

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE 9 - Bonds Payable

The first bonds issued were issued on August 3, 2001 as part of the New York Tobacco Trust/Tobacco Settlement Pass-Through Bond Series 2001. Face value of the bonds issued was \$10,640,000. The bonds were sold at a discount of \$123,538, for a net issue price of \$10,516,462. The discount will be amortized over the maturity period of the bonds using the straight-line method. For the year ended 2011 the discount amortized amounted to \$4,751. The unamortized discount was \$ 76,023 for the year ended December 31, 2011. The bonds mature from June 1, 2006 until June 1, 2043 under term restructuring and from June 1, 2002 until June 1, 2027 under the super sinker payment schedule. Interest on the bonds ranges from 4.27% to 5.75%

The second bond issue was issued November 29, 2005 and are capital appreciation bonds. These bonds are subordinate bonds to the original issue bonds detailed above and cannot be defeased until the original issue bonds are paid in full. These bonds were issued in different series with different interest and maturity rates. These bonds shall accrue interest at their stated rates from the Series 2005 Delivery Date, which interest shall accrue and not be payable, compounded semiannually, until maturity. Interest accrued for the year ended December 31, 2011 was \$230,447. During 2011 no principal or interest payments were made. The value of the bonds increase based upon the interest accrued over the life of the bonds. The total value of the bonds issued at November 29, 2005 were \$3,926,071.

The total bonds outstanding at December 31, 2011 are as follows:

	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Balance December 31, 2011</u>
Series 2001	8/01	6/27	4.3- 5.75%	\$ 8,655,000
Series 2005	11/05	6/60	6.0- 7.15%	2,827,986
Add: Accretion Value of 2005 Bonds				<u>1,098,805</u> <u>3,926,791</u>
Total				<u>\$ 12,581,791</u>

Note that the defeasance of these bonds is expected to occur before the stated maturity dates based upon the expected revenue stream from the tobacco settlement proceeds. These bonds can be defeased on or after June 1, 2015. There is a prepayment premium for payment before May 31, 2016 of 102% of the accredited value and for payment between June 1, 2016 and May 31, 2017 a premium of 101% of the accredited value. After May 31, 2017 there is no premium for prepayment.