Restricted Cash and Cash Equivalents

MTASC had the following restricted funds as of December 31:

Restricted Cash and Cash Equivalents	2013	2012
Liquidity reserves	$ 12,853,216	$ 12,851,933
Debt service reserves	29,622	23,676
Bond issuance and rebate costs	-	330,177
Total	$ 12,882,838	$ 13,205,786

5. BONDS PAYABLE

The Series 2005 and Series 2010 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 (collectively, the Collections). Among the accounts so established are the Liquidity Reserve Account and the Debt Service Account. MTASC retains TSRs in an amount sufficient to service its debt and pay its operating expenses. The Series 2006 Bonds are subordinate to the Series 2005 Bonds and Series 2010 Bonds.

5. BONDS PAYABLE (Continued)

The Series 2006 Bonds are composed of the following:

- $14,579,370 Tobacco Settlement Asset-Backed Bonds, Series 2006A (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2061, interest rate of 0.00%, with an accreted value at maturity of $952,900,000.

The Series 2005 Bonds are composed of the following:

- $91,120,000 Tobacco Settlement Asset-Backed Bonds, Series 2005A (Tax Exempt Turbo Bonds), maturity date is June 1, 2042, interest rate of 5.00%.
- $36,665,000 Tobacco Settlement Asset-Backed Bonds, Series 2005B (Taxable Turbo Bonds), maturity date is June 1, 2027, interest rate of 6.00% ($26,220,000 principal amount remains outstanding as of December 31, 2013 as a result of Turbo Redemption payments which have been made since 2006).
- $5,386,580 Tobacco Settlement Asset-Backed Bonds, Series 2005D (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2050, interest rate of 0.00%, with an accreted value at maturity of $71,965,000.
- $8,923,514 Tobacco Settlement Asset-Backed Bonds, Series 2005E (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2055, interest rate of 0.00%, with an accreted value at maturity of $202,715,000.
- $15,625,329 Tobacco Settlement Asset-Backed Bonds, Series 2005F (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2060, interest rate of $0.00%, with an accreted value at maturity of $608,700,000.

The Series 2010 Bonds are composed of the following:

- $63,100,000 Tobacco Settlement Asset-Backed Bonds, Series 2010A (Tax Exempt Turbo Term Bonds), maturity date is June 1, 2041 with an interest rate of 6.25%.

Long-term indebtedness for MTASC's bonds payable consisted of the following:

	2013	2012
Balance - beginning of year	$ 225,919,794	$ 226,399,794
Repayments of bonds	(965,000)	(480,000)
Balance - end of year	224,954,794	225,919,794
Add: Accretion of capital appreciation bonds	33,103,419	27,989,448
Less: Bond discount	(2,154,430)	(2,200,269)
Total	$ 255,903,783	$ 251,708,973
Payments due within one year	$ -	$ -

5. BONDS PAYABLE (Continued)

Principal and interest payments based upon the required maturities are as follows for the years ended December 31:

Year	Principal	Interest	Total
2014	$ -	$ 10,072,950	$ 10,072,950
2015	-	10,072,950	10,072,950
2016	-	10,072,950	10,072,950
2017	-	10,072,950	10,072,950
2018	-	10,072,950	10,072,950
2019 - 2023	-	50,364,750	50,364,750
2024 - 2028	26,220,000	48,004,950	74,224,950
2029 - 2033	-	42,498,750	42,498,750
2034 - 2038	-	42,498,750	42,498,750
2039 - 2043	118,755,000	28,465,250	147,220,250
2044 - 2048	35,465,000	2,659,875	38,124,875
2049 - 2053	5,386,580	63,228,329	68,614,909
2054 - 2058	8,923,514	187,644,830	196,568,344
2059 - 2061	30,204,700	1,497,807,000	1,528,011,700
	$ 224,954,794	$ 2,013,537,234	$2,238,492,028

Required maturities for the Series 2005, Series 2006 and Series 2010 Bonds represent the minimum amount of principal that MTASC 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 MTASC receives sufficient TSRs to make the Turbo payments.

Under the terms of the Indenture, MTASC is required to maintain certain deposits to fund debt service payments, if needed. Such deposits are included in restricted cash and cash equivalents in the basic financial statements. In addition, MTASC is subject to various debt covenants, including limitations on expenses/expenditures, and compliance with Trustee indenture agreement requirements. MTASC was in compliance with all covenants and indenture agreement requirements at December 31, 2013 and 2012.

Principal payments in the amount of $965,000 and $480,000 were made during 2013 and 2012, respectively, in accordance with the Turbo Redemption requirements of the Series 2005B bonds.

Interest

Interest expense on bonds payable was $15,211,047 and $14,906,021 in 2013 and 2012, respectively. In 2013 and 2012, cash paid for interest was $10,101,900 and $10,145,250, respectively.

6. TRANSACTIONS WITH MONROE 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 MTASC to prepare, execute, file or deliver pursuant to the Indenture and the related agreements.

The Purchase and Sale Agreement also contemplates the lease by MTASC of office space and telephone service from the County, and the sharing of overhead and operating services and expenses (including shared employees, consultants and agents and reasonable legal and auditing expenses) on the basis of actual use or value of such services, or otherwise on a basis reasonably related thereto.

The cost to MTASC for the services provided by the County was approximately $30,000 in each of the years ended December 31, 2013 and 2012.

No residual funds, in accordance with the Amended and Restated Indenture, were transferred to the Trustee and ultimately the County in 2013 or 2012.

7. NET POSITION DEFICIT

MTASC has a deficit in net position as a result of the outstanding bonds. As these bonds are repaid, this will help to reduce the deficit, along with the future revenue streams.

8. CONTINGENCIES

Future TSRs are subject to adjustment based upon tobacco consumption, inflation and other factors. Pursuant to the Indenture, these adjustments and other events could trigger additional debt service reserve requirements.

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 13, 2014

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

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 the governmental activities and major fund of Monroe Tobacco Asset Securitization Corporation (MTASC), a blended component unit of the County of Monroe, New York, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise MTASC's basic financial statements, and have issued our report thereon dated March 13, 2014.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered MTASC'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of MTASC'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.

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(Continued)

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*
(Continued)

Compliance and Other Matters
As part of obtaining reasonable assurance about whether MTASC's financial statements are free from 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bonadio & Co., LLP