CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION

FINANCIAL STATEMENTS

For the Year Ended December 31, 2012

CORTLAND, NEW YORK

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Richard M. McNeilly

Certified Public Accountant

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

I have audited the accompanying financial statements of the governmental activities and the major fund of the Cortland Tobacco Asset Securitization Corporation, a blended component unit of the County of Cortland, New York as of December 31, 2012 as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 significant estimates made by management, as well as evaluating the overall financial statements presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Cortland Tobacco Asset Securitization Corporation as of December 31, 2012, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's discussion and analysis is not a required part of the financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. I applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion thereon.

March 18, 2013

Richard McNeilly, CPA

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
For the Year Ended December 31, 2012

Our discussion and analysis of the Cortland Tobacco Securitization Corporation's (the 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. The financial statements present only the information for the year ended December 31, 2012.

FINANCIAL HIGHLIGHTS

As discussed further in the notes to the financial statements, the Corporation was formed to acquire from the County of Cortland, New York all future right, title, and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) with respect to tobacco related litigation among various states and participating manufacturers. The Corporation is a a component unit of Cortland County, New York and, accordingly, is included in the County's financial statements as a blended component unit. The Corporation is classified as a special-purpose government under GASB Statement No. 14 and consists of one governmental fund. The fund and government-wide financial statements are presented together and include a reconciliation of the individual line items between the two statement types in a separate column.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and notes to those statements. The statement of net assets and the statement of activities provide information about the activities of the Corporation as a whole and present a longer-term view of the Corporation's finances. Fund financial statements tell how the governmental activity's services were financed in the short-term as well as what remains for future spending.

REPORTING THE CORPORATION AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The statement of net assets and the statement of activities report information about the Corporation as a whole and about its activities. 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 assets and changes in them. You can think of the Corporation's net assets - 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 assets are one indicator of whether its financial health is improving or deteriorating. In the statement of net assets and statement of activities, the Corporation's only activities relate to governmental activities.

Below is a condensed version of the government-wide financial statements as of and for the year ended December 31:

	2012	2011
Assets	$ 1,672,848	$ 1,674,857
Liabilities	12,665,151	12,651,509
Net Assets	(10,992,303)	(10,976,652)
Revenues	769,689	714,206
Expenses	785,340	757,345
Change in Net Deficit	(15,651)	(43,139)

The Corporation's assets decreased by $2,009. The Corporation's liabilities increased by $13,642. Net deficit increased by $15,651.

Under the Master Settlement Agreement, the tobacco companies are required to make annual payments to the Corporation. During 2012, approximately $700,000 in tobacco revenues were received and $660,000 was received in 2011. In 2012, approximately $785,000 in expenses were incurred and $758,000 was incurred in 2011.

During 2012, no new bonds were issued and no distributions were made to the County. However, during 2012 interest expense of approximately $258,000 was accreted on the Series 2005 bonds, compared to $231,000 in 2011.

No residual payments have been made to the County since 2003 due to the trapping events that occurred. Under a trapping event, those monies that would have been paid out to the County are now required to fund a trapping reserve as required by the Corporation's indenture. In addition, as a result of the issuance of the 2005 Series Bonds, the County relinquished the right to use these monies for anything other than Corporation debt retirement. The trapping event that was in effect at year-end 2008 has been satisfied and will be further discussed below as will the new trapping event.

The recognition of the bonds payable liability in 2001 and 2005 has created a deficit in the Corporation's net assets. The deficit is expected to be satisfied over time as the tobacco settlement proceeds are received and the bond liabilities are paid.

FUND FINANCIAL STATEMENTS

A governmental entity can have various types of funds such as governmental and proprietary. The Corporation only has one fund, which is a governmental fund.

Governmental funds focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the corporation's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Corporation's programs.

Below is a condensed version of the fund financial statement as of and for the years ended December 31,:

	Governmental Activities	
	2012	2011
Assets	$ 899,789	$ 910,683
Liabilities	-0-	28,850
Fund Balance	899,789	881,833
Revenues	756,052	742,580
Expenditures	738,096	757,972
(Deficiency) of Revenues over Expenditures	17,956	(15,392)

The most significant variances in comparing years were tobacco revenues of $ 701,788 in 2012 versus $ 688,151 in 2011 and debt service payments of $ 699,563 in 2012 versus $ 731,682 in 2011.

The debt service fund has two distinct fund balances: reserved for debt service and unreserved-undesignated. Unreserved-undesignated fund balance is generated from general operations and is not restricted in use. Fund balance reserved for debt service results from monies set aside for future payment of the bond principal and interest.

Unlike the government-wide statements, in the fund financial statements, the bond payable is not recognized as a liability as it is long-term in nature. Because of this, there is not the issue of large fund balance deficit under this methodology that is present in the government-wide presentation.

Long-Term Debt Activity

The Corporation issued debt, which will be repaid by its purchases from the County of the future right, title and interest in the Tobacco Settlement Revenues. Serial Bonds principal payments are due annually and interest semi-annually. At December 31, 2012, the Corporation had $12,625,259 in bonds outstanding. There was a decrease from the prior year as a result of payments of $215,000 on the 2001 issue and $-0- on the 2005 issue. There was also interest accretion of $258,468 on the 2005 issue.

Analysis of Overall Financial Position

Under the government-wide methodology, the Corporation showed a decrease to its net deficit. This decrease results from the tobacco settlement proceeds and interest income providing less than enough revenue to meet the Corporation's current expense demands. Specifically, the government-wide financial statements show a increase to the Corporation's net deficit of $15,651.

Budget

Governmental Accounting Standards Board Statement No. 34 requires an analysis of the original budget and final budget and between the final budget and actual results. Management only prepares a budget for its operating expenses and no changes are made to it. Because the budget is not a complete budget, comparison to current operations could be misleading. As a result, it has not been presented in this report.

Other Facts

In accordance with Section 6.4(d)(6) of the Indenture and Sections 4.1(iv)(F) and (G), and to the extent contained in the "Calculations for the Tobacco Litigation Master Settlement Agreement" report, as of the Next Distribution Date, three Trapping Events have occurred. One is still occurring. According to the MSA report, the amount shown as relevant shipments for the year 2010 was less than the shipment amount specified, and therefore, a consumption Decline Trapping Event has occurred and is continuing.

Contacting the Corporation's Financial Management

This financial report is designated to provide to the readers of these financial statements an overview of the Corporation's finances and to show the Corporation's accountability for money it received. If you have any questions about this report or need additional information, contact the Corporation's President at 60 Central Avenue, Cortland, New York 13045.

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2012

	Debt Service Fund	Adjustments	Statement of Net Assets
Current Assets			
Cash and Cash Equivalents	$ 83,600	$ -	$ 83,600
Prepaid Assets	3,578		3,578
Investments	812,611	-	812,611
Total Current Assets	899,789		899,789
Tobacco Settlement Receivables	-0-	701,788	701,788
Bond Discount, Net	-0-	71,271	71,271
TOTAL ASSETS	$ 899,789	$ 773,059	$ 1,672,848
Current Liabilities			
Current Portion of Long-Term Debt	$	$ 325,000	$ 325,000
Accounts Payable	-0-	-	-0-
Accrued Interest Payable	-0-	39,892	39,892
Total Current Liabilities	-0-	364,892	364,892
Bonds Payable	-0-	12,300,259	12,300,259
Total Liabilities	-0-	12,665,151	12,665,151
Fund Balance			
Restricted	816,189	(816,189)	-0-
Unassigned	83,600	(83,600)	-0-
Total Fund Balance	899,789	(899,789)	-0-
Total Liabilities and Fund Balance	$ 899,789		
Net Deficiency in Net Assets			
Restricted for Debt Service		812,611	812,611
Unrestricted Net Deficit		(11,804,914)	(11,804,914)
Total Net Deficit		(10,992,303)	(10,992,303)
TOTAL LIABILITIES & NET DEFICIT		$ 773,059	$ 1,672,848

See Notes to Financial Statements

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE/STATEMENTS OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2012

	Debt Service Fund	Adjustments	Statement of Net Assets
Operating Revenues			
Tobacco Settlement Proceeds	$ 701,788	$ 13,637	$ 715,425
Interest Revenue	54,264	-	54,264
Total Operating Revenue	756,052	13,637	769,689
Operating Expenses			
Insurance	4,999	-	4,999
Audit Fee	4,400	-	4,400
Legal Fees	4,750	-	4,750
Trustee Fees	2,500	-	2,500
Rating Agency Fee	10,081	-	10,081
Administrative	11,803	-	11,803
Debt Principal	215,000	(215,000)	-0-
Interest	484,563	262,244	746,807
Total Operating Expenses	738,096	47,244	785,340
Excess (Deficiency) of Revenues Over Expenditures	17,956	(33,607)	
Increase in Deficit			(15,651)
Fund Balance/Deficit Beginning of Year	881,833	(11,858,485)	(10,976,652)
Fund Balance/Deficit End of Year	$ 899,789	$ (11,892,092)	$ (10,992,303)

See Notes to Financial Statements

NOTE 1 - Summary of Significant Accounting Policies

Nature of Organization

Cortland Tobacco Asset Securitization Corporation (The Corporation) is a bankruptcy-remote local development corporation created in July, 2001 under Section 1411 of the New York State Not-for-Profit Corporation Law. The Organization was formed to raise funds by issuing bonds, use those funds to acquire rights to future proceeds from the settlement agreement with various tobacco companies payable to the County of Cortland, and remain in existence during the term of the bonds to collect the tobacco settlement proceeds and service the debt.

The Organization is an instrumentality of, but separate and apart from Cortland County, New York (the County). The Corporation has a board of directors comprised of three 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.

Pursuant to the Purchase and Sale Agreement with the County, the County sold to the Corporation all of its future right, title, and interest in the tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgement (the Decree). The MSA resolved cigarette smoking-related litigation between the settling states and claimants. The MAS 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 CTASC 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 the debt service, operating expense, and certain other costs as set forth in the indenture. Payments of the Residual Certificate from TSR collections are subordinate to payments on the bonds and payments of certain other costs specified in the indenture.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles for government entities as prescribed by the Governmental Financial Accounting Standards Board as a blended component unit of the County.

Government-Wide Statements

The statement of net assets and statement of activities present financial information about the Corporation's governmental activities. These statements include the financial activities of the Corporation.

Fund Financial Statements

The fund financial statements provide information about the Corporation's fund. The emphasis of fund financial statements is on major governmental funds.

The Corporation reports the debt service fund as its major governmental fund. This fund is used to account for and report on the accumulation of resources to be used for redemption of general long-term indebtedness and supports the operations of the Corporation.

Measurement Focus and Basis of Accounting

The 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 at the time liabilities are incurred, regardless of when the related cash transaction takes place.

The fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Corporation considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after the end of the year. Liabilities expected to be paid in more than twelve months are considered to be long-term liabilities.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recognized as expenditures to the extent they have matured. Proceeds of long-term debt are reported as other financing sources.

Fund Balance Reserve

In the fund financial statements, the restricted fund balance is used to account for and report on the accumulation of resources to be used for redemption of general long-term indebtedness and supports the operations of the Corporation.

Concentrations

The Corporation maintains cash in bank deposit accounts at a financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to $250,000. The balances, at times, may exceed federally insured limits.

Cash and Cash Equivalents

The Corporation considers all short-term highly liquid investments with maturities of three months or less to be cash equivalents.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The Corporation is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code.

Revenue Recognition

Future tobacco settlement collections are contingent upon future tobacco products sales subject to various adjustments as outlined in the MSA. The Corporation recognizes revenue from tobacco proceeds settlement collections as the collections are received. In addition, an estimated receivable is accrued at year end for estimated product sales from the preceding year.

NOTE 2 - Explanation of Certain Differences Between Fund Statement and Government-Wide Statement

Due to the differences in the measurement focus and basis of accounting used in the fund statement and the government-wide statement, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus on the statement of activities, compared with the current financial resources on the statement of governmental fund revenue, expenditures and change in fund balance.

Total Fund Balances of the Fund Statement versus Net Assets of Government-Wide Statement

Total fund balances of the Corporation's fund statement differs from the net assets of government -wide statement reported in the statement of net assets. This difference primarily results from additional long-term economic focus on the statement of net assets versus the solely current financial resources focus on the fund balance sheet.

Explanation of differences between the Governmental Fund Balance Sheet and the Statement of Net Assets:

Fund Balance-Governmental Fund	$ 899,789
The tobacco receivable is not considered to be available to meet current needs.	701,788
Costs associated with bond discounts are recorded as assets on the statement of net assets.	71,271
Bonds payable are reported in the statement of net assets, but are not reported in the governmental funds.	(12,625,259)
Accrued interest payable is reported in the statement of net assets, but not in the governmental funds.	(39,892)
Net Deficit of Government-Wide Activities	$(10,992,303)

Differences between the statement of governmental fund revenues, expenditures and changes in fund balance and the statement of activities fall into one of three broad categories. The amounts shown below represent:

Excess of revenues over expenditures	$ 17,956
The amount of change in the tobacco receivable affects the revenue in the statement of activities, whereas in the governmental fund it is shown as received.	13,637
The amount charged to interest for the amortization of bond discount fees are expenses in the statement of activities and have already been shown in the year of issuance in the governmental fund.	(4,751)
Repayment of bond principal is an expenditure in the governmental fund financial statements but it reduces long-term liabilities in the statement of net assets, and does not affect the statement of activities.	215,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental financial statements interest expenditures are reported when due.	(257,493)
Change in Net Deficit-Statement of Activities	$ (15,651)

NOTE 3 - Cash and Cash Equivalents

At December 31, 2012, the carrying amount and the bank balance on the Corporation's deposits totaled $83,600. These monies are on deposit with an FDIC insured commercial bank located in Cortland County.

NOTE 4- Investments

Investments are reported at fair value. 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 such as commercial paper or finance company paper; special time deposit accounts; certificates of deposit and obligations of the United States of America.

All investments are insured, registered or held by the Corporation's trustee in the Corporation's name.

At December 31, 2012, investments are stated at fair value, which approximate cost, and consist of the following:

Cash and money market funds		$ 36,774
FCAR Owner Trust DCP		775,837
	Total	$ 812,611

Note that fair value measurements under FASB ASC 820-10, which establishes a framework for measuring fair value, is under the highest priority. Such priority is level 1 measurements, which use unadjusted quoted prices in active markets for identical assets.

NOTE 5 - Tobacco Settlement Proceeds Receivable

This asset represents the value of the tobacco settlement proceeds that the Organization has recognized based upon the domestic shipment of cigarettes (sales) at December 31, 2012 for the following year. The receivable is estimated based upon actual tobacco settlement payments received in 2012 since this is the method which will most closely estimate the actual payments to be received in the following year. One downdgrade and trapping event occurred in 2011, and is still occurring, which could possibly affect the amount of tobacco payments in 2013.

NOTE 6 - Liquidity Reserve Requirement

Per the indenture, the liquidity reserve requirement is defined as the" maximum annual scheduled Debt Service on the Senior Bonds in the then current or any future Fiscal Year". The liquidity reserve requirement as calculated by the Organization's consultant is $776,831 and the amount of the reserves at December 31, 2012 are $776,831.

NOTE 7 - Restrictive Securities Held in Trust

Tobacco proceeds are held in trust by Manufacturer's and Trader's Trust (M&T) on behalf of the Corporation. M&T invests the proceeds in a highly liquid, interest bearing securities, and performs the transfer of the debt obligations upon the instruction of Bond Logistix, the administrator retained by the Corporation.

Note 8 - Bond Trapping Reserve Requirement

In accordance with Section 6.4(d)(g) of the indenture and Section 4.1(F) and (G), and to the extent contained in "Calculations for the Tobacco Litigation Master Settlement Agreement" report, as of the next distribution date, three trapping events have occurred and one is still occurring. Consequently, the trapping reserve requirement at December 31, 2012 is $2,110,000 of which $3,008 of funds have been set aside for. A consumption decline trapping event has occurred for the 2011 year end.

CORTLAND TOBACCO ASSET SECURITIZATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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 2012 the discount amortized amounted to $4,751. The unamortized discount was $ 71,272 for the year ended December 31, 2012. 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, 2012 was $258,468. During 2012 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 $4,185,259.

The total bonds outstanding at December 31, 2012 are as follows:

	Issue Date	Final Maturity	Interest Rate	Balance December 31, 2012
Series 2001	8/01	6/27	4.3- 5.75%	$ 8,440,000
Series 2005	11/05	6/60	6.0- 7.15%	2,827,986
Add: Accretion Value of 2005 Bonds				1,357,273
				4,185,259
Total				$ 12,625,259

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.

The annual activity for 2012 is as follows:

	Series 2001	Series 2005	Total Bonds Payable
Balance 12/31/11	$ 8,655,000	$ 3,926,791	$ 12,581,791
Principal Payments	(215,000)	-0-	(215,000)
Accretion, net of interest paid		258,468	258,468
Balance 12/31/12	$ 8,440,000	$ 4,185,259	$ 12,625,259

Future debt service requirements for the 2001 bonds are shown under the Super Sinker payment schedule, which the Corporation has used since the beginning of the debt retirement. The non Super Sinker payment schedule is not shown since it has not been used. The future debt service requirements under the Super Sinker payment schedule is as follows:

	Principal	Interest	Total
2013	$ 325,000	$ 469,630	$ 794,630
2014	340,000	450,511	790,511
2015	355,000	439,668	794,668
2016	375,000	427,350	802,350
2017	390,000	400,950	790,950
2018-2022	2,800,000	1,524,700	4,324,700
2023-2027	3,855,000	560,400	4,415,400
	$ 8,440,000	$ 4,273,209	$12,713,209

The cost of issuing the bonds has been expensed because its provides no future benefit to the Organization. The total costs of the original bond issuance were $337,672 and these costs were expensed in the period ending December 31, 2001. The total costs of the 2005 issue were $165,459 and these costs were expensed in the period ending December 31, 2005.

The series 2005 Bonds are capital appreciation bonds, upon which the investment return on the investment principal is reinvested at a compounded rate until maturity. There are no scheduled principal and interest payments on these bonds other than their respective maturity dates, at which time a single payment is made representing principal and investment return. Such payments are as follows:

	Principal	Interest	Total
Series S1 payable June 2038	$ 713,160	$ 2,947,369	$ 3,660,529
Series S2 payable June 2050	730,966	9,197,816	9,928,782
Series S3 payable June 2055	649,493	16,117,354	16,766,847
Series S4A Payable June 2060	734,367	32,192,723	32,927,090
Total	$2,827,986	$60,455,262	$ 63,283,248

The following is a summary of the amount of accretion on the Series 2005 capital appreciation bonds assuming the projected debt service amortization:

2013	$ 275,525
2014	293,711
2015	312,765
2016	333,766
2017	355,822
2018-2022	2,164,763
2023-2027	2,982,836
2028-2032	4,112,200
2033-2037	5,672,085
2038-2042	6,589,755
2043-2047	9,151,386
2048-2052	10,783,614
2053-2057	9,896,229
2058-2060	6,173,532
Future Total Accretion	59,097,989
Cumulative Interest 12/31/12	1,357,273
Principal 12/31/12	2,827,986
Estimated Total Debt Service	$63,283,248

NOTE 10 - Concentration of Credit Risk

During 2001, The Corporation purchased the rights to receive TSRs from the County of Cortland, New York. There are a number of risks associated with receipts of such TSRs, including litigation affecting participating manufacturers and possible bankruptcy as a result thereof, and future adjustments to the calculation of the TSRs. The Corporation's financial existence is contingent upon receiving TSRs from the tobacco manufacturers.

NOTE 11 - Commitments and Contingencies

There is litigation challenging the master settlement agreement. An adverse ruling in one or more of the litigation cases could have a material adverse effect on the amount of tobacco revenues available to the corporation to pay the Series 2005 TASC Bonds.

NOTE 12 - Subsequent Events

The organization has conducted an evaluation of potential subsequent events occurring after the statement of net assets date through March 18, 2013, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.